



A G E N D A

**OF CITY AUDIT COMMITTEE TO BE HELD IN THE COMMITTEE ROOM,
ADMINISTRATION CENTRE, 7 ORCHARD AVENUE, ARMADALE ON MONDAY, 10
DECEMBER 2007 AT 4:30PM**

PRESENT:

APOLOGIES:

OBSERVERS:

IN ATTENDANCE:

ELECTION OF CHAIR AND DEPUTY CHAIR

As this is the first meeting of the City Audit Committee since the October 2007 Elections, the first item of business is the Election of Committee Chair and Deputy Chair.

The Acting Executive Director Corporate Services will call for nominations for the position of Chair and having elected the Chair, the Chair will then call for nominations for the position of Deputy Chair.

Note: Pursuant to the requirements of the Local Government Act 1995, nominations are to be in writing either before the meeting or at the meeting before the close of nominations. If an election is required for either of the positions, then the provisions of Schedule 2.3 and 4.1 of the Local Government Act 1995 will apply as appropriate, i.e. committee members are to vote on the matter by secret ballot as if they were electors voting at an election and the votes cast will be counted on a preferential basis.

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

RESOLVED

Minutes of the City Audit Committee Meeting held on 12 March 2007, be confirmed.

I N D E X

CITY AUDIT COMMITTEE

10 DECEMBER 2007

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| 2006-2007 FINANCIAL YEAR INTERIM AUDIT ADVICE | 3 |
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2006 - 2007 FINANCIAL YEAR INTERIM AUDIT ADVICE

WARD ALL
DATE 4 December 2007
REF AFM and NC
RESPONSIBLE EDCorpS
MANAGER

In Brief:

This report presents matters arising from the Interim Audit conducted by Council's Auditor that have already been addressed by management or are in the process of being addressed.

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 Interim Audit is undertaken to ascertain any areas of potential review associated with Council's financial systems / processes. The advice received through the interim audit is then assessed by City officers who note the comments and take action as required. The Interim Audit was undertaken in April 2007 and the letter and findings are now presented for Committee's consideration. **(Refer to Attachment "A-1" – Summary of Attachments.)**

Council's Auditor, Mr Tony Macri, and his Audit Manager, Mr Sukumaran Menon, may also be in attendance at the meeting to speak to the Interim Audit and take questions from Committee members.

DETAILS OF PROPOSAL

As part of Council's committee structure, the Audit Committee has been established to review areas of an audit or compliance nature. The Interim Audit is forwarded under

separate cover and 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 only 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.

COMMENT

Analysis

Matters raised by the Auditor, and Management's response to each, are as follows:

Sundry Debtors

We noted in a number of instances, sundry debtors invoice advice forms (documents raised for initiating formal invoices) were not signed nor do they indicate the names of the persons requesting the invoices.

We recommend that all invoice advice forms indicate the names of the officers and be authorised prior to entering in the system. This will provide accountability and ensure only authorised requests are raised in the system.

Management Comment

This point is duly noted. Manual amendments to the process of raising sundry debtor invoices have now been introduced to address this issue.

Purchasing and Payments

As part of our audit, we carried out a review of the purchasing and payments system. A number of payments were judgmentally selected and testing performed to determine whether purchases of goods/services were in accordance with Council's purchasing practices. Generally the controls surrounding purchases, creditors and payments are appropriate to meet the Council's requirements.

The following matters were noted as requiring attention:

- (i) We noted two instances whereby total purchases were in excess of \$50,000 and tenders had not been called for the supplies.

In these instances the Council could be in breach of the Tender regulations. We request management investigate whether there are any other instances of similar nature where tenders were not called by the Council.

We would appreciate your comments and feedback on the matter in due course.

- ii. We noted that there are still instances where purchase orders are raised after receipt of the supplier's invoices.

Purchase orders should be raised when goods and services are ordered, not after they have been received, as this practice incurs the risk of unauthorised purchases being made.

We increased our sample testing to check how prevalent the occurrences were. The following were the results of our testing on a total sample of 40 items.

| Supplier's Name | Description of Purchase | Invoice No. & Date | Purchase Order No. & Date |
|------------------------------------|--------------------------------|---|---|
| Grayson's Concrete Service | To supply & lay concrete path | 1169 8/7/06 | 14749 10/7/06 |
| Quality Traffic Management Pty Ltd | Hire of Traffic Controllers | 9272 28/09/06 | 16622 6/10/06 |
| Grass Growers | Green waste mulching | 12552 31/10/06 | 17594 15/11/06 |
| Hotmix Ltd | Supply of Laterite | 41290 17/11/06 | 18234 13/12/06 |
| Aslab Pty Ltd | Asphalt Testing | 11342 16/11/06 | 17629 17/11/06 |
| Works Pavement Technology | | 01689 19/12/06 01561 26/10/06 01583 31/10/06 | 18819 17/1/07 17642 17/11/06 17250 1/11/06 |
| Works State-wide Kerbing | Kerbing | 38572 17/11/06 38509 31/10/06 38194 1/7/06 | 18109 8/12/06 17405 7/11/06 15616 18/8/06 |

Management Comment

- i. *With regard to the matter of tenders for purchases:*
- a. *The City, in the course of doing business, deals with many suppliers on many different contracts. During the 2006-2007 Financial Year the City raised approximately 8,500 Purchase Orders involving just under 1,000 different suppliers. The City acknowledges that on not all occasions have the tender requirements been met, and indeed the City reported one such instance in the 2006 Annual Compliance Return, as submitted to the Department of Local Government and Regional Development.*
 - b. *The matter of the two reported instances of possible tender non-compliance have been investigated and our findings are as follows:*
 1. *There were three instances (the two identified during the audit and one further instance) where purchases were found to have been made from one supplier in excess of the tender threshold of \$50,000 without a tender having been invited;*
 2. *In two of the three instances the primary cause was that differing sections of the organisation were unaware they were each purchasing from the same supplier;*
 3. *The other instance is as a result of a lapsed tender continuing to be applied, a matter that has since been addressed;*
 4. *The resulting non-compliance with the tender requirements is attributable to lack of communication and awareness rather than any intent to avoid the tender requirements which, whilst reassuring from a corporate governance perspective, is nevertheless a matter requiring Management's attention.*
 - c. *To avoid a repeat of the above occurrences in the future, it is proposed that:*
 - *Internal communications between differing sections be reviewed / improved;*
 - *The feasibility of having a more centralised purchasing function be examined; and*
 - *Staff training in the area of purchasing be arranged.*
- ii. *With regard to the matter of purchase orders being raised after the receipt of the supplier's invoice:*

The City acknowledges the due process has not been followed on all occasions due, in the main, to the process not always meeting the needs of the City in terms of carrying out its day-to-day operations. The City endeavors to follow due process whenever it is reasonably practicable to do so, and responsible officers will be reminded of their obligations in this regard.

Bank Reconciliations

We noted that the bank reconciliations were not reviewed by a senior officer after completion.

We recommend that the bank reconciliations be reviewed by a senior officer to ensure any unusual reconciling items are investigated. The reconciliation should be initialed as evidence that the review has been performed.

Management Comment

This point is duly noted. Amendments to the process of reviewing bank reconciliations have now been introduced to address this issue.

Conclusion

Notwithstanding the issues mentioned above, the Interim Audit report reflects favourably on the City's performance with regards to the financial management controls and systems in place. Officers will continue to improve upon those areas outlined within the Interim Audit Advice. It is, however, disappointing that the City has, by own admission in the Compliance Audit Return for 2006, possibly breached the tender regulations. This matter will be the subject of review that will seek to remedy the likelihood of this happening again.

RECOMMEND

That Council acknowledges the Interim Audit Advice (2006-2007) as presented, noting particularly the areas of:

- **Sundry Debtors**
 - **Purchasing and Payments**
 - **Bank Reconciliations**
- as areas of potential improvement.**

Moved

MOTION CARRIED/LOST ()

2006 - 2007 FINANCIAL YEAR INDEPENDENT AUDIT REPORT

WARD ALL
DATE 20TH Nov 2007
REF NC
RESPONSIBLE Acting EDCorpS
MANAGER

In Brief:

This report presents matters arising from the Independent Audit conducted by Council's Auditor. 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 2007 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 and Regional Development. 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 his Audit Manager, Mr Sukumaran Menon, may also be in attendance at the meeting to speak to the Audit and take questions from Committee members.

DETAILS OF PROPOSAL

As part of Council's committee structure, the Audit Committee has been established to review areas of an audit or compliance nature. The Independent Audit is forwarded under separate cover.

COMMENT

Analysis

The Independent Audit was undertaken in October 2007 (Refer to Attachment "A-2" – Summary of Attachments.) and highlights one area of non-compliance with the Local Government Act 1995 (as amended), that being:

Tender for Providing Goods and Services

As required under Section 3.57 of the Local Government Act 1995 and under Regulation 11 of the Local Government (Functions and General) Regulations 1996, the Council did not on all occasions enter into contracts where the consideration under the contract was worth more than \$50,000.

As was mentioned in the previous item relating to the Interim Audit, the matter is concerning from a management perspective due primarily to the fact that the matter relates largely to communication within the organization, but reassuring that the non-compliance is not related to any deliberate intent to avoid the tender requirements. In order to address this matter for the future the following measures have been proposed and investigations have already commenced:

- Internal communications between differing sections be reviewed / improved;
- The feasibility of having a more centralised purchasing function be examined; and
- Staff training in the area of purchasing be arranged.

Conclusion

The extract above highlights that the current systems in place at the City are, primarily, sound, and that the Annual Financial Report has been found to be accurate and in accordance with the required legislation. One issue of non-compliance was highlighted, however this does not impact on the accuracy of the Annual Financial Report or figures / statements emanating from them.

RECOMMEND

That Council acknowledges the Independent Audit Report (2006 – 2007) as presented at Attachment "A-2", noting that:

- **there was one issue of non-compliance relating to Section 3.57 of the Local Government Act 1995 (Tenders for providing goods and services) and notes that management, in addressing this matter, has proposed the following measures:**

- **Internal communications between differing sections be reviewed / improved;**
 - **The feasibility of having a more centralised purchasing function be examined; and**
 - **Staff training in the area of purchasing be arranged.**
- **that no inaccuracy with the City's Annual Financial Report for the year ended 30 June 2007 has been recorded.**

Moved

MOTION CARRIED/LOST ()

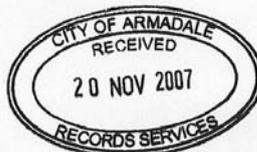
CITY AUDIT COMMITTEE

SUMMARY OF "A" ATTACHMENTS

10 December 2007

| Attachment No. | Subject | Page |
|-----------------------|---|-------------|
| A-1 | 2006-2007 INTERIM AUDIT ADVICE – 30 JUNE 2007 - MACRI PARTNERS | 11 – 14 |
| A-2 | 2006-2007 INDEPENDENT AUDIT REPORT – 30 JUNE 2007 –MACRI PARTNERS | 15 - 17 |

MACRI
PARTNERS
Certified Practising Accountants



PARTNERS
Anthony Macri FCPA
Domenic Macri CPA
Connie Macri CA

17 April 2007

The Chief Executive Officer
City of Armadale
Locked Bag No 2
ARMADALE WA 6992

Dear Sir

RE: INTERIM AUDIT VISIT FOR THE YEAR ENDING 30 JUNE 2007

We carried out an interim audit of the City of Armadale for the year ending 30 June 2007.

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:

- Purchases
- Payments and Creditors
- Rate Receipts and Rate Debtors
- Receipts
- Payroll
- General Accounting
- Site Visit – Depot
- Registers
- IT Environment

Please note that our examination of internal controls was designed primarily for the purpose of expressing an opinion on the financial statements of the City of Armadale and compliance with the provisions of the Local Government Act 1995 (as amended) and Regulations under that Act.

Our reporting is based on an "exception" basis, and therefore we have not commented on the many strong internal controls in place within your accounting system.

Our review indicates that overall, the controls in place were operating satisfactorily. However, there are a few matters which we consider should be brought to your attention.



SUNDRY DEBTORS

We noted in a number of instances, sundry debtors invoice advice forms (documents raised for initiating formal invoices) were not signed nor do they indicate the names of the persons requesting the invoices.

We recommend that all invoice advice forms indicate the names of the officers and be authorised prior to entering in the system. This will provide accountability and ensure only authorised requests are raised in the system.

Management Comment:

This point is duly noted. Manual amendments to the process of raising sundry debtor invoices have now been introduced to address this issue.

PURCHASING AND PAYMENTS

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The following matters were noted as requiring attention:

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In these instances the Council could be in breach of the Tender regulations. We request management investigate whether there are any other instances of similar nature where tenders were not called by the Council.

We would appreciate your comments and feedback on the matter in due course.

- ii. We noted that there are still instances where purchase orders are raised after receipt of the supplier's invoices.

Purchase orders should be raised when goods and services are ordered, not after they have been received, as this practice incurs the risk of unauthorised purchases being made.

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Management Comment:

i. With regard to the matter of tenders for purchases:

- (a) *The City, in the course of doing business, deals with many suppliers on many different contracts. During the 2006-2007 financial year the City raised approximately 8,500 purchase orders involving just under 1,000 different suppliers. The City acknowledges that on not all occasions have the tender requirements been met, and indeed the City reported one such instance in the 2006 Annual Compliance Return, as submitted to the Department of Local Government and Regional Development.*
- (b) *The matter of the two reported instances of possible tender non-compliance have been investigated and our findings are as follows:*
- (1) *There were three instances (the two identified during the audit and one further instance) where purchases were found to have been made from one supplier in excess of the tender threshold of \$50,000 without a tender having been invited;*
 - (2) *In two of the three instances the primary cause was that differing sections of the organisation were unaware they were each purchasing from the same supplier;*
 - (3) *The other instance is a result of a lapsed tender continuing to be applied, a matter that has since been addressed;*
 - (4) *The resulting non-compliance with the tender requirements is attributable to lack of communication and awareness rather than any intent to avoid the tender requirements, which, whilst reassuring from a corporate governance perspective, is nevertheless a matter requiring Management's attention.*



- (c) *To avoid a repeat of the above occurrences in the future, it is proposed that:*
- *internal communications between differing sections be reviewed / improved;*
 - *the feasibility of having a more centralised purchasing function be examined; and*
 - *staff training in the area of purchasing be arranged.*

- ii. *With regard to the matter of purchase orders being raised after the receipt of the supplier's invoice:*

The City acknowledges the due process has not been followed on all occasions due, in the main, to the process not always meeting the needs of the City in terms of carrying out its day-to-day operations. The City endeavors to follow due process whenever it is reasonably practicable to do so, and responsible officers will be reminded of their obligations in this regard.

BANK RECONCILIATIONS

We noted that the bank reconciliations were not reviewed by a senior officer after completion.

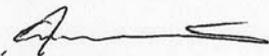
We recommend that the bank reconciliations be reviewed by a senior officer to ensure any unusual reconciling items are investigated. The reconciliation should be initialled as evidence that the review has been performed.

Management Comment:

This point is duly noted. Manual amendments to the process of reviewing bank reconciliations have now been introduced to address this issue.

We thank your staff for the assistance given during the course of the audit. Should you have any queries with respect to the above or any other matter, please do not hesitate to contact us.

Yours faithfully



MACRI PARTNERS

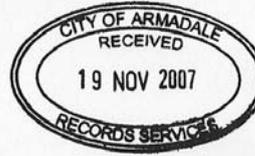
ARMA01 AMsm 170407 Interim Audit Report – 30 June 2007



MACRI
PARTNERS

Certified Practising Accountants

15 November 2007



PARTNERS
Anthony Macri FCPA
Domenic Macri CPA
Connie Macri CA

The Chief Executive Officer
City of Armadale
Locked Bag No 2
ARMADALE WA 6992

Dear Sir

RE: AUDIT REPORT – 30 JUNE 2007

We have pleasure in forwarding the Audit Report of the City of Armadale for the financial year ended 30 June 2007.

We take this opportunity to thank your staff for their assistance during the course of the audit.

Yours sincerely

A handwritten signature in black ink, appearing to read "Anthony Macri".

MACRI PARTNERS

ARMA01 AMsm





Certified Practising Accountants

PARTNERS
Anthony Macri FCPA
Domenic Macri CPA
Connie Macri CA

INDEPENDENT AUDIT REPORT

TO: RATEPAYERS OF CITY OF ARMADALE

SCOPE

The financial report and Council's responsibility

We have audited the financial report of the City of Armadale, comprising the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, Rate Setting Statement and the notes to and forming part of the financial report for the year ended 30 June 2007.

The Council is responsible for the preparation and presentation of the financial report and the information contained therein. This includes responsibility for the establishment and maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. In Note 1, the Council also states that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the ratepayers of the City of Armadale. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

Our audit involves performing procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Local Government Act 1995 (as amended), including compliance with Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Council's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Council.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

INDEPENDENCE

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



AUDIT OPINION

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

- (a) presents fairly the financial position of the City of Armadale as at 30 June 2007 and the results of its operations and its cash flows for the year then ended in accordance with applicable Accounting Standards; and
- (b) is prepared in accordance with the requirements of the Local Government Act 1995 (as amended) and Regulations under that Act, and the Australian Accounting Standards (including the Australian Accounting Interpretations).

STATUTORY COMPLIANCE

During the course of our audit we became aware of the following instance where the Council did not comply with the Local Government Act 1995 (as amended):

Tenders for Providing Goods and Services-

As required under Section 3.57 of the Local Government Act 1995 and under Regulation 11 of the Local Government (Functions and General) Regulations 1996, the Council did not on all occasions invite tenders where the consideration under the contract was worth more than \$50,000.

Except as detailed above, no other matters of non-compliance were noted during the course of our audit 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.

MACRI PARTNERS

MACRI PARTNERS
CERTIFIED PRACTISING ACCOUNTANTS
28 THOROGOOD STREET
BURSWOOD WA 6100

PERTH
DATED THIS 31st DAY OF OCTOBER 2007.

A Macri

A MACRI
PARTNER

