

FINANCIAL MANAGEMENT REVIEW

Financial Management Review Report

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Financial Management Review

Shire of Plantagenet

August 2022

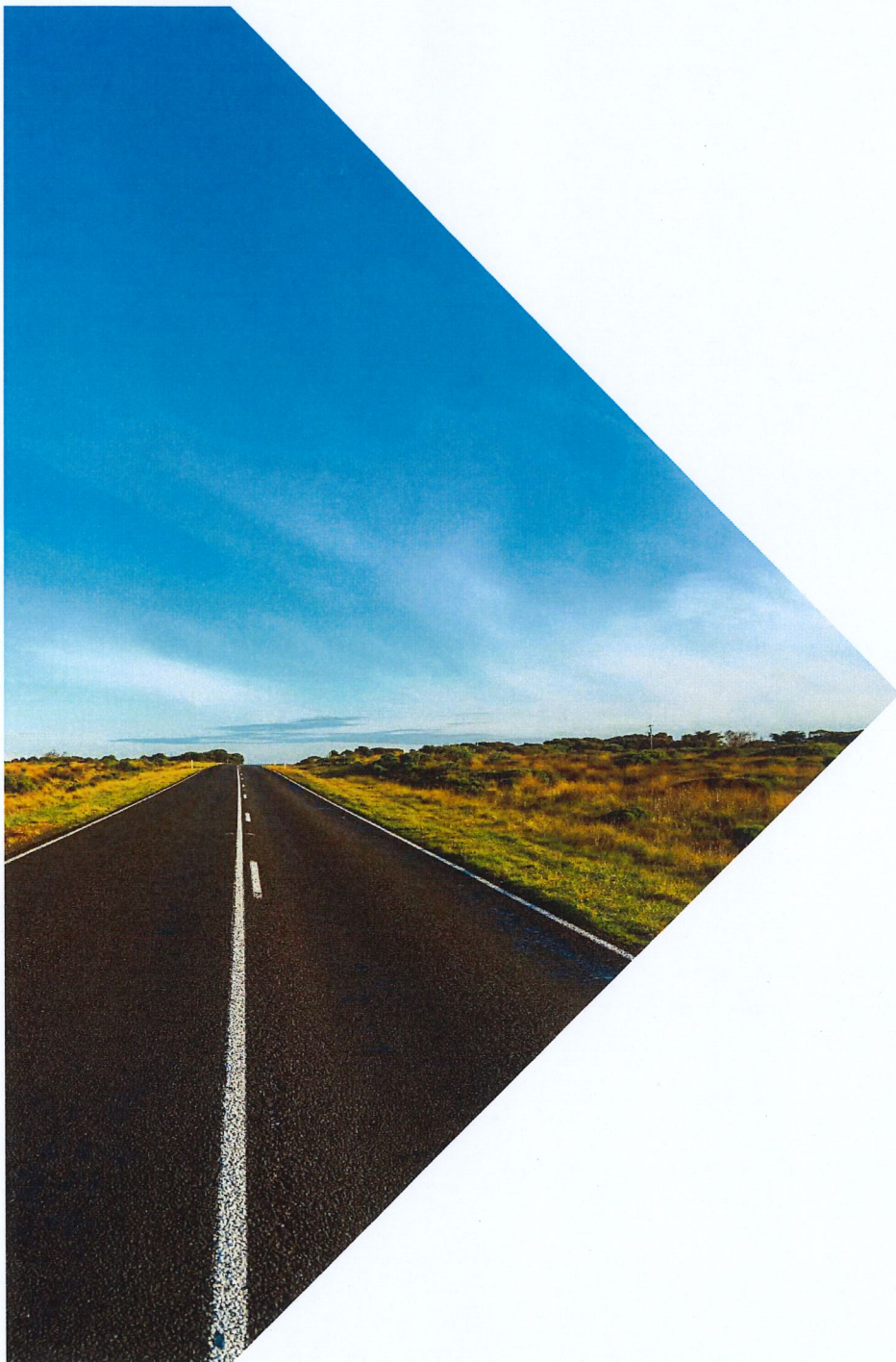


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1.0 Engagement Overview

1.1 Scope of Services

The Shire of Plantagenet (Shire) engaged Moore Australia to undertake a review of financial management systems to assess the appropriateness and effectiveness of these systems and procedures, as required by *Local Government (Financial Management) Regulations 1996* Regulation 5(2)(c).

Matters examined in respect of financial management systems are detailed in Appendix A and where opportunities for improvement were identified, they are reported within the relevant section of the framework design, implementation and evaluation sections of this report.

1.1.1 Procedures – Financial Management Review

Our procedures for the Financial Management Review encompassed a review of the Shire's financial systems including, but not necessarily limited to:

- Collection of money owed;
- Custody and security of money and investments held;
- Rates;
- Maintenance and security of financial records;
- Accounting and controls for revenue and expenses;
- Accounting and controls for assets and liabilities;
- Accounting and controls for trust transactions;
- Authorisation of purchases;
- Authorisation of payments;
- Borrowings;
- Maintenance and processing of payroll;
- Stock controls and costing records;
- Record keeping for financial records;
- Preparation of budgets and budget reviews; and
- Preparation of financial reports.

Our procedures and approach have been developed over a number of years taking into account our extensive local government background and seeks to examine both financial systems and procedures in use.

The financial management review does not examine systems and procedures which are non-financial in nature and did not specifically test for legislative breaches.

2.0 Review Context

2.1 Review Context - Shire of Plantagenet

Understanding the external and internal context in which the Shire operates, relevant to financial management, risk, the internal control environment and its legislative compliance obligations, as it seeks to achieve its overall strategic objectives is important to the review of the related systems and procedures.

The external and internal environmental influences identified during the review are set out below:

| External Influences | Internal Influences |
|---|--|
| Increasing community expectations in relation to service levels and delivery. | The objectives and strategies contained in the current Strategic Community Plan. |
| Rapid changes in information technology, changing the service delivery environment. | The timing and actions contained in the current Corporate Business Plan. |
| Increased compliance requirements due to government policy and legislation. | Organisational size, structure, activities and location. |
| Cost shifting by the Federal and State governments. | Human resourcing levels and staff retention. |
| Demand for resourcing due to potential expansion in service delivery. | The financial capacity of the Shire. |
| Reducing external funding for infrastructure and operations. | Maintenance of corporate records. |
| Increasing risk of cyber attack resulting in compromised or lost data. | Allocation of resources to achieve strategic outcomes. |
| Mitigating bush fire threat | COVID 19 and impact on the internal environment |
| COVID 19 and impact on the external environment | |
| Global economic instability | |

3.0 Review Summary

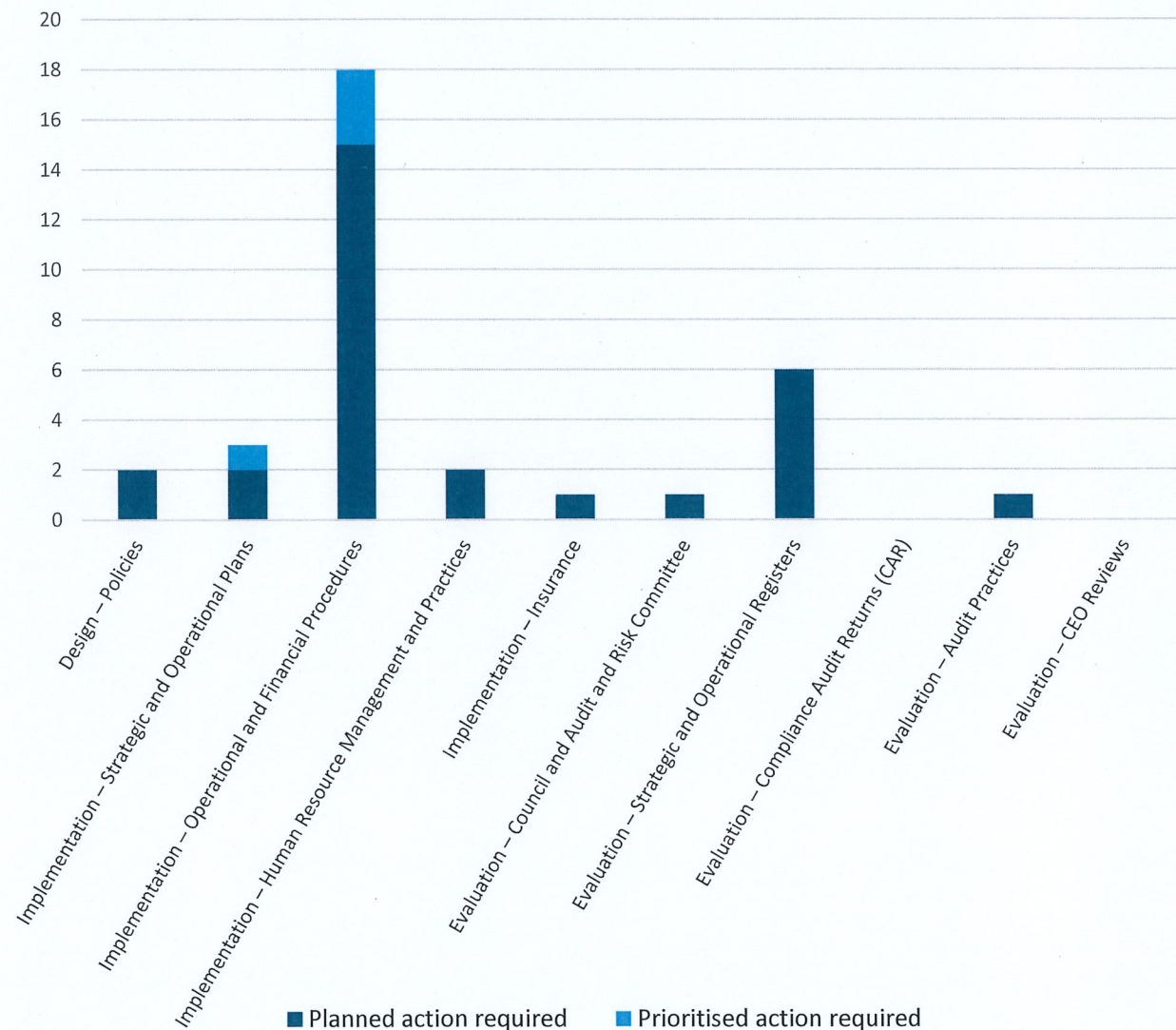
3.1 Overall

Operations of a regional local government are complex and involve a number of people making decisions across a large number of areas of operations. The Shire of Plantagenet is highly reliant on a small team of senior decision makers to govern its operations whilst trying to ensure sound financial management through internal controls whilst seeking to achieve a high level of compliance.

This review was undertaken by first determining an appropriate framework for the Shire against which current policies, procedures and actions could be assessed this is described further in Section 4.0. A number of areas for improvement were identified during the review. As the Shire has limited resources the areas identified for improvement have been split between those requiring prioritised action and those requiring planned action as it will require resources and time to address a number of the matters raised.

The chart below reflects the number of improvements identified within each area of the framework examined.

No of improvements identified by framework element



Details of each improvement identified under each framework element are provided in Sections 5 through section 7 of this report.

A summary of improvements listed by prioritised and planned action is provided at Appendix E.

3.0 Review Summary

3.2 Financial Management

The Shire has a number of financial management system controls to cover the wide variety of operations undertaken. Council has responsibility for the adoption of the annual budget and annual report, review of the monthly statement of financial activity and review of the monthly list of payments. Responsibility for the financial management of the Shire rests with the CEO, as detailed under *Financial Management Regulation 5(1)*.

3.2.1 Appropriateness

Considering the size, resources, variety of operations and the context in which the Shire operates, documented internal control procedures relating to financial management systems, are considered largely appropriate as a means of maintaining a high level of control over the financial management of the Shire. Our assessment as to the appropriateness is subject to identified weaknesses being addressed, and provided internal control procedures are routinely and consistently applied.

Weaknesses were identified with current controls and procedures, these are explained within Section 5.0 Framework Design of this report.

3.2.2 Effectiveness

Considering the results of other elements of financial management systems and processes where documented and routinely tested, the current practices undertaken by the Shire of Plantagenet may be considered generally effective. Our assessment as to effectiveness is subject to the implementation of the improvements highlighted in Section 6.0 Framework Implementation of this report.

Whilst generally considered effective, weaknesses were identified where internal controls are not considered effective. These are explained within Section 6.0 Framework Implementation of this report.

3.2.3 Improvements

Details of recommended improvements to the current financial management, procedures and systems for the Shire are set out within the framework design and implementation sections of this report. Key improvements to the appropriateness and effectiveness of these procedures and internal controls include:

- IT general controls;
- Security controls;
- Rating controls;
- Register of financial interests;
- Change of banking details and creditor master file;
- Procurement controls; and
- Payroll controls.
- Asset controls
- General journals controls
- Stock controls

4.0 Methodology & Framework

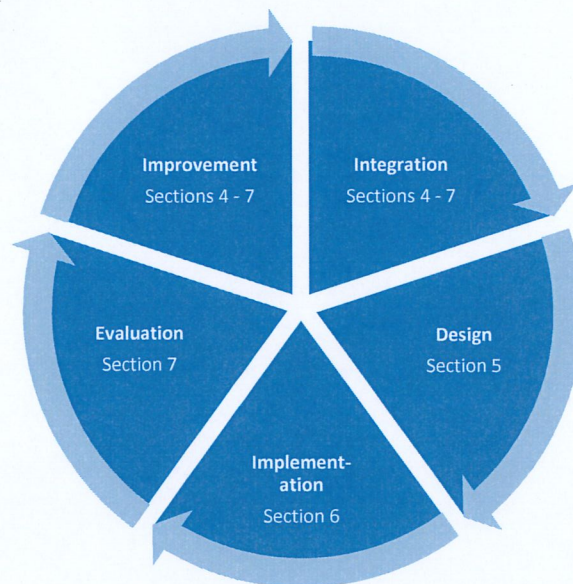
4.1 Review Methodology – Financial Management Review

The objective of this review is to assist the CEO of the Shire of Plantagenet to discharge responsibilities in respect to Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* (as amended).

In carrying out our review, we examined documented policies / procedures, undertook walkthroughs of key systems and procedures and performed limited detailed testing procedures to identify weaknesses in the financial management system and report to the CEO on the appropriateness and effectiveness of the control environment within the Shire, as required by regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.

4.2 Framework

The following framework was utilised to identify and examine risks in relation to the financial management of the Shire of Plantagenet, after consideration of the current internal and external influences, detailed in Section 2.1.



Source: Australia/New Zealand Standard ISO 31000:2018

Identification and improvements of the systems and procedures which may not appropriately or effectively control these risks have been presented in sections 5,6 and 7 of this report.

The results of our review, as detailed on the following pages, are set out with reference to the structure of the above framework. We assessed the following areas:

| Design | Implementation | Evaluation |
|----------------------|--|--|
| 5.1 Strategic Plans | 6.1 Strategic and Operational Plans | 7.1 Council and Audit and Risk Committee |
| 5.2 Council Policies | 6.2 Operational and Financial Procedures | 7.2 Strategic and Operational Registers |
| | 6.3 Human Resources Management and Practices | 7.3 Annual Compliance Audit Returns |
| | 6.4 Insurance | 7.5 Audit Practices |
| | | 7.6 Reviews required by the CEO |

5.0 Framework Design

5.1 Strategic Plans

The Shire has adopted two key strategic documents, the Strategic Community Plan 2017-2026 and the Corporate Business Plan 2020-2024. These plans identify the Council's organisational objectives and key outcomes, as the Shire progress on its stated vision *"Plantagenet, building a sustainable and respectful community, where the environment is preserved and natural beauty and diversity provide opportunities for all."*

The Strategic Community Plan recognises the community's aspirations and values through the following key focus areas:

1. **Community:** Foster community pride, safety, well-being and involvement through the provision of services;
2. **Environment Built and Natural:** Provide and maintain physical infrastructure that supports service delivery as well as protection and care of our natural environment;
3. **Economy:** Develop and maintain a strong local economy that contributes to employment opportunities and a broad range of services; and
4. **Performance and Leadership:** Maintain an open and accountable professional organisation providing leadership for the community.

In seeking to achieve its objectives, the Shire of Plantagenet faces both inherent and business risks. Whilst striving to fulfil expectations, it is also expected to meet compliance with numerous legislative requirements. To manage these risks, the Shire has established various processes, systems and controls.

The Strategic Community Plan references strategic challenges which might affect the Shire, and the community's aspirations / vision, and the projects and programs which will be implemented through the plan.

This review examines the appropriateness and effectiveness of the organisation's risk management systems, internal controls and legislative compliance in the context of the Shire striving to achieve its stated objectives.

5.0 Framework Design

5.2 Council Policies

Whilst the operations of the Shire are the responsibility of the CEO, the Council is responsible for setting the framework for operations via adopted Council policies. These policies represent an overarching framework relevant to financial management and have been reviewed for appropriateness and effectiveness.

In general, Council policies relating to financial management are well formulated and provide clear guidance regarding Council's position on financial management matters. A list of policies reviewed is provided in Appendix B - Council Policies Examined. The table below details matters identified and associated suggested improvements.

| Policy | Purpose / Goal | Matters Identified / Improvement |
|------------------------------|---|---|
| 5.2.1 General Policy Actions | To set out parameters for the implementation of policies. | <p>We noted some council policies which may be operational in nature. Council policies are not necessarily intended to provide direction on how different operational functions are to be executed as these are the responsibility of the CEO. Some policies where this may occur includes:</p> <ul style="list-style-type: none">• Budget Preparation Policy F/FM/12• Debt Collection - Policy F/FM/15 <p>Policies are not necessarily intended to provide direction on how different functions are to be executed, except where legislation requires it.</p> <hr/> <p>Improvement:</p> <p>Review and update these policies to consider the appropriate separation of the roles of the council and the CEO. Consider review and update of policies to articulate the strategic direction of Council, particularly where legislation does not provide such direction.</p> |

5.0 Framework Design

| Policy | Purpose / Goal | Matters Identified / Improvement |
|--|---|---|
| <p>5.2.2 F/FM/17 Purchasing Policy</p> | <p>Policy providing a best practice approach and procedures for purchasing. Ensure consistency for all purchasing activities which integrate with all operational areas. Requires compliance with the <i>Local Government Act 1995</i> and <i>Functions and General Regulations 1996</i>.</p> | <p>The policy provides limited direction regarding contract variations and extensions awarded or against a written specification not awarded by tender. Extension of contracts and associated price changes are also not covered by the policy. For contracts awarded by tender, legislation provides minimum requirements.</p> <hr/> <p>The policy includes the ability to avoid the requirement to call for competitive quotes for single source suppliers however no requirement relating to when to utilise this provision is outlined. Staff representation noted in order to utilise this provision CEO approval is required.</p> <hr/> <p>Improvement: Amend the policy to provide purchasing requirements for the issuing of contract variations and extensions for contracts not awarded by public tender. Consideration should be given to circumstances where the contract value increases over a policy threshold level, due to the variation or extension.</p> <hr/> <p>Amend the policy to provide requirements for use of the single supplier provision and ensure organisational procedures are in line with these requirements.</p> |

6.0 Framework Implementation

6.1 Strategic and Operational Plans

The Council has several strategic and operational plans which form the basis of entity level controls and entity level risk assessments.

A list of plans reviewed is provided in Appendix C - Plans Examined. The table below details areas for possible improvement in relation to the plans examined.

| Plan | Purpose / Goal | Matters Identified / Improvement |
|----------------------------------|--|---|
| 6.1.1 ICT Strategic Plan | Plan to guide the future development and delivery of ICT services. | <p>An ICT Plan highlighting and addressing ICT risks and how they are to be addressed was not available for inspection.</p> <p>Improvement: Develop an ICT Strategic Plan identifying and documenting key ICT risks along with the treatments to reduce the risk to an acceptable level.</p> |
| 6.1.2 ICT Disaster Recovery Plan | Plan to address the handling of ICT disaster recovery. | <p>An Information and Communication Technology Disaster Recovery Plan was not available to review.</p> <p>Improvement: Develop an ICT Disaster Recovery Plan. Identify and document key ICT risks, along with the treatments to reduce the risk to an acceptable level. Maintain, review and test the plan to ensure validity.</p> |
| 6.1.3 Business Continuity Plan | Plan to facilitate organised decision-making in the event of a major incident impacting the Shire's ability to continue normal operations. | <p>A Business Continuity Plan was originally developed in February 2019 and has not been reviewed since November 2019. The current plan includes persons no longer employed by the Shire.</p> <p>Improvement: Routinely (at least annually) review, update and test the Plan to ensure validity. Identify and document key business continuity risks along with the treatments, to reduce the risk to an acceptable level.</p> |

6.0 Framework Implementation

6.2 Operational and Financial Procedures

In seeking to achieve its stated vision, the Shire delivers a number of services to the community. Meetings were undertaken with key staff in each of the areas of service responsibility, as well as examination of documented processes, to determine the practices applied to financial management. A summary of the review undertaken to evaluate the controls is included at Appendix A.

We observed a number of practices and procedures in place, however their application was not always consistent. Considering the number of services provided and current staff resourcing, a risk based approach to the prioritisation of the review results and development of new procedures is recommended. The table below details areas of suggested improvement in relation to policies and procedures examined.

| Component | Purpose / Goal | Matters Identified / Improvements |
|---------------------|--|---|
| 6.2.1 Batch updates | A procedure to independently review accounting systems processing. | <p>Batch updates in the Shire's SynergySoft accounting software are not independently reviewed following update of the batch.</p> <hr/> <p>Improvement:</p> <p>Ensure all batch updates are independently reviewed to ensure the update is as per the reviewed information.</p> |
| 6.2.2 Credit Cards | Systems and processes to control use of Corporate Credit Cards held. | <p>We noted instances through our testing where credit card expenses were not reviewed and approved by an independent more senior member of staff.</p> <hr/> <p>Improvement:</p> <p>Update procedures to require cardholders to review and certify expenses incurred on their credit cards each month, these must be subsequently reviewed by an independent more senior member of staff.</p> |
| 6.2.3 Cash Handling | Procedures and systems for the handling of cash at Shire facilities. | <p>Weak controls of cash handling and security measures have been identified at certain Shire facilities.</p> <hr/> <p>Staff representation noted regular documenting of receipts was not undertaken at the Mount Barker Regional Stockyard.</p> <hr/> <p>Improvement:</p> <p>Ensure access to any cash held is restricted only to authorised personnel through secure storage. Implement appropriate documented procedures and controls for cash maintained by staff.</p> <hr/> <p>To help minimise the risk of fraud or error, funds received should be receipted immediately and batches updated daily, with a reconciliation to the daily banking undertaken routinely. Errors identified through the reconciliation to the bank statements should be corrected through appropriately authorised journals.</p> |

6.0 Framework Implementation

| Component | Purpose / Goal | Matters Identified / Improvements |
|-------------------------------|--|---|
| 6.2.4 Asset Reconciliations | Processes for the control of the asset register. | <p>Reconciliations for the asset register were not undertaken between July 2021 and November 2021.</p> <hr/> <p>No independent review of asset reconciliations is undertaken.</p> <hr/> <p>Improvement: Review system processes to ensure regular and timely preparation of asset reconciliations and for these to be independently review.</p> |
| 6.2.5 Fixed Assets Register | Fixed Assets are properly accounted for and controls are operating effectively. | <p>Limited controls exist for the review of fixed asset acquisition, disposal and adjustment of assets into the fixed asset register.</p> <hr/> <p>Improvement: Review procedures and controls for updating the fixed assets register including evidencing review and authorisation by an independent officer.</p> |
| 6.2.6 General Journal Entries | Journals are initiated processed which are independently reviewed and approved. | <p>We noted one instance where evidence of review of a journal was not available.</p> <hr/> <p>Improvement: Document and enforce internal controls to ensure journals requests initiated are reviewed and approved/authorised prior to posting by an appropriate officer, the current practice of independent review is maintained, and evidence of review is consistently applied.</p> |
| 6.2.7 Stock Control | Process to ensure stock is correctly allocated and monitored as to reduce the potential for theft or misappropriation. | <p>No stocktakes are currently undertaken for the following items:</p> <ul style="list-style-type: none"> • chemical, oils and miscellaneous construction materials at the Shire Depot. • snacks and beverages at the Shire Recreation Centre. <hr/> <p>Limited controls are in place to monitor potential erroneous allocations or misuse of stock. Fuel dips are not independently reviewed for accuracy at periodic intervals and a reconciliation between the fuel on hand and the balance recorded in the accounting system is not undertaken.</p> <hr/> <p>Improvement: Review and implement processes to undertake regular stocktakes of items of inventory.</p> <hr/> <p>Review and implement processes to undertake regular fuel stock reconciliations and allocations. Ensure appropriate controls exist to evidence independent review of data as required.</p> |

6.0 Framework Implementation

| Component | Purpose / Goal | Matters Identified / Improvements |
|--|--|--|
| 6.2.8 Risk Management Procedures | Procedures and practices to set out a uniform approach to the identification, assessment, management, reporting and monitoring of risks. | <p>Some risk management activities currently undertaken are largely undocumented.</p> <hr/> <p>Improvement: Risk management should underpin the financial management of the Shire as such implementation of risk management procedures is considered important.</p> <p>Risk management procedures and processes are to be developed in accordance with the latest risk management standard (ISO 31000:2018).</p> <p>Implement risk management procedures and processes throughout the whole organisation.</p> |
| 6.2.9 ICT Security | Procedures and practices to ensure the security of IT information, systems and data. | <p>From staff representation and our understanding of IT controls we noted no process was in place to review, monitor and control access to financial records.</p> <hr/> <p>Improvement: Undertake a comprehensive IT security review and implement findings.</p> |
| 6.2.10 Overhead & Administration Allocations | To allocate indirect costs in a practical and efficient manner. | <p>No process is currently in place to determine the allocation of indirect costs for plant or public works overheads. From staff representations, current allocation rates are based on historical estimates and no calculation method to support the allocations was available.</p> <hr/> <p>Improvement: Undertake a review of activity-based costings to support calculation of overheads.</p> |

6.0 Framework Implementation

| Component | Purpose / Goal | Matters Identified / Improvements |
|--------------------------------------|---|--|
| 6.2.11 Balance Sheet Reconciliations | Process for the control of balance sheet accounts. | <p>During testing of reconciliations between July 2021 and March 2022 we noted the following reconciliations did not balance:</p> <ul style="list-style-type: none"> • Payroll since the start of July 2021 • Rates for the month of July 2021 • Fixed Assets between July and November 2021 • Accounts Payable between July 2021 and February 2021 except for the month of November • Account Receivable between July 2021 and February 2021 except for the month of November • Inventory between July 2021 and February 2021 except for the month of November <p>Improvement: Review system processes to ensure regular and timely review of balance sheet reconciliations.</p> |
| 6.2.12 Asset Condition Data | Process to ensure asset condition data is up to date. | <p>Staff representation noted Building asset condition data is outdated. Current and available asset condition data is necessary to ensure appropriate asset management decisions are made.</p> <p>Improvement: Develop processes to ensure asset condition data is available and current and utilise this to guide any decisions in relation to asset depreciation.</p> |
| 6.2.13 Records | Procedures and practices to ensure the appropriate maintenance and recording keeping of physical and digital financial records. | <p>No regular refresher training for the use of the records system is currently in place.</p> <p>No process to monitor and correct financial records usage is currently in place.</p> <p>Improvement: Develop regular training to be undertaken by all staff with financial record keeping responsibilities to ensure a consistent and appropriate usage across the organisation.</p> <p>Develop systems and processes to monitor the practice of financial record keeping within the organisation and identify any misuse and correct appropriately.</p> |

6.0 Framework Implementation

| Component | Purpose / Goal | Matters Identified / Improvements |
|------------------------------|--|---|
| 6.2.14 Trust Fund | Controls to ensure no errors exist in the transactions for the trust fund account. | <p>The trust fund currently includes bonds. It is understood from staff representations, this is due to the change in accounting system recently undertaken.</p> <hr/> <p>No process is currently in place to monitor transactions in the trust fund to ensure only amounts required to be in the trust fund are maintained within the fund.</p> <hr/> <p>Improvement:</p> <p>Remove all funds which are not required by law to be held in the trust fund, and transfer to the Municipal Fund, in line with the Office of the Auditor General (OAG) position paper on Accounting for Work Bonds, Building Bonds and Hire Bonds released in July 2019.</p> <hr/> <p>Develop a process to monitor the trust fund to ensure only required funds are kept in the fund.</p> |
| 6.2.15 Overdue Rates Debtors | Timely collection and recovery of outstanding revenue. | <p>No consistent early reporting to management or reporting processes to monitor and recover overdue rate payments prior to the debt reaching the legal phase currently exist.</p> <hr/> <p>Improvement:</p> <p>Develop reporting mechanisms to allow for the monitoring of rates collection for all stages of debt collection.</p> |
| 6.2.16 Regulatory Reporting | To submit financial reports and budget reviews to the department within regulatory timeframes. | <p>The adopted budget review was not submitted to the Department within 30 days of council making a determination as required by the <i>Local Government Act (Financial Management) 1996 Regulations</i> regulation 33A (4).</p> <hr/> <p>A copy of the annual financial report was not submitted to the Department within 30 days of the receipt of the audit report by the CEO as required by the <i>Local Government Act (Financial Management) 1996 Regulations</i> regulation 51 (2).</p> <hr/> <p>Improvement:</p> <p>Review systems and procedures to ensure future regulatory compliance and timeframes are able to be met.</p> |

6.0 Framework Implementation

| Component | Purpose / Goal | Matters Identified / Improvements |
|-------------------------------|--|--|
| 6.2.17 Operational Procedures | To provide direction to staff in the delivery of day-to-day operational tasks, as well as guidance for expected processes, systems, and controls to be maintained. | <p>Procedures are not formalised for some key financial operational functions throughout the Shire. Documenting financial functions through checklists, flow diagrams or documented procedures are key elements in establishing, understanding and enforcing financial controls.</p> <hr/> <p>Improvement:</p> <p>Undertake a review of existing operational procedures, and where required develop and implement additional procedures, to provide operational guidance aligned with adopted Council policies and legislation. Procedures should provide for activities not necessarily covered by legislation to communicate expected standards to staff from the CEO, in the course of implementing strategic direction and decisions of Council. Development of documented procedures and checklists, and / or workflow process diagrams may assist in clearly identifying controls and processes to be followed.</p> |
| 6.2.18 Procedure Changes | Process to control and manage change to procedures. | <p>Process for amending or changing procedures are not formalised. This creates opportunities for unilateral unauthorised changes to procedures and a breakdown in key controls.</p> <hr/> <p>Improvement:</p> <p>Establish a process for the development, review, amendment and authorisation of procedures, checklists and other internal control documentation, throughout the Shire to assist with managing changes to procedures.</p> |

6.0 Framework Implementation

6.3 Human Resource Management and Practices

A number of components constitute the Shire's human resource management practices and form an essential element of financial management. Each of these elements is examined in the table below.

| Component | Purpose / Goal | Matters Identified / Improvements |
|---------------------------------------|--|--|
| 6.3.1 Employee Termination Procedures | Procedures to ensure staff physical and IT access is removed and Shire assets returned at the time of departure. | <p>During testing we noted one sample where a termination letter was not available for inspection.</p> <hr/> <p>Staff representation noted the removal of ICT access was not included within the procedure for departing staff.</p> <hr/> <p>Improvement: Establish procedures or checklists to manage and document the termination of employees, ensuring access to IT systems etc is appropriately restricted and Shire assets are recovered.</p> |
| 6.3.2 Payroll Audit Trails | Procedure to allow for appropriate review and approval of changes made within the payroll system. | <p>Limited review of changes made to employee master file and parameters was evidenced when each payroll is processed. We noted changes in the audit trail report did not include details of the staff member making the change in all instances.</p> <hr/> <p>Improvement: Procedures to minimise risk of erroneous or unauthorised changes to employee details should be implemented. Regular reviews of software audit trails is one form of control and should be undertaken as a minimum. Where possible, segregation of duties should exist where those responsible for processing payroll transactions are unable to make changes to employee master file. Payroll exception reporting and review of audit trails should be undertaken to capture anomalies or unauthorised changes.</p> |

6.0 Framework Implementation

6.4 Insurance

At present, the Deputy Chief Executive Officer annually reviews the completeness of insurance, which is presented to the Chief Executive Officer for final review. Discussions are also held with the insurers annually and adjustments to policies and insurance levels made as considered appropriate. The insurance values of buildings, plant and equipment are based on the three to five yearly valuations of building assets undertaken by registered valuers.

| Component | Purpose / Goal | Matters Noted / Improvements |
|--------------------------|---|--|
| 6.4.1 Building Insurance | Insurance cover is adequately maintained. | No evidence of an evaluation of building insurance cover was noted. It is therefore unknown whether the current level of insurance for buildings is sufficient. Improvement: Develop procedures for the regular review of building valuations and adjust insurance levels regularly to sufficiently cover any potential losses. |

7.0 Framework Evaluation

Developing and implementing systems and procedures for financial management within a Shire can be a time consuming and expensive exercise with the potential to divert resources away from direct services. Considering the level of investment necessary to establish these systems, actions to monitor their effectiveness are an essential practice.

Over time, the relevancy of established controls may change, their purpose may be forgotten, or technology may offer a more efficient or effective way to achieve the initial goal. For these reasons, formal review procedures are required to ensure the resources applied to maintaining these systems, practices and controls are done so in the most efficient way.

Evidence of the monitoring of financial management is sourced from Minutes of Meetings, Registers of Disclosures and reports reviewed.

7.1 Council and Audit and Risk Committee

Regular monthly financial statements and lists of payments, made in the intervening period between each meeting, have been presented to the Council for review, as required by legislation. This provides the basis for high level oversight of the expenditure transactions of the organisation.

| Component | Purpose / Goal | Matters Noted / Improvements |
|-------------------------------------|---|--|
| 7.1.1 Council and Committee Minutes | Official record of proceedings and decisions. | We noted minutes published on the Shire website differed from the official confirmed minutes due to the list of accounts not being made available in the minutes published on the Shire website. Improvement: Ensure the minutes published on the Shire website reflect the official minutes as required by the <i>Local Government Act 1995</i> 5.96A (f). |

7.0 Framework Evaluation

7.2 Strategic and Operational Registers

A number of registers are maintained by the Shire. The table below details areas for possible improvement in relation to these registers.

| Registers | Purpose / Goal | Matters Noted / Improvements |
|-----------------------------------|---|---|
| 7.2.1 ICT Register | Register listing ICT Hardware and Software. | <p>No register was available for the ICT Hardware and Software in use was not available.</p> <p>Improvement:</p> <p>As part of managing IT risks and expenditure develop a register listing the current ICT Hardware and Software and include information required for the effective monitoring and management for this equipment and systems.</p> |
| 7.2.2 Financial Interest Register | Records details required under the Act relating to financial circumstances of relevant persons. | <p>We noticed multiple instances where an annual return was completed prior to the end of the return period.</p> <p>We noted instances where annual returns contained several blank fields / incomplete information within the forms.</p> <p>Improvement:</p> <p>Review systems and procedures to ensure the acknowledgement of receipt of all returns occurs and are appropriately filed in the register of financial interests as required by section 5.77 of the <i>Local Government Act 1995</i>.</p> |
| 7.2.3 Tender Register | Statutory register of tenders called. | <p>On inspection of the tender register we noted the following:</p> <ul style="list-style-type: none"> • Opening date of the tender submissions was prior to the closing date of submissions; • One instance where the value of the successful tender was not available; • One instance where a non tender procurement was entered into the tender register. <p>Improvement:</p> <p>Ensure the tender register complies with Regulation 17 of the <i>Local Government (Functions and General) Regulations 1996</i> for any future tenders called.</p> |
| 7.2.4 Delegation Register | Statutory register of delegations of authority. | <p>Our testing identified a number of issues with several delegations. We noted common occurrences where:</p> <ol style="list-style-type: none"> 1. Delegations are suitable for acting through 2. No power is available to be delegated. <p>Improvement:</p> <p>Review and update the delegations register to ensure the delegations are correct and are consistent with relevant legislation.</p> |

7.0 Framework Evaluation

| Registers | Purpose / Goal | Matters Noted / Improvements |
|--|--|--|
| 7.2.5 Contract Register | Provide a record of contracts entered into by the Shire. | <p>A contracts register has been established, however it does not provide information detailing the status of contracts held by the Shire.</p> <hr/> <p>Improvement: Maintain a register to record details of contracts and their status to assist with ensuring contracts are monitored and actioned as required.</p> |
| 7.2.6 Register of Member Fees and Allowances | Listing of the type, and the amount or value, of any fees, expenses or allowances paid to each council member during a financial year. | <p>A listing of fees and allowance paid to council members was not available on the website for the 2020/21 financial year.</p> <hr/> <p>Improvement: Maintain and publish on the Shire website a register of fees and allowances paid to council members for each financial year following 1 July 2020 as per the <i>Local Government (Administration) Regulations 1996</i> regulation 29C (2)(f).</p> |

7.0 Framework Evaluation

7.3 Annual Compliance Audit Returns (CAR)

Returns have been completed on a self-assessment basis and approved by Council each year. The CAR was completed in house by staff for the 2021 return periods. A matter of non-compliance was noted regarding the timeliness for a review under *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c) and *Local Government (Audit) Regulations 1996* regulation 17 and for the preparation of council members training being published on the website by the 31st of July.

7.0 Framework Evaluation

7.4 Audit Practices

The 2018-19 and 2019-20 periods were Audited by Moore Australia and the 2020-21 reporting period was audited by the Office of the Auditor General (OAG). The 2018-19, 2019-20 and 2020-21 audit report noted the operating surplus ratio and asset sustainability ratio had been below the benchmark set by the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for three years and indicated a significant adverse trend to the financial position of the Shire.

The table below details areas for possible improvement in relation to audit practices.

| Registers | Purpose / Goal | Matters Noted / Improvements |
|----------------------|--|---|
| 7.4.1 Internal Audit | Internal audit monitors the level of compliance with internal procedures and process along with assessing the appropriateness of these procedures. | <p>Currently, no internal auditors have been appointed, and limited internal audit functions have been undertaken.</p> <hr/> <p>Improvement:</p> <p>We suggest as the level of documented procedures increases, an expanded internal audit function to confirm adherence to documented policies and procedures may be required as recommended by the OAG in their report to Parliament on the Audit Results Report – Annual 2017-18 Financial Audits of Local Government Entities.</p> |

7.0 Framework Evaluation

7.5 Review required to be undertaken by the CEO

The CEO is required to undertake reviews of systems and procedures of the local government. Prior reviews have been completed within the correct structure and timeframe. We noted two recommendations from prior reviews which have not been implemented. These recommendations have been included within the report.

| Registers | Purpose / Goal | Matters Noted / Improvements |
|-----------------------------------|--|---|
| 7.5.1 Financial Management Review | Review of the appropriateness and effectiveness of the Financial Management systems and procedures of the local government required to be undertaken every three years by Regulation 5(2) of <i>Local Government (Financial Management) Regulations 1996</i> . | <p>A financial management review was not undertaken within the time period as required by Regulation 5(2) of <i>Local Government (Financial Management) Regulations 1996</i> having last been adopted in June 2018.</p> <hr/> <p>Improvement: Ensure the next review is undertaken within the next three years as required by legislation.</p> |

8.0 Other Matters

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Document Date

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Date: 05 August 2022

Appendix A – Financial Management Systems Review

The following reviews were undertaken to evaluate the appropriateness and effectiveness of financial management system controls:

| System | Description |
|--|--|
| Bank reconciliation and petty cash management | Examination of procedures and review of maintenance and management practices undertaken by staff |
| Trust funds | Examination of trust funds to determine proper accountability in the Shire's financial management system and compliance with regulatory requirements |
| Receipts and receivables | Examination of end of day banking procedures to determine if they were adequate in ensuring cash collection is being recorded and allocated properly to the general ledger. The receivables system including raising of invoices was also reviewed with limited testing in respect to allocation/posting |
| Rates | <p>The Shire's rating procedures were examined to determine if they were adequate in ensuring rates were being imposed or raised correctly. This also included inspection of the rate record, rate notices, instalment notices, valuation reconciliations and general ledger. We randomly selected and tested rate notices which included:</p> <ul style="list-style-type: none"> • sighting the notices; • re-performing the calculations; • ascertaining whether the valuations applied agree to Landgate's valuation roll/report and rates per dollar imposed are as per adopted budget; • ensuring the rate system is properly updated; and • checking proper posting to the general ledger |
| Purchases, payments and payables (including purchase orders) | <p>Random selection of payment transactions to determine whether purchases were authorised/budgeted and payments were supported, certified/authorised and correctly allocated. The Shire's purchases, payments and payables system was also examined to determine if adequate controls were in place in ensuring liabilities are properly recorded and payments are properly controlled.</p> <p>We are aware of many incidents of payment scams/frauds within the local government industry during recent years. As a consequence of this activity, we have had a specific focus on the controls around the changes to supplier details within the EFT payment system</p> |
| Payroll | <p>A sample of eight employees were randomly selected from four pay runs and detailed testing of each employee's pay was performed to help ensure:</p> <ul style="list-style-type: none"> • the employee existed; • the correct rate of pay was used; • non-statutory deduction authorities are on hand; • time sheets were properly completed and authorised; • hours worked were properly authorised; and • allocations were reasonable and correctly posted <p>The Shire's payroll system was also reviewed to determine if adequate controls were in place to help ensure wages and salaries are properly processed and payments are properly controlled</p> |
| Credit card procedures | <p>A review of the Shire's credit card procedures was performed to determine if adequate controls were in place. We randomly selected and tested credit card transactions to determine whether they are legitimate and usual in the context of the Shire's operations. This included:</p> <ul style="list-style-type: none"> • sighting tax invoices; • ascertaining whether the transaction is for bona fide Shire business; and • determining whether transactions are in line with the Shire's policy. |

Appendix A – Financial Management Systems Review

| System | Description |
|--|--|
| Fixed assets (including depreciation, acquisition, and disposal of property) | <p>The fixed assets system including controls over acquisition and disposal of assets, updating of the fixed assets register, depreciation of fixed assets and reconciliation of the fixed assets register to the general ledger was examined. A sample of asset additions and disposals were judgmentally selected, and testing performed to ensure:</p> <ul style="list-style-type: none"> • the tax invoices existed; • correct posting to the general ledger; • fixed assets register was promptly updated; and • classification of assets was correct. <p>In addition, a sample of four assets were judgmentally selected and testing performed to ensure the depreciation rates used are in line with the Shire's policy</p> |
| Cost and administration allocation | The Shire's cost and administration allocation system was examined to determine if indirect costs have been properly reallocated to various jobs/programs. This included review of the allocation basis and rates used to ensure they are appropriate and regularly reviewed |
| Financial reports controls | The format of the annual report, annual financial report and monthly financial reports were reviewed for compliance with legislative requirements |
| Budget and budget review | The 2020-21 budget document and documents surrounding budget adoption were reviewed to ensure compliance with regulatory requirements |
| Borrowings | Reconciliation of borrowings to the WATC loan schedules were examined |
| Inventory | Inventory reconciliations and stocktake procedures were examined |
| General journals | Random selection of general journals to determine whether journals were supported and certified/authorised. The Shire's general journal system was also examined to determine if adequate controls were in place to ensure journals are properly recorded and controlled. |
| Investments | A review of cash investments to ensure appropriate controls are in place to monitor, record and manage the Shire investments |
| Insurance | An insurance process review is undertaken to ensure appropriate consideration of insurance coverage is undertaken. |
| Records | Record keeping systems are reviewed to ensure the capture, storage, monitoring and disposal of financial records are appropriate and regularly reviewed |
| IT System | Review of IT systems, processes, and procedures to ensure that adequate mechanisms are in place to monitor, manage, and test IT systems and controls that are critical to the Shire's financial management. |
| Policy review | Shire financial management policies are reviewed to ensure compliance with relevant legislation |

Appendix B – Council Policies Examined

The Council Policies examined as part of the review were as follows:

Policy Topic (as at May 2022)

| ADMINISTRATION | |
|---|---|
| <ul style="list-style-type: none"> • <u>Finance</u> • Asset Management - Policy A/PA/15 • Budget Preparation - Policy F/FM/12 • Concessional Fees & Charges - Policy F/FC/1 • Credit Card - Policy F/FM/14 • Debt Collection - Policy F/FM/15 • Financial Assistance (Operating) to Incorporated Clubs and Clubs - Policy CF/DG/2 • Financial Management – Borrowing Program and Asset Financing - Policy F/FM/6 • Group Rating - Policy A/PA/13 • Halls - Hall Hire Donations A/PA/4 • Insurance on Buildings on Council Controlled Land - Policy A/I/1 • Internal Control - Policy OP/IC/1 | <ul style="list-style-type: none"> • Investments - Policy F/RI/1 • Methods of Valuation of Rateable Properties - Policy A/PA/18 • Payment of Councillor Attendance Fees and Allowance - Policy F/FM/10 • Pensioner Rebates on Rural Properties - Policy F/FM/8 • Purchasing Policy - Policy F/FM/17 • Rates Debt Collection – Hardship - Policy F/RR/1 • Regional Price Preference – Policy F/FM/14 • Related Party Disclosure – Policy F/FM/16 • Self Supporting Loans - Policy F/FM/1 • Sporting and Community Organisations using Council and Vested Land Rateability - Policy A/PA/14 • Recognition of Councillors and Staff - Policy OP/HRP/1 |

Appendix C – Plans Examined

The Plans examined as part of the review were as follows:

| Plan | Status |
|--------------------------|--|
| Strategic Community Plan | 2017 - 2026 |
| Corporate Business Plan | 2020-2024 |
| Record Keeping Plan | Approved by State Records Office 14 May 2018 |
| Annual Report | 2018-19, 2019-20 & 2020-21 |
| Annual Budget | 2019-20, 2020-21 & 2021-22 |
| Annual Budget Review | 2021-22 |
| Business Continuity Plan | 2019 |

Appendix D – Strategic and Operational Registers Examined

The registers examined as part of the review were as follows:

| Register |
|--|
| Gifts Register |
| Delegation Register |
| Tender Register |
| Financial Interests Register |
| Register – Fees & Allowances Paid to Elected Members |

Appendix E – Improvements Identified

| Risk Area | Prioritised action required |
|--|--|
| Design – Policies | Nil |
| Implementation – Strategic and Operational Plans | 6.1.2 ICT Disaster Recovery Plan |
| Implementation – Operational and Financial Procedures | 6.2.3 Cash Handling 6.2.7 Stock Control 6.2.15 Overdue Rates Debtors |
| Implementation – Human Resource Management and Practices | Nil |
| Implementation – Insurance | Nil |
| Evaluation – Council and Audit and Risk Committee | Nil |
| Evaluation – Strategic and Operational Registers | Nil |
| Evaluation – Compliance Audit Returns (CAR) | Nil |
| Evaluation – Audit Practices | Nil |
| Evaluation – CEO Reviews | Nil |

Appendix E – Improvements Identified

| Risk Area | Planned action required |
|--|--|
| Design – Policies | 5.2.1 General Policy Actions 5.2.2 F/FM/17 Purchasing Policy |
| Implementation – Strategic and Operational Plans | 6.1.1 ICT Strategic Plan 6.1.3 Business Continuity Plan |
| Implementation – Operational and Financial Procedures | 6.2.1 Batch updates 6.2.2 Credit Cards 6.2.4 Asset Reconciliations 6.2.5 Fixed Assets Register 6.2.6 General Journal Entries 6.2.8 Risk Management Procedures 6.2.9 ICT Security 6.2.10 Overhead & Administration Allocations 6.2.11 Balance Sheet Reconciliations 6.2.12 Asset Condition Data 6.2.13 Records 6.2.14 Trust Fund 6.2.16 Regulatory Reporting 6.2.17 Operational Procedures 6.2.18 Procedure Changes |
| Implementation – Human Resource Management and Practices | 6.3.1 Employee Termination Procedures 6.3.2 Payroll Audit Trails |
| Implementation – Insurance | 6.4.1 Building Insurance |
| Evaluation – Council and Audit and Risk Committee | 7.1.1 Council and Committee Minutes |
| Evaluation – Strategic and Operational Registers | 7.2.1 ICT Register 7.2.2 Financial Interest Register 7.2.3 Tender Register 7.2.4 Delegation Register 7.2.5 Contract Register 7.2.6 Register of Member Fees and Allowances |
| Evaluation – Compliance Audit Returns (CAR) | Nil |
| Evaluation – Audit Practices | 7.5.1 Internal Audit |
| Evaluation – CEO Reviews | Nil |

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