

Audit Committee Meeting Minutes 17 November 2022

Minutes of the Manjimup Audit Committee held at **Council Chambers** on **Thursday 17 November 2022**.

1. DECLARATION OF OPENING OF MEETING

The meeting was opened by Chairperson, Cr Omodei at 10.46am

2. ATTENDANCE / APOLOGIES

Present:

- Cr Paul Omodei
- Cr Denise Jenkins
- Cr Robert Taylor
- Cr Cliff Winfield
- Cr Murray Ventris

Apologies

- Nil

Observers:

- Andrew Campbell – Chief Executive Officer (CEO)
- Greg Lockwood - Director Business (DB)
- Jason Giadresco – Senior Governance Officer (SGO)
- Tim Partridge – AMD Chartered Accountants

3. DECLARATION OF FINANCIAL INTERESTS

Nil.

4. CONFIRMATION OF MINUTES OF THE MEETING HELD 3 MARCH 2022

ATTACHMENT : 1

Moved Cr Taylor / Seconded Cr Jenkins

“That the minutes of the Audit Committee meeting held on 3 March 2022 be adopted as a true and correct record.”

Carried 5/0

5. MATTERS ARISING FROM THE MEETING HELD 3 MARCH 2022

Information requested regarding supplier activity below quoted \$2,000 in the category of building will be carried over to the December 2022 meeting.

6. RISK MANAGEMENT

Nil. Note Risk Themes to be presented to Audit Committee at December 2022 meeting.

7. PRESENTATION OF 2022 FINANCIAL MANAGEMENT SYSTEMS REVIEW

ATTACHMENT: 1

The Chair requested Tim Partridge from AMD Chartered Accounts to present AMD's review and findings.

ATTACHMENT : 2

Moved Cr Omodei / Seconded Cr Taylor

The Audit Committee accept the 2022 Financial Management Systems Review and subsequent recommendations.

Carried 5/0

8. PRESENTATION OF 2022 REGULATION 17 REVIEW

The Chair requested Tim Partridge from AMD Chartered Accounts to present AMD's review and findings.

ATTACHMENT : 3

Moved Cr Jenkins / Seconded Cr Winfield

The Audit Committee accept the 2022 Regulation 17 Review and subsequent recommendations.

Carried 5/0

9. EFFECTIVENESS OF COMPLIANCE

It was noted from point 7 and 8 above, the recommendations to be carried out from both reviews will be tracked through "Effectiveness of Compliance" for completion at future audit committee Meetings.

10. GENERAL BUSINESS

During general business Tim Partridge made himself available for any audit related questions from the floor.

Cr Ventris asked can a monthly income transaction list be presented to Council similar to what happens with expenditure. Mr Partridge responded that it is not a requirement under the act unlike payments which is required.

Cr Omodei discussed possible changes to the Local Government Act in particular requiring an independent Audit Chairperson and the value this may or may not add.

11. NEXT MEETING

The next meeting is scheduled for December 2022

12. MEETING CLOSURE

The meeting was closed at 11.31am.

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Audit Committee Meeting Minutes 3 March 2022

Minutes of the Manjimup Audit Committee held at **Northcliffe Town Hall** on **Thursday 3 March 2022**.

1. DECLARATION OF OPENING OF MEETING

The meeting was opened by Deputy Shire President Denise Jenkins at 12:45pm as Chairperson, Cr Omodei had been delayed.

2. ATTENDANCE / APOLOGIES

Present:

- Cr Denise Jenkins
- Cr Murray Ventris
- Cr Robert Taylor
- Cr Cliff Winfield 12:47pm
- Cr Paul Omodei 1.13pm

Apologies

- Nil

Observers:

- Greg Lockwood – Acting Chief Executive Officer (ACEO)

3. DECLARATION OF FINANCIAL INTERESTS

Nil.

4. CONFIRMATION OF MINUTES OF THE MEETING HELD 16 DECEMBER 2021

ATTACHMENT: 1

Moved Cr Taylor / Seconded Cr Ventris

“That the minutes of the Audit Committee meeting held on 16 December 2021 be adopted as a true and correct record.”

Carried 3/0

Cr Winfield arrived at meeting 12.47pm

5. MATTERS ARISING FROM THE MEETING HELD 16 DECEMBER 2021

Nil.

6. RISK MANAGEMENT

ACEO advised that 2 reviewed Risk Themes will be presented to the Audit Committee at the next meeting

7. PRESENTATION OF COMPLIANCE AUDIT RETURN 2021

ATTACHMENT: 2

The ACEO presented the from the 2021 Compliance Audit Return to the Audit Committee. There was 1 item of non-compliance.

The 2021 Compliance Audit Return tested compliance in the following categories:

- Commercial Enterprises by Local Government;
- Delegation of Power/Duty
- Disclosure of Interest
- Disposal of Property
- Elections
- Finance
- Integrated Planning and Reporting
- Local Government Employees
- Official Conduct
- Optional Questions
- Tenders for Providing Goods and Services

The 1 item of non-compliance related to the Tenders for Providing Goods and Services where there is a requirement to post on the Shire's official website a copy of the Shire's Tender Register. This non-compliance issue has been corrected.

Moved Cr Taylor / Seconded Cr Ventris

The Audit Committee accept the 2021 Compliance Audit Return.

Carried 4/0

8. EFFECTIVENESS OF COMPLIANCE

The ACEO presented the action running sheet from the previous 2021 Annual Financial Year Audit. The Financial Management Systems Review and Regulation 17 Review are scheduled to be carried out in May 2021.

ATTACHMENT : 3

9. GENERAL BUSINESS

Cr Jenkins requested a review of works under the threshold requiring quotes in the area of building and

10. NEXT MEETING

The next meeting is scheduled for April 2022

Cr Omodei arrived at meeting 1.13pm

11. MEETING CLOSURE

The meeting was closed at 1.15pm.



2022 Financial Management System Review



14 November 2022

Mr Andrew Campbell
Chief Executive Officer
Shire of Manjimup
PO Box 11
MANJIMUP WA 6258

Dear Andrew

2022 FINANCIAL MANAGEMENT SYSTEMS REVIEW

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

This report relates only to procedures and items specified within the 2022 Financial Management System Review Services Proposal and does not extend to any financial report of the Shire.

We recommend this report be read in conjunction with the 2022 Audit Regulation 17 Review report prepared by AMD.

We would like to thank Greg and the finance department 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 Maria Cavallo 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 Manjimup 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 Manjimup. 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 the Shire of Manjimup. This report is solely for the purpose set out in the 'Scope and Approach' of this report and for the Shire of Manjimup'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 Manjimup Chief Executive Officer or its delegate in connection with our engagement to perform the review as detailed in the 2022 Financial Management System Review Services Proposal. Other than our responsibility to the Council and management of the Shire of Manjimup, neither AMD nor any member or employee of AMD undertakes responsibility arising in any way from reliance placed by a third party.

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 focusing on accounts payable, accounts receivable, human resources and payroll procedures; in accordance with the 2022 Financial Management System Review Services Proposal (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.

This FMSR reviewed and sample tested systems and controls from the previous FMSR reporting date to 30 June 2022. The findings included within this report are based on site work completed by us during June 2022. Findings are based on information provided and available to us during and post 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 following tables provide a summary of the findings raised in this report:

	Extreme Risk	High Risk	Moderate Risk	Low Risk
Number of new issues reported	0	0	0	9

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

Ref	Issue	Risk Rating
2.	Collection of money	
We have no findings to raise in respect to the collection of money.		
3.	Custody and security of money	
	End of Day Receipting Procedures – Windy Harbour Camping Ground	
3.2.1	End of Day Receipting Reconciliations and Daily Taking Sheets are not subject to independent review. Banking not currently completed on a regular basis due to proximity of bank to the site.	Low
4.	Maintenance and security of financial records	
	Registers available on Shire Website	
4.2.1	Last updated dates noted on the Gifts and Contributions to Travel Register and Electoral Gift Register available on the Shire website result in the perception the information may not be up to date.	Low
5.	Accounting for municipal or trust transactions	
We have no findings to raise in respect to accounting for municipal and trust transactions.		
6.	Authorisation for incurring liabilities and making payments	
	Credit Card Policy	
6.2.1	Suggestion for further enhancement to the Management Policy: Authorised Use of Credit Cards required.	Low
7.	Maintenance of payroll, stock control and costing records	
	Depot	
7.2.1	Stocktake reports not generated and independently reviewed as a result of system issue. As a result spot checks and independent review of resulting adjustments to the general ledger not occurring. Key log not maintained for vehicle and site keys. Key Cabinet not locked at the time of site visit.	Low
	Fuel Usage Analysis	
7.2.2	Suggestions for further enhancement of the Shire's fuel usage analysis provided.	Low
	HR / OHS Policies and Procedures	
7.2.3	Two HR / OHS policies and procedures were due for review.	Low
	Excessive Annual Leave Balances/Leave Form Practices	
7.2.4	Instances of employees with excessive annual leave balances noted. In addition, exceptions noted of when an authorised leave form was not available to support leave taken.	Low
	Issue of Fuel Cards	
7.2.5	No documented process for obtaining new fuel cards.	Low
8.	Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations	
	Budget Review	
8.2.1	Budget review presented to Council and adopted 11 months into the new financial year.	Low

2. Collection of money

2.1. Scope and approach

- For the following locations operated by the Shire including:
- Manjimup Administration Office;
- Manjimup Wellness Centre / Home and Community Care Office (HACC);
- Manjimup Library;
- Regional Aqua Centre;
- Manjimup Waste Facility Site;
- Windy Harbour Camping Grounds;
- Manjimup Depot; and
- we assessed the:
- 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

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

Accordingly, we have no recommendations to raise with respect to the collection of money.

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

3.2.1. END OF DAY RECEIPTING PROCEDURES – WINDY HARBOUR CAMPING GROUND

Finding Rating: Low

Our inquiries made during our site visits identified the following exceptions pertaining to the End of Day Receipts Reconciliations and Daily Taking Sheets for the Windy Harbour Camping Ground location:

- All monies received are recorded in a cash book. At the end of each page the Caretaker totals the cash and EFTPOS and transfers these totals to a summary sheet when the banking is prepared. There was no evidence of independent review of the cash book, summary sheet and cash collected nor does the preparer sign off on the receipting documentation; and
- Banking is completed every 5 weeks during the busier times and less in off peak months. Note: We acknowledge the inherent limitations in practically enhancing this internal control given the distance of Windy Harbour office to the Westpac Manjimup branch.

Implications / Risks

Risk that error of fraud may not be detected on a timely basis.

Recommendation

- We recommend that a consistent approach be followed at all Shire locations whereby:
- The End of Day Cash Receipt Reconciliation (or the equivalent) and Daily Taking Sheet (or the equivalent) be reviewed by someone independent to the receipting function, and signed off as evidence of independent review. This sign-off would include the reviewers' name, role/position at the Shire, signature and date of sign-off on the actual document; and
- Where practical, banking be completed on a more regular basis.

Management Comment

Since the audit was undertaken the long serving Caretaker has retired. It is proposed the new Caretaker will begin to receipt through the Shire's Financial Software System, and to increase the frequency of banking. It will be difficult to have an independent review as the Caretaker works predominantly on his own. Procedures are yet to be finalized but in process.

Responsible Officer: Coordinator of Finance and Admin

Completion Date: March 2023

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. REGISTERS AVAILABLE ON SHIRE WEBSITE

Finding Rating: Low

Our review of the registers available on the Shire website during our site visit and subsequent indicated the following:

- The Gifts and Contributions to Travel Register was last updated 4 March 2021; and
- The Electoral Gifts Register was last updated 19 October 2021.

Implication / Risk

Records available potentially out of date or can be perceived as out of date.

Recommendation

We recommend the registers available on the Shire website are updated. Where no disclosure has been made which requires the register to be updated on the website, we recommend the website “last updated” date be changed on a set pre-determined basis to avoid any perception that the information is not up to date.

Management Comment

Current approach is compliant, no further action will be taken.

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 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.

5.2. Detailed findings and recommendations

Our review indicated key underlying policies and processes in relation to accounting for municipal and trust transactions are appropriate, in line with best practice and operating effectively.

Accordingly, we have no recommendations to raise with respect to the accounting for municipal or trust transactions.

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. CREDIT CARD POLICY

Finding Rating: Low

Review of the Shire of Manjimup Management Policy: Authorised Use of Credit Cards compared with the Local Government Operational Guideline Number 11 and actual internal control practices in place identified the following further enhancements are required to the Policy:

- The requirement for those allocated credit cards to sign an agreement (currently occurring) is not currently stated within Policy;
- A register of those holding credit cards is maintained however not stated within Policy;
- Relevant policies and procedures are to be provided to the card holders;
- What happens to the card in the event their employment ceases, an extended period of leave is taken or they are moved to a position which does not require the use of credit card;
- What the card holder should do if they lose or misplace their credit card;
- Credit cards must not been transferred to other users’;
- How rewards schemes will be treated;
- The arrangement of destruction of all surrendered credit cards; and
- What action is to be taken in the event that a card holder fails to comply with the policies.

Implications / Risks

- Current policy may not reflect current practices or current requirements.
- Policy does not currently align with better practice, Local Government Operational Guideline Number 11.

Recommendation

We recommend the current credit card policy be updated to reflect current practices and alignment with the Local Government Operational Guideline Number 11.

Management Comment

A review of the current policy will be undertaken, however it should be noted that a credit card purchase can only be carried out by Senior Management (only card holders) and must be compliant with current purchasing policies in force. The amended policy will reference the various other policies that capture the guidelines above.

Responsible Officer: Director of Business

Completion Date: March 2023

7. Maintenance of payroll, stock control and costing

7.1 Scope and approach

- Completed site visit to the Manjimup depot and Pemberton fuel bowzers to review security over stocks held and allocation / costings of stocks used (including fuel and inventory stocks);
- Review 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. DEPOT

Finding Rating: Low

During our Depot site visit, our inquiries and observations identified the following:

- No independent stocktake spot checks are completed anymore (this procedure ceased 3 months prior to our site visit). As a result, adjustments posted to the adjustment account included in the works general operations ledger are no longer reviewed;
- Stocktake reports were not being generated and independently reviewed as a result of an issue with Datascope (a support query had been logged at the time of the onsite review); and
- Vehicle and site keys are maintained in a locked cabinet in the utilised room, however there is no key register / log book maintained to monitor who has keys throughout the day; and
- The key cabinet was unlocked at the time of our onsite review.

Implications / Risks

Lack of evidence to support stocktakes, independent review of stocktakes and adjustments raised to stock within the system.

Recommendation

We recommend:

- Stocktake reports are generated and independently reviewed;
- Stocktake spot checks are completed (as they were previously) with resulting adjustments to the general ledger reviewed;
- A key register or key log be maintained to monitor key movements throughout the day; and
- The key cabinet be locked unless in use.

Management Comment

Stocktake procedures to return to previous processes.

A daily key register will be created. The key room will not be locked as it is used regularly throughout the day, any requirement to lock will slow response times.

Responsible Officer: Director of Works

Completion Date: March 2023

7.2.2. FUEL USAGE ANALYSIS

Finding Rating: Low

Observation of City & Regional Fuel Statements, Caltex Fuel Statements and Depot Fuel Reports identified that although these are reviewed on an individual report basis, the Shire is currently not holistically analysing fuel usage by asset for inappropriate use i.e. combining the data from all of these sources and reviewing fuel usage on an overall basis for each asset.

Our inquiries indicate that the Shire is not currently utilising a GPS navigational system to track motor vehicles, analyse mileage against fuel purchased, excessive travel (outside of set perimeters), speeding etc.

In addition, motor vehicle log books are not actively completed at the Shire nor are employees required to complete a quarterly (or yearly) declaration stating the commute kilometres and number of nights the motor vehicle was not available to the employee.

Implications / Risks

Risk Shire employees are using the asset for unapproved personal use and/or purchasing fuel using the Shire's fuel card/fuelling up at the Depot for their own personal assets.

Recommendation

We recommend the following:

- The Shire investigate the appropriate method to be able to analyse the use of fuel holistically, i.e. create a monthly spreadsheet that combines the fuel purchased on the City & Regional Fuel Card, Caltex Fuel Card and fuel issued from the Depots. This spreadsheet should capture each Shire motor vehicle and detail every transaction in a chronological order. Once established, the fuel usage per asset should be analysed to determine whether the employee is fuelling up several times a day, over the weekend, late at night and excessive fuel purchased against the expected route the employee is travelling etc.
- The Shire request employees enter their odometer reading when fuelling up at City & Regional Fuels and Caltex.
- The Shire investigate whether the monthly statements from City & Regional Fuels, Caltex and Depot can be provided in excel for ease of analysis. The data should also include the odometers provided by the employee at the time of fuelling up.
- The Shire investigate the possibility of purchasing a GPS navigational system to assist with the monthly analysis (i.e. the Shire would be able to track where the motor vehicle travelled to/from and determine if this aligned with the fuel usage, where the employee was supposed to be). In addition
- to the advantages already noted for purchasing such a system, a GPS navigational system has advantages with respect to for ensuring the safety of employees, providing the Shire with the ability to locate the asset in an emergency and allows the employee to set off the duress in the event of an emergency.
- Employees complete a yearly declaration stating commute kilometres and the number of nights the motor vehicle was not available to the staff member.

Management Comment

Management currently reviews fuel accounts when they are being authorized, annual FBT reviews are completed comparing KM's to fuel expenses and certain vehicles are already fitted and monitored through GPS systems. Given the level of work involved in the recommendations it does not demonstrate value for effort to forensically monitor fuel purchases.

Responsible Officer: Coordinator of Finance and Admin

Completion Date: Ongoing

7.2.3. HR / OHS POLICIES AND PROCEDURES

Finding Rating: Low

Our review of internal Human Resources (HR) and Occupational Health and Safety (OHS) policies and procedures identified the following Council and Management policies and procedures are outdated and may require review:

Document	Due for Review
Management Policy – Emergency Evacuation Policy	Approval date: May 2015 Stated review date April 2022
Management Policy – First Aid Policy	Approval date: May 2015 Stated review date April 2022

We acknowledge the Shire is progressing through HR and OHS policy and procedure updates on a rotational basis and has made significant progress with the updating of related policies and procedures.

Implication / Risk

Procedures may not reflect current practices or current requirements.

Recommendation

We recommend a review of HR / OSH policies and procedures be completed in accordance with stated review dates.

Management Comment

Both policies are scheduled for review shortly.

Responsible Officer: Manager of Human Resources

Completion Date: March 2023

7.2.4. EXCESSIVE ANNUAL LEAVE BALANCES / LEAVE FORM PRACTICES

Finding Rating: Low

From our review of the annual leave listing as at the date of our review, we noted various employees who had accrued in excess of eight weeks annual leave.

In addition, our inquiries identified that it is not compulsory for employees to complete a leave form if only taking leave for a partial day. For example, our testing identified one employee took six hours sick leave, though no approved leave form was required.

Implications / Risks

- The cost to Council is greater if annual leave is not paid out on a regular basis due to the cumulative effect of salary increases over a period of time.
- Lack of evidence that employees have requested leave, and that leave taken has been authorised appropriately.

Recommendation

It is a fundamental principle of good internal control that all employees take regular holidays, therefore we recommend that leave balances continue to be managed to reduce the number of employees with excess leave due.

In addition, we recommend that employees complete a leave form for all leave taken. The completed leave form should be appropriately approved and retained on the employees' personnel file.

Management Comment

Leave Reports are sent out to Coordinators, Managers and Directors every fortnight. Balances are reviewed at Senior Management Team meetings with a mandate to reduce leave where possible.

Responsible Officer: Senior Management Team

Completion Date: Ongoing

7.2.5. ISSUE OF FUEL CARDS

Finding Rating: Low

Our inquiries indicated a single employee can request fuel cards by phone call or online with no documented authority required to order a new fuel card.

Implications / Risks

Risk fuel card may be incorrectly issued to an unauthorised employee.

Recommendation

We recommend a documented / written authority request procedure is developed and implemented for when a new fuel card is required. This can be as simple as an email or request form which is actioned by the employee and reviewed.

Management Comment

Process to be amended that Officer must only act on written direction from Fleet Manager.

Responsible Officer: Manager Works

Completion Date: Ongoing

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. BUDGET REVIEW

Finding Rating: Low

We noted the budget review was completed for the year to date actuals to 31 March 2022 with presentation and adoption by Council occurring on the 26 May 2022.

Implications / Risks

Risk of untimely information presented to Council.

Recommendation

While we acknowledge the requirements of Local Government (Financial Management) Regulations 1996 have been adhered to, we recommend as best practice that the budget review be completed and presented to Council earlier than 11 months into the following year.

Management Comment Budget Reviews are carried out every quarter. Current quarterly review process identifies any issues with appropriate time to make budget amendments if required.

Responsible Officer: Director of Business

Completion Date: Ongoing

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.

The risk guidelines stated within Risk Management – Guidelines Standard AS ISO 31000-2018 and are based in the Shire of Manjimup's Risk Management Framework.

Our guidance to risk classification in completing our review is as follows:

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Likelihood is the chance that the event may occur given knowledge of the organisation and its environment. The following table provides broad descriptions to support the likelihood rating:

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**Above Extracted from the Shire's Risk Management Framework.*

Measure of Consequence of Risk

Consequence is the severity of the impact that would result if the event were to occur. The following table provides broad descriptions to support the consequence rating:

Rating (Level)		Corporate Image	Environmental	Health and Safety	Loss of Service / Community	Social / Cultural Heritage	Economic (3rd Party Losses)	Economic (Shire Revenue / Business)
Insignificant (5)	Less than \$2,00	Minor community interest. Local media report	Negligible impact on physical environment. Reversible within 1 day.	Negligible injury, no medical treatment required.	Small number of customers experiencing minor service disruption.	Minor medium term social impacts on local population. Mostly repairable.	Minimal liability for consequential loss.	Total direct revenue loss & cost to restore service.
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Major (2)	\$100,001 - \$1,000,000	Public investigation. Regional / State-wide publicity. Some public demand for action.	Serious damage of national importance. Prosecution. Impact fully reversible within 1 year.	Severe irreversible disability to persons, or district wide epidemic. Loss of life < 3.	Major localised disruption over extended period.	On-going serious social issues. Significant permanent damage to structures / items of cultural significance.	Liability for consequential loss between \$100,001 to \$1,000,000.	Total direct revenue loss & cost to restore service.
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**Above Extracted from the Shire's Risk Management Framework.*

Risk Analysis Matrix – Level of Risk

Finding Rating for each audit issue was based on the following table:

		CONSEQUENCE				
		Insignificant	Minor	Moderate	Major	Catastrophic
LIKELIHOOD	Almost Certain	Moderate	High	High	Extreme	Extreme
	Likely	Low	Moderate	High	High	Extreme
	Possible	Low	Moderate	Moderate	High	High
	Unlikely	Low	Low	Moderate	Moderate	High
	Rare	Low	Low	Low	Low	Moderate

**Above Extracted from the Shire's Risk Management Framework.*



2022 Regulation 17 Review



DRAFT



14 November 2022

Mr Andrew Campbell
Chief Executive Officer
Shire of Manjimup
PO Box 1
MANJIMUP WA 6258

Dear Andrew

2022 REGULATION 17 REVIEW

We are pleased to present the findings and recommendations resulting from our Shire of Manjimup (the "Shire") *Local Government (Audit) Regulations 1996*, 2022 Regulation 17 Review.

This report relates only to procedures and items specified within the 2022 Regulation 17 Review Proposal and does not extend to any financial report of the Shire.

We would like to thank Greg and the team at the Shire of Manjimup for their co-operation and assistance whilst conducting our review.

We recommend this report be read in conjunction with the 2022 Financial Management System Review report prepared by AMD.

Should there be matters outlined in our report requiring clarification or any other matters relating to our review, please do not hesitate to contact Jonathan Kosareff 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 Manjimup 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 Manjimup. 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 the Shire of Manjimup. This report is solely for the purpose set out in the 'Scope and Approach' of this report and for Shire of Manjimup'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 Manjimup's Chief Executive Officer or its delegate in connection with our engagement to perform the review as detailed in the 2022 Regulation 17 Review Proposal. Other than our responsibility to the Council and management of the Shire of Manjimup, neither AMD nor any member or employee of AMD undertakes responsibility arising in any way from reliance placed by a third party.

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 for the period ended 31 December 2022 (the “Review”).

Our findings included within this report are based on the site work completed by us on the 16th to 18th of May 2022 and information subsequently provided to us. 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 following tables provide a summary of the findings raised in this report:

	Extreme Risk	High Risk	Moderate Risk	Low Risk
Number of new issues reported	0	0	3	4

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

Ref	Issue	Risk Rating
Risk management		
2.2.1	ICT Continuity and Disaster Recovery Plan The current IT Disaster Recovery Plan does not take into account the Datascape accounting system implemented in 2019; and has not been updated to reflect other changes to the IT infrastructure.	Moderate
	Periodic testing of the Plan and linking to the Shire's Business Continuity Plan is also recommended.	
2.2.2	Lease Management No formal procedure in place to monitor lessee compliance with terms of the Council leased properties.	Low
Internal controls		
3.2.1	Procurement and Contract Management Currently no formal contract management framework in place.	Moderate
3.2.2	Grant Funding Plan No holistic grant funding summary plan in place.	Low
Legislative compliance		
4.2.1	Integrated Strategy Planning IT Strategic Plan and Long Term Financial Plan due for review.	Moderate
4.2.2	Audit Advisory Committee The Audit Advisory Committee has not been meeting on a quarterly basis.	Low
4.2.3	Internal Audit There is currently no formal internal audit function in place.	Low

2. Risk management

2.1. Scope and approach

In accordance with our proposal, 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. ICT Continuity Disaster Recovery Plan

Finding Rating: Moderate

The Shire's current ICT Continuity Disaster Recovery Plan (Version 1.4) has not been updated to reflect the "Datascope" accounting system implemented in 2019 and has not been updated to reflect any other changes within the IT environment over recent years.

Implications/Risks

Risk of significant delays and business interruption in the event of unforeseen circumstances in respect to Shire operations.

Recommendation

The ICT Continuity Disaster Recovery Plan should be reviewed and updated to reflect the Shire's current accounting system and other changes to the IT environment.

We also recommend this plan directly link to the organisational-wide Business Continuity Plan.

In addition, we recommend the ICT Continuity Disaster Recovery Plan be tested on a regular basis to ensure that in the event of a disaster, appropriate action(s) can be taken.

Management Comment

Agreed Plan to be updated. The Shire has undertaken significant work in the Disaster Recovery area particularly due to the impacts of COVID-19 on the organisation and the improvement to off-site backups to placate direct disaster on buildings or cyber attack. Documentation should reflect all changes.

Responsible Officer: Coordinator of ICT

Completion Date: June 2023

2.2.2. Lease Management

Finding Rating: Low

While the Shire does maintain a list of approximately 63 leased properties, our enquiries indicated there is no formal procedure to monitor lessee compliance with terms of Council leased properties, including if a current signed lease agreement is in place, if lessees have complied with insurance requirements etc. Our testing identified the Shire has not actively obtained up to date insurance policies from the lessees required to be in place where applicable as per the Lease Agreement.

Implications/Risks

The Shire is potentially exposed to risks due to lessee non-compliance with lease agreement terms and conditions.

Recommendation

We recommend a formal procedure be implemented to monitor lessee compliance with the terms and conditions of Council leased properties which may include maintaining a lease register to incorporate key lease terms and conditions (such as rent), insurance details and any other lessee reporting requirements.

Management Comment

Information required is requested, however follow up with Community groups is problematic. The Shire's software provider is currently developing a Lease Management Module which will use Customer Service Requests to support the follow up of compliance paperwork.

Responsible Officer: Senior Properties Officer

Completion Date: June 2023

3. Internal controls

3.1. Scope and approach

In accordance with our proposal, 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;
- The effectiveness of policy and process reviews;
- Approval of documents, letters and financial records;
- Management internal reviews undertaken in respect to comparison of internal data with external sources of information;
- The adequacy of internal controls;
- 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;
- Effectiveness of the training and development plan for staff and elected members;
- 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. Procurement and Contract Management

Finding Rating: Moderate

Our discussions with management identified that although there is a range of contractor management documents that mainly address engaging contractors, there is no documented contract management framework in place articulating an approach to be followed nor is a contract compliance checklist utilised by the Shire representative when managing contracts.

Implications/Risks

- Risk Shire representatives do not follow an appropriate and consistent process when procuring and managing contracts.
- Risk of the contractor's non-compliance with the Shire's policies, procedures including relevant ethics, health and safety requirements.
- Risk that the contractors/suppliers insurances expire whilst providing the service to the Shire and that this is not identified in a timely manner.
- Risk of non-compliance with the terms and conditions of the contract.

Recommendation

We recommend:

- A contract management framework is designed and documented to ensure that contracts are managed appropriately and in accordance with the stated framework. This approach will include the mandatory requirement of all contractors completing some level of induction (the level of induction completed should be determined based on the risks associated with the service or goods provided), ensuring that up to date insurances are on file and the contractor invoices the Shire in accordance with the contract/agreement including any subsequent variations; and
- A compliance checklist be developed based on the contract management framework and utilised by Shire representative's to ensure compliance is met for key contracts or those contracts designated to be high risk due to value or nature of the project.

Management Comment

Contract Management Framework to be developed.

The Shire's software provider is currently developing a Contract Management Module which will use Customer Service Requests to support the follow up of compliance paperwork.

Responsible Officer: Director of Business

Completion Date: June 2023

3.2.2. Grants Funding Plan

Finding Rating: Low

Our inquiries indicated that although each department maintains their own grant funding listing, there is no holistic grant funding summary plan in place for the Shire specifying current grant funding contracts, funding received, project description, key milestone dates and reporting dates.

Implications/Risks

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

Recommendation

We recommend a holistic grant funding summary plan be developed specifying grant funding contracts relevant for the current financial year, project description, amount, key milestone dates and reporting dates.

Management Comment

Agreed there is no overarching Grant register, grants are managed within the appropriate department with Finance overseeing Income and Expenditure.

The Shire's software provider is proposing (On Roadmap) to develop a Grant Management Module which will use Customer Service Requests to support the follow up of compliance paperwork. In the interim management will create a register of grants.

Responsible Officer: Coordinator of Finance and Admin

Completion Date: June 2023

4. Legislative compliance

4.1. Scope and approach

In accordance with our proposal, our review examined the following areas:

- Internal monitoring of compliance with legislation and regulations;
- The Local Government's ability to stay informed regarding legislative changes;
- The Local Government's completion of the annual Compliance Audit Return and reporting the results of that review to the Audit Committee and Council;
- The monitoring of the Local Government's structured guidelines that detail the Local Government's processes for meeting statutory obligations (compliance frameworks);
- 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. Integrated Strategy Planning

Finding Rating: Moderate

We noted the following integrated strategy planning documents are out of date requiring review:

- Long Term Financial Plan 2016 – 2026; and
- IT Strategic Plan, dated 22 November 2013.

Implications/Risks

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

Recommendation

We recommend that the Long Term Financial Plan and IT Strategic Plan be reviewed and adopted by Council. Once the plans have been adopted, we recommend they are endorsed and communicated to all staff, implemented and monitored on a regular basis.

Management Comment

Agreed.

Responsible Officer: Director of Business

Completion Date: March 2023

4.2.2. Audit Advisory Committee

Finding Rating: Low

While we acknowledge three Audit Advisory Committee meetings were held during the 2021/22 financial year, we note the Department of Local Government Sport And Cultural Industries, operational guideline Number 09 – The appointment, function and responsibilities of Audit Committee recommends meetings should be conducted at least on a quarterly basis.

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 that the Audit Advisory Committee meets at least on a quarterly basis, or alternatively minute the basis as to why the current schedule of Audit Advisory Committee meetings is considered sufficient.

Management Comment

Due to COVID-19, meetings were held on a priority basis, should be back to quarterly from now on.

Responsible Officer: Director of Business

Completion Date: Ongoing

4.2.3. Internal Audit

Finding Rating: Low

We noted that the Shire does not currently have a formal documented internal audit program in place.

Implications/Risks

Risk of non-compliance with Department of Local Government, Sport and Cultural Industries Guidelines and recommended practices.

Recommendation

The Department of Local Government, Sport and Cultural Industries guidelines recommend an internal audit function be established incorporating an internal audit program which is re-assessed annually.

Should the Shire consider an internal audit function not be required, we suggest the Audit Committee formally document they have considered the best practice guideline and the reasons they feel it is not necessary.

Management Comment

The Shire currently carries out the Financial Management Systems Review and Regulation 17 every 3 years as required. Shire Officers also carry out ad hoc audits as requested by the Audit Committee if there are areas of concern.

Responsible Officer: Director of Business

Completion Date: On going

5. Guidance on Risk Assessment

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Risk Analysis Matrix – Level of Risk

Finding Rating for each audit issue was based on the following table:

		CONSEQUENCE				
		Insignificant	Minor	Moderate	Major	Catastrophic
LIKELIHOOD	Almost Certain	Moderate	High	High	Extreme	Extreme
	Likely	Low	Moderate	High	High	Extreme
	Possible	Low	Moderate	Moderate	High	High
	Unlikely	Low	Low	Moderate	Moderate	High
	Rare	Low	Low	Low	Low	Moderate

**Above Extracted from the Shire's Risk Management Framework.*