

CITY OF ARMADALE

AGENDA

OF CITY AUDIT COMMITTEE TO BE HELD IN THE COMMITTEE ROOM,
ADMINISTRATION CENTRE, 7 ORCHARD AVENUE, ARMADALE ON MONDAY,
27 AUGUST 2018 AT 5:30PM.

PRESENT:

APOLOGIES:

OBSERVERS:

IN ATTENDANCE:

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.

DECLARATION OF MEMBERS' INTERESTS

DEPUTATION

CONFIRMATION OF MINUTES

RECOMMEND

Minutes of the City Audit Committee Meeting held on 5 February 2018 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).”

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CITY AUDIT COMMITTEE

27 AUGUST 2018

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1.1 - AUDITOR'S INTERIM AUDIT REPORT - 2017/18 FINANCIAL YEAR

WARD : ALL
FILE No. : M/536/18
DATE : 21 August 2018
REF : FB
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

4. Leadership
 - 4.1 Visionary Civic Leadership and Sound Governance
 - 4.1.2 Make decisions that are sound, transparent and strategic.

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

City'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 improvement 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. 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*
- *Investment of Surplus Funds*
- *Purchases and Payments*
- *Corporate Credit Cards*
- *Creditors*
- *Rate Receipts and Rate Debtors*
- *Receipts and Sundry Debtors*
- *Payroll*
- *Stores and Depot*
- *General Accounting (Journals, etc.)*
- *IT Controls*
- *Registers (Tenders Register, etc)*
- *Compliance*
- *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:

1. Auditor's Comment - Purchases and Payments

As per Council Policy ADM 19 - Procurement of Goods and Services "Unless exemptions apply all purchases of \$150,000 or greater shall be by a tender process and be conducted in accordance with regulations."

We noted that the total procurement of goods/services from Bollig Design Group (Pty) Ltd was in excess of \$150,000 and tenders were not publicly invited as required under the Council's procurement of goods and service policy and Regulation 11 of the Local Government (Functions and General) Regulations 1996 "the regulations".

There was no documentary evidence to indicate as to why the tender process had not been followed.

Rating: Moderate

Implication:

The Council could be in breach of the regulations and the requirements under the Council's procurement of goods and service policy (ADM 19).

Recommendation:

We recommend that management investigate whether there are any other instances of similar nature where tenders were not called by the Council unless exemptions apply for such instances in accordance with the Council's Policy on procurement of goods and services.

Management Comment:

The Department of Local Government and Communities (DLG&C) issued advice on 10 Sept 2015 in its circular No 16-2015, with respect to the anti-avoidance provisions of the Local Government Functions and General Regulations. This advice states that:

"Reports prepared by the CCC made recommendations that the anti-avoidance provisions be strengthened to ensure that contracts were not split for the purposes of avoiding the tender threshold.

Regulation 12 has been amended to clarify this. It is expected that if a local government reasonably believes that the purchase of a good or service from one supplier will exceed the tender threshold of \$150,000 they should publically invite tenders.

No timeframe for the tender threshold has been included in the regulations. However, local governments should consider the importance of testing the market through a public tender process for low value, repetitive contracts. A best practice suggestion is that if the tender threshold is reached within three years, then a public tender is invited for that good or service."

The City complied with its Purchasing Policy when awarding works to Bollig Design Group. The transactions raised in the auditor's report relate to three separate and distinct projects, namely:

1. *Greendale Centre*
2. *Kelmscott Hall*
3. *Armadale Arena*

These projects were the subject of separate capital budgets over two years, with transactions occurring during 2016, 2017 and 2018.

By the nature of these distinct projects, it is not agreed that the works were required to be subject to tender. The contracts awarded were always separate and unrelated and there is no question of any "split for the purposes of avoiding the tender threshold". Rather, the works were subject to three separate Requests for Quote (RFQ) for supply "of a good or service from one supplier" under Regulation 12. It is also noted that Bollig have been unsuccessful in one other RFQ. The City has maintained awareness of this threshold and will continue to be vigilant.

As an additional precaution a quarterly report will be generated to review all payments to suppliers exceeding \$50,000 in any given year, to ascertain where possible, it is reasonably expected that the City may purchase goods or services recurrently, that may, over a 3 year period, exceed \$150,000, warranting a Request for Tender. The Manager of Financial Services will have the responsibility for reviewing this report.

Responsible Person: Manager Financial Services

Completion Date: Completed

2. Auditor's Comment - Purchases And Payments

During our interim audit we noted 4 instances (16 samples tested) where purchase orders were raised only after the purchase of goods and services.

These instances were as follows:

Purchase Order Number	Supplier	Invoice No:
122296	Entire Fire Management	2-675A
126598	Western Tree Recyclers	00001462
131527	WA Electoral Commission	2899
127918	Drilling Contractors of Australia	332-17

Rating: Moderate

Implication:

Such practice may increase the risk of unauthorised purchases being made.

Recommendation:

We recommend that purchase orders be raised when the goods and services are ordered and not after the goods and services have been received as the practice of raising purchase orders after the goods and services have been received increases the risk of unauthorised purchases being made.

This will also ensure adherence to Council's procurement of goods and service policy and that goods and services are obtained at the most competitive prices.

Management Comment:

The City's procedures require Purchase Orders to be raised before goods and services are ordered. Regular quarterly reports will be run, to review Purchase Order dates and Invoice Dates, and follow up exceptions to the City's procedures with officers. The Manager of Financial Services will have the responsibility for reviewing this report, and notify Manex of the outcomes, and any corrective measures required.

Responsible Person: Manager Financial Services/Coordinator Accounting Services

Completion Date: Ongoing

3. Auditor's Comment - Corporate Credit Cards

As part of the audit, we examined the policy and procedures in place for the use of corporate credit cards in the Council. The objective of the audit in this area was to check the controls over the authorisation and payment of expenditure.

During our testing of credit card transactions, we observed 6 instances (6 credit card statements tested) where the credit card expenditure was incurred and approved by the same cardholders. There was no independent review of the credit card statements and related expenditure documentation.

This issue was reported in our previous management letter dated 22 September 2017.

The management response then provided was as follows:

"The City's continued use of four Corporate Credit Cards remains very low and is still an exception based payment method only when the purchase order/invoice payment and/or cheque request procurement practices are not available, as documented in Council Policy (Fin 5 - Use of Corporate Credit Cards). The combined limits of these four corporate credit cards amount to only \$16,000 and only three of these cards are used on a regular basis. As such the risk has been assessed by Management as being 'Low'.

The City has a mechanism in place whereby all transactions incurred on a Corporate Credit Card are reviewed by a Finance Officer, as per its Management Practice (FIN 5 - Use of Corporate Credit Cards):

Cardholders are responsible for the purchases made on their corporate credit card and must sign the statement received at the end of each month certifying they have checked that all transactions listed match their purchases for that month. Cardholders are to obtain in all instances a compliant tax invoice or receipt which records an adequate description of the

goods or services obtained and shall write on the statement or the supporting documents for each transaction, the applicable expense account budget number for cost allocation purposes.

- i. All corporate credit cards statements from the City's financial institution shall be mailed directly to the Finance Department who will distribute to cardholders.
- ii. Corporate credit card statements (including supporting documentation of the goods or services acquired) when signed by the cardholder as being true and correct, are to be returned to the Finance Department.
- iii. The Finance Department will:
 - Reconcile the corporate credit card statements to the total monthly payment made to the City's financial institution.
 - Review the transactions and supporting documents on each corporate credit card statement, and report any irregularities or discrepancies to the MFS.
 - File all corporate credit card statements and supporting documentation."

Credit Card statement reconciliations will be signed off by an independent senior Financial Officer.

Rating: Significant

Implication:

The credit card may be misused either accidentally or fraudulently by the cardholder and the council may not be able to recover any financial loss arising from such misuse by the cardholder in the absence of a review by a senior officer independent to the cardholder.

Recommendation:

We recommend that the credit card statements and related expenditure documentation be reviewed and approved by a senior officer independent to the cardholder in order to maintain control over credit card expenditure.

Cardholders should not approve expenditure incurred on their own credit cards.

Management Comment:

The City has a mechanism in place whereby all transactions incurred on corporate credit cards are reviewed by a Finance Officer and reported to the Manager Financial Services when there are perceived irregularities or discrepancies as per the City's Management Practice (Fin 5 - Use of Corporate Credit Cards).

Management will have all credit card statements reviewed by the Finance Officer and payment approved by an Executive Officer.

Responsible Person: Manager Financial Services Completion Date:

Completed Date (Effective July 2018)

4. Auditor's Comment - 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.

Our review of the sundry debtors aged trial balance report (excluding GST receivable) as at 3rd April 2018 indicated that debts amounting to \$ 326,259.89 (approximately 22.5%) of the total outstanding debts of \$1,443,929.83 were in the 120 days and over category.

The large and overdue accounts in the 120 days and over category which existed in the report were as follows:

Debtor's Name	Amount \$
Specialist Underwriting Agencies Pty Ltd	110,021.15
Kelmscott Senior Football Club	12,444.50
Kelmscott Junior Football Club	6,510.75
Various Ranger's Infringement Accounts	140,618.62
Various Planning/Building Infringement Accounts	36,554.15
Various Ranger's Others	20,110.72
Total	326,259.89

We understand that some invoices raised in respect of infringements have been outstanding since year 2004.

Rating: Minor

Implication:

The management may encounter difficulty in recovering long outstanding debts resulting in a financial loss to the City.

Recommendation:

We recommend that management take appropriate steps to recover all long outstanding debts without further delay.

We also recommend that the management review the existing provision for doubtful debts in the books and consider its adequacy for the financial year ending 30 June 2018.

We will be pleased to receive feedback from management in due course as to the status of the above accounts.

Management Comment:

Management will continue to monitor and pursue debts that are not collected within 30 days. There are certain debts (Fines Enforcement Registry) which are enforced by the Courts that the City has no control over.

The long outstanding debts identified are due to:

Debtor's Name	Amount (\$)	Comment
Specialist Underwriting Agencies Pty Ltd	110,021.15	Debt pending legal/insurance proceedings
Kelmscott Senior Football Club	12,444.50	Debtor on payment plan

Debtor's Name	Amount (\$)	Comment
Kelmscott Junior Football Club	6,510.75	Debtor on payment plan
Various Ranger's Infringement Accounts	140,618.62	Fines Enforcement Registry debts
Various Planning/Building Infringement Accounts	36,554.15	Fines Enforcement Registry debts
Various Ranger's Others	20,110.72	Debts ongoing under review
Total	326,259.89	

Responsible Person: Manager Financial Services

Completion Date: Ongoing

5. Auditor's Comment - Payroll

Our audit examined the City's payroll system which consists of controls assessment around the following areas:

- Reviewing the policies and procedures at the City in relation to the Payroll system
- Staff additions and terminations
- Changes to employees pay, including variations to pay
- Authorisation and monitoring of leave taken by employees
- Processing of payroll
- Segregation of duties

The following matter was noted and brought to your attention:

According to the City's "Annual and Long Service Management Procedure" annual leave deferrals, in excess of a maximum period of three years requires the approval of the CEO.

However, we noted that, as at 17 April 2018, there were 24 employees with annual leave entitlements in excess of three years without prior approval from the CEO.

Rating: Moderate

Implication:

Excess annual leave entitlements may have adverse effects on the Council including:

- key staff not being rotated, a preventive control against fraud;
- health and safety concerns with staff members not taking their annual entitlements; and
- increase the City's costs given salary rises and increments over time.

Recommendation:

We recommend that appropriate steps be taken by the management to manage and minimize the excessive annual leave balances in order to avoid the effects mentioned under implication.

Management Comment:

Management is aware of the risks associated with excess leave accumulation. As per the City's leave management procedure, 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.*

Between 2016 to 2017, the number of employees with excess leave has been reduced by four (4). The total liability for this group is also continually decreasing from 428 weeks to 380 weeks. A report is generated on outstanding leave balances and provided to Executive Directors six-monthly. Retrospectively, the CEO will review all outstanding cases for authorisation.

Management will continue to work with employees to reduce their excess leave.

Responsible Person: Manager Human Resources

Completion Date: Ongoing

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 2017/18 financial year, 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 the next interim audit.**

ATTACHMENTS

1. [Interim Management Letter 2018](#)

1.2 - TIMELY PAYMENT OF SUPPLIERS

WARD : ALL
FILE No. : M/537/18
DATE : 21 August 2018
REF : FB
RESPONSIBLE : Executive Director
MANAGER : Corporate Services

In Brief:

- This Report presents matters raised in the OAG's (Office of the Auditor General) Focus Audit Report for the 'Timely Payment of Suppliers' for Council's consideration, together with responses from Management to those matters.
- The Report Recommendation is to note the OAG's comments and support the responses to those comments by Management.

Tabled Items

Nil.

Officer Interest Declaration

Nil.

Strategic Implications

4. Leadership
 - 4.1 Visionary Civic Leadership and Sound Governance
 - 4.1.2 Make decisions that are sound, transparent and strategic.

Legislation Implications

Local Government Amendment (Auditing) Act 2017

Council Policy/Local Law Implications

Nil.

Budget/Financial Implications

Nil.

Consultation

OAG (Office of the Auditor General)

BACKGROUND

Auditor General Focus Audits centre on the effective and efficient management and operation of public sector programs and activities. Topics are selected by the Auditor General following a comprehensive process which may also include requests for audits from Parliament, the government or the broader community. In choosing topics factors such as risk, materiality and impact are taken into consideration.

The Local Government sector spends billions of dollars purchasing goods and services. To assist the continued viability of businesses in Western Australia and to help small businesses in particular to manage cash flow and administrative costs, it is important that local governments make payments to suppliers in a timely manner. In some instances, slow payments to suppliers may impact their ability to meet subsequent orders.

Local Government Regulations do not specify payment timeframes, and this audit did not have regard to a particular payment period as the ideal. Rather, the focus was mainly on the policies and practices of the local government and the payment terms of their suppliers.

The comments received from the OAG are assessed by the management and action is taken as required. The findings of this Focus 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 Auditor General's report on the timely payment of suppliers is primarily concerned with the effective and efficient management and operation of public sector programs and activities.

The Report is prefaced with the following comments:

"The focus of the audit was to assess whether the local government is making payments to suppliers on a timely basis in accordance with better practice.

Policies and practices were assessed over an 11 month period from 1 January to 30 November 2017, using the following lines of inquiry:

- 1. Have local governments developed procedures and controls for ensuring that payments are made on a timely basis?*
- 2. Are suppliers being paid on a timely basis?*

We conducted this audit under section 18 of the Auditor General Act 2006 and in accordance with Australian Auditing and Assurance Standards."

COMMENT

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

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating could indicate the need for a modified audit opinion in the current year, or in a subsequent reporting period if not addressed. However even if the issue is not likely to impact the audit opinion, it should be addressed promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

1. Untimely Payment of Invoice

Finding

We noted that there were four (4) invoices from our sample of 60 payments, which were not paid within 30 days of the invoice date or the receipt of the goods and services, as required by the management approved procedure. As detailed below, they were paid between 30 and 40 days.

Supplier	Days between invoice date and payment date	Invoice Amount
J.J Richards and Sons	32	\$201.30
Kidsport	32	\$2,070.00
D & T Asphalt PTY Ltd	34	\$2,439.00
P.G.S. Hope & Partners PTY Ltd	40	\$1,007.16

In addition, eight (8) were paid later than 30 days, but were within the suppliers' terms, which allowed for a longer payment period. We noted that the approved procedures do not address the circumstance where suppliers' payment conditions are above 30 days.

Rating: Minor

Implication

When invoices are paid late, there is an increased risk that the City may incur additional costs such as late payment fees. In addition, the cashflow of suppliers is impacted.

Recommendations

- Unless suppliers allow longer than 30 days, the City should pay all invoices within 30 days of the receipt of the invoice or receipt of the goods and services.
- Management should clarify its procedure with regard to payments where supplier requirements are greater than 30 days.

Management Comment

From a contextual perspective, the City has approximately 5,500 suppliers, makes approximately 12,000 supplier payments and processes approximately 20,000 invoices per year. Given the number of suppliers and invoices dealt with annually, to ensure segregation of authorisation, the City has established separate purchase order and invoice authorisation matrixes. The matrixes are structured around business areas with a hierarchy of approval value limits based on an officer's rank and responsibilities.

With the diversity and volume of the City's procurements, there will be occasions from time to time when invoices for example inadvertently go astray, that may delay payment. To the best of the City's knowledge for at least the past five (5) years, there have been no recorded supplier complaints about late invoice payments.

With regards to the OAG Recommendations:

- 1. The City's payment terms for invoices stemming from contracts arising from public tenders and eQuotes through WALGA's preferred supplier program, is 28 days from date of invoice unless otherwise agreed (eg. discount for earlier payment) between the City and supplier.*
- 2. The City's payment terms for invoices not stemming from contracts arising from public tenders and eQuotes through WALGA's preferred supplier program, is 30 days from date of invoice unless otherwise agreed (eg. discount for earlier payment) between the City and supplier.*
- 3. As a consequence of OAG's focus audit on the timely payment of suppliers, Management is now in the process of initiating three (3) improvements:*
 - (a) The City's procedures will be amended to stipulate that where a suppliers terms are greater than the City's standard payment terms, the City may elect to pay in accordance with the supplier's terms.*
 - (b) Displaying at the bottom of the City's purchase orders a link to the City's website on its payment terms as a condition of purchase.*
 - (c) A report on invoice date and payment date shall be generated and reviewed by the Manager Financial Services on a quarterly basis.*

Responsible Person: Manager Financial Services

Completion Date: 30 June 2018

2. Invoice/Goods and Services Received Dates

Business Improvement Opportunity details

We found that the invoice received date and goods and services received date are not formally recorded in the City's financial system.

Management Comment

- 1. The City's current financial system does not have the functionality to record invoice/goods/services received dates;*

2. *Invoice payment approvals by authorised Officers is predicated on the goods/services actually having been received, the goods/services being of an acceptable standard and the invoice details in terms of unit quantity and unit price are correct and align with the City's purchase order; and*
3. *It is understood that the new Corporate Business System has the capacity to record and incorporate goods/services received in the process workflow. This will be evaluated during implementation.*

Responsible Person: Manager Financial Services

Completion Date: To be confirmed

CONCLUSION

The OAG's Focus Audit Report presents a favourable result for the City. There are no findings to indicate that suppliers to the City are not paid in a timely manner.

RECOMMEND

That Council notes the matters raised by the OAG in its Focus Audit Report for the Timely Payment of Suppliers, and supports the Management responses to those matters, as presented in this Report.

ATTACHMENTS

1. [↓](#) Governance - City Audit - Attachments

MEETING DECLARED CLOSED AT _____

CITY AUDIT COMMITTEE

SUMMARY OF ATTACHMENTS

27 AUGUST 2018

ATT NO.	SUBJECT	PAGE
1.1 AUDITOR'S INTERIM AUDIT REPORT - 2017/18 FINANCIAL YEAR		
1.1.1	Interim Management Letter 2018	17
1.2 TIMELY PAYMENT OF SUPPLIERS		
1.2.1	Governance - City Audit - Attachments	28



Certified Practising Accountants

PARTNERS
Anthony Macri FCPA
Domenic Macri CPA
Connie De Felice CA

31 July 2018

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

Dear Sir

RE: INTERIM AUDIT VISIT FOR THE YEAR ENDED 30 JUNE 2018

We recently carried out an interim audit of the City of Armadale for the year ended 30 June 2018.

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
- Investment of Surplus Funds
- Purchases and Payments
- Corporate Credit Cards
- Creditors
- Rate Receipts and Rate Debtors
- Receipts and Sundry Debtors
- Payroll
- Stores and Depot
- General Accounting (Journals, etc.)
- IT Controls
- Registers (Tenders Register, etc)
- Compliance
- 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.

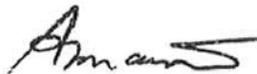
It should be appreciated that the matters noted came to our attention during the course of our normal audit examination and as a result do not necessarily include all those matters which a more extensive or special examination might identify.

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

The matters noted and brought to your attention are detailed within Annexure A.

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

Yours faithfully

A handwritten signature in black ink, appearing to read 'Anthony Macri', written in a cursive style.

ANTHONY MACRI
AUDIT PARTNER

ANNEXURE A

CITY OF ARMADALE
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018
MATTERS IDENTIFIED DURING THE INTERIM AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
Purchases and Payments			
1. Instance noted where payments to a supplier exceeded the threshold of \$150,000 whereby a public tender process was required to engage the supplier by the Council. The supplier was engaged based on 3 written quotations.		✓	
2. Instances noted where purchase orders were raised only after the purchase of goods and services.		✓	
Corporate Credit Cards			
3. No evidence of review of the credit card expenditure by an independent senior officer to the credit card holder.	✓		
Sundry Debtors and Receipting			
4. Significant overdue debtor accounts noted.			✓
Payroll			
5. Excessive balances of annual leave noted.		✓	

ANNEXURE A

CITY OF ARMADALE

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018

MATTERS IDENTIFIED DURING THE INTERIM AUDIT

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating could indicate the need for a modified audit opinion in the current year, or in a subsequent reporting period if not addressed. However, even if the issue is not likely to impact the audit opinion, it should be addressed promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

ANNEXURE A

**CITY OF ARMADALE
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018
MATTERS IDENTIFIED DURING THE INTERIM AUDIT**

1. Matter

As per Council Policy ADM 19 – Procurement of Goods and Services “Unless exemptions apply all purchases of \$ 150,000 or greater shall be by a tender process and be conducted in accordance with regulations.”

We noted that the total procurement of goods/services from Bolling Design Group (Pty) Ltd was in excess of \$150,000 and tenders were not publicly invited as required under the Council's procurement of goods and service policy and Regulation 11 of the Local Government (Functions and General) Regulations 1996 “the regulations”.

There was no documentary evidence to indicate as to why the tender process had not been followed.

Rating: Moderate

Implication:

The Council could be in breach of the regulations and the requirements under the Council's procurement of goods and service policy (ADM 19).

Recommendation:

We recommend that management investigate whether there are any other instances of similar nature where tenders were not called by the Council unless exemptions apply for such instances in accordance with the Council's Policy on procurement of goods and services.

Management Comment:

The Auditor's comments are acknowledged.

The City complied with its Purchasing Policy when awarding works to Bolling Design Group.

These design and management works were for separate projects with different scopes and quotes from different suppliers were sourced for each item. It would not have been possible to combine these projects into one tender contract due to its nature.

Responsible Person: Manager Financial Services
Completion Date: Completed

ANNEXURE A

**CITY OF ARMADALE
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018
MATTERS IDENTIFIED DURING THE INTERIM AUDIT**

2. Matter

During our interim audit we noted 4 instances (16 samples tested) where purchase orders were raised only after the purchase of goods and services.

These instances were as follows:

Purchase Order No	Supplier	Invoice No:
122296	Entire Fire Management	2-675A
126598	Western Tree Recyclers	00001462
131527	WA Electoral Commission	2899
127918	Drilling Contractors of Australia	332-17

Rating: Moderate

Implication:

Such practice may increase the risk of unauthorised purchases being made.

Recommendation:

We recommend that purchase orders be raised when the goods and services are ordered and not after the goods and services have been received as the practice of raising purchase orders after the goods and services have been received increases the risk of unauthorised purchases being made.

This will also ensure adherence to Council's procurement of goods and service policy and that goods and services are obtained at the most competitive prices.

Management Comment:

The Auditor's comments are acknowledged.

Management as an ongoing process will report, monitor and reinforce to officers the need for purchase orders to be raised before the commitment is made rather than after receipt of the invoice.

Responsible Person: Manager Financial Services/Coordinator Accounting Services
Completion Date: Ongoing

ANNEXURE A

CITY OF ARMADALE

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018

MATTERS IDENTIFIED DURING THE INTERIM AUDIT

CORPORATE CREDIT CARDS

3. Matter

As part of the audit, we examined the policy and procedures in place for the use of corporate credit cards in the Council. The objective of the audit in this area was to check the controls over the authorisation and payment of expenditure.

During our testing of credit card transactions, we observed 6 instances (6 credit card statements tested) where the credit card expenditure was incurred and approved by the same cardholders. There was no independent review of the credit card statements and related expenditure documentation.

This issue was reported in our previous management letter dated 22 September 2017.

The management response then provided was as follows:

"The Auditor's comments are acknowledged. The City's continued use of four Corporate Credit Cards remains very low and is still an exception based payment method only when the purchase order/invoice payment and/or cheque request procurement practices are not available, as documented in Council Policy (Fin 5 – Use of Corporate Credit Cards). The combined limits of these four corporate credit cards amount to only \$16,000 and only three of these cards are used on a regular basis. As such the risk has been assessed by Management as being 'Low'.

The City already has a mechanism in place whereby all transactions incurred on a Corporate Credit Card are reviewed by a Finance Officer, as per its Management Practice (FIN 5 – Use of Corporate Credit Cards):

Cardholders are responsible for the purchases made on their corporate credit card and must sign the statement received at the end of each month certifying they have checked that all transactions listed match their purchases for that month. Cardholders are to obtain in all instances a compliant tax invoice or receipt which records an adequate description of the goods or services obtained and shall write on the statement or the supporting documents for each transaction, the applicable expense account budget number for cost allocation purposes.

- i. All corporate credit cards statements from the City's financial institution shall be mailed directly to the Finance Department who will distribute to cardholders.*
- ii. Corporate credit card statements (including supporting documentation of the goods or services acquired) when signed by the cardholder as being true and correct, are to be returned to the Finance Department.*
- iii. The Finance Department will:*
 - Reconcile the corporate credit card statements to the total monthly payment made to the City's financial institution.*
 - Review the transactions and supporting documents on each corporate credit card statement, and report any irregularities or discrepancies to the MFS.*
 - File all corporate credit card statements and supporting documentation."*

ANNEXURE A

**CITY OF ARMADALE
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018
MATTERS IDENTIFIED DURING THE INTERIM AUDIT**

Rating: Significant

Implication:

The credit card may be misused either accidentally or fraudulently by the cardholder and the council may not be able to recover any financial loss arising from such misuse by the cardholder in the absence of a review by a senior officer independent to the cardholder.

Recommendation:

We recommend that the credit card statements and related expenditure documentation be reviewed and approved by a senior officer independent to the cardholder in order to maintain control over credit card expenditure.

Cardholders should not approve expenditure incurred on their own credit cards.

Management Comment:

The Auditor's comments are acknowledged.

The City already has a mechanism in place whereby all transactions incurred on corporate credit cards are reviewed by a Finance Officer and reported to the Manager Financial Services when there are perceived irregularities or discrepancies as per the City's Management Practice (Fin 5 – Use of Corporate Credit Cards).

Management will now have all credit card statements reviewed by the Finance Officer and approved by the Manager Financial Services.

**Responsible Person: Manager Financial Services
Completion Date: Completed (Effective July 2018)**

ANNEXURE A

CITY OF ARMADALE

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018

MATTERS IDENTIFIED DURING THE INTERIM AUDIT

SUNDRY DEBTORS

4. Matter

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.

Our review of the sundry debtors aged trial balance report (excluding GST receivable) as at 3rd April 2018 indicated that debts amounting to \$ 326,259.89 (approximately 22.5%) of the total outstanding debts of \$1,443,929.83 were in the 120 days and over category.

The large and overdue accounts in the 120 days and over category which existed in the report were as follows:

Debtors Name	Amount \$
Specialist Underwriting Agencies Pty Ltd	110,021.15
Kelmscott Senior Football Club	12,444.50
Kelmscott Junior Football Club	6,510.75
Various Rangers' Infringement Accounts	140,618.62
Various Planning/Building Accounts	36,554.15
Various Others	20,110.72
Total	326,259.89

We understand that some invoices raised in respect of infringements have been outstanding since year 2004.

Rating: Minor

Implication:

The management may encounter difficulty in recovering long outstanding debts resulting in a financial loss to the City.

Recommendation:

We recommend that management take appropriate steps to recover all long outstanding debts without further delay.

We also recommend that the management review the existing provision for doubtful debts in the books and consider its adequacy for the financial year ending 30 June 2018.

We will be pleased to receive feedback from management in due course as to the status of the above accounts.

ANNEXURE A

**CITY OF ARMADALE
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018
MATTERS IDENTIFIED DURING THE INTERIM AUDIT**

Management Comment:

The Auditor's comments are acknowledged.

Management will continue to monitor and ensure that debts are collected within 30 days. There are certain debts (Fines Enforcement Registry) which are enforced by the Courts that the City has no control over.

The long outstanding debts identified are due to:

Debtors Name	Amount (\$)	Comment
Specialist Underwriting Agencies Pty Ltd	110,021.15	Debt pending legal/insurance proceedings
Kelmscott Senior Football Club	12,444.50	Debtor on payment plan
Kelmscott Junior Football Club	6,510.75	Debtor on payment plan
Various Rangers' Infringement Accounts	140,618.62	Fines Enforcement Registry debts
Various Planning/Building Accounts	36,554.15	Fines Enforcement Registry debts
Various Others	20,110.72	Debts ongoing under review
Total	326,259.89	

Responsible Person: Manager Financial Services

Completion Date: Ongoing

PAYROLL

5. Matter

Our audit examined the City's payroll system which consists of controls assessment around the following areas:

- Reviewing the policies and procedures at the City in relation to the Payroll system
- Staff additions and terminations
- Changes to employees pay, including variations to pay
- Authorisation and monitoring of leave taken by employees
- Processing of payroll
- Segregation of duties

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

ANNEXURE A

CITY OF ARMADALE

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018

MATTERS IDENTIFIED DURING THE INTERIM AUDIT

According to the City's "Annual and Long Service Management Procedure" annual leave deferrals, in excess of a maximum period of three years requires the approval of the CEO.

However, we noted that, as at 17 April 2018, there were 24 employees with annual leave entitlements in excess of three years without prior approval from the CEO.

Rating: Moderate

Implication:

Excess annual leave entitlements may have adverse effects on the Council including:

- key staff not being rotated, a preventive control against fraud;
- health and safety concerns with staff members not taking their annual entitlements; and
- increase the City's costs given salary rises and increments over time.

Recommendation:

We recommend that appropriate steps be taken by the management to manage and minimize the excessive annual leave balances in order to avoid the effects mentioned under implication.

Management Comment:

The Auditor's comments are acknowledged.

Management is aware of the risks associated with excess leave accumulation. As per the City's leave management procedure, 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.*

Having compared the information from 2016 to 2017, there was an overall drop of 4 employees with excess leave. The total liability for this group is also continually decreasing from 428 weeks to 380 weeks.

Management will continue to work with employees to reduce their excess leave.

Responsible Person: Manager Human Resources
Completion Date: Ongoing

Western Australian Auditor General's Report



Timely Payment of Suppliers



Report 12: June 2018

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WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Timely Payment of Suppliers



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

TIMELY PAYMENT OF SUPPLIERS

This report has been prepared for Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

This focus area audit assessed whether 10 local governments were making payments to suppliers on a timely basis in accordance with better practice.

I wish to acknowledge the cooperation of the staff at the local governments included in this audit.

A handwritten signature in black ink, appearing to read "Caroline Spencer".

CAROLINE SPENCER
AUDITOR GENERAL
13 June 2018

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Timely Payment of Suppliers

Background

Each year local governments spend hundreds of millions of dollars purchasing goods and services. To assist the continued viability of businesses in Western Australia and to help small businesses in particular to manage cash flow and administrative costs, it is important that local governments make timely payments to suppliers. In some instances, slow payments may impact the ability of suppliers to meet subsequent orders.

Due to the variety of factors affecting the circumstances under which local governments and their suppliers operate, we did not expect to find identical payment practices across the local governments included in our audit. Local government regulations do not specify payment timeframes and during this audit we have not regarded a particular payment period as the ideal. Rather, we have had regard mainly to the policies and practices of the sampled local governments and the payment terms of their suppliers. This audit therefore required significant judgement when identifying and investigating the timeliness of payments.

Conclusion

Most payments were made in a timely manner. However, 7 local governments did not have formal payment policies and practices that addressed the need to pay on time, which led to inconsistency in how quickly payments were made. For the 3 local governments with timely payment policies, 15% of payments were outside the timeframes in the policies without a valid reason.

What we did

The focus of the audit was to assess whether 10 sampled local governments were making payments to suppliers on a timely basis in accordance with better practice.

We assessed the policies and practices over an 11-month period from 1 January to 30 November 2017, using the following lines of inquiry:

1. Have local governments developed procedures and controls for ensuring that payments are made on a timely basis?
2. Are suppliers being paid on a timely basis?

We audited 600 transactions across 10 local governments with a total value of \$68.9 million. Where payments were not made in accordance with policies and procedures or suppliers' terms, we considered whether there were valid reasons for delays.

We conducted this audit under section 18 of the *Auditor General Act 2006* and in accordance with Australian Auditing and Assurance Standards. The approximate cost of undertaking this audit was \$170,000.

Local governments included in our audit

Focus area audits assess local governments against common business practices to identify good practices and control weaknesses and exposures so that local governments, including those not audited, can evaluate their own performance.

When deciding which local governments to include in this audit we aimed for a mix of different size local governments from diverse locations with varying budgets, resourcing and purchasing requirements. This allowed us to identify potential issues, better practice examples and improvement opportunities that are likely to be applicable across the broader local government sector. We included the following local governments in this audit:

Local government	Number of transactions 1 January – 30 November 2017	Value of transactions 1 January – 30 November 2017
City of Armadale	20,723	\$77,888,825
Shire of Bruce Rock	1,642	\$6,333,914
City of Cockburn	20,981	\$114,500,102
Shire of Cunderdin	2,774	\$6,171,374
Shire of Kellerberrin	1,489	\$7,929,003
Shire of Kojonup	2,977	\$8,596,354
Shire of Merredin	3,976	\$8,075,895
City of Swan	27,650	\$123,501,738
Shire of Tammin	970	\$2,634,177
Shire of York	1,974	\$9,229,998
Total	85,156	\$364,861,380

Table 1: Volume and value of transactions

What did we find?

Only 3 local governments had policies and procedures that addressed timely payment of suppliers

Good policies and procedures provide essential guidance for staff to manage payments in accordance with management's expectations and the needs of suppliers. They should specify timelines and where appropriate, circumstances where alternate timelines may be acceptable.

Only 3 metropolitan local governments in our sample had policies or procedures that addressed the timely payment of suppliers. Two of these required payment within 30 days, with the other requiring payment by the end of the month after the invoice is received. For these 3 local governments 15% of payments did not comply with their policies and procedures.

To enable management to monitor any payment delays it is important to record the dates when goods or services and the invoice are received. While 6 of the 10 local governments were recording on the invoices the date that they were received, only the cities of Cockburn and Swan were recording the date that goods and services were received in their financial system to enable effective monitoring.

For our audit, where the local government had not recorded the date of receipt, we have assumed that the invoice was received 3 days after the date on the invoice.

At 4 local governments there was no documented evidence that someone had checked that goods and services were received prior to payment. Invoices were approved and it is possible that someone checked whether goods or services were received as part of this approval. Some local governments advised that their 'OK to Pay' stamp implied that goods or services were received, however, we consider that an explicit signoff for receipt is better practice.

For 13% of payments there was no valid reason why payments were later than supplier requirements or management policy/procedures

Delays in paying invoices adversely affects the cashflow of suppliers. It may also result in late payment fees although we did not find any instances in this audit.

Figure 1 shows the timing of all payments by number of days and by value including those with valid reasons and no reason for delays. This table shows that most payments were made within 32 days.

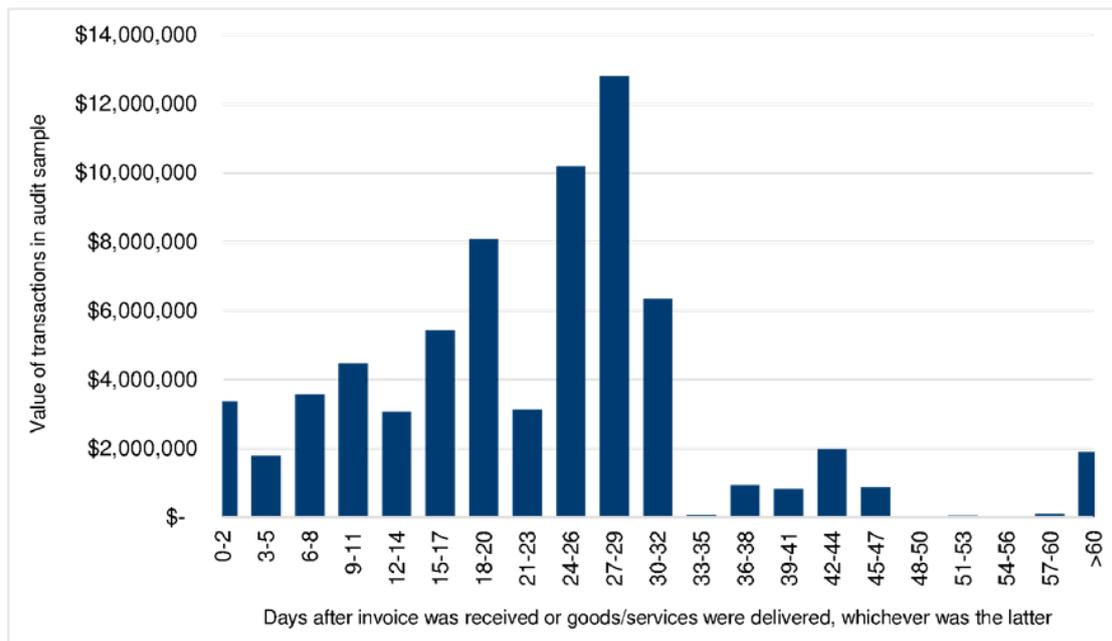


Figure 1: Timeline of all payments in our sample

The largest late payment to a state government agency with no valid reason was for \$5.2 million, paid 31 days after receipt of the invoice. This was 1 day later than the local government’s policy. The largest late payment to a private sector supplier was \$1.4 million, paid 29 days later than the local government’s policy.

The longest overdue payment, relating to the purchase of gym equipment, was paid 154 days after the invoice. There was no valid reason for the delay.

We regarded payments that, for no valid reason, did not meet supplier requirements or the local government’s own policies and procedures and were also later than 30 days to be of particular concern. There were 75 payments (13%) which were paid later than 30 days and were either outside of the suppliers’ terms or the local government’s policy, split as shown in Figure 2.

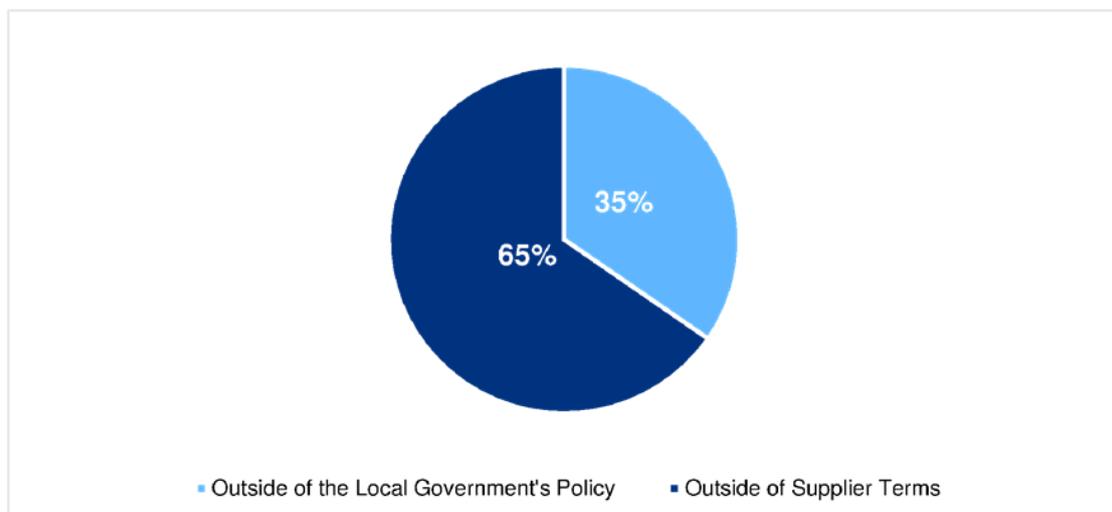


Figure 2: Analysis of payments later than 30 days without a valid reason

Figures 3 and 4 provide a breakdown of the main reasons for delays in paying invoices. Valid reasons for delays included:

- goods and services were received after the invoice was received
- dispute with the supplier
- delay in the supplier sending the invoice.

The main reasons for delays that we considered avoidable were:

- some larger local governments experienced internal delays in submitting invoices to the finance area for payment
- delays in processing payments in the finance area
- unable to provide an explanation for the delay
- misplaced or lost invoice.

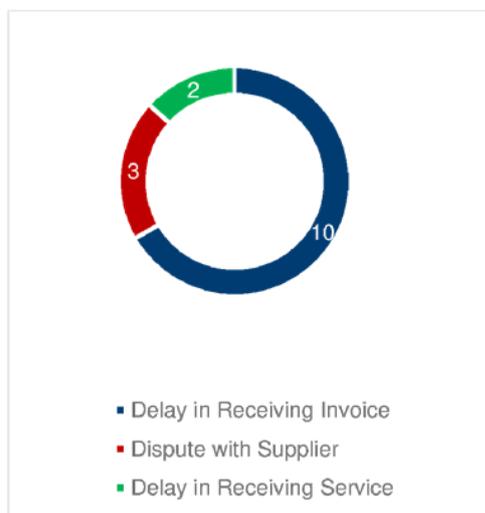


Figure 3: Valid reasons for delays

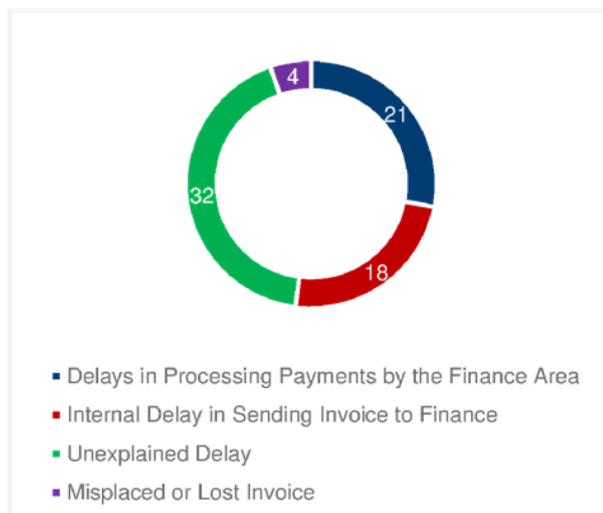


Figure 4: Invalid reasons for delays

Recommendations

Local governments should:

1. have policies or procedures that clearly require payment of invoices within specified periods after receiving the invoice or after the receipt of goods and services (whichever is later)
2. ensure they improve administrative processes so that all payments are made in accordance with their policies and procedures
3. improve recordkeeping to ensure that for all payments there are records of the date that the invoice and goods or services were received. Ideally, this information should be recorded in the financial information management system and used as a key date for determining when payments should be made.

Response from local governments

Local governments in our sample generally accepted the recommendations and confirmed that, where relevant, they have either amended policies, procedures or administrative systems or will improve practices for managing timely payments.

Auditor General's reports

Report number	2018 reports	Date tabled
11	WA Schools Public Private Partnership Project	13 June 2018
10	Opinions on Ministerial Notifications	24 May 2018
9	Management of the State Art Collection	17 May 2018
8	Management of Salinity	16 May 2018
7	Controls Over Corporate Credit Cards	8 May 2018
6	Audit Results Report – Annual 2017 Financial Audits and Management of Contract Extensions and Variations	8 May 2018
5	Confiscation of the Proceeds of Crime	3 May 2018
4	Opinions on Ministerial Notifications	11 April 2018
3	Opinion on Ministerial Notification	21 March 2018
2	Agency Gift Registers	15 March 2018
1	Opinions on Ministerial Notifications	22 February 2018



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