



2020 Financial Management System Review

Bunbury-Harvey Regional Council

June 2020



8 December 2020

Mr Tony Battersby
Chief Executive Officer
Bunbury-Harvey Regional Council
PO Box 111
AUSTRALIND WA 6233

Dear Tony

2020 FINANCIAL MANAGEMENT SYSTEMS REVIEW

We are pleased to present the findings and recommendations resulting from our Bunbury-Harvey Regional Council (the "BHRC") *Local Government (Financial Management) Regulation 1996*, Financial Management System Review.

This report relates only to procedures to meet the requirements of Regulation 5(1) under the *Local Government (Financial Management) Regulation 1996* being the Financial Management System Review and does not extend to any financial report of BHRC.

This report does not include recommendations or comments raised within the 2020 Interim Management letter prepared by AMD and issued by the Office of the Auditor General.

We would like to thank Martinette, Chris and Michelle for their co-operation and assistance whilst conducting our review.

Should there be matters outlined in our report requiring clarification or any other matters relating to our review, please do not hesitate to contact Isidore Sy or myself.

Yours sincerely
AMD Chartered Accountants



TIM PARTRIDGE FCA
Director

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Inherent limitations

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to review, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. This review is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are on a sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Bunbury-Harvey Regional Council management and personnel. We have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted with the report. We are under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form unless specifically agreed with Bunbury-Harvey Regional Council. The review findings expressed in this report have been formed on the above basis.

Third party reliance

This report was prepared solely for the purpose set out in this report and for the internal use by management of Bunbury-Harvey Regional Council. This report is solely for the purpose set out in the 'Scope and Approach' of this report and for Bunbury-Harvey Regional Council's information, and is not to be used for any other purpose or distributed to any other party without AMD's prior written consent. This review report has been prepared at the request of Bunbury-Harvey Regional Council's Chief Executive Officer or its delegate in connection with our engagement to perform the Financial Management System Review as required by Regulation 5(1) of the *Local Government (Financial Management) Regulations 1996*. Other than our responsibility to Council and management of Bunbury-Harvey Regional Council, neither AMD nor any member or employee of AMD undertakes responsibility arising in any way from reliance placed by a third party, including but not limited to the Bunbury-Harvey Regional Council's external auditor, on this review report. Any reliance placed is that party's sole responsibility.

1. Executive Summary

1.1. Background and Objectives

The primary objective of our Financial Management System Review (“FMSR”) was to assess the adequacy and effectiveness of systems and controls in place within BHRC (the “Review”).

The responsibility of determining the adequacy of the procedures undertaken by us is that of the Chief Executive Officer (“CEO”). The procedures were performed solely to assist the CEO in satisfying his duty under Section 6.10 of the *Local Government Act 1995* and Regulation 5(1) of the *Local Government (Financial Management) Regulations 1996*.

Our findings included within this report are based on the site work completed by us on the 18th June 2020, and information subsequently provided during July and August.

Findings reported by us are on an exception basis, and do not take into account the many focus areas tested during our review where policies, procedures and processes were deemed to be appropriate and in accordance with better practice. The review was undertaken in conjunction with the interim visit for the 30 June 2020 Financial Audit. On this basis, BHRC should read this report in conjunction with the Interim Management Report to obtain a holistic view of all relevant FMSR findings.

Please note: this report does not include recommendations or comments raised within the 2020 Interim Management letter prepared by AMD and issued by the Office of Auditor General.

1.2. Summary of Findings

The procedures performed and our findings on each of the focus areas are detailed in the following sections of the report:

- Section 2 – Collection of money;
- Section 3 - Custody and security of money;
- Section 4 - Maintenance and security of the financial records;
- Section 5 - Accounting for municipal or trust transactions;
- Section 6 - Authorisation for incurring liabilities and making payments;
- Section 7 - Maintenance of payroll, stock control and costing records; and
- Section 8 - Preparation of budgets, budget reviews, accounts and reports required by the Act or the regulations.

Following the completion of our review and subject to the recommendations outlined within sections 2 to 8, we are pleased to report that in context of BHRC’s overall internal control environment, policies, procedures and processes in place are appropriate, and have been operating effectively at the time of the review.

The following tables provide a summary of the findings raised in this report:

	Extreme Risk	High Risk	Medium Risk	Low Risk
Number of new issues reported	0	0	2	4

For details on the review rating criteria, please refer to Section 9.

Ref	Issue	Risk Rating
2. Collection of money		
We have no findings to raise in respect to the collection of money.		
3. Custody and security of money		
We have no findings to raise in respect to custody and security of money held by the Local Government.		
4. Maintenance and security of financial records		
4.2.1	IT Policies and Procedures A number of the BHRC's IT policies and procedures are not formally documented.	Medium
4.2.2	Keys Register Instances noted where staff have not signed for keys issued by BHRC.	Low
5. Accounting for municipal or trust transactions		
We have no findings to raise in respect to accounting for municipal or trust transactions by the Local Government.		
6. Authorisation for incurring liabilities and making payments		
6.2.1	Procurement Practices We note there is no formal documented tender risk assessment and reporting process in place.	Medium
7. Maintenance of payroll, stock control and costing records		
7.2.1	Employee – Performance Appraisal Staff performance appraisals were not completed for financial year 2019/2020.	Low
7.2.2	Excessive Leave Owing Two employees were identified as having excess leave owing as at 18 June 2020.	Low
7.2.3	OHS Work Procedures / Corporate Guidelines A number of OHS work procedures / Corporate Guidelines are due for review.	Low
8. Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations		
We have no findings to raise in respect to preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations.		

2. Collection of money

2.1. Scope and approach

For the following locations operated by BHRC including:

- Stanley Road Waste Management Facility; and
- Banksia Road Organics Processing Facility.

We:

- Documented internal controls, procedures and reconciliations in relation to all source of income;
- Counted petty cash and float on hand ensuring materially correct;
- Reviewed fees and charges schedule and ensure adequate internal controls in place over receipting;
- Tested collection, receipting, invoicing and posting procedures over cash receipts on a sample basis; and
- Review credit control procedures in respect to sundry debtors and rate debtors.

2.2. Detailed findings and recommendations

Our review indicated for the year ended 30 June 2020 key underlying policies and processes in relation to the collection of money are appropriate, in line with best practice and operating effectively.

Accordingly, we have no additional recommendations to raise in respect to the collection of money.

3. Custody and security of money

3.1. Scope and approach

- Site visits to cash collection points to review the controls and procedures over the collection, receipting, recording and banking of cash collected offsite; and
- Review the security of cash and banking procedures to ensure the appropriate controls and procedures are in place.

3.2. Detailed findings and recommendations

Our review indicated with exception of the findings raised by the Office of the Auditor General as part of the Financial Audit for the year ended 30 June 2020 key underlying policies and processes in relation to the custody and security of money held by the Local Government are appropriate, in line with best practice and operating effectively.

Accordingly, we have no additional recommendations to raise in respect to the custody and security of money held by the Local Government.

4. Maintenance and security of the financial records

4.1. Scope and approach

- Reviewed information technology systems to assess physical security, access security, data backups, contingency plans, compliance and systems development; and
- Reviewed registers maintained (including key register, tender register etc.) and Council minutes.

4.2. Detailed findings and recommendations

4.2.1. Information Technology Policies and Procedures

Finding Rating: Moderate

Our inquiries indicate BHRC does not have formal documented policies or procedures in respect to the following:

- Use of the BHRC's IT facilities;
- Password and access controls;
- Access limitation controls;
- Data protection controls such as the use of personal file share accounts (i.e. Dropbox, OneDrive) and removable HDD/USB devices; and
- Bring your own (BYO) devices.

Implications / Risks

- Increased risk of unauthorised access to the BHRC's IT infrastructure and access to confidential information.
- Risk existing procedures and practices in respect of the use of the BHRC's IT facilities, appropriate internet use, password and access controls, BYO devices, personal file sharing accounts and removable devices are not formally documented.

Recommendation

We recommend policies and procedures outlining the terms and conditions in respect to those areas highlighted above be documented, approved, implemented and monitored on an ongoing basis, and reviewed in accordance with scheduled review dates.

Management Comment

Policies and procedures are being completed for Information Technology.

Responsible Officers: Michelle Lloyd, Compliance Officer
Tony Battersby, CEO

Completion Date: 1 June 2021

4.2.2. Keys Register

Finding Rating: Low

Observation of the BHRC key register indicated keys are numbered, and dates of when the keys are issued and subsequently returned are documented, however we noted not all staff have signed to evidence keys have been issued to them.

Implications / Risks

Key Register details incomplete.

Recommendation

We recommend all staff issued with BHRC keys signs the register accordingly.

Management Comment

Completed.

Responsible Officer: Tony Battersby, CEO

Completion Date: 1 October 2020

5. Accounting for municipal or trust transactions

5.1. Scope and approach

- Reviewed all monthly reconciliations including bank, sundry debtors, sundry creditors, fixed assets, rates debtors and rateable value reconciliations ensuring correctly reconciled and reviewed;
- Reviewed and tested in detail most recent municipal and trust bank reconciliations prepared;
- Reviewed processes in respect to BAS, FBT Return and other statutory returns preparation;
- Reviewed use of reserve funds and determined whether changes in reserve purposes have been budgeted or public notice was provided; and
- Reviewed trust ledger balances.

6. Authorisation for incurring liabilities and making payments

6.1. Scope and approach

- Reviewed controls and procedures over the authorisation of purchase orders and making of payments;
- Tested sample of payments to ensure compliance with stated procedures;
- Reviewed credit card processes and procedures, and testing transactions on a sample basis;
- Reviewed petty cash processes and procedures, and testing transactions on a sample basis;
- Completed sample testing of asset additions and asset disposals;
- Reviewed asset capitalisation and depreciation policy and ensure compliance with stated policies; and
- Reviewed new loans received ensuring budgeted for or public notice provided.

6.2. Detailed findings and recommendations

6.2.1. Procurement Practices

Finding Rating: Medium

Our tender sample testing identified that there is no formal documented tender risk assessment and reporting process in place.

Implications / Risks

Tender risks may not be identified, assessed and appropriately managed throughout the tender.

Recommendation

We recommend BHRC further enhance procurement process by the documenting tender risk assessment and reporting process required for all major tenders requiring a risk assessment be conducted for those tender that are deemed high risk to BHRC (i.e. monetary value, reputational impact, culturally sensitive etc.)

Management Comment

To be completed.

Responsible Officer: Karen McDonald, Finance Manager

Completion Date: 1 May 2021

7. Maintenance of payroll, stock control and costing

7.1. Scope and approach

- Reviewed key registers maintained;
- Site visit to review security over stocks held and allocation / costings of stocks used (including fuel and inventory stocks);
- Detailed review of the allocation of public works overheads, plant operating costs and administration overheads completed;
- Reviewed payroll controls and procedures to ensure effective controls are in place, and complete tests on a sample basis to ensure these controls were operating effectively;
- Reviewed procedures and policies in place in respect of human resource management legislative and compliance requirements, recruitment, performance appraisal, disciplinary and termination procedures and leave entitlements;
- Reviewed listing of leave taken by employees ensuring authorised leave forms completed; and
- Reviewed annual leave balances and identify employees with more than eight weeks annual leave.

7.2. Detailed findings and recommendations

7.2.1. Employee – Performance Appraisal

Finding Rating: Low

Our testing identified that no staff performance appraisals were completed during the 2019/2020 financial year.

Implications / Risks

Risk current practices followed by BHRC employees are not reflective of those desired by Council.

Recommendation

We recommend that BHRC management should ensure that all staff performance appraisals are completed annually.

Management Comment

Completed.

Responsible Officer: Tony Battersby, CEO

Completion Date: 1 October 2020

7.2.2. Excessive Leave Owing

Finding Rating: Low

Our review of leave balances as at 18 June 2020 identified two employees with excessive leave owing (greater than 8 weeks).

Implication / Risk

The cost to BHRC is greater if annual leave is not paid out on a regular basis due to:

- The cumulative effect of salary increases over a period of time;
- Recreational leave enhances employee performance; and
- It is a fundamental principle of good internal control that all employees take regular leave.

Recommendation

We recommend employees take regular leave through ongoing management of leave scheduling and leave liabilities.

Management Comment

Schedule implemented. COVID-19 made for a very difficult time with staff being very restricted.

Responsible Officer: Tony Battersby, CEO

Completion Date: 1 June 2021

7.2.3. OHS Work Procedures / Corporate Guidelines

Finding Rating: Low

Our review of internal Occupational Health and Safety framework identified the following work procedures and guidelines are outdated and may require review:

Procedure	Last review date	Due for review
Complaints Management Policy	October 2018	October 2020
Drug and Alcohol	5 May 2020	No stated review date
Injury Management and Return to Work	22 June 2020	No stated review date
Safety Management System	19 February 2020	No stated review date
QMS001 Emergency Management	December 2015	December 2017
QMS002 Induction	5 May 2016	May 2018
QMS003 First Aid	October 2017	October 2019
QMS004 Hazard Risk Management	June 2016	June 2018
QMS005 Incident Investigation	27 February 2020	No stated review date
QMS006 Harassment, Discrimination and Equal Opportunity	4 March 2020	No stated review date
QMS007 Complaints Management	4 March 2020	No stated review date
QMS008 Consultation and Communication	May 2016	May 2018
QMS009 Hazardous Manual Task	July 2016	14 July 2018
QMS010 Near Miss Reporting	July 2016	20 July 2018
QMS011 Non-conformance Reporting	September 2016	5 September 2018
QMS012 Safety Issue Resolution	5 September 2018	5 September 2020
QMS013 Hazardous Substances	20 September 2017	20 September 2018
Occupational Health and Safety Policy	26 February 2020	No stated review date

Implication / Risk

Procedures may not reflect current practices or current requirements.

Recommendation

We recommend a review of all OSH procedures and guidelines be completed at least annually.

Management Comment

To be completed.

Responsible Officer: Michelle Lloyd, Compliance Officer

Completion Date: 1 May 2021

8. Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations

8.1. Scope and approach

- Reviewed policy and procedure manual;
- Reviewed the procedures for preparation of the monthly financial statements, annual financial statements and annual Budget, including assessment of accounting policy, notes and applicable reporting requirements and efficiency of the process;
- Reviewed monthly financial statements ensuring presented to Council within two months and information contained within monthly financial statements in accordance with Regulation 34 of Local Government (Financial Management) Regulations 1996;
- Reviewed the mid-year budget review to ensure compliance with Regulation 33A of the Local Government (Financial Management) Regulations 1996 and assessment of budgetary expenditure controls in place;
- Ensured prior year audit report and management letter have been presented to audit committee and Council; and
- Reviewed compliance with Part 6 of the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.

8.2. Detailed findings and recommendations

Our review indicated with exception of the findings raised by the Office of the Auditor General as part of the Financial Audit for the year ended 30 June 2020 key underlying policies and processes in relation to the preparation of budgets, budget reviews, accounts and reports required by the act or the regulations are appropriate, in line with best practice and operating effectively.

Accordingly, we have no recommendations to raise in respect to the preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations.

9. Guidance on Risk Assessment

Risk is uncertainty about an outcome. It is the threat that an event, action or non-action could affect an organisation's ability to achieve its business objectives and execute its strategies successfully. Risk is an inherent component of all service activities and includes positive as well as negative impacts. As a result not pursuing an opportunity can also be risky. Risk types take many forms – business, economic, regulatory, investment, market, and social, just to name a few.

Risk management involves the identification, assessment, treatment and ongoing monitoring of the risks and controls impacting the organisation. The purpose of risk management is not to avoid or eliminate all risks. It is about making informed decisions regarding risks and having processes in place to effectively manage and respond to risks in pursuit of an organisation's objectives by maximising opportunities and minimising adverse effects.

The risk guidelines stated within Risk Management – Guidelines Standard AS / ISO 31000-2018 and are based in the City of Bunbury's Risk Management Framework (in lieu of BHRC not having a documented one in place at the time of preparing this report).

Our guidance to risk classification in completing our review is as follows:

Measure of Likelihood of Risk

Likelihood is the chance that the event may occur given knowledge of the organisation and its environment. The following table provides broad descriptions to support the likelihood rating:

DESCRIPTOR	TIMEFRAME	HAS IT HAPPENED AT THE CITY IN THE LAST 5 YEARS?	HAS IT HAPPENED AT OTHER ORGANISATIONS IN THE LAST 5 YEARS?
Almost Certain	Expected to occur in most circumstances or occurs regularly – multiple times per year or incident is clearly imminent	Regularly	Regularly or multiple times at other organisations
Likely	Happens fairly regularly, probably occurs once every year	Several times	Once at multiple organisations
Possible	Occurs occasionally or may occur every 5 years	A few times	Multiple times at one other organisation
Unlikely	Occurs infrequently or is not likely to occur – maybe once in five to ten years	Once	Once at one other organisation
Rare	Only occur in exceptional circumstances, once every 10 years or greater	Never	Never

**Above Extracted from the City of Bunbury Risk Management Framework.*

Measure of Consequence of Risk

Consequence is the severity of the impact that would result if the event were to occur. The following table provides broad descriptions to support the consequence rating:

Descriptor	Governance/Legal	Service Delivery/ Interruption	Reputation/ Publicity	Environment	Assets	Financial	People & Safety
Insignificant	Negligible breach of regulation, legislation, policy, or process that are detected early, does not require reporting. Contract – insignificant legal issues or non-compliance, with no effect on contract performance.	Negligible impact on the effectiveness of the City's processes and/or any backlog cleared in <2 hrs.	Minor unsubstantiated publicly or damage to reputation to a small audience, complaint from individual/small group – gossip, limited social media exposure.	Negligible impacts affecting one site; disturbance to individual native plants. Potential breach of state environmental law – negotiated/no management of issue.	Damage where repairs are required however facility/ infrastructure/ network/hardware is still operational.	Less than \$10,000. Project deviation <2% from budget.	Some isolated staff dissatisfaction. Minor injuries, first aid treatment may be needed. Full recovery 1 – 3 days.
Low	Minor regulatory/legislation breaches with potential minor fines which does not require reporting to regulators. Contract – communication between both parties exposing minor concern with supply of good/services, easily rectified.	Brief disruption of important service area, noticeable effect to non-crucial service area and/or backlog cleared in 3 hrs - 1-day.	Minor damage to reputation to small audience, complaint from large group of people – mainstream media, social media seen by local community.	Localised impacts; resolvable; small scale clearing of bushland; small scale discharge or pollutants to waterways (10s to 100s of L). Breach of state environmental law – no litigation, warning issued by state, negotiated management of issue.	Minor loss/damage, repairs required <2% of assets value.	\$10,000-\$50,000. Project deviation 2%-5% from budget.	General staff morale problems and increase in turnover. Reversible injury or disability which requires medical treatment. Full recovery 1 – 3 weeks.
Medium	Regulatory/legislation breaches causing internal investigation/report to authority and prosecution and moderate fines. Contract – ongoing contractual issues which may become a substantial breach.	Major effect to an important service area for a short period, brief impact on multiple areas and/or backlog cleared within 1 day – 2 weeks.	Damage to reputation to a specific audience, may not have significant long-term or community effects – State wide mainstream media, social media item taken up by people outside City.	Localised impacts; generally resolvable; significant discharge or pollutants to waterways (1,000 of L); clearing of 10s of hectares of bushland. Breach of state environmental law – litigation.	Short to medium term loss of key assets, infrastructure and/or IT network/hardware 2%-5% of asset value.	\$50,000-\$1M. Project deviation 5-14% from budget.	Widespread staff morale problems and high turnover including key organisation roles. Serious reversible injury or disability requiring ongoing medical treatment or hospitalisation and/or lost time. Full recovery 1 – 6 months.
High	Breach of regulation or legislation resulting in external investigation or third party actions resulting in litigation. Contract – termination of contract for default by either party.	Complete loss of an important service area for a short period and/or issue resolved with 3 – 4 weeks.	Local publicity of a major and persistent nature, affecting the perception/standing within the community – Australia wide mainstream media, social media item taken up by large number of people outside City.	Widespread and/or acute impacts; may or may not be entirely resolvable; significant impact on listed threatened species; clearing of a large amount of bushland (100s of hectares).	Widespread, short to medium term loss of key assets, infrastructure and/or IT network/hardware 5%-15% of asset value.	\$1M-\$5M. Project deviation 15-20% from budget.	High turnover of experience/key staff, City not perceived as employer of choice. Single fatality and/or multiple irreversible disabilities.
Severe	Regulatory/legislation breaches causing very serious litigation, including major class action. Contract – claim for damages or loss of profit/reputation as a result of termination.	Major loss including several important areas of service and/or for a protracted period > 4 weeks.	Substantial damage to public confidence leading to sustained compromise in the achievement of objectives, public embarrassment, high widespread multiple news profile, likely to lead to the dismissal of Council/Councillors, or staff – World Wide mainstream media, widespread social media item taken by vast numbers of people outside City.	Widespread and/or acute impacts; not resolvable; highly significant impact on listed threatened species. Breach of federal environmental law – litigation with jail time for perpetrator.	Widespread, long term loss of substantial key assets, infrastructure and IT network/hardware >15 % of asset value.	Greater than \$5M. Project deviation >20% from budget.	Key positions unable to be filled. Multiple fatalities and significant irreversible disabilities.

*Above Extracted from the City of Bunbury Risk Management Framework.

Risk Analysis Matrix – Level of Risk

Finding Rating for each audit issue was based on the following table:

		CONSEQUENCE				
		Insignificant	Minor	Moderate	Significant	Severe
LIKELIHOOD	Almost Certain	Medium	High	High	Extreme	Extreme
	Likely	Low	Medium	High	High	Extreme
	Possible	Low	Medium	Medium	High	High
	Unlikely	Low	Low	Medium	Medium	High
	Rate	Low	Low	Low	Low	Medium

*Above Extracted from the City’s Risk Management Framework.

Finding / Risk Acceptance Rating

The table below sets out the definition of the finding / risk acceptance rating:

FINDING / RISK RANK	DEFINITION
Low	<ul style="list-style-type: none"> Attention required in medium term, preferably within 12 months. Isolated cases of procedural non-compliance. Small transactional errors with nil to small financial loss or exposure to the City. Isolated administrative matters.
Medium	<ul style="list-style-type: none"> Attention required in medium term, preferably within 6 months. Absence or breakdowns in controls or procedures that lead to moderate exposures to the City. Isolated breaches of legal requirements and/or regulations with no further action likely to be taken by a regulator. Moderate individual transactional errors or several smaller transactional errors. Administrative matters, which due to their frequency may indicate procedural or training problems.
High	<ul style="list-style-type: none"> Attention required in short term, preferably within 3 months. Absence or breakdowns in controls or procedures that lead to high exposures. A breach of legal requirements and/or regulations resulting in material compensation and/or financial payouts, however no further action is likely to be taken by a regulator. Large individual transactional errors or a larger number of smaller transactional errors. Administrative matters, which due to their frequency may indicate procedural or training problems. Issues arising from inadequate training.
Extreme	<ul style="list-style-type: none"> Urgent and immediate action required. Cases of actual or potential fraud. Absence or breakdowns in critical controls or procedures that lead to very significant exposures to the City (i.e. financial loss impacting capital or significant disruption to business services, loss of life, severe reputation risk). Serious breach of legal requirements and/or regulations resulting in material compensation and/or financial payouts and action likely to be undertaken by regulators. Multiple large transactional errors that could lead to serious legal impact and/or severe adverse effect on the City’s reputation. Issues arising from no or severely inadequate training.