



City of Nedlands

Agenda

Audit and Risk Committee Meeting

17 July 2012

ATTENTION

This Agenda has yet to be dealt with by the Committee.

The Administration Recommendations, shown at the beginning of each item, have yet to be considered by the Committee and are not to be interpreted as being the position of either the Committee or Council.

The Minutes of the meeting held to discuss this Agenda should be read to ascertain the decision of the Committee.

Before acting on any recommendation of the Committee a check must also be made in the Ordinary Council Minutes following the Committee Meeting to ensure that Council did not make a decision at variance to the Committee Recommendation.

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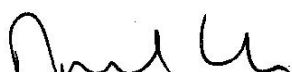
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City of Nedlands

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

Dear Committee member

The next meeting of the Audit and Risk Committee will be held on Tuesday 17 July 2012 in the Committee Room at 71 Stirling Highway, Nedlands commencing at 6 pm.



Michael Cole
Acting Chief Executive Officer
10 July 2012

Audit and Risk Committee Agenda

Declaration of Opening

The Acting Chief Executive Officer will declare the meeting open at 6 pm and will draw 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).

Presiding Member

The Acting Chief Executive officer will call for nominations for Presiding Member of the Audit and risk Committee

Present and Apologies and Leave Of Absence (Previously Approved)

Leave of Absence Nil.
(Previously Approved)

Apologies Nil as at distribution of this agenda.

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1. Public Question Time

A member of the public wishing to ask a question should register that interest by notification in writing to the CEO in advance, setting out the text or substance of the question. Questions tabled at the meeting may be unable to be answered due to the requirement for technical research and will therefore be answered direct afterwards.

Questions must relate to a matter contained within the agenda of this meeting.

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.

3. Disclosures of Financial Interest

The Presiding Member to remind 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.

A declaration under this section requires that the nature of the interest must be disclosed. Consequently a member who has made a declaration must not preside, participate in, or be present during any

discussion or decision making procedure relating to the matter the subject of the declaration.

However, other members may allow participation of the declarant if the member further discloses the extent of the interest. Any such declarant who wishes to participate in the meeting on the matter, shall leave the meeting, after making their declaration and request to participate, while other members consider and decide upon whether the interest is trivial or insignificant or is common to a significant number of electors or ratepayers.

4. Disclosures of Interests Affecting Impartiality

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

Councillors and staff are required, in addition to declaring any financial interests to declare any interest that may affect their impartiality in considering a matter. This declaration does not restrict any right to participate in or be present during the decision-making procedure.

The following pro forma declaration is provided to assist in making the disclosure.

"With regard to the matter in item x..... I disclose that I have an association with the applicant (or person seeking a decision). As a consequence, there may be a perception that my impartiality on the matter may be affected. I declare that I will consider this matter on its merits and vote accordingly."

The member or employee is encouraged to disclose the nature of the association.

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

Members who have not read the business papers to make declarations at this point.

6. Confirmation of Minutes


6.1 Audit and Risk Committee Meeting 27 February 2012

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

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> .

Purpose

To consider the Investment Strategy for 2012/13

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.**

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> .

Purpose

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

Committee Recommendation

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

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 PrimarySchool	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 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.

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.

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> .

Purpose

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

Recommendation to Committee

Committee receives the internal audit report 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.

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 will declare the meeting closed.

A handwritten signature in black ink, appearing to read "Michael Cole".

Michael Cole
Acting Chief Executive Officer