



## Yorke Peninsula Council

### NOTICE OF MEETING

Notice is hereby given that the next ordinary meeting of Council's  
**AUDIT COMMITTEE**  
will be held on Wednesday 8<sup>th</sup> March 2017  
in the Minlaton Council Chamber,  
57 Main Street, Minlaton commencing at 10.00am

David Harding  
DIRECTOR CORPORATE AND  
COMMUNITY SERVICES

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## A G E N D A

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### ITEM 1 YORKE PENINSULA COUNCIL – AUDIT COMMITTEE

- 1.1 Welcome by Chairperson
- 1.2 Present
- 1.3 Apologies/Leave of Absence
- 1.4 Minutes of previous meeting – for confirmation:  
Audit Committee meeting held on 14<sup>th</sup> December 2016, with the following minor alteration to minute reference **047/2016 (14/12/2016)** 1. to read:  
*1. endorse and adopt the updated Audit Committee Terms of Reference.*  
be confirmed as a true record.
- 1.5 Questions without Notice

## 1.6 Conflict of Interest

### CONFLICT OF INTEREST

Members are reminded of the requirements for disclosure by Members of direct or indirect pecuniary benefit or detriment and non-pecuniary benefit or detriment in relation to a material conflict of interest in accordance with Section 73, or an actual or perceived conflict of interest in accordance with Section 75 of the Local Government Act in items listed for consideration on the Agenda. Section 74 and 75A of the Local Government Act 1999 requires that Members declare any interest and provide full and accurate details of the relevant interest to the Council. In relation to actual or perceived conflicts of interest a member has an obligation to outline how they propose to deal with the actual or perceived conflict of interest prior to consideration of that item on the Agenda.

This requirement does not apply to Ordinary Business Matters prescribed by regulation 8AAA Local Government Act (General) (Accountability and Governance) Variation Regulations 2016.

Each Member of a Committee has a duty to vote at all meetings unless excepted by legislation.

The major exception being where a Member has a material conflict of interest.

## **ITEM 2      REPORTS**

- |  |               |
|--|---------------|
| 1. Audit Committee Work Plan 2017 (Revised)        | pages 3 - 7   |
| 2. 2017 – 2019 Internal Audit Plan                 | pages 8 - 13  |
| 3. 2016/17 December Quarterly Budget Review        | pages 14 - 27 |
| 4. Long Term Financial Plan Update                 | pages 28 - 30 |
| 5. Asset Management Update                         | pages 31 - 32 |
| 6. Risk Management Update                          | pages 33 - 43 |
| 7. Internal Audit Activity Report to February 2017 | pages 44 - 92 |

## **ITEM 3      GENERAL BUSINESS**

## **ITEM 4      NEXT MEETING**

Wednesday, 7<sup>th</sup> June 2017, 3.00pm  
Minlaton Council Chamber

## **ITEM 5      CLOSURE**

## **DIRECTOR CORPORATE AND COMMUNITY SERVICES**

### **1. AUDIT COMMITTEE 2017 WORK PLAN**

#### **INTRODUCTION**

To consider the revised 2017 Audit Committee Work Plan.

#### **RECOMMENDATION**

That the Audit Committee endorse the revised 2017 Audit Committee Work Plan.

#### **LINK TO STRATEGIC PLAN**

Goal: 5 Responsible Governance

Strategy: 5.1 Openness and transparency of reporting Council's performance  
5.2 Effective leadership and informed decision making  
5.3 Meet all legislative requirements and compliance with Council's internal controls  
5.5 Undertake effective risk management  
5.8 Continuous improvement of Council processes

#### **BACKGROUND**

As stated in clause 2 of the Audit Committee Terms of Reference, 26 October 2016, the objective of the Audit Committee is to assist the Council in the conduct of its responsibilities for the management of risk, corporate and financial governance and legal compliance, related to financial reporting and audit initiatives, the internal control system and the audit functions. The committee acts as a source of advice to Council and the Chief Executive Officer in relation to these matters.

#### **DISCUSSION**

The Committee will:

- enhance the communication between the external auditor and the Council;
- assist the management of business risks to ensure the protection of Council assets;
- monitor the effectiveness of audit and corporate and financial governance functions;
- enhance the integrity of the financial reporting of the Council; and
- review the effectiveness of the Council's internal controls and risk management systems.

The Terms of Reference are to be read in conjunction with Chapter 8 of the Local Government Act 1999.

The adoption, and constant review, of an Audit Committee Work Plan assists in ensuring the objectives of the Audit Committee are achieved.

Changes made to content for this meeting to be endorsed:

- Meeting scheduled for February 2017 rescheduled to March 2017 to ensure Internal Audit Work Plan could be presented in full.

## **COMMUNITY ENGAGEMENT PLAN**

Not applicable

## **CONSULTATION PROCESS**

In preparing this report, the following Yorke Peninsula Council officers were consulted:

- Chief Executive Officer
- Director Corporate and Community Services
- Manager Financial Services
- Business Improvement Officer
- Asset Manager
- Risk Manager

In preparing this report, the following External Parties were consulted:

- Independent Members of Audit Committee

## **POLICY IMPLICATIONS**

Audit Committee Terms of Reference

Local Government Act 1999, Chapter 8

## **BUDGET AND RESOURCE IMPLICATIONS**

The orderly and timely review of Council's major financial timetable and reports, internal audit activities and financial reports by the Audit Committee strengthens the credibility of the completed work and reduces risk to Council.

## **RISK/LEGAL/LEGISLATIVE IMPLICATIONS**

A sound control environment will assist in the management of Council's financial risks.

## **ATTACHMENTS**

**Attachment 1:** 2017 Work Plan (Revised)

**Yorke Peninsula Council  
Audit Committee Work Program 2017**

Activity	Timeframe					Notes
	Completed Current Deferred					
	Mar-17	May-17	Aug-17	Oct-17	Dec-17	
1. Financial Reporting						
1.1 Review General Purpose Financial Statements				X		Following external audit but prior to Council endorsement
1.2 Review asset revaluations				X		Ensure up to date and soundly based, including having particular regard to local conditions:- > whether land values reflect current local market; > whether infrastructure asset values reflect local replacement costs and the condition of existing assets; > whether an infrastructure asset condition audit has been undertaken recently to assist in making this judgement.
1.3 Review methodology and approach to Depreciation				X		
1.4 Quarterly Budget Reviews - information only	X	X			X	For information only after adoption by Council
2. Internal controls and risk management systems						
2.1 Review progress on Council's Internal Financial controls		X	X	X	X	Status report provided on progress made against matters raised by Council's external auditor. Additional update report on internal controls project provided by Internal Auditor.
2.2 Review Council's internal control policies and procedures		X	X	X	X	Presented as part of the regular Internal Audit activity report
2.3 Review Council's annual Risk Management Action Plan (incorporating Risk Profile Review actions)	X	X	X	X	X	Presented as part of the regular Risk Management update report
2.4 Review Council's annual Risk Profile Review (Audit)				X		Presented as part of the regular Risk Management update report
2.5 Review Council's Strategic Risk Management Plan			X			Presented as part of the regular Risk Management update report
2.6 Review Council's Risk Maturity Assessment		X				Presented as part of the regular Risk Management update report
2.7 Review Council's Business Continuity Plan (BCP)		X				Presented as part of the regular Risk Management update report
2.8 Review Council's Risk Management Framework					X	Presented as part of the regular Risk Management update report
3. Whistle blowing						
Identify whether the Council has in place simple, readily accessible arrangements for employees to confidentially raise concerns of alleged malpractice in accordance with legislative provisions. Examine whether Council's whistleblower arrangements are well known to employees and effective having regard to local circumstances.						
3.1 Review Council's whistleblowers protection policy						Next review due 2019
3.2 Examine the method of informing staff of these policies						Next review due 2019
4. Internal Audit						

## Yorke Peninsula Council Audit Committee Work Program 2017

Activity	Timeframe					Notes
	Completed Current Deferred					
	Mar-17	May-17	Aug-17	Oct-17	Dec-17	
4.1 Review annual work program and outcomes of past work	X					Presented as part of the regular Internal Audit activity report
4.2 Consider any internal audits conducted	X	X	X	X	X	Presented as part of the regular Internal Audit activity report
5. External Audit						
5.1 Meet with Council's external auditor to:- > invite presentation of their audit methodology and risk assessments within the audit plan; > discuss any qualifications raised in the most recent audit or comments made in the accompanying audit management letter; > assess the appropriateness of the proposed Council response to matters so raised; and > invite comment on the financial systems and affairs of the Council having regard to comparable benchmarks.				X		
5.2 Review effectiveness of external audit				X		
5.3 Review management representation letters before they are signed by management				X		
5.4 Assess the appropriateness of the Council's response to the auditor's findings and recommendations				X		
5.5 Oversee action to follow up on matters raised by the external auditor	X					
5.6 Consider appointment/reappointment of auditor in accordance with legislation				X		Contract expires November 2017
6. Reporting						
6.1 Report annually to Council:- > activities of the Committee's work program and the results of a self-assessment of performance for the preceding calendar year including whether it believes any changes to its Terms of Reference are needed; > outlining any training needs; > advising future work program proposals; and > inviting comment from Council on all of the above.					X	

## Yorke Peninsula Council Audit Committee Work Program 2017

Activity	Timeframe					Notes
	Completed Current Deferred					
	Mar-17	May-17	Aug-17	Oct-17	Dec-17	
7. Strategic, Financial and Management Planning						
7.1 Review Strategic Management Plan						Adopted by Council in July 2016. Next review not due until November 2019.
7.2 Review Long Term Financial Plan	X				X	Updated annually following adoption of Annual Business Plan and Budget
7.3 Review Asset Management Plans/ Strategy						Ongoing as developed and reviewed. Presented through the regular Asset Management update report.
7.4 Review appropriateness of the range and content of Council policies and strategies						As per renewal timeframes and legislative requirements
7.5 Review Annual business plan, budget and fees and charges		X				In conjunction with public consultation period
8. Other matters						
8.1 Adopt/review Audit Committee annual workplan	X	X	X	X	X	Updated for each meeting
8.2 Reports on other relevant matters						Ongoing as the need arises
8.3 Appoint Audit Committee Chairperson						Next appointment will be in December 2020

## **BUSINESS IMPROVEMENT OFFICER**

### **2. 2017 – 2019 INTERNAL AUDIT PLAN**

#### **PURPOSE**

The Business Improvement Officer(s) present an updated Internal Audit Plan for 2017-2019.

#### **RECOMMENDATION**

The Audit Committee endorse the three year Internal Audit Plan for 2017 – 2019.

#### **LINK TO STRATEGIC PLAN**

Goal: 5 Responsible Governance

Strategy: 5.1 Openness and transparency of reporting Council's performance

5.3 Meet all legislative requirements and compliance with Council's internal controls

5.8 Continuous improvement of Council processes

#### **BACKGROUND**

The objective of the Yorke Peninsula Council's ("Council") internal audit function is to enhance business performance by ensuring compliance to policies and procedures and recommending improvements in process effectiveness, efficiency and economy.

The three year Internal Audit Plan covering 2017 – 2019 sets out the proposed internal audit projects to be undertaken by Council.

#### **DISCUSSION**

This Internal Audit Plan was updated to focus the limited internal audit resources to areas of most importance and concern to Council Management for the 2017 calendar year.

The internal audit plan was updated using the following considerations:

- Discussions with the Chief Executive Officer on key issues and concerns currently arising
- Internal audits, identified as a priority, that were not fully completed in the FY16 Internal Audit Plan year will be rolled over
- Professional judgement of internal audit.

#### **COMMUNITY ENGAGEMENT PLAN**

Not applicable

#### **CONSULTATION PROCESS**

In preparing this report, the following Yorke Peninsula Council officers were consulted:

- Chief Executive Officer

In preparing this report, the following External Parties were consulted:

- Nil

#### **POLICY IMPLICATIONS**

PO156 Internal Financial Control



**BUDGET AND RESOURCE IMPLICATIONS**

Not applicable

**RISK/LEGAL/LEGISLATIVE IMPLICATIONS**

Local Government Act (SA) 1999

**ATTACHMENTS**

**Attachment 1:** 2017 – 2019 Internal Audit Plan

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# Internal Audit Plan 2017 - 2019

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## 1. OBJECTIVE

The objective of the Yorke Peninsula Council's ("Council") internal audit function is to enhance business performance by ensuring compliance to policies and procedures and recommending improvements in process effectiveness, efficiency and economy.

The updated three year Internal Audit Plan covering 2017 – 2019 sets out the proposed internal audit projects to be undertaken by Council. This plan will be reviewed at the end of the 2017 calendar year.

## 2. METHODOLOGY

This Internal Audit Plan was updated to focus the limited internal audit resources to areas of most importance and concern to Council Management for the 2017 calendar year.

The internal audit plan was developed using the following considerations:

- Discussions with the Chief Executive Officer on key issues and concerns currently arising
- Internal audits, identified as a priority, that were not fully completed in the FY16 Internal Audit Plan year will be rolled over
- Professional judgement of internal audit.

## 3. REPORTING

The Business Improvement Officer(s) will report on the following to the Chief Executive Officer and Audit Committee (on at least a quarterly basis):

- Ongoing status of the Internal Audit Plan
- Outcomes / reports of individual engagements and any identified significant risk, control, fraud or governance issues
- Status of implementation of agreed actions resulting from internal and external audits, internal controls project and other external bodies.

#### 4. INTERNAL AUDIT PLAN

The following table presents the proposed audit projects, for the immediate calendar year with a tentative scope and proposed timing. Planned 2018 & 2019 projects are also included, but will be continually reviewed and revised where necessary:

	Project	Scope Overview	Proposed Timing	2017	2018	2019
1	Fuel Management	As requested by the CEO, Internal Audit will collate and review fuel data for all administration and Ute vehicles since August 2016 to determine the average litres used per 100kms.  Additional review or recommendation may be required based on the outcomes.	May 2017	✓		
2	Borrow Pit (Rubble) Management	A review of the controls in place with regard to the purchase, storage and usage of rubble to determine if Council's operational practices are reflected in, and match, financial tracking procedures.	August 2017	✓		
3	Equipment testing and compliance data review	As requested by the CEO, Internal Audit will perform a review of the costs associated with external contractors undertaking variance compliance testing of equipment, for example electrical tagging and testing, playground audits and fire equipment testing.  A report will outline potential improvements in the way these tests are undertaken.	April 2017	✓		
4	Elected Member Expenses	Review to confirm correct payment of allowances, reimbursement of expenses and accurate and timely recording in legislated registers.	June 2017			
5	Procurement Part 3 – Procurement Officer Review	Considering the two recent procurement audit completed, the CEO has requested that Internal Audit undertake a review of the benefits, drawbacks and costs associated to implement a dedicated Procurement Officer.	July 2017	✓		
6	Financial Management – Rates/Rate Rebates	A review of rate and rate rebate controls including processes for correct calculation of rate invoices, application of rebates and changes and access to the property master file.	October 2017	✓		
7	Controls Update (IT Access)	After discussions with External Audit, testing of IT application controls will be a priority for the FY17.	August 2017	✓		
8	Ongoing compliance audits (petty cash, credit cards & caravan parks)	Undertake regular spot checks of key compliance areas.	Ongoing	✓	✓	✓

	Project	Scope Overview	Proposed Timing	2017	2018	2019
9	Management Requests	Allowance for special projects, investigations and requests by Management that may arise during the year.	Ongoing	✓	✓	✓
1	Financial Management – Accounts Receivable	A review of key accounts receivable controls including receipting, banking, debtor follow up process and general ledger reconciliations.	TBA		✓	
2	Financial Management – Payroll	Audit of the procedures and internal controls relating to the fortnightly processing of the payroll. Processes include new payroll additions, terminations, pay rate changes, payroll changes and deductions.	TBA		✓	
3	Dog and Cat Management	Review of annual report provided to Cat and Dog Management Board, pounds, dog registrations and associated documentation is accurate. Furthermore the review will assess the performance against the Animal Management Plan objectives.	TBA		✓	
4	Underperforming Assets	For a sample of assets, review the cost outlays for Council and undertake a comparison of the performance or income received from the asset. Identify any potential assets where Council are not recovering appropriate costs.	TBA		✓	
5	Volunteer Management	This review will assess the management of volunteers and compliance with the Volunteer Management Handbook.	TBA		✓	
6	Mobile Phones	This review will assess the processes for allocation of mobile phones, usage and ongoing monitoring processes.	TBA		✓	
1	Financial Management - Accounts Payable	A review of key accounts payable controls including approval and disbursement process, maintenance of supplier master file and general ledger reconciliations.	TBA			✓
2	Corporate Governance	<p>The objective of the review will be to assess the adequacy of Council's governance mechanisms (policies, structures, processes and information) to provide strategic direction and oversight of activities in support of the department. Specifically:</p> <ul style="list-style-type: none"> <li>• Attitude and culture of Senior Management in regards to Corporate Governance (Tone at the Top)</li> <li>• Strategic Planning and Budgeting</li> <li>• Internal Controls, Internal Audit and Risk Management</li> </ul>	TBA			✓

Project	Scope Overview	Proposed Timing	2017	2018	2019
	<ul style="list-style-type: none"> <li>Formally established Council and Management committees</li> <li>Performance Monitoring and Reporting</li> <li>Legislative Compliance</li> </ul>				
<b>3</b>	Post Implementation Review – Electronic Document and Records Management System	A new electronic document and records management system (EDRMS) was implemented in 2016. This review will be an assessment of the effectiveness of the implementation of the new system against the outlined objectives and legislative compliance, review of the policies and procedures in place and staff adherence to the new processes.	TBA		✓
<b>4</b>	Town Hall and Council Asset Hire	Review of the processes associated with hiring of hall and other assets to the community. Including financial, WHS, risk management and insurance controls.	TBA		✓
<b>5</b>	Borrowing & Investments	A review of financial borrowing and investment controls including a review of the processes regarding the decisions to borrow taking into consideration the impacts on the financial sustainability of Council.	TBA		✓

## **DIRECTOR CORPORATE AND COMMUNITY SERVICES**

### **3. 2016/2017 DECEMBER QUARTERLY BUDGET REVIEW**

#### **PURPOSE**

To receive Council's endorsed review of 2016/2017 Budget and associated financial statements and ratios.

#### **RECOMMENDATION**

That the Audit Committee receive the Council endorsed December 2016 Budget Review changes as presented in the attached Summary of Changes, Uniform Presentation of Finances and Statement of Comprehensive Income and receive the updated Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and Financial Indicators (Ratios) reports.

#### **LINK TO STRATEGIC PLAN**

Goal: 5 Responsible Governance

Strategy: 5.1 Openness and transparency of reporting Council's Performance  
5.2 Effective leadership and informed decision making  
5.3 Meet all legislative requirements and compliance with Council's internal controls  
5.5 Undertake effective risk management

#### **BACKGROUND**

Regulation 9(1) (b) of the Local Government (Financial Management) Regulations 2011 requires that Council undertake one comprehensive budget review each financial year. This review must include preparation of four principal financial statements (excluding notes) and show a revised full year forecast of each item in the budgeted financial statements compared to estimates set out in the original budget.

Council's policy PO142 Budget Reporting and Amendment requires quarterly budget reviews i.e. September, December and March. This means Council undertakes two (2) additional budget reviews than required by the Regulations. This is the second (mid-year) of the three (3) quarterly budget reviews for the 2016/2017 financial year.

#### **DISCUSSION**

The December 2017 Budget Review was endorsed by Council at its meeting held on 8<sup>th</sup> February 2017.

Budget managers in all directorates completed a review of their 2016/2017 budgets as at 31<sup>st</sup> December 2016 and all adjustments allowed in accordance with policy PO142 were included in the attached Statements (refer attachments 1-6).

Budgets have been reviewed taking the following into consideration:-

- Additional income likely to be generated or received
- New grants and contributions
- Changes to user and statutory fee income forecasts
- Review of staffing levels to those originally budgeted
- Changes due to amendments in legislation
- Changes to Government fees and charges
- Council decisions made between adoption of the original budget and 31<sup>st</sup> January 2017
- Status of capital projects taking into account projects carried forward from 2015/2016 for completion in the current financial year (refer previous Council decision in August 2016)
- Income and expenditure to date and forecasts for the remainder of the year

A full list of adjustments with reasons for the changes is attached to this report (refer Attachment 1).

### **Budgeted Operating Surplus/ (Deficit)**

As a result of the endorsed second quarterly (mid-year) budget review (QBR 2) and subsequent adjustments, Council's forecast Operating Deficit for the 2016/2017 financial year is forecast as \$1.396m, which is a decrease of \$1.3m to that forecast in Council's adopted budget. This significant change to the Operating bottom line (and subsequently Council's forecast Operating Surplus Ratio) is explained as follows:-

- **Roads to Recovery (R2R) grant funding – favourable impact** - \$1.922m was initially budgeted for as capital income (amount received specifically for new or upgraded assets) for expenditure on capital renewal projects, however, accounting treatment in accordance with Note 2 of the LGA SA Model Financial Statements now requires that R2R grants be classified as operating income (grants, subsidies and contributions). This is based on the argument that if Council is entitled to determine the purpose or the project(s) on which the amount is spent (which is the case with R2R grants), then it is to be classified as operating income (grants, subsidies and contributions). R2R funds received in the 2015/2016 financial year were classified as operating income in the audited financial statements which were completed after the finalisation of the 2016/2017 Annual Business Plan.

In QBR 2 these grant funds have now been classified as operating income which has had a significant positive impact on Council's forecast operating deficit for 2016/2017, however it should be noted that Council's 2016/2017 R2R grant allocation is significantly higher than its normal annual allocation. Council's allocation in 2015/2016 was \$1.66m, while the average for the three (3) years prior was \$586k. This shows that for the last two (2) financial years Council has received greater than its normal quantum of funding with no guarantee that this will continue in 2017/2018 and beyond. This extra funding was allocated specifically for capital expenditure even though classified as operating income and has made Council's Operating Deficit look better than it actually is.

This change has also had a significant positive impact on Council's Operating Surplus Ratio, details of which are explained later in this report.

If funding reverts back to normal levels Council's true Operating Deficit will once again be highlighted and will likely be much higher than forecast in 2016/2017. If R2R grant funds are not reclassified as operating income Council's forecast Operating Deficit in 2016/2017 would be \$3.32m.

- **Depreciation – unfavourable impact** - an increase of \$386k to forecast deprecation as a result of asset revaluations of transport infrastructure in 2015/2016, removal of residual values for roads and subsequent depreciation of these previously undepreciated asset components and deprecation of assets capitalised in 2015/2016.

This change will impact negatively on Council's Operating Surplus and Asset Sustainability Ratios, details of which are explained later in this report.

- **Roadside Vegetation Contract – unfavourable impact** – an increase of \$238k to the Operating Deficit as a result of Council's decision to remove \$901k budgeted for capital renewal expenditure on roads and allocate that to roadside vegetation operating expenditure in 2016/2017, 2017/2018 and 2018/2019. QBR 2 only captures the impact on Council's Operating Deficit in 2016/17. The impact in future years will be captured through future annual budgets and Council's revised LTFP.

This change will impact negatively on Council's Operating Surplus and Asset Sustainability Ratios, details of which are explained later in this report.

More detailed information on the changes to Council's Operating Deficit (and income and expenditure budgets) is available in the Updated Statements, in particular the Budgeted Statement of Comprehensive Income (refer Attachment 3) and also in Attachment 1.

### **Budgeted Capital Expenditure**

Council's forecast capital expenditure after the endorsed QBR 2 budget review adjustments is \$13.96m. This includes the initially adopted budget of \$10.62m to which carry forward projects adopted by Council worth \$4.06m were added in August 2016 and adjustments of \$49k were added at the September Quarterly Budget Review (QBR 1). A net reduction of \$766k to the capital expenditure forecast is forecast in QBR 2, details of which can be found in the Updated Statements in particular the Budgeted Statement of Cash Flows (refer Attachment 5) and also in Attachment 1.

Of the endorsed revised budget of \$13.96m, \$8.67m is budgeted to be spent on renewal and replacement of existing assets, which is an increase of \$2.6m to Council's adopted budget due mainly to carry forward projects.

### **Budgeted Cash Flow & Net Lending/ (Borrowing)**

Following the endorsed adjustments in this budget review, Council's forecast closing cash and cash equivalents as at 30<sup>th</sup> June 2017 is \$3.66m which is an increase of \$160k to Council's adopted budget.



The forecast end of year Net Lending/ (Borrowing) has changed from a net borrowing amount of \$4.14m at QBR 1 to \$3.54m due to adjustments endorsed in QBR 2. This is a reduction of \$600k.

More detail on the movements in net lending/ (borrowing) for the financial year can be found in the Budgeted Uniform Presentation of Finances (refer Attachment 2).

### **Budgeted Financial Indicators (Ratios)**

**Operating Surplus Ratio** – forecast has decreased from (9.6%) to (4.6%) but still continues to be below the industry minimum target of breakeven or 0%. While the reduction is significant the following should be noted:-

- The formula used to calculate this ratio has changed from when the initial budget was set. Originally this ratio represented Operating Surplus/ (Deficit) as a percentage of total rate revenue less NRM levy and the 2016/2017 forecast ratio calculated using this formula was (12.7%). Using the new formula endorsed in the Model Financial Statements, which now represents Operating Surplus/ (Deficit) as a percentage of total operating revenue, the original forecast 2016/17 ratio is recalculated as 9.6%. After QBR 2 endorsed adjustments and impacts the forecast ratio is now 4.6%.
- As explained earlier in this report the reclassification of R2R grant funds, increase in forecast depreciation and Council's decision on the Roadside Vegetation contract has impacted on this ratio.
- If R2R grant funds were not reclassified to operating income, Council's forecast Operating Surplus Ratio would be 11.8% as a result of all other endorsed QBR 2 changes (up from 9.6% due primarily to increases in depreciation).

**Net Financial Liabilities Ratio** - as a result of endorsed changes in this budget review, this ratio is forecast to decrease to 20.5% when compared to Council's adopted forecast of 24.5%. This decrease is due to the various adjustments in this budget review (primarily the reclassification of R2R grant funds) and its impact on forecast cash and cash equivalents and total operating income. If R2R grant funds are not reclassified to operating income the forecast QBR 2 ratio would be 21.9%.

This ratio remains well below the industry ceiling of 100% and gives Council the ability to consider future borrowings for capital renewal expenditure provided Operating Income levels are sufficient to cover borrowing costs.

**Asset Sustainability Ratio** – forecast to be 88% for 2016/2017 if all capital renewal projects are completed as budgeted and depreciation is not significantly different to that forecast. Originally this was forecast to be 62%, however, carry forward projects from 2015/2016 resulted in an increase to 99% before endorsed changes in QBR 2 (particularly Depreciation and Roadside Vegetation contract) have reduced this forecast to 88%.

The forecast ratio remains just below the industry target of 90%, however, it should be noted that approximately 37% of this ratio is a result of capital renewal projects budgeted in 2015/2016 but not completed in that year. As a result those projects were carried forward for completion to 2016/2017 reducing the ratio for 2015/2016 and increasing the forecast ratio in the current financial year. This is likely to be a one-off occurrence which has extraordinarily inflated the ratio in 2016/2017.

More information on Council's Financial Indicators can be found in Attachment 7.

## **COMMUNITY ENGAGEMENT PLAN**

Level 1 Inform – Included in Council meeting and Audit Committee agenda and minutes which are published on Council's website

## **CONSULTATION PROCESS**

In preparing this report, the following Yorke Peninsula Council officers were consulted:

- Corporate Management Team
- Manager Financial Services
- Budget Managers
- Accountant – Financial Management
- Accountant – Financial Operations

In preparing this report, the following External Parties were consulted:

- Nil

## **POLICY IMPLICATIONS**

PO142 Budget Reporting and Amendment Policy

## **BUDGET AND RESOURCE IMPLICATIONS**

Budget and resource implications are as detailed in this report and as presented in the attached financial statements and indicators.

## **RISK/LEGAL/LEGISLATIVE IMPLICATIONS**

Council's budget is a fundamental instrument of accountability and an essential pre-requisite to deciding the annual rate impost on the community. As such it is important that material variations compared with the original budget be disclosed and explained.

Local Government Act 1999

Local Government (Financial Management) Regulations 2011

## **ATTACHMENTS**

**Attachment 1:** Summary of Changes – Mid-Year (December) Budget Review 2016/2017

**Attachment 2:** Budgeted Uniform Presentation of Finances 2016/2017

**Attachment 3:** Budgeted Statement of Comprehensive Income 2016/2017

**Attachment 4:** Budgeted Statement of Financial Position 2016/2017

**Attachment 5:** Budgeted Statement of Cash Flows 2016/2017

**Attachment 6:** Budgeted Statement of Changes in Equity 2016/2017

**Attachment 7:** Budgeted Financial Indicators (Ratios) 2016/2017

# YORKE PENINSULA COUNCIL 2016/17 BUDGET SUMMARY OF CHANGES



Type	Note #	Amount Increase/ (Decrease)	Reason for Variance
<b>OPERATING INCOME</b>			
Rates	1	\$ 5,000	Rates fines income forecast higher than originally budgeted.
Rates	2	-\$ 23,000	Reduction to legal and bank fees recovered as all debt recovery undertaken in house.
Rates	3	\$ 5,227	Mandatory rate rebates given were less than originally budgeted.
Rates	4	\$ 10,948	Waste collection income raised higher than originally budgeted.
Rates	5	-\$ 613	Minor adjustments (individually less than \$5k) across several budget lines to reflect income to date & forecast.
Statutory Charges	6	-\$ 12,000	CITB no longer collected by Council - partially offset by reduction of \$10k in operating expenditure.
Statutory Charges	7	-\$ 6,800	Property search income forecast less than originally budgeted.
Statutory Charges	8	-\$ 5,800	Minor adjustments (individually less than \$5k) across several budget lines to reflect income to date & forecast.
User Charges	9	-\$ 11,175	Net reduction to forecast caravan parks income due inclement weather and cabin upgrade projects not completed.
User Charges	10	-\$ 7,500	Road rental income not being received this year as invoices raised last financial year for a 5 year period.
User Charges	11	\$ 790	ESL reimbursement caravan park not originally budgeted.
Grants, Subsidies and Contributions	12	-\$ 19,896	Balance budget to actual Financial Assistance Grant (General Component) being received in 2016/17.
Grants, Subsidies and Contributions	13	\$ 1,922,674	Roads to Recovery grant previously classified under capital income now included under operating income as per Model Financial Statements.
Grants, Subsidies and Contributions	14	\$ 2,035	Minor adjustments (individually less than \$5k) across several budget lines to reflect income to date & forecast.
Reimbursements	15	\$ 11,580	ESL reimbursement from community groups not originally budgeted.
Reimbursements	16	-\$ 25,000	Remove Ardrossan Jetty Shelters (\$5k) & Stansbury Playgorund Fence (\$20k) capital projects progress contributions budgtd twice.
Reimbursements	17	-\$ 16,047	Insurance rebates and special distributions and other reimbursements forecast to be less than originally budgeted.
Reimbursements	18	-\$ 2,533	Minor adjustments (individually less than \$5k) across several budget lines to reflect income to date & forecast.
Other Income	19	\$ 11,460	Incorrectly treated in 15/16 as income in advance (unspent grant). Funds now returned to general revenue.
Other Income	20	\$ 5,985	Minor adjustments (individually less than \$5k) across several budget lines to reflect income to date & forecast.

# YORKE PENINSULA COUNCIL 2016/17 BUDGET SUMMARY OF CHANGES



Type	Note #	Amount Increase/ (Decrease)	Reason for Variance
<b>OPERATING EXPENDITURE</b>			
Employee costs	21	-\$ 15,293	Allocate wages to capital projects
Employee costs	22	-\$ 1,999	Minor adjustments (individually less than \$5k) across several budget lines to reflect expenditure to date & forecast expenditure.
Materials, contracts & other expenses	23	\$ 237,506	Net increase to contractual budget to reflect Council decision on Roadside Vegetation Management tender.
Materials, contracts & other expenses	24	-\$ 25,000	Internal audit improvements entire budget not required as work undertaken in house rather than using consultants. Part of this budget used to fund capital renewal of office furniture and fittings and rest used to offset shortfall in income in other budget areas.
Materials, contracts & other expenses	25	-\$ 5,000	Street cleaning general maintenance budget reduced. Transferred to cleaning contract budget to make up forecast shortfall.
Materials, contracts & other expenses	26	-\$ 15,000	Ardrossan CWMS general maintenance surplus funds identified. Transferred to other CWMS to fund unexpected expenditure as a result of pump failures and electrical faults due to storm events.
Materials, contracts & other expenses	27	\$ 6,000	Hardwicke Bay CWMS unexpected pump failures and electrical faults as a result of storm events.
Materials, contracts & other expenses	28	\$ 8,000	Point Turton CWMS unexpected pump failures and electrical faults as a result of storm events.
Materials, contracts & other expenses	29	\$ 5,000	Stansbury CWMS unexpected pump failures and electrical faults as a result of storm events.
Materials, contracts & other expenses	30	-\$ 30,000	Reallocate \$20k from Jetties general maintenance to fund storm damage on Jetties. \$10k identified as surplus funds in Jetties general maintenance reallocated to cleaning contract budget to make up forecast shortfall.
Materials, contracts & other expenses	31	\$ 20,000	Storm damage repairs to Jetties. Budget reallocated from Jetties general maintenance. Refer item #30 above.
Materials, contracts & other expenses	32	-\$ 7,000	Cemeteries general maintenance surplus funds reallocated to cleaning contract budget to make up forecast shortfall.
Materials, contracts & other expenses	33	-\$ 10,000	Reallocate part of the public conveniences general maintenance budget to the cleaning contract budget to make up forecast shortfall.
Materials, contracts & other expenses	34	\$ 52,000	Increase cleaning contract to reflect actual cost of services provided and address forecast budget shortfall. Additional cleaning not originally budgeted.
Materials, contracts & other expenses	35	-\$ 20,000	Reallocate part of the parks and reserves general maintenance budget to the cleaning contract budget to make up forecast shortfall.
Materials, contracts & other expenses	36	-\$ 7,000	Rates debt recovery legal costs no longer required as debt recovery undertaken in house.
Materials, contracts & other expenses	37	-\$ 10,000	CITB levy no longer payable as not collected by Council. Offset by reduction in income. Refer item #6 above.
Materials, contracts & other expenses	38	-\$ 5,000	Rates external debt recovery agents no longer used as debt recovery undertaken in house.
Materials, contracts & other expenses	39	-\$ 7,000	Forecast planning consultant expenditure not as high as originally budgeted.
Materials, contracts & other expenses	40	-\$ 9,000	Reduce planning consultant budget for Township DPA's to as cost to complete less than originally budgeted.
Materials, contracts & other expenses	41	-\$ 3,506	Minor adjustments (individually less than \$5k) across several budget lines to reflect expenditure to date & forecast expenditure.
Depreciation	42	\$ 386,000	Increase to forecast depreciation as a result of transport asset revaluations, removal of residual values on roads and depreciation of assets capitalised in 2015/16.

# **YORKE PENINSULA COUNCIL** **2016/17 BUDGET** **SUMMARY OF CHANGES**



Type	Note #	Amount Increase/ (Decrease)	Reason for Variance
<b>CAPITAL INCOME</b>			
Amounts received specifically for new assets	43	\$ 70,500	Ardrossan Stormwater Reuse Stage 3 capital project contribution from Ardrossan Progress not originally budgeted
Amounts received specifically for new assets	44	-\$ 1,922,674	Roads to Recovery grant previously classified under capital income now included under operating income as per Model Financial Statements. Refer item #13 above.
<b>CAPITAL EXPENDITURE - RENEWAL</b>			
CWMS Infrastructure	45	\$ 30,255	Replacement of pump station at Port Victoria CWMS destroyed in car accident. Reimbursed through Council insurance scheme.
Other Assets	46	\$ 10,000	Allocating budget for office furniture and fittings not originally budgeted. Savings identified in operating expenditure budget lines used to fund this.
Roads Infrastructure	47	-\$ 901,760	Budget for road acceleration (renewal) removed in line with Council decision on Roadside Vegetation Management tender. \$237.5k allocated to Roadside Vegetation Management in 2016/17 with the rest to be used for same in future years. Refer item#23 above.
Roads Infrastructure	48	\$ 68,817	North South Road construction - increase to budget as per tender awarded. Additional funds taken from Rubble inventory.
Roads Infrastructure	49	\$ 60,885	McCauley Road construction - increase to budget as per tender awarded. Additional funds taken from Rubble inventory.
Roads Infrastructure	50	-\$ 215,970	Harmer Road construction - decrease to budget as per tender awarded and Council decision. Funds allocated to other roads.
Roads Infrastructure	51	-\$ 47,804	Pine Point Road (Hastings Rd - James Well Rd) budget decreased to match tender price. Funds allocated to other roads.
Roads Infrastructure	52	\$ 334,072	Pine Point Road (Yorke Hwy - St Vincent Hwy) budget increased to match tender price.
Roads Infrastructure	53	-\$ 10,263	Balance Minlaton school carpark renewal project budget as work completed for less than originally forecast.
Various	54	\$ 19,768	Minor adjustments (individually less than \$5k) across asset classes to reflect expenditure to date, forecast expenditure and completion of projects.
<b>CAPITAL EXPENDITURE - NEW/UPGRADE</b>			
Inventory - Rubble	55	-\$ 200,000	Rubble budget allocation reallocated to road construction projects after Council decision on tender.
Stormwater Infrastructure	56	\$ 73,500	Ardrossan Stormwater Reuse Stage 3 capital project (30% of total budget) not originally budgeted. Balance of budget to be included in 2017/18 to match timing of project completion. Offset by contribution from Ardrossan Progress. Refer item #43 above.
Various	57	\$ 12,500	Minor adjustments (individually less than \$5k) across asset classes to reflect expenditure to date, forecast expenditure and completion of projects.

**YORKE PENINSULA COUNCIL**  
**2016/17 BUDGET**  
**BUDGETED UNIFORM PRESENTATION OF FINANCES**



	2016/17 Adopted Budget \$('000)	2016/17 Carry Forward Projects Adjustments \$('000)	2016/17 September Budget Adjustments \$('000)	2016/17 December Budget Adjustments \$('000)	2016/17 Revised Budget \$('000)	2016/17 <i>Notes</i>
Operating Revenues	28,087	65	122	1,845	30,119	1 - 20
<i>less Operating Expenses</i>	30,778	213	(20)	544	31,515	21 - 42
<b>Operating Surplus/(Deficit) before Capital Amounts</b>	<b>(2,691)</b>	<b>(148)</b>	<b>142</b>	<b>1,301</b>	<b>(1,396)</b>	
<b>Less: Net Outlays on Existing Assets</b>						
Capital Expenditure on Renewal/Replacement of Existing Assets	6,027	3,266	30	(652)	8,671	45 - 54
<i>less Depreciation, Amortisation &amp; Impairment</i>	9,075	(70)		386	9,391	42
<i>less Proceeds from Sale of Replaced Assets</i>	363				363	
	<b>(3,411)</b>	<b>3,336</b>	<b>30</b>	<b>(1,038)</b>	<b>(1,083)</b>	
<b>Less: Net Outlays on New and Upgraded Assets</b>						
Capital Expenditure on New/Upgraded Assets	4,592	791	19	(114)	5,288	55 - 57
<i>less Amounts Specifically for New/Upgraded Assets</i>	3,914			(1,852)	2,062	43 - 44
<i>less Proceeds from Sale of Surplus Assets</i>	0				0	
	<b>678</b>	<b>791</b>	<b>19</b>	<b>1,738</b>	<b>3,226</b>	
<b>Net Lending / (Borrowing) for Financial Year</b>	<b>42</b>	<b>(4,275)</b>	<b>93</b>	<b>601</b>	<b>(3,539)</b>	

**YORKE PENINSULA COUNCIL**  
**2016/17 BUDGET**  
**BUDGETED STATEMENT OF COMPREHENSIVE INCOME**



	2016/17 Adopted Budget \$('000)	2016/17 Carry Forward Projects Adjustments \$('000)	2016/17 September Budget Adjustments \$('000)	2016/17 December Budget Adjustments \$('000)	2016/17 Revised Budget \$('000)	2016/17 <i>Notes</i>
<b>INCOME</b>						
Rates	21,209			(2)	21,207	1 - 5
Statutory Charges	415		10	(25)	400	6 - 8
User Charges	3,115			(18)	3,097	9 - 11
Grants, subsidies, contributions	2,671	50	12	1,905	4,638	12 - 14
Investment Income	193				193	
Reimbursements	414		100	(32)	482	15 - 18
Other Income	70	15		17	102	19 - 20
<b>Total Income</b>	<b>28,087</b>	<b>65</b>	<b>122</b>	<b>1,845</b>	<b>30,119</b>	
<b>EXPENSES</b>						
Employee costs	8,500		(68)	(17)	8,415	21 - 22
Materials, contracts & other expenses	12,726	283	37	175	13,221	23 - 41
Depreciation	9,075	(70)		386	9,391	42
Finance Costs	477		11		488	
<b>Total Expenses</b>	<b>30,778</b>	<b>213</b>	<b>(20)</b>	<b>544</b>	<b>31,515</b>	
<b>OPERATING SURPLUS/(DEFICIT) BEFORE CAPITAL AMOUNTS</b>	<b>(2,691)</b>	<b>(148)</b>	<b>142</b>	<b>1,301</b>	<b>(1,396)</b>	
Net gain/(loss) on disposal or revaluations	10				10	
Amounts specifically for new assets	3,914			(1,852)	2,062	43 - 44
<b>NET SURPLUS/(DEFICIT)</b>	<b>1,233</b>	<b>(148)</b>	<b>142</b>	<b>(551)</b>	<b>676</b>	
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>1,233</b>	<b>(148)</b>	<b>142</b>	<b>(551)</b>	<b>676</b>	

**YORKE PENINSULA COUNCIL**  
**2016/17 BUDGET**  
**BUDGETED STATEMENT OF FINANCIAL POSITION**



	2016/17 Adopted Budget \$('000)	2016/17 Carry Forward Projects Adjustments \$('000)	2016/17 September Budget Adjustments \$('000)	2016/17 December Budget Adjustments \$('000)	2016/17 Revised Budget \$('000)	2016/17 <i>Notes</i>
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash & Equivalent Assets	3,496	(38)	(984)	1,182	3,656	
Trade & Other Receivables	1,346		(116)		1,230	
Inventories	777				980	
<b>Total Current Assets</b>	<b>5,619</b>	<b>(38)</b>	<b>(1,100)</b>	<b>1,182</b>	<b>5,866</b>	
<b>Non-Current Assets</b>						
Financial Assets	910		223		1,133	
Infrastructure, Property, Plant & Equipment	339,833	174	(40,195)	(2,055)	297,757	
<b>Total Non-Current Assets</b>	<b>340,743</b>	<b>174</b>	<b>(39,972)</b>	<b>(2,055)</b>	<b>298,890</b>	
<b>Total Assets</b>	<b>346,362</b>	<b>136</b>	<b>(41,072)</b>	<b>(873)</b>	<b>304,756</b>	
<b>LIABILITIES</b>						
<b>Current Liabilities</b>						
Trade & Other Payables	2,379	(38)	(441)		1,900	
Borrowings	629		48		677	
Provisions	1,699		8		1,707	
<b>Total Current Liabilities</b>	<b>4,707</b>	<b>(38)</b>	<b>(385)</b>	<b>0</b>	<b>4,284</b>	
<b>Non-Current Liabilities</b>						
Borrowings	7,317		(14)		7,303	
Provisions	606		10		616	
<b>Total Non-Current Liabilities</b>	<b>7,923</b>				<b>7,923</b>	
<b>Total Liabilities</b>	<b>12,630</b>	<b>(38)</b>	<b>(385)</b>	<b>0</b>	<b>12,207</b>	
<b>NET ASSETS</b>	<b>333,732</b>	<b>174</b>	<b>(40,687)</b>	<b>(873)</b>	<b>292,553</b>	
<b>EQUITY</b>						
Accumulated Surplus	(2,480)	(148)	(5,296)	(551)	(8,475)	
Asset Revaluation Reserve	335,455		(35,118)		300,337	
Other Reserves	757		(66)		691	
<b>TOTAL EQUITY</b>	<b>333,732</b>	<b>(148)</b>	<b>(40,480)</b>	<b>(551)</b>	<b>292,553</b>	



**YORKE PENINSULA COUNCIL**  
**2016/17 BUDGET**  
**BUDGETED STATEMENT OF CASH FLOWS**



	2016/17 Adopted Budget \$('000)	2016/17 Carry Forward Projects Adjustments \$('000)	2016/17 September Budget Adjustments \$('000)	2016/17 December Budget Adjustments \$('000)	2016/17 Revised Budget \$('000)	2016/17 <i>Notes</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
<u>Receipts</u>						
Operating Receipts	27,894	65	122	1,845	29,926	43 - 44
Investment Receipts	162		(11)		151	
<u>Payments</u>						
Operating Payments to Suppliers and Employees	(21,028)	(321)	336	(17)	(21,030)	
Materials, contracts & other expenses	0			175	175	
Finance Costs	(477)		(11)		(488)	
<b>Net Cash provided by (or used in) Operating Activities</b>	<b>6,551</b>	<b>(256)</b>	<b>436</b>	<b>2,003</b>	<b>8,734</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
<u>Receipts</u>						
Amounts Specifically for New/Upgraded Assets	3,914			(1,852)	2,062	
Sale of Renewed/Replaced Assets	363				363	
Repayments of Loans by Community Groups	107		34		141	
<u>Payments</u>						
Expenditure on Renewal/Replacement of Assets	(6,027)	(3,266)	(30)	652	(8,671)	45 - 54
Expenditure on New/Upgraded Assets	(4,592)	(791)	(19)	114	(5,288)	55 - 57
<b>Net Cash Provided by (or used in) Investing Activities</b>	<b>(6,235)</b>	<b>(4,057)</b>	<b>(15)</b>	<b>(1,086)</b>	<b>(11,393)</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>						
<u>Receipts</u>						
Proceeds from Borrowings	0				0	
<u>Payments</u>						
Repayments of Borrowings	(648)		6		(642)	
Repayment of Finance Lease Liabilities	0				0	
Repayment of Aged Care Facility Deposits	0				0	
<b>Net Cash provided by (or used in) Financing Activities</b>	<b>(648)</b>	<b>0</b>	<b>6</b>	<b>0</b>	<b>(642)</b>	
					0	
<b>Net Increase/(Decrease) in cash held</b>	<b>(332)</b>	<b>(4,313)</b>	<b>427</b>	<b>917</b>	<b>(3,301)</b>	
<b>Opening cash, cash equivalents or (bank overdraft)</b>	<b>3,828</b>	<b>4,275</b>	<b>(1,146)</b>	<b>0</b>	<b>6,957</b>	
<b>Closing cash, cash equivalents or (bank overdraft)</b>	<b>3,496</b>	<b>(38)</b>	<b>(719)</b>	<b>917</b>	<b>3,656</b>	

**YORKE PENINSULA COUNCIL**  
**2016/17 BUDGET**  
**BUDGETED STATEMENT OF CHANGES IN EQUITY**



	2016/17 Adopted Budget \$('000)	2016/17 Carry Forward Projects Adjustments \$('000)	2016/17 September Budget Adjustments \$('000)	2016/17 December Budget Adjustments \$('000)	2016/17 Revised Budget \$('000)	2016/17 <i>Notes</i>
<b>ACCUMULATED SURPLUS</b>						
Balance at end of previous reporting period	(3,713)	(70)	(5,368)		(9,151)	
Net Result for Year	1,233	(148)	142	(551)	676	
Transfers to Other Reserves	0				0	
Transfers from Other Reserves	0				0	
<b>Balance at end of period</b>	<b>(2,480)</b>	<b>(218)</b>	<b>(5,226)</b>	<b>(551)</b>	<b>(8,475)</b>	
<b>ASSET REVALUATION RESERVE</b>						
Land	73,286				73,286	
Buildings and Other Structures	48,995				48,995	
Transportation Infrastructure	186,712		(35,817)		150,895	
Plant & Equipment	0				0	
Furniture & Fittings	0				0	
CWMS Infrastructure	14,481				14,481	
Water Scheme Infrastructure	1,374		699		2,073	
Other Assets	0				0	
Office Building	0				0	
Stormwater Drainage	10,607				10,607	
<b>Balance at end of period</b>	<b>335,455</b>	<b>0</b>	<b>(35,118)</b>	<b>0</b>	<b>300,337</b>	
<b>OTHER RESERVES</b>						
Balance at end of previous reporting period	757	70	(66)		761	
Transfers from Accumulated Surplus	0				0	
Transfers to Accumulated Surplus	0				0	
<b>Balance at end of period</b>	<b>757</b>	<b>70</b>	<b>(66)</b>	<b>0</b>	<b>761</b>	
<b>TOTAL EQUITY AT END OF REPORTING PERIOD</b>	<b>333,732</b>	<b>(148)</b>	<b>(40,410)</b>	<b>(551)</b>	<b>292,553</b>	

**YORKE PENINSULA COUNCIL**  
**2016/17 BUDGET**  
**BUDGETED FINANCIAL INDICATORS (RATIOS)**



	<b>2016/17 Adopted Budget</b>	<b>2016/17 Carry Forward Projects Adjustments</b>	<b>2016/17 September Budget Adjustments</b>	<b>2016/17 December Budget Adjustments</b>	<b>2016/17 Revised Budget</b>	<b>2016/17 <i>Notes</i></b>
Operating Surplus Ratio - %	(9.6)%	(0.5)%	0.5%	4.9%	(4.6)%	1 - 44
Net Financial Liabilities Ratio - %	24.5%	-0.1%	1.6%	-5.5%	20.5%	
Asset Sustainability Ratio - %	62%	37%	0%	-11%	88%	42, 45 - 54

## **DIRECTOR CORPORATE AND COMMUNITY SERVICES**

### **4. LONG TERM FINANCIAL PLAN UPDATE**

#### **PURPOSE**

To provide an update on Council's Long Term Financial Plan (LTFP) and 2017/2018 Budget.

#### **RECOMMENDATION**

That the Audit Committee receive the report.

#### **LINK TO STRATEGIC PLAN**

Goal:	5 Responsible Governance
Strategy:	5.1 Openness and transparency of reporting Council's Performance
	5.2 Effective leadership and informed decision making
	5.3 Meet all legislative requirements and compliance with Council's internal controls
	5.5 Undertake effective risk management

#### **BACKGROUND**

Council adopted its current LTFP (2016/2017 – 2025/2026) in May 2016. It forecasts a breakeven operating bottom line in 2022/2023 at current rates of income and expenditure including a 3% sustainability rate increase over and above CPI and growth. Council's target of 80% for the Asset Sustainability Ratio is forecast to be met in 2019/2020.

#### **DISCUSSION**

Council's 2017/2018 Budget is being formulated to achieve or improve on the following LTFP targets:-

- Operating deficit: \$1.986m
- Operating surplus ratio: (9%)
- Net financial liabilities ratio: 24.2%
- Asset sustainability ratio: 69%
- Capital renewal/replacement: \$6.781m
- New and upgraded capital: \$1.482m
- Closing cash position: \$2.971m
- Net lending/ (borrowing): \$39k

Since the adoption of the LTFP the following items have come to light and will affect the LTFP and subsequently the 2017/2018 and future Budgets:-

- **Reclassification of R2R grants** – moved from capital to operating income resulting in direct effect on operating bottom line.

- **Minlaton Underground Power** – new project not included and to be taken out of new capital allocation in 2017/2018.
- **Volatile Electricity pricing** – substantial increases under new LG contracts but still substantially cheaper than normal market pricing.
- **Normalisation of road programme** – extra funding available in previous years for road renewal acceleration affecting split of wages between operating and capital.
- **Clinton Road** – one off project funded through R2R and Special Local Roads funding resulting in significant Council labour resources dedicated to this project. The conclusion of this project in 2016/2017 will result in change in split of wages between operating and capital in 2017/2018.
- **State Local Government Infrastructure Partnership** – application for funding through this programme for footpath renewal submitted. Success will result in Council borrowing \$1.2m with \$300k of grant funding, with works to commence in 2017/2018.
- **CWMS costing & pricing** – impact of this full cost recovery model as required by ESCOSA and based on LGA guidelines and model will be felt in 2017/2018 and future years.
- **Depreciation and Asset Values** - adjustments due to 'fair value' revaluations, development and update of Asset Management Plans and long term capital work plans and any changes to accounting treatment will affect depreciation levels in the LTFP and future budgets, with a flow on effect to financial sustainability indicators and ratios.
- **Change in CPI** – the current LTFP was based on 1.95% to reflect levels at the time of development, whereas current levels are lower. The impact of this is not significant currently but could be in future years.

The adjustments mentioned above and any others that come to light, will be incorporated into the revision of the LTFP that will be undertaken in the next three (3) - six (6) months.

The draft 2017/2018 Budget will be provided to the Committee for their consideration and endorsement in May 2017, with the aim to adopt it on 28<sup>th</sup> June 2017 at a Special Council meeting. Once adopted the 2017/2018 Budget will constitute the first year of the new LTFP with all brought forward balances to be taken from the draft 2016/2017 Financial Statements as accurately as possible given Audited statements will not be available until October 2017.

## COMMUNITY ENGAGEMENT PLAN

Level 1 Inform

## CONSULTATION PROCESS

In preparing this report, the following Yorke Peninsula Council officers were consulted:

- Corporate Management Team
- Manager Financial Services

In preparing this report, the following External Parties were consulted:

- Nil

## POLICY IMPLICATIONS

PO142 Budget Reporting and Amendment Policy

## **BUDGET AND RESOURCE IMPLICATIONS**

Proposed adjustments and their impact to Council's LTFP are as stated earlier in this report. More details on the impact to Council's financial position will be available once the LTFP has been revised.

## **RISK/LEGAL/LEGISLATIVE IMPLICATIONS**

Local Government Act 1999

Local Government (Financial Management) Regulations 2011

Not undertaking regular review of Council's LTFP can result in Council not being aware of its long term financial position and up to date targets to achieve financial sustainability. As a result actual financial results (end of year) reported may be different to Budgets, resulting in significant deviations.

## **ATTACHMENTS**

Nil

## **ASSET MANAGER**

### **5. ASSET MANAGEMENT UPDATE**

#### **PURPOSE**

To update the Audit Committee members on Asset Management activities.

#### **RECOMMENDATION**

That the report be received.

#### **LINK TO STRATEGIC PLAN**

Goal:	2 Community Connected through Infrastructure
Strategy:	2.1 Develop and deliver on Asset Management Plans for all asset classes 2.2 Utilise technology to provide easy access to Council information (e.g. planned infrastructure works, location of public facilities, events etc.) 2.5 Explore provision of new infrastructure

#### **BACKGROUND**

The report provides the Audit Committee with a summary of the works / activities undertaken within Asset Management.

#### **DISCUSSION**

##### **Transport**

Staff continue to undertake data collection and inspections on the unsealed road network, including taking core samples and other information. Data captured is assigned to each road segment, as setup in Conquest, and plotted via GPS in a GIS mapping system.

All Assets and Infrastructure Services managers and supervisory staff will be allocated with an iPad, which will feature the GIS mapping system, to assist them with the process of data collection, and the management of various projects they are responsible for.

##### **Buildings and Structures**

Staff have commenced a review of the current Buildings and Structures register, held in Conquest, to ensure that all buildings and structures owned and maintained by Council are being correctly accounted for. A digital register, which will be linked to Conquest, is currently being developed. This will show the physical location and an image of each building and structure. This register will be available to staff on Council's internal mapping system once completed.

##### **CWMS**

Council has recently engaged a contractor to undertake CCTV inspection and GPS plotting of CWMS infrastructure in Maitland and Ardrossan. The undertaking of this inspection work

has identified numerous issues, especially in Maitland where the majority of pipework is constructed of vitrified clay, which staff have then been able to budget to repair. A review of the CWMS Asset Management Plan is also being undertaken, and it is anticipated that a draft plan will be presented to Council for discussion mid-year.

#### **COMMUNITY ENGAGEMENT PLAN**

Not applicable

#### **CONSULTATION PROCESS**

In preparing this report, the following Yorke Peninsula Council officers were consulted:

- Director Assets and Infrastructure
- Director Development Services
- Works Manager
- Infrastructure Manager
- Operations Manager
- Manager Development Services
- Manager Financial Services
- Accountant Financial Operations

In preparing this report, the following External Parties were consulted:

- Nil

#### **POLICY IMPLICATIONS**

PO128 Asset Management Policy

PO124 Asset Accounting Policy

#### **BUDGET AND RESOURCE IMPLICATIONS**

Not applicable

#### **RISK/LEGAL/LEGISLATIVE IMPLICATIONS**

Local Government Act 1999

#### **ATTACHMENTS**

Nil



## **RISK MANAGEMENT OFFICER**

### **6. RISK MANAGEMENT REPORT**

#### **PURPOSE**

The Risk Management Officer presents an update on the progress of Council's Risk Management Framework.

#### **RECOMMENDATION**

That the report be received.

#### **LINK TO STRATEGIC PLAN**

Goal: 5 Responsible Governance  
Strategy: 5.5 Undertake effective risk management  
5.8 Continuous improvement of Council processes

#### **BACKGROUND**

The objective of the Yorke Peninsula Council's (Council) risk management framework is to provide an essential and coherent link between our strategic goals, our risk management policies, procedures and processes and our day to day activities.

#### **DISCUSSION**

This report provides a status update on risk management activity performed from December to January 2017, including:

- Risk Management Policy updated;
- Business Continuity Planning Manual Review;
- Risk Management LGAMLS Review Action Plan.

This report provides a schedule of activities planned for 2017, including:

- 2016/2017 Risk Review Action Plan

#### **COMMUNITY ENGAGEMENT PLAN**

Not applicable

#### **CONSULTATION PROCESS**

In preparing this report, the following Yorke Peninsula Council officers were consulted:

- Manager People and Culture;
- Risk Management Officer; and
- Manager Operations

In preparing this report, the following External Parties were consulted:

- Nil

#### **POLICY IMPLICATIONS**

PO091 Risk Management Policy  
PR098 Risk Management Procedure

## **BUDGET AND RESOURCE IMPLICATIONS**

Not applicable

## **RISK/LEGAL/LEGISLATIVE IMPLICATIONS**

Local Government Act (SA) 1999

Work Health and Safety Act (SA) 2012

Work Health and Safety Regulations (SA) 2012

## **ATTACHMENTS**

**Attachment 1:** Risk Management Activity Report

**Attachment 2:** 2016/2017 Risk Profile Review Action Plan

# Risk Management Framework

## 2017

### 1. Risk Management Activity Report – December 2016 – January 2017

No.	Project	Scope Overview	Project Status
1	<b>Local Government Association Mutual Liability Scheme (LGAMLS) Risk Profile</b>	Monitoring continues of the actions of the 2016/2017 Risk Management Action Plan. Updated action plan attached.	<b>In Progress</b>
2	<b>Strategic Risk Management Plan</b>	The draft 2016 – 2020 Strategic Risk Management Plan to be reviewed by internal stakeholders and assessed against the 2016-2020 Strategic Management Plan. Meeting scheduled for 22/02/2017.	<b>In Progress</b>
3	<b>Risk Maturity Assessment (RMA)</b>	The RMA is currently being reviewed and actions to be determined as a result of findings from the assessment. Actions defined from the RMA will be incorporated into the 2016/2017 Risk Review Action Plan. RMA will be submitted for reviewed by the CMT.	<b>In Progress</b>
4	<b>Business Continuity Plan (BCP)</b>	Business Continuity Sub Plans to be developed.	<b>In Progress</b>
5	<b>PO091 - Risk Management Policy</b>	Changes as recommended by independent governance policy audit (conducted by Minter Ellison) to the PO091 Risk Management Policy were endorsed and adopted by Council 18/1/2017	<b>Complete</b>
6	<b>5-year Risk Maturity Plan</b>	Development of a 5-year risk maturity plan to map Council's approach to all elements of its risk management framework.	<b>On Hold</b>
7	<b>Risk Portfolios</b>	Review Council's Departmental risk portfolios. Findings to be reported back to the Audit Committee.	<b>On Hold</b>
8	<b>Business Continuity Planning Manual</b>	The development of a Business Continuity Planning Manual will no longer be pursued as it will be of no material use or benefit to Council's business at this point in time.	<b>Complete</b>

## 2016/2017 Risk Review Action Plan

ACTION #	Risk Review	RISK PROFILE STANDARD REFERENCE	PROGRAM/ RECOMMENDATIONS	ACTION REQUIRED	RESPONSIBILITY	DUE DATE	COMMENTS / PROGRESS
1	Jul-15	<b>1.1 - Risk and Governance</b> Please provide elements/details of Council's Risk Management framework and/or general procedure to assess & manage core/strategic risks	Partial- as limited information on Risk Register status/population and linked controls.	Develop Risk Framework	Risk Management Officer/Risk Officer	30/06/2016 30/09/2016 30/06/2017	Draft 2015-2020 Strategic Risk Management Plan (Plan) was completed but the strategic risk in the Plan will need to be reviewed and aligned with the 2016-2020 Strategic Management Plan (once it has been endorsed and adopted). Endorsement and adoption is scheduled for approximately April 2016. Final draft of the Plan will be reviewed by the Corporate Management Team (CMT). <a href="#">Now, endorsement and adoption is scheduled for approximately July 2016.</a> Strategic Plan adopted June 2016
3	Jul-15	<b>1.6 - Risk and Governance</b> Has Council developed and implemented a process to manage requests from Emergency Control Agents (SAPol, CFS, SES, etc.) for use of defined Council plant/staff in the event of an emergency.	Documented but not implemented. Is requirement to have adopted and signed off Policy, if decided on by Council additionally to have in place a Plant and Staff list signed off/endorsed by CEO and training to have been undertaken by Council stakeholders?		Risk Management Officer	30/09/2016 30/06/2017	<a href="#">Emergency Response Procedure is under review. I-Responda framework from the LGA is under review and was tabled at the WHS Committee meeting (09/02/2016). This framework looks at council employees role in the event of an emergency</a>
4	Jul-15 May-16	<b>3.12 - Procurement and Contract Management Systems</b> Council has a process to ensure compliance with Section 48 of the Local Government Act – Prudential Requirements for defined / certain activities.  <b>3. Procurement and Contract Management Systems</b> 3.2 - Describe Council's process and ongoing maintenance, ensuring compliance with S48 of the Local Government Act – Prudential Requirements for defined/certain activities.	July 2015 Partial system. This is a requirement of LG Act Legislation-must be formalised system  May 2016 <a href="#">a) Develop prudential policies, practices and procedures, (refer to LGA 'Financial Sustainability' Information Paper No. 27: Prudential Management)</a> b) Define triggers for prudential reviews/due diligence reports, (other than those defined in the Local Government Act) and how reports will be considered by Council c) Identify persons who require training/ awareness of prudential requirements and include on the training needs analysis d) Arrange training/awareness session(s) for all persons who require a knowledge of prudential requirements	Prudential Management Policy to be developed, review and endorsed and procedure and templates to be developed.	<del>Risk Management Officer</del> Manager Financial Services	30/09/2016 01/12/2016 30/06/2017	Draft document with Director Corporate and Community Services for review. Draft Prudential document with Manager Financial Services to manage the process of review, consultation and issuing as current. 29/09/2016 - email received from Sid Jain request due date to be extended (to 01/12/2016) as policy which is draft has to be reviewed by managers and CMT and then endorsed by Council. <a href="#">23/11/2016 - The policy won't be considered for adoption by Council until January 2017 at the earliest. Due date extended</a>
6	Jul-15	<b>3.16 - Procurement and Contract Management Systems</b> Provide a Superintendent's/Council representative's work site inspection report example provided within a (Council) contractual arrangement.	Partially provided. Difficult to discern if this is part of regular documented and retrievable system.		Risk Management Officer	31/12/2016 31/12/2017	Contractor Management Procedure (endorsed Nov 2015) Contractor inspection/review process to be reviewed and streamlined Training for contractor managers to be undertaken <a href="#">Action due date extended to 31/12/2017 as Councils Contractor Management System is under review which includes work site inspections and training. (authorised Bobbi Pertini - Manager People and Culture)</a>
17	Jul-15 May-16	<b>5.21 Operations / Services / Functions</b> Provide Council's general tree management policy/procedure (or strategy) for trees on roads and / or Community land. (Including significant & regulated trees where relevant).  <b>6.1 Environment / Vegetation / Trees</b> In accord with your Tree/Vegetation Management Policy or Strategy does your Council have established procedures and processes attaching the various enquires relating to trees/vegetation, such as a claim, notification of a safety issue, non-compliance issue and/or request for managing a tree (including removal).	July 2015 <i>Partially provided. Information supplied indicates although there are associated documents and systems in place it appears that there is not a specific Policy/Procedure for tree management.</i>  May 2016 <a href="#">a) Develop and implement (or review) tree management policy and procedures, (refer to Tree Management Guidelines on Member Centre)</a> <a href="#">b) Develop and implement (or review) process/checklist for responding to (and prioritising) requests for planting, removing or maintenance of trees, based on risk</a> <a href="#">c) Develop and implement (or review) tree inspection checklist and maintenance, (e.g. pruning) requirements</a> <a href="#">d) Develop and implement (or review) process for engagement of specialists to provide advice in relation to significant and regulated trees, or trees of cultural significance</a> <a href="#">e) Develop and implement (or review) planning policies in relation to existing vegetation and planting of new trees in developed areas</a> <a href="#">f) Key stakeholders to attend/ participate in SA Power Networks Vegetation Management information session/workshop</a> <a href="#">g) Develop (or adapt) tree planting guide to identify trees most suited to local conditions</a>	Create a Tree Management Policy/Procedure.	Natural Environment & Sustainability Officer	31/12/2016 30/06/2017	Currently Council staff members are trained in tree care, pruning and maintenance and garden staff undertake the majority of tree pruning requests. Tree Management Policy to be drafted for review an endorsement by Councils Elected Members. Policy will address tree management based on the following principles: Value of trees Enhancing Biodiversity Risk Management and Resources Availability Tree Planting Tree Maintenance Tree Removal Tree Replacement Tree Vandalism Tree on Private Land Seed and Fruit Collection Roadside Timber Climate Change <a href="#">Policy in progress, due date extended to 30/06/2017 due to other priorities (authorised Stephen Goldsworthy- Operations Manager)</a>



ACTION #	Risk Review	RISK PROFILE STANDARD REFERENCE	PROGRAM/ RECOMMENDATIONS	ACTION REQUIRED	RESPONSIBILITY	DUE DATE	COMMENTS / PROGRESS
18	Jul-15 May-16	<b>5.21 Operations / Services / Functions</b> Council has reviewed its tree management strategy in line with climate variation & extreme weather patterns/climate impacts. Provide details in relation to the Council's assessment.  <b>6. Environment / Vegetation / Trees</b> 6.2 - There has been a noticeable increase in tree/vegetation related incidents/claims likely as the result of Climate Variation. Has your Council reviewed its Tree/Vegetation Management Policy in accord with its Climate Adaptation report to incorporate Climate Change?	July 2015 No. Noted that this has been identified and will be considered in future planning requirements.  May 2016 <a href="#">a) Review Climate Adaptation Report to identify issues relating to management of trees</a> b) Incorporate recommendations from Climate Adaptation into tree management policy, procedures and checklists c) Review recent incidents and/or relating to trees to identify issues/ trends that may be attributable to climate variation and develop treatment plans to prevent recurrence	Development of Climate Change Adaptation Plan.	Natural Environment & Sustainability Officer	31/12/2017	<a href="#">Climate change to be included as a Principle of a Tree Management Policy.</a>
21	May-16	<b>1. Reputation and Integrity</b> 1.1 - Has your Council completed a Risk Assessment process, identifying Strategic Risks, in your Strategic Management Plan?	May 2016 <a href="#">a) Review strategic management plans, (e.g. Strategic Plan, Business Plan, Long Term Financial Plan, Infrastructure and Asset Management Plan) to ensure they are consistent with Council's risk management policy/ framework.</a> b) Review Strategic Management Plan objectives – identifying risks to opportunities/ objectives c) Review strategic management plans in line with risk management policy/framework to identify: • Risks and opportunities associated with strategic priorities • Treatment plans • Resource requirements d) Develop strategic risk register e) Implement process of monitoring and review of strategic risk register by executive leadership team	Review Strategic Management Plan in line with Risk Management Framework.	Risk Management Officer	30/06/2017	
22	May-16	<b>1. Reputation and Integrity</b> 1.2 - As the Risk Management Framework ensures a consistent approach to Risk Management practices across Council – have your Elected Members been introduced to the Framework, if so how, and was this successful?	May 2016 <a href="#">a) Include awareness of Council's risk management framework on Elected Member's training needs analysis</a> b) Arrange training in risk management principles and application of Council's risk management framework c) Incorporate risk management into strategic decision making process, (e.g. inclusion of risk management considerations in all reports to Council)	Review training completed by Elected Members and include in the Training Needs Analysis (TNA) Risk Management Framework Awareness session if not previously undertaken.	Risk Management Officer	30/06/2017	
23	May-16	<b>2. Strategic Risk and Governance</b> 2.1 - How would you rate the value of your Risk Management Framework in underpinning Council's operations? Is the framework successfully utilised across all functions and activities of Council.  <b>5 People</b> 5.2 - The Risk Management Framework is a tool that can be used throughout the Council to support the development of a risk culture. How is the Risk Management Framework promoted to employees, volunteers and contractors? How is implementation monitored and measured?	May 2016 2.1 <a href="#">a) Develop Risk Management framework, (including policy, procedure, templates &amp; operational/strategic risk register which includes risk treatment plans). Refer to LGA 'Financial Sustainability' Information Paper No. 22: Understanding Risk Management</a> b) Identify Council employees who require an understanding of the risk management framework and include on training needs analysis c) Arrange training in risk management principles and application of Council's risk management framework  5.2 <a href="#">a) Develop a Risk Management Framework tailored to Council</a> b) Review Council's processes for employees, volunteers and contractors to include awareness of Council's risk management principles; where applicable c) Develop and implement a process to monitor and review the implementation of Council's risk management framework, (e.g. measure training/awareness sessions completed, risk treatment plans in progress/completed, etc.) d) Following executive leadership team endorsement of risk management framework, provide awareness sessions in workshop format to demonstrate practical application of the framework	Develop, endorse and implement Risk Management Framework.	Risk Management Officer	<del>31/12/2016</del> 31/12/2017	<a href="#">Action due date extended to 31/12/2017 as Risk Management Framework has not been started due to other priorities (authorised Bobbi Pertini - Manager People and Culture).</a>
24	May-16	<b>2. Strategic Risk and Governance</b> 2.2 - A Strategic Risk Management plan that aligns with the Operational Risk plan is an essential tool for Council decision-making. Do the Council agenda reports insist on a risk assessment process to inform decision makers of opportunity vs risk?	May 2016 <a href="#">a) Implement/conduct risk management training across all business units and identified stakeholders</a> b) Include links to Risk Matrix into Council Reports in order for a consistent risk assessment process c) Risk Management reporting system/process to be introduced for executive leadership team/ Council d) Incorporate risk management into strategic decision making process, (e.g. inclusion of risk management considerations in all reports to Council), including alignment of activities to Council's strategic plan(s) e) Include risk management, (e.g. review of strategic risk register and outcomes of risk profile review) in the Audit Committee's annual work plan.	Schedule and complete general awareness training on Risk Management Framework to relevant employees.	Risk Management Officer	30/06/2017	

ACTION #	Risk Review	RISK PROFILE STANDARD REFERENCE	PROGRAM/ RECOMMENDATIONS	ACTION REQUIRED	RESPONSIBILITY	DUE DATE	COMMENTS / PROGRESS
25	May-16	<b>3. Procurement and Contract Management Systems</b> 3.1 - On the premise that Council does have a Procurement Framework; has this been affectively implemented across all aspects of Council?	May 2016 a) <a href="#">Develop and implement (or review) a procurement policy and supporting procedure(s)</a> b) Develop and implement a system of recording and monitoring procurement activities, (to assist with forward procurement planning) c) Develop and implement a formal process for considering requests for limitation of liability by contractors, (may form part of contract negotiation process) d) Develop (or review) standard documents, (e.g. purchase/works order terms and conditions, RFQ/RFT/contract templates) to make sure that they are consistent with Council's policies and procedures and legislative requirements and address key risks associated with procurement of goods and/or services, (as relevant) e) Provide awareness sessions on Limitation of Liability to employees required to negotiate/ sign-off on contracts f) Develop and implement contractor selection and monitoring processes, (in line with One System Contractor Management procedure, available via LGRS Member Centre)	Review Vendor Panel Program as part of Councils procurement process and provide a report on the suitability of the program and if it should be adopted by Council.	Risk Management Officer	31/05/2017	
26	May-16	<b>5. People</b> 5.1 - What processes does your Council have in place to identify Operational Risks and how is this process incorporated into your day to day business. Who is responsible for this process? How have Senior Management been engaged with the Operational Risk Register?	May 2016 a) <a href="#">Develop operational risks in line with Councils Organisational Structure and departmental managers (risk owners)</a> b) Develop operational risk register in consultation with executive leadership team and other key stakeholders c) Implement process of monitoring and review of operational risk register by executive leadership team h) Define organisational responsibility for management/oversight of operational risks and communicate to all relevant business units	Develop Operational Risk Register.	Risk Management Officer	30/06/2017	
27	May-16	<b>7. Emergency Management</b> 7.1 - How has Council planned for major community disruption as the result of an "emergency" utilising a Business Continuity Plan (BCP) or similar. How effective/ responsive was the BCP in supporting both the Council internally and the community.	May 2016 a) Review Business Continuity to ensure that it meets the requirements of AS 5050:2010 b) Develop Business Continuity Plan that addresses key roles and responsibilities, critical functions and recovery strategies c) <a href="#">Endorse and implement Business Continuity Plan, (including identification of training needs)</a> d) Schedule testing of BCP e) Schedule regular reviews/ updates of BCP to ensure currency and relevance f) Develop a documented review process to capture opportunities for improvement, identified through the testing or enacting of the BCP	Monitor, evaluate and report upon effectiveness of Emergency and Business Continuity Plans and testing arrangements. (Action (#21) included from 2014 PSSI KPI Audit)	Risk Management Officer	31/12/2016 31/12/2017	Action due date extended to 31/12/2017 as Emergency Management System is under reivew and has not been started due to other priorities (authorised Bobbi Pertini - Manager People and Culture).
28	May-16	<b>7. Emergency Management</b> 5.2 - Please rate the success of the understanding and implementation of the iResponda programme within your Council (and Region).	May 2016 a) <a href="#">Endorse and implement i-Responda policy and framework</a> b) Identify training needs for all relevant employees and include on training needs analysis c) Arrange training/awareness/ refresher training sessions for all relevant employees d) Develop and maintain registers of plant and employees available (and willing) to participate in i-Responda programme e) Undertake a review of the relevance/ success of i-Responda and provide feedback to LGA/MLS	Review iResponda Program and provide report on the suitability of the program and if it should be adopted by Council.	Risk Management Officer	30/04/2017	
31	May-16	<b>8. Community Land/Recreation/Leisure Services</b> 8.2 - Community swimming pool management will always be a high risk activity for local government. If relevant, how many pools and associated facilities do you own in your Council area? How often do you undertake a risk review of the facilities and attaching policies and procedures? How well documented are your pool protocol and safety guidelines for pool users – extending to inclement weather closure, first aid, exclusive use/multi-use sessions, pool cleaning, safety around water.	May 2016 a) <a href="#">Develop and implement swimming pool management strategies/ protocols that address inspection, maintenance, supervision, child protection, cleaning, first aid, accessibility and usage, unauthorised access and safety issues</a> b) Align pool management strategies/ protocols with Royal Life Saving Society Australia Guidelines for Safe Pool Operation c) Schedule regular reviews of swimming pool management strategies/ protocols to assess their effectiveness and suitability d) Develop (or review) inspection checklists for swimming pools and their surrounds e) Identify training needs for employees/volunteers engaged in pool management, supervision and/ or maintenance and include on training needs analysis f) Schedule training for employees/ volunteers engaged in pool management, supervision and/or maintenance g) Review pool management and/or lease agreement(s) to ensure that reasonably foreseeable risks have been identified and adequately addressed h) Establish regular monitoring of pool management contractors and document outcomes/issues identified i) Consider pool user safety guidelines – implement pool user agreements and/or informative signage and/or supervision requirements j) Develop (or update) emergency response procedures for potential incidents that may occur at the pool, (e.g. chemical exposure, drowning, assault, etc.) k) Provide training for all employees and volunteers in emergency response procedures l) Develop a schedule for testing the emergency response procedures, (or require contractor/lessee to provide evidence that this has occurred)	Review legislative requirements and develop guidelines or information sheet on the requirements to manage swimming pools.	Risk Management Officer	31/03/2017	



ACTION #	Risk Review	RISK PROFILE STANDARD REFERENCE	PROGRAM/ RECOMMENDATIONS	ACTION REQUIRED	RESPONSIBILITY	DUE DATE	COMMENTS / PROGRESS
32	May-16	9. Road and Footpath Management 9.1 - Council has responsibilities regarding permitting any alterations of road (s221) which involves identifying risks associated with the request. How does Council incorporate Risk Management into this process?  9.2 - Council must have an Asset Management Plan/ Program that incorporates the management/ maintenance in relation to roads and footpaths. How is Risk Management principles incorporated into this process?	May 2016 9.1 a) Develop and implement (or review) policy or procedure relating to alterations of roads/footpaths to incorporate risk management into assessment of applications, (e.g. impact on other users, existing infrastructure or road safety, WZTM) <b>b) Establish (or review) permit system for Authorisation to Alter a Public Road to make sure it meets the requirements of Section 221 of the LG Act and includes indemnity/ insurance provisions, (template available via Member Centre)</b> c) Document decision making process – reviewing the request in line with Risk Management principles (formal risk assessment process)  9.2 a) Develop Asset Management and Service Range policies that capture the assessment of risk - including current and future expectations and service levels, (refer to LGA 'Financial Sustainability' Information Paper No. 6: Infrastructure and Asset Management) and LGA 'Financial Sustainability' Information Paper No. 26: Service Range and Levels) b) Develop (or review) Asset Management Plan(s) to demonstrate that risk management principles have been incorporated into the process, (e.g.. priority is based on risk) c) Develop and implement inspection and maintenance schedules and checklists for roads and footpaths and a process for monitoring their outcomes/ effectiveness d) Review priority order for inspection/maintenance utilising the Risk Management Framework	Review and update form SF039 – Applications to Lay Underground Services to include references to indemnity/insurance conditions.	Assets Manager	30/04/2017	

Risk Management Review Parts and Categories:							
<b>Part I – Governance/Finance/People</b>							
<b>Categories</b>							
	<b>Risk &amp; Governance</b>						
1.1	provide elements/details of Council’s Risk Management framework and/or general procedure to assess & manage core/strategic risks						
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1.4	Provide details of Council’s Business Continuity Plan, in the event of business interruption to critical functions or services.						
1.5							
1.6	Has Council developed and implemented a process to manage requests from Emergency Control Agents (SAPol, CFS, SES, etc) for use of defined Council plant/staff in the event of an emergency.						
<b>2 Statutory Responsibilities / Provision of information</b>							
<b>3 Procurement and Contract Management Systems</b>							
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3.12	Council has a process to ensure compliance with Section 48 of the Local Government Act – Prudential Requirements for defined / certain activities.						
3.13							
3.14							
3.15	Provide Council’s documentation when considering its tendering requirements pursuant to S49 of the Local Government Act.						
3.16	Provide a Superintendent’s/Council representative’s work site inspection report example provided within a (Council) contractual arrangement.						
<b>4 Volunteers/Vulnerable Groups / Committees</b>							
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4.17	Provide Council’s formal management structure and/or system to manage volunteer programmes.						
4.18	Provide a component of Council’s (central) Volunteer Registration process for all volunteer programmes.						
4.19	Does Council have a process for dealing with enquiries relevant to vulnerable groups?						
<b>Part II – Operations/Services/Functions</b>							
<b>Categories</b>							



5	Environment/Vegetation/Trees						
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5.21	Provide Council's general tree management policy/procedure (or strategy) for trees on roads and / or Community land. (Including significant & regulated trees where relevant).						
5.22							
5.23							
5.24	Council has reviewed its tree management strategy in line with climate variation & extreme weather patterns/climate impacts. Provide details in relation to the Council's assessment.						
6	Recreational/Leisure Services – Community Land						
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6.29	Council incorporates risk management principles into planning proposals for design/construction of other recreational assets, such as BMX Tracks, Skate Parks or recreational trails. Please provide an example of the approach.						
7	Road Management						

8	Third Party Use of Facilities/Land						
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8.39	Provide the assessment / checklist process to ensure a 'one-off' hire of facility is left in a condition for the next use.						
8.40	Provide Council's Risk Assessment Process to assess a third party (lessee / licensee) activity is suitable / appropriate for a piece of land.						



## **BUSINESS IMPROVEMENT OFFICER**

### **7. INTERNAL AUDIT ACTIVITY REPORT**

#### **PURPOSE**

The Business Improvement Officer(s) present an update on recent Internal Audit Activity.

#### **RECOMMENDATION**

That the report be received.

#### **LINK TO STRATEGIC PLAN**

Goal: 5 Responsible Governance  
Strategy: 5.1 Openness and transparency of reporting Council's performance  
5.3 Meet all legislative requirements and compliance with Council's internal controls  
5.8 Continuous improvement of Council processes

#### **BACKGROUND**

The objective of the Yorke Peninsula Council's ("Council") internal audit function is to enhance business performance by ensuring compliance with policies and procedures and recommending improvements in process effectiveness, efficiency and economy.

#### **DISCUSSION**

This report provides a status update on the Internal Audit activity performed from June 2016 – February 2017. The Business Improvement Officers returned from maternity leave during January 2017, therefore limited activity has occurred during this time.

A Purchasing & Procurement - Part 2 report was drafted in June 2016, however it was not finalised through CMT and presented to Audit Committee at that time. The report is now completed and provided as part of this status report.

A spot check of Corporate Purchase Cards has also been completed with the report attached.

Since returning from leave, Business Improvement Officer(s) have obtained an update on the implementation of proposed actions resulting from internal and external audit activities. The latest status information has also been provided as part of this report.

#### **COMMUNITY ENGAGEMENT PLAN**

Not applicable

#### **CONSULTATION PROCESS**

In preparing this report, the following Yorke Peninsula Council officers were consulted:

- Chief Executive Officer
- Corporate Management Team
- Senior Rates Officer / Accounts Receivable
- Accountant – Financial Management
- Leader Systems & Technology
- Manager Business & Public Relations

- Senior Compliance Officer
- Manager Financial Services
- Asset Manager
- Corporate Services Officer
- Risk Management Officer

In preparing this report, the following External Parties were consulted:

- Nil

#### **POLICY IMPLICATIONS**

PO156 Internal Financial Control

#### **BUDGET AND RESOURCE IMPLICATIONS**

Not applicable

#### **RISK/LEGAL/LEGISLATIVE IMPLICATIONS**

Local Government Act (SA) 1999

#### **ATTACHMENTS**

**Attachment 1:** Internal Audit Activity Report

**Attachment 2:** Internal Audit Report – Purchasing & Procurement Part 2

**Attachment 3:** Internal Audit Spot Check Report – Corporate Purchase Cards

**Attachment 4:** Implementation of Agreed Actions - Update February 2017

# Internal Audit Activity Report (June 2016 - February 2017)

## 1. INTERNAL AUDIT PLAN

The following table highlights the status of audit projects:

No.	Project	Scope Overview	Project Status
1	<b>Procurement Part 2 – Tendering &amp; Contracts</b>	The second stage of the procurement project will address tendering and contract processes and assess compliance with newly developed policies and procedures.	<b>Project completed</b>
2	<b>Fuel Management</b>	As requested by the CEO, Internal Audit will collate and review fuel data for all administration and ute vehicles since August 2016 to determine the average litres used per 100kms.  Additional review or recommendation may be required based on the outcomes.	Scoping completed
3	<b>Borrow Pit (Rubble) Management</b>	A review of the controls in place with regard to the purchase, storage and usage of rubble to determine if Council's operational practices are reflected in, and match, financial tracking procedures.	Scoping commenced
4	<b>Elected Member Expenses</b>	Review to confirm correct payment of allowances, reimbursement of expenses and accurate and timely recording in legislated registers.	Not started
5	<b>Equipment testing and compliance data review</b>	As requested by the CEO, Internal Audit will perform a review of the costs associated with external contractors undertaking variance compliance testing of equipment, for example electrical tagging and testing, playground audits and fire equipment testing.  A report will outline potential improvements in the way these tests are undertaken.	Scoping completed and testing commenced
6	<b>Procurement Part 3 – Procurement Officer Review</b>	Considering the two recent procurement audit completed, the CEO has requested that Internal Audit undertake a review of the benefits, drawbacks and costs associated to implement a dedicated Procurement Officer.	Data collation commenced.
7	<b>Financial Management – Rates/Rate Rebates</b>	A review of rate and rate rebate controls including processes for correct calculation of rate invoices, application of rebates and changes and access to the property master file.	Not started
8	<b>Controls Update (IT Access)</b>	After discussions with External Audit, testing of IT application controls will be a priority for the FY17.	Not started
9	<b>Ongoing compliance audits</b>	Undertake regular spot checks of key compliance areas.	Petty Cash & Cash Floats completed,

No.	Project	Scope Overview	Project Status
	(petty cash, Corporate Purchase Cards & caravan parks)		Report Pending, Corporate Purchase Cards Complete. Caravan Parks not started this FY.

## 2. IMPLEMENTATION OF AGREED ACTIONS (INTERNAL AUDIT AND EXTERNAL AUDIT)

An update on the implementation of proposed actions resulting from internal and external audit activities is provided in **Attachment 4**.

The latest status information has been provided by the officers responsible for the implementation.

**For Distribution:**

Andrew Cameron – Chief Executive Officer  
David Harding – Director Corporate & Community Services  
Roger Brooks – Director Development Services  
Trevor Graham – Director Assets & Infrastructure  
Mary Herrmann – Governance Officer  
Sid Jain – Manager Financial Services  
Anne Hammond – Manager Business and Public Relations  
Bobbi Pertini – Manager People and Culture  
Roxanne White – Risk Management Officer



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## Executive Summary

### Background

With the introduction of ICAC legislation, the processes associated with procurement and purchasing is a high risk for many Councils. In addition, the procurement of goods and services represents a significant proportion of Council's overall annual expenditure. It is therefore good business practice to undertake an independent review of the process to ensure that risks are adequately managed.

The approved 2016 Yorke Peninsula Council ("Council") Internal Audit Plan includes a project relating to purchasing processes. The three-year internal audit plan provided for a staged audit of Council's procurement systems. Part 1 addressed key purchasing controls associated with general procurement activities i.e. purchase less than \$50,000. Part 2 will address tendering and contracting processes and assess compliance with the updated policies and procedures around procurement. This will focus on purchases with a value over \$50,001 as well as assess the suitability of the revised policy documents that came into effect January 2015. This document sets out the planning objectives, scope and timing of the review.

### Objectives & Scope

The objective of the review is to assess key purchasing controls associated with the tendering and contracting process. The audit will examine a sample of procurement activities undertaken during calendar year 2015 and provide an assessment on the compliance with current policy and procedures. The audit will also measure compliance with current policy as well as determine if this policy is working for Council.

### Scope

Key Areas	Included areas for scope
1. Tender Specifications	<ul style="list-style-type: none"><li>Confirm there are guidelines for staff to ensure they understand exactly what information should be in the specifications;</li><li>Confirm tender specifications thoroughly outline requirements allowing tenders to be consistently evaluated against the tender matrix.</li></ul>
2. Probity	<ul style="list-style-type: none"><li>Confirm policies and procedures incorporate probity principles, being: fairness and impartiality; accountability and transparency of process; confidentiality and security of information and materials; and effective management of conflicts of interests.</li></ul>
3. Tender Evaluation	<ul style="list-style-type: none"><li>Confirm Policy and Procedure outlines how a Panel should run the evaluation process and whether this matches what occurs;</li><li>Confirm Panels are appropriately comprised of the right mix of individuals with conflicts of interests declared and how this mix is determined;</li><li>Confirm there is a common matrix used to evaluate tenders and whether it matches specifications included in RFT documents.</li></ul>
4. Tender Selection and Approval	<ul style="list-style-type: none"><li>Confirm there a clear process for determining the final selection of the successful tenderer;</li><li>Confirm the evaluation process is suitable for assisting the Panel to make the final recommendation;</li><li>Confirm appropriate recommendation reports are being composed to allow the Tender Approver to understand whether the recommendation is the best outcome for Council;</li></ul>

Key Areas	Included areas for scope
	<ul style="list-style-type: none"> <li>Confirm there is a clear approval process in place.</li> </ul>
5. Policy and Procedure Review	<ul style="list-style-type: none"> <li>Confirm Council has clear and consistent policy and procedure in place for the entire procurement process, including: <ul style="list-style-type: none"> <li>Writing tender specifications;</li> <li>Ensuring probity;</li> <li>Tender evaluation process;</li> <li>Tender Selection and Approval;</li> <li>Record-keeping and storage of tender documentation;</li> <li>Gifts and Benefits Register and Conflicts of Interest;</li> <li>Tender Register; and</li> <li>Ongoing performance management of contracts.</li> </ul> </li> <li>Confirm staff have been trained and understand the process;</li> <li>Confirm processes are regularly reviewed;</li> <li>Confirm appropriate record keeping processes are in place.</li> </ul>

## Key Findings

Based on the scope highlighted above, the general commentary for each Key Area is as follows:

Key Areas	Summary finding
1. Tender Specifications	<ul style="list-style-type: none"> <li><b>Needs immediate improvement</b> <ul style="list-style-type: none"> <li>There is currently no guidance for staff to follow on setting Tender Specifications.</li> <li>There are many inconsistencies between what is generally specified in tenders and what is evaluated by a Panel.</li> </ul> </li> </ul>
2. Probity	<ul style="list-style-type: none"> <li><b>Could be improved</b> <ul style="list-style-type: none"> <li>Policy outlines a general philosophy; however a Procedure outlining how to complete this requirement plus further preventative steps with regard to conflict of interest would strengthen this key area.</li> </ul> </li> </ul>
3. Tender Evaluation	<ul style="list-style-type: none"> <li><b>Needs immediate improvement</b> <ul style="list-style-type: none"> <li>There is currently no guidance provided for staff on completing the tender evaluation process or customising the Evaluation Matrix for each tender.</li> </ul> </li> </ul>
4. Tender Selection and Approval	<ul style="list-style-type: none"> <li><b>Needs immediate improvement</b> <ul style="list-style-type: none"> <li>There is no current process for determining the final selection of the successful tenderer.</li> <li>The evaluation is not always consistently completed and there are no guidelines provided for staff.</li> </ul> </li> </ul>

Key Areas	Summary finding
	<ul style="list-style-type: none"> <li>Recommendation reports are not centrally filed and not always included in the tender records. There is no template for writing the Recommendation Report for the CEO.</li> <li>The approval process is clear in the Policy and not of concern.</li> </ul>
5. Policy and Procedure Review	<ul style="list-style-type: none"> <li><b>Needs immediate improvement</b> <ul style="list-style-type: none"> <li>The Policy covers some of the procurement process; however without a Procedure, Council does not provide in-depth guidelines on how to carry out the procurement process for each procurement method.</li> <li>Multiple forms are required to be created to further standardise the process.</li> <li>Refresher and New Employee Induction training needs to be created and conducted regularly.</li> <li>Record-keeping could be improved to ensure a consistent collation of documentation is retained in Records.</li> </ul> </li> </ul>

Details of *all* findings and recommendations identified during the review are included in Appendix 1; however a summary of the three extreme risk findings are highlighted below:

1. Insufficient Policy and Procedure	<p>The audit reviewed current Policy documentation available to staff with regard to purchasing and procurement. It was found that whilst there was a reasonably detailed Policy in place that came into force in January 2015, there was no Procedure and very limited Forms created to support the Policy – particularly for large-scale tender processes.</p> <p>The available information outlines to some extent what is expected of staff, yet does not fully advise staff how to carry out end-to-end procurement processes. A full suite of documents and guidelines should be available for staff, regardless of the proposed spend to ensure a consistent, understandable and efficient process.</p> <p>Tender templates are not readily accessible to staff. Rather, staff are meant to download the latest template from LGA Procurement to use – this is not highlighted in the Policy. The issue with this is twofold - staff are not always aware they need to do this and are unsure where to go for documentation leading to them saving templates in their personal drives and secondly, constantly changing templates require a review of every update and consultation on whether Council adopts the changes – a timely process with knock on effects.</p> <p>Council's Purchase Orders provide a link to our website for trading Terms and Conditions. These conditions are static, meaning no one has the responsibility to update these when LGA Procurement update them, leading to potential inconsistencies when contract terms and conditions are updated. The risk with this is that two legal documents Council may need to rely on could have inconsistencies between them.</p> <p>The risk of having incomplete process documentation is that the Policy is open to misinterpretation and/or confusion on how to carry out elements of</p>
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the process. This makes it difficult to run a wholly consistent and fair process as some individuals may interpret the process differently, resulting in procurement being conducted in a non-uniform manner. This also leaves Council at risk of having to defend its procurement decisions with incomplete records, which may have a negative impact on Council's image in the community and potentially beyond.

Consequence	Likelihood	Risk Level
Major	Almost Certain	Extreme

## 2. Breaches of Cumulative Spend

Council's PO058 Purchasing and Procurement Policy enforces purchasing limits for five (5) different levels of spend. The higher the spend limit, the more complex the procurement process required.

These spend limits are based on annual aggregate spend per supplier. As such, when Council has decided to spend with a particular supplier, staff must check the current financial year's cumulative total already spent with that supplier to ensure the newest purchase does not push their spend into the next tier. Some procurement spend on projects extends beyond the annual timeframe and as such does not always breach the limits, yet with forward planning the total spend really should have dictated a much more thorough procurement process to ensure best value for ratepayer money. It was found that cumulative spend policy is unfortunately breached frequently.

The risks in not effectively managing and proactively analyzing cumulative spend are:

- Continual and frequent breaches of Council Policy;
- Increased staff frustration with and/or ignorance of the Procurement process leading to non-compliance;
- Having a procurement process that is unwieldy and potentially exposes Council to negative community opinion and an inability to defend procurement decisions;
- Reduced ability for Council to negotiate best value for large spend – most spend is done on an ad-hoc, smaller spend basis when negotiating for all requirements up-front would deliver better value for ratepayers; and
- Potential to fail an external audit if procurement processes were reviewed.

Consequence	Likelihood	Risk Level
Moderate	Almost Certain	Extreme

## 3. Reinstatement of Weightings into Evaluation Matrix

It was noted that Weightings have been removed from the original Evaluation Matrix template. Weightings are a critical element of the evaluation process and should be set for every single tender, regardless of the project budget.

Whilst certain criteria are evaluated for every tender regardless of the project, some work requires more expertise than others. Without weightings, highly important criteria is rated the same as lesser important criteria and it could mean that the winning tender won because they were strongest in an area of least importance for that project. For example, a complex and potentially dangerous Works project would require extremely tight Work Health and Safety capability by the winning tenderer, with a lesser importance set on price and locality of the business due to the safety implications. A tenderer may be the cheapest and are local and score highly on these criteria but may not fully comply with Council's

WHS requirements and score lower on this. Other tenderers could be more expensive and not as local but are much more capable in the safety arena. They scored less overall compared to the winning tenderer based on criteria that was not as critical. No weighting means that tenderers are not ranked by what matters the most.

Consequence	Likelihood	Risk Level
Likely	Almost Certain	Extreme

## Internal Audit Opinion

Procurement has definitely improved significantly since the introduction of the new Procurement and Purchasing Policy in January 2015; however given the risks still inherent in the system, there is a long way to go until the process reaches maturity and a point where Council's risks are minimal. Based on the work and testing performed, Internal Audit is of the opinion that Purchasing and Procurement controls are ineffective and there are several major and minor issues that should be actioned immediately with recommendations outlined in Appendix 1 seriously considered.

I would like to take the opportunity to thank Anne Hammond, Sophie Kneebone, Ashlee Chadwick, Mel Hoyle, Trevor Graham, Rachel Rich, Maddy Pulling, Kira Tapps and Julie Darling for their assistance and co-operation during the review.

### Chelly Litster

Business Improvement Officer

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Phone: 8832 0000

## Appendix 1 – Detailed Findings

### 1.1 Procurement Policy Documentation

The audit reviewed current Policy documentation available to staff with regard to purchasing and procurement. It was found that whilst there was a reasonably detailed Policy in place that came into force in January 2015, there was no Procedure and very limited Forms created to support the Policy – particularly for large-scale tender processes.

The available information outlines to some extent what is expected of staff, yet does not fully advise staff how to carry out end-to-end procurement processes. In addition, there are some process documents available yet not referred to in the current Policy document (e.g. SF099 Receipt of Tender Registration Form). A full suite of documents and guidelines should be available for staff, regardless of the proposed spend to ensure a consistent, understandable and efficient process.

The following process documents are examples of information still required to be provided to staff:

1. Purchasing and Procurement Procedure – to provide step-by-step, consistent and clear guidance to staff engaging in any procurement activity;
2. Conflict of Interest Declaration Form – to be filled out by every Evaluation Panel member at the start of every tender;
3. Records Management Checklist – which outlines what needs to be sent to Records in both soft and hard copy, to ensure our records are accurate and complete;
4. CEO Tender Recommendation Report Template – to ensure a consistent report is sent to the CEO for decision making and retained on file;
5. Procurement Checklist – a more visual outline for staff to follow when they engage in procurement and purchasing to avoid confusion about what is required before spending Council funds.

The risk of having incomplete process documentation is that the Policy is open to misinterpretation and/or confusion on how to carry out elements of the process. This makes it difficult to run a wholly consistent and fair process as some individuals may interpret the process differently, resulting in procurement being conducted in a non-uniform manner. This also leaves Council at risk of having to defend its procurement decisions with incomplete records, which may have a negative impact on Council's image in the community and potentially beyond.

Tender templates are not readily accessible to staff. Rather, staff are meant to download the latest template from LGA Procurement to use – this is not highlighted in the Policy. The issue with this is twofold - staff are not always aware they need to do this and are unsure where to go for documentation leading to them saving templates in their personal drives and secondly, constantly changing templates require a review of every update and consultation on whether Council adopts the changes – a timely process with knock on effects.

Council's Purchase Orders provide a link to our website for trading Terms and Conditions. These conditions are static, meaning no one has the responsibility to update these when LGA Procurement update them, leading to potential inconsistencies when contract terms and conditions are updated. The risk with this is that two legal documents Council may need to rely on could have inconsistencies between them.

With regard to the section in tenders requesting references, Council should not be allowed as a referee. Rather, there should be an additional section that allows tenderers to list prior/current projects completed for Council and who the Project Manager was. This is only a minor distinction, however the preference should be for Council to have a list of other customers of that supplier to contact for feedback.

Finally, Council engaged in a project with ArcBlue to create a Procurement Roadmap. This Roadmap has been customized for Council, yet has not been implemented or reviewed in detail since 2015. It would appear that a large part of the delay is that no one has been made accountable/responsible for driving this initiative. This is due to not having a dedicated Procurement resource/lead and in the absence of this, anyone currently on staff with capacity to take on such a large responsibility.

Consequence	Likelihood	Risk Level
Major	Almost Certain	Extreme

## 1.2 Recommendations

1. PO058 Purchasing and Procurement Policy needs to be reviewed with some sections moved to a new Procedure.
2. A comprehensive Purchasing and Procurement Procedure needs to be created and implemented with some urgency.
3. Comprehensive, supporting Forms and Checklists need to be created and implemented with some urgency. In particular, a Conflict of Interest Declaration Form needs to be created as part of the process documentation and each Evaluation Panel member must sign it before they are able to assess a tender.
4. Consideration needs to be given to creating a dedicated Procurement location (similar to Safety at Your Fingertips) so staff know exactly where to go and what to do when they are considering purchasing.
5. Purchase Order Terms and Conditions need to be reviewed against current Contract Templates to ensure they match. Consideration needs to be given to adopting all procurement and purchasing templates for at least a one year period with no changes until the annual review (other than major legislation changes) to ensure Council's documentation is consistent across the board.
6. Consideration given to add in a section in tender templates to allow the supplier to list prior/current projects they have completed for Council and make it clear that Council should not be listed as a referee in the References section.
7. ArcBlue's Roadmap project needs to be reviewed and the decision made whether to continue to adopt their recommendations. If so a responsible person needs to be identified to guarantee momentum and implementation.
8. Refresher training needs to be provided to all staff involved in the purchasing and procuring process within Council.

## 1.3 Management Responses

### Management Response and Agreed Action:

1. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.
2. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.
3. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.
4. Agreed, to go on future CMT agenda.
5. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.
6. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.
7. Agreed, to go on future CMT agenda.
8. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.

### Responsibility:

1. Business Improvement Officer
2. Business Improvement Officer/CMT



3. Business Improvement Officer
4. CMT
5. TBA
6. CMT/Business Improvement Officer
7. CMT
8. Business Improvement Officer

**Due Date:**

1. December 2017
2. December 2017
3. December 2017
4. October 2017
5. December 2017
6. December 2017
7. November 2017
8. February 2018

## 2.1 Breaches of Cumulative Spend

Council's PO058 Purchasing and Procurement Policy enforces purchasing limits for five (5) different levels of spend. The higher the spend limit, the more complex the procurement process required.

Purchase Method	Specific Requirements	Purchase Value	Exception Authoriser
Direct Purchase	Purchase from single supplier	Up to \$5,000	N/A
Quotations	Minimum of 2 written quotes obtained	\$5,001 - \$20,000	Director
Quotations	Minimum of 3 written quotes obtained	\$20,001 - \$50,000	CEO
Selective Tendering	Minimum of 3 independent suppliers invited to tender.	\$50,001 - \$100,000	CEO
Open Tendering	Open invitation issued inviting any supplier to submit a tender.	Greater than \$100,001	Council Resolution required

These spend limits are based on annual aggregate spend per supplier. As such, when Council has decided to spend with a particular supplier, staff must check the current financial year's cumulative total already spent with that supplier to ensure the newest purchase does not push their spend into the next tier. Some procurement spend on projects extends beyond the annual timeframe and as such does not always breach the limits, yet with forward planning the total spend really should have dictated a much more thorough procurement process to ensure best value for ratepayer money. It was found that cumulative spend policy is unfortunately breached frequently, two examples are outlined below.

Example One – Annual Cumulative Spend Breach:

YP Agriservices cumulative spend to date (FY 15/16) as at 10/05/16 is \$23,827.46 ex GST – which means any further spend since October 2015 (when the \$20,000 (Tier 2) limit was exceeded) should have been supported by comparing three written quotes each time regardless of the amount spent. This

has not been done on any occasion since October as spend has been minor every transaction. This is a breach of current policy and is fairly common practice across Council. Staff likely would not even be aware that the limit had been breached as they are only spending a small amount each time.

Example Two – Cumulative Spend significant and ongoing – No Tender process used:

In a seventeen month period (Dec 2014 – May 2016), \$151,108.46 was spent with one supplier – Adroit Creations. Throughout this period, this supplier's costs were accepted by quote, with multiple exceptions approved (meaning no other quotes from competitors were required) and no tender process followed. This supplier accounted for one third of all exceptions (\$158,890) approved in 2015 – 20 out of 60. Adroit were engaged for several projects across Council, with \$81,441.68 related to website/intranet/online timesheet work alone. Council should have gone through a thorough tender process for these combined projects. Twenty-nine (29) invoices were received over this period, the first tier for spend (1 quote) was surpassed on the first invoice, the second tier (2 quotes) was surpassed on the third invoice. The third tier (3 quotes) was surpassed on the tenth invoice with the fourth tier passed on the fourteenth invoice. The tendering process should have been triggered after the tenth invoice, yet fourteen other invoices have been paid since then with no tender. Council did not consider other supplier options for such significant and varied projects – different suppliers may have offered alternative benefits/cost advantages/solutions for Council to consider. Secondly, exceptions appear to be approved too frequently bypassing Policy on a large number of occasions. The market should have been tested more. Part of this problem seems to stem from the Standard Form itself. The Form does not highlight current spend, new spend if the exception is approved nor how many exceptions have already been approved for this particular supplier.

Other findings were:

- Staff who are about to spend with a particular supplier, would be required to run an Authority Creditor Enquiry on the supplier and select Category Details to check cumulative spend and future commitments for the financial year. This process would not be known by many staff, partly because there is no procedure advising how to do this and partly because not all staff are overly familiar with Authority and how to extract reports.
- Anecdotally the cumulative spend aspect of current Policy is inhibiting and onerous. Part of this problem lies with the fact that Council does not have an Approved Supplier Register for procurement. There is a register for approved Work, Health and Safety suppliers but it does not test a supplier's financial or company details like a typical pre-qualification process would. Council also does not have any Supplier Panels in place, whereby a tender was run to shortlist a number of suppliers who were then vetted and approved onto the specific Panel (e.g. North Region Electrical Works Panel) for a defined period (e.g. three years) as part of a broader procurement initiative. This way, Council staff would be able to procure goods and services in a more streamlined manner by utilizing these Panels and Registers to obtain quotes quickly from a panel of companies that have already proved themselves reliable and value for money. Panels may even have set rates that do not change for that time period so budgeting is easier and there are less surprises.
- It appears there is no annual review of proposed spend for the next financial year to determine if there were commonalities in requirements across Council. This exercise would ensure all departments discussed the types of procurement they were likely to engage in for the next twelve months and give Council the ability to remove the need for multiple contracts to be tendered/negotiated. Instead one cost-saving contract with multiple elements could be negotiated with the best value supplier.
- Council has spent \$12,000 to be involved in the Central Local Government Region Group's procurement project. This spend included the production of a customized YPC Procurement

Roadmap along with one-year's subscription for procurement software that specifically focuses on spend analysis. This potentially powerful software would allow staff to understand cumulative spend and monitor contract progress as well as provide significant reporting capability giving Council an in-depth understanding of its procurement. This software is not being fully utilized and has only minimal information uploaded.

- Finally, in comparison to other regional Council's, YPC's spend limits were not as generous and did not separate general procurement from Works procurement – which by its nature tends towards higher individual spend due to large plant acquisition.

The risks in not effectively managing and proactively analyzing cumulative spend are:

- Continual and frequent breaches of Council Policy;
- Increased staff frustration with and/or ignorance of the Procurement process leading to non-compliance;
- Having a procurement process that is unwieldy and potentially exposes Council to negative community opinion and an inability to defend procurement decisions;
- Reduced ability for Council to negotiate best value for large spend – most spend is done on an ad-hoc, smaller spend basis when negotiating for all requirements up-front would deliver better value for ratepayers; and
- Potential to fail an external audit if procurement processes were reviewed.

Consequence	Likelihood	Risk Level
Moderate	Almost Certain	Extreme

## 2.2 Recommendations

1. Include a section into the new Procedure that outlines how to run a Cumulative Spend Report out of Authority.
2. Investigate whether Defined-Period Supplier Panels can be established to resolve some of the issue with cumulative spend and increase Council's buying leverage. Ideally, for Works-related Panels, each zone would have their own Panel – for example, Electrical Contractor Panel for North, Central and South.
3. Investigate the implementation of an Approved Supplier Register. Not all spend areas would require the establishment of a Panel (as per Recommendation 2), however it would be useful to be able to select between one and three pre-qualified suppliers to request quotes from without having to advertise/source new suppliers every time.
4. Implement an annual review of proposed/expected spend across Council to identify opportunities for merging tendering activities – i.e. establishing one major contract with a supplier for multiple projects instead of negotiating many smaller contracts.
5. Decide whether to commit to ArcBlue software on an ongoing basis with procurement data analysed at CMT level to maintain its relevance.
6. Review Spend Limits to determine if they are appropriate for the required procurement spend and consider splitting limits between two categories – Works and General. Works should have higher limits than the General category.
7. Standard Form (SF) 125 – Purchasing Exceptions – requires a review and update to capture current and new spend plus number of exceptions already approved. This would enable the Director/CEO to completely understand the exception they are approving and whether Policy is being circumvented unnecessarily.

## 2.3 Management Responses

### Management Response and Agreed Action:

1. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.

2. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.
3. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.
4. Agreed.
5. Agreed.
6. Agreed.
7. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.

**Responsibility:**

1. Business Improvement Officer/Finance Representative.
2. Business Improvement Officer and Assets and Infrastructure (as pilot) representative (would recommend a project team be set up for the establishment of a pilot Panel to test the process).
3. Business Improvement Officer/CMT
4. CMT and Managers/Supervisors
5. Chief Executive Officer, Manager Business & Public Relations and Finance Representative (TBA)
6. CMT and Managers
7. Business Improvement Officer

**Due Date:**

1. December 2017
2. December 2017
3. December 2017
4. December 2017
5. December 2017
6. December 2017
7. December 2017

### 3.1 Evaluation Matrix - Weightings

It was noted that Weightings have been removed from the original Evaluation Matrix template. Weightings are a critical element of the evaluation process and should be set for every single tender, regardless of the project budget.

Whilst certain criteria are evaluated for every tender regardless of the project, some work requires more expertise than others. Without weightings, highly important criteria is rated the same as lesser important criteria and it could mean that the winning tender won because they were strongest in an area of least importance for that project. For example, a complex and potentially dangerous Works project would require extremely tight Work Health and Safety capability by the winning tenderer, with a lesser importance set on price and locality of the business due to the safety implications. A tenderer may be the cheapest and are local and score highly on these criteria but may not fully comply with Council's WHS requirements and score lower on this. Other tenderers could be more expensive and not as local but are much more capable in the safety arena. They scored less overall compared to the winning tenderer based on criteria that was not as critical. No weighting means that tenderers are not ranked by what matters the most.

Consequence	Likelihood	Risk Level
Likely	Almost Certain	Extreme

### 3.2 Recommendations

1. Immediately reinstate weightings into the Evaluation Matrix template.

### 3.3 Management Responses

#### Management Response and Agreed Action:

1. Agreed

#### Responsibility:

1. Chief Executive Officer

#### Due Date:

1. April 2017

### 4.1 Inconsistency between Tender Specifications and Evaluation Matrix.

It was noted in several audited tenders that the tender specifications distributed to tenderers did not match what was evaluated in the Evaluation Matrix.

It was also noted that often the Matrix was completed by each individual on the Evaluation Panel before a final combined Panel Matrix was submitted to the CEO and it was common for an individual to not score on some criteria. The auditor's assumption is that the individual felt there was not enough information to score tenderers for particular criteria/criterion. This practice supports the finding that what is being evaluated does not always match the specifications given to tenderers. All Panel members should be able to score each criterion every time as not doing so dilutes the Panel's independence given that individual is relying on others to score that section.

Without hard data requested and therefore submitted for a criteria, Panel discussions around a tenderer's capability become subjective, rather than objective. This in turn indicates that some of the ratings awarded cannot be backed with evidence/supporting documentation – a problem if the scoring was challenged.

Finally, the Evaluation Matrix submitted to the Chief Executive Officer for consideration is not signed by all Panel members. This should happen to confirm that the document submitted has been endorsed by the whole Panel.

The risks here are:

1. Panel members are not scoring uniformly;
2. Panel members are being given tenders to assess with insufficient information meaning they are not always able to be objectively and completely score;
3. Any challenges by unsuccessful tenderers would be difficult to defend as some scoring may be subjective;
4. From an audit perspective, the final Matrix does not provide the assurance that all Panel members agreed with the recommendation being put forward.

Consequence	Likelihood	Risk Level
Likely	Moderate	High

### 4.2 Recommendations

1. Project Managers must ensure Tender Specifications match the Evaluation Matrix with this step documented in new process documentation (refer Recommendation 1).

### 4.3 Management Responses

#### Management Response and Agreed Action:

1. Agreed.

**Responsibility:**

1. Corporate Management Team

**Due Date:**

1. April 2017

## 5.1 Purchasing and Procurement Exceptions

There is no definition in the Policy of what an exception is and when exceptions are acceptable to submit. The definition of a general exception is: "anything excluded from, or not in conformance with, a general rule". Exceptions by their very definition should uncommon.

It was noted there are a large number of exceptions approved year-on-year – sixty (60) in 2015 and thirty-four (34) already in 2016. It is the auditor's opinion that this number is too high, confirming issues with the current process. Of the sixty (60) approved in 2015, twenty (20) (or one-third) of the exceptions were for the same supplier. There does not appear to be any follow-up to whether the amounts approved in the Exception match what Council is actually billed. Nor does there appear to be a requirement to provide information on what has been spent to date. The information provided on the Register is insufficient to enable an auditor to recognize whether the amounts requested are for the same or different projects and sometimes even the source document does not confirm this. Project costs cannot be split to avoid the Procurement Policy. (Refer to Finding 2.1 Recommendation #7).

It was also noted that a quarterly Exceptions Report is meant to be presented to CMT; however this does not happen every quarter.

Finally, it was found that every exception listed on the Register was approved. The Register is meant to reflect those that have been approved and declined. This appears to suggest that no exception has been declined in the last eighteen months since the introduction of the new procurement process.

The risks of having a loosely defined policy on Exceptions are:

- 1) Too many exceptions are approved every year, potentially resulting in staff defaulting to requesting an exception to avoid having to follow a complete procurement process – which is a Policy breach;
- 2) Without properly defining the 'what, when and why' of an exception in Council's process documentation, staff may mistakenly believe that exceptions are a common and effective solution to their procurement requirements.
- 3) Not providing enough information on the SF125 Purchasing Exception Form may result in exceptions being approved without the full background understood by the Approver.

Consequence	Likelihood	Risk Level
Likely	Moderate	High

## 5.2 Recommendations

1. Set up a standard quarterly agenda item in ASADA for CMT Meetings for DCCS to present the Exceptions Report and review the appropriateness of that quarter's Exceptions;
2. Review the Exceptions Register over the last year (or two) and try to determine what is driving the need and number of requests with the aim of reducing this number going forward.
3. Define what constitutes an Exception, document it into the process and educate staff on using SF125 Purchasing Exceptions Authority Form to keep track of all requests.
4. Ensure the Register reflects all Exception Requests as per SF125 Purchasing Exceptions Authority Form – including those that are declined.

## 5.3 Management Responses

**Management Response and Agreed Action:**

1. Agreed. Agenda to include standard quarterly agenda item regarding Exceptions.
2. Agreed. Future CMT Agenda Item
3. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.
4. Agreed.

**Responsibility:**

1. Director Corporate and Community Services
2. CMT and Business Improvement Officer
3. CMT and Business Improvement Officer
4. Director Corporate and Community Services or delegate

**Due Date:**

1. April 2017
2. May 2017
3. May 2017
4. April 2017

**6.1 Purchase Orders**

As at 19<sup>th</sup> April 2016, 413 Purchase Orders were outstanding. 122 of them originated between 04/07/13 – 23/12/15 and 291 were created between 05/01/16 – 19/04/16. Purchase Orders should be entered into the system when it has been projected and/or approved to spend Council money. Purchase Orders are not intended to be long-term outstanding inputs, most should be closed out within that Financial Year given Council's budgeting timeframe. Outstanding Purchase Orders are meant to be reviewed annually to ensure that every Order in the system is still required. This is not always completed annually and in fact, given the number outstanding, the frequency of review should potentially be increased to reduce the number of outstanding Purchase Orders.

In addition to this, a Purchase Order should be entered into Council's Online Requisition system (OLR) prior to the invoice being received – i.e. it should be a pre-approved commitment to spend money prior to actually spending money. The Purchase Order is the approval to spend money on Council's behalf and is always approved by a person who has delegation to spend the amount proposed. On too many occasions, the invoice is received prior to the Purchase Order being completed. This has been a systemic problem highlighted by External Audit a number of times over the last few years. Part of the problem is that historically there haven't been any consequences for continual breaches and as such the process is not always followed.

This audit included random sampling of purchase order dates vs invoice dates to test this. Twelve (12) purchase orders were reviewed with seven (7) found to have invoice dates prior to the Purchase Order being lodged in the system. The issue with Purchase Orders dated after the invoice is received is that each time it happens; the purchaser is breaching Procurement Policy and in effect, spending Council money without authority (i.e. it has not been formally approved through our OLR system). The Procurement Policy was breached 58% of the time in this sample, which is clearly unacceptable.

Following recent recommendations in another Audit report, the Accounts Payable payment run process was reviewed and updated. Part of that review implemented a new process whereby Accounts Payable would email purchasers whose Purchase Orders were outstanding to submit their Purchase Order. If this was not completed within five (5) days, Accounts Payable would escalate the issue to that person's manager. This new process has started to make some headway, reducing the number of Purchase Orders outstanding; however it will take some time to determine how much effect this has for Accounts Payable. Currently, outstanding Purchase Orders have reduced substantially.



To expand on an earlier finding (refer: Finding 1.1), the terms and conditions that form part of Council's Purchase Order are displayed on Council's website. Upon review, these terms and conditions do not exactly match what is written into Council's contract templates. The wording should match between the Contract and the Purchase Order to avoid confusion or contradiction. For example, the Purchase Orders Terms and Conditions for Works states "All disputes or differences between the Principal and the Contractor shall be referred to an arbitrator who shall be mutually agreed upon by the parties". Yet the sample contract checked states "A party must not commence arbitration or court proceedings (except for urgent equitable or injunctive relief) in respect of a dispute under this agreement, unless it first attempts to resolve the dispute by negotiation and mediation under this clause". Another example, though minor, highlights the slight variations between the two legal documents: Purchase Order states payment of invoice twenty-eight (28) days from receipt, whilst Contract states payment of invoice will occur within thirty (30) days. It is the auditor's opinion that these discrepancies arise due to the fact that Council staff are currently meant to download the latest contract template appropriate to their requirements from LGA Procurement, however the Purchase Order Terms and Conditions have not been updated since their adoption in January 2015. This constant download of templates could mean that updates supersede the Purchase Order terms which are static.

Finally, Standing Purchase Orders require further elaboration in the Procurement and Purchasing documentation. A tighter definition needs to be reflected along with more detailed instructions on how Standing Purchase Orders are to be carried out. The current Policy only has a small section on Standing Purchase Orders.

Consequence	Likelihood	Risk Level
Likely	Moderate	High

## 6.2 Recommendations

1. Outstanding Purchase Orders should be reviewed by a nominated Finance team member at least every six months, with obsolete Purchase Orders closed out of the system.
2. Further training to be provided to all staff on the Purchase Order process with performance management initiated for repeat offenders who consistently breach Procurement Policy.
3. Update the Finance Manual to capture the new Accounts Payable process of escalating issues to a staff member's manager if they do not submit timely Purchase Orders.
4. Consider adopting contract and purchase order terms and conditions once per year before updating to ensure these documents match in their content. If the contract template is reviewed, then the purchase order terms and conditions need to be reviewed also.
5. Expand the Standing Purchase Order section of the Purchasing and Procurement documentation.

## 6.3 Management Responses

### Management Response and Agreed Action:

1. Agreed. Outstanding Purchase Orders are reviewed twice a year minimum and Requisitioners are requested to advise if PO is still active.
2. Agreed. Manager's to be emailed if PO's are still outstanding after seven (7) days and manager then performance manages their team member.
3. Will investigate. Accounts Payable Officer has own process that is followed, will investigate incorporating the Accounts Payable processes into Finance Manual.
4. Agreed, to be reviewed as part of Policy/Procedure overhaul.
5. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.

### Responsibility:

1. Manager Financial Services
2. Director Corporate and Community Services



3. Accounts Payable Officer
4. Chief Executive Officer / CMT
5. Business Improvement Officer

**Due Date:**

1. July 2016
2. July 2016
3. March 2017
4. December 2017
5. December 2017

## 7.1 WHS/Risk Management

WHS and Risk Management is a standard criteria inclusion in all tenders; which is appropriate. However, not all tenders require the same level of WHS/Risk Management capability. For example, a tender for a consultant to advise Council on an administrative matter would not require the same level of WHS/Risk Management capability as a complex Works provider.

This is not to say the Consultant wouldn't need any skills at all in this area, just that the requirements for Safety Data Sheets and/or Job Safety Analysis would be minimal compared to the Works company. The 'Contractor Insurance and WorkCover Assessment Form' required to be completed by all tenderers does not distinguish between what is essential versus desirable for each tender. The Form gives the tenderer the opportunity to advise that they have policies in place but does not enforce their attachment to prove their statement and allow the Panel to assess how substantial they are for that criteria. This means that a tenderer can in theory tick that they have procedures in place that they actually do not.

Finally, it was noted that a common comment in the Evaluation Matrix was that tenderers had not attached Risk Assessment documentation, however it was noted that these documents were never actually requested to be attached.

Consequence	Likelihood	Risk Level
Likely	Moderate	High

## 7.2 Recommendations

1. The WHS/Risk Management section for tender requires a review and possible update to differentiate between tenders that require substantial WHS/Risk Management capability and those that require a lesser level of capability.
2. Update the Contractor Insurance and WorkCover Assessment Form to make it compulsory to attach Policies or documents that are required to be assessed for competency.

## 7.3 Management Responses

**Management Response and Agreed Action:**

1. Agreed. Review to be conducted.
2. Agreed.

**Responsibility:**

1. Manager People and Culture and Risk Management Officer
2. Risk Management Officer

**Due Date:**

1. December 2017.

## 8.1 Procurement Officer

Procurement plays such a large part in Council's ability to provide services to ratepayers yet there is no one Officer who leads this function. Each department does their best to run procurement processes within policy; however current documentation and process does not ensure a consistent process. Not having a dedicated resource also inhibits Council's ability to identify similar procurement requirements that could be tendered/procured at the same time to achieve cost savings. The Central Local Government Region group that Council is part of recently hired a Procurement Officer, however it is the Auditor's opinion that while this role may be provide some strategic direction for member Councils, it will not assist with our day-to-day operational procurement activities. A dedicated resource within Council would assist with the following:

- 1) Identifying common procurement requirements between departments and as a result, run a combined procurement process to take advantage of discounts and reducing other costs (such as the supplier charging multiple travel/freight fees);
- 2) Implementing Supplier Panels and a Pre-Approved Supplier Register;
- 3) Ensuring tender and contract documentation is clear, consistent and uniform across Council;
- 4) Ensuring tender specifications match evaluation criteria;
- 5) Keeping on top of legislative changes and ensuring our documents are up-to-date;
- 6) Continually educating Council staff on the procurement process to ensure all staff with purchasing responsibility understand what is required of them;
- 7) Monitoring Cumulative Spend to ensure the correct procurement process is undertaken as well as negotiating further discounts for high cumulative spend;
- 8) Running Procurement Inductions for all new staff and conducting refresher training annually for all staff on current procurement process.

The risk in not having a dedicated Procurement Officer is that the procurement process continues to be ineffective, exposing Council to:

- Further/increased opportunity for breaches to occur;
- Not capitalising on cost efficiencies that would result in even better value for ratepayer money;
- Not achieving consistency in the process resulting in potential challenges to this process;
- Not having the capability to improve process due to lack of resources and skill sets; and
- Continued inconsistencies between contracts and terms and conditions utilised.

Consequence	Likelihood	Risk Level
Likely	Moderate	High

## 8.2 Recommendations

1. Consider increasing headcount to allow for the recruitment of a dedicated Procurement Officer for YPC.
2. Regardless of outcome of Recommendation #1, Procurement should be incorporated into Council's Induction Program. This would be tailored to the position; for example, Front Office Clerical Officers would receive Basic training in Purchase Orders whilst Managers and Supervisors would receive Advanced training including Purchase Orders, Tendering and approving spend.

## 8.3 Management Responses

### Management Response and Agreed Action:

1. Agreed. Business Case to be prepared by BIO for Procurement Officer position for consideration by CMT in the first instance.
2. Agreed.

### Responsibility:

1. Chief Executive Officer/Business Improvement Officer
2. CMT/Manager People and Culture

**Due Date:**

1. April 2017
2. January 2018.

## 9.1 Tenderer Education

Potential suppliers interested in working with Council have no opportunity currently to learn about Council's procurement process, other than through the provided tender documentation. If some of the recommendations in this Audit Report are accepted, there will be significant changes to Council's procurement process and it would be opportune to educate any interested supplier in those changes and what it means to them. This would also strengthen Council's ties to its business community with multiple benefits such as educating tenderers so they are better able to respond to tender criteria, increasing the interest in local business to pre-qualify with Council and longer-term relationships that secure best value for ratepayers.

All tenderers – regardless of whether they are unsuccessful or successful – currently receive a brief letter advising them of the outcome of the tender process. There is limited feedback provided that educates them on how to improve on their tendering skills. Providing feedback and receiving stronger tender responses is in Council's best interests as we are better able to assess the most suitable supplier for any requirement.

No risk assigned, this is a highly recommended suggestion, Council is not at risk if this doesn't happen; however this would significantly assist Council's suppliers to understand our requirements better. The result would be a best practice process.

## 9.2 Recommendations

1. Investigate rolling out annual Tender Education nights, with the purpose of inviting potential suppliers to attend and learn about Council's procurement processes and requirements.
2. Expand how Council provides feedback to successful and unsuccessful tenderers to increase their skill set and understanding when it comes to responding to our Tenders.

## 9.3 Management Responses

**Management Response and Agreed Action:**

1. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.
2. Agreed, work to completed by BIO if Procurement Officer Business Case rejected, however timeframe will extend.

**Responsibility:**

1. CMT/Business Improvement Officer/Manager Business and Public Relations
2. CMT/Business Improvement Officer

**Due Date:**

1. December 2017
2. December 2017

## Appendix 2 – Responsibility Statement

This report was prepared in accordance with the scope document as agreed to by management and Australian auditing standards subject to the following limitations:

- Procedures were designed to provide limited assurance as defined by the Australian auditing standards, which recognizes that absolute assurance is rarely attainable due to such factors as the use of judgment in gathering and evaluating evidence and forming conclusions, and the use of selective testing, and because much of the evidence available to the auditor is persuasive rather than conclusive in nature.
- Because of the inherent limitation of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Procedures were not designed to detect all weaknesses in control procedures and they were not performed continuously throughout the period and the tests performed are on a sample basis.
- Any projection of the evaluation of the controls procedures to future periods is subject to the risk that the systems may become inadequate because of changes in condition, or that the degree of compliance with them may deteriorate.
- The matters raised in the report are only those which came to the attention of the internal auditor during the course of performing procedures and are not necessarily a comprehensive statement of the weaknesses that exist or improvement that might be made. The internal auditor cannot, in practice, examine every activity and procedure, nor can they be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on the report to identify all weaknesses that exist in the systems and procedures under examination or potential instances of non-compliance that may exist.
- Any reliance placed on internal audit reports and associated working papers, by a third party, are that party's sole responsibility.

**For Distribution:**

Andrew Cameron – Chief Executive Officer  
Trevor Graham – Director, Assets and Infrastructure  
Roger Brooks – Director, Development Services  
David Harding – Director, Corporate and Community Services  
Sid Jain – Manager Financial Services  
Chloe Brown – Financial Accountant  
Jackie Reddaway – Executive Assistant to CEO and Mayor  
Bobbi Pertini – Manager, People and Culture  
Anne Hammond – Manager, Business and Public Relations  
Mary Herrmann – Governance Officer

## Background

Follow-up spot checks of Corporate Purchase Cards will be conducted randomly, on an ongoing basis, to ensure compliance with revised Policy and Procedure. This spot check was conducted in February 2017. The purpose of these Spot Checks is to ensure the process is working for Council and any improvements identified are implemented and any issues resolved as soon as possible.

The Spot Check examined all nine (9) cardholders, with two-three randomly selected months tested between July 2016 and January 2017 for each cardholder.

Total Card spend during the seven month timeframe was \$68,988.96, which extrapolated out for the year indicates a decline in spend using Corporate Purchase Cards (down from \$168,000 previous 12 months), which is a positive result.

## Key Findings

On the whole, the Spot Check demonstrated that most changes to the Corporate Purchase Card process were being adhered to. One moderate issue found is summarised below:

- 1) The Mayor currently approves the CEO's Corporate Purchase Card signing off under the standard statement: *Approved for payment in accordance with my delegated authority*. The Mayor does not have any delegated authority to approve spend and therefore the recommendation is to amend the statement the Mayor signs off to read: *The transactions for this Corporate Purchase Card are for appropriate Council business expenses*.

The only other findings were very minor, with Internal Audit speaking directly to those mentioned below:

- 2) Two (2) General Ledger codes were used that did not appear correct but this was very minor;
- 3) Several receipts were not proper invoices for tax purposes, however this was very minor;
- 4) The on/off site column (for FBT purposes) was not always completed, again very minor;
- 5) Two purchases were made on one Card that could have been purchased through accounts – this reflects a large decrease in this type of spend, which is a positive result;
- 6) One Card user did not complete all fields on the Reconciliation Form.

## Internal Audit Opinion

Based on the testing performed, Internal Audit is of the opinion that Corporate Purchase Card controls are currently very effective.

I would like to take the opportunity to thank Chloe Brown and Ashlee Chadwick for their assistance and co-operation during the spot check.

### Chelly Litster

Business Improvement Officer

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## **Implementation of Agreed Actions**

This report provides an update on the implementation of proposed actions resulting from:

1. Internal audit activities;
2. Internal controls project; and
3. External audit activities.

The latest status and comment information has been provided by the officers responsible for the implementation.

## 1. Internal Audit Activities

### IT User Access Review – July 2013

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
1. IT Security Policy and Procedure & User Guidelines	Agreed with recommendation: <ul style="list-style-type: none"> <li>Develop a set of basic internal IT procedures</li> <li>Review and update the Internet and Email Policy and Guidelines for Computer Network Use to ensure they reflect current practices and the new procedures to be developed.</li> </ul>	Leader Systems and Technology/ Manager Business & Public Relations	30/08/13	30/06/16	Completed	Three new policies were adopted by Council on 9 August 2016 to address IT Security and Access, being: <ul style="list-style-type: none"> <li>PO 152 Information Systems Acceptable Use Policy</li> <li>PO 153 Information Systems Access Control Policy</li> <li>PO 154 Password Authentication Policy.</li> </ul> Consultation on draft policies was performed with employees and amended policies were approved and adopted by CMT before being ratified by Council.

### Bush Camping Review – July 2014

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
1. Timing of obtaining permits <div style="background-color: yellow; border: 1px solid black; padding: 2px; display: inline-block;"> <b>Risk Level</b>              High           </div>	<ol style="list-style-type: none"> <li>Agreed, a policy that incorporates key points from the audit findings will be developed, including a communication plan to inform staff and the community.</li> <li>Signage to be reviewed, costs identified and a budget submission is prepared for 2015/16 Annual Business Plan and budget.</li> <li>Agreed, Council to contact local businesses in the known 'gap areas' (e.g. Pt Wakefield, Ardrossan, Stansbury, Pt Vincent, Pt Victoria etc.).</li> <li>Further investigation to be undertaken to identify the costs, risks and benefits of</li> </ol>	Manager Development Services	31/03/15  28/02/15  30/09/14		Completed	A significant amount of work has been undertaken in the area of Bush Camping. After the release of the Audit recommendations, Council established a Bush Camping Working Party in April 2016. The results and outcomes of the Working Party are detailed below against each of the agreed actions. <ol style="list-style-type: none"> <li>Policy PO157 Camping on Council Land, was developed and adopted by Council. The policy provides a consistent and integrated approach for the</li> </ol>



Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
	<p>alternate methods and a report prepared for Council's consideration.</p> <p>5. Once new processes are implemented ensure that the Ranger educates and makes the bush camping public aware of new processes and change to culture.</p>		<p>31/12/14</p> <p>31/03/15</p>			<p>management of camping on Council land.</p> <p>2. Signage across all bush camping sites has been reviewed and introduced across the region.</p> <p>3. Educational signs advising 'camping without a permit' have been be located at the main entry points to the Peninsula.</p> <p>4. Fees for camping permits are no longer collected by outside businesses. Council have introduced a new online booking system 'Book Easy'. The only other locations that permits are available is through Council Offices and the Visitor Information Centre. Permits are transferable between all campgrounds and a costs are now consistent across all sites.</p> <p>5. The Working Party has worked hard to ensure the new processes for bush camping process have been communicated effectively to staff and the public.</p>

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
2. Charging, receipt, banking and reconciliation of permit fees <b>Risk Level</b> High	1. Bush Camping Permit procedure to be developed to reflect current expectations and communicated to staff, Rangers, and local business who are issuing permits on behalf of Council. At a minimum the document should outline the: <ul style="list-style-type: none"> <li>Timeliness of collection and banking processes</li> <li>Standard receipting procedures, including reconciliation</li> <li>Security considerations when collecting and counting money</li> <li>Supporting documentation requirements</li> <li>Process for notifying Council when the identified businesses change ownership.</li> </ul> 2. If it is considered too onerous for businesses to deposit fees in a timely manner, it should be added to the Ranger's responsibilities to collect shop permit fees, including reconciliation and issuing receipts at the premises.           3. Bush camping fees are considered as part of the 2016 annual review of fees and charges	Manager Development Services	31/12/14		Completed	As noted above fees for camping permits are no longer collected by outside businesses. Council have introduced a new online booking system 'Book Easy'. By limiting the way permits can be obtained and applying consistent fees, the risk relating to handling, charging, banking and reconciliation of camping income is greatly reduced. These agreed actions are no longer applicable as only Council functions issue and receive bush camping fee income.
3. Signage (relating to camping locations, permit requirements & site spaces) <b>Risk Level</b> Moderate	Consider reviewing the camp site space allocations, with the aim to clearly delineate all camp sites with permanent markings.	Operations Manager	28/02/15		Completed	Efforts have been made, where required, to delineate camping areas with natural items i.e. wood outlines and rocks etc. Work will continue to ensure camp sites are easily identifiable, but high priority areas have been addressed.

<b>Level</b>
Moderate

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
4. Information collected on permits <b>Risk Level</b> Moderate	Consider suitable technology (e.g. hand held palm pilot, tablets) for the Rangers to document and issue bush camping permits. Investigate to identify the costs, risks and benefits and prepare a report for Council's consideration. <b>Level</b> Moderate	Manager Development Services	31/12/14		Completed	As Rangers no longer collect monies for camping permits (as per above there are limited ways of obtaining permits), this recommendation is no longer applicable from an internal audit risk perspective. It is understood Working Party is considering use of technology for Rangers for other purposes.
5. Review of Ranger responsibilities <b>Risk Level</b> Low	Review the role of the Rangers so that standardised duties are undertaken and work is allocated by geographic area. Also consider resource requirements of Rangers, particularly for weekend and peak times	Manager Development Services	31/03/15		Completed	Departmental review undertaken and with retirement of one Ranger a new position has been advertised for weekends & peak times. Recruitment processes are currently underway.
6. Further opportunities for improvement <b>Risk Level</b> Low	1. Review the requirement of nominating a specific site and consider changing to a permit being applicable for any of the bush camping sites. 2. Review the rationale of non-fee and fee payable sites and if appropriate, set fees for all fifteen sites as part of the FY16 annual review of fees and charges	Manager Development Services	28/02/15		Completed	Refer to comments above.

#### Payroll Review – July 2014

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
1. Payroll Procedures <b>Risk Level</b> Low	Payroll procedures reviewed and updated to reflect current practices.	Payroll Officer	30/06/15	31/05/16	Completed	The Payroll Officer has developed a basic version of the payroll manual. Council are in the final stages of implementing online timesheets and payroll processing will significantly change. Council has now trained a second 'backup' employee in the payroll processing area, therefore

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
						risks relating to limited knowledge sharing has been reduced. Internal Audit reviewed the basic set of procedures, which incorporates both Civica and the Payroll Officer instructions.

#### Asset Management Maturity Audit – March 2014

*Undertaken by Jeff Rodda & Associates (External Consulting Firm)*

Please note: All road infrastructure will be addressed first. The aim is to complete all actions for the road in infrastructure category by 30 June 2015. Actions will then be removed from this list. Internal Audit will complete a follow up review of Asset Management in FY17 to ensure all asset categories have been completed in accordance with the agreed actions.

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
2. Annual Report <b>Risk Level</b> Low	Include "state of the assets" reporting in annual report (& AMPs) to show service level trends e.g. % or assets at Poor/Fair/Good condition, function and capacity. This will provide an annual snapshot of service level trends.	Manager Business & Public Relations	30/11/15	30/11/16	Completed	Commentary regarding the Asset Management Plans and the collection of data was included in the FY16 Annual report.  Once the Asset Management System has enough data (in particular around other categories of assets) to provide reports in regards to the 'state of assets' this will be included in the Annual Reports going forward.

## Attractive Assets Review – August 2014

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
1. Recording of attractive assets <b>Risk Level</b> Moderate	Regular stocktakes of all categories of assets are planned and undertaken at least once every two years (some such as plant and machinery should be completed annually).	Manager Financial Services / Business Improvement Officer	31/12/15	31/12/17	In Progress	<p>Currently under review. Discussions to occur with CMT to implement twice yearly stocktakes and determine which IT system will hold the register. Strategy session held and a Working Party was established, meeting was held in April 2016.</p> <p>Baseline stocktakes were planned to be conducted in June 2016, however delays occurred due to maternity leave and the large size of this project. Update to be provided soon but likely project will be long-term with initial pilot occurring in next 12 months.</p>

## WHS Legislation Review – January 2015

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
1. Workplace Inspections <b>Risk Level</b> Low	Conduct refresher training for HSR's on the procedures for accurately conducting workplace inspections.	Risk Management Officer	30/06/15	31/03/16	Completed	The e-Learning Workplace Inspection training unit has now been completed by all personnel who are required to undertake or potentially participate in workplace inspections. Dates of completed training recorded in the TNA.

## Accounts Receivable Review – June 2015

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
1. Invoice Creation <b>Risk Level</b> Moderate	A project should be resourced to investigate if :- a. Standing (regular) invoice automation via Authority can be programmed. b. Registers (i.e. Leases, Water, and Cemeteries etc.) can exist within Authority. c. An automated process (e.g. email alerts) can be developed when lease conditions change (annual increase or new leases).	Manager Financial Services	31/12/16	31/03/17	In Progress	The Accounts Receivable role and tasks was moved into the Senior Rates Officer duties in October 2016. The Senior Rates Officer has not previously been involved with the AR tasks and has taken on these agreed actions.  The Senior Rates Officer has undertaken testing of standing invoices within Authority, including lease and cemetery invoices. It is planned that the automated standing invoices will be implemented into production by end of March.
	In the interim, a further independent review (by the new AR Officer or Financial Accountant) is completed to ensure all regular invoices have been identified (e.g. lease register & other registers) to confirm both accuracy and completeness of the Debtor Invoicing.	Financial Accountant, Daniel Griffin	31/12/16		Completed	As part of the changeover of tasks, the Senior Rates Officer completed a review of the entire Debtor Invoicing Spreadsheet, evidencing back to contract and lease documents (including retired leases).
	That a standard form is created for raising invoices. The form should include all details required by the Accounts Receivable Officer.	Accounts Receivable Officer	31/12/16		Completed	Online forms have been created for cemetery debtors requests and this will be extended for all debtor requests by end of financial year to ensure all required details are obtained. Internal audit sighted cemetery form being utilised.
3. Debtor Management Notes and Categorisation <b>Risk Level</b> Low	As part of an overall project of the AR process, an investigation as to whether Authority can lock down memos and categorizing debtors should be investigated. If changes can be implemented, change processes accordingly.	Financial Accountant, Chloe Brown	31/12/16		Completed	The Senior Rates Officer has resolved not to use memos within Authority for recording payment plans and credit issues, these are all retained on a restricted spreadsheet outside the system, reducing the confidentiality risks associated.

						Reviewed spreadsheet and access restrictions in place.
4. Debtor Master file <b>Risk Level</b> Low	The Accounts Receivable Officer investigates whether debtor master file can be 'cleaned up' (i.e. either delete or inactivate debtors no longer required without losing any transaction history).  To strengthen current controls, consider listing the specific authorized officers (position titles) into the approved procedures (e.g. PR005, 072 & 073) when these procedures are due for review.	Accounts Receivable Officer  Financial Accountant, Daniel Griffin	31/12/16  30/09/15	31/03/17  30/03/16	In Progress  Completed	This will continue to be investigated and potentially 'purging' of this data.  Procedures have been reviewed and relate to update of the Name and Address Register (NAR) only. Preventative controls ensure access to the NAR has been restricted to the Senior Rates Officer, Rates Officer and Records staff.

#### Caravan Park Audit – December 2015

Finding Name	External Audit Finding	Responsible Officer	Due Date	Revised Due Date	Status	Comments
1. WHS Matters <b>Risk Level</b> High	CP's to update Evacuation Diagrams to include written instructions in event of an emergency.	Corporate Services Officer	30/06/16		Completed	Caravan Parks have been gradually upgrading their Evacuation Diagrams with Emergency instructions. Internal Audit sighted the updated instructions.

#### Customer Service Request Review – February 2016

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
1. CSR Reporting <b>Risk Level</b> Moderate	IT to investigate Authority's capability to generate automated CSR reports that are sent out to each Action Officer. Reports to include number of CSRs, completed CSRs, outstanding CSRs, timeframes and action officers.	Leader Systems & Technology & IT Coordinator	30/06/16		Completed	Investigations have commenced. Authority currently can report on these separately but need to determine if the reports can be combined.  IT will be undertaking a broader CSR system review in the FY18 and will consider this action as part of that.
2. Policy & Procedure	A&I & Reception reps to review the current policy & ensure it is accurate, workflows are correct & training held. IT investigating whether jobs can be	A&I, Receptionists,	30/06/16		In Progress	Workflows under final review, majority of these have been updated. Procedure and Policy to be circulated

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
<b>Risk Level</b> Moderate	escalated if safety concern regardless of category's predetermined priority status.	IT Coordinator				with minor changes. Training to be held at next Administration meeting in February 2017.

#### Petty Cash & Cash Till Float Review – March 2016

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
1. Open/Close Procedure <b>Risk Level</b> Low	Front Counter staff to count cash floats as part of the open/close procedures each day.	Manager People & Culture	01/03/16	30/05/16	Completed	The Banking and Cash Handling Administrative Procedure was implemented October 2016, which includes processes on counting cash floats as part of open and close procedures. Training for awareness of the procedures was conducted in November 2016.  Internal audit confirmed through discussion this process was occurring with Maitland clerical officers.
2. Security <b>Risk Level</b> Low	Improved security measures need to be agreed and implemented when cash receipts for the day exceed a certain agreed amount.	Manager People & Culture	30/03/16	30/05/16	Completed	Refer comments noted above

#### Fees and Charges – April 2016

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
1. Cost Determination <b>Risk Level</b> High	A basic cost model be created to input costs which will allow Council to more accurately set fees and charges. This model should, as a minimum, reflect both indirect & direct costs incorporating categories of capital, administration expenses, materials & supplies and labour costs. Given large number of fees and charges, each one should be prioritised so high priority areas are targeted first	Financial Accountant, Daniel Griffin & Manager Financial Services	31/12/16	31/12/17	In Progress	Excel model has been created with fees and charges gradually being costed using this model over the next year. It is a large project and will take some time to complete but good progress has been made on some of the major fees and charges.



Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
	& limited use charges are last (if decided they be included at all). It is suggested that Bush Camping Fees are used as pilot fee to test model as these fees are due for an upgrade by 1st September 2016.					
2. Policy and Procedure <b>Risk Level</b> Moderate	A Policy and/or Procedure be created that reflects process involved in determining accurate fees & charges & how to update the system and Register. These documents need to outline how to determine if the fee set is a full cost recovery, partial cost recovery or market priced item.	Financial Accountant, C.Brown & Development Clerical Officer	31/12/16	31/10/17	In Progress	First meeting was held in May 2016 to review process. Process was to be incorporated into the Finance Manual, however this has not progressed since.  Due to the current budget process seen as a priority, a new due date has been agreed.
3. Bonds & Bonds Register <b>Risk Level</b> Moderate	Ardrossan Hall Booking Process to be reviewed. Regular deposits need to be submitted to Council and Bonds should not be refunded by external parties at all.  <b>Risk Level</b> Moderate	Director Development Services	31/12/16	28/02/17	Completed	Post Office will cease to run Ardrossan bookings from 28 February 2017. Bookings will be brought back to Maitland Council Office. Rapid Detail to advise if extra cleaning required post-function. Inspections of town hall will be done on a case by case basis for potential hirers. Signs will be placed at Hall to advise hirers to contact Council.
4. Authority Module data <b>Risk Level</b> Low	IT investigates linking fee data fields in Development & Customer Services modules so Development's annual update is accurately reflected in other modules & subsequent reporting functionality.	Senior Systems Analyst	31/12/16	31/03/17	In Progress	Email sent to consultant to investigate whether this is possible.
5. T-Code Review <b>Risk Level</b> Low	Fees with multiple T-Code options are reviewed to determine the most appropriate T-Code, with processes updated to remove any reference to the incorrect T-Code(s).	Financial Accountant & Development Clerical Officer	01/07/16		Completed	All T-Codes were reviewed 18 May 2016.
	IT to investigate if the Dog and Cat fees can be posted to the individual general ledger sub-	Financial Accountant &	30/06/16		Completed	Viability investigated and determined that there was not a lot of gain to implement this and as such, the GL

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
	accounts to increase the ease of reporting to the Dog and Cat Management Board.	Snr Systems Analyst				main account was kept as the main T-Code for Dog/Cat income.

## Policy Compliance Audit – July 2016

*Undertaken by Minter Ellison (External Legal Firm)*

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
1. PO089 <b>Risk Level</b> Low	Update Elected Members Facilities Services & Expenses Policy accordingly.	Executive Assistant CEO/Mayor	01/02/17		Completed	Policy updated as per report recommendation and updated version endorsed at December 2016 Council meeting.
2. PO135A <b>Risk Level</b> Low	Update Elected Members Training & Development Plan accordingly.	Executive Assistant CEO/Mayor	01/02/17		Completed	Plan updated as per report recommendation and updated version endorsed at December 2016 Council meeting.
3. PO135 <b>Risk Level</b> Low	Update Elected Members Training & Development Policy accordingly.	Executive Assistant CEO/Mayor	01/02/17		Completed	Policy updated as per report recommendation and updated version endorsed at December 2016 Council meeting.
4. PO057 <b>Risk Level</b> Low	Update Community Engagement Policy accordingly.	Manager Business and Public Relations	01/02/17		Completed	Policy updated as per report recommendation and updated version endorsed at February 2017 Council meeting.
5. PO091 <b>Risk Level</b> Low	Update Risk Management Policy accordingly.	Manager People & Culture	01/02/17		Completed	Policy updated as per report recommendation and updated version endorsed at January 2017 Council meeting.
6. PO139 <b>Risk Level</b> Low	Update Treasury Management Policy accordingly.	Manager Financial Services	01/02/17	30/04/17	In Progress	Council staff have decided to create an overall Prudential Management Policy (which will make reference to the Treasury Management Policy in its

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
						current state). Will be addressed once draft budget activities are completed.
7. PO156 <b>Risk Level</b> Low	Introduce an Internal Financial Control Policy (new).	Manager Financial Services	01/02/17		Completed	Policy documented as per report recommendation and updated version endorsed at January 2017 Council meeting.
8. PO058 <b>Risk Level</b> Low	Update Purchasing and Procurement Policy accordingly.	Governance Officer	01/02/17		Completed	Policy updated as per report recommendation and updated version endorsed at December 2016 Council meeting.
9. PO126 <b>Risk Level</b> Low	Update Street Road and Public Place Naming Policy accordingly.	Governance Officer	01/02/17		Completed	Policy updated as per report recommendation and updated version endorsed at December 2016 Council meeting.
10. PO100 <b>Risk Level</b> Low	Update Order Making Policy accordingly.	Governance Officer	01/02/17		Completed	Policy updated as per report recommendation and updated version endorsed at February 2017 Council meeting.
11. PO037 <b>Risk Level</b> Low	Update Internal Review of a Council Decision accordingly.	Governance Officer	01/02/17	30/04/17	In Progress	Policy is in draft and will be sent to the March 2017 Council meeting for either endorsement or further public consultation.

#### Procurement and Purchasing Audit – June 2016

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
1. Procurement Policy/ Procedure <b>Risk Level</b> Extreme	PO058 Purchasing and Procurement Policy to be reviewed with some sections moved to a new Procedure.	Business Improvement Officer (BIO)	01/12/17		Not Started	
	Comprehensive Purchasing & Procurement Procedure to be created and implemented.	BIO/ CMT	01/12/17		Not Started	

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
	Comprehensive, supporting Forms & Checklists to be created and implemented. In particular, a Conflict of Interest Declaration Form to be created that each Evaluation Panel member must sign before assessing tenders.	BIO	01/12/17		Not Started	
	Consideration given to creating a dedicated Procurement location (similar to Safety at Your Fingertips).	CMT	01/10/17		Not Started	
	Purchase Order Terms & Conditions reviewed against current Contract Templates to ensure they match. Consideration given to adopting all procurement & purchasing templates for at least one year with no changes until annual review (other than major legislation changes) to ensure Council's documentation is consistent.	BIO	01/12/17		Not Started	
	Consideration given to add in a section in tender templates to allow the supplier to list prior/current projects they have completed for Council and make it clear that Council should not be listed as a referee in the References section.	BIO/ CMT	01/12/17		Not Started	
	ArcBlue's Roadmap project reviewed & decision made whether to continue to adopt their recommendations. If so a responsible person to be identified to guarantee momentum/ implementation.	CMT	01/11/17		Not Started	
	Refresher training to all staff involved in the purchasing and procuring process within Council.	BIO	01/02/18		Not Started	
2. Cumulative Spend Breach <b>Risk Level</b> <b>Extreme</b>	Include a section in new Procedure that outlines how to run a Cumulative Spend Report out of Authority.	BIO/ Finance Rep.	01/12/17		Not Started	
	Investigate whether Defined-Period Supplier Panels can be established to resolve some of the issue with cumulative spend and increase Council's buying leverage. Ideally, for Works-related Panels, each zone would have their own	BIO & Assets and Infrastructure (as pilot) rep	01/12/17		Not Started	

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
	Panel – for example, Electrical Contractor Panel for North, Central and South.					
	Investigate the implementation of an Approved Supplier Register.	BIO/CMT	01/12/17		Not Started	
	Implement annual review of proposed/expected spend across Council to identify opportunities for merging tendering activities.	CMT & Managers/ Supervisors	01/12/17		Not Started	
	Decide whether to commit to ArcBlue software on an ongoing basis with procurement data analysed at CMT level to maintain its relevance.	CEO/ Manager Business & Public Relations/ Finance	01/12/17		Not Started	
	Review Spend Limits to determine if appropriate for required procurement spend & consider splitting limits between two categories – Works and General. Works with higher limits than General.	CMT and Managers	01/12/17		Not Started	
	Update SF125 Purchasing Exceptions to capture current & new spend plus number of exceptions already approved.	BIO	01/12/17		Not Started	
3. Evaluation Matrix Weightings <b>Risk Level</b> Extreme	Immediately reinstate weightings into the Evaluation Matrix template.	CEO	01/04/17		Not Started	
4. Specification & Matrix Inconsistency <b>Risk Level</b> High	Project Managers must ensure Tender Specifications match Evaluation Matrix with this step documented in new process documentation	CMT	01/04/17		Not Started	
	Set up a standard quarterly agenda item for CMT Meetings for DCCS to present Exceptions Report	Director Corporate &	01/04/17		Not Started	

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
5. Purchasing Exceptions	& review appropriateness of that quarter's Exceptions.	Community Services				
<b>Risk Level</b> High	Review Exceptions Register over last year (or two) to determine what is driving need & number of requests with aim of reducing number going forward.	CMT/ BIO	01/05/17		Not Started	
	Define what constitutes an Exception, document into process & educate staff on using SF125 Purchasing Exceptions Authority Form to keep track of all requests.	CMT/ BIO	01/05/17		Not Started	
	Ensure Register reflects all (including declined) Exception Requests as per SF125 Purchasing Exceptions Authority Form.	Director Corporate & Community Services or Delegate	01/04/17		Not Started	
6. Purchase Orders	Outstanding Purchase Orders reviewed by Finance team member every six months, with obsolete Purchase Orders closed out of system.	Manager Financial Services	01/07/16		Completed	Twice per year minimum is now done.
<b>Risk Level</b> High	Further training to all staff on Purchase Order process with performance management initiated for repeat offenders who consistently breach Procurement Policy.	Director Corporate & Community Services	01/07/16		Completed	Escalation occurs now and numbers of overdue Purchase Orders have dropped significantly. This is no longer a large problem.
	Update Finance Manual to capture new Accounts Payable process of escalating issues to a staff member's manager if they do not submit timely Purchase Orders.	Accounts Payable Officer	01/03/17		Not Started	
	Consider adopting contract & purchase order terms & conditions once/ year before updating to ensure these document's contents match. If the contract template is reviewed, then PO terms & conditions need to be reviewed also.	CEO / CMT	01/12/17		Not Started	
	Expand Standing Purchase Order section of Purchasing and Procurement documentation.	BIO	01/12/17		Not Started	

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
7. WHS/Risk Management <b>Risk Level</b> High	Review &/or update WHS/Risk Management section for tenders to differentiate between tenders that require substantial WHS/Risk Management capability & those that require a lesser level of capability.	Manager People & Culture/ Risk Management Officer	01/12/17		Not Started	
	Update Contractor Insurance & WorkCover Assessment Form to make it compulsory to attach Policies or documents required to be assessed for competency.	Risk Management Officer	01/12/17		Not Started	
8. Procurement Officer <b>Risk Level</b> High	Consider increasing headcount for recruitment of a dedicated Procurement Officer.	CEO/ BIO	01/04/17		In Progress	Business Case is being drafted currently.
	Incorporate procurement into Induction Program tailored to position requirements EG Front Office - Basic training in Purchase Orders; Managers/Supervisors - Advanced training (Purchase Orders, Tendering & approving spend).	CMT/ Manager People & Culture	01/01/18		Not Started	
9. Tenderer Education NO RISK	Investigate annual Tender Education nights - inviting potential suppliers to attend & learn about Council's procurement processes/requirements.	CMT / BIO / Manager Business & Public Relations	01/12/17		Not Started	
	Expand how Council provides feedback to successful/unsuccessful tenderers to increase their skill set/understanding when responding to Tenders.	CMT/BIO	01/12/17		Not Started	

## External Audit – 2015/2016 Findings

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
1. System Access Review <b>Risk Level</b> High	Review staff system access levels, including network folders and files, to ensure that staff do not have inappropriate access to information.	Leader, Systems & Technology	31/01/16	30/06/17	In Progress	IT issued a report (100,000 line excel report) that is currently being reviewed by Manager Financial Services. Approximately 20% of access levels have been reviewed and approved by the DCCS (in absence of Internal Auditors) and amendments made by IT. This is a significant task given the complexity of reporting available from Authority.
2. Segregation of Duties <b>Risk Level</b> High	IT department to compile a complete report on all user access levels so review and update of all user settings could be undertaken.	Leader, Systems & Technology			Completed	Refer above, IT have created a systems report that the Manager Financial Services is currently reviewing.
3. User Password Changes – Authority <b>Risk Level</b> High	Implement a new password policy and force changes of passwords for all active accounts. Remove the ability to no change passwords and implement a default windows lock out time.	Leader, Systems and Technology			Completed	Done. No further work required at this stage. Policies are in place & will be reviewed regularly as per Council's policy review schedule.
4. IT Backup Procedures <b>Risk Level</b> Moderate	Ensure data on service is appropriately back up and can be restored in the even of systems being corrupted and/or damaged. Recommended to investigate daily backup being stored off-site.	Leader, Systems and Technology	31/03/17	30/06/17	In Progress	Option investigated for daily backup tapes to be stored in Records Shed but this is not preferred option due to high volume tapes required for weekly/monthly backups. Council to acquire new hardware which will enable backing up of data overnight without need for tapes. Full implementation of this process by March 2017.  Decision by March 2017 on hardware, however this project is relying on other IT Major projects and will be budget



Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
						dependent. Network changes are required first with cost implications.
5. Business Continuity & Disaster Recovery Plan <b>Risk Level</b> High	Develop and document a comprehensive Business Continuity and Disaster Recovery Plan, which is regularly reviewed & appropriately tested.	Manager, People and Culture			Completed	Business Continuity Plan endorsed at June 2016 Council Meeting. Continual monitoring and training will need to be undertaken. Draft sub plans need to be developed with training rolled out in early 2017.
6. General Ledger Maintenance <b>Risk Level</b> Moderate	Procedures to be developed that document maintenance processes for GL accounts. Use exception reports to identify and review changes made to GL.	Accountant, Financial Management	31/01/17	31/10/17	Not Started	Due to Finance workload, this will not be completed until 2 <sup>nd</sup> quarter of FY18.
7. Ability to override overpayment of duplicate invoices <b>Risk Level</b> High	Develop a report for duplicate invoices for monthly review with a procedure developed also.	Accountant, Financial Management	31/01/17	31/03/17	In Progress	Procedure is under development and draft will be ready by end January. Policy not required, work instruction to be created.
8. Internal Controls over EFT Upload file <b>Risk Level</b> High	Full review of AP procedure for payment runs. Work with ANZ to determine where fault lies (transactive portal or Council systems). Once sorted, remove edit access for all staff.	Leader, Systems and Technology			Completed	File is unable to be directly imported into Transactive due to Civica and ANZ software limitations. Only selected officers are able to import file into ANZ. Importers of the file are unable to approve and release file. ABA files are not to be modified. IT are able to edit if required.
9. General Journals & Rate Journals	System settings are amended to ensure Authority automatically assigns a journal number. Report to be scrutinised by matching journal entry samples	Manager, Financial Services & Leader,			Completed	Authority has been amended so that GL numbers are automatically assigned. Each month a system generated audit report is reviewed by

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
- Internal Controls <b>Risk Level</b> High	are matched to supporting documentation by independent employee.	Systems and Technology				Manager Financial Services and samples verified for accuracy and supporting documentation.
10. Budget Accountability - Evidence of Review <b>Risk Level</b> Moderate	Manager/Directors are to authorise their respective budgets before it is included in consolidated Council budget and appropriate evidence is retained of this process.	Manager, Financial Services & Accountant - Financial Management			Completed	Evidence of access review available on file. Budget Lock functionality on PowerBudget to be used going forward. Each Director has to lock their area before CEO reviews. CEO will lock entire budget once approved.
11. Evidence of Independent Review - Fines & Interest Exclusions and Non-Rateable Property Listing <b>Risk Level</b> Moderate	No evidence that an independent review of the Fines and Interest Exemption report undertaken. Evidence of a formal review is retained for both Fines and Interest Exemption Reports and Rates non-rateable listing.	Senior Rates Officer			Completed	System is unable to generate a Report for this, however all fines/interest writes off are approved by Manager Financial Services. In addition, the Manager Financial Services undertakes a review monthly of Rates Journals.  Council don't exempt assessments from fines and interest, Senior Rates Officer provides exemption report as part of monthly processes to Manager Financial Services for approval.
12. Accounts Payable - Internal Control <b>Risk Level</b> High	Supplier invoice details are checked re: Account name, BSB and account number. Investigate an automated report.	Accountant, Financial Management			Completed	Report produced monthly to identify all changes to Supplier Master file. Full review of AP payment run has been undertaken. Random checks of all bank details performed with anomalies discussed with Internal Audit. Automatic comparison file still being looked into, however additional control that ABA file has been locked so that only IT can edit have been introduced
13. Purchase Orders -	Procurement procedures reviewed to reflect actual practice as Purchase Orders are still being raised after the invoice has been received.	Accountant, Financial Management	31/01/17	31/03/17	In Progress	Accounts Payable Officer to create work instruction.

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
Internal Controls <b>Risk Level</b> Low						
14. Customer Credit Card Payments <b>Risk Level</b> Low	Procedure to be developed to ensure appropriate handling of customer credit card details and included in Finance Manual. Investigate online payment gateway.	Accountant, Financial Management	31/01/17		Completed	Banking and Cash Handling Procedure adopted & include process for dealing with customer credit cards. New online payment gateway is being implemented which might help with this but is still being investigated. One-time credit card payment form created with card details destroyed when processed.
15. Banking Security <b>Risk Level</b> Low	Review security regarding cash handling	Manager, Financial Services & Accountant - Financial Management	31/01/17		Completed	Banking and Cash Handling Procedure adopted which covers cash transportation and security.
16. Customer Service Cash Floats <b>Risk Level</b> Moderate	CS Staff do not have their daily cash float reconciliations independently checked to confirm the accuracy or completeness of float at start or end of their shift at Maitland/Minlaton. To enhance control, independent review of reconciliation be completed to confirm takings and float balances have been accounted for.	Manager Financial Services & Accountant – Financial Management	31/01/17		Completed	Banking & Cash Handling has been adopted by CMT. Petty Cash Policy has been reviewed and implemented also. Floats counted at start of shift. Tills are kept at minimum cash levels, with excess into safe. Drawers are secured. Cash Custodian Form introduced that states amount of funds held.
17. Asset Condition Assessments - Road Pavement Assets <b>Risk Level</b> Low	Changes to the estimates and assumptions relating to physical dimensions and composition of Road Pavement Assets be applied to ensure depreciation is calculated on most recent data.	Asset Manager			Completed	Tonkin Consulting engaged to undertake desktop revaluation of Transport Assets to bring them in line with the Road Categorisation and Levels of Service as detailed in AMP.

Finding Name	Agreed Action	Responsible Officer	Due Date	Revised Due Date	Status	Comments
18. Stormwater & Kerbing Assets <b>Risk Level</b> Moderate	Changes to Kerb & Stormwater Asset Networks physical data be applied to ensure valuation and depreciation estimated is recent.	Asset Manager			Completed	Stormwater data has been added to Conquest and a review of Stormwater Asset Management Plan has now commenced.
19. Landfill Liability Review <b>Risk Level</b> Moderate	Review all assumptions & Estimates included in calculation of future capping & rehabilitation liability.	Director, Assets & Infrastructure			Completed	Only minor works at closed landfill sites is expected to be undertaken in future. Future capping, rehabilitation & water monitoring requirements will be reviewed for each site & appropriately funded through budget process.
20. Payroll Personnel Records <b>Risk Level</b> Low	Electronic archiving of payroll records be considered.	Manager, People and Culture			Completed	RM8 is now being used to maintain electronic copies of employee records.