

CITY OF ARMADALE

AGENDA

OF CITY AUDIT COMMITTEE TO BE HELD IN THE COMMITTEE ROOM,
ADMINISTRATION CENTRE, 7 ORCHARD AVENUE, ARMADALE ON TUESDAY,
10 DECEMBER 2013 AT 5.30 PM.

PRESENT:

APOLOGIES:

OBSERVERS:

IN ATTENDANCE:

DECLARATION OF MEMBERS' INTERESTS

PUBLIC QUESTION TIME

Note:

Meetings of the City Audit Committee are closed to the public on the basis that matters to be dealt with by Committee will generally be of a sensitive and confidential nature which, if disclosed could reasonably be expected to impair the effectiveness of the audit process – Council resolution CS18/2001 refers.

DEPUTATION

CONFIRMATION OF MINUTES

RECOMMEND

Minutes of the City Audit Committee Meeting held on 19 November 2013 be confirmed.

“For details of Councillor Membership on this Committee, please refer to the City’s website – [www.armadale.wa.gov.au/your council/councillors](http://www.armadale.wa.gov.au/your_council/councillors).”

CONTENTS

CITY AUDIT COMMITTEE

10 DECEMBER 2013

1. FINANCIAL MANAGEMENT & PLANNING	
1.1 AUDITOR'S INTERIM AUDIT REPORT - 2012-2013 YEAR	2
SUMMARY OF "A" ATTACHMENTS.....	10

1.1 - AUDITOR'S INTERIM AUDIT REPORT - 2012-2013 YEAR

WARD : ALL
FILE No. : M/1188/13
DATE : 4 December 2013
REF : TM
RESPONSIBLE : Executive Director
MANAGER : Corporate Services

In Brief:

- This Report presents matters raised in the Auditor's Interim Audit Report for Council's attention together with responses from Management to those matters;
- The Report Recommendation is to note the Auditor's comments and support the responses to those comments by Management.

Tabled Items

Nil

Officer Interest Declaration

Nil

Strategic Implications

Good Governance and Leadership –

- Support an Audit Committee to assist accountability and good governance,
- Ensure governance policies, procedures and activities align with legislative requirements and best practice.

Legislation Implications

Local Government Act 1995

- Section 7.1A – Audit Committee
- Section 7.1C – Decisions of audit committees
- Section 7.9 – Audit to be conducted
- Section 7.12A – Duties of local government with respect to audits

Local Government (Audit) Regulations 1996

- Clause 7 – Agreements with Auditors, contents of.

Council Policy/Local Law Implications

Nil

Budget/Financial Implications

Nil

Consultation

Council's Auditor

BACKGROUND

Each year as part of the City's audit program, an Interim Audit is undertaken by the City's Auditor to identify areas of potential review associated with the City's internal controls, systems and procedures. The comments received from the Auditor are then assessed by Management and action is taken as required. The findings of the Interim Audit together with responses from Management are presented in this Report for Committee's consideration and recommendation to Council.

DETAILS OF PROPOSAL

As part of Council's committee structure, the City Audit Committee has been established to review and address audit matters arising. The Interim Audit Report is summarised in this Report. It is to be noted that the Interim Audit is primarily concerned with a review of internal controls/practices/procedures and Management's compliance with those controls. The findings of the Interim Audit help inform the Auditor in his Independent Audit Report to Ratepayers which as Committee will recall was presented without qualification to the November 2013 meeting of the City Audit Committee meeting. The Interim Audit reports on an exception basis those matters that the Auditor believes Council should be aware of and/or requiring action by Management.

The Auditor's Interim Audit Report is prefaced with the following comments :-

Our interim audit covered a review of the accounting and internal control procedures in operation, as well as testing of transactions, in the following areas:

- Bank Reconciliations
- Investments
- Purchases
- Payments and Creditors
- Rate Receipts and Rate Debtors
- Receipts and Sundry Debtors
- Payroll
- Stores
- General Accounting and IT Controls
- Registers (Tenders Register)
- Asset Register
- Review of Council Minutes

Our review also covered an examination of some compliance matters, which are required under the Local Government Act 1995 (as amended) and Financial Management Regulations 1996.

Please note that our examination of internal controls was carried out for audit purposes designed primarily for the purpose of expressing an opinion on the financial statements of the City of Armadale.

Because of 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. 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.

It should be appreciated that the matters noted came to our attention during the course of our normal audit examination and as a result do not necessarily include all those matters which a more extensive or special examination might identify.

Accordingly, our comments in this management letter are not intended to cover all aspects of the Council's internal controls and accounting systems and are limited to those matters that arose from our normal audit procedures.

The following matters were noted and are brought to your attention.

COMMENT

Matters raised by the Auditor together with Management's responses to those matters are as follows:

PURCHASING AND PAYMENTS

As part of our audit, we carried out a review of the purchasing and payments system. Our audit procedures have been designed to determine appropriate means for selecting items for testing so as to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures. Professional judgement is used to assess the risk of material misstatement, and design and perform further audit procedures where necessary to reduce the risk to an acceptable low level. Our audit procedures have been designed to also determine whether purchases of goods/services were in accordance with Council's purchasing policy.

Generally the controls surrounding purchases, creditors and payments are appropriate to meet the Council's requirements and are in accordance with Council's purchasing policy.

However, the following matter was noted as requiring attention:

During our interim audit visit this year we noted 4 instances (15 samples tested) where purchase orders were raised only after the purchase of goods and services.

As this increases the risk of unauthorised purchases being made, we request that purchase orders be raised when the goods and services are ordered and not after the goods and services have been received. This will ensure that goods and services have been obtained at the most competitive prices and ensure adherence to Council's purchasing policy.

Management Response

The Auditor's comments about the risk aspect are acknowledged and management will continue to monitor and reinforce to staff the need for purchase orders to be raised at the time of the commitment rather than after receipt of the invoice.

It is worth noting that the (4) instances identified in the sampling all involved suppliers with current contracts as a result of public tenders, so the comment by the Auditor about obtaining the most competitive price, whilst ordinarily a valid comment, has less relevance in these instances.

It is also worth noting that the number of times purchase orders are not raised prior to receipt of invoice is considerably fewer in number today than was the case several years ago due in the main, to the ongoing monitoring and reporting back to managers when occasional instances do occur as will always be the case.

INVESTMENT OF SURPLUS FUNDS

We conducted a review of investment of surplus funds by the City of Armadale.

The following matter was noted as requiring attention:

Regulation 19(1) of the Local Government (Financial Management) Regulations 1996 stipulates that a local government is to establish and document internal control procedures to be followed by employees to ensure control over investments.

Guideline number 19 from the Department of Local Government requires that the document contains proper procedures and controls in place for the:

- Placement of investments,
- Redemption of investments,
- The receipt of income and
- Regular valuations of the investment portfolio.

We noted that whilst the documented internal control procedures is in place, the document does not contain the following elements:

- Redemption of investments,
- The receipt of income, and
- Regular valuations of the investment portfolio.

We recommend that internal control procedures document be updated to include the above information.

Management Response

As recommended by the Auditor, written procedures covering the steps followed in placing investments, redeeming investments and the receipt of investment income are now in place and have been agreed by the Auditors. The issue here was not about whether the actual procedures practiced were deficient in any way, but simply rather that there was no written procedure.

The written procedures complement the City's Investments Policy and Management Practice FIN 4.

With regards to a procedure to regularly value the investment portfolio, such a procedure is unnecessary as the City's investments are restricted to term deposits where the value of the principal does not change.

RATES

The Council's rating procedures were reviewed to ensure that they were in compliance with statutory requirements and that rates have been imposed correctly. This also included a review of the rate notices issued and the process of reconciliation of the Valuer General's reports to the Rates Ledger.

We checked a limited number of property assessments from the Rates Ledger to ensure that the rates calculations, raising and postings to the Rates and General Ledger were correctly performed.

The following matters were noted and brought to your attention:

Management Response

(i) *Interim Rates review/reconciliation*

The recommended verification process by a senior rates officer is now in place.

The issue here is not so much that there is no verification/review of the interim rates for indeed there is, but rather, there was no evidence of that verification process.

Interim rates stem from interim valuation schedules supplied by the Valuer Generals' Office. These schedules, containing both amended and new valuations, once entered in the system are as a matter of practice balanced/reconciled to the valuation register by the senior rates officer.

*NB: The other matter raised by the Auditor under the heading of **Rates** together with Management's response, is presented in the attached Confidential Attachment, the reason for confidentiality being that the matter refers to debts owed to the City by persons, which pursuant to section 5.95(2)(b) of the Local Government Act 1995, is not to be made available to the public.*

SUNDRY DEBTORS

We examined the policies and procedures in relation to debtors invoicing, receipting, banking and debt collection. The debtors system, including raising of invoices, was reviewed with limited testing for some transactions..

We were satisfied that the reconciliations for sundry debtors between the general ledger control account and the subsidiary ledger have been performed and completed properly.

Like with the Rates matter mentioned above which is presented in the attached Confidential Attachment, this matter is also a confidential matter for the same reasons.

PAYROLL

We examined the payroll system of the Council. In general the system in place appears to be operating satisfactory. However, the following matters were noted:

- (i) We obtained an Employee "Annual Leave Balances Report" as at 21 February 2013. Audit found that the report contains 35 staff with outstanding annual leave entitlements in excess of 8 weeks to a maximum of 28 weeks.

Section 17.5.1 of the Enterprise Agreement 2010 stipulates that annual leave shall be given and taken in such period or periods and at such a time or at such times mutually convenient to the employer and the employee and, except as hereinafter provided, within six months of the date upon which the leave accrued due. Section 17.5.2 of the Enterprise Agreement 2010 stipulates that in special circumstances, and with the consent of the employer, an employee may defer the taking of any accrued annual leave, or any part thereof not taken, for a period not exceeding three years after the date when the leave accrued due.

Excess leave entitlements can have adverse effects on the City including an ever increasing liability as salary rates increase over time.

We have drawn management's attention to this matter in our previous management letter dated 12 March 2012.

We recommend that management adopt a policy to ensure leave entitlements are regularly reviewed and cleared.

- (ii) We noted 3 instances where authorities for deductions were not sighted on the personnel files. These items included union deduction authorities, additional superannuation contribution authorities, rates deductions authorities, etc.

We recommend that such deductions be properly authorised and documentary evidence maintained on personnel files.

- (iii) During our review of the payroll procedures, we noted that there are currently a number of staff members, other than the payroll and HR staff members, who can access different payroll modules. Discussion with the HR manager, indicated that there are no clear details available regarding the level of access by each staff member. This allows non payroll/HR staff members to make any unauthorised amendments and exposes the council to a higher level of risk.

We recommend that management review the existing access given to these officers and considerably reduce the number of officers able to access the payroll modules.

- (iv) We noted that the amendments made to the payroll module are recorded on the system and a "Payroll Alteration Report" is generated every fortnight by the payroll officer. However, the report is not reviewed by an independent senior officer to ensure that all changes are valid and done correctly.

We recommend that an independent officer reviews the same, ensuring all details and amendments made are correct and are valid prior to payment.

Management Response

- (i) *Annual Leave Accruals*

As recommended by the Auditor, a HR Procedure has now been prepared and is in use. A copy of the Procedure is attached to this report.

The total number of accrued annual leave hours in excess of (8) weeks between 30th June 2012 and 30th June 2013 has remained approximately the same.

The Human Resources Manager advises that the Enterprise Agreement clause relating to the *Taking of Leave*, allows in special circumstances, and with the approval for the CEO, an employee to defer the taking of any accrued leave for a period not exceeding three years from when the leave became due. On this basis and remembering that the City maintains a cash-backed Reserve account equal to the current dollar value of the accrued annual leave at the 30th June each year, the current situation is considered manageable and unlikely to adversely affect continuity of service delivery standards.

(ii) *Deduction Authorities*

Subsequent to the interim audit being conducted, supporting documents for the (3) instances referred to by the Auditor were found and have now been placed on each employee's personnel file. One of the deduction forms was on the rate record in relation to payment of council rates and the other (2) supporting documents were in the general files.

The practice of requiring signed deduction authorities before a deduction is made from an employee's pay, is a rudimentary payroll process and is in place.

(iii) *Payroll Module Access*

Subsequent to the interim audit, a review of staff having system access to the payroll module did identify several staff whose access was determined as being unnecessary in terms of their job position and accordingly that access has now been withdrawn. In some instances, access had actually already been 'de-activated', and in other instances the level of access was such that the risk aspect was minimal.

The situation now is that only those persons in the Payroll Team requiring/needing access to the Payroll Module for actual pay related purposes now have system access. It should also be noted that via the various audit and data variation reports available in the payroll system, there's nothing to suggest that anyone has inappropriately used their prior access.

(iv) *Payroll Alterations Report*

Similar to the interim rates commentary above, the issue here is not that there is no verification/review of any payroll changes, but rather that there was no evidence of that verification process. The recommended verification and placing on record by the Human Resources Manager, is now in place.

CONCLUSION

The Auditor's Interim Audit Report is considered to reflect favourably on the City's internal controls/practices/procedures and Management's compliance with those controls.

RECOMMEND

That Council:

- 1. Notes the matters raised by the Auditor in his Interim Audit Report for the financial year 2012-2013, and supports the Management responses to those matters, as presented in this Report; and**
- 2. Prior to the next Interim Audit, invite the Auditor to meet with the City Audit Committee to discuss the proposed scope of that next interim audit.**

ATTACHMENTS

1. Annual and Long Service Leave Procedure
2. City Audit Attachment - Confidential – Rates and Sundry Debtors - *This matter is considered to be confidential under Section 5.23(2) (b) (e iii) of the Local Government Act, as the matter relates to the personal affairs of a person; AND the matter, if disclosed, would reveal information about the business, professional, commercial or financial affairs of a person*

MEETING DECLARED CLOSED AT _____

SUMMARY OF "A" ATTACHMENTS

10 DECEMBER 2013

ATT NO.	SUBJECT	PAGE
1.1 AUDITOR'S INTERIM AUDIT REPORT - 2012-2013 YEAR		
1.1.1	Annual and Long Service Leave Procedure	11



ANNUAL AND LONG SERVICE LEAVE MANAGEMENT PROCEDURE

The purpose of this procedure is to provide a consistent application of the leave provisions in the City of Armadale Enterprise Agreement by:

- Facilitating consistency throughout the Local Government in administering the leave provisions for employees.
- Providing teams with information to effectively manage the Annual and Long Service Leave entitlements of employees.
- Encouraging employees to take leave by reinforcing the positive benefits of taking leave when it becomes due.
- Managing all leave to ensure that employees endeavour to utilise their level entitlement when they become due to minimise the accrual of leave and to reduce the financial liabilities of the City of Armadale.

OBJECTIVE

To ensure employees are familiar with the process for accessing their leave provisions when they accrue according to the provisions in the relevant City of Armadale Enterprise Agreement.

PROCEDURE

This policy applies to all employees who are employed on a full time or part time basis, but does not apply to employees employed on a casual basis.

- Employees shall be entitled to Annual and Long Service Leave consistent with the provisions of the relevant City of Armadale Enterprise Agreement and the *Local Government (Long Service Leave) Regulations*.
- All employees should take annual leave and long service leave within one year from the date in which it is accrued unless with the written permission of the CEO.
- Employees shall be encouraged to be aware that under the provisions of the *Local Government (Long Service Leave) Regulations*:

“Where the commencement of long service leave has been postponed to meet the convenience of the employee beyond a period of six months, the rate of payment for or in lieu of that leave shall be at the rate applicable to the employee for ordinary time (excluding allowances) at the end of the period of 6 months unless otherwise agreed in writing between the CEO”

- Management areas shall manage the taking of leave and maintain a leave roster ensuring that adequate coverage of functions is maintained.
- The City of Armadale will endeavour to approve leave applications to meet the convenience of the employee, however the operational needs of the City of Armadale must also be considered.
- Employees are entitled to receive 'pay in advance' for leave providing applications are approved and supplied to payroll before the end of the last pay period prior to them going on leave.
- Leave application forms should be signed by the applicant and signed by the responsible Manager. All leave application forms need to be forwarded to payroll for action.

Leave Rosters

- Managers are required to develop and maintain leave rosters that identifies proposed relief/coverage arrangements for all employees within their area of responsibility.
- Where relief is required, this is to be negotiated with the relevant Manager and if necessary recruitment is commenced through Human Resources.
- To encourage effective workforce planning, teams must monitor the leave roster to ensure that sufficient employees are available to cope with peak workload periods. It is therefore essential that teams regularly refer to the current operational and business plans to determine those peak periods.
- Teams should regularly monitor the leave taken to ensure that the total accrued leave does not exceed this policy.

Approvals and Obligations

- Leave applications forms are required to be completed and then to be submitted for approval to the relevant Manager.
- Leave applications will be considered in the context of needs of the employee, operational requirements and the team leave roster (in particular if there are multiple employees seeking leave).
- Managers must consider how the duties and responsibilities of the position will be delivered in the absence of the employee on leave.
- After approval, leave forms are forwarded to payroll for processing.
- It is the obligation of individual employees, in conjunction with the Manager, to determine whether there is a need to communicate their impending absence to other employees.
- As a general rule Managers should advise all employees of their absence and what acting arrangements, if any, have been effected.
- Where an agreement cannot be reached between the manager and the employee regarding a leave application, it shall be dealt with in accordance with the dispute resolution procedure contained in the applicable agreement.
- Where an agreement cannot be reached after the dispute resolution procedure has been followed, the final determination shall be made at the discretion of the Chief Executive Officer.

Leave at Peak Periods of Demand

It is recognised that there are particular periods of the year in which employees prefer to take leave and consequently there may be situations where leave applications have been received from multiple employees for a specific period such as Christmas or Easter.

The City of Armadale shall endeavour to not unreasonably refuse a request for leave but situations may arise where relief for coverage is not possible.

Where the City believes that there may be a peak period where multiple leave applications may be received, the employees shall be notified that all leave applications for a specific period must be received one month prior to the peak period to endeavour coverage for absent employees. The one month leave application deadline will also create fairness for selection if coverage is needed and not based solely on the policy of "first in best dressed".

The City shall avoid approving any leave applications for peak periods until all employees have been requested to submit their leave intentions unless where an employee has requested that leave be approved in advance in order to accommodate travel or family commitments.

The matters that need to be taken into account for selecting which employees shall take leave when multiple applications are received:

- The individual employees amount of accrued leave.
- The last time the employee was granted leave and how long was the leave period.
- The employee's length of service.
- The needs of the employees to take leave at that time of year.
- When the leave application was received.
- Which employees were granted leave in that specific peak period in the previous year.
- An employee's responsibilities to their family situation.
- An employee's commitments regarding pre-booked expenses for a leave period such as air flights and accommodation.

Where coverage is not possible to accommodate all leave applications, it shall be the responsibility of the manager to consult the employees regarding the situation and allow discussion to enable employees to resolve the situation through conciliation. There may be a situation where some employees are happy to accommodate others leave applications but it is preferable that employees attempt to resolve the situation without any type of arbitration by the CEO.

Where an employee has been refused leave or not selected before another employee's leave application, the matter shall be dealt with in accordance with the Dispute Resolution Procedure.

Deferral of Annual Leave

- Each calendar year, managers will be advised by Human Resources of employees within their team who have not cleared annual leave for that year.

- Employees are required to formally seek approval from their Manager to defer leave. This deferral request must be in writing and clearly identify the amount of leave accrued, why it has not been cleared and at what date it will be cleared.
- Providing there is adequate justification annual leave may under the following circumstances be deferred for a maximum of three years:
 - impending retirement,
 - future holiday commitment (for example an overseas trip),
 - long term personal commitments (for example, building a house, taking care of a sick family member), or
 - special circumstances, which will be considered on a case by case basis.

Deferrals in excess of this period require the approval of the CEO.

Deferral of Long Service Leave

- Each calendar year, managers will be advised by Human Resources of employees within their team who have not cleared Long Service Leave for that year.
- Employees are required to formally seek approval from their Manager to defer leave. This deferral request must be in writing and clearly identify the amount of leave accrued, why it has not been cleared and at what date it will be cleared.
- Where the commencement of long service leave has been postponed to meet the convenience of the employee beyond a period of six months, the rate of payment for that leave shall be at the rate applicable to the employee for ordinary time (excluding allowances) at the end of the period of six months unless otherwise agreed in writing between the City and the employee.
- Providing there is adequate justification leave may under the following circumstances be deferred for a maximum of 12 months:
 - impending retirement,
 - future holiday commitment (for example an overseas trip),
 - long term personal commitments (for example, building a house, taking care of a sick family member), or
 - special circumstances, which will be considered on a case by case basis.