

CITY OF JOONDALUP

MINUTES OF MEETING OF THE AUDIT COMMITTEE HELD IN CONFERENCE ROOM 3, JOONDALUP CIVIC CENTRE, BOAS AVENUE, JOONDALUP ON MONDAY, 16 DECEMBER 2002

ATTENDANCE AND APOLOGIES

Committee Members:

CR G KENWORTHY	<i>Chairman</i>
MAYOR J BOMBAK	
CR D CARLOS	
CR C BAKER	
CR C MACKINTOSH	

Observer:

CR M O'BRIEN

Officers:

MR D SMITH	Chief Executive Officer
MR P SCHNEIDER	Director, Corporate Services and Resource Management
MR K ROBINSON	Manager, Audit and Executive Services
MR B BARTSH	Internal Auditor
MRS L TAYLOR	Minute Clerk

APOLOGIES

Cr Barnett

The Chairman declared the meeting open at 1803 hrs.

DECLARATIONS OF FINANCIAL INTEREST/INTEREST THAT MAY AFFECT IMPARTIALITY

Nil

ITEM 1 CONFIRMATION OF MINUTES

MINUTES OF THE AUDIT COMMITTEE HELD ON 14 MARCH 2002

MOVED Cr Baker, **SECONDED** Mayor Bombak that the minutes of the meeting of the Audit Committee held on 14 March 2002 be confirmed as a true and correct record.

The Motion was Put and

CARRIED

ITEMS OF BUSINESS

ITEM 1 AUDIT PLAN DEVELOPMENT – [40738]

WARD - All

PURPOSE

To advise the Audit Committee of the work done in developing a Risk Based Audit Plan and provide a copy of the Audit Plan indicating when the various audits will be conducted. A report will be produced and provided to the Committee detailing the outcome of each completed audit.

EXECUTIVE SUMMARY

The City has developed a Risk Based Audit Plan following a Risk Management Workshop attended by Senior City staff. The objective of the Workshop was to identify all risks associated with the City's day to day operations, risk rate those risks and get management ownership of them.

Using the findings of the workshop and the various risk areas identified, a Risk Based Audit Plan has been developed whereby those areas of greatest risk will be progressively audited to evaluate the adequacy of internal controls in each area.

BACKGROUND

The Audit Committee was established on 7 May 2001 to oversee the internal and external Audit and Risk Management functions at the City.

With the appointment of the Internal Auditor in mid May 2002, his first task was to prepare an Audit Plan. The modern management approach to the internal audit function is to identify, analyse, evaluate, treat and monitor risks in the organisation.

A Risk Management Workshop was held on 19 June 2002 and attended by the Directors and Business Unit Managers to collectively identify all the areas of risk for the City of Joondalup. A risk based Audit Plan was then developed for the financial year 2002/2003. The plan has been designed to assist the City's Executive discharge their duties in relation to Corporate Governance.

Strategic Plan:

Strategy 1.2 (Leadership) of the Strategic Plan is:

“Take a leadership role, initiate facilitate and promote leading-edge projects and best practices which deliver significant benefits to the community.

To achieve this we will:

1.2.1 Promote best practice principles within the Local Government industry.

1.2.2 Maintain best practice in risk management, compliance and performance reporting”.

DETAILS

Audit Committee Established

At its meeting held on 7 May 2001, Council resolved to:

- 1 ESTABLISH the Audit Committee to oversee the internal and external Audit and Risk Management functions of the City;
- 2 APPOINT the following delegates to the Audit Committee:
Mayor Bombak
Cr C Baker
Cr D Carlos
Cr G Kenworthy
Cr C Mackintosh

The City’s Audit Committee was established “to oversee the internal and external Audit and Risk Management functions of the City”.

Risk Management Workshop

A Risk Management Workshop was held on 19 June 2002 and attended by the Chief Executive Officer, Directors, Business Unit Managers and the City’s Internal Auditor.

The Workshop was facilitated by Helen Hardcastle and risks identified by participants for their own business units. Each risk was then assessed and given a rating based on the probability of the event occurring and the consequences to the City if it did. These two ratings (between 1 – low and 5 – high) were multiplied together, with the higher score indicating the greater the risk to the City and vice versa.

These risks were then prioritised and have been included in a risk based Audit Plan developed for the financial year 2002/2003. Areas considered to be of a high risk have all been scheduled for coverage during the year whilst the remaining areas identified have been scheduled for the 2003 financial year.

The time allocated to each audit review has been based upon:

- The preparation of a scoping document and entrance interview;
- Documentation of the existing process flow and risk matrix;
- Reviewing existing internal controls;

- Conducting substantive testing (levels determined by the adequacy of internal controls);
- Documenting results;
- Report to management with copy to the Audit Committee;
- Obtaining feedback from the auditee on the performance of the Audit. The feedback document will be circulated to the Audit Committee with the report.

A copy of the Audit Plan detailing areas of proposed audit coverage over the next eighteen months has been circulated.

The Audit Process

A formal Audit Process has been developed to ensure that all audits are carried out in a structured, planned and consistent way.

A pre-audit interview is held with the Business Unit Manager and any areas of concern they may have are noted and included in the review. Prior to commencement of the audit, the Internal Auditor will prepare a scoping document that will identify the main areas each audit will cover. This document will then be reviewed and endorsed by the respective Business Unit Manager and the CEO, indicating their agreement prior to the commencement of the audit.

The audit will be conducted by interview, observation and detailed testing as considered appropriate. At the completion of each audit, the findings will be reviewed with the respective Business Unit Manager and their comments together with timings to address the audit recommendations will be included in the Audit Report.

Strategic Implications:

The broad intent of each audit is to support management in identifying opportunities to improve the effectiveness and efficiency of process and enable staff to regularly deliver quality outcomes for the City's customers and ratepayers.

The benefits accruing from the review activities contained in the Risk Based Audit Plan are:

- To improve the efficiency and effectiveness of existing processes;
- To ensure that internal controls are adequate;
- To move the City's system of quality control towards best practice; and
- To have the City recognised as a leader in local government.

COMMENT

The documentation developed and produced as part of each audit process is considered to be of a high standard. In all instances the audit outcomes detailed in the documentation are provided with the intent to be a valuable support process for the relevant business unit and provide the basis of a plan for improvement in the areas covered.

VOTING REQUIREMENTS

Simple Majority

MOVED Cr Baker, SECONDED Cr Mackintosh that the Risk Based Audit Plan circulated separately be NOTED.

Discussion ensued.

The Motion was Put and

CARRIED

ITEM 2 PAYROLL FUNCTION AUDIT – [40738, 66528]

WARD - All

PURPOSE

To provide the Audit Committee with a copy of the Internal Auditor's Report detailing the outcomes of the Payroll Audit and the Audit Performance Feedback giving comment by the Auditee on the conduct of the audit.

EXECUTIVE SUMMARY

The Payroll Audit was carried out according to the Audit Objective and Audit Scope that had been agreed prior to commencement of the audit. The audit of the payroll function revealed some fragmented processes and a lack of internal control. Essentially:

- There were no documented procedures;
- System access was poorly controlled;
- Inaccurate system records were detected;
- No automatic exception reporting was available;
- There was no system of monitoring or management review;
- Security over computer and hard copy records was poor;
- Performance reviews were not monitored.

The findings from the payroll audit were well received by the Manager, Human Resources. It should be noted that the HR staff had already commenced to address recommendations emanating from the review.

BACKGROUND

The Risk Management Workshop held on 19 June 2002 and attended by the Directors and Business Unit Managers collectively identified all the areas of risk for the City of Joondalup. The risk based Audit Plan developed at the workshop identified Payroll as a potential high risk for the City. Assessment of inherent risk of a function was based on the probability of occurrence and the consequences if it did occur.

In accordance with the Audit Plan for 2002-2003, the Payroll function of the Human Resources Business Unit is the first audit completed.

Strategic Plan:

Strategy 1.2 (Leadership) of the Strategic Plan is “Take a leadership role, initiate, facilitate and promote leading-edge projects and best practices which deliver significant benefits to the community.

To achieve this we will:

1.2.1 Promote best practice principles within the Local Government industry

1.2.2 Maintain best practice in risk management, compliance and performance reporting."

DETAILS

The objective of the audit was to determine if the payroll function was operating in an effective and efficient manner and that internal controls were adequate.

Audit Scope

The audit focused on the following issues:

- Payroll policy and procedures.
- The authorisation of transactions and master file changes.
- There is adequate segregation of duties.
- Authorised deductions.
- Management review and monitoring.
- Exception reporting.
- System access and testing.

Strategic Implications:

The outcome of the payroll function audit has been to identify issues and areas of concern that needed attention in order to minimise potential risk to the City. The preparation a Management Action Plan to address the issues and time lines for implementation, will ultimately see risk in those areas significantly reduced and the processes applied be far more effective and efficient.

COMMENT

The findings of the payroll function audit were well received by the Manager Human Resources and his staff. Considerable progress has already been made in implementing the Management Action Plan to address all issues raised. The outcome of the audit is a very positive result that will see better practices and procedures applied in the area where issues/concerns were raised.

VOTING REQUIREMENTS

Simple Majority

MOVED Cr Baker, SECONDED Cr Mackintosh that the confidential Report of the Internal Auditor on the payroll function circulated separately be NOTED.

Discussion ensued.

The Motion was Put and

CARRIED

ITEM 3 ACCOUNTS PAYABLE AUDIT – [40738, 73528]

WARD - All

PURPOSE

To provide the Audit Committee with a copy of the Internal Auditor's Report detailing the outcomes of the Accounts Payable Audit and the Audit Performance Feedback giving comment by the Auditee on the conduct of the audit.

EXECUTIVE SUMMARY

The Accounts Payable Audit was carried out according to the Audit Objective and Audit Scope that had been agreed prior to commencement of the audit. The audit of the accounts payable function revealed some fragmented processes and a lack of internal control. Essentially:

- There were no authorised management procedures.
- Purchase Orders were often not issued prior to a commitment being given.
- System access was poorly controlled.
- The vendor master file was not being maintained in an up-to-date manner.
- Journal adjustments were not properly documented or authorised.
- The system of monitoring or management review could be improved.

The findings from the accounts payable audit were well received by the Acting Manager, Financial Services. Corrective action to address recommendations emanating from the review has already commenced.

BACKGROUND

The City's Risk Based Audit Plan was developed at a workshop attended by the Directors and Business Unit Managers who collectively identified all the areas of risk for the City of Joondalup. The Accounts Payable function was identified as a potential high risk for the City.

Assessment of inherent risk of a function was based on the probability of occurrence and the consequences if it did occur.

In accordance with the Audit Plan for 2002-2003, an audit of the Accounts Payable function of the Financial Services Business Unit has been completed.

Strategic Plan:

Strategy 1.2 (Leadership) of the Strategic Plan is "Take a leadership role, initiate, facilitate and promote leading-edge projects and best practices which deliver significant benefits to the community.

To achieve this we will:

1.2.1 Promote best practice principles within the Local Government industry

1.2.2 Maintain best practice in risk management, compliance and performance reporting."

DETAILS

The objective of the audit was to determine whether the accounts payable function was operating in an effective and efficient manner and that internal controls were adequate.

Audit Scope

The audit focused on the following issues:

- Accounts Payable policy and procedures.
- Authorisation for payment.
- Reconciliation of supplier accounts.
- Discounts and incentives.
- Exception reporting and management review.
- Accuracy of financial records.
- System access.

Strategic Implications:

The outcome of the accounts payable function audit has been to identify issues and areas of concern that needed attention in order to minimise potential risk to the City. The preparation of a Management Action Plan to address the issues, with time lines for implementation will ultimately see risk in those areas significantly reduced and the processes applied be far more effective and efficient.

COMMENT

The findings of the accounts payable function audit were well received by the Manager Financial Services and his staff. Considerable progress had been made in identifying areas needing attention and many of these were included in the Financial Services Business Plan. The Management Action Plan included in the audit report was prepared to address all issues raised and have the agreed actions implemented within the stated time lines. The outcome of the audit is a very positive result that will see better practices and procedures applied in the area where issues/concerns were raised.

VOTING REQUIREMENTS

Simple Majority

MOVED Mayor Bombak, SECONDED Cr Mackintosh that the confidential Report of the Internal Auditor on the Accounts Payable Function circulated separately be NOTED.

Discussion ensued.

The Motion was Put and

CARRIED

ITEM 4 OCCUPATIONAL SAFETY & HEALTH AUDIT – [40738, 67528]

WARD - All

PURPOSE

To provide the Audit Committee with a copy of the Internal Auditor's Report detailing the outcomes of the Occupational Safety and Health Audit and the Audit Performance Feedback giving comment by the Auditee on the conduct of the audit.

EXECUTIVE SUMMARY

The Occupational Safety and Health Audit was carried out according to the Audit Objective and Audit Scope that had been agreed prior to commencement of the audit. The audit of the occupational safety and health function revealed that it is being managed in an effective and efficient manner and that internal controls are considered adequate.

The findings from the audit were well received by the Manager Human Resources and his staff.

BACKGROUND

The City's Risk Based Audit Plan was developed at a workshop attended by the Directors and Business Unit Managers who collectively identified all the areas of risk for the City of Joondalup. The Occupational Health and Safety function was identified as a potential high risk for the City. Assessment of inherent risk of a function was based on the probability of occurrence and the consequences if it did occur.

In accordance with the Audit Plan for 2002-2003, an audit of the Occupational Health and Safety function of the Human Resources Business Unit has been completed.

Strategic Plan:

Strategy 1.2 (Leadership) of the Strategic Plan is "Take a leadership role, initiate, facilitate and promote leading-edge projects and best practices which deliver significant benefits to the community.

To achieve this we will:

1.2.1 Promote best practice principles within the Local Government industry;

1.2.2 Maintain best practice in risk management, compliance and performance reporting."

DETAILS

The objective of the audit was to determine whether the occupational safety and health function was operating in an effective and efficient manner and that internal controls were adequate.

Audit Scope

The audit focused on the following issues:

- OSH policies and procedures.
- Awareness & management of OSH responsibilities.
- Employee welfare considerations & strategies.
- Timeliness and accuracy of OSH records & reporting.
- Protective clothing and equipment issues.
- Management review & monitoring.
- First aid facilities.
- OSH Training.

Strategic Implications:

The outcome of the occupational safety and health function audit has been to identify that the function is operating in an effective and efficient manner and that internal controls were adequate. At this level of operation the potential risk to the City is considered minimal. Some suggestions on improvement of a minor nature were made and when implemented will further enhance the effectiveness and efficiency of the function.

COMMENT

The findings of the occupational safety and health function audit were well received by the Manager Human Resources and his staff. The outcome of the audit is considered to be a very positive result.

VOTING REQUIREMENTS

Simple Majority

MOVED Cr Mackintosh, SECONDED Cr Baker that the confidential Report of the Internal Auditor on the Occupational Safety and Health Function circulated separately be NOTED.

Discussion ensued, with a request that a report be presented to the next meeting of the Audit Committee outlining what powers the City had to introduce drug testing all staff on a random basis.

The Motion was Put and

CARRIED

ITEM 5 ELECTED MEMBERS EXPENSES - TRAINING AND CHILDCARE

WARD - All

PURPOSE

To provide details of training and childcare expenses incurred by each Councillor for the 2001/02 financial year.

EXECUTIVE SUMMARY

At the Audit Committee meeting held on 14 March 2002, a motion was carried requesting a report with the following details:

- details of training and childcare expenses incurred by each Councillor for the 2001/02 financial year;

- the acquittal process in place for reimbursement of their expenses be submitted to the Audit Committee for further consideration.

The report and attachment addresses these matters.

BACKGROUND

This matter was raised at the Audit Committee Meeting of 14 March 2002 when the following motion was carried:

“That in view of:

- widespread concerns in the local community regarding the possibility of a substantial rate increase as part and parcel of the 2002/03 Council Budgetary measures;
- the need for Councillors to set a good example for the staff at the City of Joondalup in reigning in unnecessary or exorbitant expenditure;

the Audit Committee recommends that a detailed report be prepared setting out:

- 1 THE current expenditure for the current financial year incurred by each Councillor regarding:
 - (a) Councillors expenditure on training;
 - (b) Councillors expenditure on childcare
- 2 THE current acquittal process in place regarding 1 (a) and (b) above;
- 3 THAT the report relating to the issues of expenditure on training and childcare be submitted to the Audit Committee for further consideration”.

The acquittal process that applied to reimbursement of childcare and training expenses in the majority of 2001/02 financial year required submission of a signed claim form indicating the date and times a child carer had been used as well as a receipt from the child carer indicating the amount that been paid. For attendance at conferences and training, approval was required from the Council, where this involved interstate travel and accommodation. Approval was necessary from the CEO for attendance at local conferences and training.

DETAILS

A detailed breakdown of the expenses incurred for 2001/2002 financial year by all elected members for training and childcare is attached.

COMMENT

The City adopted its current Policy No. 2.213 Payment of Fees, Allowances and Expenses and the Provision of Facilities to the Mayor, Deputy Mayor and Councillors, which applied from May to May each year to coincide with terms of office of elected members. The new policy also introduced specific allowances for all elected members to enable each elected member to determine their preference for attending training and conferences within their allowances.

Original receipts from service providers must be submitted with all claims for reimbursement of expenses incurred.

VOTING REQUIREMENTS

Simple Majority

OFFICER'S RECOMMENDATION: That the information relating to Elected Members Expenses – Training and Childcare, be RECEIVED.

MOVED Cr Baker, SECONDED Cr Mackintosh that it be recommended that:

- 1 Council UNDERTAKES an annual audit of expenses incurred by all elected members;**
- 2 Council DIRECTS the Chief Executive Officer to inquire into and conduct a thorough audit in respect of all child care or child minding expenses claimed by and paid to Cr Walker since her election to Council and that at the conclusion of the audit, a report be presented to the Audit Committee detailing:**
 - (a) the dates, amounts claimed by and amounts paid to Cr Walker as aforesaid;**
 - (b) and exhibiting any documentary evidence (in original or copy form) of all amounts claimed by and amounts paid to Cr Walker as aforesaid (including but not limited to all claim forms, receipts and other writings) issued by or to her on her behalf;**
 - (c) the identity of the person or persons who allegedly provided the child care services on behalf of Cr Walker on each such occasion;**
 - (d) any changes in the pattern, frequency or quantum of any such expense claims made by Cr Walker after the introduction of the current Council policy concerning the reimbursement of expenses incurred by Councillors by way of child care fees;**
- 3 the Chief Executive Officer also inquire into and report to the Audit Committee as to whether there is any evidence indicating a potential that any of the said child care expenses reimbursed to Cr Walker were inappropriately claimed by her and/or paid to her in circumstances where Cr Walker may have engaged the services of her husband or her children to supervise her other children, or may not have engaged the services of any child care worker or any person at all.**

Discussion ensued with a request being made that the report to a future Audit Committee meeting define any inherent problem areas in relation to expenses claimed by elected members and also to contain suggested guidelines to address the issues raised.

Further discussion ensued during which it was noted that the schedule incorrectly showed travel expenses rather than training expenses. The Manager, Audit & Executive Services advised that a corrected schedule would be distributed to all elected members.

During discussion, Mayor Bombak left the Room at 1910 hrs and returned at 1915 hrs.

The Motion was Put and

CARRIED

DATE OF NEXT MEETING

The next meeting of the Audit Committee will be held at a date to be determined.

CLOSURE

There being no further business, the Chairman declared the meeting closed at 1932 hrs.