



AUDIT COMMITTEE MEETING

AGENDA

4 MARCH 2014

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CITY OF GREATER GERALDTON

**AUDIT COMMITTEE MEETING
ON TUESDAY 4 MARCH 2014 AT 3.30PM
IN THE COMMITTEE MEETING ROOM – CIVIC CENTRE**

A G E N D A

1 DECLARATION OF OPENING

2 ATTENDANCE

Present:

Officers:

By Invitation:

Apologies:

Leave of Absence:

3 CONFIRMATION OF PREVIOUS MINUTES

Recommendation: That the minutes of the City of Greater Geraldton Audit Committee meeting held on 6 December 2013, as attached be accepted as a true and correct record of proceedings.

4 AC023 REVIEW OF AUDIT COMMITTEE CHARTER

AC023 REVIEW OF AUDIT COMMITTEE CHARTER	
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AGENDA REFERENCE:	D-14-08155
AUTHOR:	B Davis, Director of Corporate & Commercial Services
EXECUTIVE:	B Davis, Director of Corporate & Commercial Services
DATE OF REPORT:	29 January 2014
FILE REFERENCE:	GO/11/0020
APPLICANT / PROPONENT:	City of Greater Geraldton
ATTACHMENTS:	Yes X 3

SUMMARY:

The purpose of this report is for Audit Committee members to review the Audit Committee Charter with reference to Local Government Operational Guidelines Number 9- Audit in Local Government (revised September 2013). It provides an opportunity for the Committee to identify any desired changes to the Charter, for recommendation to Council, should the Committee wish to do so.

PROPONENT:

The proponent is the City of Greater Geraldton.

BACKGROUND:

The Audit Committee Charter was reviewed by the Audit Committee at the meeting on 6 December 2013 and amendments were recommended to Council at the meeting of 28 January 2014 (Item AC021). On 8 January 2014 the City received a Department of Local Government Circular no 39-2013 with revised guideline 09 Audit in Local Government. The revised guideline incorporates:

- Information to assist Local Government establish and operate effective Audit Committees
- Information regarding amendments to the Local Government (Audit) regulations 1996 that have extended the functions of Local Government Audit Committees

The Audit Committee were advised of the revised guideline via a Briefing Note on 8 January 2014. The Audit Committee item AC021 was revised to include reference to the revised DLG guideline and notify Council of the intention of the Audit Committee to re review the Audit Committee Charter at the next Audit Committee Meeting.

Council endorsed the Audit Committees amendments to the Audit Committee Charter on 28 January 2014.

Local Government Operational Guidelines Number 9 and a comparison chart of clauses within the Audit Committee Charter and the Model Terms of Reference from the Guideline are attached for the purpose of deliberation and discussion by the Audit Committee.

COMMUNITY CONSULTATION:

No community consultation has been undertaken.

COUNCILLOR CONSULTATION:

There has been no councillor consultation.

STATUTORY IMPLICATIONS:

Part 7 Division 1A -1C of the Local Government Act 1995.

There are no statutory implications.

POLICY IMPLICATIONS:

There are no policy implications.

FINANCIAL AND BUDGET IMPLICATIONS:

There are no financial and budget implications.

STRATEGIC & REGIONAL OUTCOMES:**Strategic Community Plan Outcomes:**

Goal 5:	Governance
Outcome 5.2:	Planning and Policy
Strategy 5.2.7:	Ensuring efficient and effective delivery of service

Regional Outcomes:

There are no specific regional outcomes.

ECONOMIC, SOCIAL, ENVIRONMENTAL & CULTURAL ISSUES:**Economic:**

There are no economic issues.

Social:

There are no social issues.

Environmental:

There are now environmental issues.

Cultural & Heritage:

There are no cultural or heritage issues.

RELEVANT PRECEDENTS:

The Audit Committee has previously reviewed its charter and is able to recommend changes, for consideration by Council.

DELEGATED AUTHORITY:

There is no delegated authority.

VOTING REQUIREMENTS:

Simple Majority is required.

EXECUTIVE RECOMMENDATION:

The Committee may choose to discuss and recommend changes to the charter, for consideration by Council. Note that the Committee is able to seek a review of its Charter at a future time.

CONCLUSION:

Whether or not the Committee desires amendment to its Charter is a matter for the Audit Committee. Any changes to the Audit Committee Charter proposed by the Committee will be required to be submitted to Council for approval.



AUDIT COMMITTEE CHARTER

1. Audit Committee Charter

1.1 The Audit Committee is appointed by Council pursuant to Section 7.1A (1) of the Local Government Act. The main purpose of the Audit Committee is to assist Council in discharging its oversight responsibilities in relation to the following matters:

- Financial reporting process to ensure balance, transparency and integrity of published financial information;
- The effectiveness of the City's internal control and risk management systems;
- The effectiveness of the internal audit function;
- The independent external audit process including assessing the performance of the external auditor;
- The City's process for monitoring compliance with legislation and regulation and policies affecting financial reporting;
- Key policies impacting the effectiveness of the City's governance framework, including the Code of Ethics, Fraud Policy, Whistleblower Policy etc.

1.2 In performing its duties, the Audit Committee will maintain effective working relationships with Council, management and the external and internal auditors. To perform their roles effectively, each Audit Committee member is expected to develop and maintain their skills and knowledge, including their understanding of the Audit Committee's responsibilities and of the City's business, operations and risks.

1.3 The Audit Committee is responsible to Council for its performance.

2. Authority

2.1 The Audit Committee is an independent advisory committee of Council. The Audit Committee does not have executive powers or authority to implement actions in areas over which management has responsibility and does not have any delegated financial responsibility. The Audit Committee does not have any management functions and is therefore independent of management.

2.2 The Committee's role is to report to Council and provide appropriate advice and recommendations on matters relevant to its Charter in order to facilitate decision-making by Council in relation to the discharge of its responsibilities.

3. Membership

3.1 The Audit Committee will comprise five members as follows:

- Four Councillors
- One external independent person, provided that a suitably qualified person is locally available.

3.2 All members will have equal voting rights on all matters considered by the Audit Committee, unless a member is unable to vote due to a conflict of interest.

- 3.3 The following requirements will apply to members and the appointment thereof:
- 3.3.1 A quorum of any meeting will be at least two Council members.
 - 3.3.2 Each member shall have the skills and experience appropriate to the City's business;
 - 3.3.3 All members shall be financially literate.
 - 3.3.4 The appointment of independent members shall be made by Council following a public advertisement process. The evaluation of potential members shall be undertaken by the Mayor, a Councillor who is preferably a member of the Audit Committee and the Chief Executive Officer and would take into account the experience of candidates and their likely ability to apply appropriate analytical and strategic management skills to matters which come before the Audit Committee. A recommendation for membership will be put to Council for approval.
 - 3.3.5 External members shall be appointed for a two (2) year term and are eligible to be reappointed after the expiry of their terms. The terms of appointment shall be aligned to the biennial council election cycle.
 - 3.3.6 If the Council proposes to remove a member of the Audit Committee before expiry of the full term of appointment, it must give written notice to the member of its intention to do so and provide that member with the opportunity to be heard at a Council meeting which is open to the public, if that member so requests.
 - 3.3.7 The Chairperson shall be appointed by the Council on the recommendation of the Chief Executive Officer. In the absence of the appointed Chairperson from a meeting, the meeting will appoint an acting Chairperson from the members present.
 - 3.3.8 Decisions of the Committee will be made by a simple majority of members.
 - 3.3.9 The Chief Executive Officer should attend all meetings, except when the Committee chooses to meet in a closed session.
 - 3.3.10 Representatives of the external auditor should be invited to attend at the discretion of the Committee but must be invited to attend meetings considering the draft annual financial report and results of the external audit.
 - 3.3.11 The City shall provide secretarial and administrative support to the Committee.

4. Conflicts of Interest

- 4.1 In accordance with Section 5.6 of the Local Government Act as amended (the Act), members of the Audit Committee are required to disclose all conflicts of interest and may not be eligible to vote on a matter or attend a meeting at which the subject of the conflict will be considered, depending on the nature of the conflict. Members of the Audit Committee are expected to be aware of the provisions of the Act with regard to conflicts of interest and disclosure thereof. Failure to comply with the provisions of the Act with regard to conflicts of interest may result in the member's appointment being terminated.

5. Meetings

- 5.1 Audit Committee members and councillors are entitled to attend meetings. The Audit Committee may invite (or require) such other persons to its meetings, as it deems necessary. It is anticipated that the Chief Executive Officer and the Chief Financial Officer are likely to be invited to all meetings of the Audit Committee.
- 5.2 The external and internal auditors should be invited to make presentations to the Audit Committee as appropriate.
- 5.3 Meetings shall be held not less than four (4) times per annum and timing should be set to ensure that the Audit Committee can properly discharge its responsibilities pursuant to this Charter.
- 5.4 Special meetings may be convened as required. The secretary will convene a meeting at the request of the Chairperson, a member and the external and internal auditors.
- 5.5 The secretary shall circulate the agenda and supporting documentation to members of the Audit Committee one week prior to the meeting.
- 5.6 Members of the Audit Committee are expected to attend every meeting of the Audit Committee.
- 5.7 The Audit Committee will meet at least once annually with the external auditors without management present.
- 5.8 Members of the Audit Committee may, by prior arrangement with the Chairperson, attend Committee meetings from remote locations via teleconference.

6. Roles and Responsibilities

Internal Control

- 6.1 The Audit Committee will evaluate whether management is setting the appropriate 'control culture' by communicating the importance of internal control and management of risk.
- 6.2 The Audit Committee will understand the internal control systems implemented by management for approval of transactions and the recording and processing of financial data.
- 6.3 The Audit Committee will understand the controls and processes implemented by management to ensure that the financial statements derive from the underlying

financial systems, comply with relevant standards and requirements, and are subject to appropriate management review.

- 6.4 The Audit Committee will evaluate the overall effectiveness of the internal control and risk management frameworks and consider whether recommendations made by the external and internal auditors have been implemented by management.
- 6.5 The Audit Committee will consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems failure or to protect against computer fraud or misuse.

Financial Reporting

- 6.6 The Audit Committee will gain an understanding of the areas of greatest financial risk and how these are being managed.
- 6.7 The Audit Committee will review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports.
- 6.8 The Audit Committee will meet with management and the external auditors to review the financial statements, the key accounting policies and judgements, and the results of the audit.
- 6.9 The Audit Committee will ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies are discussed with the external auditor.
- 6.10 The Audit Committee will recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the financial report is signed.

Matters Referred to the Audit Committee by Council

- 6.11 The Audit Committee will address matters referred to the Audit Committee for consideration, including matters referred to it by Council that are within the Audit Committee's terms of reference.

Compliance with Laws and Regulations

- 6.12 The Audit Committee will review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow up (including disciplinary action) of any fraudulent acts or non-compliance.
- 6.13 The Audit Committee will obtain regular updates from management and Council's legal advisors regarding compliance matters that may have a material impact on Council's financial statements or compliance policies.
- 6.14 The Audit Committee will be satisfied that all regulatory compliance matters, related to Council's business, have been considered in the preparation of the financial statements.

Working with Auditors – External Audit

- 6.15 The Audit Committee will review on an annual basis the performance of the external auditors.
- 6.16 The Audit Committee will review the external auditor's proposed audit scope and approach each year in light of Council's present circumstances and changes in regulatory and other requirements.
- 6.17 The Audit Committee will discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information.
- 6.18 The Audit committee will ensure that significant findings and recommendations made by the external auditor and management's proposed response are received, discussed and appropriately acted upon.
- 6.19 The Audit Committee will discuss with the external auditor the appropriateness of accounting policies applied in the City's financial statements and whether they are considered as aggressive, balanced or conservative.
- 6.20 The Audit Committee will meet separately with the external auditor to discuss any matters that the Audit Committee or auditor believe should be discussed privately. The Committee will ensure that the auditor has access to the Audit Committee's Chairperson when required.

Working with Auditors – Internal Audit

- 6.21 The Audit Committee will review the scope of the internal audit plan and the effectiveness of the function, evaluating whether the plan addresses the following issues:
- The effectiveness of internal controls over significant areas of risk, including non-financial management control systems.
 - The effectiveness of internal controls over key processes relating to revenue, expenditure, assets and liabilities.
 - The efficiency and effectiveness of significant City programmes.
 - The compliance with legislation, policies, best practice guidelines and contractual arrangements.
- 6.22 The Audit Committee will review the appropriateness of special internal audit assignments undertaken at the request of Council or the Chief Executive Officer and whether the outcomes of such assignments have been implemented.
- 6.23 The Audit Committee will ensure that significant findings and recommendations made by the internal auditor, and management's proposed responses are received, discussed and appropriately acted upon.
- 6.24 The Audit Committee will meet separately with the internal auditor to discuss any matters that the Audit Committee or the auditor should be discussed privately.
- 6.25 The Audit Committee will monitor the effectiveness of liaison between the external and internal auditors to ensure the City's audit functions as a whole are operating effectively and efficiently with a minimum of duplicated audit effort.

7. Access to Expert Advice

- 7.1 The Audit Committee, through the Chief Executive Officer, and following authorisation by Council, and within the scope of its terms of reference, may seek information or obtain expert advice on matters of concern.

8. Reporting

- 8.1 The Audit Committee shall at every meeting consider and approve minutes and a summary of that meeting. The Audit Committee shall at three monthly intervals forward the summaries of meetings for the previous three months to the next ordinary meeting of the Council. Additionally apart from meeting summaries, where at any Committee meeting a report explaining any specific recommendations, key outcomes or other matters is approved to be submitted to Council, that report shall be forwarded to the next ordinary meeting of the Council.
- 8.2 The Committee shall report annually to the Council summarising the activities of the Committee during the previous financial year.

9. Evaluating Performance

- 9.1 The Audit Committee should evaluate its own performance, both of individual members and collectively, on an annual basis.

10. Review of the Audit Committee Charter

- 10.1 The Audit Committee should review the Audit Committee Charter annually and agree on any changes which are to then be approved at the next ordinary meeting of Council

11. Confidentiality

- 11.1 All Audit Committee members are expected to be aware of their responsibilities with regard to the confidentiality of information about Council's affairs. Failure to comply with the responsibilities with regard to confidentiality may result in the member's appointment being terminated.



Government of **Western Australia**
Department of **Local Government and Communities**

Audit in Local Government

The appointment, function and responsibilities of Audit Committees

Local Government Operational Guidelines – **Number 09** Revised September 2013

Audit in Local Government

The appointment, function and responsibilities of Audit Committees

1. Introduction

- 1 The *Local Government Act 1995* (the Act) requires that all local governments establish an audit committee. An audit committee plays a key role in assisting a local government to fulfil its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, legislative compliance, ethical accountability and the internal and external audit functions.
- 2 The purpose of this guideline is to assist local governments to establish and operate an effective audit committee. Clear and comprehensive terms of reference, setting out the committee's roles and responsibilities, are essential and a model terms of reference for an audit committee is provided with this guideline. Matters such as the governing legislation, membership, primary roles and responsibilities of the committee and ancillary functions are also addressed. Guidance is provided to the committee as it approaches its task of appointing an external auditor through provision of a minimum standard audit specification and as it forms an opinion of the local government's internal audit requirements.

2. Audit Requirements, Committees And Functions

- 3 The relevant parts of the Act and regulations that relate to audit requirements, audit committees and their functions are listed below.

Financial Management

- 4 In relation to financial management under Part 6 of the Act, a local government is to –
 - a) prepare and adopt an annual budget in the form and manner prescribed (s. 6.2). A copy of the budget is to be sent to the Department within 30 days of adoption.
 - b) prepare an annual financial report and such other financial reports as are prescribed. The accounts of the local government and annual financial report are to be submitted to the auditor for audit by 30 September (s. 6.4).
 - c) have a municipal fund and a separate and distinct trust fund (s. 6.6).

- d) establish and maintain reserve funds for the holding of monies set aside for future use (s. 6.11).

Audit Requirements for Local Governments

- 5 Part 7 of the Act and the *Local Government (Audit) Regulations 1996* (the Regulations) address the situation of audit. In relation to the duties of the local government with respect to audits –
 - a) the local government is to do everything in its power to –
 - i. assist the auditor to conduct an audit and carry out his or her other duties under the Act; and
 - ii. ensure that audits are conducted successfully and expeditiously;
 - b) a local government is to meet with its auditor at least once in every year;
 - c) a local government is to examine the report of the auditor and is to –
 - i. determine if any matters raised require action to be taken by the local government; and
 - ii. ensure that appropriate action is taken in respect of those matters;
 - d) a local government is to –
 - i. prepare a report on any actions taken in respect of any matters raised in the report of the auditor; and
 - ii. forward a copy of that report to the Minister by the end of the next financial year, or six months after the last report prepared by the auditor is received by the local government, whichever is the latest in time.

Establishment of the Audit Committee

- 6 The Act and Regulations provide that:

In relation to the establishment of an audit committee –

 - a) each local government is to establish an audit committee consisting of three or more persons to exercise the powers and discharge the duties conferred on it;
 - b) members of the committee are to be appointed by an absolute majority decision of Council. At least three of the members, and the majority of the members, are to be elected members;

- c) the CEO is not to be a member of the committee and may not nominate a person to be a member or have a person to represent him or her as a member of the committee;
- d) an employee is not to be a member of the committee;
- e) the only powers and duties that can be delegated to a committee are any of the powers and duties of the local government under Part 7 of the Act; that is, those relating to audit. The committee cannot on-delegate the powers and duties delegated to it;
- f) an audit committee with a member who is a person that is not an elected member can be delegated powers and duties referred to in (e); and
- g) a decision of the committee is to be made by simple majority.

Audit Committee Functions

- 7 The Regulations state that an audit committee –
- (a) is to provide guidance and assistance to the local government –
 - (i) as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and
 - (ii) as to the development of a process to be used to select and appoint a person to be an auditor; and
 - (b) may provide guidance and assistance to the local government as to –
 - (i) matters to be audited; and
 - (ii) the scope of audits; and
 - (iii) its functions under Part 6 of the Act; and
 - (iv) the carrying out of its functions relating to other audits and other matters related to financial management; and
 - (c) is to review a report given to it by the CEO under regulation 17(3) (the CEO’s report) and is to –
 - (i) report to the council the results of that review; and
 - (ii) give a copy of the CEO’s report to the council.
 - (d) review the annual Compliance Audit Return and report to the council the results of that review, and
 - (e) consider the CEO’s biennial reviews of the appropriateness and effectiveness of the local government’s systems and procedures in regard to risk management, internal control and legislative compliance and report to the council the results of those reviews.

3. Operation of Audit Committees

Role and Responsibilities

- 8 The role of the audit committee is to support Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions and ethical accountability.
- 9 The audit committee should critically examine the audit and management reports provided by the external auditor. The committee would then determine if matters raised in the reports require action to be taken by the local government and ensure that appropriate action is implemented.
- 10 A further role for the audit committee would be to receive and authorise the report relating to the audit prepared by the CEO that is to be sent to the Minister.

This report would outline any actions the local government has taken or intends to take in relation to the matters identified by the auditor.

- 11 While a formal internal audit function could be considered to be an operational function and therefore the responsibility of the CEO, it is desirable for an internal auditor to have a direct line of communication to the Audit Committee.

The Audit Committee needs to form an opinion of the local government’s internal audit requirements and recommend a course of action that ensures that any internal audit processes adopted are appropriate, accountable and transparent. The role of the external auditor in this regard can be established at the time of appointment.

Please note that an audit committee (or any other committee) cannot be given a management task where the Act and Regulations make the CEO specifically responsible. Where the local government is assigned the function through the legislation, the audit committee may have a role unless the function has been delegated to the CEO by the Council.

12 The deliberations and recommendations of the committee must be independent and autonomous. Therefore, the Act prohibits the CEO being a member of the committee. However, it is essential that the CEO be given every opportunity to provide his/her expert advice to the committee as he/she does with full Council and other committees.

13 A model terms of reference is attached as Appendix 1 to assist local governments to define an appropriate role for its audit committee. When considering the model, local governments need to remember it is a guide and they can delete or modify any matters they believe not applicable.

14 It is important to note that the legislation gives the audit committee a specific role in appointing the auditor. It is to recommend to the Council who should be appointed as the auditor. Attached as Appendix 2 is a model 'Minimum Standard Audit Specification' that local governments can use when developing a process to be used to select and appoint a person to be the auditor.

Local governments can amend the document to suit their individual requirements. Any scope adopted must meet, as a minimum, the legislative requirements, as outlined in the Act and the Regulations.

15 The legislation specifies that a local government is required to meet with its auditor at least once in every year. The term "local government" in this context means the Council. If Council so resolved via a formal delegation, a meeting between the audit committee and the auditor would satisfy this requirement.

16 It is acknowledged that the requirement to meet at least once per year may incur a significant financial burden for the more remote local governments. In such circumstances the meeting can be conducted by telephone or video conference. The Council or audit committee should resolve how the meeting with the auditor will be conducted and for the record of the meeting to show that the auditor was involved and the matters discussed. It would be inappropriate for Council representatives to meet with the auditor in their offices unless they were members of the Audit Committee or a significant majority of the members are present.

17 The committee may need to liaise regularly with the external auditor to discuss the audit plan, results of the audit and implementation of any recommendations for action emerging from the audit. How communication and liaison between auditor and committee is to occur should be addressed in the agreement of appointment.

18 Advice from the auditor may address issues such as –

- (i) an assessment of accounting procedures;
- (ii) an assessment of internal controls;
- (iii) an assessment of risk;
- (iv) compliance with the Act and associated regulations;
- (v) compliance with Council policies;
- (vi) performance assessments on the efficiency and effectiveness of operations;
- (vii) processes of the internal audit;
- (viii) outcomes of the external audit prior to issue of management and audit reports; and
- (ix) changes to accounting standards and legislation and the impact on the local government.

Membership

19 The Act requires that an audit committee is to consist of a minimum of 3 members and in that situation all must be council members. Where a committee consists of more than 3 members then a majority of those members must be council members. Local governments may decide to appoint a committee involving only elected members or they may appoint one or more persons who are external to the Council. If a Council considers it appropriate, the whole Council can be appointed to the audit committee.

20 If the local government wishes to appoint one or more persons other than elected members to the committee, which is recommended, it should ensure that they have the requisite knowledge and skills to provide benefit to the committee.

Operation of the Committee

21 Irrespective of the membership of the committee, all legislative requirements relating to committee meetings such as advertising meeting dates, notice of meeting and keeping minutes of meetings need to be complied with.

- 22 The legislation prevents a meeting fee being paid to an external person but it is permissible for a payment to be made as a reimbursement of expenses, commensurate with the expertise and knowledge such people bring to the committee. The Council will need to determine whether payment will be offered and the level of that reimbursement payment.
- 23 Members of the committee should be encouraged to attend appropriate courses to keep them up to date with legislation, accounting and other relevant issues.

Other Responsibilities

- 24 Local governments are required by legislation to complete a statutory compliance return (Compliance Audit Return or CAR) annually and have the return adopted by Council. The return is a checklist of a local government's compliance with the requirements of the Act and its Regulations, concentrating on areas of compliance considered "high risk."
- 25 The Audit Committee is to review the annual CAR and report to the Council the results of that review, prior to adoption of the return by Council. After adoption, the return is to be signed by the Mayor or President and the CEO prior to it being forwarded to the Department.
- 26 The Audit Committee is to consider the CEO's biennial reviews (see Regulation 17.) of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance and report to the council the results of those reviews.

Attached as Appendix 3 is information to assist in determining what falls within the terms 'risk management,' 'internal control' and 'legislative compliance.'

The audit committee could also consider proposals from the CEO as to whether the compliance audit, and the biennial reviews of risk management, internal control and legislative compliance, are undertaken internally or an external party is contracted to undertake the task. In the case of an external party the audit committee would have responsibility to receive the review report from the CEO and make recommendations on it to full Council.

4. The External Audit

Appointment of the Auditor

- 27 The Act and Regulations provide that –
- a) on the recommendation of the audit committee a local government is to from time to time appoint, by absolute majority, a person to be its auditor;
 - b) the local government may appoint one or more persons as its auditor;
 - c) the local government's auditor is to be a person who is –
 - a. a registered company auditor; or
 - b. an auditor approved by the Minister;
 - d) a person may not be appointed as a local government auditor if that person is -
 - a. a councillor or employee of the local government;
 - b. in debt to the local government for more than \$5,000;
 - c. a councillor or employee of a regional local government in which the local government is a participant;
 - d. a member of an incorporated association formed by the local government; or
 - e. a class of persons as prescribed in the Regulations;
 - e) an auditor is not to be appointed for more than five years; and
 - f) the appointment of a person as an auditor is to be made by agreement in writing and is to include –
 - i. the objectives of the audit;
 - ii. the scope of the audit;
 - iii. a plan for the audit;
 - iv. details of the remuneration and expenses to be paid to the auditor; and
 - v. the method to be used by the local government to communicate with, and supply information to, the auditor.
- 28 The committee should undertake a proper selection and appointment process as part of appointing, or reappointing an auditor. If reappointment is being considered, the process should include the review of key issues as in i. to v. above.

29 It is important to realise that the Act specifies that it is a named person(s) that is appointed as auditor, not the company, or 'the partners' of the company which employs the person. Therefore, when the audit report is received it must be signed by the person(s) appointed as the auditor; it cannot be the generic signature identifying the firm.

Conduct of the Audit

30 The Act and Regulations provide that –

- a) the auditor is required by 31 December next following the financial year to which the audit relates, to examine the accounts and annual financial report submitted for audit;
- b) the auditor is to form an opinion as to whether –
 - i. the accounts are properly kept; and
 - ii. the annual financial report –
 - is prepared in accordance with the financial records; and
 - represents fairly the results of the operations of the local government and its financial position at 30 June;
- c) the auditor is to prepare a report on the audit and within 30 days of completing the audit forward a copy to –
 - i. the mayor or president;
 - ii. the CEO of the local government; and
 - iii. the Minister;
- d) the report is to give the auditor's opinion on –
 - i. the financial position of the local government; and
 - ii. the results of the operation of the local government;
- e) the report is to include –
 - i. any material matters that indicate significant adverse trends in the financial position or the financial management practices of the local government;
 - ii. any matters indicating non-compliance with financial management requirements of the Act, Regulations and any other written law;
 - iii. details of whether information and explanations were obtained; and
 - iv. a report on the conduct of the audit; and
 - v. the opinion of the auditor as to whether or not the specific financial ratios reported are supported by verifiable information and reasonable assumptions.

- f) where it is considered appropriate to do so the auditor is to prepare a management report to accompany the auditor's report;
- g) where the auditor considers that –
 - i. there is any error or deficiency in an account or financial report;
 - ii. any money paid from, or due to the local government has been, or may have been misapplied; or
 - iii. there is a matter arising from the audit that needs to be addressed by the local government; details are to be included in the report to the Minister; and
- h) the auditor has a right of access at all reasonable times to such books, accounts, documents and assets of the local government as are in the opinion of the auditor necessary to allow the audit to be conducted.

Scope of the Audit

- 31 The Act and Regulations prescribe the scope of the external audit of the annual financial statements of a local government.
- 32 The scope details are going to vary between local governments but as an aid a model minimum standard audit specification is attached as Appendix 2 to this guideline. Individual local governments can amend that document to suit their particular needs.

Reporting by the Auditor

- 33 Regulations require the auditor, where appropriate, to prepare a management report to accompany the auditor's report. Although there is no legislative requirement for the auditor to prepare a management report unless he or she deems it appropriate, local government may wish to require the auditor to prepare a report on all issues identified during the audit.
- 34 The auditor, after completing the audit, is to forward a copy of his or her audit and management report to –
 - the Mayor or President;
 - the CEO of the local government; and
 - the Minister via the Department.

- 35 It is the CEO's responsibility to ensure that the external audit report is provided to the audit committee. In considering the audit and management reports presented to the audit committee, the CEO should:
- a) examine any critical matters raised in the reports that affect the financial position of the local government.
 - b) provide comment on any critical matters raised and action proposed to be taken to address those matters.
- 36 Once Council has addressed matters raised, or accepted the CEO's planned remedial action on matters raised in the audit and management reports, the CEO should provide feedback to the Department on those matters.

Appendix 1

Model Terms of Reference – Audit Committees

- 37 **Important:** The following Model Terms of Reference contains clauses that may not be applicable to each local government. Local governments will need to consider each clause and only adopt those that are applicable to the roles and responsibilities and delegated powers and functions that will apply to their audit committee.
- 38 The clauses that may be considered optional have been asterisked (*).

Objectives of Audit Committees

- 39 The primary objective of the audit committee is to accept responsibility for the annual external audit and liaise with the local government's auditor so that Council can be satisfied with the performance of the local government in managing its financial affairs.
- 40 Reports from the committee will assist Council in discharging its legislative responsibilities of controlling the local government's affairs, determining the local government's policies and overseeing the allocation of the local government's finances and resources. The committee will ensure openness in the local government's financial reporting and will liaise with the CEO to ensure the effective and efficient management of the local government's financial accounting systems and compliance with legislation.
- 41 The committee is to facilitate –
- the enhancement of the credibility and objectivity of *internal and external financial reporting;
 - *effective management of financial and other risks and the protection of Council assets;
 - compliance with laws and regulations as well as use of best practice guidelines relative to audit, risk management, internal control and legislative compliance;
 - *the coordination of the internal audit function with the external audit; and
 - the provision of an effective means of communication between the external auditor, *internal auditor, the CEO and the Council.

Powers of the Audit Committee

- 42 The Audit committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its term of reference. This is in order to facilitate informed decision-making by Council in relation to the legislative functions and duties of the local government that have not been delegated to the CEO.
- 43 The committee is a formally appointed committee of council and is responsible to that body. The committee does not have executive powers or authority to implement actions in areas over which the CEO has legislative responsibility and does not have any delegated financial responsibility. The committee does not have any management functions and cannot involve itself in management processes or procedures.

Membership

- 44 The committee will consist of *four members with three elected and *one external person. All members shall have full voting rights.
- 45 *External persons appointed to the committee will have business or financial management/reporting knowledge and experience, and be conversant with financial and other reporting requirements.
- 46 *Appointment of external persons shall be made by Council by way of a public advertisement and be for a maximum term of two years. The terms of the appointment should be arranged to ensure an orderly rotation and continuity of membership despite changes to Council's elected representatives.
- 47 *Reimbursement of approved expenses will be paid to each external person who is a member of the committee.
- 48 The CEO and employees are not members of the committee.
- 49 The CEO or his/her nominee is to be available to attend meetings to provide advice and guidance to the committee.
- 50 The local government shall provide secretarial and administrative support to the committee.

Meetings

- 51 The committee shall meet at least *quarterly.
- 52 Additional meetings shall be convened at the discretion of the presiding person.

Reporting

- 53 Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council.
- 54 *The committee shall report annually to the Council summarising its activities during the previous financial year.

Duties and Responsibilities

- 55 The duties and responsibilities of the committee will be –
 - a) Provide guidance and assistance to Council as to the carrying out the functions of the local government in relation to audits;
 - b) Develop and recommend to Council an appropriate process for the selection and appointment of a person as the local government's auditor;
 - c) Develop and recommend to Council –
 - a list of those matters to be audited; and
 - the scope of the audit to be undertaken;
 - d) Recommend to Council the person or persons to be appointed as auditor;
 - e) Develop and recommend to Council a written agreement for the appointment of the external auditor. The agreement is to include –
 - the objectives of the audit;
 - the scope of the audit;
 - a plan of the audit;
 - details of the remuneration and expenses to be paid to the auditor; and
 - the method to be used by the local government to communicate with, and supply information to, the auditor;
 - f) Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions;

- g) Liaise with the CEO to ensure that the local government does everything in its power to –
- assist the auditor to conduct the audit and carry out his or her other duties under the *Local Government Act 1995*; and
 - ensure that audits are conducted successfully and expeditiously;
- h) Examine the reports of the auditor after receiving a report from the CEO on the matters and –
- determine if any matters raised require action to be taken by the local government; and
 - ensure that appropriate action is taken in respect of those matters;
- i) Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and presenting the report to Council for adoption prior to the end of the next financial year or 6 months after the last report prepared by the auditor is received, whichever is the latest in time;
- j) Review the scope of the audit plan and program and its effectiveness;
- k) *Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or CEO (see reference to internal audit page 14);
- l) *Review the level of resources allocated to internal audit and the scope of its authority;
- m) *Review reports of internal audits, monitor the implementation of recommendations made by the audit and review the extent to which Council and management reacts to matters raised;
- n) *Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs;
- o) *Review the local government's draft annual financial report, focusing on –
- accounting policies and practices;
 - changes to accounting policies and practices;
 - the process used in making significant accounting estimates;
 - significant adjustments to the financial report (if any) arising from the audit process;
 - compliance with accounting standards and other reporting requirements; and
 - significant variances from prior years;
- p) *Consider and recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the annual financial report is signed;
- q) *Address issues brought to the attention of the committee, including responding to requests from Council for advice that are within the parameters of the committee's terms of reference;
- r) Seek information or obtain expert advice through the CEO on matters of concern within the scope of the committee's terms of reference following authorisation from the Council.
- s) Review the annual Compliance Audit Return and report to the council the results of that review, and
- t) Consider the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance, required to be provided to the committee, and report to the council the results of those reviews.

Internal Audit

- 56 Many local governments have recognised the need to improve their internal auditing processes, and have moved to either employ an internal auditor or contract out the internal audit function.
- 57 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- 58 The scope of an internal audit would be determined by the Audit committee, with input from the CEO, based on the size of the local government's internal operations and the level of compliance to be achieved. The role differs from that of the external auditor who is appointed by council on the recommendation of the Audit Committee, to report independently to it, through the mayor/president and the CEO, on the annual financial statements. The external auditor's primary role is to decide whether the annual financial statements of a local government are free of material misstatement.

- 59 There are certain functions of the internal audit that complement the external auditor's role. As the external auditor plans for an effective audit they need to assess and determine whether to include the scope, procedures and outcomes of the internal audit. The CEO must refer all internal audit reports to the Audit Committee for consideration.
- 60 An internal auditor's activities should typically include the following:
- (a) review of the internal control structure, monitoring the operations of the information system and internal controls and providing recommendations for improvements;
 - (b) a risk assessment with the intention of minimising exposure to all forms of risk on the local government;
 - (c) examination of financial and operating information that includes detailed testing of transactions, balances and procedures;
 - (d) a review of the efficiency and effectiveness of operations and services including non-financial controls of a local government;
 - (e) a review of compliance with management policies and directives and any other internal requirements;
 - (f) review of the annual Compliance Audit Return, and
 - (g) assist in the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance.
 - (h) specific tasks requested by management.
- 61 For local government, the internal auditor should report functionally to the audit committee and administratively to the CEO. It should be remembered that pursuant to section 5.41 of the Act, the CEO is responsible for the day-to-day management of council activities including the direction of staff and implicitly the internal audit function. The CEO may choose to delegate this responsibility provided always that the delegation does not directly or indirectly interfere with the ability of the Internal Auditor to conduct an internal audit function free from interference.
- 62 A clear and properly defined reporting relationship ensures that the internal auditor is empowered to perform their role working with management. The direct reporting line to the audit committee also acts as an adequate safeguard in the event of a serious breakdown in internal controls or internal control culture at senior levels in the organisation.
- 63 While it is recognised that smaller councils may not be able to justify a full-time internal auditor, a small size of operation does not justify forgoing internal audit altogether. If audit committee or management is of the view that the employment of an independent internal auditor either full-time or part-time is not warranted, it may request the council to have the internal audit function undertaken as necessary by an external contractor, or expand the role of its external auditor.
- 64 The external auditor or his or her professional company should only undertake internal audit functions that complement the external audit and do not cloud the objectivity and independence of the external audit. An external auditor must not audit information prepared by them or their accounting practice, as this is considered incompatible with the standard of independence.
- 65 Local governments that do not establish an internal audit process but require a review of the financial management systems and procedures, may decide to use the services of the external auditor for that purpose. Such reviews are to be undertaken every four years in accordance with regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.
- 66 The review of financial management systems and procedures provides the external auditor with greater assurance of systems and procedures used to prepare the annual financial statements, and whether they provide information free of material misstatement.

Appendix 2

Model Minimum Standard Audit Specification

67 **Important:** The following Model Minimum Standard Audit Specification may be used as the basis for the calling of tenders or seeking of quotes for the appointment of an auditor. Local governments need to consider the Model to ensure that only those clauses applicable to its requirements are used. This applies, in particular, to the “Critical matters to be audited”.

Introduction

68 This document is provided for the assistance of auditors who wish to apply for the role of auditor with the City/Town/Shire.

69 Auditors are required to address all of the matters outlined in the specification.

70 Auditors who submit an application may be asked to provide further information and/or make a presentation to the audit committee.

Objectives of the Audit

71 To provide an independent audit opinion of the accounts and annual financial reports of the local government for each financial year covered by the term of the audit appointment.

Term of Audit Appointment

72 For the financial years commencing 1 July through to 30 June..... (not more than 5 years)

Scope of the Audit

73 The auditor is to –

Carry out such work as is necessary to form an opinion as to whether –

- (a) the accounts are properly kept; and
- (b) the annual financial report –
 - (i) is prepared in accordance with the financial records; and

- (ii) represents fairly the results of the operations of the local government and the financial position of the local government at 30 June in accordance with the Australian Accounting Standards, the *Local Government Act 1995* (as amended)(the Act), the Local Government (Financial Management) Regulations 1996 (as amended) and other mandatory professional reporting requirements;

Give an opinion in his or her audit report on –

- (a) the financial position of the local government; and
- (b) the results of the operation of the local government;

74 Include in his or her audit report –

- (a) any material matters that indicate significant adverse trends in the financial position or the financial management practices of the local government; and
- (b) any matters indicating non-compliance with financial management or control requirements of the Act, Regulations and any other written law; and
- (c) details of whether information and explanations were obtained by the auditor; and
- (d) a report on the conduct of the audit; and
- (e) the opinion of the auditor as to whether or not the specific financial ratios reported are supported by verifiable information and reasonable assumptions.

Audit Methodology and Approach

75 Other requirements of the Auditor –

- (a) The auditor is required to comply with the requirements of section 7.9 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996*;
- (b) An audit is to be carried out in accordance with accounting standards adopted from time to time by the Australian Government Auditing and Assurance Standards Board (AuASB);
- (c) The auditor is to provide the local government with a general outline of his/her methodology;

- (d) The auditor is to provide the local government with a plan for the audit including –
- timing of interim audit visits;
 - final audit visit (within 30 days of being advised that the accounts and annual financial report are available for audit);
 - timing of the legislative requirement to meet with the local government and whether that meeting will be in person or by some other means; and
 - the method to be used to communicate with, and provide advice and information to, the local government; and
- (e) The auditor is required to produce an audit report as required by section 7.9 of the *Local Government Act 1995* and, if considered appropriate by the auditor, a management report.

Critical Matters to be Audited

76 The auditor is to include in his or her application the extent to which the critical matters outlined below will be audited so as to form an opinion on the manner in which they have been maintained.

- (i) Revenue
- Rates revenue
 - Government grants
 - User pays revenue
 - Profit on sale of non-current assets
 - Other income
- (ii) Expenditure
- Salary and wage costs
 - Depreciation
 - Materials and contract expenditure
 - Loss on sale of non-current assets
 - Insurances
 - Bad debts
 - Other expenditure
- (iii) Current Assets
- Bank and short term investments
 - Receivables and prepayments
 - Inventory
- (iv) Non-Current Assets
- Property, plant, furniture and equipment
 - Infrastructure and depreciation
 - Other receivables

- (v) Liabilities (Current and non-current)
- Creditors and accruals
 - Loan borrowings including new loans raised
 - Provision for annual and long service leave entitlements
- (vi) Reserve Funds
- (vii) Contingent Liabilities
- (viii) Capital Commitments
- (ix) Accounting Policies and Notes to the Financial Statements
- (x) Cash Flow Statement
- (xi) The financial ratios required by the *Local Government (Financial Management) Regulations 1996*

Hours, Fees and Expenditure

77 The auditor is to provide –

- Estimate of the time to be spent on the audit;
- Fees for completing the audit in accordance with this specification;
- Nominated auditor(s) and registered company audit number(s); and
- Experience of the nominated auditors in completing local government audits.

78 The auditor is to provide a fee for any additional audit requested by Council.

Terms

79 Conditions to be noted by auditors –

- The auditor shall not sub contract to a third party;
- The auditor shall not, and has no right to, assign the audit contract to third parties;
- The auditor shall not be engaged by the local government to undertake any financial consultancy with the local government that requires the preparation of financial information that will be the subject of the annual audit; and
- The auditor shall confirm that he or she has, and will maintain during the duration of the audit term, professional indemnity insurance covering the legal liability arising out of any neglect, default, error, or omission.

Termination of Appointment

- 80 The appointment as auditor is terminated if –
- (a) the auditor ceases to be a registered company auditor;
 - (b) the auditor ceases to be an approved auditor under Section 7.5 of the *Local Government Act 1995*;
 - (c) the auditor is a disqualified person under Section 7.4(2) of the *Local Government Act 1995*;
 - (d) the auditor resigns by notice in writing to Council; or
 - (e) Council serves notice in writing to the auditor terminating the appointment.

Appendix 3

Issues that should be considered for inclusion in the CEO's Review of Risk Management, Internal Control and Legislative Compliance

Please note: Section 7 of the Department's Western Australian Local Government Accounting Manual provides a comprehensive internal control framework related to internal control and risk management.

Risk Management

- 81 Internal control and risk management systems and programs are a key expression of a local government's attitude to effective controls. Good audit committee practices in monitoring internal control and risk management programs typically include:
- Reviewing whether the local government has an effective risk management system and that material operating risks to the local government are appropriately considered.
 - Reviewing whether the local government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time.
 - Assessing the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas:
 - potential non-compliance with legislation, regulations and standards and local government's policies
 - important accounting judgements or estimates that prove to be wrong
 - litigation and claims
 - misconduct, fraud and theft
 - significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the local government.
 - Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported.

- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance.
- Reviewing the effectiveness of the local government's internal control system with management and the internal and external auditors.
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk.
- Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied.
- Should the need arise, meeting periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment.
- Ascertaining whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated, monitored and there is regular reporting and ongoing management of fraud and misconduct risks.

Internal Control

- 82 Internal control is a key component of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Strategies to maintain sound internal controls are based on risk analysis of the internal operations of a local government.
- 83 An effective and transparent internal control environment is built on the following key areas:
- integrity and ethics.
 - policies and delegated authority.
 - levels of responsibilities and authorities.
 - audit practices.
 - information system access and security.
 - management operating style.
 - human resource management and practices.

84 Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government.

85 Aspects of an effective control framework will include:

- delegation of authority.
- documented policies and procedures.
- trained and qualified employees.
- system controls.
- effective policy and process review.
- regular internal audits.
- documentation of risk identification and assessment.
- regular liaison with auditor and legal advisors.

86 The following are examples of controls that are typically reviewed:

- separation of roles and functions, processing and authorisation;
- control of approval of documents, letters and financial records;
- comparison of internal data with other or external sources of information;
- limit of direct physical access to assets and records;
- control of computer applications and information system standards;
- limit access to make changes in data files and systems;
- regular maintenance and review of financial control accounts and trial balances;
- comparison and analysis of financial results with budgeted amounts;
- the arithmetical accuracy and content of records;
- report, review and approval of financial payments and reconciliations;
- comparison of the result of physical cash and inventory counts with accounting records.

Legislative Compliance

87 The compliance programs of a local government are a strong indication of attitude towards meeting legislative requirements. Audit committee practices in regard to monitoring compliance programs typically include:

- Monitoring compliance with legislation and regulations.
- Reviewing the annual Compliance Audit Return and reporting to Council the results of that review.
- Staying informed about how management is monitoring the effectiveness of its compliance and making recommendations for change as necessary.
- Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints.
- Obtaining assurance that adverse trends are identified and review management's plans to deal with these.
- Reviewing management disclosures in financial reports of the effect of significant compliance issues.
- Reviewing whether the internal and / or external auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee.
- Considering the internal auditor's role in assessing compliance and ethics risks in their plan.
- Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements.
- Complying with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest.

Further Information

For more information about this and other guidelines, contact the Advice and Support Branch of the Department of Local Government and Communities:

Tel: (08) 6551 8700

Fax: (08) 6552 1555

Freecall: 1800 620 511 (Country Only)

Translating and Interpreting Service (TIS) – Tel: 13 14 50

Local Government Advisory Hotline

Tel: 1300 762 511

Email: lghotline@dlgc.wa.gov.au

Opening Hours: 8.30am - 5.00pm, Monday to Friday

These guidelines are also available on the Department's website at www.dlgc.wa.gov.au

About the Guideline Series

This Guideline and others in the series are intended as a guide to good practice and should not be taken as a compliance requirement. The content is based on Departmental officers' knowledge, understanding, observation of, and appropriate consultation on contemporary good practice in local government. Guidelines may also involve the Department's views on the intent and interpretation of relevant legislation. All guidelines are subject to review, amendment and republishing as required. Therefore, comments on any aspect of the guideline are welcome. Suggested topics for future guidelines would also be welcome.

Clause No	Audit Committee Charter City of Greater Geraldton <i>Endorsed by Council 28.1.14</i>	Clause No	Department of Local Government Model Terms of Reference Audit Committees <i>Guidelines September 2013</i> <i>The clauses that may be considered optional have been asterisked *</i>
1.1	The Audit Committee is appointed by Council pursuant to Section 7.1A(1) of the Local Government Act.		
1.1	<p>The main purpose of the Audit Committee is to assist Council in discharging its oversight responsibilities in relation to the following matters:</p> <ul style="list-style-type: none"> •Financial reporting process to ensure balance, transparency and integrity of published financial information; •The effectiveness of the City's internal control and risk management systems; •The effectiveness of the internal audit function; •The independent external audit process including assessing the performance of the external auditor; •The City's process for monitoring compliance with legislation and regulation and policies affecting financial reporting; •Key policies impacting the effectiveness of the City's governance framework, including the Code of Ethics, Fraud Policy, Whistle-blower Policy etc. 	39	The primary objective of the audit committee is to accept responsibility for the annual external audit and liaise with the local governments auditor so that Council can be satisfied with the performance of the local government in managing its financial affairs
		40	<p>Reports from the committee will assist Council in discharging its legislative responsibilities of</p> <p>controlling the local governments affairs,</p> <p>determining local governments policies and overseeing the allocation of local governments' finances and resources.</p> <p>The committee will ensure openness in the local governments financial reporting and</p> <p>will liaise with the CEO to ensure the effective and efficient management of the local governments financial accounting systems and compliance with legislation</p>
1.2	In performing its duties the Audit Committee will maintain effective working relationships with Council, management and the external and internal auditors.	41	The committee is to facilitate-

	To perform their roles effectively, each Audit committee member is expected to develop and maintain their skills and knowledge, including their understanding of the Audit Committees responsibilities and of the City's business, operations and risks.		<p>The enhancement of the credibility and objectivity of "internal and external financial reporting</p> <p>*Effective management of financial and other risks and the protection of Council assets</p> <p>Compliance with laws and regulations as well as use of best practice guidelines relative to audit, risk management , internal control and legislative compliance.</p> <p>*The coordination of the internal audit function with the external audit</p> <p>The provision of an effective means of communication between the external auditor "internal auditor, the CEO and the Council.</p>
1.3	The Audit Committee is responsible to Council for its performance	43	The committee is a formally appointed committee of council and is responsible to that body.
2.1	The Audit Committee is an independent advisory committee of Council. The Audit Committee does not have executive powers or authority to implement actions in areas over which management has responsibility and does not have any delegated financial responsibility. The Audit Committee does not have any management functions and is therefore independent of management	43	<p>The committee does not have executive powers or authority to implement actions in areas over which the CEO has legislative responsibility and does not have any delegated financial responsibility.</p> <p>The committee does not have any management functions and cannot involve itself in management processes or procedures</p>
2.2	The Committee's role is to report to Council and provide appropriate advice and recommendations on matters relevant to its Charter in order to facilitate decision- making by Council in relation to the discharge of its responsibilities	42	The Audit committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its terms of reference . This is in order to facilitate informed decision –making by Council in relation to the legislative functions and duties of the local government that have not been delegated to the CEO
3.1	The Audit Committee will comprise five members as follows:	44	The committee will consist of
3.2	•Four Councillors		<p>*four members with three elected and *one external person.</p> <p>All members shall have full voting rights.</p>

	<p>•One external independent person provided that a suitably qualified person is locally available. All members will have equal voting rights on all matters considered by the Audit Committee, unless a member is unable to vote due to a conflict of interest.</p>		
3.3.1	A quorum of any meeting will be at least two Council members		
3.3.2	Each member shall have the skills and experience appropriate to the City's business		
3.3.3	All members shall be financially literate		
3.3.4	<p>The appointment of independent members shall be made by Council following a public advertisement process. <i>The evaluation of potential members shall be undertaken by the Mayor, a Councillor who is preferably a member of the Audit Committee and the Chief Executive Officer and would take into account the experience of candidates and their likely</i> ability to apply appropriate analytical and strategic management skills to matters which come before the Audit Committee. <i>A recommendation for membership will be put to Council for approval.</i></p>	45	<p>*External persons appointed to the committee will have business or financial management/reporting knowledge and experience, and be conversant with financial and other reporting requirements.</p> <p>*Appointment of external persons shall be made by Council by way of a public advertisement and be for a maximum term of two years. The terms of the appointment should be arranged to ensure an orderly rotation and continuity of membership despite changes to Council's elected representatives.</p>
3.3.5	<p>External members shall be appointed for a two (2) year term and are eligible to be reappointed after the expiry of their terms. The terms of appointment shall be aligned to the biennial council election cycle.</p>	46	
		47	<p>*Reimbursement of approved expenses will be paid to each external person who is a member of the committee</p>
3.3.6	If the Council proposes to remove a member of the Audit Committee before expiry of the full term appointment , it must give written notice to the member of its intention to do so and provide that member with the opportunity to be heard at a Council meeting which is open to public , if that member so requests.		
3.3.7	The Chairperson shall be appointed by the Council on the recommendation of the Chief Executive Officer. In the absence of the appointed Chairperson from a meeting, the		

	meeting will appoint an acting Chairperson from the members present		
3.3.8	Decisions of the Committee will be made by a simple majority of members		
3.3.9	The Chief Executive Officer should attend all meetings , <i>except when the Committee chooses to meet in a closed session</i>	48 49	The CEO and employees are not members of the committee. The CEO or his/her nominee is to be available to attend meetings to provide advice and guidance to the committee
3.3.10	Representatives of the external auditor should be invited to attend at the discretion of the Committee but must be invited to attend meetings considering the draft annual financial report and the results of the external audit	55(f)	The duties and responsibilities of the committee will be – “..Meet with the auditor once in each year ...” - See Section 55 (h)
3.3.11	The City shall provide secretarial and administrative support to the Committee	50	The local government shall provide secretarial and administrative support to the committee
4.1	In accordance with Section 5.6 of the Local Government Act as amended (the Act), members of the Audit Committee are required to disclose all conflicts of interest and may not be eligible to vote on a matter or attend a meeting at which the subject of the conflict will be considered, depending on the nature of the conflict. Members of the Audit Committee are expected to be aware of the provisions of the Act with regard to conflicts of interest and disclosure thereof. Failure to comply with the provisions of the Act with regard to conflicts of interest may result in the member’s appointment being terminated.		
5.1	Audit Committee members and councillors are entitled to attend meetings. The Audit Committee may invite (or require) such other persons to its meetings, as it deems necessary. It is anticipated that the Chief Executive Officer and the Chief Financial Officer are likely to be invited to all meetings of the Audit Committee		
5.2	The external and internal auditors should be invited to make presentations to the Audit Committee as appropriate		

5.3	Meetings shall be held not less than four (4) times per annum and timing should be set to ensure that the Audit Committee can properly discharge its responsibilities pursuant to this Charter	51	The committee shall meet at least quarterly
5.4	Special meetings may be convened as required. The secretary will convene a meeting at the request of the Chairperson, a member and the external and internal auditors	52	Additional meetings shall be convened at the discretion of the presiding person.
5.5	The secretary shall circulate the agenda and supporting documentation to members of the Audit Committee one week prior to the meeting.		
5.6	Members of the Audit Committee are expected to attend every meeting of the Audit Committee.		
5.7	The Audit Committee will meet at least once annually with the external auditors without management present		
5.8	Members of the Audit Committee may, by prior arrangement with the Chairperson, attend Committee meetings from remote locations via teleconference		
6.1	The Audit Committee will evaluate whether management is setting the appropriate 'control culture' by communicating the importance of internal control and management of risk.	55(t)	Consider the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance, required to be provided to the committee, and report to the council the results of those reviews
6.2	The Audit Committee will understand the internal control systems implemented by management for approval of transactions and the recording and processing of financial data.		
6.3	The Audit Committee will understand the controls and processes implemented by management to ensure that the financial statements derive from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review.		
6.4	The Audit Committee will evaluate the overall effectiveness of the internal control and risk management frameworks and consider whether recommendations made by the		

	external and internal auditors have been implemented by management.		
6.5	The Audit Committee will consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems failure or to protect against computer fraud or misuse.		
6.6	The Audit Committee will gain an understanding of the areas of greatest financial risk and how these are being managed.		
6.7	The Audit Committee will review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on financial reports.		
6.8	The Audit Committee will meet with management and the external auditors to review the financial statements, the key accounting policies and judgements, and the results of the audit.	55(o)	*Review the local government's draft annual financial report, focusing on –
6.9	The Audit Committee will ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies are discussed with the external auditor.		<ul style="list-style-type: none"> •accounting policies and practices; •changes to accounting policies and practices; •the process used in making significant accounting estimates; significant adjustments to the financial report (if any) arising from the audit process; •compliance with accounting standards and other reporting requirements; and •significant variances from prior years
6.10	The Audit Committee will recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the financial report is signed.	55(p)	*Consider and recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the annual financial report is signed
6.11	The Audit Committee will address matters referred to the Audit Committee for consideration, including matters referred to it by Council that are within the Audit Committee's terms of reference.	55(q)	*Address issues brought to the attention of the committee, including responding to requests from Council for advice that are within the parameters of the committee's terms of reference;
6.12	The Audit Committee will review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow up		

	(including disciplinary action) of any fraudulent acts or non-compliance.		
6.13	The Audit Committee will obtain regular updates from management and Council's legal advisors regarding compliance matters that may have a material impact on Council's financial statements or compliance policies.		
6.14	The Audit Committee will be satisfied that all regulatory compliance matters, related to Council's business, have been considered in the preparation of the financial statements.		
6.15	The Audit Committee will review on an annual basis the performance of the external auditors.		
		55	The duties and responsibilities of the committee will be -
		55 (a)	Provide guidance and assistance to Council as to the carrying out the functions of the local government in relation to audits;
		55(b)	Develop and recommend to Council an appropriate process for the selection and appointment of a person as the local government's auditor
6.16	The Audit Committee will review the external auditor's proposed audit scope and approach each year in light of Council's present circumstances and changes in regulatory and other requirements.	55(c)	Develop and recommend to Council- A list of those matters to be audited: and The scope of the audit to be undertaken
		55(d)	Recommend to Council the person or persons to be appointed as auditor;
		55(e)	Develop and recommend to Council a written agreement for the appointment of the external auditor. The agreement is to include – •the objectives of the audit; •the scope of the audit; •a plan of the audit; •details of the remuneration and expenses to be paid to the auditor; and •the method to be used by the local government to communicate with, and supply information to, the auditor;
6.17	The Audit Committee will discuss with the external auditor any audit problems encountered in the normal course of		

	audit work, including any restriction on audit scope or access to information.		
6.18	The Audit committee will ensure that significant findings and recommendations made by the external auditor and management's proposed response are received, discussed and appropriately acted upon.	55(h) 55(i)	Examine the reports of the auditor after receiving a report from the CEO on the matters and – <ul style="list-style-type: none"> •determine if any matters raised require action to be taken by the local government; and •ensure that appropriate action is taken in respect of those matters Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and presenting the report to Council for adoption prior to the end of the next financial year or 6 months after the last report prepared by the auditor is received, whichever is the latest in time
6.19	The Audit Committee will discuss with the external auditor the appropriateness of accounting policies applied in the City's financial statements and whether they are considered as aggressive, balanced or conservative	55(g)	Liaise with the CEO to ensure that the local government does everything in its power to – <ul style="list-style-type: none"> •assist the auditor to conduct the audit and carry out his or her other duties under the Local Government Act 1995; and •ensure that audits are conducted successfully and expeditiously;
6.20	The Audit Committee will meet separately with the external auditor to discuss any matters that the Audit Committee or auditor believe should be discussed privately. The Committee will ensure that the auditor has access to the Audit Committee's Chairperson when required.	55(f)	Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions
6.21	The Audit Committee will review the scope of the internal audit plan and the effectiveness of the function, evaluating whether the plan addresses the following issues: <ul style="list-style-type: none"> •The effectiveness of internal controls over significant areas of risk, including non-financial management control systems. •The effectiveness of internal controls over key processes relating to revenue, expenditure, assets and liabilities. •The efficiency and effectiveness of significant City programmes. •The compliance with legislation, policies, best practice guidelines and contractual arrangements. 	55(j) 55(l) 55(m)	Review the scope of the audit plan and program and its effectiveness *Review the level of resources allocated to internal audit and the scope of its authority *Review reports of internal audits, monitor the implementation of recommendations made by the audit and review the extent to which Council and management reacts to matters raised

6.22	The Audit Committee will review the appropriateness of special internal audit assignments undertaken at the request of Council or the Chief Executive Officer and whether the outcomes of such assignments have been implemented.	55(k)	*Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or CEO
6.23	The Audit Committee will ensure that significant findings and recommendations made by the internal auditor, and management's proposed responses are received, discussed and appropriately acted upon.		
6.24	The Audit Committee will meet separately with the internal auditor to discuss any matters that the Audit Committee or the auditor should be discussed privately.		
6.25	The Audit Committee will monitor the effectiveness of liaison between the external and internal auditors to ensure the City's audit functions as a whole are operating effectively and efficiently with a minimum of duplicated audit effort.	55(n)	*Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs.
7.1	The Audit Committee, through the Chief Executive Officer, and following authorisation by Council, and within the scope of its terms of reference, may seek information or obtain expert advice on matters of concern.	55(r)	Seek information or obtain expert advice through the CEO on matters of concern within the scope of the committees terms of reference following authorisation from the Council
		55(s)	Review the annual Compliance Audit Return and report to the council the results of that review
8.1	<p>The Audit Committee shall at every meeting consider and approve minutes and a summary of that meeting.</p> <p>The Audit Committee shall at three monthly intervals forward the summaries of meetings for the previous three months to the next ordinary meeting of the Council.</p> <p>Additionally apart from meeting summaries, where at any Committee meeting a report explaining any specific recommendations, key outcomes or other matters is approved to be submitted to Council, that report shall be forwarded to the next ordinary meeting of the Council.</p>	53	Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council.
8.2	The Committee shall report annually to the Council summarising the activities of the Committee during the previous financial year	*54	The committee shall report annually to the Council summarising its activities during the previous financial year

9.1	The Audit Committee should evaluate its own performance, both of individual members and collectively, on an annual basis.		
10.1	The Audit Committee should review the Audit Committee Charter annually and agree on any changes which are to then be approved at the next ordinary meeting of Council		
11.1	All Audit Committee members are expected to be aware of their responsibilities with regard to the confidentiality of information about Councils affairs. Failure to comply with the responsibilities with regard to confidentiality may result in the members appointment being terminated		

DRAFT

5 AC024 RFT 22 1314 EXTERNAL AUDIT SERVICES 2014-2017

AC024	RFT EXTERNAL AUDIT SERVICES 2014-2017
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AGENDA REFERENCE:	D-14-08122
AUTHOR:	K Chua, Manager Accounting Services
EXECUTIVE:	B Davis, Director of Corporate & Commercial Services
DATE OF REPORT:	8 February 2014
FILE REFERENCE:	GO/11/0020
APPLICANT / PROPONENT:	City of Greater Geraldton
ATTACHMENTS:	Yes X 1 Confidential

SUMMARY:

The purpose of this report is to seek the Audit Committees endorsement of the appointment of a qualified and experienced contractor as the City's External Auditor from 1 July 2014 to 30 June 2017.

PROponent:

The proponent is the City of Greater Geraldton.

BACKGROUND:

In April 2011 the City of Geraldton-Greenough awarded a three year contract to Grant Thornton Audit Pty Ltd for the audit of the City's financial statements and other audit services. The term of the contract expires on 30 June 2014.

Section 7.3 of the Local Government Act requires:

- (1) *A local government is to, from time to time whenever such an appointment is necessary or expedient, appoint * a person, on the recommendation of the audit committee, to be its auditor.*
- (3) *The local government's auditor is to be a person who is –*
 - a. *a registered company auditor; or*
 - b. *An approved auditor*

A request for tender to provide External Audit Services – Financial Years 2014-2017 was advertised on the Western Australian Local Government Association Tenderlink e-Tendering Portal on 1 November 2013. The tender closing date was 4 pm Monday 2 December 2013.

There were four (4) suppliers who registered for the tender and three (3) tenders received of which are listed below.

1. Grant Thornton Audit Pty
2. AMD Chartered Accountants
3. UHY Haines Norton Chartered Accountants

COMMUNITY CONSULTATION:

There has been no community consultation.

COUNCILLOR CONSULTATION:

There has been no prior Councillor consultation.

STATUTORY IMPLICATIONS:

Tenders were called in accordance with the provisions of the Local Government Act 1995 and with Local Government (Functions and General) Regulations 1996.

Section 7.1 and 7.3 of the Local Government Act state the requirements for appointing the City's auditor.

POLICY IMPLICATIONS:

The City of Greater Geraldton has adopted a purchasing policy for acquiring goods and/or services of all values by obtaining quotes and releasing tenders.

The policy provides compliance with the requirements of the Local Government Act 1995 and Local Government Act (Functions and General Regulations 1996). Additional to the policy, procedures have been developed to guide staff when purchasing goods and services for the City of Greater Geraldton.

FINANCIAL AND BUDGET IMPLICATIONS:

There are no financial implications associated with this item.

STRATEGIC & REGIONAL OUTCOMES:**Strategic Community Plan Outcomes:**

Goal 5:	Governance
Outcome 5.2:	Planning and Policy
Strategy 5.2.7:	Ensuring efficient and effective delivery of service.

Regional Outcomes:

There are no regional outcomes associated with this matter.

ECONOMIC, SOCIAL, ENVIRONMENTAL & CULTURAL ISSUES:**Economic:**

There are no economic impacts.

Social:

There are no social impacts.

Environmental:

There are no environmental impacts.

Cultural & Heritage:

There are no cultural and heritage impacts.

RELEVANT PRECEDENTS:

There are no relevant precedents.

DELEGATED AUTHORITY:

There is no delegated authority.

VOTING REQUIREMENTS:

Simple majority is required.

CONCLUSION:

Statutory regulations require the City to appoint a qualified and experienced contractor as the City's External Auditor. The current External Auditors contractor's agreement expires 30 June 2014.

EXECUTIVE RECOMMENDATION:

That the Audit Committee by Simple Majority in accordance with Sections 7.1C and 7.3(1) of the Local Government Act 1995 RESOLVES to:

1. RECOMMEND that the Council appoints each of the audit partners of the preferred tenderer, to be an auditor for the City of Greater Geraldton for the period 1 July 2014 – 30 June 2017.

6 AC025 COMPLIANCE AUDIT RETURN

AC025 COMPLIANCE AUDIT RETURN 2013

AGENDA REFERENCE:	D-14-08137
AUTHOR:	T Mbirimi, Manager Governance and Risk
EXECUTIVE:	B Davis, Director of Corporate & Commercial Services
DATE OF REPORT:	February 2014
FILE REFERENCE:	GO/11/0020
APPLICANT / PROPONENT:	City of Greater Geraldton
ATTACHMENTS:	Yes x1

SUMMARY:

The purpose of this report is to review the Compliance Audit Return 2013 (CAR).

Amendments to Regulation 14 of the *Local Government (Audit) Regulations 1996* requires that the Audit Committee now reviews the Compliance Audit Return and reports the results of that review to Council prior to adoption by Council and submission to the Department of Local Government by 31 March 2014.

PROPONENT:

The proponent is the City of Greater Geraldton.

BACKGROUND:

In accordance with section 7.13(1) of the Local Government Act 1995 and the Local Government (Audit) Regulations, the City is required to complete a compliance audit in relation to the period 1 January 2013 to 31 December 2013 against the requirements set out in the CAR.

The 2013 CAR continues in a reduced format, with the areas of compliance included restricted to those considered high risk.

COMMUNITY CONSULTATION:

There is no requirement for community consultation on this matter.

COUNCILLOR CONSULTATION:

Several Officers, Managers and Directors have provided their input in order to complete the CAR.

STATUTORY IMPLICATIONS:

As per Section 7.13(1) of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996*.

POLICY IMPLICATIONS:

There are no policy implications associated with this matter.

FINANCIAL AND BUDGET IMPLICATIONS:

There are no financial implications associated with this item.

STRATEGIC & REGIONAL OUTCOMES:**Strategic Community Plan Outcomes:**

Goal 5:	Governance
Outcome 5.2:	Planning and Policy
Strategy 5.2.7:	Ensuring efficient and effective delivery of service.

Regional Outcomes:

There are no regional outcomes associated with this matter.

ECONOMIC, SOCIAL, ENVIRONMENTAL & CULTURAL ISSUES:**Economic:**

There are no economic impacts.

Social:

There are no social impacts.

Environmental:

There are no environmental impacts.

Cultural & Heritage:

There are no cultural and heritage impacts.

RELEVANT PRECEDENTS:

There are no relevant precedents.

DELEGATED AUTHORITY:

There is no delegated authority.

VOTING REQUIREMENTS:

Absolute majority is required.

CONCLUSION:

The CAR is a statutory compliance requirement for local governments and requires a review first by the Audit Committee and then a report to Council for adoption before being submitted to the Department of Local Government. The City is required to provide this to the Department prior to 31 March 2014.

The Audit Committee does not have the option not to review the CAR as it would therefore be non-compliant with the Local Government Act and associated regulations.

EXECUTIVE RECOMMENDATION:

That the Audit Committee by Absolute Majority in accordance with Section 7.13(1) of the Local Government Act 1995 and Regulation 14 of the Local Government (Audit) Regulations 1996 RESOLVES to:

1. Review and Report to Council on the Compliance Audit Return 2013



Greater Geraldton - Compliance Audit Return 2013

Certified Copy of Return

Please submit a signed copy to the Director General of the Department of Local Government and Communities together with a copy of section of relevant minutes.

Commercial Enterprises by Local Governments					
No	Reference	Question	Response	Comments	Respondent
1	s3.59(2)(a)(b)(c) F&G Reg 7,9	Has the local government prepared a business plan for each major trading undertaking in 2013.	N/A	No new undertaking in 2013	Towela Mbirimi
2	s3.59(2)(a)(b)(c) F&G Reg 7,10	Has the local government prepared a business plan for each major land transaction that was not exempt in 2013.	N/A		Towela Mbirimi
3	s3.59(2)(a)(b)(c) F&G Reg 7,10	Has the local government prepared a business plan before entering into each land transaction that was preparatory to entry into a major land transaction in 2013.	N/A		Towela Mbirimi
4	s3.59(4)	Has the local government given Statewide public notice of each proposal to commence a major trading undertaking or enter into a major land transaction for 2013.	N/A		Towela Mbirimi
5	s3.59(5)	Did the Council, during 2013, resolve to proceed with each major land transaction or trading undertaking by absolute majority.	N/A		Towela Mbirimi



Delegation of Power / Duty						
No	Reference	Question	Response	Comments	Respondent	
1	s5.16, 5.17, 5.18	Were all delegations to committees resolved by absolute majority.	N/A	There are no delegations to Committees.	Towela Mbirimi	
2	s5.16, 5.17, 5.18	Were all delegations to committees in writing.	N/A		Towela Mbirimi	
3	s5.16, 5.17, 5.18	Were all delegations to committees within the limits specified in section 5.17.	N/A		Towela Mbirimi	
4	s5.16, 5.17, 5.18	Were all delegations to committees recorded in a register of delegations.	N/A		Towela Mbirimi	
5	s5.18	Has Council reviewed delegations to its committees in the 2012/2013 financial year.	N/A		Towela Mbirimi	
6	s5.42(1),5.43 Admin Reg 18G	Did the powers and duties of the Council delegated to the CEO exclude those as listed in section 5.43 of the Act.	Yes		Towela Mbirimi	
7	s5.42(1)(2) Admin Reg 18G	Were all delegations to the CEO resolved by an absolute majority.	Yes		Towela Mbirimi	
8	s5.42(1)(2) Admin Reg 18G	Were all delegations to the CEO in writing.	Yes		Towela Mbirimi	
9	s5.44(2)	Were all delegations by the CEO to any employee in writing.	Yes		Towela Mbirimi	
10	s5.45(1)(b)	Were all decisions by the Council to amend or revoke a delegation made by absolute majority.	N/A	There was no decision to amend or revoke a delegation made.	Towela Mbirimi	
11	s5.46(1)	Has the CEO kept a register of all delegations made under the Act to him and to other employees.	Yes		Towela Mbirimi	
12	s5.46(2)	Were all delegations made under Division 4 of Part 5 of the Act reviewed by the delegator at least once during the 2012/2013 financial year.	Yes		Towela Mbirimi	
13	s5.46(3) Admin Reg 19	Did all persons exercising a delegated power or duty under the Act keep, on all occasions, a written record as required.	Yes		Towela Mbirimi	

Disclosure of Interest						
No	Reference	Question	Response	Comments	Respondent	
1	s5.67	If a member disclosed an interest, did he/she ensure that they did not remain present to participate in any discussion or decision-making procedure relating to the matter in which the interest was disclosed (not including participation approvals granted under s5.68).	Yes		Towela Mbirimi	
2	s5.68(2)	Were all decisions made under section 5.68(1), and the extent of participation allowed, recorded in the minutes of Council and Committee meetings.	Yes		Towela Mbirimi	



No	Reference	Question	Response	Comments	Respondent
3	s5.73	Were disclosures under section 5.65 or 5.70 recorded in the minutes of the meeting at which the disclosure was made.	Yes		Towela Mbirimi
4	s5.75(1) Admin Reg 22 Form 2	Was a primary return lodged by all newly elected members within three months of their start day.	Yes		Towela Mbirimi
5	s5.75(1) Admin Reg 22 Form 2	Was a primary return lodged by all newly designated employees within three months of their start day.	Yes		Towela Mbirimi
6	s5.76(1) Admin Reg 23 Form 3	Was an annual return lodged by all continuing elected members by 31 August 2013.	Yes		Towela Mbirimi
7	s5.76(1) Admin Reg 23 Form 3	Was an annual return lodged by all designated employees by 31 August 2013.	Yes		Towela Mbirimi
8	s5.77	On receipt of a primary or annual return, did the CEO, (or the Mayor/ President in the case of the CEO's return) on all occasions, give written acknowledgment of having received the return.	Yes		Towela Mbirimi
9	s5.88(1)(2) Admin Reg 28	Did the CEO keep a register of financial interests which contained the returns lodged under section 5.75 and 5.76	Yes		Towela Mbirimi
10	s5.88(1)(2) Admin Reg 28	Did the CEO keep a register of financial interests which contained a record of disclosures made under sections 5.65, 5.70 and 5.71, in the form prescribed in Administration Regulation 28.	Yes		Towela Mbirimi
11	s5.88 (3)	Has the CEO removed all returns from the register when a person ceased to be a person required to lodge a return under section 5.75 or 5.76.	Yes		Towela Mbirimi
12	s5.88(4)	Have all returns lodged under section 5.75 or 5.76 and removed from the register, been kept for a period of at least five years, after the person who lodged the return ceased to be a council member or designated employee.	Yes		Towela Mbirimi
13	s5.103 Admin Reg 34C & Rules of Conduct Reg 11	Where an elected member or an employee disclosed an interest in a matter discussed at a Council or committee meeting where there was a reasonable belief that the impartiality of the person having the interest would be adversely affected, was it recorded in the minutes.	Yes		Towela Mbirimi
14	s5.70(2)	Where an employee had an interest in any matter in respect of which the employee provided advice or a report directly to the Council or a Committee, did that person disclose the nature of that interest when giving the advice or report.	Yes		Towela Mbirimi



No	Reference	Question	Response	Comments	Respondent
15	s5.70(3)	Where an employee disclosed an interest under s5.70(2), did that person also disclose the extent of that interest when required to do so by the Council or a Committee.	Yes		Towela Mbirimi
16	s5.103(3) Admin Reg 34B	Has the CEO kept a register of all notifiable gifts received by Council members and employees.	Yes		Towela Mbirimi

Disposal of Property

No	Reference	Question	Response	Comments	Respondent
1	s3.58(3)	Was local public notice given prior to disposal for any property not disposed of by public auction or tender (except where excluded by Section 3.58(5)).	Yes		Towela Mbirimi
2	s3.58(4)	Where the local government disposed of property under section 3.58(3), did it provide details, as prescribed by section 3.58(4), in the required local public notice for each disposal of property.	Yes		Towela Mbirimi

Elections

No	Reference	Question	Response	Comments	Respondent
1	Elect Reg 30G (1)	Did the CEO establish and maintain an electoral gift register and ensure that all 'disclosure of gifts' forms completed by candidates and received by the CEO were placed on the electoral gift register at the time of receipt by the CEO and in a manner that clearly identifies and distinguishes the candidates.	Yes	A register is maintained however, there were no disclosure of gifts forms received for the 2013 elections.	Towela Mbirimi

Finance

No	Reference	Question	Response	Comments	Respondent
1	s7.1A	Has the local government established an audit committee and appointed members by absolute majority in accordance with section 7.1A of the Act.	Yes		Towela Mbirimi
2	s7.1B	Where a local government determined to delegate to its audit committee any powers or duties under Part 7 of the Act, did it do so by absolute majority.	N/A	The audit committee has no delegated powers under Part 7 of the Act.	Towela Mbirimi
3	s7.3	Was the person(s) appointed by the local government to be its auditor, a registered company auditor.	Yes		Towela Mbirimi
4	s7.3	Was the person(s) appointed by the local government to be its auditor, an approved auditor.	Yes		Towela Mbirimi
5	s7.3, 7.6(3)	Was the person or persons appointed by the local government to be its auditor, appointed by an absolute majority decision of Council.	Yes		Towela Mbirimi



No	Reference	Question	Response	Comments	Respondent
6	Audit Reg 10	Was the Auditor's report for the financial year ended 30 June 2013 received by the local government within 30 days of completion of the audit.	Yes		Towela Mbirimi
7	s7.9(1)	Was the Auditor's report for 2012/2013 received by the local government by 31 December 2013.	Yes		Towela Mbirimi
8	S7.12A(3), (4)	Where the local government determined that matters raised in the auditor's report prepared under s7.9 (1) of the Act required action to be taken by the local government, was that action undertaken.	N/A	No matters raised in the auditor's report prepared under s7.9(1) of the Act required action to be taken.	Towela Mbirimi
9	S7.12A(3), (4)	Where the local government determined that matters raised in the auditor's report (prepared under s7.9 (1) of the Act) required action to be taken by the local government, was a report prepared on any actions undertaken.	N/A	As above	Towela Mbirimi
10	S7.12A(3), (4)	Where the local government determined that matters raised in the auditor's report (prepared under s7.9 (1) of the Act) required action to be taken by the local government, was a copy of the report forwarded to the Minister by the end of the financial year or 6 months after the last report prepared under s7.9 was received by the local government whichever was the latest in time.	N/A		Towela Mbirimi
11	Audit Reg 7	Did the agreement between the local government and its auditor include the objectives of the audit.	Yes		Towela Mbirimi
12	Audit Reg 7	Did the agreement between the local government and its auditor include the scope of the audit.	Yes		Towela Mbirimi
13	Audit Reg 7	Did the agreement between the local government and its auditor include a plan for the audit.	Yes		Towela Mbirimi
14	Audit Reg 7	Did the agreement between the local government and its auditor include details of the remuneration and expenses to be paid to the auditor.	Yes		Towela Mbirimi
15	Audit Reg 7	Did the agreement between the local government and its auditor include the method to be used by the local government to communicate with, and supply information to, the auditor.	Yes		Towela Mbirimi



Local Government Employees					
No	Reference	Question	Response	Comments	Respondent
1	Admin Reg 18C	Did the local government approve the process to be used for the selection and appointment of the CEO before the position of CEO was advertised.	Yes		Towela Mbirimi
2	s5.36(4) s5.37(3), Admin Reg 18A	Were all vacancies for the position of CEO and other designated senior employees advertised and did the advertising comply with s.5.36(4), 5.37(3) and Admin Reg 18A.	Yes		Towela Mbirimi
3	Admin Reg 18F	Was the remuneration and other benefits paid to a CEO on appointment the same remuneration and benefits advertised for the position of CEO under section 5.36(4).	Yes		Towela Mbirimi
4	Admin Regs 18E	Did the local government ensure checks were carried out to confirm that the information in an application for employment was true (applicable to CEO only).	Yes		Towela Mbirimi
5	s5.37(2)	Did the CEO inform council of each proposal to employ or dismiss a designated senior employee.	N/A	There are no designated employees.	Towela Mbirimi

Official Conduct					
No	Reference	Question	Response	Comments	Respondent
1	s5.120	Where the CEO is not the complaints officer, has the local government designated a senior employee, as defined under s5.37, to be its complaints officer.	N/A	The CEO is the complaints officer.	Towela Mbirimi
2	s5.121(1)	Has the complaints officer for the local government maintained a register of complaints which records all complaints that result in action under s5.110(6)(b) or (c).	Yes		Towela Mbirimi
3	s5.121(2)(a)	Does the complaints register maintained by the complaints officer include provision for recording of the name of the council member about whom the complaint is made.	Yes		Towela Mbirimi
4	s5.121(2)(b)	Does the complaints register maintained by the complaints officer include provision for recording the name of the person who makes the complaint.	Yes		Towela Mbirimi
5	s5.121(2)(c)	Does the complaints register maintained by the complaints officer include provision for recording a description of the minor breach that the standards panel finds has occurred.	Yes		Towela Mbirimi
6	s5.121(2)(d)	Does the complaints register maintained by the complaints officer include the provision to record details of the action taken under s5.110(6)(b) (c).	Yes		Towela Mbirimi



Tenders for Providing Goods and Services						
No	Reference	Question	Response	Comments	Respondent	
1	s3.57 F&G Reg 11	Did the local government invite tenders on all occasions (before entering into contracts for the supply of goods or services) where the consideration under the contract was, or was expected to be, worth more than the consideration stated in Regulation 11(1) of the Local Government (Functions & General) Regulations (Subject to Functions and General Regulation 11(2)).	Yes		Towela Mbirimi	
2	F&G Reg 12	Did the local government comply with F&G Reg 12 when deciding to enter into multiple contracts rather than inviting tenders for a single contract.	Yes		Towela Mbirimi	
3	F&G Reg 14(1)	Did the local government invite tenders via Statewide public notice.	Yes	The advertising is done in the West Australian Newspaper.	Towela Mbirimi	
4	F&G Reg 14, 15 & 16	Did the local government's advertising and tender documentation comply with F&G Regs 14, 15 & 16.	Yes		Towela Mbirimi	
5	F&G Reg 14(5)	If the local government sought to vary the information supplied to tenderers, was every reasonable step taken to give each person who sought copies of the tender documents or each acceptable tenderer, notice of the variation.	Yes	Addendums are issued through Tenderlink to all prospective tenderers that have downloaded tender documents.	Towela Mbirimi	
6	F&G Reg 18(1)	Did the local government reject the tenders that were not submitted at the place, and within the time specified in the invitation to tender.	Yes	Done automatically through Tenderlink.	Towela Mbirimi	
7	F&G Reg 18 (4)	In relation to the tenders that were not rejected, did the local government assess which tender to accept and which tender was most advantageous to the local government to accept, by means of written evaluation criteria.	Yes		Towela Mbirimi	
8	F&G Reg 17	Did the information recorded in the local government's tender register comply with the requirements of F&G Reg 17.	Yes		Towela Mbirimi	
9	F&G Reg 19	Was each tenderer sent written notice advising particulars of the successful tender or advising that no tender was accepted.	Yes		Towela Mbirimi	
10	F&G Reg 21 & 22	Did the local governments's advertising and expression of interest documentation comply with the requirements of F&G Regs 21 and 22.	Yes		Towela Mbirimi	
11	F&G Reg 23(1)	Did the local government reject the expressions of interest that were not submitted at the place and within the time specified in the notice.	Yes		Towela Mbirimi	



No	Reference	Question	Response	Comments	Respondent
12	F&G Reg 23(4)	After the local government considered expressions of interest, did the CEO list each person considered capable of satisfactorily supplying goods or services.	Yes		Towela Mbirimi
13	F&G Reg 24	Was each person who submitted an expression of interest, given a notice in writing in accordance with Functions & General Regulation 24.	Yes		Towela Mbirimi
14	F&G Reg 24E	Where the local government gave a regional price preference in relation to a tender process, did the local government comply with the requirements of F&G Reg 24E in relation to the preparation of a regional price preference policy (only if a policy had not been previously adopted by Council).	N/A		Towela Mbirimi
15	F&G Reg 11A	Does the local government have a current purchasing policy in relation to contracts for other persons to supply goods or services where the consideration under the contract is, or is expected to be, \$100,000 or less.	Yes		Towela Mbirimi

I certify this Compliance Audit return has been adopted by Council at its meeting on _____

 Signed Mayor / President, Greater Geraldton

 Signed CEO, Greater Geraldton

7 AC026 INTERNAL AUDIT OF ACCOUNTS PAYABLE

AC026	INTERNAL AUDIT OF ACCOUNTS PAYABLE
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AGENDA REFERENCE:	D-14-13605
AUTHOR:	K Chua, Manager Accounting Services
EXECUTIVE:	B Davis, Director of Corporate & Commercial Services
DATE OF REPORT:	February 2014
FILE REFERENCE:	FM/3/0003
APPLICANT / PROPONENT:	City of Greater Geraldton
ATTACHMENTS:	Yes X1

SUMMARY:

The purpose of this report is to present to the Audit Committee the draft report of findings and recommendations of an Internal Audit of the Accounts Payable function, and Management responses to the internal audit recommendations.

PROPONENT:

The proponent is the City of Greater Geraldton.

BACKGROUND:

The City's Internal Auditors, Deloitte, undertook an assessment of the City's AP (Accounts Payable) function commencing the first week of February 2014. Audit objectives:

1. Perform a selection of data analytics tests to identify irregular or unusual payment transactions, records or activity
2. Consider the design and operating effectiveness of the internal controls established to support the objectives of the AP function
3. Make recommendations where opportunities for improvement in controls are identified.
 - Using DTect analysis in addition to onsite visit, the audit tests include;
 - Duplicate invoices
 - Vendor to vendor matching/relationship
 - ABN validity
 - Over/underpaid GST
 - Benford's law analysis
 - Ghost vendors
 - Days to pay invoice
 - Vendor name validity
 - Bank account checking

Attached is a copy of the *draft* Internal Audit Report on Accounts Payable Function, including Management responses to the findings and recommendations. A final internal audit report signed by the auditor had not been received as at the time of preparation of this report, but will be tabled if received by the time of the Audit Committee meeting.

COMMUNITY CONSULTATION:

There has been no community consultation.

COUNCILLOR CONSULTATION:

There has been no prior Councillor consultation.

STATUTORY IMPLICATIONS:

Local Government (Financial Management) Regulations 1996 Part 2 Regulation 5 addresses requirements as to financial management.

Regulation 5(1)(d)(2) requires proper accounting for expenses paid or payable, and 5(1)(e) requires proper authorisation for the incurring of liabilities and the making of payments.

POLICY IMPLICATIONS:

There are no policy implications.

FINANCIAL AND BUDGET IMPLICATIONS:

There are no financial implications associated with this item.

STRATEGIC & REGIONAL OUTCOMES:**Strategic Community Plan Outcomes:**

Goal 5:	Governance
Outcome 5.2:	Planning and Policy
Strategy 5.2.7:	Ensuring efficient and effective delivery of service.

Regional Outcomes:

There are no regional outcomes associated with this matter.

ECONOMIC, SOCIAL, ENVIRONMENTAL & CULTURAL ISSUES:**Economic:**

There are no economic impacts.

Social:

There are no social impacts.

Environmental:

There are no environmental impacts.

Cultural & Heritage:

There are no cultural and heritage impacts.

RELEVANT PRECEDENTS:

Internal audits are conducted from time to time as part of the Internal Control framework of organisations, aimed to improve internal controls and accounting and finance processes to minimise risks.

DELEGATED AUTHORITY:

There is no delegated authority.

VOTING REQUIREMENTS:

Simple majority is required.

CONCLUSION:

All internal audit observations and findings identified in the report seeking management attention have been examined and appropriate actions have been identified or undertaken or are in progress to achieve desired improvements.

EXECUTIVE RECOMMENDATION:

That the Audit Committee by Simple Majority in accordance with Sections 7.1C of the Local Government Act 1995 RESOLVES to:

1. ACCEPT the Internal Audit Report on Accounts Payable;
2. ENDORSE the Management responses noted in the report, including actions proposed to be taken to resolve issues, enhance internal controls or improve accounting processes; and
3. REQUIRE progress reports on implementation of the proposed management actions, at the next Audit Committee Meeting.

City of Greater Geraldton
2013/14 Accounts Payable Internal
Audit

Draft report

February 2014

DRAFT

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Inherent Limitations

The Services provided are advisory in nature and do not constitute an assurance engagement in accordance with Australian Standards on Review or Assurance Engagements or any form of audit under Australian Auditing Standards, and consequently no opinions or conclusions intended to convey assurance under these standards are expressed.

Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made.

Our work is performed on a sample basis; we cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud.

Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Recommendations and suggestions for improvement should be assessed by management for their full commercial impact before they are implemented.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy, or reliability is given in relation to the statements and representations made by, and the information and documentation provided by the City of Greater Geraldton personnel. We have not attempted to verify these sources independently unless otherwise noted within the report.

Limitation of Use

This report is intended solely for the information and internal use of the City of Greater Geraldton in accordance with our terms of reference document of 26 November 2013, and is not intended to be and should not be used by any other person or entity. No other person or entity is entitled to rely, in any manner, or for any purpose, on this report. We do not accept or assume responsibility to anyone other than City of Greater Geraldton for our work, for this report, or for any reliance which may be placed on this report by any party other than the City of Greater Geraldton.

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1 Executive summary

Introduction

Through the WALGA panel contract for audit services, the City of Greater Geraldton (the City) appointed Deloitte Touche Tohmatsu (Deloitte) to conduct an internal audit of the City's Accounts Payable function. This is the first time the accounts payable function has been the subject of independent review.

Purpose

As outlined in the agreed terms of reference dated 26 November 2013, the purpose of this internal audit was to:

1. Perform a selection of data analytics tests to identify irregular or unusual payment transactions, records or activity
2. Consider the design and operating effectiveness of the internal controls established to support the objectives of the City's accounts payable function
3. Make recommendations where opportunities for improvement in controls are identified.

The primary objectives of the City's accounts payable function addressed by this internal audit were that the City:

- Makes accurate and valid payments only to authorised suppliers for goods and services ordered and received
- Pays its suppliers in a timely manner
- Complies with the requirements of the Local Government Act in relation to payments made to suppliers.

Scope

The internal audit assessed the design and implementation of system controls in the following aspects of the City's accounts payable function:

- Three way match prior to payment - checking requisition of goods, creation of purchase orders and receipt of goods
- Approval of payments within delegated financial limits
- Reconciliation of supplier statements to support accounts payable sub ledger
- Processes to manage supplier master file, including approval of suppliers, change management and removal
- Payment run, including bank authorities
- Segregation of duties
- Compliance with policies and procedures.

Where any transactional testing was required, the internal audit initially focused on accounts payable transactions processed during the period 1 July to 12 December 2013¹.

Note¹: The terms of reference specified a period end of 31 December 2013, however the data analytics was initiated in December 2013, using data to 12 December 2013

Scope extension: At the request of the Manager Accounting Services, the period for data analytics testing was expanded to include the prior financial year, 1 July 2012 to 30 June 2013.

Accounts Payable data analysis (using Deloitte's DTect™ tool)

A data analytics approach was applied to the following tests:

1. Duplicate invoices
 - Identification of potential overpayments to vendors. Note that full validation of any overpayment required additional effort by the City's Finance staff and/or Deloitte
2. Vendor to vendor matching/relationships
 - Identification of undisclosed vendor relationships, through matching of details such as name, ABN, contact details and bank account
 - Consideration of duplicate vendors that may be used to process duplicate payments (intentionally or not)
 - Consideration of duplicate/obsolete vendors that may indicate potential fraudulent activities
3. ABN validity – to consider the legitimacy of vendors
 - Identification of incorrect vendor setup
 - Consideration of potential taxation liabilities (GST/withholding)
4. Over/underpaid GST
 - Identification of invoices where the GST amount is not 10%
 - Consideration of impact on the BAS
5. Benford's law analysis
 - Identification of spikes in payments for specific amounts that exceed expected/typical occurrences
 - Generation of questions around what frequent payments are and whether they are legitimate or necessary (the analysis searched for the exceptions)
6. Ghost vendors
 - Identification of vendors who have received payments, but are not in the vendor master file
7. Days to pay invoice
 - Identification of the number and value of payments made prior to, on and after invoice due dates.
8. Vendor name validity
 - Identification of vendors with names such as "Do Not Use", "Cash", "Inactive" etc. (vendors with those identifies are likely to be either inactive or false vendors)
 - Identification of potential areas for anomalous payments to be made
9. Bank account checking
 - Checks to determine whether vendor bank accounts have a valid BSB number (vendors with incorrect bank accounts pose a risk of not being legitimate)

Scope limitation

- This assignment did not address the City's procurement, contract management and project management activities.

Period subject to internal audit

The internal audit fieldwork was conducted in February 2014, considering controls and procedures in place at that time. Where transactional testing was performed, samples were selected from the period 1 July 2013 to 31 December 2013.

Approach

The following approach was applied to this assignment:

Step 1 (performed at Deloitte's offices)

- Through discussions with relevant IT and Finance staff, confirmed the existence of data fields available for extract and analysis
- Obtained and analysed data relating to the required tests
- Presented preliminary results of data analysis to the Manager Accounting Services
- Developed an understanding of the relevant accounts payable processes
- At the request of the Manager Accounting Services, the data analytics tests initially performed were expanded to include data for the prior financial year, 1 July 2012 to 30 June 2013. The expended analysis was performed in the two weeks after the initial site visit (described at Step 2 below).

Step 2 (performed at the City's offices during the period 4 to 7 February 2014)

- Determined the risks relevant to the City's accounts payable processes through discussion with relevant key staff, reviewed of policies and procedures and performed walkthrough testing
- Considered any areas (including City departments/branches, employees) warranting particular focus
- Identified and assessed the design of key internal controls in place that addressed the key risks identified above
- Identified possible secondary controls for streamlining any instances where the internal control environment is over controlled
- Developed and implemented a test plan to assess the effectiveness of the controls in managing risks associated with the City's accounts payable activities
- Evaluated the results of testing and identified the root cause for any control deficiencies
- Where necessary and possible, manually validated the existence and extent of any anomalies identified through data analytics (note that as the extended data analysis was performed after our visit to the City's office and only recently completed, some results still require follow-up and validation)
- Formed observations and recommendations to improve the effectiveness of accounts payable controls and/or to improve process performance
- Conducted a meeting with relevant personnel following completion of the fieldwork to discuss the results of our work, including any data analysis insights, and obtained preliminary management views on solutions to issues.

Step 3 (reporting) **{in progress}**

- Presented a draft report to management, including draft agreed management action plans for improving procedures and controls noted by the internal audit
- Obtained management input and comment, including final action plans to address matters raised through the internal audit
- Issued a final report for presentation to the Audit and Risk Management Committee.

Our work has been based on the *International Professional Practice Framework* for Internal Auditing issued by the Institute of Internal Auditors and the relevant *Accounting Professional and Ethical Standards* issued by the Australian Accounting Professional Ethical Standards Board.

Context – size of accounts payable activity

Vendor Summary

As at 12 December 2013, there were a total of 5,633 vendor accounts listed in the SynergySoft accounts payable module. The table below provides further detail on vendor numbers since 1 January 2012.

Period		Open Accounts	New Vendor Accounts ¹	Accounts with Activity ²
2013	1 July 2013 - 12 December 2013	5,633	496	1,658
	1 January 2013 - 30 June 2013	5,140	516	1,684
2012	1 July 2012 - 31 December 2012	4,624	701	1,746
	1 January 2012 - 30 June 2012	3,936	753	1,595

Period
subject to
analysis

Note¹: New accounts are associated with the period where the first payment was made.

Note²: 2,111 accounts had no payment activity in the 2 year period

Accounts Payable Transaction Summary

The following table represents the invoicing, payments and credit note transactions recorded from 1 January 2012 to 12 December 2013

Period		Invoices				Payments		Credit Notes	
Year	Date Range	# Invoices	Net Amount	GST	Gross Amount	# Payments	Gross Amount	# Credit Notes	Gross Amount
2013	1 July 2013 - 12 December 2013	12,035	\$66,259,553	\$2,330,420	\$68,589,973	5,327	\$77,387,202	18	\$17,355
	1 Jan 2013 - 30 June 2013	13,345	\$41,482,036	\$2,865,664	\$44,347,699	6,065	\$46,370,437	25	\$75,918
2012	1 July 2012 - 30 December 2012	13,222	\$77,060,370	\$2,399,105	\$79,459,475	5,555	\$81,464,066	38	\$998,066
	1 Jan 2012 - 30 June 2012	11,902	\$29,725,604	\$2,060,033	\$31,785,637	5,459	\$31,837,042	62	\$260,291

Period
subject to
analysis

Summary of results

Data analytics

Our analysis of vendor system profiles and invoice payment data relating to the period 1 July 2012 to 12 December 2013 returned a number of potential anomalies for follow up across the vendor management and payment processes. These results enabled the internal audit to target areas for onsite follow up discussions and process walkthroughs.

On a positive note, the number and significance of the potential anomalies was less than what we would typically expect to see in an accounts payable function of a similar size and structure. For example, the volume and value of potential duplicate payments was relatively very low. Once validated, there were only six genuine duplicate payments of which three had already been detected and corrected by the City's Accounts Payable team and the remaining three (totalling \$505) have been flagged for recovery either through the invoice from the supplier or through a request for refund.

While the majority of potential anomalies were resolved, the data analysis did assist in identifying potential areas for control and process improvement as discussed below. The City may also consider continuing to monitor those issues through targeted data analyses on a regular basis (e.g. annually or biannually).

A full workbook containing the results of the data analytics has been provided to the Manager Accounting Services and also presented to members of the Accounting Services team. In addition, the results of the Benford's Law analysis performed against the City's organisational sub-functions were presented to the Manager Accounting Services within the Tableau tool, which provides a powerful, interactive display of all results, enabling all transactions associated with a spike (against expected occurrences in the first two digits of payment values) to be listed for review.

A summary of the results of the data analytics, including details of further action planned/recommended to be taken are presented at section 2 of this report.

Design and effectiveness of internal control procedures






Overall, the City's Accounts Payable function appears to achieve its primary objective of processing vendor payments in an accurate and timely manner. In achieving this result, the accounts payable function places a relatively strong reliance on a small number of key staff to manage the electronic processing and there is a general lack of formal policies and procedures regarding accounts payable activities.

Although this internal audit has not seen evidence of improper accounts payable transactions, the City has a level of exposure to unauthorised transactions while it undergoes a review of its system processing and upgrade to its SynergySoft AP system. We recognise that during this upgrade, considerable reliance has been placed on the City's system administrators to carry out (ordinarily segregated) system processes. While this reliance remains, additional manual internal control procedures, which include regular analysis/monitoring, become more critical.





The remainder of the key results of this internal audit are reported by exception only, particularly where there are opportunities for improvement in internal controls over the City's accounts payable function.

Each of these improvement opportunities is summarised below and further detailed in the "Observations and Agreed Action Plans" section of this report. To help the City prioritise its efforts in addressing these matters, we have categorised and rated the relative prioritisation of each issue¹.

¹ Refer to rating description at the Observations and Agreed Action Plans section of this report.

	Improvement opportunity	Prioritisation Rating	Primary Cause
1/2014	Synergy system access and authorisation profiles		Process, Technology
2/2014	Validity of vendor accounts		Process
3/2014	Review of utility payments		Process
4/2014	Monitoring of non-compliant or questionable purchases		Process, People
5/2014	Opportunities to improve cash flow through longer payment terms		Process

Quick reference to prioritisation ratings

Symbol	Risk Level	Prioritisation	Description
	Extreme	Critical	Critical strategic importance or operational exposure.
	High	Important	Major strategic importance or opportunity to improve business operations.
	Medium	Moderate	Significant strategic importance or control weakness.
	Low	Minor	Minimal strategic importance or opportunity to improve business operations.

Report clearance

We have discussed this report with Kim Chua, Manager Accounting Services.

Acknowledgment

We thank all staff who assisted with our work, particularly for the friendly and professional manner in which they responded to our queries.

2 Data analytics results

Test/analysis	Summary result from initial analysis – by exception	Potential issue/risk	Validation/further assessment performed	Result/current status (Action taken/recommended)
1. Potential duplicate invoices				
<ul style="list-style-type: none"> Identification of potential overpayments to vendors. Analysis searched for matches on invoice number, amount, payment date, invoice description). 	<ul style="list-style-type: none"> Potential duplicate payments were categorised into high and medium risk invoice groups. High risk invoice groups (119; \$490k) represented those payments with a match on invoice number, amount and payment date and which warranted further investigation. 	<ul style="list-style-type: none"> Vendors may have been overpaid At worst case, systematic overpayment may be solicited by vendors and/or facilitated by staff. 	<ul style="list-style-type: none"> A comprehensive review of each potential duplication concluded that there were six genuine duplicate payments of which three had already been detected and corrected by the City's Accounts Payable team and the remaining three (totalling \$505) have been flagged for recovery either through the invoice from the supplier or through a request for refund. 	<ul style="list-style-type: none"> Conclude on recovery of duplicate payments Adhere to the practice for specifically correcting overpayments in the City's accounts, rather than balancing against future supplier invoices (where the credit is not recognised).
2. Vendor to vendor matching				
<ul style="list-style-type: none"> Identification of undisclosed vendor relationships Consideration of duplicate vendors that may be used to process duplicate payments (intentionally or not) Consideration of duplicate/obsolete vendors. 	<p>As at 12 December 2013, there were:</p> <ul style="list-style-type: none"> 5,666 active vendors More than 200 vendor accounts where there is a high likelihood that another vendor account also exists for what appears to the same vendor More than 4,000 vendor accounts with no activity since at least 1 January 2012 (the earliest date of testing). 	<ul style="list-style-type: none"> Greater potential for duplicate payments Duplicate/obsolete vendors may indicate potential fraudulent activities. 	<ul style="list-style-type: none"> Determined that there are some legitimate reasons for maintaining multiple accounts for the same vendor, such as instances where separate vendors are set up for returning monies held on trust Through review of a sample of vendors with a high likelihood of having multiple accounts, concluded that there are many instances where there is no valid reason for the vendor having multiple accounts and that one or more accounts should be deactivated. We sighted no evidence to suggest improper payments had been made. 	<ul style="list-style-type: none"> Review and resolve duplicate vendor records (refer to observation 2/2014 at Section 3 of this report) Manager Accounting Services to determine whether any further validation of matching relationships is required (note that validation tests were on a sample basis and were not comprehensive) Continued monitoring.

Test/analysis	Summary result from initial analysis – by exception	Potential issue/risk	Validation/further assessment performed	Result/current status (Action taken/recommended)
3. ABN Validity <ul style="list-style-type: none"> To consider the legitimacy of vendors Identification of incorrect vendor setup Consideration of potential taxation liabilities. 	<ul style="list-style-type: none"> 4,254 vendors had an ABN recorded. All recorded ABNs were valid ABNs (i.e. matched government records, however we did not match vendor names to names registered against those ABNs) 1,412 vendors had no ABN recorded. 	<ul style="list-style-type: none"> Potential for illegitimate vendors Potential for not identifying and claiming input tax credits from payments to vendors with no ABN identified. 	<ul style="list-style-type: none"> Confirmed that employees are generally assigned the City's ABN in order to claim input tax credits Confirmed that many cases where no ABN is recorded relate to ratepayers being set up as vendors to receive refunds and other cases where the vendor has not been recently used (i.e. practically inactive). 	<ul style="list-style-type: none"> Finalise review of vendors with no ABN.
4. Under/over paid GST <ul style="list-style-type: none"> Identification of payments where the GST amount is not 10% Consideration of impact on the BAS. 	<ul style="list-style-type: none"> 50 invoice lines were identified where a variation was observed between expected and actual GST, due to the gross amount appearing in the net amount field 138 payments totalling approximately \$36,500 where GST was flagged but not captured. 	<ul style="list-style-type: none"> Potential for not identifying and claiming input tax credits. 	<ul style="list-style-type: none"> Concluded that the apparent variation between expected and actual GST was not genuine and appeared to be caused by a data conversion error. All such payments recorded in Synergy appear to be correct. Determined that all 138 payments are supported by valid reasons for not capturing GST 	<ul style="list-style-type: none"> No further action.
5. Benford's Law analysis <ul style="list-style-type: none"> Analysis tracks number of occurrences of the first two digits in a payment amount against typical occurrences Identification of spikes in amounts that exceed typical occurrences Generation of questions around what frequent payments are and whether they are legitimate or necessary. 	<ul style="list-style-type: none"> By matching each payment against the City's organisational sub-functions, a Benford's Law analysis was run for each of those sub-functions. A number of spikes against typical occurrences were apparent Results were presented in the Tableau tool, which provides an interactive display of all results, enabling all transactions associated with a spike to be listed for review. 	<ul style="list-style-type: none"> Potential indication of unauthorised payment types, inefficient payment practices or non-compliance with delegation of authority policies. 	<ul style="list-style-type: none"> Initial examination of a sample of spikes did not identify any obvious exceptions, with the nature of high frequency payments appearing legitimate (e.g. rates refunds, monthly mobile phone plan payments). 	<p>Manager Accounting Services to:</p> <ul style="list-style-type: none"> Review the remainder of spikes and payment groups of interest to determine whether there are any practices or payment types requiring further investigation Consider whether review results may inform any future examination of procurement activities.

Test/analysis	Summary result from initial analysis – by exception	Potential issue/risk	Validation/further assessment performed	Result/current status (Action taken/recommended)
6. Ghost Vendors <ul style="list-style-type: none"> Identify payments where the vendor does not exist in the vendor master file. 	<ul style="list-style-type: none"> No exceptions identified. 	<ul style="list-style-type: none"> Potential fraudulent payments. 	<ul style="list-style-type: none"> n/a - no exceptions identified. 	<ul style="list-style-type: none"> No further action.
7. Days to pay invoice <ul style="list-style-type: none"> Identification of the number and value of payments made prior to, on and after invoice due dates. 	<ul style="list-style-type: none"> Payment terms of vendors and due date of invoices are not captured in many instances. Test was therefore limited to reporting days between invoice receipt date and payment date Analysis presented total results for 10 day ranges (from 0 to 91+), plus the % of payments made to each vendor within those date ranges 	Payments made: <ul style="list-style-type: none"> In excess of vendor payment terms may attract penalties or damage vendor relationship Too quickly may unduly erode the City's cash position and contribute to unwarranted interest costs 	<ul style="list-style-type: none"> Approximately 70% of payments appear to be paid within 30 days of the invoice date, 25% within 60 days and 5% in excess of 60 days Considering the bulk of payments are made well within usual commercial payment terms, the analysis of days taken to pay individual suppliers provides the City with a powerful tool to assess its opportunities for adjusting its payment practices to more commercial terms, without impacting vendor and community relationships. 	<ul style="list-style-type: none"> Confirm the City's appetite for modifying its payment practices in order to achieve more commercial payment terms Comprehensively review the results of this test to identify vendors with the greatest opportunities for extending payment terms to the City's advantage (refer to observation 5/2014 at Section 3 of this report).
8. Vendor name validity <ul style="list-style-type: none"> Identification of vendors with names such as "Do Not Use", "Cash", "Inactive" etc. Identification of potential anomalous payment risks. 	<ul style="list-style-type: none"> Nine vendors with 'DO NOT USE' in the name, yet the account has not been deactivated. Three vendors have payment activity during the test period. 	<ul style="list-style-type: none"> Vendors with obviously invalid names are likely to be either inactive or false vendors Potential payments to vendors that should no longer be paid. 	<ul style="list-style-type: none"> Each vendor with 'DO NOT USE' in the name appears to have formerly been a legitimate vendor, with a legitimate reason for being flagged as no longer current. In each case, the vendor has not been deactivated. 	<ul style="list-style-type: none"> Deactivate vendors.
9. Bank account checking <ul style="list-style-type: none"> To determine whether vendor bank accounts have a valid BSB number. 	<ul style="list-style-type: none"> 21 vendors identified with an invalid bank account BSB 854 vendors with no bank account recorded Six vendors without a bank account received EFT payments during the test period. 	<ul style="list-style-type: none"> Vendors with incorrect bank accounts pose a risk of not being legitimate Potential for mispayment if bank details are entered for every transaction. 	<ul style="list-style-type: none"> Further examination of vendors with invalid bank account BSB indicate that payments have either been made via cheque or the BSB has been accepted by the bank (where the quoted BSB is an old reference to a relocated branch, which is still recognised by the bank). 	<ul style="list-style-type: none"> Manager Accounting Services to complete review of vendors with no bank account, yet EFT payment records.

3 Observations and action plans

1/2014 Synergy system access and authorisation profiles

Prioritisation Rating	Primary Cause
<p>Observation</p> <p>The City has assigned Synergy system administrative duties to the Finance Coordinator and the Senior Finance Officer. As system administrators, both officers have full access to alter vendor data and alter their own system access rights, including authorisation levels (\$) for purchase requisitions and orders. In 2013, the Finance Coordinator made a number of changes to his own authorisation profile within Synergy, including an increase in purchase and payment authorisation limit to \$1.5m (current at the time of our visit). We understand that this level of access was designed to facilitate the Finance Coordinator's:</p> <ul style="list-style-type: none"> • Printing of purchase requisitions on behalf of and for the manual signature of the CEO and Director Corporate and Commercial Services, due to a current limitation in the Synergy system's ability for those executives to authorise requisitions within the system. This arrangement was authorised by the CEO in October 2013 as an interim measure, before a planned system enhancement. Note that this authorisation did not specify a financial limit • Execution of bank transfers. This arrangement has not been formally authorised by the CEO or Council. <p>There are currently no provisions in the City's processes for monitoring the Finance Coordinator's and Senior Finance Officer's activity in their capacity as system administrators.</p> <p>The City does have a series of other controls in place that are likely to detect any unauthorised financial transactions processed by the Finance Coordinator, including at least one other officer's review and authorisation of each payment run. However, the current arrangements expose the City to unauthorised purchase and payment transactions and also expose the Finance Coordinator and the Senior Finance Officer to insinuation of making unauthorised transactions.</p>	
<p>Recommendation</p> <p>The City strengthen its controls over Synergy system access levels and financial authorisation limits by:</p> <ol style="list-style-type: none"> Requiring changes to the profile and access levels of Synergy system administrators to be made either by a separate officer (i.e. preventing a system administrators processing changes to their own access profile), or to be specifically reviewed and approved by the Manager Accounting Services Introducing a regular, independent review of the Synergy system access change log (per IT Vision's guidance for generating such a log). Ideally, the review would be performed by the Manager Accounting Services Ensuring the Finance Coordinator's financial authority within the Synergy system is formally authorised by the CEO. 	
<p>Management Response</p> <p>Action Plan</p> <p>The City concurs with internal audit recommendations and will strengthen its controls over Synergy access:</p> <ol style="list-style-type: none"> All Synergy system access and profile changes will be made by a separate officer, other than the officer for whom system privilege or profile changes are required. Manager Accounting Services will be required to authorise any changes to Finance Coordinator profile. Director Corporate & Commercial will be required to authorise any changes to the profile of Manager Accounting Services. All the Synergy access and profile changes will be reviewed at least once a month by the 	

Manager, Accounting Services, with advice of the review to be provided to Director Corporate & Commercial.

- (c) The Manager Accounting Services and Finance Coordinator's financial authority within the Synergy system will be formally authorised by the Director of Corporate and Commercial Services, consistent with formal CEO delegations.

Accountability & Responsibility	Target date
Manager Accounting Services	By 30 April 2014

DRAFT

2/2014 Validity of vendor accounts

Prioritisation Rating		Primary Cause					
<p>Observation</p> <p>As at 12 December 2013, there were 5,666 active vendors within the City's Synergy system. Our analysis identified:</p> <ul style="list-style-type: none"> • More than 200 vendor accounts where there is a high likelihood that another vendor account also exists for what appears to be the same vendor • More than 4,000 vendor accounts with no activity since at least 1 January 2012 (the earliest date of testing). <p>While there may be some legitimate reasons for maintaining multiple accounts for the same vendor, including instances where the City separately recognises vendors for returning monies held on trust, the relatively high number of duplicate and inactive vendor accounts increases the potential for duplicate payments or overpayments being made.</p> <p>The City has not applied clear and consistent processes for managing vendor accounts, including vendor account set up protocols, regular review of accounts' validity and removal/purging of inactive or duplicate accounts.</p>							
<p>Recommendation</p> <p>The City:</p> <ol style="list-style-type: none"> Develop and implement clear and consistent processes for managing vendor accounts, including vendor account set up protocols, regular review of accounts' validity and removal/purging of inactive or duplicate accounts Reconsider the need for separately recognising "trust" vendors Review and rationalise the vendor accounts maintained in the Synergy system. This process should be completed prior to the planned Synergy system upgrade scheduled for July 2014. 							
<p>Management Response</p> <p>Action Plan</p> <p>The City concurs with the internal audit recommendations.</p> <p>Manager Accounting Services is to review current processes, and is to propose (for approval by Director Corporate & Commercial Services) clear and consistent processes for managing vendor accounts, including vendor account set up protocols, regular review of accounts validity, and removal/purging of inactive or duplicate accounts. This review is to be completed by 30 April 2014.</p> <p>The Finance Coordinator is to conduct a review and develop a program (for approval by Manager Accounting Services) to rationalise the vendor accounts maintained in the Synergy system. This process should be completed prior to the planned Synergy system upgrade scheduled for July 2014.</p> <p>Manager Accounting Services is to undertake a review of the need or otherwise for separately recognising "trust" vendors, and make recommendations to Director Corporate & Commercial Services.</p> <table border="1"> <thead> <tr> <th>Accountability & Responsibility</th> <th>Target date</th> </tr> </thead> <tbody> <tr> <td>Manager Accounting Services</td> <td>By 30 April 2014, and 30 June 2014</td> </tr> </tbody> </table>				Accountability & Responsibility	Target date	Manager Accounting Services	By 30 April 2014, and 30 June 2014
Accountability & Responsibility	Target date						
Manager Accounting Services	By 30 April 2014, and 30 June 2014						


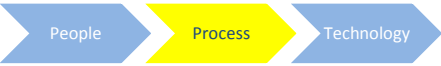
3/2014 Review of utility payments

Prioritisation Rating				Primary Cause		
Minor	Moderate	Important	Critical	People	Process	Technology
Observation						
<p>The City has assigned responsibility to a designated Accounts Payable Officer for processing invoices and statements from utilities such as electricity and water. As the usual three way match between the order, receipt and invoicing of goods and services is not readily obvious for utility costs, this approach provides for a level of scrutiny based on invoice history and trends, plus the relevant supply contract. On occasion, Accounts Payable also consults with the nominated project manager to determine the accuracy or reasonableness of invoices.</p> <p>While it does appear that each utility invoice is subject to some level of scrutiny, the City does not apply a consistent approach for ensuring a responsible and informed officer has provided input to support the accuracy and validity of the invoice. For example, electricity invoices for street lights are calculated using the number of street lights recognised by Synergy, using tariffs based on the type/wattage of each lamp. In this case, Accounts Payable's consultation with the responsible project manager does help to validate Synergy's assertions, however it is currently not clear how regularly or vigorously that consultation process is performed to ensure the accuracy and validity of each invoice.</p>						
Recommendation						
<p>Implement a more consistent review process where Accounts Payable presents each utility invoice to nominated project managers for specifically reviewing the accuracy and validity of the invoice. Where it is necessary to process the payment prior to review by the nominated project manager (e.g. to avoid late payment fees), the review should still be performed, enabling any errors to be detected and addressed prior to the subsequent invoice.</p>						
Management Response						
Action Plan						
<p>The City concurs with the observations of the internal audit in relation to desirability of stronger verification of utility accounts. It is expected that this may be achieved by regular reference of Synergy and other standing data (light poles, meters etc) to the responsible utility asset management teams, for verification. The Financial Coordinator will review this requirement, consult with Community Infrastructure officers, and propose a process (for endorsement by Manager Accounting Services and approval by Director Corporate & Commercial Services) for regular review of the reference/standing data, as an additional internal control.</p>						
Accountability & Responsibility				Target date		
Financial Coordinator				By 30 April 2014		

4/2014 Monitoring of non-compliant or questionable purchases

Prioritisation Rating	Primary Cause
<p>Observation</p> <p>The City's policies and instructions to staff regarding allowable purchases and reasonable spending are generally well documented, although there is some ambiguity over some types of spending.</p> <p>As Accounts Payable's primary role in processing payments is to ensure that requests for payment are adequately supported by evidence of authorised purchase, receipt of goods/services and adequate approval to pay, there is no specific obligation or authority for Accounts Payable to question another staff member's approval to pay. However, the current depth of experience in the Accounts Payable team provides some capability to identify occasions where spending is not in accordance with the City's policies (e.g. purchases of alcohol or flowers), or where spending may be seen as questionable (e.g. potentially for personal use).</p> <p>The Accounts Payable team has recently initiated a record of instances where purchases have not complied with policy, or where they judge the purchase to be questionable. This process has not been formally implemented, nor has it been adequately assessed to determine whether it is a valid task for the Accounts Payable team to perform and to clarify how the record is to be used.</p>	
<p>Recommendation</p> <p>The City:</p> <ol style="list-style-type: none"> (a) Confirm whether the Accounts Payable team should continue to maintain a record of non-compliant and questionable payments (b) In the event that the practice is to continue: <ul style="list-style-type: none"> • Implement a structured reporting process to require the most appropriate staff or manager to consider and address the issue raised • Provide guidance on the level of judgement available to managers to deal with varying levels of non-compliance or questionable spending. 	
<p>Management Response</p>	
<p>Action Plan</p> <p>The current arrangement within the accounts payable team has been informal, a practise introduced by relatively junior staff, without reference to their supervisors, and not leading to action as an active and improvement-oriented internal control process. Scrutiny of transactions by the accounts payable team needs to be part of preventative/detective and corrective control mechanisms, via which any non-compliant or otherwise questionable transaction is drawn immediately to the attention of the Financial Coordinator and, as appropriate, the Accounting Services Manager, to ensure corrective action is taken. Commencing immediately, a new process will be defined and implemented so that as and when any AP Team member notices any material transaction which might not comply, prima facie, with any regulatory requirement or operational policy, or may be otherwise questionable, it is to be immediately drawn to the attention of the Financial Coordinator, who is to examine the matter. The Financial Coordinator is to seek the advice of the Manager, Accounting Services on any potentially significant questionable item, and that Manager is to consult the line Manager responsible for the function to which the transaction relates. If resolution cannot be achieved at Manager level, the Accounting Services Manager is to refer the matter to the Director Corporate & Commercial Services.</p>	
Accountability & Responsibility	Target date
Manager Accounting Services	31 March 2014

5/2014 Opportunities to improve cashflow through longer payment terms

Prioritisation Rating	Primary Cause
	
<p>Observation</p> <p>Our analysis of days taken to pay invoices received indicated that approximately 70% of payments appear to be paid within 30 days of the invoice date (often being date of entering invoice into the Synergy system), 25% within 60 days and 5% in excess of 60 days.</p> <p>With the bulk of payments being made well within usual commercial payment terms, the City is in a position to assess the opportunities for adjusting its payment practices to more commercial terms, without impacting vendor and community relationships. The detailed analysis of days taken to pay individual vendors provided in the DTect™ results workbook provides a rich reference for further assessing the opportunities to adjust the City's historical payment practices for each vendor. For example, for one vendor who has been paid \$487k since 1 July 2012, all payments appear to be made within 7 days of invoice date. In another case, 60% of payments to a vendor who has been paid \$566k since 1 July 2012 appear to have been made within 21 days of invoice date.</p> <p>We understand that with the intent of fostering good relationships with its vendors and the local community, the City's current practice is to process payments as quickly as practical and normally within the fortnightly payment cycle. There appears to have been no previous attempt to quantify the cost achieving the intended payment terms, or the extent of any cost savings through more favourable payment terms.</p>	
<p>Recommendation</p> <p>The City:</p> <ol style="list-style-type: none"> Confirm the its appetite for modifying its payment practices in order to achieve more commercial payment terms, improved cash flows and reduced interest costs Calculate the potential interest cost savings for achieving a range of improvements in payment terms, either holistically across all vendors or through targeting of specific vendors Comprehensively review the results of the analysis of days between invoice date and payment date to identify vendors with the greatest opportunities for extending payment terms to the City's advantage. 	
<p>Management Response</p> <p>Action Plan</p> <p>The City rarely (if ever) operates via overdraft facilities, so does not incur interest costs related to its current operating accounts. Rather, the 'cost' to the City of payment of vendor accounts earlier than required by the terms of trade of every vendor may result in loss of potential interest earned on City operating accounts. To that extent, some potential may exist to improve cash position by examining payment practices. However – the internal system, and the Geraldton vendor/creditor context require consideration. Synergy has constrained functionality, with architecture built from a batch processing mode, not enabling (for example), the City to manage with practicable and cost-beneficial ease vendor terms of trade in detail, across the creditor population. For example, if a vendor offers a % discount for payment within 7 or 14 days, it would generally require manual processing to take advantage of the offer, separate from the payments production run. A significant commercial business with systems providing contemporary functionality would deal with such transactions on-system, via either sophisticated terms-of-trade management functions, or exception payment processes for any material but non-recurring discount offers. With the majority of Geraldton-based vendors (other than those related to major capital projects) being small businesses, dependent on prompt payment for generally small amounts, managing accounts payable at terms of trade level for every business is not considered justifiable at this stage. For larger capital project principal contractors, where staged progress payment amounts are significant, their normal terms of trade generally do not apply, with payment terms (which may include penalties for late payment) specified in the contract for a specific project – and they are</p>	

managed accordingly in terms of submission for payment processing by the responsible City project manager.

The City will examine this matter further, to identify potential benefits from such changes to its creditor management and accounts payable processes, as are possible within the limits of functionality of the Synergy system.

Accountability & Responsibility	Target date
Manager Accounting Services	By 30 June 2014

DRAFT

Appendix: Risk rating, prioritisation & primary causes

The risk/prioritisation ratings used in this report enable identified risks to be analysed in accordance with a specific risk assessment criteria, which takes account of the possible magnitude/consequence and likelihood of the risk event. The resultant rating is determined by reference to the proposed Risk Matrix as presented below.

Risk Matrix

Once Consequence and Likelihood has been established, the estimated severity of the risk event can be determined by applying the following matrix. Risks are rated from “Extreme” to “Low”:

		CONSEQUENCE				
		Insignificant	Minor	Moderate	Major	Catastrophic
LIKELIHOOD	Almost Certain	High	High	Extreme	Extreme	Extreme
	Likely	Medium	Medium	High	Extreme	Extreme
	Possible	Low	Medium	Medium	High	Extreme
	Unlikely	Low	Low	Medium	Medium	High
	Rare	Low	Low	Low	Medium	High

Prioritisation Rating

To assist management with prioritisation of the action proposed to address those identified risks, the following prioritisation is allocated to each level of risk:

Risk level	Prioritisation	Suggested action
Extreme	Critical	Critical strategic importance or operational exposure, which could seriously compromise internal control and/or operational effectiveness. Management action plan and related corrective action should be implemented as a matter of urgency.
High	Important	Major strategic importance or opportunity to improve business operations, which warrants a management action plan and related corrective action to be implemented as a matter of priority.
Medium	Moderate	Significant strategic importance or control weakness, which undermines the system of internal control and/or operational effectiveness and warrants improvement in the short to medium term.
Low	Minor	Minimal strategic importance or opportunity to improve business operations, which is raised for management consideration of a medium to long term action plan.

Primary Causes

The primary cause of each internal audit observation/risk is categorised as relating to People, Process, Technology or a combination. Identification of the primary cause is designed to assist in the allocation of resources to targeted areas.

Primary Cause	Guidance
People	Persons performing the control activities do not have appropriate training and knowledge to perform the control activities effectively, or defined policies and procedures are not being followed.
Process	Policies and procedures are outdated and do not reflect existing practice, or have not been defined in sufficient detail to address the risks to the business.
Technology	Technology is not appropriately implemented or configured to mitigate the risks identified.

8 MEETING CLOSURE