

ITEM 2 FINANCIAL SYSTEMS - AUDIT- [07882]**WARD - All**

PURPOSE

The purpose of this report is to advise the Audit Committee and Council of the completion of the Financial Management Systems and Procedures Review carried out by Haines Norton, Chartered Accountants and to provide a copy of the report as required under the Local Government (Financial Management) Regulations 1996.

EXECUTIVE SUMMARY

The attached report provides details of the findings of a review of City's Financial Systems and Processes as required under the Local Government (Financial Management) Regulations 1996.

The review was undertaken by an independent firm of chartered accountants that specialise in consulting to local governments. While the findings indicate the City is financially well managed and sound and generally reflects well on the administration, it does indicate some areas where improvement can be achieved.

BACKGROUND

The CEO of a local government is to review the City's Financial Systems and Processes and reporting the findings of that review to the local government, is a statutory requirement under the Local Government (Financial Management) Regulations 1996. The CEO of a local government is also charged with the responsibility of ensuring appropriate systems and procedures are in place to effectively record all financial transactions and facilitate proper management of financial matters in keeping with the various statutes applicable to financial management of a local government.

Accordingly, in December 2001, Haines Norton Chartered Accountants and Consultants to Local Government was engaged to undertake the independent review of the City's Financial Management Systems and Processes and report on the appropriateness and effectiveness of the control environment in place. A copy of the report on financial systems is attached.

DETAILS**Statutory Provision:**

Provision of the attached report is in compliance with the requirement under Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 which requires the CEO 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."



Haines Norton

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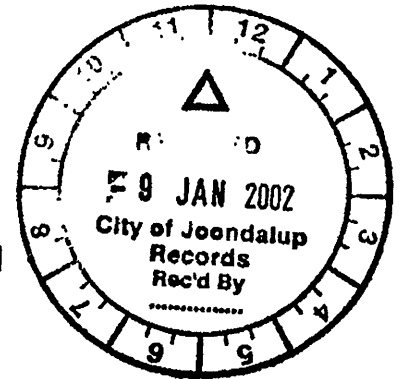
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A	NOTE
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Dear Denis

REPORT ON FINANCIAL SYSTEMS

We have now completed our review of the City's financial systems which included:

- (a) A Financial Management Review; and
- (b) An overview of Council's financial position as at 31 October 2001.

It should be appreciated that the scope of our review was only to perform a financial management review and provide you with an overview of the financial position and performance of the City as at 31 October 2001.

It was not intended to perform a financial statement audit. Normal audit procedures that would allow us to form an opinion on the financial position and operating result of the City for the period ended 31 October 2001 were not applied.

A report on the findings of our review is summarised in this report.

FINANCIAL MANAGEMENT REVIEW

As outlined in our proposal to you dated 7 November 2001, the objective of the review was to test the financial management system and report to you on the appropriateness and effectiveness of the control environment within, as required by Financial Management Regulation 5(2)(c).

This task has now been completed and we have enclosed our separate report in respect of this.

OVERVIEW OF COUNCIL'S FINANCIAL POSITION

Following our discussions with yourself and Kevin Robinson on 3 December 2001 it was agreed to provide an overview of certain key areas as detailed in our letter to you dated 6 December 2001.

The results of our review are detailed below:

Cash and Investments

- Reconciliations of cash and investment balances were up to date;
- The City's investment policy is soundly formulated for an organisation of such size and coupled with the procedures in place, should help to ensure that investments are properly maintained and effectively managed;
- Based upon the investments held at 31 October 2001, staff appeared to be adhering to the requirements of the investment policy; and
- From limited testing performed, cash and investment balances as reported in the Financial Report for the period ending 31 October 2001 as presented to Council, appeared to be correct.

Receivables and Payables

- In the main, reconciliations were up to date and all balances were adequately supported; and
- The financial systems and controls evident appeared adequate to ensure that all significant debtors and liabilities of the City were captured and reflected accurately.

Fixed Assets and Depreciation

- Fixed asset balances appeared to be adequately controlled and regularly reconciled;
- Systems and procedures are in place to help ensure adequate control over assets of the City exists; and
- Council's depreciation policies are reasonable, accurately reflect the useful lives of assets and appear to be consistently applied.

Council's Budget Position

- Based upon review of the Financial Report for the period ending 31 October 2001 as presented to Council, the City's budget position appears sound.
- Actual to Budget variances were investigated via discussions with key staff who indicated differences were largely timing in nature.

Any permanent differences would be considered as part of the six month budget review process currently being undertaken.

Key Performance Indicators (KPI's)

The City participates in a benchmarking exercise with 14 other Councils via an industry initiative known as Blue Sky Strategic Profiling.

Review of information provided as at the end of October 2001 revealed the following:

Rate of Return on Investments

- The City's rate compared favourably to the group and approximates the median return of 4.8%. This outperformed the 90 day bank bill rate of 4.3%.
- Analysis of the three month average rate reflects the fall in interest rates whilst at the same time remaining fairly stable. The percentage change and fluctuation during that time compared very favourably to the other Councils who showed greater volatility.
- Also, when we remove those Councils that have access to investment opportunities via town planning schemes, the City has outperformed the majority.

Debt Collection Ratios

- The City's performance in this area in relation to the group is second to none;
- The City's stringent collection and follow up policy, particularly the rates model adopted for 2001/02, appears to be working;
- This policy has resulted, as at 31 October 2001, in the City achieving:
 - the lowest percentage of debt in the 60+ days category;
 - the best return in respect of arrangements and instalment options with only 17% of outstanding rates having no arrangement in respect of payment;
 - the lowest proportion of "recalcitrant" rate payers within the group; and
 - its best return ever with respect to percentage of total rates collected at the end of November in any given year of 74.5%.

Debt Ratios

Given the City has no existing levels of external debt, debt servicing is not an issue at present.

The KPI's examined reflect sound management practices.

They also provide an environment that will help ensure that Council has an optimum level of scarce resources available as it seeks to make informed decisions on the most efficient allocation of those resources.

Employee Entitlement Liabilities

This is the one area of possible concern highlighted by our review, albeit one of longer term consequence.

As at 31 October 2001, employee entitlement provisions amounted to \$4,205,115.

A review of leave schedules revealed that some individuals have accumulated well in excess of one year's leave entitlement. Large accumulations of annual leave should be discouraged as the eventual cost to the City increases with each wage increase given to employees.

A policy or procedure to help ensure the proper management of this issue should be developed and implemented.

General Access Security

This was another area of concern that was highlighted during our review.

Whilst it is appreciated that internal building security measures (e.g. access between floors and to certain areas) can actually hamper organisational efficiency, we believe that general building access security could be improved.

At the very least, a delineation should be made between the ground floor public enquiry area and what is considered to be non-public. Access to the non-public area should be restricted to employees and bona-fide visitors.

Bona-fide visitors should also have to register before passing through the barriers and be issued with visitor passes. We were very surprised that we were not issued with visitor passes upon our arrival on-site and also with the ease that we were able to move about within the building.

Security is an area of ever increasing importance particularly with events of recent times and is of growing concern to employees and members of the public alike.

We would also recommend that the City seeks further independent advice in this area and considers its options with respect to access security in particular.

CONCLUSION


Overall, the City's financial systems are considered to be appropriate and provide an effective financial control environment. This helps to ensure the integrity of the financial management and reporting systems is not compromised and accurately reflects the true financial position of Council at any given time.

We trust that this review is as you require and will help assist you analyse and improve the financial position and management practices of the City.

We would also like to take this opportunity to thank all staff for the assistance afforded to us during our review.

Should you have any queries regarding the above, or wish to discuss any matter further, please do not hesitate to contact us.

Yours faithfully
HAINES NORTON
CHARTERED ACCOUNTANTS

A handwritten signature in dark ink, appearing to read 'David Tomasi', with a stylized flourish at the end.

DAVID TOMASI
PARTNER