

**Deloitte.**

**Queensland Racing  
Limited**

**Purchasing**

**June 2009**

# Deloitte.

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Mr Adam Carter  
Finance Manager  
Queensland Racing  
PO Box 63  
Sandgate QLD 4017

25 June 2009

Our Ref: 261750

Dear Adam,

**Re: Queensland Racing Limited – Internal Audit - Purchasing Review**

Please find attached our final report relating to our recently completed internal audit of Purchasing at Queensland Racing.

If you have any questions or wish to discuss any findings in the report, please contact me on 3308 7046 or Jason Swemmer on 3308 7102.

Yours sincerely



**Carl Gerrard**  
Partner  
Risk Services

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# 1 Executive Summary

## 1.1 Introduction

As part of the Internal Audit Services provided to Queensland Racing Limited (“QRL”), Deloitte Touche Tohmatsu (“Deloitte”) has undertaken a review of Purchasing. The engagement was performed in accordance with Australian Standard on Assurance Engagements ASAE 3000, “*Assurance Engagements Other than Audits or Reviews of Historical Financial Information.*” Further information in relation to the extent of the procedures performed and the scope of our engagement is detailed in Appendix A – Statement of Responsibility and Appendix B – Terms of Reference, respectively.

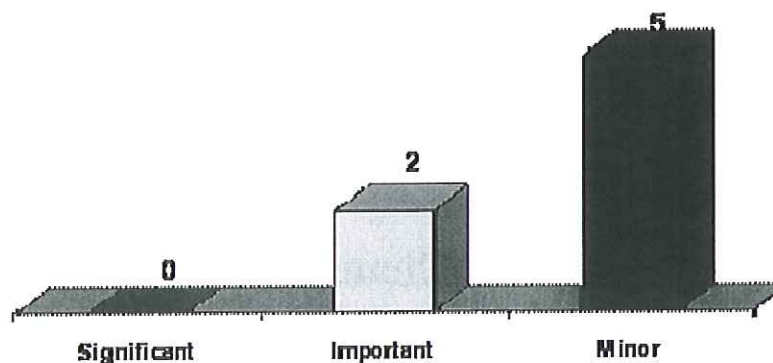
## 1.2 Background

The QRL purchasing process applies to all of QRL’s departments. The process incorporates the raising and approval of purchase requisitions, purchase orders, the recording and matching of supplier invoices to purchases, and the payment of creditors. All QRL transactions are recorded in the Sun finance system and more recently also in IPOS.

IPOS is a web-based procurement system that was implemented in March 2009 at QRL. IPOS provides QRL with the ability to interface and communicate electronically with suppliers and provides managers with better budgetary controls such as the recording of commitments. IPOS has been configured to enforce QRL’s purchasing policy rules, including delegations of authority limits and segregation of duties between purchase requisitioning and approval. IPOS interfaces with the Sun finance system reducing manual processing.

## 1.3 Key Findings

Our detailed findings and suggestions for improvement are included in the following section of this report. To enable management to set priorities on their action plans we have reported our findings in three categories, namely, significant, important and minor based on our assessment of the importance of each finding.



Item No	Findings	Importance Level
2.1	Use of IPOS	Important
2.2	Use of Panels/Preferred Suppliers	Important
2.3	IPOS Items/Supplier Configuration	Minor
2.4	Compliance with Purchasing Policy	Minor
2.5	Supplier EFT Payment Run	Minor
2.6	Purchasing and Motor Vehicle Policy	Minor
2.7	IPOS Reporting Capabilities	Minor

## 1.4 Engagement Rating

Based on the scope of our engagement, QRL’s performance relevant to purchasing is outlined below. This rating is based on observations made during the engagement, and in some areas these observations may have been limited by the scope of the work performed. The rating is intended to assist QRL’s senior management and the Audit Committee to focus on areas of greatest concern, and does not represent an “Assurance Conclusion” as defined by ASAE 3000.

	Minimal opportunities for improvement identified.
	A small number of minor control weaknesses / opportunities for improvement identified.
	Several control weaknesses of concern identified.
	Significant control weaknesses found in a number of areas.
	Poorly controlled. Pervasive, significant weaknesses in controls identified.

Overall engagement rating



## 1.5 Acknowledgement

We wish to place on record our appreciation of the assistance and co-operation received from the management and staff of QRL.

## 1.6 Report Clearance

The contents of this report have been discussed and agreed with Adam Carter (Finance Manager).

## 1.7 Conclusion

Based on our review, which is not an audit, except for the matters noted in Section 2 of this report, nothing has come to our attention to indicate that, in all material respects, internal controls over purchasing are not appropriately designed, and have not operated effectively over the 2008-09 financial year period to date in accordance with the objectives stated in the signed terms of reference.

DELOITTE TOUCHE TOHMATSU



**Carl Gerrard**

Partner

June 2009

## 2 Detailed Findings

### 2.1 Use of IPOS (Important)

#### 2.1.1 Findings / Observations

We noted a number of circumstances where purchase transactions were not entered, approved and processed through IPOS, including the following:

- Project / capital works expenditure (e.g. Sunshine Coast, Toowoomba and Rockhampton projects)
- motor vehicle lease payments
- purchases paid using direct debit and cheques.

These purchases continue to be processed directly in the Sun finance system, where purchase approvals are required to be obtained manually. For example, approval for project expenditure was obtained with a sign-off from an authorised delegate on the hard copy invoice. We noted that a grace period was imposed in the QRL Purchasing Policy for all employees to comply with the new purchasing process by 1 July 2009. After this date, invoices will only be paid by QRL if an IPOS purchase order number is quoted on the supplier invoice.

A number of exceptions to this requirement are documented in QRL's Purchasing Policy, where certain invoices do not require an IPOS purchase order to be processed. This includes energy, phones, rates and other standard monthly charges.

To accommodate these exceptions, the Accounts Payable user group was granted access to enter invoices into IPOS, with no corresponding approved purchase order required. This is not in accordance with better purchasing practice. Members of the Accounts Payable user group include the Accounts Payable Finance Officer and Payroll Officer. We acknowledge that invoices entered into IPOS in this manner have similar approval requirements to purchase requisitions, where approval is required to be obtained from authorised employees with sufficient delegation limits.

#### 2.1.2 Implication/Business Impact

QRL may not achieve the full potential and benefits of IPOS if all purchase transactions are not being captured and processed through the system.

In addition, purchase orders and invoice payments that are not fully entered and processed through IPOS will not be captured as financial commitments. QRL's financial commitment amounts will therefore be inaccurate and may be materially understated.

#### 2.1.3 Recommendation

We recommend that QRL:

1. identify all instances where purchases continue to be approved and processed manually outside IPOS. Educate all employees (particularly those who have not yet adopted the new purchasing process) of the importance of using IPOS for all purchase transactions, to ensure coherent understanding across the organisation before the grace period ends

#### 2.1.4 Management Comment

No.	Description of Action	Person Responsible	Date For Completion
1	IPOS went live in late March / early April and a number of projects were underway.	Adam Carter\Murray	July 1 2009



No.	Description of Action	Person Responsible	Date For Completion
	All Capital projects have been set up with individual items in IPOS so that purchase orders must be raised for any capital expenditure. Even though the July 1 <sup>st</sup> deadline is in place for the final implementation of IPOS in the purchasing policy, continued education and persistence has lead to improvement from Project Managers in this area.	Dyke	
2	All Vehicle lease payments are all made under direct debit arrangements. As these lease agreements are all prior approved by the relevant individuals and the direct debits are authorised by the Finance Manager, there is no need for purchase orders or invoices to be raised as the expenditure has already been authorised. Any further steps to be taken would be creating unnecessary authorisations.	Adam Carter	Done.
3	Management acknowledges expenses such as energy, phones, rates and other standard monthly charges could also be raised through IPOS purchase order and is common practice. A decision on whether a purchase order will be created for the entire year and updated monthly for standard expenditure will be decided once the Budget cycle for the new financial year is complete.	Adam Carter\Murray Dyke	August 2009

## 2.2 Use of Panels / Preferred Suppliers (Important)

### 2.2.1 Findings / Observations

The establishment of panels or preferred suppliers listing provides purchase requisitioning staff with the choice of selected suppliers from whom to procure goods and services. Panels / preferred suppliers should have an established relationship with QRL, with a proven, successful record. QRL's Purchasing Policy recognises that preferred supplier arrangements streamlines the purchasing process, reduces administrative costs and potentially promotes cost savings through volume discounts and exclusivity arrangements.

QRL's Purchasing Policy makes reference to a preferred supplier listing spreadsheet. However, we noted the spreadsheet did not provide a preferred listing of suppliers. Instead, the spreadsheet listed all suppliers QRL has made purchases from in the current financial year. The spreadsheet also listed all contractual agreements QRL have entered into with third parties.

From the purchasing system perspective, preferred listings of suppliers are not configured and communicated through IPOS, as IPOS does not currently provide this functionality. When raising a purchase requisition in IPOS, the system displays a listing of all suppliers that are linked to the items being requisitioned. Unless the purchase requisitioning staff member and / or approver are able to identify the preferred supplier, IPOS allows a purchase order to be raised with non-preferred suppliers.

### 2.2.2 Implication/Business Impact

With no established panels / preferred suppliers listing available, QRL employees may procure goods and services from non-preferred suppliers. As such, additional costs may be incurred by QRL, both financially (e.g. more expensive prices) and non-financially (e.g. lower quality goods / services, or less favourable purchasing terms that do not meet QRL's expectations and business needs).

In addition, compliance with the QRL Purchasing Policy's preferred supplier arrangements is difficult to determine. With no organisation-wide knowledge of preferred suppliers, common purchasing opportunities may not be identified and exploited.

Establishing a panels / preferred suppliers listing would provide QRL with the baseline to assist in QRL's plans to roll out centralised common purchasing arrangements for all Queensland racing clubs.

### 2.2.3 Recommendation

We recommend that QRL:

1. establish a panels / preferred suppliers listing. Where possible, preferred suppliers should be linked to the relevant individual items set up in IPOS.
2. consider long-term improvements to IPOS by integrating the preferred suppliers listing into the system. For example, when requisitioning an item in IPOS, requisitioning staff can be prompted with a selection of both preferred suppliers and all other suppliers from which to procure. Items that are procured from a non-preferred supplier should require additional approval from the Finance Manager, regardless of the requisitioning staff member's delegation of authority limit.

### 2.2.4 Management Comment

No.	Description of Action	Person Responsible	Date For Completion
1	QRL has begun the second phase of the IPOS project called "3P" which will formalise the creation of new items and suppliers in IPOS. New suppliers requested	Murray Dyke	30 June 2009

No.	Description of Action	Person Responsible	Date For Completion
	by users under 3P will go through an authorisation process similar to purchase orders in IPOS. This will ensure that Finance can control which Suppliers are added to the system and that any preferred suppliers are protected. No suppliers will be added outside of 3P therefore there will be segregation of duties and tighter controls in place.		
2	Finance will continue to review IPOS and where possible ensure items are linked to only preferred suppliers. Preferred supplier agreements to be set up for all major expenditure items.	Murray Dyke/Adam Carter	30 September 2009

## 2.3 IPOS Items / Supplier Configuration (Minor)

### 2.3.1 Findings / Observations

Items and suppliers are set up in IPOS to allow purchase requisitioning staff to select items to be purchased and the relevant suppliers from which to procure. The Accounts Payable user group is responsible for creating and setting up items and suppliers in IPOS. The user group consists of the Accounts Payable Finance Officer and Payroll Officer.

In reviewing the IPOS items listing report, we identified a number of redundant items that relate to the same purchases general ledger account in the Sun finance system. For example, the following items relating to purchase of business cards were all linked to purchase account 6132:

- PRINTBUSCARDAC – Bus Card Carter, A
- PRINTBUSCARDDBB – Bus Card Bentley, B
- PRINTBUSCARDDDR – Bus Card Rowan, D
- PRINTBUSCARDTR – Bus Card Training Dept

We noted that the majority of the redundant items were set up to differentiate regions in Queensland. For example, the following items relating to accommodation expense were all linked to purchase account 62155:

- ACCOM02ST – Accom (date) (name) (where)
- ACCOM03CR – Accom COUNTRY RACING (date) (name) (where)
- ACCOM03ST – Accom ROK (date) (name) (where)
- ACCOM04ST – Accom (date) (name) (where)
- ACCOM05ST – Accom NQ (date) (name) (where)
- ACCOM06ST - Accom DOWNS (date) (name) (where)

Furthermore, we identified a number of QRL employees who were set up as suppliers in IPOS. While employees are required to be set up as suppliers for expense reimbursement purposes in the Sun finance system, we noted that expense reimbursements are not processed through IPOS. Suppliers that relate to QRL employees are therefore not required to be set up in IPOS.

### 2.3.2 Implication/Business Impact

Redundant items set up in IPOS may confuse purchase requisitioning staff when the staff members are prompted with multiple items with similar descriptions. We noted a number of instances where requisitioning staff selected an incorrect item, which resulted in the purchase being charged to an incorrect general ledger purchases account in the Sun finance system.

### 2.3.3 Recommendation

We recommend that QRL:

1. identify all redundant items from the IPOS item listing report and remove redundant items from IPOS where possible. Details of the region can be entered as part of the description of the item. For example, a single item can be set up for accommodation expenses, with a description of “Accom (region) (date) (name) (where)”.
2. identify all QRL employees that were set up as suppliers in IPOS and remove these supplier records from IPOS.

3. establish documented procedures to provide the acceptable guidelines and conventions for setting up items and suppliers in IPOS.
4. perform an annual review of both suppliers and items in IPOS to identify potential redundancies and maintain the integrity of IPOS.

### 2.3.4 Management Comment

No.	Description of Action	Person Responsible	Date For Completion
1	As stated above 3P will manage the creation of new items and suppliers. The process involves several stages of approval and checking, ensuring situations above do not occur. Final approval of items will reside with the Accountant and Finance Manager.	Murray Dyke	30 June 2009
2	All redundant items will be identified and removed where possible.	Murray Dyke	30 September 2009
3	An annual review of items and suppliers will be performed to ensure the integrity of IPOS data.	Murray Dyke	May 2010

## 2.4 Compliance with Purchasing Policy (Minor)

### 2.4.1 Findings / Observations

QRL's Purchasing Policy outlines the key principles and procedures to be performed for a number of key purchasing activities, including purchases for Information Technology (IT) hardware and software.

The policy states that, *"where a requirement to add items to the schedule covered by the lease has been identified, the purchasing officer must ensure the purchasing principles are adhered to. For items under \$10,000, preferred supplier arrangements can be used. For items \$10,000 or over, three quotes must be obtained. Appropriate documentation to support the purchasing decisions must be maintained at all times."*

We identified an instance of non-compliance with the above provision of the policy, where 12 desktop computers (Lenovo) were purchased through a lease agreement from Datacom in September 2008. This purchase amounted to \$17,534, which requires three quotes to be obtained to support the purchasing decision. While the purchase order was approved by the Chief Operations Manager, we noted that QRL entered into the lease agreement with Datacom with only one additional quote obtained by the lessor (CIT Australia) to verify the reasonableness of Datacom's quote.

Furthermore, the policy states that, *"the IT Section is also required to develop and maintain an IT asset replacement strategy, incorporating a list of all hardware and software under lease (or purchased), and information on the condition and expected useful life of individual items."*

We noted that the IT Asset Replacement Strategy was not documented.

### 2.4.2 Implication/Business Impact

Non-compliance with QRL's Purchasing Policy with regard to the above provision may have financial implications if QRL did not procure from the supplier that provides the best value for money and purchasing terms.

There is also an increased key-person risk to the IT Manager's role if the IT Asset Replacement Strategy is not documented.

### 2.4.3 Recommendation

We recommend that QRL:

1. ensure that purchases above the set thresholds (i.e. \$10,000 for IT equipment) are supported with the required number of quotes. With IPOS, quotes should be scanned and attached to support a purchase requisition entry. Purchase requisitions should not be approved if the required number of quotes or other supporting documentation is not attached.
2. develop a documented IT Asset Replacement Strategy as per the provisions made in QRL's Purchasing Policy.

### 2.4.4 Management Comment

No.	Description of Action	Person Responsible	Date For Completion
1	Management acknowledges the breach of the policy in this instance and will reissue the policy to all employees as a reminder of their obligations	Adam Carter, in conjunction with all QRL managers and Chief Operations Manager	30 June 2009
2	IT manager to instigate IT Asset Replacement Strategy as soon as possible	David Rowan	31 December 2009

## 2.5 Purchasing and Motor Vehicle Policy (Minor)

### 2.5.1 Findings / Observations

In reviewing QRL's Purchasing Policy (v1.04 – last updated May 2009), we identified a number of improvement opportunities to enhance the clarity of the policy. We noted that the policy states similar provisions in a number of areas:

- delegation of authority limits – stated twice in the table on page 8 and listed on page 9
- payment methods – listed twice on both pages 12 and 13
- summary of key controls – while this section (page 14) provides a summary of controls discussed throughout the policy, there were a number of controls such as the vendor creation process that have not been discussed previously
- the requirement to obtain three quotes for purchases above \$10,000 was mentioned several times throughout the policy.

In reviewing QRL's Motor Vehicle Policy (v1.03 – last updated April 2008), we noted that the policy did not prohibit unreasonable /excessive use of company vehicles for private / personal purposes. We noted an instance where a QRL employee had used a company vehicle to travel interstate, when they were on annual leave in September and October 2008. During this period, QRL incurred fuel costs of \$282.63, where the vehicle travelled approximately 2,000 kilometres, based on the odometer reading obtained from the SG Fleet Intelligence report. We acknowledge that lease payments for vehicles may be co-contributed by both QRL and the employee.

### 2.5.2 Implication/Business Impact

The lack of clarity in the QRL Purchasing Policy may result in a lack of general understanding by QRL employees of the provisions made in the policy. This increases the risk of non-compliance with the QRL Purchasing Policy.

There is also an increased risk of abuse by employees in using QRL vehicles excessively for private use. This impacts on QRL financially, where QRL incurs additional expenditure in regard to fuel costs. Additional costs may also be incurred in regard to the useful life of the vehicle. Vehicles are due for replacement earlier than planned, when the odometer reading on the vehicle exceeds a certain threshold stipulated in the vehicle lease agreement.

### 2.5.3 Recommendation

We recommend that QRL:

1. enhance the clarity of the Purchasing Policy by removing redundant provisions from the policy, where appropriate.
2. include a provision in QRL's Motor Vehicle Policy to limit any private use of QRL vehicles to a reasonable amount, within the local area of employment.

### 2.5.4 Management Comment

No.	Description of Action	Person Responsible	Date For Completion
1	Management acknowledges the redundant provisions and will review the policy with a view to make it clearer.	Murray Dyke / Adam Carter	30 September 2009
2	Management will review the excessive personal use of motor vehicles under the	Ron Mathofer / Adam	30 September

No.	Description of Action	Person Responsible	Date For Completion
	existing policy and will update the policy and communicate to staff. The monthly fuel account is analysed for excessive use through the SGFleet online reporting tool.	Carter	2009



## 2.6 IPOS Reporting Capabilities (Minor)

### 2.6.1 Findings / Observations

In reviewing the list of standard reports that can be run in IPOS, we noted that there were no reports available to outline the audit trail for administrator functions, such as changes made to the invoice / requisition approval matrix (i.e. delegation of authority limits). Audit trail reporting only covered changes made to the standard purchase workflow process, such as updates made to purchase requisitions and purchase order approvals.

We noted that the reporting output of the standard IPOS reports is only available in PDF format. *Ad-hoc* reporting and queries may be developed using the Advanced Inquiry application, where further analysis and manipulation of data is required, or where standard IPOS reports do not provide sufficient information. At the time of our engagement, QRL employees had not yet been trained in using Advanced Inquiry and we noted that training may be conducted once Phase 2 of the IPOS implementation project is completed.

### 2.6.2 Implication/Business Impact

The lack of audit trail reporting for administrator functions results in insufficient monitoring controls to identify unauthorised changes being made to key application controls in IPOS.

As QRL transitions to, and gains maturity in using IPOS to process purchase transactions, more data will be available to be analysed in the IPOS database. There may be a greater need over time for QRL to analyse and query the IPOS database, to extract information useful for business reporting.

### 2.6.3 Recommendation

We recommend that QRL:

1. liaise with Professional Advantage (the vendor / developer of IPOS) to consider implementing audit trail reporting capabilities for administrator functions.
2. arrange for Advanced Inquiry training to be conducted for relevant employees in the Finance department to build internal skills in querying and extracting data from IPOS.

### 2.6.4 Management Comment

No.	Description of Action	Person Responsible	Date For Completion
1	The audit trail process was raised with Sun Provider – Professional Advantage (PA) at the time of purchase and is an ongoing point of discussion and development with PA for future versions.	Murray Dyke / Adam Carter	Ongoing
2	Training will be provided to relevant Finance staff early in the new financial year. This training will utilise the knowledge and experience of IPOS held by current users.	Murray Dyke / Adam Carter	September 2009

# Appendix A – Statement of Responsibility

## Management’s Responsibility for the Engagement

The management of QRL are responsible for the preparation and presentation of purchasing in accordance with the signed terms of reference. This responsibility includes establishing and maintaining processes and internal controls relevant to the preparation and presentation of purchasing to ensure that it is free from material misstatement, whether due to fraud or error; selecting and applying appropriate policies; and making estimates that are reasonable in the circumstances.

## Assurance Practitioner’s Responsibility

Our responsibility is to express a conclusion on purchasing based on our review. We conducted our review in accordance with Australian Standard on Assurance Engagements ASAE 3000, “*Assurance Engagements Other than Audits or Reviews of Historical Financial Information*,” in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that purchasing is not in accordance with the criteria listed above.

A review consists primarily of making enquiries, primarily of persons responsible for the preparation of purchasing and its underlying information, applying analytical and other review procedures, and examination of evidence for a small number of transactions or events. A review is substantially less in scope than a reasonable assurance “audit” conducted in accordance with ASAE 3000. Accordingly, we do not express an *audit opinion*. Had we performed a reasonable assurance “audit” as defined by ASAE 3000 or an audit as defined by Australian Standards on Auditing, additional information may have come to our attention, which would have been reported to you.

## Inherent Limitations

Our Work is subject to the following limitations:

- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout the period and the tests performed are on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management’s responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.

Suggestions for improvement should be assessed by management for their full commercial impact before they are implemented.

### Limitations on use

This report is made solely to the management of QRL in accordance with our engagement letter dated May 2009, for the purpose outlined in the signed terms of reference dated 17 April 2009 and should not be quoted in whole or in part without our prior written consent. We disclaim any assumption of responsibility for any reliance on this report to any person other than the management of QRL, or for any purpose other than that for which it was prepared.

We disclaim all liability to any other party for all costs, loss, damages, and liability that the other party might suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party, or the reliance on our report by the other party.

### Independence, Competence, and Experience

All professional personnel involved in this engagement have met the independence requirements of the Australian professional accounting bodies. Our team has been drawn from our Risk Services Practice and has the required competencies and experience for this engagement.

# Appendix B – Terms of Reference

## Purpose & Scope

This engagement included a strategic review of the following:

- process for purchasing across QRL, including IT, consultants and motor vehicles
- the use of panels
- purchases on behalf of the industry (capital works projects)
- purchasing policy and framework
- IPOS.

We did not test application controls in IPOS that relate to the functional areas that are currently being implemented as part of Phase 2 of the IPOS implementation project.

## Engagement Objectives

Selected controls around purchasing were evaluated taking into consideration whether the controls are adequately designed, communicated, and operational, where appropriate.

## Methodology

We have reviewed the following:

- strategic review of the items listed in the scope items above
- appropriateness of application controls configured within IPOS, including:
  - the consistency between the invoice/requisition approval matrices in IPOS against QRL's approved delegation of authorities
  - appropriateness of user access privileges granted to user groups setup in IPOS
- appropriateness of reporting output from IPOS
- general controls around purchases made using corporate credit cards and petty cash
- compliance with QRL purchasing policy and procedures.



