

CITY OF ARMADALE

MINUTES

OF CITY AUDIT COMMITTEE HELD IN THE COMMITTEE ROOM,
ADMINISTRATION CENTRE, 7 ORCHARD AVENUE, ARMADALE ON MONDAY, 5
NOVEMBER 2012 AT 5:15 PM.

PRESENT: Cr J H Munn JP CMC (Chair)
Cr M H Norman
Cr L Sargeson

APOLOGIES: Cr H A Zelones JP

OBSERVERS: Cr R Butterfield
Cr G Nixon

IN ATTENDANCE: Mr R S Tame Chief Executive Officer
Mr A F Maxwell Executive Director Corporate Services
Ms F Faranda Executive Manager Corporate Services
Mr A Macri City Auditor
Mr T Tan Audit Manager assisting the Auditor

*“For details of Councillor Membership on this Committee, please refer to the City’s website
– www.armadale.wa.gov.au/your_council/councillors.”*

DECLARATION OF MEMBERS' INTERESTS

Nil

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

Nil

CONFIRMATION OF MINUTES

CA3/11/12 **RECOMMEND**

Minutes of the City Audit Committee Meeting held on 21 March 2012 be confirmed.

**Moved Cr M H Norman
MOTION CARRIED (3/0)**

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CITY AUDIT COMMITTEE

5 NOVEMBER 2012

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1.1 - AUDITOR'S INTERIM AUDIT REPORT - 2011-2012 FINANCIAL YEAR

WARD : ALL
FILE No. : M/778/12
DATE : 30 October 2012
REF : CT
RESPONSIBLE : Executive Director
MANAGER : Corporate Services

In Brief:

- This report presents the matters raised in the Auditor's Interim Report together with Management's response to those matters; and
- The Report Recommendation is to note the Auditor's comments and support the Management Responses to those comments.

Tabled Items

Nil

Officer Interest Declaration

Nil

Strategic Implications

Effective governance and administration of the City's services

Legislation Implications

Local Government Act 1995 (as amended) and associated Regulations
Australian Accounting Standards
International Financial Reporting Standards

Council Policy/Local Law Implications

Nil

Budget/Financial Implications

Nil

Consultation

Council's Auditor

BACKGROUND

Each year, as part of Council's audit process, an Interim Audit is undertaken to ascertain areas of potential review associated with Council's financial systems / processes. The advice received through the interim audit is then assessed by Management who note the comments and take action as required. The findings of the Interim Audit, together with responses from Management, are now presented for Committee's consideration and recommendation to Council. Council's Auditor, Mr Tony Macri and Mr Terry Tan (Audit Manager) assisting Mr

Macri, will be in attendance at the meeting to speak to the Interim Audit Report and take questions from Committee members.

DETAILS OF PROPOSAL

As part of Council's committee structure, the City Audit Committee has been established to review areas of an audit or compliance nature. The Interim Audit is summarised in the following 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 Interim Audit reports on an exception basis those items that require management's attention and does not seek to point out all the strong internal controls in place. The Auditor's Interim Report is prefaced by 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)
- 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, and Management's response to each, are as follows.

1. PURCHASING AND PAYMENTS

Auditor's Comment

As part of our audit, we carried out a review of the purchasing and payments system.

- (i) In our previous year's management letter dated 30 September 2011, we informed management that there were a high number of instances where purchase orders were not placed before the purchase of goods and services.

During our interim audit visit this year we reviewed this area again and are pleased to report that as a result of management action there has been a significant reduction in the number of occurrences in the organization.

The Manage Financial Services advised that management is currently monitoring the level of occurrences and are taking steps to further improve controls in this area.

Management Response

Management will continue to monitor as an ongoing process to ensure that all staff adhere to the procedure.

Auditor's Comment

- (ii) During our testing we noted 9 instances (18 samples tested) where purchase orders did not show reference to the related documents or quotations obtained.

We recommend that all purchased orders should either contain a reference to the tender or details of quotations obtained. This will assist the authorizing officer in ensuring appropriate ordering procedures have been followed.

Management Response

Staff have again been requested that when raising purchase orders to include in the description the tender number or details of quotation obtained. IT has been requested to investigate whether an existing field or new field can be used/created for this purpose.

2. **CREDITORS**

Auditor's Comment

- (ii) From our review, we noted that new suppliers are set up by Accounts Payable Officer after receiving an approved standard "New Creditor Validation" form. Details obtained include Australian Business Numbers (ABNs), bank account details, etc. The Accounts Payable Officer also performs the data entry of supplier's invoices into the system. A risk associated with a user having access to both functions would be the entry of a fictitious supplier and an associated invoice.

We recommend that the functions be segregated to address this risk or alternatively a review be carried out by an independent senior officer of new suppliers created in the system and ensuring that they are valid and approved suppliers.

Management Response

The entry of new suppliers is now performed by an independent officer and verified by a senior officer.

3. **RATES DEBTORS**

Auditor's Comment

We carried out a review of the rate debtors in arrears by obtaining a report of outstanding rate debtors over \$1,000, excluding pensioners, which totaled \$1,513,441.62 as at 7 February 2012.

Our review indicated the following rate debtors with large overdue balances, namely:

(NB: this information is presented in the Confidential Attachment for as per section 5.95(2) of the Local Government Act 1995, such information is not to be made available to the public)

From our discussion with the Rates Officers and the Manager Financial Services, we were advised that the management is in discussions with the above ratepayers to recover payment of outstanding rates pending sale of the businesses.

As auditor's, 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.

Management Response

Management notes the Auditor's comment and will continue to review progress to recover these outstanding debts.

4. **PAYROLL**

Auditor's Comment

We obtained an Employee "Annual Leave Balances Report" as at 10 February 2012. Audit found that the report contains 62 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 of 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 recommend that management adopt a policy to ensure leave entitlements are regularly reviewed and cleared.

Management Response

This issue was identified from the last interim audit in 2011 and steps were taken to address the issue. As a result, the noted outstanding annual leave entitlements had reduced significantly. A further review has been carried out and management have been requested to approach the relevant staff within their own Directorates.

5. **STORES**

Auditor's Comment

We have examined the policies and procedures in existence in relation to the ordering, recording, disbursement and reconciliation of stores.

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

(i) We obtained an "Inventory Trail Balance report as at 9 February 2012 and selected a few samples for stock count from the report to the physical items.

In particular, we noted a discrepancy in unleaded petrol where our count showed approximately 7,900 litres whilst the report showed 9,315.30 litres. The Stores Controller was unable to explain the difference.

We recommend that management investigate the discrepancy and we will be pleased to receive a response.

Management Response

Management investigated the reported discrepancy and it was discovered that the fuel bowsers were inoperable prior to the interim audit and were not recording the issues in the fuel system. Manual records were maintained but were not updated into the system. This has now been carried out with an instruction that should this problem occur again, the matter be resolved promptly.

Auditor's Comment

- (ii) We noted that whilst the actual procedures in practice appear to be appropriate for the ordering, recording, disbursement and reconciliation of stores, there are no documented procedures existing which details the indicated processes.

A detail procedural document in this area is recommended. Once this document is in place, all officers in the stores area at the depot should be advised of the new documented procedures. This will assist to:

- Retain corporate knowledge and to facilitate staff training;
- Facilitate process review and improvement;
- Reflect the desired processes and procedures undertaken in the stores area; and
- Ensure that roles and responsibilities are clearly defined.

Management Response

The procedures for the stores operation have been written and are under review and will be put into operation as soon as possible.

Auditor's Comment

- (iii) We carried out a site inspection at the depot and noted that the keys for the City trucks are left unsecured on a board outside the depot store office. We were advised by the Stores Controller that this was to facilitate the truck drivers to pick up the keys easily without going in and out of the office.

We believe that the keys could easily be removed by an unauthorized person as the gate for the depot is left open during the day and the board holding the keys is neither monitored by a security camera nor an authorized personnel.

We recommend the keys for the City trucks be kept securely or be monitored by a camera to address the security risk.

Management Response

The keys for the trucks have now been brought into the store area and are visible to the Stores and Purchasing Officers, they are not visible from the outside.

6. **IT CONTROLS**

Auditor's Comment

(i) The City had engaged Stratsec (Information Security Company) to carry out security testing and assessment of its internet facing and other related services during November and December 2011. Two reports had been released in the following areas:

- (a) Intrusion Detection System (IDS) and Firewall Devices Review
- (b) External Security Testing

We noted that there are a number of risks addressed relating to the above areas ranging from extreme to low. We have been advised that the extreme and high risks have been addressed, whilst the moderate and low risks will be addressed by March –April 2012.

At our next interim audit visit, we will follow up to confirm that the process has been adhered.

Management Response

All items of risk have been addressed.

Auditor's Comment

(ii) We noted that there is no formal process to review users' access rights to data and information services in regular intervals. Access rights generally remain the same for most staff as there are minimal changes to staffing within the organization, however staff who may change roles within the organization may have access rights that are not corresponding with their duties and responsibilities.

We recommend that the management conduct a formal process to review users' access rights and module responsibility structures at regular intervals (say every 6 months). This will ensure that only persons with authorized module access can process transactions to the system.

Management Response

A formal process exists for staff that formally changes roles within the organisation. A half yearly audit process or general access will be implemented to capture situations not captured as part of any formal process. IT has been requested to review each position on their individual requirements during the initial introductory training session.

Auditor's Comment

(iii) We note that whilst there is a formal documented Disaster Recovery Plan (DRP) for the City, this has not been updated for the last approximately six

(6) years. Without a current updated Disaster Recovery Plan, the restoration time of IT services may be increased, resulting in greater downtime and potential loss of data and revenue.

We recommend that the City update the disaster recovery plan and the plan be tested periodically and updated as changes occur. This will provide assurance that it can recover the City's computing and network facilities following a disaster or disruption in data processing capability.

Management Response

The City's Disaster Recovery Plan is currently under review and will be referred to management for discussion in the first half of this financial year as part of the Corporate Business Plan process.

CONCLUSION

The Auditor's Interim Audit Report is considered to reflect favorably on the City's overall level of compliance, which in turn demonstrates that, the City's internal checks and controls are working well.

The matters commented on by the Auditor as requiring Management's review and attention:

- have in some instances already been addressed / actioned, or
- are in the process of being addressed / actioned as per Management's response presented in this Report.

ATTACHMENTS

1. Interim Audit Report - *This matter is confidential under Section 5.95(2) (b) of the Local Government Act, as the information relates to a debt owed to the City.*

CA4/11/12 **RECOMMEND**

That Council notes the comments arising from the Auditor's 2011-2012 Interim Audit and supports the Management Responses shown beneath each comment within this Report.

Moved Cr L Sargeson
MOTION CARRIED (3/0)

1.2 - 2011-2012 FINANCIAL YEAR INDEPENDENT AUDITOR'S REPORT

WARD : ALL
FILE No. : M/779/12
DATE : 30 October 2012
REF : CT
RESPONSIBLE : Executive Director
MANAGER : Corporate Services

In Brief:

- This report presents the 2011-2012 Independent Auditor's Report. It should be noted that no issues of inaccuracy or non-compliance with the City's Annual Financial Report for the year ended 30 June 2012 have been identified.

Tabled Items

Nil

Officer Interest Declaration

Nil

Strategic Implications

Effective governance and administration of the City's services.

Legislation Implications

Local Government Act 1995 (as amended) and associated Regulations
Australian Accounting Standards
International Financial Reporting Standards

Council Policy/Local Law Implications

Nil

Budget/Financial Implications

Nil

Consultation

Council's Auditor
Chief Executive Officer

BACKGROUND

Each year, as part of Council's audit process, an Independent Audit is undertaken to assess Council's Annual Financial Report and the legitimacy and accuracy of Council's accounts. An Independent Audit Report is then produced by the Auditor and provided to the Chief Executive Officer, Mayor and the Minister / Department for Local Government. The Report is included in Council's Annual Report. Any issues arising from the Independent Audit Report are to be investigated and action taken to resolve those issues.

Council's Auditor, Mr Tony Macri and Mr Terry Tan (Audit Manager) assisting Mr Macri, will be in attendance at the meeting to speak to the Auditor's Report and take questions from Committee members.

DETAILS OF PROPOSAL

As part of Council's committee structure, the City Audit Committee has the responsibility to review the external audit process. The Independent Audit is presented as an attachment to this Report.

COMMENT

The Independent Audit was undertaken in October 2012 and highlights no areas of non-compliance with the *Local Government Act 1995*.

CONCLUSION

The Independent Audit Report reports that the current systems in place at the City are financially sound and that the Annual Financial Report has been found to be accurate and in accordance with the required legislation. Accordingly, it is recommended that the Independent Audit Report as presented be accepted.

ATTACHMENTS

1. Auditor's Report

CA5/11/12 RECOMMEND

That Council: acknowledges the 2011-2012 Financial Year Independent Auditor's Report as presented in the attachment, noting that:

1. **there were no issues of non-compliance found during the 2011-2012 Annual Audit, and**
2. **there were no inaccuracies in the City's Annual Financial Report for the year ended 30 June 2012.**

**Moved Cr M H Norman
MOTION CARRIED (3/0)**

MEETING DECLARED CLOSED AT 5:47 pm.

SUMMARY OF “A” ATTACHMENTS

ATT NO.	SUBJECT	PAGE
1.2 2011-2012 FINANCIAL YEAR INDEPENDENT AUDITOR'S REPORT		
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Certified Practising Accountants

PARTNERS

Anthony Macri FCPA
Domenic Macri CPA
Connie De Felice CA

INDEPENDENT AUDITOR'S REPORT

TO: RATEPAYERS OF CITY OF ARMADALE

We have audited the financial report of the City of Armadale, which comprises the Statement of Financial Position as at 30 June 2012 and the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and Rate Setting Statement for the year ended on that date and a summary of significant accounting policies and other explanatory notes.

Council's Responsibility for the Financial Report

Council is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. Our audit has been conducted in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with the relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.



Auditor's Opinion

In our opinion, the financial report of the City of Armadale:


- (i) gives a true and fair view of the financial position of the City of Armadale as at 30 June 2012 and of its financial performance for the year ended on that date; and
- (ii) complies with the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and the Australian Accounting Standards (including the Australian Accounting Interpretations).

Statutory Compliance

We did not during the course of our audit become aware of any instances where the Council did not comply with the requirements of the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of City of Armadale for the year ended 30 June 2012 included on the City of Armadale's website. The Council is responsible for the integrity of the City of Armadale's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.



MACRI PARTNERS
CERTIFIED PRACTISING ACCOUNTANTS
SUITE 2, 137 BURSWOOD ROAD
BURSWOOD WA 6100



A MACRI
PARTNER

PERTH
DATED THIS 29th DAY OF OCTOBER 2012.

