



Shire of Dardanup

CONFIDENTIAL

**Report Under Separate
Cover**

**AUDIT COMMITTEE
MEETING**

To Be Held

Wednesday, 6 March 2019

Commencing at 2.30pm

At

**Shire of Dardanup
ADMINISTRATION CENTRE EATON
1 Council Drive - EATON**

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Shire of Dardanup Financial Management System Review

February 2019



27 February 2019

John Attwood
Acting Chief Executive Officer
Shire of Dardanup
PO Box 7016
EATON WA 6232

Dear John

2018 FINANCIAL MANAGEMENT SYSTEMS REVIEW

We are pleased to present the findings and recommendations resulting from the Shire of Dardanup's ("the Shire") 2018 Financial Management System Review.

The primary objective of our Financial Management System Review was to assess the adequacy and effectiveness of systems and controls in place within the Shire of Dardanup; in accordance with Regulation 5(1) of the Local Government (Financial Management) Regulations 1996, and as detailed within Section 2.4 and 2.5 of our proposal dated 4 February 2019.

We would like to thank Cindy, Natalie, Ray and the 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 Rannon 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 Dardanup 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 Dardanup. 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 Dardanup. This report is solely for the purpose set out in the 'Scope and Approach' of this report and for Shire of Dardanup'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's report has been prepared at the request of the Shire of Dardanup Chief Executive Officer in connection with our engagement to perform the review as detailed in AMD's Services Proposal dated 4 February 2019. Other than our responsibility to the Council and management of Shire of Dardanup, 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 Dardanup external auditor, on this report. Any reliance placed is that party's sole responsibility.

Executive Summary

Approach and Objectives

The primary objective of our Financial Management System Review was to assess the adequacy and effectiveness of systems and controls in place within the Shire of Dardanup; in accordance with Regulation 5(1) of the Local Government (Financial Management) Regulations 1996 and as detailed within Section 2.4 and 2.5 of our Proposal dated 4 February 2019.

The responsibility of determining the adequacy of the procedures undertaken by us is that of the Acting 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.

Findings included within this report are based on the site-work completed by us during the week ending 22nd February 2019. Findings are based on information provided and available to us following our requests made during and subsequent to this site visit.

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

In addition to the review of processes, procedures and testing completed at the Shire of Dardanup's Eaton office, detailed procedures completed within Sections 1 to 7 included visits to the following Shire locations to assess systems and controls in place;

- Shire of Dardanup Administration Building -Dardanup;
- Depot facility;
- Waste Transfer station;
- Eaton Recreation Centre; and
- Eaton Community Library.

Following the completion of our review and subject to the recommendations outlined within Sections 3 to 7, we are pleased to report that in context of the Shire's overall operations, systems and processes in place are appropriate, and have been operating effectively at the time of our 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 systems and processes were deemed to be appropriate and in accordance with best practice.

On an overall basis, we consider there are relatively few findings to report, in comparison to similar sized Councils we have completed Regulation 5(1) Financial Management System Reviews for.

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

	Significant Risk	Moderate Risk	Minor Risk
Number of issues reported	2	1	5

For details on the review rating criteria, please refer to Section 8.

Ref	Issue	Risk Rating
1.	Collection of money	
	We have no recommendations to raise in respect to the collection of money and related internal controls in place.	
2.	Custody and security of money	
	We have no recommendations to raise in respect to the custody and security of money and related internal controls in place.	
3.	Maintenance and security of financial records	
	Key Security and Register	
3.2.1	No documented procedure in respect to access of motor vehicles machinery and building keys. Key cabinet at the Shire depot was unlocked during the onsite visit. Currently no key register is maintained at the Shire Depot.	Moderate
4.	Accounting for municipal or trust transactions	
	FBT and BAS Independent Review	
4.2.1	We noted the BAS and FBT returns are not signed off by the preparer and are not signed off to evidence review by someone independent of the BAS/FBT preparation process.	Minor
	Fixed Asset Capitalisation and Depreciation Policy	
4.2.2	There are no documented policies in place in respect to asset capitalisation, depreciation and the management of attractive assets.	Minor
5.	Authorisation for incurring liabilities and making payments	
	Changes to Creditor Master File	
5.2.1	We note there is no standard documentation completed and subsequently approved prior to making a change to creditor details in the creditor master file.	Significant
	Purchasing and Payment	
5.2.2	We identified a number of matters for enhancement and improvement in respect to purchasing and payments.	Significant
6.	Maintenance of payroll, stock control and costing records	
	Fuel Card/Usage Policy	
6.2.1	Currently no fuel card policy in place.	Minor
	Loss on Private Works	
6.2.2	Loss of \$350 made on private works jobs completed for the period ended 31 December 2018.	Minor
7.	Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations	
	Code of Conduct	
7.2.1	The Shire Code of Conduct for Council Members, Committee Members and Staff was last reviewed and adopted by Council on the 6 November 2013.	Minor

1. Collection of money

1.1. Scope and approach

In accordance with the scope set out in our Financial Management Systems Review proposal, our review focused on the following:

- 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 invoicing and receipting;
- Tested collection, receipting, invoicing and posting procedures over receipts on a sample basis; and
- Reviewed credit control procedures in respect to sundry debtors and rates debtors.

1.2. Detailed findings and recommendations

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

Accordingly, we have no recommendations to raise in respect to the collection of money by the Local Government.

2. Custody and security of money

2.1. Scope and approach

In accordance with the scope set out in our Financial Management Systems Review proposal, our review focused on the following:

- Completed site visits to cash collection points and reviewed 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 appropriate controls and procedures are in place.

2.2. Detailed findings and recommendations

Our review indicated key underlying policies and processes in relation to the custody and security of money 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 by the Local Government.

3. Maintenance and security of the financial records

3.1. Scope and approach

In accordance with the scope set out in our Financial Management Systems Review proposal, our review focused on the following:

- 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 etc.) and Audit Committee and Council minutes.

3.2. Detailed findings and recommendations

3.2.1. Key Security and Register

Finding Rating: Moderate

Our observations and enquiries indicated the following in respect to key security and the key register:

- There is no documented procedure in respect to the access of motor vehicles, machinery and building keys;
- The key cabinet at the Shire depot was unlocked during the onsite visit; and
- There is no key register maintained at the Shire depot recording access of keys and use of Shire vehicles.

Implication / Risks

Increased risk of theft and vehicle misuse.

Risk of un-authorized access.

Recommendation

We recommend:

- A documented key procedure be developed and implemented in respect to the access of motor vehicles, machinery and building keys;
- The depot key cabinet be locked and secured when not in use; and
- A depot key register be maintained to ensure an accurate record of current vehicle use.

Management Comment

Management acknowledges and accepts the recommendations. It is proposed in the near future to appoint a part-time Depot Administration Officer who will assist in the development of a key procedure and the ongoing monitoring or access and maintenance of records.

Responsible Officer:

Director Engineering & Development Services

Completion Date:

30 June 2019

4. Accounting for municipal or trust transactions

4.1. Scope and approach

In accordance with the scope set out in our Financial Management Systems Review proposal, our review focused on the following:

- Reviewed all monthly reconciliations including bank, sundry debtors, sundry creditors, fixed assets, rates debtors and rateable value reconciliations ensuring correctly reconciled and independently reviewed;
- Reviewed and tested 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 had been budgeted or public notice provided;
- Reviewed self-supporting loan transactions ensuring debtor invoices raised in accordance with payment schedule;
- Reviewed trust ledger balances; and
- Reviewed policies and procedures in respect to insurance, recording claims and insuring newly acquired assets.

4.2. Detailed findings and recommendations

4.2.1. FBT and BAS Independent Review

Finding Rating: Minor

We noted BAS and FBT returns are not signed by the preparer and are not signed to evidence review by someone independent of the BAS/FBT preparation process.

Implications / Risks

Increased risk of error in the BAS and FBT preparation process.

Recommendation

We recommend the BAS and FBT returns be signed by the preparer and also be signed as evidence of review by someone independent of the BAS and FBT preparation process.

Management Comment

Management acknowledges and accepts the recommendation. It is noted that the BAS/FBT Returns are lodged electronically by the Manager Financial Services, with advice provided electronically to the Manager Financial Services by the Accountant as evidence of the task completion. A signed version of these documents will be produced and recorded by the Accountant (preparer) and Manager Financial Services (reviewer).

Responsible Officer:

Manager Financial Services

Completion Date:

30 June 2019

4.2.2. Fixed Asset Capitalisation and Depreciation Policy

Finding Rating: Minor

We note there is no fixed asset capitalisation and depreciation policy, or documented policy in place in respect of attractive assets.

We draw attention to the change in legislation (effective 1 July 2018) whereby Regulation 17A will exclude assets in a Local Government financial report valued under \$5,000. In order to ensure effective asset management for attractive and low value assets that are susceptible to theft or loss, Local Governments will be required to maintain a property register of portable and attractive items.

Implications / Risks

Risk of non-compliance with Regulation 17A of the Local Government (Financial Management) Regulations 1996.

Recommendation

We recommend a policy be developed and implemented in respect to fixed asset capitalisation, depreciation and the management of attractive assets, to reflect current Shire operations and ensure compliance with Regulation 17A of the Local Government (Financial Management) Regulations 1996.

Management Comment

Management acknowledges and accepts the recommendation. It is proposed to develop the required new policies in the next few months.

Responsible Officer:

Director Corporate & Community Services

Completion Date:

30 June 2019

5. Authorisation for incurring liabilities and making payments

5.1. Scope and approach

In accordance with the scope set out in our Financial Management Systems Review proposal, our review focused on the following:

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

5.2. Detailed findings and recommendations

5.2.1. Changes to Creditor Master File

Finding Rating: Significant

We note there is no standard documentation completed and subsequently approved to change creditor details in the creditor master file.

Implications / Risks

- Increased risk of error or fraud.
- Increased risk that changes to the master-files are unauthorized or untimely.

Recommendation

We recommend a standard form be developed to ensure there are no unauthorised or untimely changes to the creditor master files.

When supplier detail changes are requested, the form should be completed and subsequently authorised by a senior employee or manager of the Shire to confirm changes in payee details are in fact correct.

Management Comment

Management acknowledges and accepts the recommendation. The proposed new Creditor Change Authorisation Form will be developed in the next few months.

Responsible Officer:

Manager Financial Services

Completion Date:

30 June 2019

5.2.2. Purchasing and Payments

Finding Rating: Significant

We noted the following in respect to purchasing and payments:

- We identified instances whereby purchase orders were dated after the invoice date or were not signed as evidence of authorisation;
- We identified instances whereby EFT batch processing checklists were not fully completed; and
- The petty cash reconciliation for the Eaton Recreation Centre is not subject to independent review.

Examples can be provided upon request.

Implications / Risks

- Risk of un-authorised purchases;
- Risk required actions outlined within the EFT checklist not being completed; and
- Increased risk of fraud or error.

Recommendation

We recommend:

- Purchase orders are raised and signed as evidence of authorisation for all purchases prior to the expenditure being incurred;
- The EFT checklist be fully completed prior to finalising the EFT payment; and
- Cash reconciliations are a key control and should be reviewed by someone independent of the reconciliation function. Reconciliations should be signed off as evidence of this review.

Management Comment

Management acknowledges and accepts the recommendation. The relevant staff associated with the Payment of Invoices will be advised to increase monitoring of compliance by staff to procurement and payment requirements. Additional focus on compliance will be undertaken by the Compliance Officer. Further staff training will occur to promote and educate all staff on the requirements of the updated Procurement Policy and procedures.

Responsible Officer:

Manager Financial Services

Completion Date

30 June 2019

6. Maintenance of payroll, stock control and costing records

6.1. Scope and approach

In accordance with the scope set out in our Financial Management Systems Review proposal, our review focused on the following:

- Completed a site visit to the depot in Dardanup and reviewed security over stocks held and allocation/ costings of stocks used (including fuel and inventory stocks);
- Reviewed allocation of public works overheads, plant operating costs and administration overheads;
- Reviewed payroll controls and procedures to ensure effective controls are in place, and complete tests on a sample basis to ensure 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 identified employees with excessive annual leave balances.

6.2. Detailed findings and recommendations

6.2.1. Fuel Card/Usage Policy

Finding Rating: Minor

Our inquiries indicated there is currently no fuel card policy in place.

Implications/Risks

Risk of insufficient internal controls in respect to the issuing and use of fuel cards.

Recommendation

We recommend a fuel card policy be developed and implemented which provides guidance to staff members who are entitled to fuel cards, the terms of fuel card use and record keeping requirements.

Management Comment

Management acknowledges and accepts the recommendation. It is proposed to develop the required new policy in the next few months.

Responsible Officer:

Director Corporate & Community Services

Completion Date

30 June 2019

6.2.2. Loss on Private Works

Finding Rating: Minor

We noted an overall minor loss of \$350 was incurred on private works completed for the period ended 31 December 2018.

Implications / Risks

Risk private works are being completed at a loss and costs incurred are not being correctly on-charged to customers.

Recommendation

We recommend the recovery of costs in respect to private works be reviewed to ensure costs incurred are on-charged to customers inclusive of a mark-up component.

Management Comment

Management acknowledges and accepts the recommendation. The new Fees and Charges software will assist in determining the appropriate fee to charge for private works. This is anticipated to be fully implemented by the end of 2019.

Responsible Officer:

Manager Financial Services

Completion Date

31 December 2019

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

7.1. Scope and approach

In accordance with the scope set out in our Financial Management Systems Review proposal, our review focused on the following:

- Reviewed policy and procedure manuals;
- 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;

7.2. Detailed findings and recommendations

7.2.1 Code of Conduct

Finding Rating: Minor

We noted the Shire's Code of Conduct as relating to Council Members, Committee Members and Staff was last reviewed and adopted by Council on the 6 November 2013.

Implications / Risks

Risk the code of conduct is outdated.

Recommendation

We recommend the Code of Conduct be reviewed and subsequently communicated to current Council Members, Committee Members and Staff.

Management Comment

Management acknowledges and accepts the recommendation. Council staff have been working with Councillors and WALGA during 2018 to review the Code of Conduct. This was put on hold pending the finalisation of the Local Government Act review.

Responsible Officer:

Manager Governance & HR

Completion Date:

31 December 2019

8. 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.