



City of Nedlands

Minutes

Audit and Risk Committee Meeting

17 July 2012

Attention:

This is a Committee which has only made recommendations to Council. No action should be taken on any recommendation contained in these Minutes. The Council resolution pertaining to an item will be made at the Ordinary Council Meeting next following this meeting.

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City of Nedlands

Minutes of a meeting of the Audit and Risk Committee held in the Committee Room at 71 Stirling Highway, Nedlands Building on Tuesday 17 July at 6 pm.

Audit and Risk Committee Agenda

Declaration of Opening

The Presiding Member declared the meeting open at 6 pm and drew attention to the disclaimer below.

(NOTE: Council at its meeting on 30 August 2004 resolved that should the meeting time reach 11.00 p.m. the meeting is to consider an adjournment motion to reconvene the next day).

Present and Apologies and Leave Of Absence (Previously Approved)

Committee Members	Councillor I S Argyle His Worship the Mayor Councillor L J McManus Councillor S J Porter Councillor T James	(Presiding Member) R M Hipkins Coastal Districts Ward Dalkeith Ward Melvista Ward
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Non-Voting Committee Member	Mr Ken Eastwood
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Observers	Councillor K Walker	Hollywood Ward
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Staff	Mr M Cole Ms D Blake Mr R Senathrajah	A/Chief Executive Officer A/Director Corporate & Strategy Manager Finance
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Guests	Mr Henry Vu	Grant Thornton
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Press	Nil.
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Leave of Absence (Previously Approved)	Nil.
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Apologies	Councillor B G Hodsdon	Hollywood Ward
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Absent	Nil.
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1. Public Question Time

Nil.

2. Addresses By Members of the Public (only for items listed on the agenda)

Addresses by members of the public who have completed Public Address Session Forms will be invited to be made at this point.

Nil.

3. Disclosures of Financial Interest

The Presiding Member reminded Councillors and Staff of the requirements of Section 5.65 of the *Local Government Act* to disclose any interest during the meeting when the matter is discussed.

There were no disclosures of financial interest.

4. Disclosures of Interests Affecting Impartiality

The Presiding Member reminded Councillors and Staff of the requirements of Council's Code of Conduct in accordance with Section 5.103 of the *Local Government Act*.

There were no disclosures of interest affecting impartiality.

5. Declarations by Members That They Have Not Given Due Consideration to Papers

Nil.

6. Confirmation of Minutes

6.1 Audit and Risk Committee Meeting 27 February 2012

Moved – Councillor McManus
Seconded – Councillor Porter


The minutes of the Audit and Risk Committee held 27 February 2012 are confirmed.

CARRIED UNANIMOUSLEY 5/-

7. Items for Discussion

Note: Regulation 11(da) of the *Local Government (Administration) Regulations 1996* requires written reasons for each decision made at the meeting that is significantly different from the relevant written recommendation of a committee or an employee as defined in section 5.70, but not a decision to only note the matter or to return the recommendation for further consideration.

7.1 Investment Strategy 2012/13

Applicant	City of Nedlands
Owner	City of Nedlands
Officer	Rajah Senathirajah – Manager Finance
Director	Darla Blake -Acting Director Corporate Services
Director Signature	
File ref.	FIN/071-07
Previous Item No's	Nil
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the <i>Local Government Act (1995)</i> .

Regulation 11(da) – Not Applicable – recommendation adopted.

Moved – Councillor McManus
 Seconded – Councillor James

That the Recommendation to Committee is adopted.
 (Printed below for ease of reference)

CARRIED UNANIMOUSLEY 5/-

Committee Recommendation/Recommendation to Committee

Committee:

1. **Notes the requirement to invest the funds surplus to its immediate needs as per Council’s Policy, with financial institutions having a credit rating of Long Term A and Short Term A-1 or better.**
2. **Agrees that the City of Nedlands will invest only with the four major banks, viz:**

National Australia Bank
ANZ
Westpac
Commonwealth Bank
3. **Notes that this conservative strategy is to be adhered in view of the volatility of global financial markets and the reduction of the Guarantee by the Commonwealth Government from the first \$1.0 million in a financial institution to \$250,000.**

Purpose

To consider the Investment Strategy for 2012/13

Strategic Plan

KFA 5: Governance

- 5.1 Manage the City's resources in a sustainable and responsible manner.

This report is to obtain Council approval for the Investment Strategy to

be adopted by the officers in investing funds surplus to immediate

needs in accordance with the Council's investment Policy.

Background

Council Policy Investment of Council Funds, last reviewed in October 2010, stipulates that funds surplus to Council's immediate requirements are to be invested in accordance with the *Local Government Act 1995* and the Policy.

The Policy further states that investments may be placed with banks having a credit rating of at least A (long term) / A1 (short term), as rated by Standard and Poors, or for short terms with other financial institutions authorised by the Chief Executive Officer. The amount invested with any one institution is not to exceed 30% of average annual funds invested.

A report is provided to Council each month detailing the investments and their respective yields.

Proposal Detail

As a consequence of the global credit crisis in 2008, the Australian Government legislated in October 2008 to guarantee all deposits with Banks and other ADIs (Authorised Deposit-taking Institutions) supervised by the Australian Prudential Regulation Authority (APRA), up to a limit of \$1.0 million in each institution. This limit was changed to \$250,000 from February 2012. The reduction of the ceiling reflected the stability of the Australian banking system. In view of the above developments, the Audit and Risk Committee at its meeting on 6 October 2011 agreed that the City can have its surplus funds invested in up to 10 institutions satisfying the City's Investment Policy.

However, at its meeting in March 2012 Council decided that all future investment of funds be restricted to the National Australia Bank, Westpac Bank, Commonwealth Bank of Australia and ANZ Bank.

This proposal reflects the Council's resolution.

BANK	Long Term Rating	Short Term Rating
National Australia Bank	AA-	A-1+
Westpac	AA-	A-1+
Commonwealth Bank	AA-	A-1+
ANZ Bank	AA-	A-1+

Consultation

Not applicable.

Legislation

Satisfies Clause 6.14 of the Local Government Act 1995 and the prudent person requirement of the Trustees Act 1962.

Budget/Financial Implications

The 2012/13 Budget estimates that the City will earn approximately \$895,000 from its investments.

Risk Management

There are two main risks associated with the investments, being credit risk and interest risk. The credit risk will be managed by spreading the investments across the different banks, and closely monitoring the credit rating of each institution to ensure that they meet the requirements stipulated in the Council Policy. The interest risk is managed by evaluating the yield offered by the various institutions each time funds are available to be placed.


Conclusion

The City invests its surplus funds in interest bearing deposits, adopting the investment strategy recommended in this report.

Attachments

Nil

7.2 Interim Audit Report for the Year Ending 30 June

Applicant	City of Nedlands
Owner	City of Nedlands
Officer	Rajah Senathirajah – Manager Finance
Director	Darla Blake – Acting Director Corporate Services
Director Signature	
File ref.	FIN/006/05
Previous Item No's	Nil
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the <i>Local Government Act (1995)</i> .

Regulation 11(da) – Not applicable – Recommendation adopted.

Moved – Councillor McManus
 Seconded – Councillor Porter

That the Recommendation to Committee is adopted.
 (Printed below for ease of reference)

CARRIED UNANIMOUSLEY 5/-

Committee Recommendation / Recommendation to Committee

Committee receives the Interim Audit report for the Financial Year ending 30 June 2012.

Purpose

The purpose of this report is to receive the Interim Audit report from Macri Partners.

Strategic Plan

KFA 5: Governance

- 5.4 Monitor and review business processes, systems, structure and policies to ensure effective service delivery and organisational performance.
- 5.9 Identify, manage and seek to minimise risk.

Background

Macri Partners are the City's Independent Auditors. They conduct an Interim Audit which includes a review of the accounting and internal

control procedures in operation, to assure the integrity of the data on which the Annual Financial Statements will be based.

Proposal Detail

The Interim Audit covered the following areas:

- Purchases;
- Payments and Creditors;
- Bank Reconciliations;
- Rate Receipts and Rate Debtors;
- Receipts and Sundry Debtors;
- Payroll;
- General Accounting and IT Controls;
- Registers (Tenders Register and Register of Financial Interests);
- Asset Register;
- Investments; and
- Review of Council Minutes.

Based on their review the followings matters were brought to the attention of Management.

Bank Reconciliations

We noted the bank reconciliations for the municipal fund bank account showed a discrepancy of \$567.24 to the General ledger control balance. The discrepancy has not been resolved since January 2012. We recommend that the discrepancy be rectified prior to 30/6/2012.

Management Comments:

The bank reconciliation does not show a discrepancy any longer.

Purchases and Payments

Generally the controls surrounding purchases, creditors and payments are appropriate to meet the Council's requirements.

However, the following matters were noted as requiring attention:

- (i) During our detailed testing of purchases, 3 out of 15 instances were noted where the quotations obtained were not attached to the purchase requisition forms as required under the purchasing policy.

We recommend that all quotes obtained be attached to the purchase requisitions to provide easy referencing, thus ensuring that goods and services have been obtained at the most competitive prices and the purchasing procedures were complied.

Management Comments:

The importance of filing all written quotations (in TRIM), and stating the TRIM reference number on the Requisition form has been reinforced. The officer who reviews all On Line Requisitions will ensure that this is done.

- (ii) We noted that in 2 of 15 of instances where the supplier invoices do not contain any reference to purchase order numbers. This may result in time delays for the Accounts Payable department to match the invoices to the relevant purchase orders and process the payment.

We recommend that management advise suppliers to quote purchase orders on all invoices to avoid delays in processing payments.

All Purchase Orders going from the City has the following request on it: *“Order Numbers are to be quoted on all invoices. Failure to comply will result in return of invoice unpaid”*. Based on the figures stated, 87 % of the suppliers are complying.

Creditors

- (i) We noted that there are inadequate background checks (e.g. shareholders' and directors' details, etc) performed on new suppliers nor are the new supplier application forms authorised by an independent officer prior to creating them in the creditor's system.

We recommend that adequate background checks be performed and the application forms be authorized by an independent senior officer before creating new suppliers in the system.

Management Comments:

The following particulars are currently requested of new suppliers: Company Name, Address (not PO Box), Postal Address, Telephone, e-mail, ABN, Bank Account details, and names of contacts. Shareholders and Directors' details are only checked as part of the Tender Process due to resource constraint. However, Management will include this for all new creditors on a trial basis from 1 July 2012, as well as the requirement for authorisation by an independent senior officer.

Rates

We checked a limited number of property assessments from the Rates Ledger to ensure that the rates calculations, raising of rates and postings to the ledgers were correctly performed.

The following matters were noted and brought to your attention:

- (i) We noted that the major 2011/12 GRV revaluation reconciliation between the Valuer General's reports and the Rates Ledger had not been performed. We recommend that all future major GRV revaluation reconciliations be performed and reviewed by an independent senior officer to ensure that the take up GRV values and other details were correctly performed.
- (ii) We noted that the interim rates revaluation reconciliations reports have not been reviewed by a senior officer. We recommend that all interim rates revaluation reconciliations be reviewed and signed by an independent senior officer to provide evidence that the review has been carried out.

Management Comments:

Once the re-valued values have been loaded, a Source Valuation Report was run. This compares the total of the re-valued values provided by Landgate with what is in the Rates Ledger, and both sets of values were thus reconciled. This gives Management the assurance that all re-valued GRV values have been taken up. The recommendation to have the revaluation reconciliation reports reviewed by a senior officer will be implemented from now.

Sundry Debtors

As part of our audit process, we also carried out a review of the sundry debtors. The sundry debtors aged trial balance report as at 30 April 2012 showed approximately 28% of the total outstanding debts of \$ 198,432.11 i.e. \$ 54,989.60 were in the 120 days or over category.

Some of the large overdue accounts in the 120 days and over category which existed in the report are listed below:

Debtor Name	Amount \$
Cottage School of Music	4,430.00
Mt Claremont Primary School	5,200.00
T.Trail	4,476.45
Municipal Workcare	7,458.13
Swanbourne Cricket Club	3,975.00
Dr R Soin	1,028.50
Others	28,421.52
Total	54,989.60

As auditors, we have a responsibility to bring the matter to the Council's attention and will continue to review the progress and the processes undertaken by the management to recover these debts.

Management Comment:

As the individual sundry debts are relatively small, management has not resorted to legal action till now. The larger amounts are generally due from sporting clubs and community organisations, and are partly due to change of the voluntary office bearers. Management is following up on the overdue sundry debtors. As at mid-June, the amounts outstanding for more than 120 days have been reduced from \$54,899.60 to \$32,196.00.

Computer Environment

City of Nedlands does not have a documented and tested disaster recovery plan to provide continuity of data processing operations in the event of a major disaster or business disruption. Therefore, it does not have assurance it can recover its computer system following a disaster or disruption in data processing capability.

We recommend that the City develop a disaster recovery plan and the plan be tested periodically and updated as changes occur.

Management Comments:

The City is in the process of establishing a Disaster Recovery Centre at the Depot. Work commenced this financial year, and a further sum of \$260,000 capital funds have been approved in the 2012/13 Budget. Once the physical parts are installed, the City will develop the complete Disaster Recovery Plan, and test it at regular intervals as recommended.

Consultation

The matters raised by Macri Partners have been discussed with all the relevant officers, and action has been taken to address the issues.

Legislation

Section 7.9 of the Local Government Act 1995 only requires the Independent Auditor to “...examine the accounts and annual financial report submitted for audit.....”. The Interim Audit is treated as the preliminary procedures facilitating the conduct of the final audit.

Budget / Financial Implications

All matters raised are being addressed and will not have any material implications on the Budget.

Risk Management

The Interim Audit is an integral part of Risk Management.

Conclusion

That the Committee receives the Management Letter on the Interim Audit carried out by Macri partners.

Attachments

1. Management Letter on the Interim Audit Visit by Macri Partners.

6 June 2012

Chief Executive Officer
City of Nedlands
P O Box 9
NEDLANDS WA 6909

CITY OF NEDLANDS	
DIVISION	
Document #	
File #	10 JUL 2012
Redirect	
Action	ACK NRN OTHER
Enclosed	

RECEIVED

Dear Sir

RE: INTERIM AUDIT VISIT FOR THE YEAR ENDING 30 JUNE 2012

We carried out an interim audit of the Council for the year ending 30 June 2012. Our interim audit covered a review of the accounting and internal control procedures in operation, as well as testing of transactions, in the following areas:

- Purchases
- Payments and Creditors
- Bank Reconciliations
- Rate Receipts and Rate Debtors
- Receipts and Sundry Debtors
- Payroll
- General Accounting and IT Controls
- Registers (Tenders Register and Register of Financial Interests)
- Asset Register
- Investments
- Review of Council Minutes

Our review also covered an examination of some compliance matters, which are required under the Local Government Act 1995 (as amended) and Financial Management Regulations 1996.



Please note that our examination of internal controls was carried out for audit purposes designed primarily for the purpose of expressing an opinion on the financial statements of the City of Nedlands.

Because of the inherent limitations of any internal control structure, it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

It should be appreciated that the matters noted came to our attention during the course of our normal audit examination and as a result do not necessarily include all those matters which a more extensive or special examination might identify. Accordingly, our comments in this management letter are not intended to cover all aspects of the Council's internal controls and accounting systems and are limited to those matters that arose from our normal audit procedures.

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

BANK RECONCILIATIONS

- (i) We noted the bank reconciliations for the municipal fund bank account showed a discrepancy of \$567.24 to the General ledger control balance. The discrepancy has not been resolved since January 2012.

We recommend that the discrepancy be rectified prior to 30/6/2012.

Management Comments:

The bank reconciliation does not show a discrepancy any longer.

PURCHASES AND PAYMENTS

As part of our audit, we carried out a review of the purchasing and payments system. Our audit procedures have been designed to determine appropriate means for selecting items for testing so as to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures. Professional judgement is used to assess the risk of material misstatement and to design and perform further audit procedures where necessary to reduce the risk to an acceptable low level. Our audit procedures have been designed to also determine whether purchases of goods/services were in accordance with Council's purchasing policy.

Generally the controls surrounding purchases, creditors and payments are appropriate to meet the Council's requirements.

However, the following matters were noted as requiring attention:

- (i) During our detailed testing of purchases, 3 out of 15 instances were noted where the quotations obtained were not attached to the purchase requisition forms as required under the purchasing policy.

We recommend that all quotes obtained be attached to the purchase requisitions to provide easy referencing, thus ensuring that goods and services have been obtained at the most competitive prices and the purchasing procedures were complied.

Management Comments:

The importance of filing all written quotations (in TRIM), and stating the TRIM reference number on the Requisition form has been reinforced. The officer who reviews all On Line Requisitions will ensure that this is done.

- (ii) We noted that in 2 of 15 of instances where the supplier invoices do not contain any reference to purchase order numbers. This may result in time delays for the Accounts Payable department to match the invoices to the relevant purchase orders and process the payment.

We recommend that management advise suppliers to quote purchase orders on all invoices to avoid delays in processing payments.

Management Comments:

All Purchase Orders going from the City has the following request on it: "Order Numbers are to be quoted on all invoices. Failure to comply will result in return of invoice unpaid". Based on the figures stated, 87 % of the suppliers are complying.

CREDITORS

- (i) We noted that there are inadequate background checks (e.g. shareholders' and directors' details, etc) performed on new suppliers nor are the new supplier application forms authorised by an independent officer prior to creating them in the creditor's system.



We recommend that adequate background checks be performed and the application forms be authorized by an independent senior officer before creating new suppliers in the system.

This matter was raised in our previous management letter dated 25 June 2011.

Management Comments

The following particulars are currently requested of new suppliers: Company Name, Address (not PO Box), Postal Address, Telephone, e-mail, ABN, Bank Account details, and names of contacts. Shareholders and Directors' details are only checked as part of the Tender Process due to resource constraint. However, Management will include this for all new creditors on a trial basis from 1 July 2012, as well as the requirement for authorisation by an independent senior officer.

RATES

The Council's rating procedures were reviewed to ensure that they were in compliance with statutory requirements and that rates have been imposed correctly. This also included a review of the rate notice issued and the process of reconciliation of the Valuer General's reports to the Rates Ledger.

We checked a limited number of property assessments from the Rates Ledger to ensure that the rates calculations, raising of rates and postings to the ledgers were correctly performed.

The following matters were noted and brought to your attention:

- (i) We noted that the major 2011/12 GRV revaluation reconciliation between the Valuer General's reports and the Rates Ledger had not been performed.

We recommend that all future major GRV revaluation reconciliations be performed and reviewed by an independent senior officer to ensure that the take up GRV values and other details were correctly performed.

- (ii) We noted that the interim rates revaluation reconciliations reports have not been reviewed by a senior officer.

We recommend that all interim rates revaluation reconciliations be reviewed and signed by an independent senior officer to provide evidence that the review has been carried out.

Management Comments:

Once the re-valued values have been loaded, a Source Valuation Report was run. This compares the total of the re-valued values provided by Landgate with what is in the Rates Ledger, and both sets of values were thus reconciled. This gives Management the assurance that all re-valued GRV values have been taken up.

The recommendation to have the revaluation reconciliation reports reviewed by a senior officer will be implemented from now.



SUNDRY DEBTORS

As part of our audit process, we also carried out a review of the sundry debtors. The sundry debtors aged trial balance report as at 30 April 2012 showed approximately 28% of the total outstanding debts of \$198,432.11 i.e. \$54,989.60 were in the 120 days or over category.

Some of the large overdue accounts in the 120 days and over category which existed in the report are listed below:

Debtor Name	Amount \$
Cottage School of Music	4,430.00
Mt Claremont Primary School	5,200.00
T. Trail	4,476.45
Municipal Workcare	7,458.13
Swanbourne Cricket Club	3,975.00
Dr R Soin	1,028.50
Others	28,421.52
Total	54,989.60

As auditors, we have a responsibility to bring the matter to the Council's attention and will continue to review the progress and the processes undertaken by the management to recover these debts.

Management Comment:

As the individual sundry debts are relatively small, management has not resorted to legal action till now. The larger amounts are generally due from sporting clubs and community organisations, and are partly due to change of the voluntary office bearers. Management is following up on the overdue sundry debtors. As at mid-June, the amounts outstanding for more than 120 days have been reduced from \$54,899.60 to \$32,196.00.

COMPUTER ENVIRONMENT

City of Nedlands does not have a documented and tested disaster recovery plan to provide continuity of data processing operations in the event of a major disaster or business disruption. Therefore, it does not have assurance it can recover its computer system following a disaster or disruption in data processing capability.

We recommend that the City develop a disaster recovery plan and the plan be tested periodically and updated as changes occur.



This matter was raised in our previous management letter dated 25 June 2011.

Management Comments:

The City is in the process of establishing a Recovery Centre at the Depot. Work commenced this financial year, and a further some of \$260,000 capital funds have been approved in the 2012/13 Budget. Once the physical parts are installed, the City will develop the complete Disaster Recovery Plan, and test it at regular intervals as recommended.

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

Yours faithfully




MACRI PARTNERS

CITY07AMbm Interim Audit Visit Letter 2012



7.3 Internal Audit Report – Accounts Receivable

Applicant	City of Nedlands
Owner	City of Nedlands
Officer	Rajah Senathirajah – Manager Finance
Director	Darla Blake –Acting Director Corporate & Strategy
Director Signature	
File ref.	FIN/006/05
Previous Item No's	Nil
Disclosure of Interest	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the <i>Local Government Act (1995)</i> .

Regulation 11(da) – Committee agreed a follow up report on actions from previous audits was needed.

Moved – Councillor James
 Seconded – Councillor McManus

That the Recommendation to Committee is adopted subject to a clause 2 being added as follows:

- 2. Grant Thornton to provide a report on follow up action from previous audits.**

CARRIED UNANIMOUSLY 5/-

Committee Recommendation	
Committee	
1.	receives the internal audit report on Accounts Receivable function; and
2.	Grant Thornton to provide a report on follow up action from previous audits.

Recommendation to Committee

Committee receives the internal audit report on Accounts Receivable function.

Purpose

The purpose of this report is to receive the Internal Audit report from Grant Thornton on Accounts Receivable function.

Strategic Plan

KFA 5: Governance

- 5.4 Monitor and review business processes, systems, structure and policies to ensure effective service delivery and organisational performance.
- 5.9 Identify, manage and seek to minimise risk.

Proposal Detail

The audit objective of this assignment was to assess the adequacy and effectiveness of the City's debtor management policy, and management controls over the City's Accounts Receivable activity.

The scope of the audit included:

- Review of the City's debtor management policy, procedures and guidelines;
- Review of the efficiency and effectiveness of the City's debt collection processes;
- Assessment of the efficiency and effectiveness of controls surrounding the City's accounts receivable activity.
- Evaluation of the adequacy and effectiveness of the City's debtor management policy, procedures and guidelines;
- Examination of the Regulations as they relate to debtor management; and
- Provision of appropriate recommendations matters identified through the audit review.

Four (4) issues were identified during this Audit. The issue raised, recommendation and management response are summarised as follows:

Issue 1: Debt Recovery

Sound business practice suggests that organisations have a formal debt recovery process in place.

Although the City had had a debt recovery process in place, discussions with Finance indicated that the process was not practiced for sundry debtors over a 3-4 month period.

As at the 2/2/2012, outstanding sundry debtors for the City totalled \$143,162.74, with \$48,416.73 having been aged for more than 120 days.

In September 2011, the City initiated an individual account reconciliation process and as of January 2012 have begun issuing statement of accounts to individual account holders to advise them of outstanding balances.

Recommendations

The City should formalise, document and continue the processes in which:

- Statements of Account are sent to debtors with outstanding balances; and
- Individual reconciliations are conducted for accounts that have credit or outstanding balances exceeding the 60 day period.

Management Response:

As noted, technical issues with the City's booking system led to the debt recovery pertaining to sundry debtors being put on hold for a short period. A work-around the system shortcoming has since been developed, and the debt recovery process is now functioning satisfactorily.

Action Date

Recommendations already implemented.

Issue 2: End of Month Reconciliation

Review of monthly reconciliations revealed that for months of March 2011 through to December 2011, the Outstanding Debtors Summary did not reconcile to the General Ledger Sundry Debtor Summary. Specifically

- from March to June 2011 the difference was \$401.99;
- in July 2011 the difference was (\$690.26);
- in August the difference was \$11,769.71; and
- from September to December 2011 the difference was \$9,775.99.

The City has since posted adjusting entries to eliminate the difference

Recommendation

Further action is not required

Management Response

As noted by the Internal Auditor, remedial action was taken before the Internal Audit exercise.

Action Date

Not applicable

Issue 3: Incorrect Account Postings

Review of the sundry debtors trial balance listings indicated a number of credit balances. Enquires with Finance revealed that these debtor credit balances were linked to either:

- receipts being posted against incorrect accounts; and
- timing differences between periodic debtor deposits and invoices being issued.

Recommendation

1. The City should document and continue the process in which they, conduct individual reconciliations for accounts that have carried credit balances exceeding the 60 day period.
2. The City should remind those officers responsible for assigning receipts to invoices, that payees may be making payment on behalf of a different debtor and that there may be a need to confirm a payee's intended debtor account.

Management Response:

Receipts being posted against incorrect accounts occur when insufficient information is provided by the persons making payments, especially when the payments are received electronically.

Credit balances also occur when regular users of facilities / services make payments in anticipation of being invoiced later. The City does not refuse to accept such payments, as they are generally for small amounts and refusal could cause inconvenience to the clients.

Officers concerned have been made aware of the Auditor's recommendations, and these are being implemented.

Action Date

Recommendations already in place.

Issue 4: End of Month Reconciliation Signoff

Our review of the Monthly Debtor Reconciliation forms, revealed that 5 of the 12 had not been signed off by all of the appropriate officers. The form requires signoff by the person whom completed the report and two supervisory signatures from an authorising officer and the Director of Corporate services. For the 5 instances identified:

- 3 had only been signed by the compiling officer;
- 1 had been signed by both the compiling officer and an authorising officer; and
- 1 had not been signed at all.

Recommendations

1. The City should remind those responsible signatories of the requirement to always provide evidence of review on the Monthly Debtor Reconciliation form.

-
2. The City should revise their current practice, so that notation is provided for any issues identified with the review in addition to the requirement for signature.

Management Response

The recommendations have been noted and implemented.

Action Date

Recommendations already implemented.

Consultation

The Audit report and recommendations have been brought to the attention of all relevant officers.

Legislation

Regulation 5 of the Local Government (Financial Management) Regulations 1996 requires the Chief Executive Officer to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 4 financial years) and report to the local government the results of those reviews. This Internal Audit is in part satisfaction of the Regulation.

Budget/Financial Implications

The audit fees are included in the adopted budget.

Risk Management

This review is part of the Risk Management of the financial procedures at the City.

Conclusion

That the committee recommend to Council the acceptance of the Internal Audit – Accounts Receivable report..

Attachments

1. Internal Audit Report – Accounts Receivable.

Summary of Findings

Accounts Receivable	Area	Findings	Implication	Risk Rating
	Debt Recovery	<p>Although the City had had a debt recovery process in place, discussions with Finance indicated that the process was not practiced for sundry debtors over a 3-4 month period.</p> <p>The City reintroduced their debt recovery process as at January 2012.</p>	<ol style="list-style-type: none"> Increases the possibility of bad debts. Possibility of causing grievances to debtors. 	Moderate
	End of Month Reconciliation – Not Reconciling	<p>Review of monthly reconciliations revealed that for months of March 2011 through to December 2011, the Outstanding Debtors Summary did not reconcile to the General Ledger Sundry Debtor Summary.</p> <p>The City has since posted adjusting entries to eliminate the difference.</p>	<ol style="list-style-type: none"> Increased risk of accounting irregularities. Possibility of causing grievances with debtors. 	Moderate
	Incorrect Account Postings	<p>Review of the sundry debtors trial balance listings indicated a high number of credit balances. Enquires with Finance revealed that these debtor credit balances were linked to either:</p> <ul style="list-style-type: none"> receipts being posted against incorrect accounts; and timing differences between periodic debtor deposits and invoices being issued. 	<ol style="list-style-type: none"> Increased risk of accounting irregularities. Reconciliation of individual accounts caused by incorrect account posting is resource intensive. Possibility of causing grievance to debtors. 	Moderate
	End of Month Reconciliation – Sign off	<p>Our review of the Monthly Debtor Reconciliation forms, revealed that 5 of the 12 had not been signed off by all of the appropriate officers.</p> <p>It should also be noted that the Monthly Debtor Reconciliation for October was not available on file, therefore, it could not be confirmed whether it had been signed.</p>	<ol style="list-style-type: none"> No evidence of supervisory review. Should the possibility arise that no supervisory review has taken place, there is increased risk of accounting irregularities. 	Medium

Conclusion

Opinion

Based on our review, the City of Nedlands did not have adequate and effective controls in place surrounding the management of accounts receivable for the entirety of the scope period identified. The absence of adequate and effective controls presents a significant strategic risk should be addressed as a matter of high priority.

However, we acknowledge that the City had initiated a number of controls within the scope period which address the majority of the issues outlined within this report.

Overall Management Comment

Management was aware that there was a short period when the accounts receivable function was not effectively handled. This was when the Accounts Receivable officer resigned from the City, and the City found it difficult to fill the vacancy with a suitably competent person.

As noted by the Internal Auditor, Management had taken steps to remedy the situation, especially with regards to debt recovery. Further steps have been taken since the Internal Audit exercise was undertaken in early March to enhance the effectiveness of the accounts receivables functions in the areas identified in this report.

Michael Cole

A/Chief Executive Officer

Rajah Senathirajah

A/Director Corporate & Strategy

Section 2 Detailed Findings

01. Executive Summary

02. Detailed Findings



Detailed Findings

Debt Recovery

Risk Rating	Criteria	Recommendation
Moderate	Organisation's have a formal debt recovery process in place.	The City should formalise, document and continue the processes in which: <ul style="list-style-type: none"> • Statements of Account are sent to debtors with outstanding balances; and • Individual reconciliations are conducted for accounts that have credit or outstanding balances exceeding the 60 day period.
	Condition	
	Although the City had had a debt recovery process in place, discussions with Finance indicated that the process was not practiced for sundry debtors a 3-4 month period.	Management Response
	As at the 2/2/2012, outstanding sundry debtors for the City totalled \$143,162.74, with \$48,416.73 having been aged for more than 120 days. In September 2011, the City initiated an individual account reconciliation process and as of January 2012 have begun issuing statement of accounts to individual account holders to advise them of outstanding balances.	As noted, technical issues with the City's booking system led to the debt recovery pertaining to sundry debtors being put on hold for a short period. A work-around the system shortcoming has since been developed, and the debt recovery process is now functioning satisfactorily.
	Cause	Action Date
	Due to technical issues with the City's MRM booking system, the City suspended their debt recovery process for a short period to avoid causing debtor grievances.	Recommendations already implemented.
	Effect	
<ol style="list-style-type: none"> 1. Increases the possibility of bad debts. 2. Possibility of causing grievances to debtors. 		

Detailed Findings

End of Month Reconciliation – Not Reconciling

Risk Rating	Criteria	Recommendation
Moderate	The Outstanding Debtors Summary reconciles to the General Ledger Sundry Debtor Summary.	Further action is not required.
	Condition	Management Response
	Review of monthly reconciliations revealed that for months of March 2011 through to December 2011, the Outstanding Debtors Summary did not reconcile to the General Ledger Sundry Debtor Summary. Specifically <ul style="list-style-type: none"> • from March to June 2011 the difference was \$401.99; • in July 2011 the difference was (\$690.26); • in August the difference was \$11,769.71; and • from September to December 2011 the difference was \$9,775.99. The City has since posted adjusting entries to eliminate the difference.	As noted by the Internal Auditor, remedial action was taken before the Internal Audit exercise.
	Cause	Action Date
	Management indicated that the difference between the aged debtor listing and the general ledger was due to: <ul style="list-style-type: none"> • Errors originally made when splitting the original debtor account into a number of separate debtor account categories; and • The incorrect assignment of infringement debtors to the sundry debtors account caused by the Tough Books Ranger system. The incorrect assignment was investigated and has been rectified by the City. 	Not applicable.
	Effect	

Detailed Findings

Incorrect Account Postings

Risk Rating	Criteria	Recommendation
Moderate	Receipts are correctly matched to a corresponding invoice/debtor.	<ol style="list-style-type: none"> The City should document and continue the process in which they, conduct individual reconciliations for accounts that have carried credit balances exceeding the 60 day period. The City should remind those officers responsible for assigning receipts to invoices, that payees may be making payment on behalf of a different debtor and that there may be a need to confirm a payee's intended debtor account.
	<p>Condition</p> <p>Review of the sundry debtors trial balance listings indicated a number of credit balances. Enquires with Finance revealed that these debtor credit balances were linked to either:</p> <ul style="list-style-type: none"> receipts being posted against incorrect accounts; and timing differences between periodic debtor deposits and invoices being issued. 	
	<p>Cause</p>	<p>Management Response</p> <p>Receipts being posted against incorrect accounts occur when insufficient information is provided by the persons making payments, especially when the payments are received electronically.</p> <p>Credit balances also occur when regular users of facilities/services make payments in anticipation of being invoiced later. The City does not refuse to accept such payments, as they are generally for small amounts and refusal could cause inconvenience to the clients.</p> <p>Officers concerned have been made aware of the Auditor's recommendations, and these are being implemented.</p>
	<p>Management indicated that for those amounts that had been incorrectly posted, either:</p> <ul style="list-style-type: none"> information provided through bank statements did not always contain the details necessary to adequately identify the correct posting account; and in some instances, new debtors would be created for individuals who should have been linked to existing debtors which would lead to credit debtor balances not linked to any invoices. 	
	<p>Effect</p>	
	<ol style="list-style-type: none"> Increased risk of accounting irregularities. Reconciliation of individual accounts caused by incorrect account posting is resource intensive. Possibility of causing grievance to debtors. 	<p>Action Date</p>
		<p>Recommendations already in place.</p>

Detailed Findings

End of Month Reconciliation – Signoff

Risk Rating	Criteria	Recommendation
Medium	The Monthly Debtor Reconciliation form requires signoff from three separate City officers.	<ol style="list-style-type: none"> The City should remind those responsible signatories of the requirement to always provide evidence of review on the Monthly Debtor Reconciliation form. The City should revise their current practice, so that notation is provided for any issues identified with the review in addition to the requirement for signature.
	Condition	
	<p>Our review of the Monthly Debtor Reconciliation forms, revealed that 5 of the 12 had not been signed off by all of the appropriate officers.</p> <p>The form requires signoff by the person whom completed the report and two supervisory signatures from an authorising officer and the Director of Corporate services. For the 5 instances identified:</p> <ul style="list-style-type: none"> 3 had only been signed by the compiling officer; 1 had been signed by both the compiling officer and an authorising officer; and 1 had not been signed at all. <p>It should also be noted that the Monthly Debtor Reconciliation for October was not available on file, therefore, it could not be confirmed whether it had been signed.</p>	<p>Management Response</p> <p>The recommendations have been noted and implemented.</p>
	Cause	
	Management advised that the Reconciliation forms had not been signed due to investigation into the difference between the Outstanding Debtors Summary and the General Ledger Sundry Debtor Summary.	Action Date
	Effect	Recommendations already implemented.
	<ol style="list-style-type: none"> No evidence of supervisory review. Should the possibility arise that no supervisory review has taken place, there is increased risk of accounting irregularities. 	

Appendices

- A. Scope
- B. Methodology
- C. Risk Rating of Audit Findings
- D. Inherent Limitations
- E. Audit Evidence

A. Scope

For clarity in terms of the deliverables, set out below were the matters concerning the scope of the internal audit:

Scope Inclusions
<p>The scope of this audit included:</p> <ul style="list-style-type: none">• Review of the City's debtor management policy, procedures and guidelines;• Review of the efficiency and effectiveness of the City's debt collection processes;• Assessment of the efficiency and effectiveness of controls surrounding the City's accounts receivable activity. Areas of focus include:<ul style="list-style-type: none">▪ Write-offs of overdue receivables;▪ Debt collection strategies and receipt of monies;▪ Mechanisms and processes for recovery of debt; and▪ Performance indicators and management reports.• Evaluation of the adequacy and effectiveness of the City's debtor management policy, procedures and guidelines;• Examination of the Regulations as they relate to debtor management; and• Provision of appropriate recommendations matters identified through the audit review.
Scope Exclusions
Strategic business advice in relation to the implementation of any best practices or audit recommendations.
Scope Period
The period of review was 1 February 2011 to 31 January 2012.

B. Methodology

Our approach included:

Familiarisation and Planning
<ul style="list-style-type: none">• Reviewed of the Regulations as they relate to accounts receivable;• Reviewed of the following documents, to be supplied by the City:<ul style="list-style-type: none">▪ policy, procedures and guidelines relating to the accounts receivable activity; and▪ debtor management policy, procedures and guidelines.
Fieldwork
<ul style="list-style-type: none">• Conducted interviews with the City's management to obtain an understanding of the controls and business requirements;• Examined and evaluating the effectiveness of the City's policy, procedures and guidelines;• Observed and documenting relevant procedures used by the City's personnel;• Evaluated the efficiency of the debtor management process; and• Applied an appropriate audit program that included sample based testing.
Reporting
<ul style="list-style-type: none">• Formulated conclusions on any areas of control deficiencies and where improvements to process efficiency maybe required; and• Developed appropriate recommendations for matters identified through review and testing.

C. Risk rating of Audit Findings

Findings resulting from our internal audit have been rated in accordance with the risk ratings as detailed below

Risk Rating	Risk Description
Extreme	Major strategic risk of high impact which threatens the organisation's objective and should be addressed immediately.
High	Significant strategic risk should be addressed as a matter of high priority. Controls are deficient or ineffective and require attention.
Moderate	The risk has limited strategic impact but it is of sufficient concern and should be addressed as soon as possible.
Medium	The risk has minimal operational and strategic impact but exposure in the identified areas is undesirable.
	Inconsequential impact. The risk is not a primary concern but opportunity to improve the systems and processes that should be addressed as a matter of course.

D. Inherent Limitations

Due to the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. An internal audit is not designed to detect all weaknesses in control procedures or all compliance failures as it is not performed continuously throughout the period and the tests performed are on a sample basis. As such, except to the extent of the sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure or its compliance.

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

The internal audit findings expressed in this report have been formed on the above basis.

E. Audit Evidence

The following documents and information were examined as part of this review:

Documents examined
Sample of Outstanding Debtor Account Letters
Sample of Invoices and related payment evidence
Aged Debtors Listing as at 02/02/2012 and 08/02/2012
Monthly Debtor Reconciliations for January 2011 to January 2012

8. General Business

Moved – Councillor James
Seconded – Councillor McManus

That the Internal Auditor be requested to comment on the implementation of the recommendations in this report when they carry out the next audit of a related area.

CARRIED UNANIMOUSLY 5/-

9. Date of next meeting

The date of the next meeting of this Committee is to be advised.

Declaration of Closure

There being no further business, the Presiding Member declared the meeting closed 6.55 pm.