

AUDIT COMMITTEE

AGENDA

**Meeting to be held Tuesday 5 February 2013
at 6.30 pm in the Civic Centre
Unley Civic Centre
181 Unley Road Unley**

MEMBERS:

Mr John Rawson (Presiding Member)
Mr Simon Rodger
Mr Shaun Matters
Councillor Rob Sangster
Councillor Michael Saies
Councillor Denise Tipper

ACKNOWLEDGEMENT

We acknowledge that the land we meet on today is the traditional land of the Aboriginal people and that we respect their spiritual relationship with their country.

We also acknowledge that the Aboriginal people are the custodians of the Adelaide region and that their cultural and heritage beliefs are still important to the living Aboriginal people today.

APOLOGIES:

CONFLICT OF INTEREST:

REPORT TO COUNCIL: 25/02/2013

CONFIRMATION OF MINUTES

MOVED:

SECONDED:

That the minutes of the Audit Committee meeting held on Wednesday
26 September 2012, as printed and circulated be taken as read and signed as a
correct record.

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DECISION REPORT

REPORT TITLE: AUDIT COMMITTEE PROPOSED MEETING
SCHEDULE FOR 2013

ITEM NUMBER: 57

DATE OF MEETING: 5 FEBRUARY 2013

AUTHOR: RUTH BOX

JOB TITLE: EXECUTIVE ASSISTANT TO THE GENERAL
MANAGER PEOPLE AND GOVERNANCE

RESPONSIBLE OFFICER: STEPHEN FAULKNER

JOB TITLE: GENERAL MANAGER PEOPLE AND
GOVERNANCE

COMMUNITY GOAL: GOE/2 Generate an approach to all Council
operations which maintains the principles of
good governance such as public accountability,
transparency, integrity, leadership, co-operation
with other levels of government and social
equity.

REPRESENTOR/S: NIL

ATTACHMENTS: NIL

PURPOSE

To obtain the endorsement of the members of the Audit Committee for the proposed dates, time and location of proposed schedule of meetings for the 2013 calendar year.

RECOMMENDATION

MOVED:
SECONDED:

That:

1. The report be received.

2. The Audit Committee meets on the following dates, at 6.30 pm in the Civic Centre, 181 Unley Road, Unley in accordance with the following schedule:

Tuesday	13 August 2013
Tuesday	12 November 2013
Tuesday	3 December 2013

BACKGROUND

The City of Unley Audit Committee is a Section 41 Committee under the Local Government Act and in accordance with its current Terms of Reference is entitled to determine the time and location of its meetings.

COMMUNITY ENGAGEMENT

There is no requirement to undertake community consultation.

DISCUSSION

The proposed meeting schedule for the Audit Committee suggests a minimum of four meetings as required under the Local Government Act.

It is anticipated that there may be extra meetings required and these will be determined by the Committee during the coming 12 months.

ANALYSIS OF OPTIONS

Option 1 – The City of Unley Audit Committee meets at 6.30pm in the Civic Centre at 181 Unley Road Unley in accordance with the meeting schedule below:

Tuesday	13 August 2013
Tuesday	12 November 2013
Tuesday	3 December 2013

This meeting schedule has been set to coincide with financial requirements of Council. Additional meetings may be required and the Committee is able to set these meetings dates as required.

Option 2– The City of Unley Audit Committee determine an alternative schedule of meetings for 2013

The members of the Audit Committee may wish to vary the proposed meeting schedule.

RECOMMENDED OPTION

Option 1 is the recommended option.

POLICY IMPLICATIONS

There are no policy implications in relation to the proposed meeting schedule.

CONCLUSION

The proposed meeting schedule for the Audit Committee is recommended because this date has proven to be satisfactory in the past.

CORRESPONDENCE

TITLE: CORRESPONDENCE
ITEM NUMBER: 58
DATE OF MEETING: 5 FEBRUARY 2013
ATTACHMENTS: 1. LETTER (19 OCTOBER 2012) FROM DEAN
NEWBERY & PARTNERS

MOVED
SECONDED

That:

The correspondence from

- Dean Newbery and Partners

be received.

19 October 2012

Mayor Lachlan Clyne
City of Unley
PO Box 1
UNLEY SA 5061

Dear Mayor Clyne

RE: Completion of Balance Date Audit – Financial Year Ended 30 June 2012

We have recently completed our audit program regarding our Balance date audit of your Council for the financial year ended 30 June 2012, we provide a summary of matters we wish to bring to your attention.

1. We have issued an unqualified Auditor's Report on the annual financial statements for the financial year ended 30 June 2012. There were no uncorrected misstatements excluded from the 2012 financial statements (individual or in aggregate).
2. During the 2012/13 financial year, we would welcome audit involvement in discussions with Council staff regarding internal control matters to ensure Council is aware of external audit expectations relating to the expanded scope of the external auditor per Section 129 of the Local Government Act 1999 – as you would be aware, the expanded audit scope is effective as from 1 July 2013 for the City of Unley.
3. As previously reported in our Management Letters, a review of Council's methodology applied in calculating 'on-costs' has been undertaken (Internal Plant Hire, Management Overhead and Labour Overhead). As a result of work recently completed by Business + Risk Solutions into this matter, an update of the methodology applied in calculating 'on-costs' within Council's General Ledger will commence from the 2012/13 financial year.
4. In considering the new corporate IT finance system, we will meet with Council's finance staff and establish an agreeable audit program so that early audit involvement can occur as part of the implementation of the system – this early audit approach will be beneficial to both Council and our audit plan as we will be in a position to test live transaction processing and opening balances earlier in the year than what our normal audit plan allows.
5. We request that Council undertake a road valuation (effective from 1 July 2012), which includes updates on condition ratings.

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At the time of our balance date audit visit Maloney Field Services had been engaged to undertake Land and Building Asset valuations for the 2012/13 financial year (effective from 1 July 2012). Buildings are to be componentised as part of this valuation.

We recommend that an update of Council's Long Term Financial Plan (LTFP) and Infrastructure & Asset Management Plan (IAMP) be undertaken to ensure that the financial implications of the above valuations on financial projections (i.e. funding required for future maintenance and replacements) and targets (i.e. desired service level standards to be maintained, financial ratios, etc) remain achievable.

If any further information is required, please contact me on 8267 4777 (sam@deannewbery.com.au).

Yours sincerely

DEAN NEWBERY & PARTNERS



Samantha Allard
Partner

C. Council's Audit Committee
C. Council's Chief Executive Officer

24 January 2013

Mr. Peter Tsokas
Chief Executive Officer
City of Unley
PO Box 1
UNLEY SA 5061

Dear Peter

RE: Council's Internal Control Framework

For your information, we have compiled a sample of internal control weaknesses across our local government client base identified by us in recent years that may be of benefit to your Council with regard to further strengthening the existing internal control environment.

I would be happy to discuss with you the enclosed – my contact details are:

E: sam@deannewbery.com.au
P: 8267 4777
M: 0419 823 005

Yours sincerely

DEAN NEWBERY & PARTNERS



Samantha Allard
Partner

C. Audit Committee

We recommend you review each scenario to consider whether Council has appropriate and effective controls operating to prevent these types of events from occurring (or detect them if they do occur).

Example	Potential Issue
1.	<p>Senior Finance staff have unrestricted permission levels providing access (i.e. Administrator authority level) to all of Council's finance system modules.</p> <p>Represents an inappropriate segregation of duties given same officer is able to perform multiple tasks with unrestricted access and no secondary checking (i.e. same officer would be able to receipt customer payments as well as process transactions reversals and General Journals without secondary authorisation or checking).</p>
2.	<p>Only current Council employees should have active employee IT user profiles and access to Council's IT network. All terminated employees should have their permissions levels revoked at the time of termination and user profile disabled so no other staff member can inappropriately access or use this profile.</p> <p>Are there appropriate procedures and controls operating within council to ensure this occurs?</p>
3.	<p>Council operates one, or all of the following types of facilities (as an example) where income is received:</p> <ul style="list-style-type: none"> ▪ waste transfer station; ▪ swimming pool facility; ▪ community recreation facility (including canteen services); ▪ community library, and, ▪ community bus. <p>What internal controls are operating that ensure that appropriate fees are being collected and recorded by staff to prevent the following from occurring:</p> <ul style="list-style-type: none"> ▪ Staff failing to charge all customers (i.e. through personal relationships or other inducements). ▪ Customers not being issued a ticket/receipt and fees being pocketed by staff. ▪ Customers being overcharged and excess being pocketed by staff for personal gain.

4.	Staff responsible for the custodianship of petty cash floats reimburse themselves for personal expenditure by manipulating bona fide receipts/tax invoices or creating false receipts/tax invoices.
5.	<p>Staff who are not required to complete timesheets do not submit leave forms to the Payroll Department and their fortnightly pay does not record leave being taken in employee's absence (i.e. ordinary paid received).</p> <p>What controls operate to detect and/or prevent this from occurring?</p>
6.	<p>Staff arrive to work late and/or leave early and do not complete the working hours they have been paid for.</p> <p>What controls operate to ensure that all staff are working the required minimum working hours they are being paid for?</p>
7.	<p>Council's outside staff are mainly unsupervised and are consistently working on non-council business activities or taking excessive breaks but are being paid for a full days work.</p> <p>What controls are there that ensure appropriate monitoring and review of work undertaken is being performed?</p>
8.	<p>Payroll staff have access to all employee payroll and personnel data on Payroll system and are able to amend individual employee banking details.</p> <p>What controls do council have operating to prevent Payroll staff from changing individual employee banking details to inappropriately divert payments into another nominated bank account?</p>
9.	<p>Payroll staff have the ability to create and terminate employees within Payroll system.</p> <p>What controls are operating that prevents 'ghost employees' (i.e. fictitious employee) from being created and paid through the fortnightly payroll run?</p>
10.	<p>A Senior IT Officer has unrestricted access and full knowledge of Council's finance software system and creates ghost employee within Payroll system which are paid fortnightly to a nominated bank account established by the Senior IT Officer.</p> <p>Do Council have any controls operating which would detect and/or prevent this from occurring?</p>

11.	<p>Council's Works Supervisor engages an external contractor to undertake works on a regular basis and in return receives incentives from the external contractor for engaging them in the form of:</p> <ul style="list-style-type: none"> ▪ Cash incentives (i.e. a percentage of the total value of the services paid for by the Council); ▪ Gifts provided to the Work Supervisor in the form of paid holidays, shopping vouchers, consumable goods, etc. <p>What controls do Council have operating that could detect this event should it occur?</p>
12.	<p>Council's Rates Officer has the access and ability to modify and amend the rates raised on any property recorded within Council's Property Database.</p> <p>What controls do Council have operating to detect or prevent the officer from inappropriately reversing/not raising rates on properties (i.e. their own property, a relative or friends property, etc.)</p>
13.	<p>Council's Rates Officer has unrestricted access and ability to raise, amend or reverse fines on individual property assessments.</p> <p>What controls do Council have operating to prevent the Rates Officer from inappropriately amending overdue rates fines on individual properties?</p>
14.	<p>Council staff have access to minor plant and equipment and take home these items for personal use (i.e. personal laptop computer, mowers, hand tools, etc.).</p> <p>Are there controls operating to secure the safeguard of these items and prevent staff from 'borrowing' equipment for personal use?</p>
15.	<p>Council staff have access to vehicle fuel card and use these cards to fill up their own personal vehicles.</p> <p>Are there appropriate controls operating to detect or prevent this from occurring?</p>
16.	<p>Staff with issued Council credit cards incur expenditure that does not relate to council business (i.e. personal entertainment, food and beverage, etc.).</p> <p>Are there controls operating to prevent or detect this from occurring or to ensure prompt reimbursement to Council if it does occur?</p>

17.	<p>Council staff arrange to have goods delivered (or services performed) at non-council locations and arrange to have the Council charged for these goods/services received.</p> <p>What controls are operating to detect or prevent this from occurring?</p>
18.	<p>Council mobile phones are excessively used for non-council related business.</p> <p>Do controls exist to detect this if it was to occur?</p>
19.	<p>Council's Depot has a petrol pump which Council staff use to inappropriately fill-up their own private vehicles.</p> <p>Are there controls operating to prevent or detect this?</p>
20.	<p>Council's 'Tender Box' is accessed by council staff and commercially confidential information is passed onto Tender's competitor before tenders are closed. Council staff are rewarded for passing on this information (i.e. financial incentive and/or gifts).</p> <p>What controls exist to ensure this can not occur?</p>
21.	<p>Front counter Customer Service staff have the ability to reverse transactions processed and can 'pocket' cash from the service register given their role in handling cash.</p> <p>What controls are operating to detect or prevent this from occurring?</p>
22.	<p>Council cashiers are responsible for preparing the daily banking at the end of the day and locking up their individual cash register floats.</p> <p>What controls have council implemented to ensure that staff are not able to 'borrow' money from the till overnight and return it the next day/week (i.e. return it before the start of the next working day or next banking) so they have access to the cash overnight/weekend for private use?</p>
23.	<p>Staff at the library receive cash for payment of overdue fines incurred and are not requested to provide a receipt.</p> <p>What controls are there to prevent the staff member from not recording the transaction and pocketing the fines?</p>

24.	<p>Council Depot staff have access to mechanical parts and consumables (i.e. engine oil, engine coolants, tyres, etc.) and use these materials for their own private vehicles.</p> <p>What controls exist to ensure these items are used only for council business use?</p>
25.	<p>Staff have access to blank cheques which are not securely stowed. Council cheques are processed for inappropriate and/or personal expenditure.</p> <p>Are all blank cheques securely locked up and only accessible by authorised personnel?</p> <p>Does Council have a cheque register to detect whether any cheques have been misplaced/missing?</p>
26.	<p>Manual Purchase Order books are not securely stowed away and council staff inappropriately order goods/services (for either personal or council business purposes). Once goods/services ordered by staff member, council is liable for the expenditure incurred.</p> <p>Are there appropriate controls operating that safeguard access to manual Purchase Order books to be limited to authorised employees only.</p>
27.	<p>Inspectors take a cash amount (or other benefit) from a member of the public for do not issuing a parking or other infringement notice.</p> <p>What controls/mechanisms are in place to detect this type of practice?</p>
28.	<p>Staff are spending significant amounts of time whilst at work on personal matters, they may even be running their own private business or share trading activity.</p> <p>What controls/mechanisms are in place to detect this type of activity?</p>

29.	<p>Staff responsible for Council's commercial or contract arrangements receive a private benefit (cash/gift, etc.) in exchange for such actions as:</p> <ul style="list-style-type: none">▪ Approving a lower than market rent/lease on council property.▪ Not enforcing Councils contractual rights, e.g. property clean-up at the end of a lease, compensation from a contractor for poor work, rental increase, reimbursement of insurance or other costs, etc.▪ Awarding a contract to a preferred supplier which has not been competitively & appropriately evaluated (e.g. 'manipulating' tender scores or simply contracting directly without obtaining competitive quotes/tenders) <p>What controls/mechanisms are in place to detect this type of practice?</p>
30.	<p>Council operate a canteen service from a community centre and staff order goods for personal consumption from external supplier.</p> <p>What controls are operating to ensure this type of practice is prevented and/or detected?</p>