

NOTICE OF MEETING



INTERNAL AUDIT ADVISORY COMMITTEE MEETING

An Internal Audit Advisory Committee Meeting of Byron Shire Council will be held as follows:

Venue	Conference Room, Station Street, Mullumbimby
Date	Thursday, 18 August 2016
Time	11.00am

A handwritten signature in black ink, appearing to read 'Mark Arnold', is located in the lower left area of the page.

Mark Arnold
Director Corporate and Community Services

CONFLICT OF INTERESTS

What is a “Conflict of Interests” - A conflict of interests can be of two types:

Pecuniary - an interest that a person has in a matter because of a reasonable likelihood or expectation of appreciable financial gain or loss to the person or another person with whom the person is associated.

Non-pecuniary – a private or personal interest that a Council official has that does not amount to a pecuniary interest as defined in the Local Government Act (eg. A friendship, membership of an association, society or trade union or involvement or interest in an activity and may include an interest of a financial nature).

Remoteness – a person does not have a pecuniary interest in a matter if the interest is so remote or insignificant that it could not reasonably be regarded as likely to influence any decision the person might make in relation to a matter or if the interest is of a kind specified in Section 448 of the Local Government Act.

Who has a Pecuniary Interest? - a person has a pecuniary interest in a matter if the pecuniary interest is the interest of the person, or another person with whom the person is associated (see below).

Relatives, Partners - a person is taken to have a pecuniary interest in a matter if:

- The person's spouse or de facto partner or a relative of the person has a pecuniary interest in the matter, or
- The person, or a nominee, partners or employer of the person, is a member of a company or other body that has a pecuniary interest in the matter.

N.B. “Relative”, in relation to a person means any of the following:

- (a) the parent, grandparent, brother, sister, uncle, aunt, nephew, niece, lineal descends or adopted child of the person or of the person's spouse;
- (b) the spouse or de facto partners of the person or of a person referred to in paragraph (a)

No Interest in the Matter - however, a person is not taken to have a pecuniary interest in a matter:

- If the person is unaware of the relevant pecuniary interest of the spouse, de facto partner, relative or company or other body, or
- Just because the person is a member of, or is employed by, the Council.
- Just because the person is a member of, or a delegate of the Council to, a company or other body that has a pecuniary interest in the matter provided that the person has no beneficial interest in any shares of the company or body.

Disclosure and participation in meetings

- A Councillor or a member of a Council Committee who has a pecuniary interest in any matter with which the Council is concerned and who is present at a meeting of the Council or Committee at which the matter is being considered must disclose the nature of the interest to the meeting as soon as practicable.
- The Councillor or member must not be present at, or in sight of, the meeting of the Council or Committee:
 - (a) at any time during which the matter is being considered or discussed by the Council or Committee, or
 - (b) at any time during which the Council or Committee is voting on any question in relation to the matter.

No Knowledge - a person does not breach this Clause if the person did not know and could not reasonably be expected to have known that the matter under consideration at the meeting was a matter in which he or she had a pecuniary interest.

Participation in Meetings Despite Pecuniary Interest (S 452 Act)

A Councillor is not prevented from taking part in the consideration or discussion of, or from voting on, any of the matters/questions detailed in Section 452 of the Local Government Act.

Non-pecuniary Interests - Must be disclosed in meetings.

There are a broad range of options available for managing conflicts & the option chosen will depend on an assessment of the circumstances of the matter, the nature of the interest and the significance of the issue being dealt with. Non-pecuniary conflicts of interests must be dealt with in at least one of the following ways:

- It may be appropriate that no action be taken where the potential for conflict is minimal. However, Councillors should consider providing an explanation of why they consider a conflict does not exist.
- Limit involvement if practical (eg. Participate in discussion but not in decision making or vice-versa). Care needs to be taken when exercising this option.
- Remove the source of the conflict (eg. Relinquishing or divesting the personal interest that creates the conflict)
- Have no involvement by absenting yourself from and not taking part in any debate or voting on the issue as if the provisions in S451 of the Local Government Act apply (particularly if you have a significant non-pecuniary interest)

RECORDING OF VOTING ON PLANNING MATTERS

Clause 375A of the Local Government Act 1993 – Recording of voting on planning matters

- (1) In this section, **planning decision** means a decision made in the exercise of a function of a council under the Environmental Planning and Assessment Act 1979:
 - (a) including a decision relating to a development application, an environmental planning instrument, a development control plan or a development contribution plan under that Act, but
 - (b) not including the making of an order under Division 2A of Part 6 of that Act.
- (2) The general manager is required to keep a register containing, for each planning decision made at a meeting of the council or a council committee, the names of the councillors who supported the decision and the names of any councillors who opposed (or are taken to have opposed) the decision.
- (3) For the purpose of maintaining the register, a division is required to be called whenever a motion for a planning decision is put at a meeting of the council or a council committee.
- (4) Each decision recorded in the register is to be described in the register or identified in a manner that enables the description to be obtained from another publicly available document, and is to include the information required by the regulations.
- (5) This section extends to a meeting that is closed to the public.

BYRON SHIRE COUNCIL
INTERNAL AUDIT ADVISORY COMMITTEE MEETING

BUSINESS OF MEETING

- 1. APOLOGIES**
- 2. DECLARATIONS OF INTEREST – PECUNIARY AND NON-PECUNIARY**
- 3. ADOPTION OF MINUTES FROM PREVIOUS MEETINGS**
 - 3.1 Internal Audit Advisory Committee Meeting held on 12 May 2016
- 4. BUSINESS ARISING FROM PREVIOUS MINUTES**
- 5. STAFF REPORTS**

Corporate and Community Services

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Organisation Development

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STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES**Report No. 5.1****Review of Paid Parking****Directorate:**

Corporate and Community Services

Report Author:

James Brickley, Manager Finance

Tony Nash, Manager Works

File No:

I2016/518

Theme:

Corporate Management

Governance Services

Summary:

Council has introduced an expanded paid parking scheme within the CBD of Byron Bay that commenced operations in December 2015. Council on 9 May 2015 engaged its External Auditor, Thomas Noble and Russell to conduct a review around the procedures/controls associated with the expanded paid parking scheme.

This report is provided to the Internal Audit Advisory Committee to consider the factual findings report from Thomas Noble and Russell relating to Paid Parking including report recommendations and associated Management responses.

RECOMMENDATION:

That recommendations contained in the factual findings report regarding Paid Parking and associated Management comments be noted by Council.

Attachments:

- 1 Confidential - Paid Parking Review Report July 2016 provided by Thomas Noble and Russell, E2016/73990

Report

Council has introduced an expanded paid parking scheme within the CBD of Byron Bay that commenced operations in December 2015. Council on 9 May 2015 engaged its External Auditor, Thomas Noble and Russell to conduct a review around the procedures/controls associated with the expanded paid parking scheme.

This report is provided to the Internal Audit Advisory Committee to consider the factual findings report from Thomas Noble and Russell relating to Paid Parking including report recommendations and associated Management responses.

Specifically, in respect of the expanded paid parking scheme, Council requested Thomas Noble and Russell to undertake the following:

1. Review the process of reconciling paid parking revenue recorded at Council's bank account in terms of coins and credit cards compared to parking meter software.
2. Review the current process of cash collection from parking meters involving Council staff and contractor from the parking meter to the bank.
3. Review the process of granting paid parking exemptions for both residents and workers and reconciling exemption permit revenue to permits issued.
4. Review the user access controls to Parkfolio, the Paid Parking software.
5. Identify any recommendations for control or system improvements generally.

As background, the expanded paid parking scheme aside from providing a mechanism to control parking will also be a substantial contributor to Council's own source revenue. The expanded paid parking scheme is one of the contributors to Council's Fit for the Future response, is a new operation in its expanded form, and given the projected revenue yields it is important that processes/controls are reviewed.

Following the review undertaken by Thomas Noble and Russell, Council has received a report of factual findings concerning paid parking. This report is provided at confidential attachment 1. Outlined in this report are the recommendations that Thomas Noble and Russell have provided and a Management response in regard to each recommendation as follows:

Item 1	Review the process of reconciling paid parking revenue recorded at Council's bank account in terms of coins and credit cards compared to parking meter software.
Report Recommendation	<p>a) introduce policies and procedures relating to the collection, banking and reconciliation of paid parking revenue. The policies and procedures should contain guidelines including but not limited to:</p> <ul style="list-style-type: none"> i) on how to reconcile cash, credit cards and parking exemptions (including accounting for timing differences between bank clearance times v Council operating hours); ii) how to identify and account for voided / cancelled transactions; iii) processes for receipting and banking exempt parking application payments; iv) the nature and frequency of exception reporting; v) reconciliation preparation timeliness; vi) reconciliation review processes, and vii) parking revenue analysis and reporting processes.

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STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

5.1

	<p>b) liaise with the APARC to obtain an understanding of how the parking meter works in terms of recording transactions where cash tendered exceeds the payment required/ maximum capped amount etc, and how these affect the reconciliation. Council should consider whether a report from the vendor can be obtained showing the cash “overs” per machine to support variances between meter reports and the amount banked.</p>
Management Response:	<p>Agree with report recommendations.</p> <p>In terms of recommendation a) items (i) to (vii), all of these things are occurring as the paid parking scheme is operational but they are yet to be formally mapped as a process. This will be done as part of the a review of finance processes currently proposed to be mapped in Council’s process mapping software Promapp.</p> <p>With regard to recommendation b), discussion will be held with APARC to ascertain the workings of the parking meters in terms of payments received greater then that required along with availability of reporting to identify differences between meter reports and amounts banked.</p>

Item 2	Review the current process of cash collection from parking meters involving Council staff and contractor from the parking meter to the bank
Report Recommendation	There was no recommendation provided for this item. A detailed observation is outlined though in Confidential Attachment 1.
Management Response:	Not applicable

Item 3	Review the process of granting paid parking exemptions for both residents and workers and the reconciling of exemption permit revenue to permits issued.
Report Recommendation	<p>1.2 review the Simplepay payment gateway options to allow other methods of payment such as direct debit and Bpay to minimise manual processing and risk of error.</p> <p>1.3 consider the ability to limit fields in Ticketor to set formats for example, number of digits in a phone number, and make the email address field a mandatory field.</p> <p>1.4 consider whether there is a possibility to link Ticketor with Centrelink data to automatically verify pension card or blue card holders. Where benefits exceed cost, Council staff should verify documents submitted online before an exemption is granted. If this process is not cost beneficial, Council should consider establishing procedures to perform spot checking on exemption applications so that ineligible exemptions can be reviewed / revoked.</p> <p>1.5 consider embedding all the addresses within the Shire in Ticketor so the system can auto validate exemptions are granted for residents within the shire.</p>

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5.1

	<p>1.6 Council should liaise with the Parkfolio vendor to provide better reporting functionality relating to parking exemption applications and renewals.</p> <p>1.7 identify the key reporting requirements (daily, weekly, monthly) for internal management purposes as well as addressing common complaints raised by residents and liaise with the vendor to assess whether this reporting functionality can be obtained/designed within the system.</p>
Management Response:	<p>1.2 This is being investigated at the moment with APARC</p> <p>1.3 The email field is now mandatory. Setting the formats of phone numbers still needs to be investigated with APARC.</p> <p>1.4 This has been actioned and completed. A copy of the pension card or blue card has to be provided at the time of submitting the exemption application.</p> <p>1.5 This will need to be investigated with APARC.</p> <p>1.6 This has been completed as reporting is now available for renewals and parking exemption applications.</p> <p>1.7 A reporting matrix of the type of report and its frequency has still to be developed. Common problems are being investigated with APARC as they arise and resolved as soon as possible, eg, removal of the need to enter number plates into the meters for holders of exemption permits</p>

Item 4	Review the user access controls to the Paid Parking Software
Report Recommendation	<p>We recommend Council designate an in-house System Administrator for the Parkfolio Software. This Administrator should be responsible for the maintenance of Parkfolio users (adding, deleting, regular review) and ensuring that users are appropriately verified and approved prior to access being granted.</p> <p>The System Administrator should also be tasked to evaluate the relevance of the access levels granted to the users and be responsible for monitoring user logs and other relevant activity. We also recommend a documented process on how users are added and removed be developed as well as the required monitoring activities.</p>
Management Response:	<p>A salary allocation has been provided in the budget for 2016/17 for the new position of <i>Pay Parking Systems Officer</i>. The position description and salary grading assessment are in progress so that the recruitment process can commence in the near future.</p> <p>This position will be responsible for granting access to system users, monitoring user logs, relevant activity and documenting and reviewing the associated processes.</p>

Item 5	Identify any recommendations for control or system improvements generally
Report Recommendation	No recommendations provided other than those identified in Items 1 to 4 above.
Management Response:	Not applicable

Financial Implications

- 5 There are no financial implications associated with this report. It is expected the recommendations suggested in this report from the review of Paid Parking will be implemented within existing budget allocations.

Statutory and Policy Compliance Implications

- 10 In regard to keeping accounting records, Section 412 of the Local Government Act 1993 requires Council to do the following:

(1) A council must keep such accounting records as are necessary to correctly record and explain its financial transactions and its financial position.

- 15 *(2) In particular, a council must keep its accounting records in a manner and form that facilitate:*
(a) the preparation of financial reports that present fairly its financial position and the results of its operations, and
(b) the convenient and proper auditing of those reports.

- 20 The factual findings report subject of this report provides an independent view on the controls and processes in place surrounding the paid parking scheme and assists with this legislative requirement.

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Report No. 5.2
Directorate: Corporate and Community Services
Report Author: Jessica Orr, Corporate Governance and Risk Management Officer
File No: I2016/716
5 **Theme:** Corporate Management
Governance Services

Summary:

10 Council's Internal Auditors, Grant Thornton, conducted Internal Audit Procurement Review during May 2016.

15 The purpose of this report is to table the Internal Audit Report on the Procurement Review. A copy of the Report is included at Attachment 1.

The report includes the findings made by Grant Thornton and responses from Management to the findings.

RECOMMENDATION:

1. **That the Internal Audit Report – Procurement Review - May 2016 at Attachment 1 (#E2016/74473) be noted by Council along with responses and actions detailed by Management.**
2. **That Management implement the recommendations made in the report identified at Attachment 1 (#E2016/74434).**

20 **Attachments:**

- 1 Confidential - Byron Shire Council IA Report - Procurement (FINAL), E2016/74473

Report

Council's Internal Auditors, Grant Thornton, undertook an Internal Audit Review of Procurement during May 2016. This review was part of the adopted Internal Audit Plan for Council.

The purpose of this report is to table the "Internal Audit Report – Procurement Review - May 2016" for consideration by the Internal Audit Committee. A copy of the report is attached at Annexure 1.

The report includes the findings made by Grant Thornton and responses from Management to the findings. The report by Grant Thornton provides an overall rating. The Review was given an overall rating of 'Needs Improvement' (per definition meaning: "Significant control weaknesses were noted which if not addressed, may result in material exposure.")

Further identified in "Internal Audit Report – Procurement Review - May 2016", were the findings, which have been detailed below.

Detailed Findings

- | | | |
|----|-----------------------------------|-----------------------------------|
| 1. | Purchasing Process | (Rating: High) |
| 2. | Raising of Purchase Orders | (Rating: High) |
| 3. | TRIM | (Rating: High) |
| 4. | Delegations of Authority | (Rating: Moderate) |
| 5. | Procurement and Purchasing Policy | (Rating: Low) |
| 6. | Code of Conduct Training | (Rating: Performance Improvement) |
| 7. | Crystal Reporting | (Rating: Performance Improvement) |

Financial Implications

There are no financial implications associated with this report. There may be financial implications resulting from the implementation of the recommendation from the Internal Auditor, which will be met from existing budgets or, where required, reported to Council for the allocation of budget, to implement the recommendation or actions determined as a result of any investigation.

Statutory and Policy Compliance Implications

This Review was undertaken in accordance with the adopted Internal Audit Strategy and Audit Plan.

Report No. 5.3 **Interim Audit Management Letter 2016**
Directorate: Corporate and Community Services
Report Author: James Brickley, Manager Finance
File No: I2016/779
5 **Theme:** Corporate Management
 Financial Services

Summary:

10 Council has received an Interim Audit Management Letter from its External Auditors, Thomas Noble and Russell relating to the 2016 audit. The Audit Management Letter details two items for management to consider and provides recommendations to improve internal controls and systems.

15 Each of the items raised in the Interim Audit Management Letter 2016 have been itemised in this report for consideration by the Internal Audit Advisory Committee.

RECOMMENDATION:

That the comments provided by Management in response to matters raised in the 2016 Interim Audit Management Letter be noted by Council.

Attachments:

- 20 1 Confidential - Interim Audit Management Letter 2016 received from Thomas Noble and Russell including Management Comments, E2016/66252

Report

Council has received an Interim Audit Management Letter following the interim audit for 2016 by its external auditors, Thomas Noble and Russell. Full details of this letter are contained at Confidential Attachment 1 along with comments provided by Management which have been replicated below in this report for the Internal Audit Advisory Committee to consider.

Resulting from the Interim Audit Management Letter for 2016 are two matters where audit findings have been identified. Each matter also contains a recommendation for Management to consider, with a view to improving the internal controls and documentation which support Council's reported financial statements. Indicated in the table below is a priority/risk matrix developed by Thomas Noble and Russell to express an opinion as to the importance of audit matter findings:

Priority Rating	Impact
(H) High	<ol style="list-style-type: none"> 1. Matters which pose a significant business or financial risk to the entity and should be addressed urgently, and/or 2. Matters that have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity.
(M) Moderate	<ol style="list-style-type: none"> 1. Matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed within the current financial year. 2. Matters that may escalate to high risk if not addressed promptly. 3. Low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed. 4. Items that have been identified by external audit where material inefficiencies are occurring. 5. Matters where regulatory obligations have been identified that do not pose a material, financial or regulation risk to the entity, and/or 6. Matters where there is a scope for fraud and corruption without address by management.
(L) Low	<ol style="list-style-type: none"> 1. Matters that are isolated, non-systemic or procedural in nature, and/or 2. Matters that reflect relatively minor administrative shortcomings and could be addressed in the context of the entity's overall control environment. 3. Business improvement observations.

Provided in the table below is a summary of the two matters raised subject to audit findings in the Interim Audit Management Letter 2016. A further column is provided against each matter identifying the priority/risk referred to in the table above, assigned to the audit matter finding by Thomas Noble and Russell:

Audit Matter Finding	Risk Rating
Item 2.1 Governance - Policies and Procedures	Low
Item 3.1 Payroll and Human Resources – Segregation of Duties	Low

Management have considered the Interim Audit Management Letter 2016 and in respect of the two audit matter findings, offers the following responses to the recommendations provided. These responses and have been inserted into the Management Letter to Thomas Noble and Russell as detailed at Confidential Attachment 1.

Item 2.1	Governance – Policies and Procedures
Risk Rating	Low
Audit Recommendation	<p>We recommend that the governance processes relating to the review and update of policies be examined to ensure all policies are subject to review in accordance with the established timetable.</p> <p>For example we noted that the following policies have not been reviewed for some time:</p> <ul style="list-style-type: none"> ▪ Debt recovery policy ▪ Loan borrowing policy, and ▪ Procurement policy <p>We also noted that Council does not have policies relating to:</p> <ol style="list-style-type: none"> 1) compliance with laws and regulations; and 2) managing disputes, claims and litigation. <p>Council may consider the introduction of the abovementioned policies to enhance its governance and risk management framework.</p>
Management Response:	Management have already instituted a process for policy review and the Executive Team is monitoring progress on a monthly basis. Currently there are nineteen policies identified in the first tranche.

Item 3.1	Payroll and Human Resources – Segregation of Duties
Risk Rating	Low
Audit Recommendation	<p>We recommend that the following be considered as part of the restructure:</p> <ol style="list-style-type: none"> 1. Human resources personnel be responsible for maintaining information in the payroll masterfile and have no payroll processing rights, and 2. Payroll be responsible for processing payroll information and have no access to the payroll masterfile.
Management Response:	<p>This issue was considered as part of the recent transfer of the payroll function from the Finance Team to the People and Culture Team. As part of that consideration is that the Manager Finance will continue to review changes to the payroll masterfile whom is independent of the payroll function and to maintain adequate separation. It is not operationally efficient that payroll staff cannot amend payroll masterfile records whilst processing any given pay cycle. As a further separation control, payroll staff do not have access to transfer the payroll disbursements file from Council's bank account. This matter was also subject to review by Council's Internal Auditors in September 2012 and reported to the Internal Audit Advisory Committee on 6 November 2012. The recommendation at that time is now the current practice. Management are of the view this recommendation is not necessary and propose not to implement it.</p>

Financial Implications

- 5 There are no financial implications associated with this report. It is expected the adoption of the recommendations suggested in this report and their implementation would be met from existing budget allocations.

Statutory and Policy Compliance Implications

- 10 In regard to keeping accounting records, Section 412 of the Local Government Act 1993 requires Council to do the following:

(1) A council must keep such accounting records as are necessary to correctly record and explain its financial transactions and its financial position.

- 15 *(2) In particular, a council must keep its accounting records in a manner and form that facilitate:*
(a) the preparation of financial reports that present fairly its financial position and the results of its operations, and
(b) the convenient and proper auditing of those reports.

- 20 The issue of an Audit Management Letter provides an independent view on the controls and systems in place surrounding its accounting records.

Report No. 5.4
Directorate: Corporate and Community Services
Report Author: James Brickley, Manager Finance
File No: I2016/715
Theme: Community Infrastructure
Asset Management

Summary:

The Office of Local Government issued Circular 15-29 on 20 July 2015 regarding Auditing of the Report on Infrastructure Assets (Special Schedule 7). This Circular required all Councils in NSW to complete a self-assessment using the *Asset Management Audit Preparedness Assessment 2015 Workbook*. Once the self-assessment was completed, it was required to be referred to a Councils External Auditor for review and then submission to the Office of Local Government initially by 30 November 2015.

This report is provided to advise the Internal Audit Advisory Committee of the Asset Preparedness Audit and its outcomes for Byron Shire Council with respect to Special Schedule 7.

RECOMMENDATION:

That the Internal Audit Advisory Committee consider the report on the Asset Preparedness Audit in relation to Special Schedule 7 be considered and referred to Council to note the report.

Attachments:

1 Confidential - Byron Shire Council Special Schedule 7 Review Report, E2016/66254

Report

The Office of Local Government issued Circular 15-29 on 20 July 2015 regarding Auditing of the Report on Infrastructure Assets (Special Schedule 7). This Circular required all Councils in NSW to complete a self-assessment using the *Asset Management Audit Preparedness Assessment 2015 Workbook*. Once the self-assessment was completed, it was required to be referred to a Councils External Auditor for review and then submission to the Office of Local Government initially by 30 November 2015.

This report is provided to advise the Internal Audit Advisory Committee of the Asset Preparedness Audit in respect of Special Schedule 7 and its outcomes for Byron Shire Council.

The intent of this audit was to provide the Office of Local Government an indication as to the maturity of all Council's in NSW in respect of their Asset Management assessed against eleven questions. Councils were requested to do a self assessment against each question and to rank its compliance level as either Low, Moderate and High. This was due to the requirement that Special Schedule 7 was to be subject to external audit for the 2015/2016 financial year.

The outcomes for Byron Shire Council are contained at Confidential Attachment 1 in the review report prepared by Thomas Noble and Russell. This report has been requested by the Office of Local Government to be kept confidential and not released to the public. In addition, Council's Auditors have requested the report not be released to any other party without their prior written consent.

The initial timing of the audit was difficult for Councils as it was required at a time where Councils were still finalising their 2014/2015 financial statements which also made it difficult for Council Auditors completing audits on the financial statements and statement of compliance (rating) at the same time.

Since the audit results have been referred to the Office of Local Government, the Office of Local Government has been conducting briefings across NSW in conjunction with the Institute of Public Works Engineering Australia (IPEWA). It is clear there is still work to do around the definitions within Special Schedule 7 to ensure the information provided is consistent and can be compared between Councils. This is also important to allow Auditors to provide assurance and an audit opinion on Special Schedule 7. The consequence of this is that the audit of Special Schedule 7 to apply from the 2015/2016 financial year has been deferred and it is not known when audits are to commence.

As part of the briefing offered by the Office of Local Government, there were some interesting results from across NSW. At the time of the 166 Councils that responded, the Office of Local Government indicated the following:

- 57% of Councils do not have asset management systems that are effectively integrated into the business structure and processes.
- 45% of Council do not collect and use asset lifecycle cost data.
- 38% of Council do not have comprehensive asset register covering all its assets.
- 37% of Council do not have long term asset management plans in place for assets.
- 32% of Council do not collect asset condition data for each asset class.
- 29% of Council do not collect appropriate level of data to make informed decisions about its assets.
- 24% of Councils have asset valuation data that is not current.

Whilst Byron Shire Council still has considerable work to do around asset management, the data collected by the Office of Local Government outlined above indicates that all Councils have

significant work to do. It also gives perspective as to where Byron Shire Council is positioned in terms of its Asset Management maturity relative to others.

Financial Implications

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There are no financial implications associated with this report.

Statutory and Policy Compliance Implications

- 10 Local Government Code of Accounting Practice and Financial Reporting.
Office of Local Government Circular 15-29 *Auditing of the Report on Infrastructure Assets (Special Schedule 7)*

Report No. 5.5 **Internal Audit Progress Report August 2016**
Directorate: Corporate and Community Services
Report Author: Jessica Orr, Corporate Governance and Risk Management Officer
File No: I2016/791
5 **Theme:** Corporate Management
 Governance Services

Summary:

10 This report has been prepared to allow the Internal Audit Committee to consider the Internal Audit Report (August 2016) prepared by the Internal Auditor, Grant Thornton.

RECOMMENDATION:

That Council receive and note the Internal Audit Report – Audit Committee (August 2016) (#E2016/74474) prepared by the Internal Auditor, Grant Thornton.

Attachments:

- 15
- 1 Confidential - FINANCIAL MANAGEMENT - AUDIT - Internal Auditor Correspondence - 2015/2016, E2016/74474

Report

This report has been prepared to allow the Internal Audit Committee to consider the Internal Audit Progress Report (August 2016) prepared by the Internal Auditor, Grant Thornton.

5

A copy of the Internal Audit Progress Report has been included as Attachment 1 to this report.

The Internal Audit Progress Report have been prepared to include an update on the following:

- 10
- Status of Agreed Actions from Prior Audits
 - Status update on the implementation of agreed actions from previous Internal Audit Review Reports.
- 15
- The Internal Auditor will be available at the meeting to answer any questions associated with the Report.

Financial Implications

- 20
- There no financial implications associated with this report.

Statutory and Policy Compliance Implications

- 25
- The performance of the Internal Audit Services is required to be undertaken in accordance with the terms and conditions of Internal Audit Services Contract 2013-0024. These terms and conditions require consideration of the NSW Department of Premier and Cabinet, Division of Local Government, Internal Audit Guidelines and compliance with the associated professional accounting and audit standards.

Report No. 5.6 **Internal Audit Report - Developer Contributions Review**
Directorate: Corporate and Community Services
Report Author: Mark Arnold, Director Corporate and Community Services
File No: I2016/868
5 **Theme:** Corporate Management
 Governance Services

Summary:

10 Council's Internal Auditors, Grant Thornton, conducted a Developer Contributions Review during July 2016.

15 The purpose of this report is to table the final Internal Audit Report on the Developer Contributions Review. A copy of the Report is included at Attachment 1.

The report includes the findings made by Grant Thornton and responses from Management to the findings.

RECOMMENDATION:

1. **That the Internal Audit Report – Developer Contributions Review - July 2016 at Attachment 1 (#E2016/74707) be noted by Council along with responses and actions detailed by Management.**
2. **That Management implement the recommendations made in the report identified at Attachment 1.**

Attachments:

- 20 1 Confidential - Developer Contributions Report - Byron Shire Council (BSC) FINAL, E2016/74707

Report

Council's Internal Auditors, Grant Thornton, undertook an Internal Audit Review of Developer Contributions during July 2016. This review was part of the adopted Internal Audit Plan for Council.

5 The purpose of this report is to table the "*Internal Audit Report – Developer Contributions Review - July 2016*" for consideration by the Internal Audit Committee. A copy of the report is attached at Annexure 1.

10 The report includes the findings made by Grant Thornton and responses from Management to the findings. The report by Grant Thornton provides an overall rating. The Review was given an overall rating of **Acceptable** (per definition meaning: "*Overall a good framework in place. Some improvements identified, which would further strengthen the overall control environment*").

15 Further identified in "*Internal Audit Report – Development Assessments Review - February 2016*", were the findings, which have been detailed below.

Detailed Findings

- | | | |
|----|---|---|
| 20 | 1. Determination of Contributions | (Rating: Moderate) |
| | 2. Review of Privately Certified CCs and CDCs | (Rating: Moderate) |
| | 3. Procedures | (Rating: Low) |
| | 4. Contributions Register | (Rating: Low) |
| 25 | 5. Contributions Calculators | (Rating: Performance Improvement) |

Financial Implications

30 There are no financial implications associated with this report. There may be financial implications resulting from the implementation of the recommendation from the Internal Auditor, which will be met from existing budgets or, where required, reported to Council for the allocation of budget, to implement the recommendation or actions determined as a result of any investigation.

Statutory and Policy Compliance Implications

35 This Review was undertaken in accordance with the adopted Internal Audit Strategy and Audit Plan.

STAFF REPORTS - INFRASTRUCTURE SERVICES

Report No. 5.7 Update of Actions for Inventory Control Internal Audit

Directorate: Infrastructure Services

Report Author: Tony Nash, Manager Works

File No: I2016/735

Theme: Community Infrastructure
Depot and Fleet Management

Summary:

To advise the committee of the completion of all the recommendations from the Inventory Control Internal Audit.

RECOMMENDATION:

That the Committee note the completion of the management actions for all the recommendations from the Internal Audit for Inventory Control.

Report

5 There were discussions at the Internal Audit Committee at its meeting on 12 May 2016 about the recommendations and management actions from the internal audit into Inventory Control. All recommendations have been actioned and are now marked as complete.

This report provides an update of the completion of the recommendations and management actions in the following tables:

1. Physical Security	Rating of audit finding: Low
Recommendation(s)	Original Management Comments & Progress Update
<p>Despite being locked at all times and not experiencing any known thefts, the Store's after hours surveillance and monitoring requires further upgrades.</p> <p>It is recommended that:</p> <ul style="list-style-type: none"> Access to the depot be restricted by ensuring the two main gates remain locked at all times. Visitor parking to also be removed from within the premises. Further enhancements to Council's security systems, particularly within and around the store should be investigated. This includes the implementation of CCTV monitoring of the facility. 	<p>Progress Update (August 2016):</p> <p>Management has decided to engage a consultant to look at a number of things around the Byron Bay depot and the access and security will be added to the brief. Target date for completion of consultancy unknown at this time.</p> <p>Status:</p> <p>Complete</p>

10

1. Segregated Stores Operations	Rating of audit finding: High
Recommendation(s)	Original Management Comments & Progress Update
<p>All stock items contained in the Water & Sewer Store should be transferred to the Store and recorded within Authority. The Water & Sewer Department should no longer maintain a supply outside of the Store and instead request after-hours access to the Store in the event of an emergency.</p> <p>Alternatively, the Water & Sewer Department can continue to operate the Water & Sewer Store but only keep very limited number of stock at hand for purely emergency purposes. These emergency items should also be recorded in Authority either as part of the overall inventory and be booked out to a temporary suspense account until the items are used.</p>	<p>The alternate action is preferred where Utilities (Water & Sewer) and all other operational areas maintain a minimum, limited number of stock items for emergency purposes, recorded in Authority and booked out to a suspense account until used on works.</p> <p>Increased after hours access to the Store by operational staff is not supported by management.</p> <p>Progress Update (August 2016):</p> <p>This item is now complete. All water fittings in former Utilities Unofficial Store have are now in main depot store. Reduced stock for emergency purposes kept in Utilities area.</p> <p>Status:</p> <p>Complete</p>

2. Stock Monitoring Reports	Rating of audit finding: High
Recommendation(s)	Original Management Comments & Progress Update
<p>It is recommended that:</p> <ol style="list-style-type: none"> 1. A regular reporting and analysis of slow moving stock items be conducted. The report should be generated from Authority and the analysis performed at the time of the stocktakes 2. Any stock items deemed to be obsolete should be written off, following appropriate independent approval and be properly disposed of 3. A report providing details of fast moving stock items should also be produced with specific emphasis on items that are reusable and those with a high personal value. <p>A documented procedure for the disposal of obsolete stock should be developed and staff should be advised that allocating obsolete stock items to unrelated large plant items is not accepted. The procedure should also provide clear guidance on how best to dispose of a stock item (e.g. auction etc.), the required approval and the accounting procedure.</p>	<ol style="list-style-type: none"> 1. It is believed that this slow moving stock report should be run at annual stocktake and then at 6 monthly intervals. <i>At stocktake in May each year and thence at 6 monthly intervals in November each year.</i> 2. Management agrees with this recommendation. It is proposed that reports be run at 6 monthly intervals. Disposal to be in accordance with the documented procedure to be developed, as detailed below. <i>6 monthly intervals at February and August each year.</i> 3. Management agrees with this recommendation. It is proposed that reports be run at 6 monthly intervals. <i>6 monthly intervals at February and August each year.</i> <p>Management agrees with this recommendation. The documented procedure will be developed with consideration of the existing procedure / policy for disposal of Council assets.</p> <p>It is agreed that the previous practice, unknown to management, of writing stores items off against large plant items is not correct and has already been stopped.</p> <p>Progress Update (August 2016):</p> <p>Store Operating Manual Updated to include the regular preparation of these reports. Reports completed in May 2016 and those for November 2016 have been scheduled.</p> <p>Status:</p> <p>Complete</p>
3. Fuel Monitoring	Rating of audit finding: High
Recommendation(s)	Original Management Comments & Progress Update

3. Fuel Monitoring	Rating of audit finding: High
Recommendation(s)	Original Management Comments & Progress Update
<p>In the short term, Council are encouraged to further strengthen existing controls, such as:</p> <p>3a Fit locks on the diesel tanks</p> <p>3b Implement a process that segregates access to the tanks only to employees with overall responsibility, i.e. Stores Officer or Stores Assistant</p> <p>3c Emphasise importance of accurately completing the fuel book</p> <p>3d Closer monitoring of discrepancies and their source.</p> <p>3e In the long term, the potential for an electronic monitoring system should also be investigated. The system should allow for integration with Authority which will remove the inaccuracies currently being experienced through the use of a manual entry fuel book.</p> <p>3f A suspense account should also be established within Authority to temporarily account for the fuel contained within the portable fuel tank. Once a relevant job number has been obtained for the fuel from the portable tank, the Stores Officer can then start properly allocating the fuel within the suspense account.</p>	<p>3a Management agrees with this recommendation.</p> <p>3b This is not supported by management.</p> <p>The proposal is to have Stores staff issue the key to the bowser to staff, who will fill their tanks and then return the key to the Store and fill out the fuel book with the petrol volume taken.</p> <p><i>Note: The alternative approach is found acceptable by Grant Thornton.</i></p> <p>3c This will be done in conjunction with informing staff about the locking of the bowser and the issue and return of the key to the Store for each fuel transaction.</p> <p>3d To be done more frequently but only implemented after changes above to locking of the bowser have been completed.</p> <p>3e Management agrees with this recommendation but it is constrained by the current investigations into the possible relocation of the depot and the sale of this site.</p> <p>Workshop & Stores Superintendent currently investigating the option of purchase of new above ground tanks to replace aging and poor condition infrastructure, which will incorporate electronic monitoring systems for fuel transactions.</p> <p>3f Management agrees with this recommendation.</p> <p>The recommendation of the use of a suspense account and the option of receipting to the tank and reversing stock issues to plant items receiving the fuel will be investigated with Finance staff to determine the best solution.</p> <p>Progress Update (August 2016):</p> <p>3a Locks have been fitted.</p> <p>3b Keys issued by Stores staff to employees to fill plant with fuel. Bowser is locked by employee who returns key to store and provides the quantity of fuel issued, plant number and odometer reading to enable store issue to be completed online.</p> <p>3c Memo issued to all operational staff about the changes to the issue of fuel at the depot and the importance of providing the correct information to Stores staff.</p> <p>3d Fuel is reconciled weekly and also monthly at the time of bulk delivery of diesel fuel.</p>

3. Fuel Monitoring	Rating of audit finding: High
Recommendation(s)	Original Management Comments & Progress Update
	<p>3e The issue of new tanks and an electronic monitoring system will be investigated as part of the management decision to engage a consultant to look at a number of things around the Byron Bay depot.</p> <p>3f Fuel dispensed to the portable tank is issued online in Authority to the tank plant item and when fuel from this tank is dispensed to other plant item then an issue in Authority is made to this plant item and a corresponding credit made in Authority to the tank plant item.</p> <p>Status:</p> <p>Complete</p> <p>Comments:</p> <p>At the May 2016 stocktake, the difference between the book quantity and the actual quantity of ULP and Diesel and its value was:</p> <p>ULP 107litres \$117</p> <p>Diesel 93 litres \$87</p> <p>The total quantity of fuel issued in the 12 months prior to the stocktake and the difference shown as a % is:</p> <p>ULP 7,500 litres, stocktake difference 1.4 %</p> <p>Diesel 251,600 litres, stocktake difference 0.04 %</p> <p>It is considered that the actions completed have tightened controls in this area of the stores operations.</p>

4. Minimum Stock Levels	Rating of audit finding: Moderate
Recommendation(s)	Original Management Comments & Progress Update
<p>4a It is recommended that minimum stock levels be entered for all stock items.</p> <p>4b Council should also consider investigating whether the Authority system will allow for an automated alert function when a stock item falls below the minimum stock level.</p>	<p>Progress Update (August 2016):</p> <p>4a minimum stock levels have been entered for all stock items</p> <p>4b. When a stock item reaches its minimum quantity level, Authority automatically triggers the item for re-ordering, by listing it on a number of reports, including the "Re-Order Summary" which is processed at a minimum once daily by the Store Purchasing Officer. This is the Purchasing Officer's principal tool</p>

4. Minimum Stock Levels	Rating of audit finding: Moderate
Recommendation(s)	Original Management Comments & Progress Update
	<p>in managing purchasing of stock. This also instigates an assessment of the minimum and maximum quantities due to previous usage by that officer, to maintain appropriate stock levels.</p> <p>Authority does not have an automated alert function when a stock item falls below the minimum stock level.</p> <p>Status:</p> <p>Complete</p>

5. Store Requisition Forms	Rating of audit finding: Moderate
Recommendation(s)	Original Management Comments & Progress Update
<p>The Stores Officer should enforce the requirement to complete a requisition form prior to releasing a stock item.</p> <p><i>Note: It is understandable that there may be instances of urgency where stock is required without time to complete a requisition form but these are in the minority. Where stock is required in such a short timeframe, a requisition form should be required to be completed after the emergency has concluded.</i></p>	<p>Progress Update (August 2016):</p> <p>The issue of stores items requires the completion of a requisition form prior to releasing a stock item and the signature of an approving officer before Stores staff will issue any goods. Stores staff have been directed by the Manager Works not to deviate from this approval requirement.</p> <p>Status:</p> <p>Complete</p>

Financial Implications

5

There are no negative implications proposed in this report.

Statutory and Policy Compliance Implications

10

There are no negative implications proposed in this report.

STAFF REPORTS - ORGANISATION DEVELOPMENT

Report No. 5.8 **Investigation into serious misconduct by a former staff member relating to cash handling**

Directorate: Organisation Development

Report Author: Shannon McKelvey, Executive Manager, Organisation Development

File No: I2016/684

Theme: Corporate Management

 Organisation Development

Summary:

This report provides details and recommendations following an investigation into cash handling anomalies identified and acted on in February 2016.

RECOMMENDATION:

That Council note the report and that management are implementing the recommendations contained in it.

Attachments:

1 Confidential - Investigation Report 102.2016.3.1, E2016/13901

2 Thomas Noble Russell Factual Findings Report March 2016 , redacted , E2016/68072 , page 34

Report

Council became aware of potential cash handling anomalies on 17 February 2016 and immediately commenced an investigation which was concluded by the end of March 2016. The investigation consisted of an internal investigation as detailed in confidential Attachment 1 and an external review by Thomas Noble Russel as reported in confidential Attachment 2.

The investigation confirmed that there had been security lapses in Council's cash handling and reconciliation systems that had allowed one staff member to 'borrow' money from Council. There were a number of transactions over a 20 month period where money could have been borrowed from Council and repaid sometime later, ranging from 1 day up to 6 months and the investigation indicated:

- There were up to 13 identified transactions where it was *most likely or more likely than not* that Council money had been taken by a staff member for their personal use and in all but one case, the money had subsequently repaid to Council.
- All of the money owing from the identified transactions had been repaid to Council except one amount of \$681.00 which was still outstanding when the investigation started but which was recovered in full by Council.
- There was only 1 staff member involved in the misuse of Council funds.

Outcomes following the investigation included:

- (a) Immediate termination of employment of the staff member involved.
- (b) The identified outstanding amount of \$681.00 being recovered.
- (c) The matter being reported to the ICAC, who confirmed it was appropriate for Council to investigate and manage the matter itself.
- (d) Many systems changes implemented in February and March 2016 with further recommendations listed in Attachment 1 to this report which are in progress.

The investigation was finalised in late March 2016 and the delay in reporting to the IA Committee resulted from the author being on previously approved leave at the time of the IA Committee meeting in May.

Attached are:

1. Confidential investigation report which contains details about the scope, findings and information identified during, and the recommendations arising from the internal investigation. It is presented as a confidential document because it discloses the methodology the staff member used to perpetuate the misconduct as well as methodologies Council used to identify it, and for this same reason receipt and assessment numbers have been redacted from the below report.
2. Thomas Noble Russel Special Investigation Report of Factual Findings dated March 2016. Personnel information have been redacted from the report so it could be published.

While the matter did involve serious misconduct by one staff member, the investigation confirmed the honesty of, and responsibility shown by, the other staff involved in cashiering and financial services.

- 5 The recommendations which have either already been implemented or which are underway, address the matters identified by TNR in their independent report as well some additional opportunities identified by the internal investigation for improvement to cashiering and finance systems more broadly.

- 10 While opportunities for systems improvements have been identified and addressed by the recommendations, a pragmatic approach has been taken that is considered appropriate to the level of risk. Factors considered in formulating a pragmatic response included considering these few transactional systems the context of totality of all of Council's transactional systems and the volume of transactions that take place and that:

- 15
 - a) It was the 'borrowing' nature of the misconduct that primarily caused the delay in detection and the systems accounting for rates and charges would have more quickly identified theft.

 - b) Cash monies generally represent a small percentage of all transactions and that will continue to diminish with increasing e-commerce.

 - c) The volume of cash monies being processed outside of the rates and charges categories is generally low, comparable to overall Council revenue.

 - 25 d) All 'security' built into systems comes with a cost to Council, so the level of security built into cashiering systems has to be appropriate to the level of risk.

The recommendations from the internal investigation and TNR's independent investigation, with staff and timeframes allocated are as follows:

#	Action	Officer	Target	Comments
1.	The outcomes of the investigation be reported to Council's Internal Audit Committee.	EMOD	Aug 2016	Complete
Manual Receipting				
2.	The Cashier's Manual be updated and reissued to staff by Customer Service Coordinator with support from Revenue Accountant and Manager Finance to address the recommendations.	Customer Services Coordinator (CSC), Manager Finance & Revenue Accountant	Sept 2016	
3.	For front counter cashiering:			
	a. All the former manual receipt books be made redundant and returned to Manager Finance;	Manager Finance		Complete
	b. Manual receipts be used for receipting cash only during power outages or Authority System outages;	CSC	Commenced	Include in Manual
	c. Only 1 new Manual Receipt book be issued to the Customer Service Coordinator who will be	Manager Finance		Complete

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STAFF REPORTS - ORGANISATION DEVELOPMENT

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	responsible for all usage of manual receipts and that receipt book should be stored daily in the safe with the cash floats. d. That Manual Receipt book be checked as part of the independent daily reconciliation to ensure that there are corresponding electronic entries on the day of or within 1 business day of the date of the manual receipt.	Manager Finance	Commenced	Include in Manual
Cash Floats				
4.	Cash Floats and Terminals are both allocated daily to individual officers who are responsible for ensuring balance of their receipts and floats at the end of each day. There is to be no sharing of terminals or floats under.	CSC	Commenced	Include in Manual
5.	Each officer assigned a Cash Float and Terminal be required to sign to verify their receipts, voided receipts, manual receipts and electronic transactions each day before they leave work for the day or, in the event of power failure before they start transactions on the following business morning.	CSC	Commenced	Include in Manual
Daily Reconciliations				
6.	Pragmatic business rules and systems for identifying, processing and reporting on cashiering imbalances be documented and communicated to cashiers and Finance Team members responsible for conducting daily reconciliations.	Manager Finance in consultation with CSC	August 2016	Include in Manual
7.	Finance Team continue to perform an independent daily reconciliation of front counter cashiering that includes reconciliation of electronic, manual and voided receipts, eftpos and credit transaction records and cash floats and document and process any imbalances as per the adopted business rules.	Manager Finance	Commenced	Include in Manual
8.	Finance Team to undertake random spot checks (during the day) of cash draws, manual receipts, voided receipts and cash float 'unders and overs' reporting be undertaken by Finance Team staff.	Manager Finance	Commenced	Minimum 6 per annum
Passcodes, Passwords and Keys				
9.	That passcode for the eftpos machine (and any others for transaction systems used in front counter cashiering) be changed and issued only to those staff who have duties that require them to enter the passcode.	CSC and Manager Finance	August 2016	
10.	Passcodes and passwords are to be reviewed and changed at times that the Customer Service	CSC & Manager	Commenced	This will be ongoing

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STAFF REPORTS - ORGANISATION DEVELOPMENT

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	Coordinator or Manager Finance consider are appropriate.	Finance		
11.	Keys to cash drawers and cash drawers to be kept secure by the cashier assigned that cash draw with staff notified that they are accountable for the contents of cash drawers assigned to them each day.	CSC	Commenced	Include in Manual
12.	That IT Services issue reminders to staff that they are responsible for their user name and system passwords security.	Manager IS	Completed	This will be ongoing
Cash and Safe Security				
13.	That the code to the cash safe be changed and access to the code given only to those staff who have responsibility for storing cash.	CSC and Manager Finance	August 2016	
14.	That each team who has responsibility for storing cash have their own passcode/key locked cash box/es to be stored in the central safe if there is room otherwise Council review the feasibility of having separate storage for different cash handling purposes. If multiple cash boxes are to be stored in the single safe, the passcodes/keys for each cash box being given only to members of the responsible team so that each cash box can be individually secure. Staff with access to safe and cash box passcodes/keys be advised of their responsibility for the security of the cash monies and passcodes/keys.	Relevant Managers	August 2016	
Authority Permissions				
15.	That a review of access permissions in the following Authority Modules be conducted in 2 stages (stage 1 for cashiering staff and stage 2 for all staff) and any inappropriate settings rectified: a. Credit Notes and Refund Entry under the Accounts Receivable/Data Entry module; b. Clear Fees function in the Application Management/Processing module.	Manager IT	Stage 1 by Nov 2016 Stage 2 planned to commence in Feb 2017.	
Other				
16.	Voided/Cancelled Receipting - regularly ensure that all cancelled receipts are being maintained.	Manager Finance	N/a	This will be ongoing
17.	Managers of service areas where cash handling arises are to ensure that supervisors: a. monitor the frequency of cancelled receipts by site and, wherever possible, by cash register operator, for trends; b. monitor the frequency and amount of	Relevant Managers	N/a	This will be ongoing

	<p>refunds provided to customers, for trends;</p> <p>c. determine whether the level and frequency of financial reporting for their business activities is appropriate to be able to detect material fraud</p>			
18.	<p>Where possible, refund amounts should be limited (by policy and user access rights) with amounts to be refunded above this dollar limit to be authorised by an independent employee with delegated authority. Above an upper limit to be set by policy and user access rights, transfer the role of refunding monies to Finance Team where certain supporting documentation must be supplied before any monies can be released.</p>	Manager Finance	Nov 2016	

Financial Implications

5 Within the scope of the investigation, all monies identified as having been 'borrowed' by the staff member for personal use were repaid or recovered by Council.

10 The investigations, internal and external, required staff resources and costs were incurred in retaining TNR to carry out the external review. The recommendations with the above timeframes will be able to be implemented with existing staff resources.

Statutory and Policy Compliance Implications

15 In this matter Council has complied with its requirements under s11 of the Independent Commission Against Corruption Act as well as with its obligations under the Protected Disclosures Act.



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SPECIAL INVESTIGATION REPORT OF FACTUAL FINDINGS

MARCH 2016

advice ■ service ■ solutions

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Report of Factual Findings

Scope

We have performed the procedures agreed with you to report factual findings. The purpose of the agreed procedures was to assist you to investigate suspected fraudulent activities in the Council's receipting function. The procedures performed are detailed in the terms of the engagement dated 22 February 2016 and described below.

Management's Responsibility for the Procedures Agreed

Council's Management is responsible for the adequacy or otherwise of the procedures agreed to be performed by us. You are responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or other intended users wish to draw on the subject matter.

Assurance Practitioner's Responsibility

Our responsibility is to report factual findings obtained from conducting the procedures agreed. We conducted the engagement in accordance with Standard on Related Services ASRS 4400 *Agreed- Upon Procedures Engagements to Report Factual Findings*. We have complied with ethical requirements equivalent to those applicable to Other Assurance Engagements, including independence.

Background Information

Council identified some anomalous cash handling transactions arising from customer enquiries. The customer enquiries arose when they had received overdue account letters when they claimed to have already paid the related account balance. In one instance, the customer produced a manual receipt as evidence of their payment.

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STAFF REPORTS - ORGANISATION DEVELOPMENT

5.8 - ATTACHMENT 2



Council investigated the claims by the customers and identified the following 5 transactions:

Transaction Number	Water Assessment	Original Water Charge	Original Receipt Type / Number	Comments on Receipt	Original Receipt Date	Cash Payment Received at Mullumbimby Post Office on 3 Feb 2016	Final Authority System Receipt Number
1	1112 [REDACTED]	\$201.12	Authority 1543 [REDACTED]	Voided – Customer changed mind [1] should be eftpos only	25/1/2016	\$204.00	1546 [REDACTED]
2	696 [REDACTED]	\$238.83	Authority 1539 [REDACTED]	Voided – Customer changed mind [1] should be eftpos only	15/1/2016	\$202.00	1546 [REDACTED]
3	315 [REDACTED]	\$129.89	Manual 60 [REDACTED]		11/1/2016	\$131.00	1546 [REDACTED]
4	812 [REDACTED]	\$238.83	Manual 60 [REDACTED]		12/1/2016	\$244.00	1546 [REDACTED]
5	256 [REDACTED]	\$193.93	Manual 60 [REDACTED]		21/1/2016	\$200.00	1546 [REDACTED]



Factual Findings

We provide details of the agreed procedures and our related factual findings.

- 1. Forensically review the five specific transactions (water and sewer usage account payments) occurring on 11, 12 and 21 January involving a subsequent payment on 3 February 2016 and provide us with your findings.**

Procedures Performed:

There were five (5) specific identified transactions. Two (2) were voided transactions while the other 3 were issued with a Byron Shire Council manual receipt. We obtained copies of screen shots of the 2 voided transactions from the council's Accounting System (Authority) and the photocopies of the manual receipts that have been issued for the other 3 transactions. Each of the 5 transactions were then traced back as to when they were subsequently processed in Authority. We have also extracted History Notices of the 5 specifically identified accounts from Authority.

Factual Findings:

Transactions 1 & 2

We found that these 2 transactions relating to water charges payments were initially voided in Council's Authority receipting system by Cashier [REDACTED] identified as [REDACTED]. The cash was not receipted and banked at this point in time in accordance with Council's cash handling and banking processes. We identified that the amounts that should have been receipted and banked on the day they were received from the customer were actually receipted at a later date. The amounts were processed (receipted) to the Council's Authority receipting system via payments made at Australia Post in Mullumbimby at a later date.

Transactions 3, 4 & 5

We found that these 3 transactions were originally receipted at the Mullumbimby Council Chambers using a manual receipt prepared by [REDACTED]. The cash was not receipted and banked at this point in time in accordance with Council's cash handling and banking processes. We identified that the amounts that should have been receipted and banked on the day they were received from the customer were actually receipted at a later date. The amounts were processed (receipted) to the Council's Authority receipting system via payments made at Australia Post in Mullumbimby at a later date.

Table 1 below provides an understanding of the abovementioned transactions. We have identified that all transactions were later reimbursed / repaid to Council via Australia Post in Mullumbimby on 3 February 2016. We have found that the amounts subsequently processed are in rounded numbers and are slightly higher than the amounts that were originally paid by each customer. We have checked the Notice History and noted all 5 accounts were charged with overdue interest charges. The Notice History shows that the 5 accounts were due to be paid by 21 January 2016.

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Table 1 - Details of Transactions

Water Assess No.	Original Transaction of the customer						Subsequent processing of transaction					Difference between customer payment and amount receipted to Authority	No of days between original transaction and receipting to Authority
	Amount Originally paid	Original Receipt#	Receipt Type and Issuer	Original Receipt Date	Receipt Status	Amount entered in Authority on the same day after voiding transaction/ manual receipt was issued	Date Processed in Authority	Amount Paid and Receipted in Authority	Authority Receipt #	Amount Paid Via	Total amount processed to Authority		
1112	\$201.31	1543	Authority (Cashier)	25/01/16	Authority Receipt Voided	-	03/02/16	\$204.00	1546	Aust. PO	\$204.00	\$2.69	9
696	\$238.83	1539	Authority (Cashier)	15/01/16	Authority Receipt Voided	\$38.83 (Authority receipt # 1539 by)	03/02/16	\$202.00	1546	Aust PO	\$240.83	\$2.00	19
315	\$129.85		Manual -	11/01/16	Manual Receipt Issued	-	03/02/16	\$131.00	1546	Aust PO	\$131.00	\$1.15	23
812	\$238.80		Manual -	12/1/16	Manual Receipt Issued	-	03/02/16	\$244.00	1546	Aust PO	\$244.00	\$5.20	22
256	\$196.90		Manual -	21/1/16	Manual Receipt Issued	-	03/02/16	\$200.00	1546	Aust PO	\$200.00	\$3.10	13



2. **Forensically review all financial transactions, in both manual and electronic receipting, in which the staff member, [REDACTED], has involvement in between 1/1/2014 to 21/1/2016.**

Procedures Performed:

Manual Receipts

We initially identified manual receipts issued by staff member [REDACTED] from 1/1/2014 to 21/1/2016 from the photocopies of the 6 Manual Receipts Books provided by you. We then determined when these receipts were processed to the Authority system.

Electronic Receipts and Other Transactions

We have also obtained a listing of electronic transactions processed by [REDACTED] identified (identified as Cashier [REDACTED]) from 24/12/2013 to 29/01/2016 in spreadsheet format showing both Ledger Information and Receipt Module. The data on the spreadsheet was interrogated to identify whether there are transactions relating to [REDACTED] that were processed outside the Council's working days and hours.

Factual Findings:

Manual Receipts.

We found 28 manual receipts that were issued by [REDACTED] from 1/1/2014 to 21/1/2016. We noted that:

- 22 transactions were processed to Authority by [REDACTED] using Cashier ID [REDACTED],
- 1 were processed by other staff member,
- 5 were processed via Australia Post, and

We have noted that on several instances the transactions were processed to Authority days after the manual receipt was issued with the longest time between the date of the manual receipt and the amount being receipted to Authority being 32 days.

We have noted in several instances, the amount processed in Authority days later were not consistent with the amount recorded on the manual receipts. Table 2 provides further information relating to this observation for the 28 manual receipts issued by [REDACTED].

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Table 2 – Summary of Manual Receipts Issued by [REDACTED] from 1/1/2014 to 21/1/2016

Manual Receipt Information						Authority Information					
Receipt Book	Assessment /Destination Acct #	Receipt #	Receipt Date	Receipt Amount \$	Manual Receipt Status	Date processed to Authority	Cashier Name	Receipt #	Amount processed \$	Amount on Manual receipt vs Authority \$	Days from manual receipt to processing to Authority
A	01231.003 [REDACTED]	52 [REDACTED]	30/06/2014	158.55	issued	1/07/2014	[REDACTED]	1327 [REDACTED]	158.55	-	1
A	1126 [REDACTED]	52 [REDACTED]	22/09/2015	196.90	issued	13/10/2015	[REDACTED] – Aus. Post	1498 [REDACTED]	196.93	.03	21
A	010.2011.0000 [REDACTED]	52 [REDACTED]	2/10/2015	9,434.15	issued	7/10/2015	[REDACTED]	1496 [REDACTED]	9,434.17	0.02	5
A	099.2010.0000 [REDACTED]	52 [REDACTED]	1/12/2015	50.00	issued	1/12/2015	[REDACTED]	1518 [REDACTED]	50.00	-	0
A	1197 [REDACTED]	52 [REDACTED]	9/12/2015	477.00	issued	9/12/2015	[REDACTED]	1528 [REDACTED]	477.56	0.56	0
B	103 [REDACTED]	40 [REDACTED]	24/08/2015	1,129.76	issued	24/08/2015	[REDACTED]	1477 [REDACTED]	1,129.76	-	0
B	927 [REDACTED]	40 [REDACTED]	24/08/2015	2,727.86	issued	24/08/2015	[REDACTED]	1477 [REDACTED]	1,827.86	(900.00)	0
C	011.2014.00000 [REDACTED]	60 [REDACTED]	26/05/2014	1,771.00	issued	27/06/2014	[REDACTED]	1326 [REDACTED]	1,771.00	-	32
C	051.2014.00001 [REDACTED]	60 [REDACTED]	10/10/2014	400.00	issued	21/10/2014	[REDACTED]	1370 [REDACTED]	400.00	-	11
C	73.2014 [REDACTED]	60 [REDACTED]	17/12/2014	70.00	Cancelled – System back up	18/12/2014	[REDACTED]	1392 [REDACTED]	70.00	-	1
C	73.2014 [REDACTED]	[REDACTED]	17/12/2014	95.00	Cancelled – System back up	18/12/2014	[REDACTED]	1392 [REDACTED]	95.00	-	1
C	070.2015.00001 [REDACTED]	60 [REDACTED]	14/01/2015	862.50	issued	27/01/2015	[REDACTED]	1404 [REDACTED]	862.50	-	13
C	1084.13 & 01726 [REDACTED]	60 [REDACTED]	19/06/2015	63,746.61	issued	19/06/2015	[REDACTED]	1455 [REDACTED]	63,746.61	-	0
C	688 [REDACTED]	60 [REDACTED]	3/07/2015	102.80	issued	7/07/2015	[REDACTED]	1461 [REDACTED]	102.80	-	4
C	947 [REDACTED]	60 [REDACTED]	??	1,511.10	issued	10/08/2015	[REDACTED]	1472 [REDACTED]	1,511.12	0.02	
C	1066 [REDACTED]	60 [REDACTED]	8/09/2015	503.78	issued	8/09/2015	[REDACTED]	1487 [REDACTED]	503.76	(0.02)	0
C	1140 [REDACTED]	60 [REDACTED]	21/09/2015	125.70	issued	13/10/2015	[REDACTED] – Aus. Post	1498 [REDACTED]	125.70	-	22
C	679 [REDACTED]	60 [REDACTED]	4/11/2015	531.00	issued	4/11/2015	[REDACTED]	1505 [REDACTED]	101.00	(430.00)	0

BYRON SHIRE COUNCIL

STAFF REPORTS - ORGANISATION DEVELOPMENT

5.8 - ATTACHMENT 2



Receipt Book	Assessment /Destination Acct #	Receipt #	Receipt Date	Receipt Amount \$	Manual Receipt Status	Date processed to Authority	Cashier Name	Receipt #	Amount processed \$	Amount on Manual receipt vs Authority \$	Days from manual receipt to processing to Authority
C	1018	60	8/11/2015	359.00	issued	9/12/2015		1528	359.43	0.43	31
C	01145.0	60	19/11/2015	17.50	issued	23/11/2015		1512	17.50	-	4
C	1180	60	11/12/2015	390.00	issued	14/12/2015		1529	390.00	-	3
C	315	60	11/01/2016	129.85	issued	3/02/2016	- Aus. Post	1546	\$131.00	1.15	23
C		60	12/01/2016	120.00	issued						
C	514	60	12/01/2016	50.00	issued	12/01/2016		1537	\$170.00	50.00	0
C	1194	60	12/01/2016	25.10	issued	12/01/2016		1537	\$25.14	0.04	0
C	812	60	12/01/2016	238.50	issued	3/02/2016	- Aus. Post	1546	\$244.00	5.50	22
C	256	60	21/01/2016	196.90	issued	3/02/2016	- Aus. Post	1546	\$200.00	3.10	13
C	1066	603	27/01/2016	205.60	issued	27/01/2016		1544	55.00	(150.60)	-

The following information supports Table 2.

- Payment for Assessment # 1126 of \$196.90 was issued with manual receipt #52 on 22 September 2015 by . The amount was receipted to Authority with receipt #1498 on 13/10/2015 for \$196.93 through Australia Post by Cashier no. .
- Assessment # 927 relates to rates paid in advance (after pension rebate) for \$2,727.86 on 24/8/2015 using manual receipt #40. An amount equal to \$1,827 with receipt# 1477 was entered in Authority by on the same date leaving a \$900 shortfall. A subsequent payment of \$219.00 within Authority with receipt# 1540 was entered by on 20/1/2016. As at the date of our report the amount owing to Council is \$681.00.
- Payment for Assessment # 679 has been issued with manual receipt # 60 amounting to \$531.00 on 4/11/2015. An Authority receipt #1505 dated 04/11/2015 for \$101.00 was processed by . The remaining amount of \$430 was processed by on 26/11/15 with authority receipt #1513.



- Payment for Assessment #1066 [REDACTED] for \$205.60 was issued with manual receipt # 60 [REDACTED] amounting to \$205.60 on 27/1/2016. The amount appeared to be paid by cheque of \$55.00 and cash of \$150.60. The cheque component was receipted to Authority on the same day with Authority receipt# 1544 [REDACTED] by [REDACTED]. The cash component of \$150.63 was processed to Authority on 28/1/2016 with receipt #1545 [REDACTED] and was processed by [REDACTED].
- Payment for Assessment # 1018 [REDACTED] of \$359 was issued with manual receipt #60 [REDACTED] on 8 November 2015. The date on the manual receipt appears vague and written over. The reference to Authority receipt of #1510 [REDACTED] noted in the manual receipt is not correct as it refers to Assessment # 822 [REDACTED]. The correct Authority receipt is #1528 [REDACTED] and was processed by [REDACTED] for \$359.43 on 9/12/2015. We have noted that Water and Sewer charges for September 2015 and January 2016 have been paid through Australian Post.
- Payment for Assessment # 947 [REDACTED] for \$1,511.10 was issued with manual receipt #60 [REDACTED]. This receipt was cancelled and its date altered to 10/08/15 however the original date cannot be clearly identified. The whole amount of \$1,511.12 was processed to Authority on 10/08/2015 by Cashier Number [REDACTED].

In addition to the above observations, we note that manual receipt #40 [REDACTED] relates to payment for a dog impound and registration totalling \$252. This receipt was cancelled and its date altered from 18/08/2015 to 19/08/15. The name of the staff member issuing the receipt is not evident. The whole amount of \$252 was processed to Authority on 14/09/2015 by Cashier Number [REDACTED].

We have further noted 2 manual receipts issued #60 [REDACTED] for \$94.46 and #60 [REDACTED] for \$100.56 on 10/10/2015. The name of the issuing council staff was not indicated on the receipt. However, it was confirmed by the Executive Manager Organisation Development that the signature appearing on both receipts were of Cashier [REDACTED]. Both payments were receipted to Authority with receipt numbers 1501 [REDACTED] and 1501 [REDACTED] respectively only on 19/10/2015 by [REDACTED] with amounts identical to the manual receipts.

Electronic Receipts and Other Transactions

We did not identify any transactions relating to [REDACTED] that were processed outside the Council's working days / hours from 01/01/2014 to 21/01/2016.



3. **Forensically examine all Mullumbimby main office manual receipting transactions between 1/10/2015 and 21/1/2016 compared with their corresponding subsequent electronic transactions.**

Procedures Performed:

We obtained manual receipts issued by Mullumbimby main office from 1/10/2015 to 21/01/2016. Manual receipt books were provided by Ms Shannon McKelvey in photocopy format as Council did not want to alert staff to our investigation. We have relied on the photocopied receipt books when undertaking our agreed procedure. There were 6 photocopied manual receipt books provided to us.

We have undertaken this agreed procedure and have excluded manual receipts processed / written by [REDACTED] as we have reviewed these at Agreed Procedure 2 above.

Factual Findings:

We did not note any significant variations between the date recorded on the manual receipt and the date the payment was processed to Authority. However, a minor observation was noted that vital information such as date issued, name and signature of the council staff issuing the receipt, and the corresponding receipt# in Authority were not appropriately recorded on some manual receipts. This has been observed on both issued and cancelled receipts.

4. **Forensically review all payments made at Australia Post, Mullumbimby Branch transactions (if they can be isolated) between 1/10/2015 and 21/1/2016**

Procedures Performed:

Payments made by visiting the Australia Post branch together with other payment types are updated to Authority using a batch upload process conducted by a council staff member. We have identified that Cashier [REDACTED] is responsible for uploading Australia Post transactions, however we were advised that other council staff could also be involved if the designated Cashier is not working. We generated all the transactions of Operator [REDACTED] from 1/10/2015 to 21/1/2016 from the Authority system. We used this report to identify transactions that have been paid at Australia Post.

We are of the understanding that any person in possession of a Notice of Assessment issued by the council will be able to make over the counter payments at Australia Post. The reports that we have generated out of Authority showing payments made to Australia Post does not identify the name of the person making the payment. As such, we were unable to link [REDACTED] identify to the person making the payment. We suggest that further investigation be made by the council to obtain information as to the identity of the person making the payments.



5. Other Procedures Performed In Addition To Agreed Procedures

As part of our discussions we identified the need to review [REDACTED] information technology user access rights to determine if further procedures may be required.

Procedures Performed:

Review of Information Technology User Access Rights

We obtained details of the user access rights assigned to [REDACTED] within the Authority system and reviewed them within the context of [REDACTED] role at Council.

Factual Findings:

We have noted that [REDACTED] has "Maintenance" access with regards to the following modules within Authority:

dsc_nd1	dsc_nd2	dsc_nd3 dsc_	dsc_nd4 dsc_	role_dsc
Administration	Application Management	Department of Planning	All functions	Maintenance
		Maintenance	All functions	Maintenance
Customer Services	Name and Address Enquiry Receipting	Agent Receipting	All functions	Maintenance
		Back Office Receipting	All functions	Maintenance
		Maintenance	All functions	Maintenance
		Processing	All functions	Maintenance
	Receipting	Maintenance	All functions	Maintenance
		Processing	All functions	Maintenance
		Receipt Reversal Processing	All functions	Maintenance



In addition to the access granted above, we have noted that within Administration, [REDACTED] has *Data Entry* access to Credit Notes and Refund Entry under the Accounts Receivable/Data Entry module and a *Higher Level Data Entry* access to all functions within Application Management/Processing including the Clear Fees function.

We were advised that there are 3 types of user levels within Authority with their access rights described as follows:

- Enquiry (read only access)
- Maintenance (can create/edit records)
- Higher Level (can delete records)

We were also advised that Users are assigned with access levels relevant to the requirements of their role. These roles are not predefined in the system and can be different for each module.

6. Recommendations Arising From the Agreed Procedures

Our agreed procedures have identified a breakdown in controls relating to receipting and banking processes. The following weaknesses have been identified:

1. Council staff have been sharing login and password information.
2. A staff member independent of the receipting function has not been adequately reviewing daily cashier reconciliations and exception reporting such as cancelled receipts, credit notes, refunds etc.
3. There has not been any control over the use and accountability of manual receipt books, and;
4. User access rights do not appear to be appropriate to the staff member under review and may indicate that other staff could have inappropriate information technology rights.

We recommend that Council implement processes to improve the integrity of receipting information and the security of cash. We would be pleased to advise on control improvement measures.

**Restriction on Use of Report**

This report is intended solely for the use of Byron Shire Council for the purpose set out above. As the intended user of our report, it is for you and other intended users to assess both the procedures and our factual findings to determine whether they provide, in combination with any other information you have obtained, a reasonable basis for any conclusions which you wish to draw on the subject matter. As required by ASRS 4400, use of this report is restricted to those parties that have agreed the procedures to be performed with us and other intended users identified in the terms of the engagement (since others, unaware of the reasons for the procedures, may misinterpret the results). Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than Byron Shire Council for any consequences of reliance on this report for any purpose.


Our engagement was conducted with the assistance of the following Council personnel

Name	Position
Shannon McKelvey	Executive Manager Organisation Development
James Brickley	Finance Manager
Colin Baker	Business Systems & Technology Coordinator
Vicky Veil	Supervisor

We thank Council's staff members for assisting with this engagement.

Should you wish to clarify any of the information contained in this report, please contact the writer at your convenience.

THOMAS NOBLE & RUSSELL
CHARTERED ACCOUNTANTS


K. R. FRANEY (Partner)
Audit & Assurance