

Reference: AF11/863

TO: JEROEN ZWIJNENBURG (PRESIDING MEMBER)  
DONALD CURRIE  
CR SONYA MEZINEC  
MAYOR LEE (EX OFFICIO)  
CHIEF EXECUTIVE OFFICER  
DIRECTOR - CORPORATE SERVICES  
FINANCE MANAGER  
SIMON SMITH, PARTNER, GALPINS

CC: ALL MEMBERS  
DIRECTOR - OPERATIONAL SERVICES  
MANAGER - GOVERNANCE AND PROPERTY  
TEAM LEADER FINANCE  
MANAGEMENT ACCOUNTANT

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NOTICE is given that the Audit Committee will meet in the Civic Centre, Committee Room, Level 4 on Tuesday, 31<sup>st</sup> May, 2016 at 5.30 p.m.

An agenda for the meeting is enclosed herewith.



**Grant HUMPHRIES**  
DIRECTOR - CORPORATE SERVICES

11<sup>th</sup> May, 2016  
ES

## AUDIT COMMITTEE

Meeting to be held on Tuesday, 31<sup>st</sup> May, 2016 at 5.30 p.m. in the Committee Room,  
Civic Centre, 10 Watson Terrace, Mount Gambier

### AGENDA

PRESENT: Mr Jeroen Zwijnenburg (Presiding Member)  
Mr Donald Currie  
Cr Sonya Mezinec

APOLOGY/IES:

COUNCIL MEMBERS/  
OTHERS AS  
OBSERVERS:

GUESTS: Mr Simon Smith, Auditor, Galpins (to be confirmed)

COUNCIL EMPLOYEES  
IN ATTENDANCE:

Mr Grant Humphries, Director - Corporate Services  
Mr Gary Button, Finance Manager  
Ms Kahli Rolton, Management Accountant

OTHER APOLOGIES: Mr Mark McShane, Chief Executive Officer

**WE ACKNOWLEDGE THE BOANDIK PEOPLES AS THE TRADITIONAL CUSTODIANS OF THE LAND WHERE WE MEET TODAY. WE RESPECT THEIR SPIRITUAL RELATIONSHIP WITH THE LAND AND RECOGNISE THE DEEP FEELINGS OF ATTACHMENT OUR INDIGENOUS PEOPLES HAVE WITH THIS LAND.**

MINUTES: moved the minutes of the previous meeting held on Tuesday, 22<sup>nd</sup> March, 2016 be taken as read and confirmed.  
seconded

QUESTIONS:

- (a) With Notice – Nil received
- (b) Without Notice –

#### **1. REPORTS FOR INFORMATION**

The Director - Corporate Services reported;

- (a) the following Reports are referenced for the information of Audit Committee Members;
- (b) the following Reports, being for information purposes only, are available from the Council website under Committee Agendas for the relevant calendar month;
  - 11/2016 Budget Update as at 31/12/2015
  - 19/2016 Risk Management Framework Policy Review
  - 21/2016 Procurement Policy Review
  - 23/2016 Investment review as at 31/12/2015
  - 27/2016 Delegations Review
  - 28/2016 Statutory Resolutions/Appointments Review
  - 33/2016 Budget Review as at 31/03/2016
  - 35/2016 Strategic Plan/KPI Quarterly Report

**RECOMMENDATION NO. 1**

moved it be recommended that the above report be received.

seconded

**2. AUDIT WORK PROGRAM 2014 - 2018 - Ref. AF11/863**

The Director - Corporate Services reported:

- (a) the Audit Committee should continually review the Audit Work Program to establish whether any adjustments are required to be introduced for the particular financial years activities;
- (b) the Audit Work Program 2014-2018 was last reviewed and adopted in August 2015;
- (c) the following activities and associated timelines (extracted from the Audit Work Program) are provided in abbreviated form, for the Committees reference and review:

FIRST QUARTER

- Work Plan
- Treasury Management Reviews
- Asset Reviews/Revaluation Strategy
- Policy reviews incorporating;
  - Internal Controls
  - Fraud and Corruption Framework
  - Whistleblowing
  - Risk Management
  - Budget Performance

SECOND QUARTER

- Interim External Audit
- Work Plan
- Business Continuity
- Business Plan and Budget

THIRD QUARTER

- Work Plan
- Annual Report to Council incorporating;
  - Self Assessment
  - Review of Work Plan
  - Review of Terms of Reference

FOURTH QUARTER

- Work Plan
- Statutory External Audit(Inc. Fin. Int. Controls)
- AFS authorisation by Presiding Member
- Council Annual Report Compliance

**RECOMMENDATION NO.2**

moved it be recommended the report be received.

seconded

**3. EXTERNAL AUDITOR - Ref. AF12/227**

The Director - Corporate Services reported:

Audit Committee Agenda, Tuesday 31<sup>st</sup> May, 2016 cont'd...

- (a) the following table represents an updated consolidation of the 2015 Audit findings:

AUDIT	FINDING	RISK	STATUS
14/15 E of Y(New)	Risk Register	Moderate	Awaiting Report
	VIC Stock Control	Low	Awaiting Report

**RECOMMENDATION NO. 3**

moved it be recommended:

- (a) the report be received;
- (b) the Finance Managers report (attached) on improvements to stock control processes at 'The Lady Nelson' including the actions referenced therein be endorsed by the Audit Committee;
- (c) the outstanding Audit findings continue to be monitored by the Audit Committee.

seconded

**4. EXTERNAL AUDITOR - Financial Controls Review - Ref. AF11/714**

The Director - Corporate Services reported:

- (a) this financial year the scope of the traditional interim audit was extended to include a review of internal controls to comply with the requirements of Section 129 of the Local Government Act;
- (b) as can be seen from the Management letter the Audit identified the following weaknesses:
- 1 x Moderate Risk (Procurement/Contracting)  
3 x Low Risk (General Ledger and Rates)  
2 x Better Practice (Payroll)
- (c) a copy of the Management Letter with Management response is attached for information noting that the findings have either been completed or are in the process of being addressed.

**RECOMMENDATION NO. 4**

moved it be recommended:

- (a) the External Auditor's Financial Controls Review Management Letter be received;
- (b) the External Auditor be advised of Council Management's response;
- (b) the Audit findings continue to be monitored by the Audit Committee.

seconded

**5. EXTERNAL AUDIT SERVICES**

The Director - Corporate Services reported:

Audit Committee Agenda, Tuesday 31<sup>st</sup> May, 2016 cont'd...

- (a) Councils existing contract for External Audit Services conclude following the 2015/2016 final Audit;
- (b) the Local Government Act requirements in relation to the Auditor (Section 128) are as follows;
  - (1) A council must have an auditor.
  - (2) The auditor will be appointed by the council on the recommendation of the council's audit committee.
  - (2a) The audit committee must, in making a recommendation under subsection (2), take into account any factor prescribed by the regulations.
  - (3) The auditor must be—
    - (a) a registered company auditor; or
    - (b) a firm comprising at least one registered company auditor.
  - (4) A person is not eligible to be the auditor if—
    - (a) the person is a member of the council; or
    - (b) the person is a nominated candidate for election as a member of the council.
  - (4a) The term of appointment of an auditor of a council must not exceed 5 years (and, subject to this section, a person may be reappointed at the expiration of a term of office).
  - (5) The office of auditor becomes vacant if—
    - (a) the auditor dies; or
    - (b) the auditor resigns by written notice to the chief executive officer; or
    - (c) the auditor is not or ceases to be eligible for appointment as the auditor; or
    - (d) the auditor accepts remunerated office or employment from the council; or
    - (e) the term of appointment of the auditor expires and the auditor is not reappointed; or
    - (f) the auditor is removed from office by the council for reasonable cause.
  - (6) A person's ability to hold office as an auditor of a council, and to be reappointed to that office, is subject to the qualification that if the person has held the office of auditor of the council for at least 5 successive financial years, or for 5 out of 6 successive financial years—
    - (a) the person may only continue in that office if he or she ensures that any individual who plays (or who has played) a significant role in the audit of the council for 5 successive financial years, or for 5 out of 6 successive financial years, does not then play a significant role in the audit of the council for at least 2 financial years; or

Audit Committee Agenda, Tuesday 31<sup>st</sup> May, 2016 cont'd...

- (b) the person may be reappointed to the office if at least 2 years have passed since he or she last held the office.
- (7) The appointment of an auditor will be subject to any other terms or conditions prescribed by the regulations.
- (8) A council, and the auditor of a council, must comply with any requirements prescribed by the regulations with respect to providing for the independence of the auditor.
- (9) A council must ensure that the following information is included in its annual report:
  - (a) information on the remuneration payable to its auditor for work performed during the relevant financial year, distinguishing between—
    - (i) remuneration payable for the annual audit of the council's financial statements; and
    - (ii) other remuneration;
  - (b) if a person ceased to be the auditor of the council during the relevant financial year, other than by virtue of the expiration of his or her term of appointment and not being reappointed to the office—the reason or reasons why the appointment of the council's auditor came to an end.
- (10) For the purposes of this section, a person plays a significant role in the audit of a council if the person would, if the council were a company, play such a role in the audit of the company within the meaning of section 9 of the Corporations Act 2001 of the Commonwealth.
- (c) Council will therefore initiate a process for External Audit Services for a five (5) year term, for the future consideration of the Audit Committee.

RECOMMENDATION NO. 5

moved it be recommended:

- (a) the report be received for information;

seconded

**6. FINANCIAL INTERNAL CONTROLS - Internal Audit Program - Ref. AF16/164**

The Director - Corporate Services reported:

- (a) as reported previously Council has commenced its Financial Internal Controls Program with the attached report (02/2016) being the initial periodic report;
- (b) these reports, which will become a regular feature of Audit Committee agendas, have been presented to Councils Management Executive Team (MET) for review and for assigning a management response;
- (c) you will note that from the four (4) Controls received there are a number of recommendations/improvements that will be actioned and monitored through the MET meeting process.

**RECOMMENDATION NO. 6**

moved it be recommended:

- (a) the report be received;
- (b) Financial Internal Controls report No 2/2016 be endorsed by Council.

seconded

**7. 2016/2017 ANNUAL BUSINESS PLAN AND BUDGET PROGRAM - Ref. AF15/461**

The Director - Corporate Services reported:

- (a) Council has adopted the following Program in respect of the 2016/2017 Business Plan and Budget process;

<b>Date (2016)</b>	<b>Description</b>	<b>Status</b>
March	Member's Budget Workshops/Briefing(s) Wednesday 2 <sup>nd</sup> March - Wednesday 9 <sup>th</sup> March	Completed
29 <sup>th</sup> March	Draft Business Plan and Budget released for public comment.	Completed
29 <sup>th</sup> April	Public submissions on draft Business Plan and Budget close.	Completed
Wednesday 11 <sup>th</sup> May	First Special (public) Meeting to hear any public submissions and to discuss the draft Business Plan and Budget.	Completed
Wednesday 24 <sup>th</sup> May	Second Special (public) Meeting to be held to discuss/finalise the draft Business Plan and Budget (if required).	Not Required
Tuesday 7 <sup>th</sup> June	Special Council meeting to be held to finalise and endorse draft Business Plan and Budget (if required).	Scheduled
8 <sup>th</sup> July	Last date for finalisation/distribution of first quarterly rate notice and distribution of summary Annual Business Plan.	
9 <sup>th</sup> September	First quarterly rate installment final payment date.	

- (b) Copies of draft documents can be provided at the meeting or available from the Council website.

**RECOMMENDATION NO. 7**

moved it be recommended:

- (a) the report be received;

seconded

**8. NEXT MEETINGS (for confirmation)**

- Third Quarter - Tuesday, 2<sup>nd</sup> August, 2016
- Fourth Quarter - Tuesday, 4<sup>th</sup> October, 2016

The meeting closed at \_\_\_\_\_ p.m.

11<sup>th</sup> May, 2016

ES

## Memorandum

TO: AUDIT COMMITTEE  
 CC: MANAGEMENT EXECUTIVE TEAM  
 REF: AF11/2440  
 RE: **LADY NELSON VISITOR INFORMATION CENTRE – STOCK CONTROL**

In their October 2015 Management Letter, Council's Auditors highlighted a few issues with stock control at the Lady Nelson as detailed below:-

### Issues

*There were instances of stock on hand amounts being higher than the numbers recorded in the stock system and some items shown in minus amounts in the system. This would suggest that stock records were not updated when goods were received. Stock records are confirmed through a stock count on a quarterly basis.*

*The total dollar value of the Lady Nelson Visitor Information Centre stock is minor when considered in the context of the Council's financial statements, but it is important to maintain a culture of control and accountability within council operations.*

### Impact

*The reliability of the stock system may be compromised if the system is not updated when new stock arrives. This increases the difficulty of keeping track of stock loss or damage.*

A review of the stock control processes was completed on 20<sup>th</sup> October 2015 and it was agreed that the following new controls/processes would be introduced:-

- Periodic spot checks (once during each quarter) on high volume/trouble some product lines.
- Quarterly stock takes documented and signed by two officers as at 30 September, 31 December, 31 March and 30 June
- Obtain a stamp to assist with the recording of stock purchases in both 'Authority' and 'Centaman' systems and the pricing as per the example below:-

The Lady Nelson & Discovery Centre	
Date	
Authority	
Centaman Price Rise	
Centaman Stock	



## Memorandum

I visited the Lady Nelson on 13/5/2016 to review their stock takes processed in December and March of this financial year and was satisfied that the new procedures were being followed. There is documented proof that invoices are being checked and signed when goods are received, monthly spot checks are being undertaken and their quarterly stock takes are being completed by two officers.

An area that would benefit the staff is to write a procedure that all staff could follow for consistency and place this in the front of the folder being used for stock takes. This will be developed and will be in place ready for June's stock take.

A further visit is planned to review the recording and processing of their June 2016 stock take.

For information.



**Gary BUTTON**  
FINANCE MANAGER

13<sup>th</sup> May, 2016  
MJT

# Financial Controls Review

## City of Mount Gambier

### Interim Management Letter

23/05/2016

*Local Expertise : Real Access*



# **Table of Contents**

1. EXECUTIVE SUMMARY .....	3
1.1 Background .....	3
1.2 Objectives and Scope .....	3
1.3 Category of Findings .....	5
1.4 Overall Review of the Council's Internal Controls .....	6
1.5. Summary of Findings .....	7
2. DETAILED AUDIT FINDINGS .....	8
2.1 Purchasing and Procurement / Contracting .....	8
2.2 General Ledger.....	9
2.3 Rates.....	10
2.4 Payroll .....	11
APPENDIX 1 – CRITICAL INTERNAL FINANCIAL CONTROLS.....	12

# 1. EXECUTIVE SUMMARY

## 1.1 Background

During our interim audit we perform procedures to gain an understanding of the internal controls in place relevant to the financial statements. We also perform tests on the design and effectiveness of these controls. Based on the results of the control testing, we then assess the audit risks to define the extent and nature of our substantive procedures (e.g. inspection of documents, recalculation, reconciliation, etc) for our final visit.

Amendments to s129 of the Local Government Act 1999 require auditors to provide an opinion regarding internal controls of councils. This applies to prescribed (metropolitan) councils from 2013-14 onwards, and to non-prescribed (regional) councils from 2015-16 onwards. This opinion focuses on councils' obligations under s125 of the Local Government Act 1999:

*“A council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council's assets, and to secure (as far as possible) the accuracy and reliability of council records.”*

The audit opinion is restricted per s129 of the Act to the application of s125 as it relates to financial internal controls, specifically the controls exercised by the council during the relevant financial year in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

In order to assist the Council in addressing the requirements of s129, we have reviewed a prioritised list of controls from the better practice model based on our initial audit risk assessment. See more details about our scope in item 1.2 of this report.

## 1.2 Objectives and Scope

The objectives of our interim audit were to:

- understand Council's business, business cycles and processes relevant to the financial statements
- understand the internal controls in place for the areas we consider critical for the audit of the financial statements
- design internal controls tests for the internal controls identified
- perform the internal controls tests to determine the final risks of material misstatements in the financial statements to be addressed in our final audit.
- review a prioritised list of internal financial controls we consider critical for the purpose of issuing a controls opinion.

This financial year the scope of our audit was extended to include a review of internal controls we consider key controls to be in place for the purpose of addressing the requirements of s129.

These key internal controls consist of a prioritised list of controls from the better practice model. This list was defined based on our risk assessment to determine the key business cycles, and key risks within these business cycles, that we understand are the most critical in meeting Council's obligations under s125.

The identification of key core controls and key business risks included the following risk assessment procedures:

**Risk Review** – A review of Council’s inherent risk assessment for internal financial controls.

**Financial Statement Review** – A high level financial statement review performed to identify key accounts and transaction streams.

**Internal / External Audit Results Review** – The findings and recommendations of internal / external financial audits are reviewed to identify known areas of weakness, and areas known to be attracting audit attention.

The key core controls for the following key business cycles have been identified as critical for the purpose of issuing a controls opinion next financial year:

- Purchasing and Procurement / Contracting
- Fixed Assets
- General ledger
- Accounts Payables
- Rates / Rates Rebates
- Payroll
- Banking
- Receipting.

We have included a list of key controls identified by the audit for these business cycles as an appendix to this report (see Appendix 1). This list does not represent a complete population of internal controls that the Council should have in place. There is an expectation that controls not in this list will still exist and be operating effectively within Council.

The list of controls is only intended to be a guide for Council to prioritise its resourcing in readiness for the new audit opinion, and for the ongoing monitoring of internal controls i.e. it is a risk based listing of controls which may be desirable for Council to include in its ongoing monitoring program for internal financial controls.

The list should not be considered a minimum standard – rather, it is a starting reference point for Council to consider. It is expected that Council will have performed a risk assessment of financial risks, and given consideration to the need to monitor controls that address High / Extreme risks that may not be included in this listing.

The control descriptions are as per the Better Practice Model, and have not been personalised to the Council. Council may have different descriptions of controls that address the same risk provided by the better practice model. Council may consider tailoring the controls description to better describe the actual controls in place.

### 1.3 Category of Findings

In order to assist the Council in establishing its level of priority we have provided an overall assessment of the business cycles for which we have identified performance improvements opportunities (this report is prepared on an exception basis).

We assessed each business cycle using our risk assessment which was focused on the risk of finding material weaknesses which could lead to a modified controls opinion in the 2015/16 FY. An overall assessment of the risk of a potential modified audit opinion per business cycle is provided in item 1.5 of this report.

The detailed findings containing the control tested as per Better Practice Model, findings and recommendations are provided in section 2 of this report. The individual findings are also rated to assist the Council in prioritising corrective actions.

The overall assessment of the risk of non-compliance with s125 of the Local Government Act 1999 and the related findings and recommendations were rated as follows:

Category	Description
<b>High Risk Weakness</b>	The issue described could lead to a material weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
<b>Moderate Weakness</b>	The issue described does not represent a material weakness due to the existence of compensating controls. However, the failure of the compensating controls or the existence of any other moderate weakness within the same business cycle may lead to a material weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
<b>Low Risk Weakness</b>	The issue described is a low risk weakness due to the existence of compensating controls and the failure or absence of the internal controls does not impact significantly on the council's financial statements. However, multiple low level risk weakness within the same business cycle may lead to a material weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
<b>Better Practice Weakness</b>	The issue described has been included in this report as an opportunity for better practice.

The Council should also perform its own assessment of priority based not only on audit risks, but also other risks management considers relevant such as non-compliance with pertinent legislation and regulations, and reputational risks.

## 1.4 Overall Review of the Council’s Internal Controls

Overall the Council demonstrated significant progress towards the implementation of an internal control framework consistent with the principles within the Better Practice Model (BPM).

During our interim visit we noted that most of the key internal controls reviewed were in place and were operating effectively (43 out of 49 core controls reviewed). The principles underpinning the model were used by the Council in the identification of its business cycles, the establishment of its internal controls and the implementation of its risk management processes.

A summary of the results of our review is provided in the table below:

Business cycles	Controls Reviewed	Operating Effectively	Findings			
			H	M	L	BP
Purchasing & Procurement / Contracting	7	6	-	1	-	-
Fixed Assets	7	7	-	-	-	-
General Ledger	3	2	-	-	1	-
Accounts Payable	11	11	-	-	-	-
Rates / Rates Rebates	6	4	-	-	2	-
Payroll	10	8	-	-	-	2
Banking	2	2	-	-	-	-
Receipting	3	3	-	-	-	-
<b>Total</b>	<b>49</b>	<b>43</b>	<b>-</b>	<b>1</b>	<b>3</b>	<b>2</b>

We recommend that Council addresses the moderate risk finding as failure of compensating controls addressing the same risk or existence of any other moderate weakness within the same business cycle may lead to a material weakness and non-compliance with s125 of the Local Government Act.

We noted that Council was in the process of establishing mechanisms to ensure ongoing monitoring of effectiveness of the internal controls. Many of the findings provided in this report had already been identified by Council during its own self-assessment. Council already has plans in place to make the necessary improvements.

## 1.5. Summary of Findings

Business Cycle	Findings	Control	Risk
<b>Purchasing and Procurement / Contracting</b>	We noted that as part of the tendering and contracting procedures, there was no requirement for conflict of interest declarations for council officers conducting tender assessment or the councillors approving recommendations.	1	<b>M</b>
<b>Fixed Assets</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/a	N/a
<b>General Ledger</b>	Reconciliations are prepared by the Finance Manager but they are not being reviewed by an independent person.	2	<b>L</b>
<b>Accounts Payable</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/a	N/a
<b>Rates / Rates Rebates</b>	Manual checks of the sampled rates calculations are not being retained. There is no documented procedures for the rates modelling process.	3	<b>L</b>
	An audit trail is not maintained for all changes to the property master file.	4	<b>L</b>
<b>Payroll</b>	We noted that while the payroll disbursement report includes variances between pay periods, a separate exceptions report detailing variances from this pay to last pay is not being prepared and reviewed by the council.	5	<b>BP</b>
	Whilst the audit trail is prepared on a monthly basis, this is not reviewed against source documents (E.g. employee signed bank details change).	6	<b>BP</b>
<b>Banking</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/a	N/a
<b>Receipting</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/a	N/a



## 2. DETAILED AUDIT FINDINGS

### 2.1 Purchasing and Procurement / Contracting

Control	Audit Qualification Risk	Findings	Recommendations	Management Response
<p>1. Robust and transparent selection processes to ensure effective and qualified suppliers / contractors are selected by Council, including compliance with Code of Conduct, Conflict of Interest and procurement Policies.</p> <p><b>BPM Risk</b> Council is not able to demonstrate that all probity issues have been addressed in the Contracting process.</p>	<p><b>Moderate risk weakness</b></p>	<p>We noted that as part of the tendering and contracting procedures, there was no requirement for conflict of interest declarations for council officers conducting tender assessment or the councillors approving recommendations.</p>	<p>The Council implements Conflict of Interest Declarations for all officers and councillors involved in tendering processes to allow the proper disclosure of conflicts of interest.</p>	<p>Council agrees with the audit recommendation and will develop and implement a Conflict of Interest Declaration to form part of the tender assessment process.</p>

## 2.2 General Ledger

Control	Audit Qualification Risk	Findings	Recommendations	Management Response
<p>2. General Ledger reconciliations (including control and clearing accounts) are prepared on a regular basis; all reconciliations independently reviewed.</p> <p><b>BPM Risk</b> General Ledger does not contain accurate financial information.</p>	<p><b>Low risk weakness</b></p>	<p>Reconciliations are prepared by the Finance Manager but they are not being reviewed by an independent person.</p>	<p>Preparation of the general ledger reconciliations is undertaken by a finance officer with the Finance Manager reviewing the monthly reconciliations.</p>	<p>Recommendation Actioned. In future general ledger reconciliations will be prepared independently of each other.</p>

## 2.3 Rates

Control	Audit Qualification Risk	Findings	Recommendations	Management Response
<p>3. Management regularly reviews the calculation methodology within the rate application system and for a sample of ratepayers to ensure correct calculation and methodology has been used.</p> <p><b>BPM Risk</b> Council does not raise the correct level of rate income.</p>	<p><b>Low risk weakness</b></p>	<p>We noted that random assessments are provided to the Dir Corp Services for his review &amp; approval.</p> <p>However, manual checks of the sampled rates calculations are not retained. These should be retained by council to demonstrate that the correct rate calculations and methodology has been applied.</p> <p>In addition, we noted that there are no documented procedures for the rates modelling process.</p>	<p>The Council documents the rates modelling process and procedures to ensure consistency in the process and transfer of knowledge.</p> <p>In addition, the council ensures that formal recalculations for a sample of rates is performed and maintained.</p>	<p>Council's rates (including rates modelling) process follows the Authority (Local Government Software Solution) User Guide (hard copy booklet form).</p> <p>Council to ensure that each random sample of rates is independently recalculated and copies of that process are maintained in Council's Record Management System (Records Manager).</p>
<p>4. Recorded changes to property master file data are compared to authorised source documents or confirmed with ratepayers to ensure that they were input accurately. An audit trail is maintained for all changes.</p> <p><b>BPM Risk</b> The Property master file data does not remain pertinent.</p>	<p><b>Low risk weakness</b></p>	<p>An audit trail is not maintained for all changes to the property master file.</p> <p>We understand that a report is received from Land Titles Office after changes are made and that this report is checked to source documents by the customer services officer/rates officer.</p>	<p>An audit trail detailing all changes to property master file is generated for review against source documents.</p>	<p>Council's software provides audit trails for changes to individual assessments but not on a global basis for changes to all assessments. Assistance will be sought from Councils software provider on the availability of a global audit report for all changes.</p>

## 2.4 Payroll

Control	Audit Qualification Risk	Findings	Recommendations	Management Response
<p>5. Payroll system generates exception reports detailing all payroll changes that are regularly reviewed by management who investigate &amp; approve variances.</p> <p><b>BPM Risk</b> Payroll disbursements are made to incorrect or fictitious employees.</p>	<p><b>Better Practice</b></p>	<p>We noted that while the payroll disbursement report includes variances between pay periods, a separate exceptions report detailing variances from this pay to last pay is not being prepared and reviewed by the council.</p>	<p>As an improvement initiative, the council considers producing a separate exception report summarising the employees and variance from this pay period to last pay period.</p>	<p>As an interim measure a Payroll History Summary Report will be printed each fortnight which summarises employees' current pay and previous pay. Team Leader Finance to check pay variances and investigate before payroll file sent to bank. Council plans to further refine this report using excel to set parameters so that only employees outside chosen percentage variables are reported for investigation (instead of all employees).</p>
<p>6. Significant changes (supported by adequate audit trail) to the payroll master files approved by management.</p> <p><b>BPM Risk</b> Payroll master file does not remain pertinent and/or unauthorised changes are made to the payroll master file.</p>	<p><b>Better Practice</b></p>	<p>Whilst the audit trail is prepared on a monthly basis, this is not reviewed against source documents (E.g. employee signed bank details change).</p>	<p>The council considers including the source documents detailing the addition or change required with the audit trail for easier verification of changes and their accuracy.</p>	<p>Council has implemented an additional column to the Payroll Changes Book to reference our Records Manager file number. This will ensure that person validating payroll changes can easily verify authenticity to source documents and indicate so by initialling in the payroll changes book.</p>

**APPENDIX 1 – CRITICAL INTERNAL FINANCIAL CONTROLS**

## FIXED ASSETS

### Risks

R1	Fixed asset acquisitions, disposals and write-offs are fictitious, inaccurately recorded or not recorded at all.
R2	Fixed assets are inadequately safeguarded.
R3	Fixed Assets are not valued correctly
R4	Depreciation charges are either invalid not recorded at all or are inaccurately recorded.
R5	Fixed Asset maintenance and/or renewals are inadequately planned.

RISKS	Control	Control Type	CSA Importance	Weighting
R1	Regular verification of fixed assets are conducted and reconciled to the FAR.	Core		4
R1	Recorded changes to the FAR and/or masterfile are approved by management, compared to authorised source documents and General Ledger to ensure accurate input.	Core		5
R1	All fixed asset acquisitions and disposals are approved in accordance with Delegation of Authority and relevant Procurement and Fixed Asset Policies.	Core		5
R1	Access and on-going maintenance of the fixed asset register is performed by authorised officers only.	Core		4
R1	Council has an asset accounting policy which details thresholds for recognition of fixed assets which is monitored to ensure adherence.	Core		5
R1	Reconciliation of fixed assets to the General Ledger is performed regularly.	Core		4
R1	Asset maintenance schedules are prepared, updated, and monitored by management and activity per the asset maintenance schedule. Changes to the asset maintenance history register are compared to source documents to ensure that they were input accurately.	Core		4
R3	Management regularly reviews valuation of fixed assets - methodology and useful lives, to ensure valuation is appropriate and in accordance with reporting requirements. Where appropriate, Council may engage an expert to perform valuations.	Core		5
R3	Management reviews depreciation rates and methodology (at least annually) to ensure that methods used to value fixed assets are still appropriate.	Core		5
R3	Asset revaluations and depreciation reviews are performed in accordance with Australian Accounting Standards.	Core		5
R3	The annual review of assets includes reviewing the appropriateness of categories of assets and impairment testing.	Core		4
R4	Depreciation charges are calculated in accordance with the accounting policy, including the useful life, depreciation method and calculation formulas.	Core		5
R5	Asset Management Plans exist for all major asset classes and all changes to the asset management plan must be approved by Council.	Core		5

## PURCHASING AND PROCUREMENT

### Risks

R1	Council does not obtain value for money in its purchasing & procurement.
R2	Purchases of goods and services are made from non-preferred suppliers.
R3	Purchase orders are either recorded inaccurately or not recorded at all.
R4	Purchase orders are placed for unapproved goods and services.

RISKS	Control	Control Type	CSA Importance Weighting
R1	Council has a comprehensive Contract and Procurement Policy that is reviewed regularly.	Core	5
R1, R2, R4	Employees must ensure all purchase orders are approved in accordance with the Delegations of Authority and relevant policies.	Core	5
R3	Purchase orders are issued in accordance with the Council's Purchasing and Procurement Policy.	Core	5

## CONTRACTING

### Risks

R1	Council is not able to demonstrate that all probity issues have been addressed in the Contracting process.
R2	Council does not obtain value for money in relation to its Contracting.

RISKS	Control	Control Type	CSA Importance Weighting
R1,R2	Robust and transparent selection processes to ensure effective and qualified suppliers / contractors are selected by Council, including compliance with Code of Conduct, Conflict of Interest and procurement Policies.	Core	5
R1	Council to maintain a contract register.	Core	4
R1	The Contracts, Tenders and Procurement Policy and Procedures should be reviewed regularly.	Core	4
R2	Council does not release milestone payments to suppliers / contractors until they meet all their associated objectives.	Core	5

## RATES / RATES REBATES

### Risks

R1	Council does not raise the correct level of rate income.
R2	Rates and rate rebates are either inaccurately recorded or not recorded at all.
R3	The Property master file data does not remain pertinent
R4	Pensioner concessions and self-funded retirees are either inaccurately recorded or not recorded at all.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2	Rates are automatically generated by the rate system, including the calculation of rate rebates, if applicable.	Core	4	
R1, R2	Management regularly reviews the calculation methodology within the rate application system and for a sample of ratepayers to ensure correct calculation and methodology has been used.	Core	4	
R1	All software changes to rate modelling functionality fully tested and reviewed by qualified personnel.	Core	5	
R2	Regular review of exempt properties to ensure still valid, interest flag switched off and rate rebates.	Core	5	
R2	Council approves rate rebates to rate payers in accordance with Delegations of Authority and as per the legislation.	Core	4	
R2	Regular independent review of the rates aged receivables reports and independent check of rates payable by rates staff.	Core	4	
R3	Recorded changes to property master file data are compared to authorised source documents or confirmed with ratepayers to ensure that they were input accurately. An audit trail is maintained for all changes.	Core	4	
R3	Access to the Property master file is restricted to appropriately designated personnel, with significant changes to the Property master file approved by management.	Core	5	
R4	Authorised officers verify all pensioner concession entitlement information provided annually by government departments.	Core	4	

## RECEIPTING

### Risks

R1	Receipts are either inaccurately recorded or not recorded at all.
R2	Receipts are not deposited at the bank on a timely basis.

RISKS	Control	Control Type	CSA Importance	Weighting
R1,R2	Cash is stored securely at all times including the duration of the cash management process.	Core	5	
R1	Officers who create debtors invoices do not have access to receipting payments and/or reversing receipt transactions.	Core	5	



**PAYROLL**

**Risks**

R1	Payroll expense is inaccurately calculated.
R2	Payroll disbursements are made to incorrect or fictitious employees
R3	Time and/or attendance data is either invalid, inaccurately recorded or not recorded at all.
R4	Payroll master file does not remain pertinent and/or unauthorised changes are made to the payroll master file.
R5	Voluntary and statutory payroll deductions are inaccurately processed
R6	Salary sacrifice transactions are inaccurately processed.
R7	Employees are terminated in breach of statutory and enterprise agreements.

<b>RISKS</b>	<b>Control</b>	<b>Control Type</b>	<b>CSA Importance</b>	<b>Weighting</b>
R1	Standard programmed formulae perform payroll calculations.	Core		5
R1, R3	Overtime hours worked and payments for such overtime are authorised by management for all eligible employees.	Core		5
R2	The transfer of the bank file should be restricted to authorised officers who are not be involved in the preparation of the pay run.	Core		5
R2	Payroll system generates exception reports detailing all payroll changes that are regularly reviewed by management who investigate & approve variances.	Core		5
R2	Employee records to include employment details and/or contract terms and conditions, authorisations for payroll deductions and leave entitlements.	Core		5
R2	Officers responsible for originating/preparing payroll disbursements are precluded from authorising transfer of same.	Core		5
R2	Employees made inactive in payroll records immediately upon termination. Termination report provided as supporting documentation with request for an EFT. Comparison of subsequent current employee listings made by independent person to verify correctness.	Core		5
R2	All employee deductions must be substantiated with documented approval provided by employee.	Core		5
R3	Total of payment summaries for the year is reconciled to general ledger and payroll.	Core		4
R3	Relevant staff are required to complete timesheets and/or leave forms, authorise them and have approved by the supervisor/manager.	Core		5
R4	Significant changes (supported by adequate audit trail) to the payroll master files approved by management.	Core		4
R4	All payroll suspense accounts are reconciled and reviewed by management or other supervisory personnel on a timely basis. Transactions recorded in the payroll suspense accounts are proper suspense items; other items are investigated and resolved in a timely manner.	Core		4
R5	Access to the payroll deduction listing is restricted to authorised officers.	Core		5
R6	All original salary sacrifice transactions must be approved by the relevant employee. Payroll staff must ensure that such approval has been obtained prior to processing transactions into the payroll system.	Core		5
R7	Establish employee termination policies and procedures, including statutory regulation and union requirements. Regularly review and update these policies and procedures.	Core		4

## GENERAL LEDGER

### Risks

R1	General Ledger does not contain accurate financial information
R2	Data contained within the General Ledger is permanently lost.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2	All updates and changes to General Ledger programmes are authorised, tested and documented.	Core		5
R1, R2	Access to General Ledger maintenance is restricted to authorised personnel.	Core		5
R1	General Ledger reconciliations (including control and clearing accounts) are prepared on a regular basis; all reconciliations independently reviewed.	Core		4
R1	Manual journal entries recorded in the register are authorised by the officer preparing the journal and an independent reviewer.	Core		5
R1, R2	Off-site backup of data, program and documentation.	Core		4
R1	System does not allow posting of unbalanced journals.	Core		5
R1	Amendments to the structure of the General Ledger framework are approved by an authorised officer.	Core		5
R1, R2	General Ledger policies and procedures are appropriately created, updated & communicated to relevant personnel in the finance department.	Core		5
R2	Formal disaster recovery plan adopted by Council or Senior Executive.	Core		5

## ACCOUNTS PAYABLE

### Risks

R1	Accounts payable amounts and disbursements are either inaccurately recorded or not recorded at all
R2	Credit notes and other adjustments to accounts payable are either inaccurately recorded or not recorded at all
R3	Disbursements are not authorised properly.
R4	Accounts are not paid on a timely basis
R5	Supplier master file data does not remain pertinent and/or unauthorised changes are made to the supplier master file.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2, R4	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable subledger regularly and differences are investigated.	Core		4
R1	Invoices received are authorised and accompanied by appropriate supporting documentation.	Core		5
R1	Payments (Cheques and EFT's) are endorsed by authorised officers separate to the preparer who ensure that they are paid to the specified payee.	Core		5
R2	Access to the supplier master file is restricted to authorised officers.	Core		5
R2, R5	Separation of Accounts Payable and Procurement duties.	Core		5
R3	All disbursements must be approved by an authorised officer in accordance with relevant policies and/or Delegations of Authority.	Core		5
R3	Purchase Orders must be raised for the purchase of goods and services in line with the Council's Procurement policy or over a predetermined amount where applicable.	Core		5
R3	Individuals who authorise payment of suppliers are authorised officers who are independent of the processing of invoices.	Core		5
R4	Authorised officer to review aged payables listing on a predetermined basis and investigate where appropriate.	Core		5
R5	Recorded changes to the supplier master file are compared to authorised source documents to ensure that they were input accurately.	Core		5
R5	The accounts payable system and or supplier master file prevents users from making unauthorised adjustments to supplier accounts.	Core		5

## DEBTORS

### Risks

R1	Debtors are either inaccurately recorded or not recorded at all.
R2	Rebates and credit notes to debtors are either inaccurately recorded or not recorded at all
R3	An appropriate provision for doubtful debts is not recorded
R4	Debtors are either not collected on a timely basis or not collected at all
R5	The Debtors master file data does not remain pertinent.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R4	Debtor's reconciliation performed on a regular basis to the General Ledger and reviewed by an independent person.	Core		4
R1	Council maintains a Debt Collection Policy.	Core		5
R2, R3, R4	Management and/or Council review and approve all rebates, credit notes, bad debt write-offs and movements in the provision for doubtful debts, in accordance with delegations of authority and Local Government Act.	Core		5
R3, R4	Management reviews debtors ageing profile on a regular basis and investigates any outstanding items.	Core		4
R5	Access to the debtor's master file is restricted to appropriately designated personnel and is reviewed by management for accuracy and on-going pertinence.	Core		5
R5	Recorded changes to debtor's master file data are compared to authorised source documents or confirmed with customers/ratepayers to ensure that they were input accurately.	Core		4

## BANKING

### Risks

R1	Banking transactions are either inaccurately recorded or not recorded at all.
R2	Fraud.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2	Blank cheques and/or cheque-signing machine are adequately safeguarded.	Core		5
R1, R2	Access to EFT Banking system restricted to appropriately designated personnel.	Core		5
R1, R2	Bank reconciliations are performed on a predetermined basis and are reviewed by an authorised officer. Any identified discrepancies are investigated immediately.	Core		5
R1, R2	All cash held securely in safe/registers with access restricted to appropriately designated personnel.	Core		5
R2	Cash transfers between bank accounts and investment bodies are approved by authorised officer.	Core		5
R2	Procedures are in place to ensure that all cash collected is banked and properly recorded.	Core		5

## FINANCIAL INTERNAL CONTROLS 02/2016

**SUBJECT: UPDATE ON FINANCIAL INTERNAL CONTROLS**

**REF: AF16/164**

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### **Background & Objectives**

The appointment of the Management Accountant position began 7<sup>th</sup> March, 2016. It is within the scope of this role to manage the Council's Financial Internal Controls Regime.

In line with Council's responsibility to the community and vision for the future, the following five objectives are expected outcomes from this role:

1. To improve and add value to the effectiveness of Council operations.
2. Support good internal governance and risk management.
3. Instill public confidence in the effective operations of Council.
4. Reduce non-traditional areas of risk such as risk of fraud and non-compliance with relevant regulations.
5. Contribute to the effectiveness of the External Audit.

### **How Will These Objectives be Achieved?**

The Better Practice Model, Financial Internal Controls for South Australia has been used as a base to identify, rate and evaluate potential risks. There are approximately 93 categories of risk and in excess of 400 possible controls to be reviewed under these categories. All risks identified are to be reviewed over a rolling three year period, with the exception of High and Extreme Risks which are to be reviewed annually. The 93 categories have been truncated to 32 overall category classes tabled below. Each category is made up of core controls and additional controls. At minimum the core controls are essential to be reviewed and additional controls desirable, but not essential. Please note these 400 controls have not been provided for review; however contribute to supporting documentation and working papers that assist in formulating the recommendations presented at Management Executive Team (MET) Meetings.

### **What to Look for**

The primary components to evaluate when reviewing the financial internal controls are:

- Accessibility – The biggest mitigation of risk is the denial of access. This protects intellectual and physical assets from misuse, damage (whether deliberate or not) and theft from both employees and outsiders.
- Legislation and Standards – Ensuring Council are compliant with Legislative requirements.
- Reconciliations – Ensuring reconciliations are completed by appropriate staff member(s), maintaining suitable separation of duties. Record keeping controls ensure that information is accurate and transparent and that an independent person with the same source documents would generate a similar outcome.

- Authorisations – Obtaining proper authorisation for transactions and activities involving procurement and expenditure of funds to prevent theft and fraud. This may also be applied to other activities that could impact on performance or reputation, for example press releases.

## **Preventative Measures**

The tone set from Executives towards financial internal controls has critical influence over corporate culture and employee attitude. As leaders, Executives' attitudes toward internal control and risk has a flow on effect and if it is perceived to be inconsequential by employees a culture of carelessness, dishonesty and poor reporting may develop which is likely to create an environment that can be easily manipulated for personal benefit or gain.

To this point no mention of Council's Policies, Administrative Procedures and Guidelines has been cited. However they are significantly important in that they have been put in place to ensure that Council meets it's objectives. Procedures explain the how, why, what, where and when for any set of actions, by setting a tone of expectation and reducing poor individual judgement. Procedures help train new staff, reduce errors and assist employees to understand and ultimately deliver what is expected of their role. It is important to look at the overall picture and ask questions such as:

- Is there a policy and/or procedure in place?
- If not, is there sufficient risk to warrant a policy and/or procedure be implemented?
- What benefits would be gained from implementing a policy and/or procedure?

Where a policy and/or procedure is currently in place, review will be completed on the effectiveness and compliance with such documents, however compliance is only one element. Overarching questions to consider where a policy/procedure already exists include:

- What is the policy and/or procedure trying to achieve?
- Or, what are the desired outcomes of having the policy and/or procedure?
- Is the policy and/or procedure practical to enable employee's to be able to complete their duties and functions?
- If not, does the policy and/or procedure need to change?

A response to these questions from the Management Accountant may simply be:

“No current procedure in place, recommend due to the nature of the task(s) that Executives read and make amendments where deemed necessary to implement the draft procedure attached”.

Executives have the power to dismiss, amend or implement any suggestions put forward by the Management Accountant with good reason. Majority consensus from the MET Members would be desirable for recommendations that are dismissed.

The table below represents the various categories that will be presented to the MET (truncated version as mentioned above). Each item will stay as an active item on the MET Agenda until satisfied that the category has been completed.

<b>FINANCIAL INTERNAL CONTROLS – RISK CATEGORY PROGRESSION</b>					
<b>Category</b>	<b>Element</b>	<b>Description</b>	<b>Risk Rating</b>	<b>MET Meeting</b>	<b>Action</b>
1	-	-			
2	Asset	Cash Floats & petty Cash	Low		
3	Assets	Banking	High	MAY 16	
4	Assets	Investments	High		
5	Assets	Debtors	Moderate		
6	Assets	Inventory	Low		
7	Assets	Prepayments	Moderate		
8	Assets	Fixed Assets	Moderate		
9	Assets	Project Costing	High		
10	Assets	Loans/Grants to clubs	Low		
11	Liabilities	Accounts Payable	Moderate		
12	Liabilities	Accrued Expenses	Moderate		
13	Liabilities	Borrowings	Moderate		
14	Liabilities	Employee Provisions	Low		
15	Liabilities	Taxation	Low		
16	Revenue	Rates/Rate Rebates	Moderate		
17	Revenue	Grants	Moderate		
18	Revenue	Fees for Service	Moderate		
19	Revenue	Investment/Interest Income	Low		
20	Revenue	Receipting	Low		
21	Revenue	Other Revenue	Moderate		

22	Expenses	Purchasing & Procurement	High	MAY 16	
23	Expenses	Payroll	Moderate		
24	Expenses	Elected Member Expenses	Low		
25	Expenses	Credit Cards	Low	MAY 16	
26	Expenses	Employee Reimbursements	Low		
27	Expenses	Other Expenses	Low		
28	External Services	Contracting	Extreme	MAY 16	
29	Strategic Planning	Budgets	Moderate		
30	Strategic Planning	General Ledger	High		
31	Strategic Planning	Statutory Reporting	Moderate		
32	Strategic Planning	Management Reporting	Moderate		

As indicated in the above table, column “MET Meeting”, references the month that a particular category(s) will be presented to the MET for review. Each category will be presented as an individual item and contain the following information:

- Issue – What is/are the key concern(s) identified in regards to the controls reviewed?
- Impact – What is/are the key impact(s) arising from not addressing this issue?
- Recommendations – Management Accountant will provide recommendations and where necessary attach further documents for review to mitigate such issues and impacts identified.

Please note, where further background information is required, the Management Accountant will include such information.

**What are the MET responsible for?**

As indicated in the table above the Management Accountant will provide reports per category for the MET to review. Each report details any Issues that have been identified and the Impacts these issues may have on Council, followed by a recommendation for improvement. It is advised that the MET focus on each of the findings reported and determine any actions required.

The table of financial internal controls will remain a rolling item on the MET Meeting Agenda until each category is actioned as complete.



**Recommendation:**

- a) Financial Internal Controls Report 02/2016 be received;
- b) Recommendations for each financial internal control category presented for May 2016 be actioned;
- c) Draft Corporate Credit Card Procedure be marked as final and received;
- d) Draft Credit Card Use Agreement be marked as final and received.

**Kahli ROLTON**  
MANAGEMENT ACCOUNTANT

Sighted:

**Grant HUMPHRIES**  
DIRECTOR CORPORATE SERVICES

15<sup>th</sup> May, 2016  
KROL

### 3: Assets - Banking

**MODERATE**

Issues	Recommendations	Management Response
<p><b>Issues</b>                      Excess change for cash registers (\$800) is not held in a secure location and access is not restricted to appropriately designated personnel.</p> <p>Online banking system is not restricted to appropriately designated personnel.</p> <p><b>Impact</b>                      It is good practice to ensure that cash funds are securely stored and access restricted to designated staff members. Such practice reduces opportunity risk of theft and improper use of funds.</p> <p><i>PLEASE NOTE REVIEW HAS NOT YET BEEN COMPLETED FOR "OFFSITE" FUNCTIONS SUCH AS LADY NELSON, WASTE TRANSFER, CARINYA</i></p>	<p><b>Option one:</b>                      Council instals lock on cabinet in customer area where the \$800 change is currently kept.</p> <p><b>Option two:</b>                      \$800 change bag is kept locked in the safe rather than in the customer service area.</p> <p>Amend procedures to ensure option selected is incorporated.</p> <p>Remove Management Accountant from access to the online banking system.</p>	<p>Change Bag to be kept in locked safe</p> <p>Finance Manager suspended access for Management Accountant 07/03/2016</p>

Prepared By: Kahli Rolton  
 Date: 22/03/2016

## 22: Expenses - Purchasing & Procurement

**HIGH**

Issues	Recommendations	Management Response
<p><b>Issues</b></p> <p>a) Council's online purchasing system set up with delegated financial authority for authorised officers does not match Council's Policy and Statutory Resolutions.</p> <p>b) Council is not obtaining value for money from suppliers of goods that fall outside of prequalified contractor requirements. Unmatched purchase orders are not actioned or corrected.</p> <p>c) Inaccurate input of purchase orders or no purchase order recorded at all.</p> <p><b>Impact</b></p> <p>The online purchasing system has limitations able to be set at system level to safeguard against employees purchasing outside their delegated authority. If the system is not set up correctly, risk that purchases will be made outside financial authority and relevant policies. Risk that Council incurs expenditure for items that are inaccurate, unnecessary or not approved and therefore does not meet its objectives &amp; distorts remaining budgets. Poor supplier selection can result in Council not obtaining value for money in regards to purchases of goods. This may result in unnecessary overspending of budget allocation. Should purchase orders remain unmatched in the system, this will result in mis-reporting of committed items against budget lines.</p> <p><b>Background</b></p> <p>d) Purchase orders are unable to be raised using OLR for expenses incurred via Corporate Credit Cards, Woolworths &amp; Coles Cards.</p>	<p>a) TLF to update financial authority limits in line with council policy P420 &amp; remove workorder limits. Governance Officer to complete Financial Delegation forms for relevant employees to sign. Suggest a refresher for all staff who hold financial delegations, half hour training session on Policy P420 to re-educate on the importance of our Council's purchasing requirements and also prompt to educate suppliers that they will not be paid unless Council have issued a Purchase Order or entered a contractual agreement.</p> <p>b) Council need to be mindful of cumulative spends where no pre-qualification or contract exists. Due to Council's decentralised purchasing process, to ensure value for money is obtained recommend another section be added to the prequalified contractors list to incorporate "preferred suppliers".</p> <p><b>Option One:</b> Designated officer to undertake robust review of goods suppliers such as stationery, parts, plants, repair items by obtaining price lists to determine which supplier provides best value for money (note that non-financial specifications such as time &amp; quality also need to be factored in).</p> <p><b>Option Two:</b> Look at implementing annual (or biennial) tenders for suppliers of goods where Council cumulatively spends to ensure best value for money obtained.</p> <p>c) Finance Officer currently scheduled to print outstanding purchase order reports quarterly. Suggest these reports are filed in the AP audit file for proof of completion &amp; to authenticate any changes made. Suggest procedure implemented to ensure all staff create Purchase Orders for acquisitions. Re-education process for staff &amp; suppliers - payments will not be made without a purchase order that has gone through the appropriate hierarchy &amp; authority channels.</p> <p>d) TLF investigate with Authority the ability of Cards to be processed like a bank account therefore enabling ability to use purchase orders.</p>	<p>Governance Officer reviewed financial delegations, submitted and approved through Council Meeting.</p> <p>Due to system constraints TLF set up Directors with unlimited financial authority. Support call has been logged with Civica in regards to Directors having the ability to select from two authority options: \$50,000 for general purposes &amp; unlimited for approvals via resolution of Council.</p> <p>As an initial step, implement annual tender for preferred suppliers of goods that fall outside prequalified contractor requirements (Option Two).</p> <p>Investigate education/training for entire purchasing/procurement process.</p> <p>Implement Internal Control Procedure for purchasing &amp; Procurement.</p> <p>Authorise investigation with software provider that will enable purchase orders to be raised for credit (&amp; other) cards.</p>

Prepared By: Kahli Rolton

Date:17/05/2016

## 25: Expenses - Credit Cards

LOW

Issues	Recommendations	Management Response
<p><b>Issues</b> Corporate Credit Cards issued to unauthorised employees or council members. Credit Card holders use not compliant with current council policy &amp; procedures.</p> <p><b>Impact</b> To ensure purchases made on behalf of council are done so with the correct financial authority and policies; Credit Cards issued to unauthorised employees or members risk purchases being made that have not been approved by managers, particularly where cross divisional use is required. Signed declaration confirming compliance with current council policy &amp; procedure mitigates risks that restrictions placed on credit holders are adhered to and that such restrictions including private use do not result in overstating the operating expenses of council in management and financial reports as well as adverse publicity.</p> <p><b>Background:</b> Council Policy E160 Corporate Credit Cards was revoked Feb 2014. Due to revocation of policy Mayor currently has no authority to have a credit card and make direct purchases on behalf of Council. Council Policy M405 Members - Allowances, Re-imbursments, Benefits &amp; Facilities does not have provision for Mayor to be granted the facility of a credit card.</p>	<p>Suggest inclusion of Credit Cards as a method of procurement be added to Council Policy P420 or separate Credit Card Policy be re-introduced. Draft procedure to outline use of credit cards is attached for your review.</p> <p>Finance Manager to prepare register of Credit Cards to be signed by the CEO stipulating who has delegated authority to use credit cards at any point in time. Management Accountant to review credit card register as per the internal audit function on a regular basis in line with the financial internal controls better practice model.</p> <p>Management Accountant with assistance of Governance officer has prepared findings to obtain legal recommendation regarding the Mayor having use of a corporate credit card on 14/04/2016. Pending information from Lawyers regarding the amendment of M405 Policy to allow Mayor the facility of a credit card.</p> <p>Amendment to Corporate Card Agreement of Use document to include extra control in relation to the accumulation of points that could be used for personal benefit or gain. New authorities need to be signed by all authorised card holders.</p> <p>Recent Transactions have shown shortfalls with cross-divisional use of credit cards. Finance Officers' have implemented a register template to assist credit card holders in keeping track of purchases made on their credit cards. Upon discussion Team Leader Finance has implemented an authority slip that requires approval from line/budget manager to ensure that the appropriate budget officers approve purchases in line with their hierarchy. This was presented at the last Senior Managers Meeting by Finance Manager.</p>	<p>Adopt new draft procedure with minor amendments.</p> <p>Implement register of cardholders (in progress by Finance Manager)</p> <p>Implement new draft agreement inclusive of personal benefit clause.</p> <p>The current internal controls systems used to authorise the Mayor's monthly credit card purchases on Council related expenses, be continued. Amendments be made to policy M405 at the next available opportunity.</p>

Prepared By: Kahli Rolton

Date: 05/05/2016

## 28: External Services - Contracting

**EXTREME**

Issues	Recommendations	Management Response
<p><b>Issues</b></p> <p>Independent personnel to select tender/contract to ensure that informed and objective decision made when selecting supplier.</p> <p>Council is maintaining a prequalified contractor register, however it is not council wide and does not include preferred suppliers (ie, suppliers that provide goods such as stationery).</p> <p>Council does not maintain a separate register tracking contracts entered in to, associated obligations &amp; timing with those contracts, eg retentions, meeting contract requirements.</p> <p>Tender Documents are accessible by excessive staff.</p> <p><b>Impact</b></p> <p>Poor contract and/or supplier selection can result in Council not obtaining value for money. Without robust evaluation during the selection process &amp; throughout the term of the contract, objectives may not be delivered and payments made prematurely.</p> <p>The reliability of the prequalified contractors register is essential to ensure that all authorised officers know who they are able to engage. It also ensures that risks are mitigated due to accurate account of insurance &amp; certification documentation.</p> <p>The greater the number of persons who have access to a manual tender box, where there is no electronic log of files being accessed, poses greater risk for collusion &amp; fraud. This may also reduce transparency, ethical behaviour and fair dealing.</p>	<p>Procurement Officer to set up standard templates for assessments of tenders to ensure transparency &amp; consistency of evaluation.</p> <p>Select handful of senior cross organisational council officers to be trained how to review &amp; assess pre-determined tender criteria as policy P420 states that a panel of 3 persons which at least 1 person is not to have been involved in the development of the tender specifications.</p> <p>It would be beneficial for both the procurement officer &amp; the organisation to have one centralised person who assists with the administration of contracts/Tenders and the subsequent follow up of insurance, accreditation documentation. Also, the centralised role would be responsible for alerting relevant staff members when contractual arrangements are nearing an end &amp; ensure that the correct procedures are followed to implement new tenders/contracts. Each area/function of Council would still be responsible for setting specifications &amp; instructions on the finer details enclosed in the contract/tender. The procurement officer providing centralised administrative support.</p> <p>Daryl Morgan, Chris Tully, Daryl Ferguson and the Metropolitan Fire Service be removed from having access to the Tender Box. This will leave Mark McShane, Daryl Sexton &amp; Grant Humphries as the only persons with access.</p>	<p>Implement standardised template process.</p> <p>Implement tender review panel to comply with Policy P420.</p> <p>Ensure procurement officer role centralised as per recommendation.</p> <p>No Action required in regards to access to the Tender Box. Implement electronic lodgement process, effecting manual tender submissions redundant.</p>

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Other Items Arising from Interim Audit:	Management's Response
<p>Council's interim external audit was held 13th, 14th , 15th April 2016. Further items for review were discussed in regards to procurement and tenders as follows:</p>	<p>Implement in short term but migrate to electronic lodgement of all tenders.</p>
<p>* Separate Log to be kept of people opening the Tender Box &amp; sign off</p>	
<p>* Included in this log is a tenders register specifying all tenders received by staff that opened the Tender Box, followed by a sign off of the number of tenders assessed by staff completing the selection process. Separation of duties between staff opening the Tender Box and Assessing the Tender submissions is essential.</p>	
<p>* Final Column of the Tenders Log/Register should include an evaluation. This will provide a good overall summary from start to finish of the entire process.</p>	<p>Implement electronic lodgement process for all tenders</p>
<p>As per discussion with Procurement Officer - goal is to change tender procedure so that all renders are received electronically only. This will negate:</p> <ul style="list-style-type: none"> <li>* inefficient use of Director time for manual sign off of tenders received</li> <li>* manual scanning &amp; filing of documents</li> <li>* reduce paper, good for environment</li> <li>* automatic audit trail &amp; locking mechanism to ensure tenders received by cut-off date/time &amp; not access prior to this date/time</li> <li>* The need to keep a manual log &amp; sign off.</li> </ul>	