

# CITY OF ARMADALE

## MINUTES

OF CITY AUDIT COMMITTEE HELD IN THE COMMITTEE ROOM,  
ADMINISTRATION CENTRE, 7 ORCHARD AVENUE, ARMADALE ON MONDAY, 17  
NOVEMBER 2014 AT 5.48 PM .

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**PRESENT:** Cr J H Munn JP CMC (Chair)  
Cr K Busby  
Cr R Butterfield  
Cr D M Shaw  
Cr H A Zelones OAM JP

**APOLOGIES:** Nil

**OBSERVERS:** Nil

**IN ATTENDANCE:** Mr A F Maxwell Executive Director Corporate Services

### **PUBLIC QUESTION TIME**

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**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.

*“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).”*

**DECLARATION OF MEMBERS' INTERESTS**

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Nil

**DEPUTATION**

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Nil

**CONFIRMATION OF MINUTES**

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**RECOMMEND**

**Minutes of the City Audit Committee Meeting held on 20 October 2014  
be confirmed.**

**Moved Cr D M Shaw  
MOTION CARRIED (5/0)**

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## CITY AUDIT COMMITTEE

17 NOVEMBER 2014

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**1.1 - AUDITOR'S INTERIM AUDIT REPORT – 2013-2014 FINANCIAL YEAR**

WARD : ALL  
FILE No. : M/818/14  
DATE : 10 November 2014  
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

**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 October 2014 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.*

## **COMMENT**

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

### **Auditor's Comment(s) - 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 matters were noted as requiring attention:

- (i) Our review of the outstanding purchase orders file revealed a number of long outstanding purchase orders totaling \$407,426.30 dated prior to 30/6/2013. Some of these outstanding purchase orders may have been completed and may require cancellation.

We request that management review the outstanding purchase orders periodically and purge unwanted and fulfilled purchase orders from the file. This will ensure that only valid outstanding purchase orders are on file.

### ***Management Response***

*The Auditors comments about outstanding purchase orders are acknowledged and management will continue to monitor and purge old orders as part of the end of year process.*

*It is noted that the orders outstanding with a high value, involve budgeted projects that extend over two years, eg. Landmark Building, or annual orders raised for the new financial year which are purged with the end of year process.*

*All orders noted by the Auditor were completed within the financial year with the exception of Western Power for infrastructure works yet to be commenced.*

*At the start of each financial year, with input from Managers, only valid outstanding orders are rolled into the new financial year.*

- (ii) During our interim audit visit this year we noted 4 instances (17 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 to be noted that (2) of the (4) instances identified in the sampling involved suppliers with current contracts with the City as a result of public tenders where pricing has already been set for the contract period and in one of the other (2) instances, there is no alternative supplier given the specialist nature of the work. In these instances, the risk referred to by the Auditor is considerably reduced.*

*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 occur as will always be the case.*

- (iii) We noted 4 instances (17 samples testing) whereby the process of requisitioning, approving and raising of purchase orders as well as approval of invoices for payment was performed by the same individual.

This lack of segregation of duties may increase the risk of misappropriation of council assets and fraud.

We recommend that the duties relating to the process of requisitioning, approving and raising of purchase orders as well as approval of invoices be appropriately segregated to minimise the risk of misappropriating of council assets and employee fraud.

In the event that these duties cannot be segregated, compensating controls in the form of an independent review by a supervisory level employee of a system report of purchase orders and invoices for goods/services received should be undertaken.

### **Management Response**

*This is the first time that the Auditor has raised this matter which is surprising given the system of initiating/approving requisitions, orders and invoices has been the same for many years.*

*The process for approving purchase orders and invoices for payment occurs in accordance with a "responsibility structure". This structure not only identifies positions with the authority to approve orders and invoices but also sets a dollar limit for that position depending on the position role and responsibilities.*

*The structure operates on the basis of a payroll number and a personal password unique to that officer and all order/invoice transactions are logged for audit control and tracking purposes. As well, including a position in the responsibility structure is a (3) step approval process involving the responsible Executive Director, Executive Director Corporate Services and the CEO.*

*It is not uncommon for a position to raise an order and approve the resulting invoice providing of course the dollar value of the order and invoice is within the dollar limit for that position.*

*The Auditor's proposal to segregate the ordering and invoice approval functions would be both costly and inefficient and therefore cannot not supported, the organisation is simply too large to have officers checking other officers.*

*The better approach, as also proposed by the Auditor, is compensating controls of which there are many that currently exist, eg. the City's Purchasing Policy and Management Practice; the process as explained for including a position within the responsibility structure; the systems capability for supervisory/management positions to run reports at any time on orders and invoice approvals for direct reports; regular periodic actual to budget reviews (at least monthly) undertaken at differing levels within Directorates and external to Directorates by the Finance Department.*

### **Auditor's Comment(s) - 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 matter was noted and brought to your attention:

- (i) We noted that there was no evidence of review of the interim rates reconciliations by a senior officer.

We recommend that the interim rates reconciliations be initialled by the senior officer as evidence that the reviews have been performed.

### **Management Response**

*The recommended verification process by a senior rates officer has now been reaffirmed and is 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 from time time to time, 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.*

### **Auditor's Comment(s) – 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.

We note that there is an ongoing review process by management of outstanding accounts. However as auditors, we have a responsibility to bring the matter to the Council's attention and will continue to review the progress and the processes undertaken by the management to recover these debts.

The following matter was noted during our review and is brought to your attention:

- (i) Our review of the sundry debtors aged trial balance report ( excluding GST receivable) as at 18 February 2014 indicated that \$ 309,650.63 (approximately 9.3%) from the total outstanding debts of \$ 3,225,946.16 were in the 90 days and over category.

***NOTE: Details reported by the Auditor on specific debts together with Management's Response are reported at Confidential Attachment B, 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.***

### **Auditor's Comment(s) – Payroll**

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

We obtained an Employee "Annual Leave Balances Report" as at 20 February 2014. Audit found that the report contains 52 staff with outstanding annual leave entitlements in excess of 8 weeks to a maximum of 35 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 8 July 2013.

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

### **Management Response**

*An Annual Leave Management Practice (rather than an adopted Policy given section 5.41 of the Local Government Act 1995 clearly identifies it is a function of the CEO to be responsible for the employment, management, supervision and direction of all employees) exists and reads as follows:*

#### *Annual and Long Service Leave Management Practice*

##### *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 and 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.*

*The number of employees with accrued annual leave greater than 8 weeks has remained relatively constant over the last few years, ie.*

<b>History of Annual Leave Accruals</b>			
	<b>at 30.6.2012</b>	<b>at 30.6.2013</b>	<b>at 30.6.2014</b>
Staff Count	55	58	53
Total Hours	26,467	26,923	24,509
Average Hrs/staff	481	481	462

*All employees with annual leave greater than 8 weeks have the relevant approval.*

*With regards to the liability aspect, the City maintains a cash-backed Reserve Account equal to the current dollar value of the accrued annual leave at the 30<sup>th</sup> June each year*

*On the basis that the liability is covered by a cash-backed Reserve Account and all instances of accrued annual leave have relevant approval, the current situation is considered manageable and unlikely to adversely affect continuity of service delivery standards.*

## CONCLUSION

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

## ATTACHMENTS

1. City Audit Attachment - Confidential – 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*

## COMMITTEE DISCUSSION

*Committee queried the sampling size and criterion as referred to and used by the Auditor when "determining the appropriate means for selecting items for testing," requesting that this information be sourced administratively from the Auditor for discussion purposes at the proposed meeting with the Auditor when scoping the next Interim Audit in February 2015.*

CA5/11/14      **RECOMMEND**

**That Council:**

1. **Notes the matters raised by the Auditor in his Interim Audit Report for the financial year 2013-2014, 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.**

**Moved Cr K Busby  
MOTION CARRIED (5/0)**

***COUNCILLORS' ITEMS***

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Nil

**MEETING DECLARED CLOSED AT 6.16 PM**

