

Audit  
Committee  
Meeting  
Attachments  
September  
2019

## Attachments

### Audit Committee Meeting Minutes-May 2019

- 10.1 Financial Management System Review Report
- 10.1 Regulation 17 Report
- 10.2 Fraud and Error Assessment



Shire of  
YILGARN

*“good country for hardy people”*

*Audit  
Committee  
Meeting  
Minutes*

*2<sup>nd</sup> May 2019*

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## 1. DECLARATION OF OPENING

The Chairperson declared the meeting open at 5:00pm

## 2. ATTENDANCE

Cr O Truran	Member	(Chair)
Cr B Close	Member	
Cr G Guerini	Member	
Cr P Nolan	Member	
Cr D Pasini	Member	
Mrs. J Della Bosca	Community Member	
Mr. P Clarke	Chief Executive Officer	
Mr. C Watson	Executive Manager Corporate Services	
Mrs. N Mwale	Finance Manager	
Apologies:	Cr S Shaw	Member
	Cr W Della Bosca	Member
Observers:	Nil	
Leave of Absence:	Nil	

## 3. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

3.1 Audit Committee Meeting, Friday 21<sup>st</sup> February 2019 - (Minutes Attached)

**AC4/2019**

***Moved Cr Guerini/Seconded Cr Close***

**That the minutes from the Audit Committee Meeting held on the 21<sup>st</sup> February 2019 be confirmed as a true record of proceedings.**

**CARRIED (5/0)**

## 4 PRESENTATIONS

Council's appointed Auditor Mr Wen-Shien Chai joined the Committee meeting at 5:02pm via teleconference to explain the purpose of the Audit Entrance Meeting with the committee. Mr Chai indicated the Audit Entrance Meeting is intended to formalise and promote effective communication between Councils Audit Committee and Councils Auditor in a more structured process, which is the Office of Auditor Generals preferred method.

Mr Chai went on to briefly discuss the contents of the Audit Strategy Memorandum document that was to be presented to the Committee. Mr Chai highlighted the additional work that will

be required with the implementation of several new accounting standards and went on to mention amendments to the Local Government Act 1995 and associated Regulations that could impact Councils financial reporting, these included fair value reporting being increased from 3 years to 5 years for each asset category.

Finally, Mr Chai discussed the process for the auditors signing off on the annual financial report. This included that the Audit Exit Meeting will discuss the draft audit reports with the Auditor and Chief Executive Officer signing off on the reports once the Audit Committee has discussed them. It was highlighted that this will require several Audit Committee meetings to get to a point of presenting the final report to Council and as a result, early completion of the audit process is necessary.

Mr Wen-Shien Chai left the meeting at 5:20pm.

## **5. Officers Report - Executive Manager Corporate Services**

### **5.1 2018/19 Annual Financial Audit – Audit Strategy Memorandum**

<b>File Reference</b>	<b>8.2.2.1</b>
<b>Disclosure of Interest</b>	<b>Nil</b>
<b>Voting Requirements</b>	<b>Simple Majority</b>
<b>Attachments</b>	<b>Confidential Attachment 1 – 2018/2019 Audit Strategy Memorandum.</b>

### **Purpose of Report**

The purpose of this report is to provide the Audit Committee details of the Audit Strategy Memorandum as provided by the Shire's Auditors, Moore Stephens WA.

### **Background**

As Council's current audit agreement with Moore Stephens Pty Ltd will be in force until the completion of the 2020/2021 audit, the requirements of Regulation 7 of the Local Government (Audit) Regulations 1996 are currently complied with. These requirements are:

#### **7. Agreements with auditors, contents of**

An agreement between a local government and an auditor is to include —

- (a) the objectives of the audit; and
- (b) the scope of the audit; and
- (c) a plan for the audit; and
- (d) details of the remuneration and expenses to be paid to the auditor; and
- (e) the method to be used by the local government to communicate with, and supply information to, the auditor.

## Comment

Moore Stephens Pty Ltd have requested that the Audit Committee review and note the attached *Audit Strategy Memorandum* as part of the familiarisation and preparation process for when Council is audited by the Office of the Auditor General (OAG).

Once Council transitions to being audited by the AOG, it is anticipated that there will be an audit agreement with the OAG to satisfy the requirements of Regulation 7 of the Local Government (Audit) Regulations 1996, but this is expected to be on an annual basis and include an Audit Strategy as evidenced by the following excerpt for the AOG's "*Audit Practice Statement*".

### The audit process

All of the audits we perform have similar elements, as demonstrated by the following table.

Phase	Level of activity	Financial statement audit	Performance audit
Planning	Preliminary planning	Establish the terms of engagement and agency service requirements. Select the audit team. Generally we refer to the <i>Financial Management Act 2006</i> .	Topic selection process identifies priority topics. This process is further explained on page 14. Select the audit team. Proposal and plan for preliminary audit developed and approved.
		Assess and respond to engagement risk. Assess and respond to entity risk. Assess and respond to system risk. Understand the agency's business, control environment and accounting process. Perform preliminary analytical procedures and determine planning materiality.	Agency CEO notified of preliminary audit and lines of inquiry. Communication protocols agreed. Gather and analyse evidence to determine scope, lines of inquiry, criteria and availability and reliability of audit evidence.
	Develop audit plan	Assess audit risk at the financial statement and assertion level and determine the audit strategy and audit plan including: • specific risk identification • reliance on control activities • level of substantive testing including analytical review procedures and other substantive procedures. Discuss audit strategy and plan, timetable and estimated cost with agency's audit committee/management at entrance interview.	Deliver preliminary audit report to confirm benefits of proceeding with audit now. Quality threshold 1 hot review and approval to proceed. Develop audit plan and program.
Execution	Perform audit plan	Perform tests of controls (if applicable) and substantive tests, and evaluate results. Perform information systems reviews and evaluate results. Perform financial statement and performance indicator audits, and evaluate results.	Conduct fieldwork, collect and progressively analyse evidence. Keep agency informed of progress and emerging findings.
Agency reporting	Conclude and report	Perform subsequent events review, obtain management and solicitors representations, and prepare audit summary memorandum. Form audit opinion and report findings to agency in draft management letter. Form final audit opinion and report findings to agency in final management letter and at an exit interview with agency's audit committee/management. Provide audit opinion for inclusion in agency's annual report, for tabling in Parliament by the Minister within 90 days of agency's end of financial year. Advise Minister of management letter items raised with the agency.	Develop and test findings, conclusions and recommendations. Deliver indicative findings report (IFR). Quality threshold 2 hot review. Approval to proceed to draft summary of findings Discuss IFR/management letter findings with CEO or senior management in each agency reviewed.

### **Statutory Environment**

There are no statutory requirements requiring the Audit Committee to consider an "Audit Strategy Memorandum" at this time.

### **Strategic Implications**

There are no strategic implications as a result of this report.

### **Policy Implications**

There are no policy implications as a result of this report.

### **Financial Implications**

There are no financial implications as a result of this report.

### **Officer Recommendation**

***AC5/2019***

***Moved Cr Nolan/Seconded Cr Close***

**That the Audit Committee note the Audit Strategy Memorandum as provided by the Shire's Auditors, Moore Stephens WA as detailed in the Confidential Attachment.**

**CARRIED (5/0)**



## 5. Officers Report - Executive Manager Corporate services

### 5.2 2018/19 Fraud and Error Assessment

<b>File Reference</b>	<b>8.2.3.1</b>
<b>Disclosure of Interest</b>	<b>Nil</b>
<b>Voting Requirements</b>	<b>Simple Majority</b>
<b>Attachments</b>	<b>Attachment 1 – Fraud &amp; Error Assessment by the Audit Committee.</b>

### Purpose of Report

The Audit Committee is requested to endorse the 2018/2019 Fraud and Error Assessment.

### Background

Australian Audit Standards, ASA 240 - *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report (as amended to 30 May 2017)*, requires Councils appointed auditor to make enquiries of both management and those charged with governance of the Shire as to their assessment of the risk that the financial report may be materially misstated due to fraud and or error.

### Comment

The Local Government Act 1995, s7.10 – Power of Auditor, s7.11 – Power to Demand Production of Books Etc. and s7.12A Duties of a Local Government with Respect to Audits requires Council and management to supply or make available all information requested by Councils auditor. The requirement to provide an assessment of possible fraud or error as required by ASA 240 would fall within the requirements of these sections of the Act.

### Statutory Environment

#### Local Government Act 1995

#### 7.10. Powers of auditor

- (1) An auditor —
  - (a) has a right of access at all reasonable times to such books, accounts, documents and assets of the local government as are, in the opinion of the auditor, necessary to allow the audit to be conducted; and
  - (b) may require from a member or an employee of the local government —
    - (i) any book, account, document or asset of the local government; or
    - (ii) any information, assistance or explanation, necessary for the performance of the duty of the auditor in relation to the audit; and

- (c) may, at the expense of the local government obtain and act upon a legal opinion on a question arising in the course of an audit.
- (2) In this section and in section 7.11 **employee** includes a person who has a contract for services with the local government.

#### **7.11. Power to demand production of books etc.**

For the purpose of an audit, inspection or inquiry, an auditor has authority at all reasonable times and without notice to demand from the local government and its employees, the production of books, accounts, vouchers, papers, documents, records, assets and cash in hand, belonging to the local government or being in the custody or control of it or any of its employees.

#### **7.12A. Duties of local government with respect to audits**

- (1) A local government is to do everything in its power to —
  - (a) assist the auditor of the local government to conduct an audit and carry out his or her other duties under this Act in respect of the local government; and
  - (b) ensure that audits are conducted successfully and expeditiously.
- (2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.
- (3) A local government is to examine the report of the auditor prepared under section 7.9(1), and any report prepared under section 7.9(3) forwarded to it, and is to —
  - (a) determine if any matters raised by the report, or reports, require action to be taken by the local government; and
  - (b) ensure that appropriate action is taken in respect of those matters.
- (4) A local government is to —
  - (a) prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
  - (b) forward a copy of that report to the Minister,

by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.

*[Section 7.12A inserted by No. 49 of 2004 s. 8.]*

*Auditing Standard ASA 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*

*Management and Others within the Entity*

18. The auditor shall make enquiries of management regarding:

- (a) Management's assessment of the risk that the financial report may be materially misstated due to fraud, including the nature, extent and frequency of such assessments; (Ref: Para. A13-A14)
- (b) Management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist; (Ref: Para. A15)
- (c) Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; and
- (d) Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.

19. The auditor shall make enquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. (Ref: Para. A16-A18)

*Those Charged with Governance*

- 21. Unless all of those charged with governance are involved in managing the entity, the auditor shall obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. (Ref: Para. A20-A22)
- 22. Unless all of those charged with governance are involved in managing the entity, the auditor shall make enquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These enquiries are made in part to corroborate the responses to the enquiries of management.

**Strategic Implications**

There are no strategic implications as a result of this report.

**Policy Implications**

There are no policy implications as a result of this report.

### Financial Implications

There are no financial implications as a result of this report.

### Officer Recommendation

**AC6/2019**

***Moved Cr Guerini/Seconded Cr Pasini***

**That the Audit Committee:**

- **believe that the current policies and procedures adopted by Council are adequate to minimise the risk of fraud.**
- **is not aware of any occasions where these policies and procedures have not been adhered to resulting in fraud.**
- **is not aware of any occasion when fraud has occurred during the past year.**
- **does not have at this time any issues that it would like the auditors to consider over and above the current audit process.**

**CARRIED (5/0)**

## 6 CLOSURE

With there being no further business to discuss the Chairperson declared the meeting closed at 5:26pm.

# Attachment

## 10.1

Financial  
Management  
System  
Review



# Shire of Yilgarn 2019 Financial Management System Review



16 August 2019

**Mr P Clarke**  
**Chief Executive Officer**  
**Shire of Yilgarn**  
**PO Box 86**  
**SOUTHERN CROSS WA 6426**

Dear Peter

**2019 FINANCIAL MANAGEMENT SYSTEMS REVIEW**

We are pleased to present the findings and recommendations resulting from the Shire of Yilgarn (the "Shire") *Local Government (Financial Management) Regulation 1996*, Financial Management System Review.

This report relates only to procedures and items specified within our Services Proposal dated May 2019 and does not extend to any financial report of the Shire.

We recommend this report be read in conjunction with the 2019 Regulation 17 Review Report prepared by AMD dated 16 August 2019.

We would like to thank Cameron, Nalukui and the finance team for their co-operation and assistance whilst conducting our review.

Should there be matters outlined in our report requiring clarification or any other matters relating to our review, please do not hesitate to contact Matthew Ristovic or myself.

Yours sincerely  
**AMD Chartered Accountants**



**TIM PARTRIDGE FCA**  
**Director**

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**Inherent limitations**

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to review, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. This review is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are on a sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by Shire of Yilgarn management and personnel. We have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted with the report. We are under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form unless specifically agreed with the Shire of Yilgarn. The review findings expressed in this report have been formed on the above basis.

**Third party reliance**

This report was prepared solely for the purpose set out in this report and for the internal use by management of the Shire of Yilgarn. This report is solely for the purpose set out in the 'Scope and Approach' of this report and for Shire of Yilgarn's information, and is not to be used for any other purpose or distributed to any other party without AMD's prior written consent. This review report has been prepared at the request of Shire of Yilgarn's Chief Executive Officer or its delegate in connection with our engagement to perform the review as detailed in our Service Proposal. Other than our responsibility to the Council and management of the Shire of Yilgarn, neither AMD nor any member or employee of AMD undertakes responsibility arising in any way from reliance placed by a third party, including but not limited to the Shire of Yilgarn external auditor, on this review report. Any reliance placed is that party's sole responsibility.

## 1. Executive Summary

### 1.1. Background and Objectives

The primary objective of our Financial Management System Review (FMSR) was to assess the adequacy and effectiveness of systems and controls in place within the Shire (the “Review”).

The responsibility of determining the adequacy of the procedures undertaken by us is that of the Chief Executive Officer (CEO). The procedures were performed solely to assist the CEO in satisfying his duty under Section 6.10 of the Local Government Act 1995 and Regulation 5(1) of the Local Government (Financial Management) Regulations 1996.

Our findings included within this report are based on the site work completed by us on the 8<sup>th</sup> to 12<sup>th</sup> of July 2019. Findings are based on information provided and available to us during and subsequent to this site visit.

### 1.2. Summary of Findings

The procedures performed and our findings on each of the focus areas are detailed in the following sections of the report:

- Section 2 – Collection of money;
- Section 3 - Custody and security of money;
- Section 4 - Maintenance and security of the financial records;
- Section 5 - Accounting for municipal or trust transactions;
- Section 6 - Authorisation for incurring liabilities and making payments;
- Section 7 - Maintenance of payroll, stock control and costing records; and
- Section 8 - Preparation of budgets, budget reviews, accounts and reports required by the Act or the regulations.

Following the completion of our review and subject to the recommendations outlined within sections 2 to 8, we are pleased to report that in context of the Shire’s overall internal control environment, policies, procedures and processes in place are appropriate, and have been operating effectively at the time of the review.

Findings reported by us are on an exceptions basis, and do not take into account the many focus areas tested during our review where policies, procedures and processes were deemed to be appropriate and in accordance with better practice.

The review was undertaken in conjunction with the Local Government (Audit) Regulations 1996, Regulation 17 Risk Review. We recommend this report be read in conjunction with the Audit Regulation Risk 17 Review report to obtain a holistic view of all relevant review findings. This report does not include recommendations or comments raised within the Audit Regulation 17 Risk Review report prepared and issued by AMD in August 2019.

The following tables provide a summary of the findings raised in this report:

	Significant	Moderate Risk	Minor Risk
Number of issues reported	1	4	9

*For details on the review rating criteria, please refer to Section 9.*

Ref	Issue	Risk Rating
<b>2. Collection of money</b>		
<b>Sundry Debtor Recoverability</b>		
2.2.1	A significant proportion of sundry debtor balances at 31 May 2019 were aged 90 days + and we suggest follow up action be undertaken in relation to aged debtor balances noted within the end of month reconciliation.	Moderate
<b>Daily Banking Reconciliations</b>		
2.2.2	Daily banking reconciliations are not signed and dated by both the preparer and independent reviewer.	Minor
<b>3. Custody and security of money</b>		
We have no findings to report in respect to the custody and security of money.		
<b>4. Maintenance and security of financial records</b>		
<b>Fixed Asset Reconciliations</b>		
4.2.1	Fixed assets had not been reconciled throughout 2018/19 financial year.	Moderate
<b>Security of Keys</b>		
4.2.2	Keys cabinet at the Shire Administration Office left unlocked at the time of our inspection, and there is no key register maintained at the Depot to record the movement of keys in respect to the depot plant and vehicles.	Moderate
<b>Information Technology</b>		
4.2.3	Consideration be given to further enhancements of the Shire's IT framework.	Moderate
<b>Synergy User Access Management</b>		
4.2.4	User accounts within Synergy to be reviewed and vacant accounts disabled or removed as necessary.	Minor
<b>5. Accounting for municipal or trust transactions</b>		
<b>Review of Trust Balances</b>		
5.2.1	A review of trust balances has not been completed for a number of years.	Minor
<b>Insurance Claims Register</b>		
5.2.2	We recommend a register of insurance claims be developed to assist in the management and monitoring of insurance claims.	Minor
<b>6. Authorisation for incurring liabilities and making payments</b>		
<b>Purchase Orders</b>		
6.2.1	We identified exceptions whereby purchase orders were dated after the corresponding supplier invoice.	Minor
<b>7. Maintenance of payroll, stock control and costing records</b>		
<b>Payroll</b>		
7.2.1	Superannuation has not been paid on leave loading, (this matter was being investigated at the time of our review). Termination checklist not completed for an employee who ceased employment with the Shire. Incorrect wording observed within the Shire's EBA in relation to "adverse working conditions allowance".	Significant
<b>Excessive Leave Balances</b>		
7.2.2	Four employees had annual leave balances in excess of 300 hours and two of these employees were also entitled to long service leave.	Minor
<b>Fuel Card/Fuel Usage</b>		
7.2.3	There is currently no policy addressing the use of fuel cards or access to council's fuel stocks. In addition there is no overall analysis of fuel usage completed for each asset.	Minor
<b>Human Resource Policies and Procedures</b>		
7.2.4	A number of HR policies and procedures have not been regularly reviewed and may require updating.	Minor
<b>8. Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations</b>		
<b>Investment Policy</b>		
8.2.1	Consideration be given to specifying the number of quotes required prior to reinvestment of funds to ensure a competitive rate of return is received.	Minor

## 2. Collection of money

### 2.1. Scope and approach

We completed site visits to the following locations operated by the Shire:

- Yilgarn Administration Office;
- Yilgarn Community Resource Centre;
- Yilgarn Caravan Park; and
- Yilgarn Depot.

During the visits to each site (where applicable) we:

- Documented internal controls, procedures and reconciliations in relation to all sources of income;
- Counted petty cash and float on hand ensuring materially correct;
- Reviewed fees and charges schedule and ensure adequate internal controls in place over receipting;
- Tested collection, receipting, invoicing and posting procedures over cash receipts on a sample basis; and
- Reviewed credit control procedures in respect to sundry debtors and rate debtors.

### 2.2. Detailed findings and recommendations

#### 2.2.1. Sundry Debtor Recoverability

**Finding Rating: Moderate**

The sundry debtor listing as at 31 May 2019 included \$19,362 of debtor balances within the 90+ days aged category. This represented 44.8% of the total \$43,141 sundry debtors outstanding at 31 May 2019. Furthermore, the summary page within the end of month reconciliation completed for sundry debtors states "Refer to comments on the attached ageing debtors report"; however no comments were included within the attached report.

#### Implications / Risks

Risk of misstatement of accounts receivable, provision for debtor impairment and bad debts expense.

#### Recommendation

As part of the end of month reconciliation process for sundry debtors, we recommend a review of the sundry debtor listing be completed to ensure adequate debtor follow up procedures are undertaken. Where appropriate follow up has been taken for an extended period, which may include utilising the services of an external debt collection agency, any debtors which are subsequently not expected to be collected should be provided for or written off as a bad debt. Any follow up actions or relevant comments on the status of aged balances should be included within the end of month reconciliations.

#### Management Comment

As part of the monthly reporting process to Council, staff will now provide a report on those debtors exceeding 90 days.

**Responsible Officer:**  
Cameron Watson

**Completion Date**  
September 2019

### **2.2.2. Daily Banking Reconciliations**

#### ***Finding Rating: Minor***

During our review of processes undertaken in relation to cash handling and banking we identified the following:

- Daily banking reconciliations completed at the administration office are not signed and dated by the preparer or reviewer- we acknowledge the reconciliations are checked the following day by the Finance Manager and evidence exists in the form of manual notes and tick marks however there is no sign off to evidence whom completed the review function; and
- The end of day reconciliation of cash takings prepared at the Caravan Park and Community Resource Centre are not signed by the preparer and furthermore are not signed off as evidence of review by a staff member at the administration office when monies are presented for banking.

#### **Implications / Risks**

Increased risk of fraud or error being undetected and lack of documentation to support internal control processes.

#### **Recommendation**

Whilst we acknowledge a process is in place which results in daily banking completed by Shire administration office staff being subject to independent review, we recommend the preparation and review process is evidenced by formal sign off and date by both the preparer (CSO) and independent reviewer (Manager of Finance).

#### **Management Comment**

Acknowledged and actions have already been taken whereby a stamp has been produced for signing by both the preparer and independent reviewer.

#### **Responsible Officer:**

Nalukui Mwale

#### **Completion Date:**

August 2019

### **3. Custody and security of money**

#### **3.1. Scope and approach**

- Conducted site visits of cash collection points to review the controls and procedures over the collection, receipting, recording and banking of cash collected offsite; and
- Reviewed the security of cash and banking procedures to ensure the appropriate controls and procedures are in place.

#### **3.2. Detailed findings and recommendations**

Our review indicated key underlying policies and processes in relation to the custody and security of money by the Local Government are appropriate, in line with best practice and operating effectively.

Accordingly, we have no recommendations to raise in respect to the custody and security of money.

## 4. Maintenance and security of the financial records

### 4.1. Scope and approach

- Reviewed information technology systems to assess physical security, access security, data backups, contingency plans, compliance and systems development; and
- Reviewed registers maintained (including key register, tender register, gifts and travel registers etc.) and Council minutes.

### 4.2. Detailed findings and recommendations

#### 4.2.1. Fixed Asset Reconciliations

##### *Finding Rating: Moderate*

Discussions indicated fixed asset reconciliations had not been completed throughout the 2018/19 financial year. We understand fixed assets are currently unable to be reconciled due to an error pertaining to 30 June 2018 which was yet to be fully investigated and corrected at the time of our onsite review.

##### **Implications / Risks**

Risk of material misstatement within the financial records.

##### **Recommendation**

While we understand work has already commenced to investigate the corrective action required, we recommend this process be finalised as soon as practical with fixed asset reconciliations completed monthly thereafter.

##### **Management Comment**

Acknowledged and quarterly balances will now be undertaken.

##### **Responsible Officer:**

Cameron Watson

##### **Completion Date:**

September 2019

#### **4.2.2. Security of Keys**

##### ***Finding Rating: Moderate***

We noted the following in relation to the security of keys managed by the Shire:

- Building keys are retained at the Shire Administration Office in lockable cabinets, however at the time of our inspection we noted the keys to access the cabinets were kept in the cabinet locks (therefore the cabinets were not locked); and
- There is no key register maintained at the Shire depot to record the movement of keys in respect to depot plant and vehicles.

##### **Implications / Risks**

Reduced security over keys resulting in increased risks of theft, damage and unauthorised use of Council property.

##### **Recommendation**

We recommend:

- The key cabinets maintained at the Shire are locked when not being accessed; and
- A key register be maintained at the depot, requiring keys to be signed “out” and “in”, to ensure the movement of keys can be tracked.

##### **Management Comment**

In respect to the key cabinets in the Shire Office, the keys to the cabinet are locked in the safe overnight but are left in the cabinet for easy access during office hours. It is considered that this procedure is suitable for the small office environment that we work in.

In relation to a key register being maintained at the Depot, investigations are currently being made to ensure employees can best meet this recommendation.

##### **Responsible Officer:**

Cameron Watson/Robert Bosenberg

##### **Completion Date:**

December 2019



#### **4.2.3. Information Technology**

##### ***Finding Rating: Moderate***

We noted the following in relation to Information Technology:

- There is no current written agreement with the company who provides external IT support to the Shire;
- The current Business Continuity Plan (BCP) was developed in 2013, and requires review/ updating;
- There is no formal documented Disaster Recovery Plan (DRP) in place for the Shire;
- Computer terminals do not automatically lock after periods of inactivity; and
- There is currently no requirement for user passwords to be routinely changed, nor are there password complexity requirements.

##### **Implications / Risks**

- Contractual responsibilities of external IT Supplier not clearly defined, including confidentiality of Shire records;
- Risk of significant delays and business interruption in the event of unforeseen circumstances;
- Increased risk of unauthorised access to systems; and
- Reduced security in respect to passwords.

##### **Recommendation**

We recommend:

- A formal contract or service agreement be entered into with the Shire's external IT Support Company;
- The Shire's BCP be reviewed and updated as required. The updated BCP should encompass a DRP and once the DRP has been developed it should be formally tested to ensure it is appropriate;
- Computer terminals automatically "lock" after pre-determined periods of inactivity; and
- Consideration be given to password complexity requirements, e.g containing a combination of letters and numbers, in addition to the requirement for users to regularly change their passwords.

##### **Management Comment**

- A Service Agreement with IT Support Company will be developed.
- The Business Continuity Plan will be reviewed and a Disaster Recovery Plan will be incorporated within the Plan.
- All Computer terminals will be adjusted to automatically lock after periods of in-activity.
- Discussions undertaken with staff regarding the regular changing of passwords and this was not favoured.

##### **Responsible Officer:**

Cameron Watson

##### **Completion Date:**

February 2020

#### **4.2.4. Synergy User Access Management**

##### ***Finding Rating: Minor***

Our review of user access levels within the Shire's financial reporting system (Synergy) identified numerous user accounts still exist for staff who were no longer employed by the Shire.

##### **Implications / Risks**

Increased risk of unauthorised access.

##### **Recommendation**

We recommend the Shire undertakes a review of all Synergy user accounts and removes or disables user accounts which are no longer required.

##### **Management Comment**

Acknowledged

##### **Responsible Officer:**

Cameron Watson

##### **Completion Date:**

December 2019

## 5. Accounting for municipal or trust transactions

### 5.1. Scope and approach

- Reviewed all monthly reconciliations including bank, sundry debtors, sundry creditors, fixed assets, rates debtors and rateable value reconciliations ensuring correctly reconciled and reviewed;
- Reviewed and tested in detail most recent municipal and trust bank reconciliations prepared;
- Reviewed processes in respect to BAS, FBT Return and other statutory returns preparation;
- Reviewed use of reserve funds and determined whether changes in reserve purposes have been budgeted or public notice was provided;
- Reviewed trust ledger balances; and
- Reviewed policies and procedures in respect to insurance, recording claims and insuring newly acquired assets.

### 5.2. Detailed findings and recommendations

#### 5.2.1. Review of Trust Balances

##### *Finding Rating: Minor*

Discussions held with management indicate a detailed review of trust balances has not been undertaken for a number of years.

##### **Implications / Risks**

Risk the Shire continues to hold monies in trust which are to be refunded or recognised as income in the event that the amount relates to performance bonds where conditions have not been met.

##### **Recommendation**

We recommend a detailed review of the trust ledger balances listing be completed periodically to determine if monies are required to be returned or recognised as income where related obligations have not been met.

##### **Management Comment**

Staff had already identified this as a priority following discussions with it the Shire Auditors, Moore Stephens, and a detailed review of itemised balances within the Trust Fund will be undertaken.

##### **Responsible Officer:**

Nalukui Mwale

##### **Completion Date:**

December 2019

### **5.2.2. Insurance Claims Register**

#### ***Finding Rating: Minor***

Our inquiries indicated the Shire does not maintain a register of insurance claims including details such as the date of the accident/incident, a description of the accident/incident, the date the claim was lodged with the insurer and the outcome of the claim in place.

#### **Implications / Risks**

Risk of insurance claims being managed incorrectly and outstanding claims not followed up on a timely basis.

#### **Recommendation**

We recommend a register of insurance claims be developed and maintained.

The register may include details such as the date of the accident/incident, a small description of the accident/incident, the date the claim was lodged with the insurer and the outcome of the claim.

This information will enable a regular review of the insurance register to be performed to assess whether appropriate and timely action is being undertaken in respect to open claims.

#### **Management Comment**

Will liaise with Council's Insurer, LGIS, and their Risk Management Coordinator regarding the establishment of an Insurance Claims Register to incorporate the recommended information.

## 6. Authorisation for incurring liabilities and making payments

### 6.1. Scope and approach

- Reviewed controls and procedures over the authorisation of purchase orders and making of payments;
- Tested sample of payments to ensure compliance with stated procedures;
- Reviewed credit card processes and procedures, and testing transactions on a sample basis;
- Reviewed petty cash processes and procedures, and testing transactions on a sample basis;
- Completed sample testing of asset additions and asset disposals;
- Reviewed asset capitalisation and depreciation policy and ensure compliance with stated policies; and
- Reviewed new loans received ensuring budgeted for or public notice provided.

### 6.2. Detailed findings and recommendations

#### 6.2.1. Purchase Orders

##### ***Finding Rating: Minor***

We identified exceptions whereby purchase orders were dated after the invoice. Examples can be provided upon request.

##### **Implications / Risks**

Risk of non-compliance with the Shire's policies/ procedures specifically the lack of management regarding appropriate planning and approval of expenditure prior to being incurred by the Shire.

##### **Recommendation**

We recommend purchase orders are raised and approved prior to the goods/ services being provided to the Shire.

##### **Management Comment**

Acknowledge and management currently undertaking education process with staff to ensure PO's raised and approved in accordance with the above recommendation.

##### **Responsible Officer:**

Cameron Watson

##### **Completion Date:**

September 2019

## 7. Maintenance of payroll, stock control and costing

### 7.1. Scope and approach

- Completed site visit to the depot to review security over stocks held and allocation / costings of stocks used (including fuel and inventory stocks);
- Reviewed of the allocation of public works overheads, plant operating costs and administration overheads completed;
- Reviewed payroll controls and procedures to ensure effective controls are in place, and complete tests on a sample basis to ensure these controls were operating effectively;
- Reviewed procedures and policies in place in respect of human resource management legislative and compliance requirements, recruitment, performance appraisal, disciplinary and termination procedures and leave entitlements;
- Reviewed listing of leave taken by employees ensuring authorised leave forms completed; and
- Reviewed annual leave balances and identify employees with more than eight weeks annual leave.

### 7.2. Detailed findings and recommendations

#### 7.2.1. Payroll

##### ***Finding Rating: Significant***

During our sample payroll testing, we noted:

- Superannuation has not been applied to leave loading, however we acknowledge the Shire was aware of this at the time of our review and has been investigating and quantifying underpayments;
- There was no termination checklist completed for employee 234; and
- The Shire's EBA specifies that the adverse working conditions are paid in accordance with conditions outlined in the Award, however we understand the allowance is paid on all hours worked by outside employees. We acknowledge WALGA was consulted to develop the Shire's current EBA.

##### **Implications / Risks**

- Risk superannuation underpaid to employees;
- Increased risk of loss to the Shire if termination procedures are not completed prior to termination; and
- Wording of EBA does not reflect the actual arrangement regarding adverse working conditions allowance.

##### **Recommendation**

We recommend:

- Appropriate action continue to be taken to calculate and pay superannuation previously underpaid;
- Termination checklists be completed for all terminated employees and are subject to review and approval by the employee's manager/ supervisor; and
- When the Shire next renews its EBA (current version will not expire until 2021) additional consideration be given to the wording relating to the adverse working conditions allowance.

**Management Comment**

- Council has recognised the underpaid superannuation and has a budgeted amount in its 2019/2020 financial to address this matter
- Termination checklists are normally undertaken however the issue relating to the reported employee No.234, was that the payroll was being undertaken by a staff member in the absence of the Payroll/HR Officer. It is considered that this was a once off event.
- Notation has been made in respect to addressing the wording in the EBA when it is up for review in 2021.

**Responsible Officer:**  
Susann Bosenberg

**Completion Date:**  
June 2020

### **7.2.2. Excessive Leave Balances**

#### ***Finding Rating: Minor***

Review of annual leave accrued as at 30 June 2019 indicated four employees had annual leave balances in excess of 300 hours, we further note that two of these employees are also entitled to Long Service Leave as at 30 June 2019.

#### **Implications / Risks**

The cost to the Shire is greater if leave is not paid out on a regular basis due to:

- The cumulative effect of salary increases over a period of time;
- Recreational leave enhances employee performance; and
- It is a fundamental principle of good internal control that all employees take regular leave.

#### **Recommendation**

We recommend employees take regular leave through ongoing management of leave scheduling and leave liabilities.

#### **Management Comment**

Acknowledged.

#### **Responsible Officer:**

Peter Clarke/Cameron Watson

#### **Completion Date:**

June 2020



### **7.2.3. Fuel Card/Fuel Usage**

#### ***Finding Rating: Minor***

There is currently no documented fuel card/usage policy in place. In addition, the Shire is currently not holistically analysing fuel usage by asset for inappropriate use i.e. there is no analysis to review fuel usage on an overall basis for each asset, on a periodic or sample basis.

#### **Implications / Risks**

Increased risk of fuel misappropriation.

#### **Recommendation**

We recommend:

- A fuel card/usage policy be developed and implemented to ensure fuel cards are appropriately used and fuel stocks are not misappropriated; and
- The Shire investigate an appropriate method to analyse the use of fuel holistically, i.e. create a spreadsheet that combines the fuel purchased on fuel cards and fuel issued from the Depot by vehicle and consider unusual and abnormal fuel usage patterns.

#### **Management Comment**

- Will be developing a Fuel Card/Usage Policy for presentation to Council for adoption.
- Investigations to be undertaken to implement a fail-safe system (electronic bowser) of recording fuel usage at the Shire Depot. It is considered that Fuel Card usage is adequately recorded on the Motor Charge statements forwarded to Council for payment.

#### **Responsible Officer:**

Cameron Watson/Robert Bosenberg

#### **Completion Date:**

June 2020

#### **7.2.4. Human Resources Policies and Procedures**

##### ***Finding Rating: Minor***

Our review of the internal Human Resources policies and procedures identified the following may be out of date and therefore require review:

- Occupational Health & Safety Policy – last reviewed on 7 September 2017;
- Training & Development Policy – last reviewed on 1 October 2012;
- Injury Management and Rehabilitation Policy – dated August 2008;
- OSH Responsibilities Procedure – issue date 22 November 2017;
- Training and Development Procedure – issue date 22 November 2017;
- Consultation and Communication Procedure – issue date 22 November 2017;
- OSH Committee Terms of Reference Procedure – issue date 22 November 2017;
- OSH Issue Resolution Procedure – issue date 22 November 2017;
- Accident Incident Hazard Reporting and Investigation Procedure – issue date 22 November 2017;
- Workers Compensation and Claims Procedure – issue date 13 November 2017;
- Personal Protective Equipment & Clothing Procedure – issue date 22 November 2017; and
- Handling and Disposal of Sharps Procedure – issue date 22 November 2017.

##### **Implications / Risks**

Procedures may not reflect current practices or current requirements.

##### **Recommendation**

We recommend a review of all Human Resources policies and procedures be completed at least bi-annually.

##### **Management Comment**

Will commence working with our Regional Risk Coordinator through Council's Insurers (LGIS) with the intent to update the above Policies to ensure that they meet all OSH requirements.

##### **Responsible Officer:**

Peter Clarke/Susann Bosenberg

##### **Completion Date:**

June 2020

## 8. Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations

### 8.1. Scope and approach

- Reviewed policy and procedure manual;
- Reviewed the procedures for preparation of the monthly financial statements, annual financial statements and annual Budget, including assessment of accounting policy, notes and applicable reporting requirements and efficiency of the process;
- Reviewed monthly financial statements ensuring presented to Council within two months and information contained within monthly financial statements in accordance with Regulation 34 of Local Government (Financial Management) Regulations 1996;
- Reviewed the mid-year budget review to ensure compliance with Regulation 33A of the Local Government (Financial Management) Regulations 1996 and assessment of budgetary expenditure controls in place;
- Ensured prior year audit report and management letter have been presented to audit committee and Council; and
- Reviewed compliance with Part 6 of the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.

### 8.2. Detailed findings and recommendations

#### 8.2.1. Investment Policy

##### *Finding Rating: Minor*

Our review of the Investment Policy identified it does not specify a minimum number of quotes to be obtained prior to reinvesting funds with financial institutions.

##### **Implications / Risks**

Risk Council may not receive a competitive rate of return on invested funds.

##### **Recommendation**

We recommend consideration is given to whether this requirement be included within the Shire's investment policy.

##### **Management Comment**

Finance staff have acknowledged that they work with Council's bankers to direct surplus funds into a 90 Day Investment Account and do not normally seek quotations for better investment rates. Staff will now source interest rates from other financial institutions and for this process to be built into Council's Investment Policy.

##### **Responsible Officer:**

Cameron Watson/Nalukui Mwale

##### **Completion Date:**

December 2019

## 9. Guidance on Risk Assessment

Risk is uncertainty about an outcome. It is the threat that an event, action or non-action could affect an organisation's ability to achieve its business objectives and execute its strategies successfully. Risk is an inherent component of all service activities and includes positive as well as negative impacts. As a result not pursuing an opportunity can also be risky. Risk types take many forms – business, economic, regulatory, investment, market, and social, just to name a few.

Risk management involves the identification, assessment, treatment and ongoing monitoring of the risks and controls impacting the organisation. The purpose of risk management is not to avoid or eliminate all risks. It is about making informed decisions regarding risks and having processes in place to effectively manage and respond to risks in pursuit of an organisation's objectives by maximising opportunities and minimising adverse effects.

Our guidance to risk classification in accordance with Risk Management- Principles and Guidelines Standard AS/ISO 31000:2018 is as follows:

Risk is the probability that an event or action may adversely affect the organisation. Risk is assessed based on the relationship between consequence and likelihood.

- Likelihood is the chance that the event may occur given knowledge of the organisation and its environment.
- Consequence is the severity of the impact that would result if the event were to occur.

Our risk rating for each finding was based on the following table:

		CONSEQUENCES		
		Insignificant	Significant	Highly Significant
LIKELIHOOD	Low	Minor	Moderate	Moderate
	Medium	Minor	Moderate	Significant
	High	Minor	Significant	Significant

Any compliance breaches identified have been communicated within our report.

# Attachment

## 10.1

Regulation 17  
Review

# Shire of Yilgarn 2019 Regulation 17 Review



16 August 2019

**Mr P Clarke**  
**Chief Executive Officer**  
**Shire of Yilgarn**  
**PO Box 86**  
**SOUTHERN CROSS WA 6426**

Dear Peter

### **2019 REGULATION 17 REVIEW**

We are pleased to present the findings and recommendations resulting from our Shire of Yilgarn (the "Shire") *Local Government (Audit) Regulations 1996, Regulation 17 Review*.

This report relates only to procedures and items specified within our services proposal dated May 2019 and does not extend to any financial report of the Shire.

We recommend this report be read in conjunction with the 2019 Financial Management System Review Report prepared by AMD dated 16 August 2019.

We would like to thank Cameron, Nalukui and the finance team for their co-operation and assistance whilst conducting our review.

Should there be matters outlined in our report requiring clarification or any other matters relating to our review, please do not hesitate to contact Matthew Ristovic or myself.

Yours sincerely  
**AMD Chartered Accountants**



**TIM PARTRIDGE FCA**  
**Director**

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**Inherent limitations**

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to review, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. This review is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are on a sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, the Shire of Yilgarn management and personnel. We have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted with the report. We are under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form unless specifically agreed with Shire of Yilgarn. The review findings expressed in this report have been formed on the above basis.

**Third party reliance**

This report was prepared solely for the purpose set out in this report and for the internal use of the management of Shire of Yilgarn. This report is solely for the purpose set out in the 'Scope and Approach' of this report and for Shire of Yilgarn's information, and is not to be used for any other purpose or distributed to any other party without AMD's prior written consent. This review report has been prepared at the request of the Shire of Yilgarn's Chief Executive Officer or its delegate in connection with our engagement to perform the review as detailed in our Service Proposal. Other than our responsibility to the Council and management of Shire of Yilgarn, neither AMD nor any member or employee of AMD undertakes responsibility arising in any way from reliance placed by a third party, including but not limited to the Shire of Yilgarn's external auditor, on this review report. Any reliance placed is that party's sole responsibility.

## 1. Executive Summary

### 1.1. Background and Objectives

To undertake a review of the appropriateness and effectiveness of risk management, internal controls and legislative compliance of the Shire in accordance with the Local Government (Audit) Regulations 1996, Regulation 17.

Our findings included within this report are based on the site work completed on the 8<sup>th</sup> to 12<sup>th</sup> of July 2019. Findings are based on information provided and available to us during and subsequent to this site visit.

### 1.2. Summary of Findings

The procedures performed and our findings on each of the focus areas are detailed in the following sections of the report:

- Section 2 – Risk management;
- Section 3 – Internal controls; and
- Section 4 – Legislative compliance.

Following the completion of our review and subject to the recommendations outlined within Sections 2 to 4, we are pleased to report that in context of the Shire’s overall internal control environment, policies, procedures and processes in place are appropriate, and have been operating effectively at the time of the review.

Findings reported by us are on an exceptions basis, and do not take into account the many focus areas tested during our review where policies, procedures and processes were deemed to be appropriate and in accordance with best practice.

The review was undertaken in conjunction with the Local Government (Financial Management) Regulations 1996, Financial Management System Review (“FMSR”). We recommend this report be read in conjunction with the FMSR report to obtain a holistic view of all relevant review findings. This report does not include recommendations or comments raised within the FMSR report prepared and issued by AMD in August 2019.

The following tables provide a summary of the findings raised in this report:

	Significant risk	Moderate Risk	Minor Risk
Number of new issues reported	1	9	2

*For details on the review rating criteria, please refer to Section 5.*

Ref	Issue	Risk Rating
<b>Risk management</b>		
2.2.1	<b>Risk Management Framework</b> The Shire lacks a documented risk management framework including an organisation wide risk register.	<b>Significant</b>
2.2.2	<b>Contract Management</b> Further enhancements and improvements suggested in relation to the Shire's contract management process.	<b>Moderate</b>
2.2.3	<b>Risk Management Policies and Procedures</b> No documented policies and procedures in place to manage a number of risks applicable to the Shire e.g. litigation / claims, environmental risk management, fraud and misconduct etc. No overall listing of documented procedures is currently maintained.	<b>Moderate</b>
2.2.4	<b>Lease Register</b> Suggestion for additional details to be incorporated within the register of leased premises maintained by the Shire.	<b>Moderate</b>
2.2.5	<b>Summary Listing of Complaints and Conflicts of Interest</b> Suggest individual conflicts of interests and complaints be incorporated within a summary register.	<b>Minor</b>
2.2.6	<b>Councillor Inductions</b> No formal policies/procedures in relation to Councillor induction. No evidence that Councillors have acknowledged the Code of Conduct.	<b>Minor</b>
<b>Internal controls</b>		
3.2.1	<b>Tendering &amp; Project Management</b> Further enhancements suggested to Council tendering and project management processes.	<b>Moderate</b>
3.2.2	<b>Grant Funding Register</b> The Shire does not currently maintain a register of grant funding.	<b>Moderate</b>
3.2.3	<b>External Security Contracts</b> No service agreements or contracts in place with the external security contractors utilised by the Shire.	<b>Moderate</b>
<b>Legislative compliance</b>		
4.2.1	<b>Compliance Manual</b> Integrated compliance manual not in place to monitor each business unit compliance requirements.	<b>Moderate</b>
4.2.2	<b>Audit Committee</b> Various enhancements and improvements suggested in relation to the operation of the Shire's Audit Committee.	<b>Moderate</b>
4.2.3	<b>Long Term Financial Plan</b> The Shire's Long Term Financial Plan was last updated in 2015/16.	<b>Moderate</b>

## 2. Risk management

### 2.1. Scope and approach

In accordance with the proposal issued on May 2019, our review examined the following areas:

- Whether the Local Government has an effective risk management system and that material operating risks to the Local Government are appropriately considered;
- Whether the Local Government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time;
- The internal processes for determining and managing material operating risks in accordance with the Local Government's identified tolerance for risk, particularly in the following areas:
  - Potential non-compliance with legislation, regulations and standards and local government's policies;
  - Important accounting judgements or estimates that prove to be wrong;
  - Litigation and claims;
  - Misconduct, fraud and theft; and
  - Significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the local government;
- Regular risk reports presented to the Audit Committee/Council, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported;
- Adequacy of the Local Government processes to manage insurable risks and ensured the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Effectiveness of the Local Government's internal control system with management and the internal and external auditors;
- Whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;
- The Local Government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied;
- Audit Committee meeting practices ensuring periodically meeting with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment; and
- Ascertained whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented communicated, monitored and there is regular reporting and ongoing management of fraud and misconduct risks.

## 2.2. Detailed findings and recommendations

### 2.2.1. Risk Management Framework

#### ***Finding Rating: Significant***

The Shire does not have a documented risk management framework which includes, but is not limited to, the following:

- Risk management policy;
- Risk management plan;
- Documented risk tolerance; and
- Organisation wide risk register.

We would expect the organisational risk register to encompass each business unit incorporating the following categories for each business unit:

- Operational;
- Strategic;
- Finance;
- Technological; and
- Compliance risks (also refer Section 4).

Given the risk identification process is the first step to effective risk management, we would expect this process to be completed and updated on a regular basis.

As a result of the above, the Shire cannot currently prepare and present a risk report to the Audit Committee and/or Council on a regular basis highlighting the Shire's key risks and processes in place to mitigate these risks.

#### **Implications / Risks**

Lack of documentation in place to evidence risks have been identified and mitigated accordingly.

#### **Recommendation**

We recommend the Shire develops a risk management framework. Development of the framework should include conducting a comprehensive risk identification process to identify potential risks within each business unit of the Shire and incorporate the following categories:

- Operational;
- Strategic;
- Finance;
- Technological; and
- Compliance risks.

The risk register should identify the risk, analyse the risk by determining the likelihood, consequence and current controls in respect to each identified risk; evaluate the risk by deciding whether the risk is to be treated/controlled, reassessed or accepted and determine the action to be taken to treat or control each risk.

Furthermore, once the organisational risk register and framework is developed, we recommend this register is tabled at Audit Committee meetings ("ACM") and subsequent Council meetings on a periodic basis.

**Management Comment**

The implementation of the above recommendation is considered an onerous task for existing staff to complete and therefore, external assistance will be sought to develop a Risk Management Framework. Budget considerations will have to be made for the 2020/2021 financial year.

**Responsible Officer:**

Peter Clarke

**Completion Date**

December 2020

### **2.2.2. Contract Management**

#### ***Finding Rating: Moderate***

Our testing of contracts and review of the Shire of Yilgarn contract management process identified the following:

- There is no contract management framework in place;
- There is no formal risk assessment process prior to awarding contracts;
- There is no formal contract review process in place;
- In relation to the register of contractors maintained by the Shire:
  - The register requires review and updating as it currently does not include all contractors used by the Shire; and
  - The register does not include details of contracts in place; and
- In relation to the contract with Avon Waste:
  - There is no record of the contractor completing an induction with the Shire; and
  - The Shire does not hold a valid certificate of currency for the contractor to verify the level of insurance coverage held by the contractor.

#### **Implications / Risks**

- Risk Shire representatives do not follow an appropriate and uniform process when procuring and managing contracts.
- Risks associated with the contracts entered into on behalf of the Shire may not be adequately identified and monitored.
- Lack of documentation evidencing contractor/ supplier performance assessment.
- The Shire is potentially exposed to risks due to contractor non-compliance with contract terms and conditions.
- Risk of the contractor's non-compliance with the Shire's policies, procedures including relevant ethics, health and safety requirements.

#### **Recommendation**

We recommend:

- A contract management framework is designed and documented to ensure that contracts are uniformly managed appropriately and in accordance with stated framework;
- A formal risk assessment process be developed and risks assessed prior to contracts being awarded;
- A formal contract review process be developed and implemented;
- The register of contractors maintained by the Shire is regularly updated. We also recommend the register include details of all contracts in place with each contractor and any specific contract requirements, e.g. contract review dates, insurance requirements, performance reviews etc.; and
- Once the register of contractors is up to date, it should be reviewed on a periodic basis to ensure matters such as contractor inductions and the annual verification of insurance are identified and actioned in a timely manner.

#### **Management Comment**

The implementation of the above recommendation is considered an onerous task for existing staff to complete and therefore, external assistance will be sought to develop a Contract Management Framework. Budget considerations will have to be made for the 2020/2021 financial year.

#### **Responsible Officer:**

Peter Clarke

#### **Completion Date**

December 2020

### **2.2.3. Risk Management Policies and Procedures**

#### ***Finding Rating: Moderate***

We noted the Shire does not currently have the following risk policies and/or procedures in place:

- Litigation/ Claims policy;
- Environmental Risk Management policy;
- Fraud and Misconduct policy;
- Whistleblower/Public Interest Disclosure (PID) policy (allowing anonymous reporting and to be available on the Shire's website to ensure external parties can report);
- Event Management policy and procedure; and
- Central signature specimen (including signatures of all employees whom have powers delegated from council).

We also noted there is no overall listing of procedures which have been developed by the Shire. Our review of procedures was therefore limited to the procedures which were provided (in response to the checklist we sent prior to our site visit) and the additional procedures we identified during our site visit.

#### **Implications / Risks**

Lack of policies and/or procedures evidencing specific risks to the Shire.

#### **Recommendation**

We recommend:

- The above listed policies and procedures be developed, implemented and monitored by the Shire; and
- An overall listing of current procedures (including last review date) be developed to enable to Shire to identify relevant procedures yet to be developed.

#### **Management Comment**

Acknowledge the requirements for Risk Management Policies and Procedures to be put in place and will work with external Consultants to develop same subject to Budget considerations in the 2020/20201 financial year.

#### **Responsible Officer:**

Peter Clarke

#### **Completion Date**

December 2020



#### **2.2.4. Lease Register**

##### ***Finding Rating: Minor***

We note the register of leased premises maintained by the Shire does not include specific details relating to each lease.

##### **Implications / Risks**

Developing a functional register of outgoing leases on Council properties will assist in the monitoring and management of leases.

##### **Recommendation**

We recommend the register of leased properties currently maintained by the Shire is enhanced by including additional details such as key lease terms and conditions (lease term, right to extend, rent, bond etc.), insurance details and any other lessee reporting requirements. The updated lease register could then be used as a tool to monitor and manage leases accordingly.

##### **Management Comment**

Lease Register to be developed in accordance with the above recommendation.

##### **Responsible Officer:**

Peter Clarke/Cameron Watson

##### **Completion Date**

June 2020

#### **2.2.5. Summary Listing of Conflicts of Interests and Complaints**

##### ***Finding Rating: Minor***

Our review of the conflicts of interest and complaint files maintained by the Shire indicates that although the information relating to each are contained within a single location, a summary listing relating to each matter is not maintained.

##### **Implications / Risks**

By developing a summary register for conflicts of interest and complaints it will facilitate enhanced monitoring of these areas and reduce the risk of relevant actions not being taken as necessary.

##### **Recommendation**

We recommend Council conflict of interests and complaints be incorporated within a summary register.

##### **Management Comment**

Conflict of Interest and Complaints Register to be developed in accordance with the above recommendation.

##### **Responsible Officer:**

Peter Clarke/Laura Della Bosca

##### **Completion Date:**

June 2020

### **2.2.6. Councillor Inductions**

#### ***Finding Rating: Minor***

Enquiries indicated there is no formal policy or documented procedure in relation to Councillor inductions. We also identified Councillors do not formally document their acknowledgement of the Code of Conduct nor completion of a formal induction.

#### **Implications / Risks**

Lack of formal documentation to validate the completion of Councillor inductions and acknowledgement of the Code of Conduct.

#### **Recommendation**

We recommend a formal policy and procedure be developed in relation to Councillor inductions. As part of the induction process we recommend documentation is signed by Councillors to verify the induction has been undertaken and as formal acknowledgement of the Code of Conduct.

#### **Management Comment**

Councillors do formally acknowledge the Code of Conduct at their Swearing-In ceremony. The Shire of Yilgarn does have an Induction Manual for newly Elected Members however, a formal Policy and verification process of the induction being undertaken is not documented.

An induction will be undertaken for newly Elected Members following the October 2019 Elections however it is unlikely that all of the requirements indicated in the recommendation will not be in place by that time.

#### **Responsible Officer:**

Peter Clarke/Laura Della Bosca

#### **Completion Date**

June 2020

### 3. Internal controls

#### 3.1. Scope and approach

In accordance with the proposal issued on May 2019, our review examined the following areas:

- Segregation of roles and functions, processing and authorisation controls;
- Delegations of authority (completeness and adherence);
- Documented policies and procedures;
- Approval of documents, letters and financial records;
- Management internal reviews undertaken in respect to comparison of internal data with external sources of information;
- Security controls in respect to physical access to assets and records;
- Security controls in respect to computer applications and information systems (general and application IT controls);
- Access limits placed on data files and systems;
- Whether the maintenance and review of financial control accounts and trial balances is regular and appropriate;
- Key management internal reviews undertaken in respect to comparison and analysis of financial results with budgeted amounts;
- Key management internal reviews undertaken in respect to the arithmetical accuracy and content of records;
- Controls in respect to purchasing and payment of accounts;
- Reporting, review and approval of financial payment and reconciliations; and
- Physical cash and inventory count records when compared to accounting records.

## 3.2. Detailed findings and recommendations

### 3.2.1. Tendering & Project Management

#### ***Finding Rating: Moderate***

Our review identified the following in relation to tendering and project management:

- There is no formal documented risk assessment process conducted in relation to tenders and projects for projects exceeding a predetermined dollar value or considered to be high risk; ;
- There is no formal documented process for post tender/ project reviews for projects exceeding a predetermined dollar value or considered to be high risk;
- Tender applications were used as the basis for contracts without a separate contract being documented and duly executed;
- Progress reporting for projects is undertaken on an ad hoc basis with no formalised process in place;
- In relation T3 18/19:
  - We noted a significant delay between notifying the successful (21/11/18) and unsuccessful applicants (17/4/19) of the tender outcome;
  - There was no evidence insurance details of the successful applicant had been verified by the Shire; and
- In relation to tender evaluations:
  - Only one evaluation spreadsheet was completed for each tender tested;
  - The evaluation document was not signed by the evaluation panel to evidence their assessment; and
  - Evaluation panel members do not provide a conflicts of interest declaration in respect to tender applicants.

#### **Implications/Risks**

- Lack of evidence in respect to risk assessment completed prior to tendering process;
- Potential improvements to the tender process are not realised;
- Contractual obligations may not be adequately documented and therefore not legally enforceable;
- Risk of non-compliance with *Regulation 19 of the Local Government (Functions and General) Regulations 1996*; and
- Lack of documentation to support tender evaluation outcomes.

### **Recommendation**

We recommend:

- A formal risk assessment process be developed to ensure risks are documented and considered when drafting the “Request for Tender” documentation for projects exceeding a predetermined dollar value or considered to be high risk;
- A formal post tender/ project review process be developed for projects exceeding a predetermined dollar value or considered to be high risk;
- Formal contracts are entered into with successful tender applicants;
- Notifications are provided to unsuccessful tender applicants in a timely manner after awarding the tender to the successful applicant;
- Prior to any tender applications being considered, contractual requirements such as insurance coverage are verified; and
- Tender applications are evaluated independently by at least two parties with each signing off on their own evaluation, and evaluation panel members be required to provide a conflict of interest declaration.

### **Management Comment**

The Shire of Yilgarn is a member of the WALGA Procurement Advisory Service and will be seeking advice on the correct processes to ensure that the above recommendation is adopted.

#### **Responsible Officer:**

Peter Clarke

#### **Completion Date**

June 2020

### **3.2.2. Grant Funding Register**

#### ***Finding Rating: Moderate***

Our inquiries indicate there is no Grant Funding Register in place specifying:

- Current grant funding contracts;
- Funding received to date;
- Project description;
- Person responsible;
- Key milestone dates; and
- Reporting dates.

#### **Implications / Risks**

Risk of non-compliance with conditions of executed funding agreements and deliverables.

#### **Recommendation**

We recommend a staff member be assigned overall responsibility of managing grant funding contracts.

We suggest this role would include the development and preparation of a Grant Funding Register specifying grant funding contracts relevant for the current financial year, project description, amount, key milestone dates and reporting dates, and other relevant information.

#### **Management Comment**

Acknowledge. The recommendation will be adopted.

#### **Responsible Officer:**

Cameron Watson

#### **Completion Date**

February 2020

### **3.2.3. External Security Contracts**

#### ***Finding Rating: Moderate***

Enquiries indicate there is no documented service agreements or contracts in place with the Shire's external security contractors; Av-sec Security Services and Hi-tec Alarms.

#### **Implications / Risks**

Lack of evidence to support agreed terms and conditions.

#### **Recommendation**

We recommend a service agreement or contract be entered into with the Shire's external security providers. We would expect the agreement would include, at a minimum; the services to be performed by the contractor, schedule of fees, term, review of term and confidentiality clause.

#### **Management Comment**

Acknowledge. The recommendation will be adopted.

#### **Responsible Officer:**

Nic Warren

#### **Completion Date**

December 2019

## 4. Legislative compliance

### 4.1. Scope and approach

In accordance with the proposal issued on May 2019, our review examined the following areas:

- Internal monitoring of compliance with legislation and regulations;
- The Local Government's completion of the annual Compliance Audit Return and reporting the results of that review to the Audit Committee and Council;
- Communications between key management and the Audit Committee to ensure the Audit Committee is informed in respect to the effectiveness of the Local Government's compliance and recommendations for changes as required;
- The Local Government's procedures in respect to receiving, retaining and handling complaints, including confidential and anonymous employee complaints;
- Key managements internal review processes in respect to the identification of adverse trends and management plans to address these;
- Management disclosures in financial reports of the effect of significant compliance issues (if any);
- The internal and / or external audit contracts include an assessment of compliance and ethics risks in the development of the audit plan and in the conduct of audit projects, and report compliance and ethical issues to the Audit Committee; and
- The Audit Committee's processes and procedures in respect to compliance with legislative and regulatory compliance ensuring no misuse of position through adequate disclosure of conflicts of interest.

## 4.2. Detailed findings and recommendations

### 4.2.1. Compliance Manual

#### *Finding Rating: Moderate*

Our inquiries indicated the Shire does not have a documented legislative compliance manual which is linked to each business unit risk management assessment.

#### **Implications/Risks**

Risk of non-compliance with legislative requirements.

#### **Recommendation**

We recommend a compliance manual linked to each business unit risk management assessment be completed and implemented.

We would expect the manual to be divided into each business unit section (as identified within the organisation structure) and to:

- identify relevant legislation to that business unit (for example the Health Act 1911 or the Planning and Development Act 2005 or the Dog Act 1976);
- identify key relevant sections within each legislation and note within the compliance manual;
- who is responsible for ensuring controls in place to ensure compliance with each identified legislation section;
- the mechanism in place to ensure compliance, for example a policy or procedure (this component of the compliance manual would link each relevant section of legislation to a
- policy, procedure, person or other control);
- regular testing of compliance, for example if the mechanism for compliance is a policy, regular review and spot checking (internal audit) of that policy; and
- key milestone / reporting dates applicable to that legislative section and how compliance is met.

In addition, we recommend an overall compliance calendar be documented, implemented and communicated to all staff.

Once the compliance manual and accompanying calendar is implemented, we recommend a standing agenda item be included within the Audit Committee meeting agenda to assess the effectiveness of compliance through the review and assessment of the compliance manual.

#### **Management Comment**

The implementation of the above recommendation is considered an onerous task for existing staff to complete and therefore, external assistance will be sought to develop a Compliance Manual. Budget considerations will have to be made for the 2020/2021 financial year.

**Responsible Officer:**  
Peter Clarke

**Completion Date**  
December 2020



#### **4.2.2. Audit Committee**

##### ***Finding Rating: Moderate***

We noted the following:

- There is no risk reporting presented at ACM (also referred to in finding 2.2.1);
- ACM agendas do not include a standing agenda item to update the status of actions previously tabled and agreed;
- ACM agendas do not include a standing item regarding risk developments at the Shire;
- ACM agendas do not include a standing item relating to the disclosure of interests;
- There were only two ACMs held in the 2018/19 financial year; and
- There are no documented Terms of Reference/ Charter for the Audit Committee.

##### **Implications/Risks**

- Risk of governance and oversight responsibilities not being met.
- Risk the Local Government Act and Regulations are not being regularly assessed.

##### **Recommendation**

We recommend:

- Risk reports are presented at each ACM;
- ACMs include a standing agenda item relating to updating on the status of actions previously tabled, and the discussion of risk;
- ACMs include a standing agenda item relating to the disclosure of interests;
- As best practice, ACMs be held quarterly (in accordance with Local Government Operational Guideline Number 09 – Audit in Local Government); and
- Terms of Reference/ Charter be developed and adopted by the Audit Committee.

##### **Management Comment**

Acknowledge. The dot points contained within the above recommendation will be included in future Audit Committee Meeting Agendas.

##### **Responsible Officer:**

Cameron Watson/Peter Clarke

##### **Completion Date**

December 2019

#### **4.2.3. Long Term Financial Plan**

##### ***Finding Rating: Moderate***

We noted the Shire's Long Term Financial Plan ("LTFP") was last updated in 2015/16.

##### **Implications/Risks**

Risk of long term strategic objectives of Council not being met. Risk of non-compliance with statutory requirements.

##### **Recommendation**

We recommend the Shire's LTFP is updated as required and subsequently adopted by Council. Once the LTFP has been adopted, we recommend it is communicated to all staff, monitored and updated on a periodic basis.

##### **Management Comment**

Acknowledge. The Long Term Financial Plan will be updated and presented to Council for adoption and then continued to be monitored/updated on a periodic basis.

##### **Responsible Officer:**

Cameron Watson

##### **Completion Date**

June 2020

## 5. Guidance on Risk Assessment

Risk is uncertainty about an outcome. It is the threat that an event, action or non-action could affect an organisation's ability to achieve its business objectives and execute its strategies successfully. Risk is an inherent component of all service activities and includes positive as well as negative impacts. As a result not pursuing an opportunity can also be risky. Risk types take many forms – business, economic, regulatory, investment, market, and social, just to name a few.

Risk management involves the identification, assessment, treatment and ongoing monitoring of the risks and controls impacting the organisation. The purpose of risk management is not to avoid or eliminate all risks. It is about making informed decisions regarding risks and having processes in place to effectively manage and respond to risks in pursuit of an organisation's objectives by maximising opportunities and minimising adverse effects.

Our guidance to risk classification in accordance with Risk Management- Principles and Guidelines Standard AS/ISO 31000:2018 is as follows:

Risk is the probability that an event or action may adversely affect the organisation. Risk is assessed based on the relationship between consequence and likelihood.

- Likelihood is the chance that the event may occur given knowledge of the organisation and its environment.
- Consequence is the severity of the impact that would result if the event were to occur.

Our risk rating for each finding was based on the following table:

		CONSEQUENCES		
		Insignificant	Significant	Highly Significant
LIKELIHOOD	Minor	Minor	Moderate	Moderate
	Medium	Minor	Moderate	Significant
	High	Minor	Significant	Significant

Any compliance breaches identified have been communicated within our report.

# Attachment

## 10.2

Fraud and  
Error  
Assessment

# Fraud and Error Assessment by the Audit Committee

## TO THE CHAIR OF THE AUDIT COMMITTEE

### RE: FRAUD AND ERROR ASSESSMENT FOR THE YEAR ENDED 30 JUNE 2019.

In performing the audit engagement, the Australian Auditing Standards require us to consider the risk that fraud or error could occur within the organisation for the year ended 30 June 2019.

These standards require us to make enquiries of those charged with governance of the risk of fraud or error within the organisation.

Therefore, we would appreciate you taking the time to briefly answer the following questions in the spaces provided, and return this letter, preferably before the commencement of the audit.

1. Do you believe the policies and procedures in place within the organisation are adequate to minimise the risk of fraud to an appropriately low level? If no, please provide an explanation and reasons for your answer.

Yes ☐ No ☐

2. Are you aware of any instances where policies and procedures have not been adhered to which could have resulted in a fraud occurring? If yes, please provide details.

Yes ☐ No ☐

3. Have you, during the past year, become aware of or suspected fraud within the organisation? If yes, please provide details

Yes ☐ No ☐

4. If there any concerns or questions you would like us to address during the course of our audit, please describe.

Yes ☐ No ☐

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Council Name

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Reply Completed by

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Signed

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Date