



Appendices

Audit Committee Meeting

Thursday 27 June 2019



2019 Financial Management System Review





30 May 2019

Mr D Unsworth
Chief Executive Officer
Shire of Murray
PO BOX 21
PINJARRA WA 6208

Dear Dean

2019 FINANCIAL MANAGEMENT SYSTEMS REVIEW

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

This report relates only to procedures and items specified within the 2019 Financial Management System Review Services Proposal and does not extend to any financial report of the Shire.

We would like to thank Tracie, Joseph 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 me.

Yours sincerely
AMD Chartered Accountants

A handwritten signature in black ink, appearing to read 'M Cavallo', with a small flourish at the end.

MARIA CAVALLO CA
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 Murray 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 Murray. 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 Murray. This report is solely for the purpose set out in the 'Scope and Approach' of this report and for the Shire of Murray'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 Murray Chief Executive Officer or its delegate in connection with our engagement to perform the review as detailed in the 2019 Financial Management System Review Services Proposal. Other than our responsibility to the Council and management of the Shire of Murray, 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 Murray 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 of Murray (“Shire”) focusing on accounts payable, accounts receivable, human resources and payroll procedures; in accordance with the 2019 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.

Our findings included within this report are based on the site work completed by us on the 25th to 28th of March 2019. Findings are based on information provided and available to us during 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:

	Significant Risk	Moderate Risk	Minor Risk
Number of new issues reported	2	3	8

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



Ref	Issue	Risk Rating
2. Collection of money		
Cash Count Variances		
2.2.1	Two minor variances identified when completing cash counts at cash collection sites operated by the shire.	Minor
3. Custody and security of money		
Security of Cash Takings		
3.2.1	Suggestions for enhancements to improve security of cash takings across various shire controlled sites.	Moderate
4. Maintenance and security of financial records		
We have no findings to raise in respect to the maintenance and security of financial records.		
5. Accounting for municipal of trust transactions		
Review of Key Monthly Reconciliations		
5.2.1	There is no evidence that monthly reconciliations prepared for fixed assets, rateable values and loans are subject to independent review.	Moderate
Sundry Debtors Reconciliation		
5.2.2	List of debtor balances greater than \$5,000 outstanding for more than 30 days was not complete at the time of our review.	Minor
Investment Policy		
5.2.3	Suggested enhancement to Council's current investment policy.	Minor
6. Authorisation for incurring liabilities and making payments		
Master File Changes		
6.2.1	No review of master file changes.	Significant
Procurement		
Verbal quotes are not being documented.		
We were unable to obtain quotes for a sample of purchases to demonstrate compliance with the shire's Purchasing Policy.		
6.2.2	Instances occurred whereby purchase orders were not prepared and authorised prior to expenditure being incurred.	Significant
Instances where expenditure was not accompanied by a purchase order.		
Credit Card Transactions		
Cardholders do not sign their credit card statement.		
6.2.3	No evidence of credit card transactions being independently reviewed.	Moderate
Statutory declarations not currently completed where credit card purchases are not supported by a valid invoice or receipt.		
7. Maintenance of payroll, stock control and costing records		
Review of Payroll		
7.2.1	There is no evidence of review of the payroll journal processed in Synergy or the "pay variance report".	Minor
Depot Plant and Vehicle Keys		
7.2.2	Suggestions to enhance the security over keys to plant and vehicles located at the depot.	Minor
Fuel Usage Analysis		
7.2.3	Suggestions for enhancement of the Shire's fuel usage analysis provided.	Minor
8. Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations		
Audit Committee Meetings		
8.2.1	One Audit Committee meeting held year to date.	Minor
Monthly Variance Analysis Presented to Council		
8.2.2	We suggest variance analysis includes categorisation of variances as either "permanent" or "due to timing".	Minor



2. Collection of money

2.1. Scope and approach

For the following locations operated by the Shire:

- Murray Administration Office;
- Murray Library;
- Murray Leisure Centre;
- Murray Waste Transfer Site; and
- Edenvale Tea Rooms.

We assessed the following:

- Documented internal controls, procedures and reconciliations in relation to all sources of income;
- Counted petty cash and floats 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. Cash Count Variances

Finding Rating: Minor

We completed a count of cash on hand and petty cash at each location we visited and noted the following variances:

Location	Cash Counted (\$)	Cash Takings (\$)	Total (\$)	Float (\$)	Variance (\$)
Library	440.05	308.40	131.65	130.00	1.65
Tea Room	328.60	128.50	300.10	300	0.10

Implications / Risks

Risk of misstatement or omission.

Recommendation

Our inquiries during our site visits indicated the above variances were likely caused by customers not requesting change. We recommend when such an event occurs it is documented to enable the floats to be balanced at the end of each day.

Management Comment

- Management considers, this finding to be insignificant in accordance with the Shire's Risk Management Framework (financial impact <\$5,000 is rated insignificant).
- Procedure currently followed by the Customer Service Department will be rolled out to all remote locations responsible for handling cash receipts.

Responsible Officer: Senior Finance Officer

Completion Date: 30 June 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

3.2.1. Security of Cash Takings

Finding Rating: Moderate

Observation and enquiries made during our site visits to the various cash collection points controlled by the shire identified the following:

A. Waste Transfer Station

- Cash is maintained by the gate attendant and taken home by them daily as there is no safe onsite;
- At the time of our attendance cash takings for the transfer station was mixed with monies which did not relate to the transfer station;
- Banking is completed once a month; and
- At the time of preparing monthly banking, the cash count is not reviewed by someone independent of the cash collection function.

B. Murray Library

- A "bucket of change" is maintained and used to manage till variances (overs and unders). Our inquiries indicated the funds within the bucket are banked at the discretion of the officers;
- Cash is kept in the till overnight;
- Keys to access the till and petty cash tin are located on the wall of the manager's office; and
- At the time of preparing banking, the cash count is not reviewed by someone independent of the cash collection function.

C. Murray Leisure Centre

- Our sample testing identified instances where the daily receipting bank deposit listing was not signed by a second employee as evidence that the process was subject to independent review.

D. Edenvale Tea Rooms

- Petty cash and spare change are not separately maintained.

Implications / Risks

Reduced security in relation to cash collected. Risk that error of fraud may not be detected on a timely basis.



Recommendation

To enhance internal controls relating to cash collected at sites controlled by the shire, we recommend the following:

A. Waste Transfer Station

- (i) Alternative strategies are investigated and considered to prevent the need for the gate attendant to retain cash takings on their person e.g. implementing a safe at the location;
- (ii) Cash relating to the transfer station be maintained separately to any other monies;
- (iii) Banking is completed at least weekly when cash is received; and
- (iv) At the time of banking being prepared a formal reconciliation process be implemented which results in documentation being signed off by the preparer and then reviewed and signed by someone independent of the cash collection function at the site.

B. Murray Library

- (i) Use of the “bucket of change” ceases with any excess monies on hand at the time of balancing the till being banked and recorded accordingly;
- (ii) Cash is removed from the till overnight and kept in a more secure location e.g. onsite in a safe or in a further locked cupboard;
- (iii) Keys to access the till and petty cash tin are moved to a less visible location and access to the keys is restricted; and
- (iv) At the time of banking being prepared a formal reconciliation process be implemented which results in documentation being signed off by the preparer and then reviewed and signed by someone independent of the cash collection function at the site.

C. Murray Leisure Centre

- (i) The daily receipting bank deposit listing is subject to independent review and signed as evidence of this review.

D. Edenvale Tea Rooms

- (i) Petty cash and spare change are maintained separately.

Management Comment

Management considers, this finding to be insignificant or minor in accordance with the Shire’s Risk Management Framework (financial impact <\$5,000 is rated insignificant).

A. Waste Transfer Station

- i. Safe has been installed in office, this is positioned underground out of customers sight.
- ii. Small float belonging to Contractor is now separated from Waste takings.
- iii. Due to small takings, banking this amount weekly with the short staff resources, would not be beneficial.
- iv. A process is being put in place and to be implemented for banking to be counted, reconciled and signed by Station Contractor on banking sheets and independently reviewed and signed by Waste Coordinator before handing over to CSO staff for receipting.

B. Murray Library

- i. A procedure to be introduced to deal with “unders and overs”; this will be documented on a spreadsheet and banked accordingly.
- ii. A safe has been purchased, till will be balanced daily and kept in safe over night
- iii. Keys are now to be kept in safe.
- iv. Banking to be completed by Library Officer and signed. When taken to the CSO’s, they will count and review banking and will sign as an independent reviewer.

**C. Murray Leisure Centre**

- i. This procedure is also already in place, with the CSO is in charge of balancing at the end of day and the Finance Officer recounting and completing the daily banking; this is 2 signatory checks.

D. Edenvale Tea Rooms

- i. Petty cash and spare change will be maintained separately, with a system introduced similar to the Library.

Responsible Officer: Senior Finance Officer**Completion Date: 31 May 2019**



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

Our review indicated key underlying policies and processes in relation to the maintenance and security of financial records are appropriate, in line with best practice and operating effectively.

Accordingly, we have no recommendations to raise in respect to the maintenance and security of the financial records.



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

5.2.1. Review of Key Monthly Reconciliations

Finding Rating: Moderate

Our review of the monthly reconciliation process identified that there is no evidence of independent review for the following end of month reconciliations:

- Fixed Assets
- Rateable values; and
- Loans.

Implication / Risk

Risk that error or fraud may not be identified in a timely basis.

Recommendation

We recommend all key reconciliations are completed monthly and are subject to independent review. This review process should be evidenced by sign off on the relevant Shire “monthly internal controls sheet” which addresses these reconciliations.

Management Comment

All monthly reconciliations and internal controls are checked but the control sheets have not been signed off by the Coordinator Finance as per procedure. With regards to the rateable values there is a separate process where the Manager Finance reviews and signs off all changes to valuations within the rates database.

Responsible Officer: Coordinator Finance

Completion Date: 31 May 2019



5.2.2. Sundry Debtors Reconciliation

Finding Rating: Minor

As part of the month end reconciliation process for sundry debtors a separate listing of all balances greater than \$5,000 which have been outstanding for more than 30 days is prepared and an explanation is provided regarding the status and any other relevant information relating to each debtor. This listing is submitted to Council for review with the monthly financial report package.

Our review of the monthly debtor reconciliations identified that the list of balances greater than \$5,000 which have been outstanding for more than 30 days does not include the debtor accounts which already have action taken to recover e.g a payment plan has been entered into.

Implication / Risk

Increased risk in respect to debtor monitoring and collection of overdue accounts.

Recommendation

We recommend the listing of debtors greater than \$5,000 which have been outstanding for more than 30 days include all debtors which satisfy the criteria. The debtors with recovery action in place should include additional comments to reflect the current status and estimated time frame for recovery.

Management Comment

Management will now include all debtors meeting the above criteria in the monthly financial reports to Council with the additional comment regarding payment plans.

Responsible Officer: Coordinator Finance

Completion Date: 31 May 2019

5.2.3. Investment Policy

Finding Rating: Minor

Our review of the Investment Policy identified that it does not require a minimum number of quotes to be obtained prior to reinvesting funds.

Implication / Risk

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

Recommendation

We recommend Council consider whether this requirement be included within the shire's investment policy.

Management Comment

Our standard practice is to obtain quotations from Commonwealth Bank, Bankwest, National Australia Bank and Bendigo Bank when term deposits are maturing or we have excess funds to invest. We no longer use ANZ or Westpac due to their internal procedures making it extremely difficult to access our funds when necessary.

Responsible Officer: Manager Finance

Completion Date:



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. Master File Changes

Finding Rating: Significant

Our inquiries indicated management do not routinely conduct a review of all changes and adjustments made to master files, including changes made to supplier and employee payroll master files, such as amending supplier or employee bank account details or amendments to electronic funds transfer details.

Implication / Risk

There is an increased risk that:

- Required changes to the master-files are untimely;
- Erroneous changes made to master-files have a low chance of being detected in a timely manner; and
- Suspicious/fraudulent changes made to master-files have a low chance of being detected in a timely manner.

Recommendation

We recommend evidence of an independent review of all changes made to mater files be conducted periodically and evidenced by sign-off. The review should include:

- A download of all changes (new / old / modify) made to each master-file;
- A representative sample then be tested and traced to originating / supporting documentation to assure validity and timeliness; and
- A review for suspicious master-file changes should be performed periodically.

Management Comment

This is a procedure that was in place originally but with the turnover of staff has inadvertently been omitted as standard practice. New procedures will be developed and implemented immediately to rectify this omission.

Responsible Officer: Senior Finance Officer

Completion Date: 31 May 2019



6.2.2. Procurement

Finding Rating: Significant

During our sample testing of the procurement process we noted the following:

- Verbal quotes are not documented as required by Policy G11 Purchasing (“Purchasing Policy”);
- We were unable to obtain the minimum number of quotes, as required by the Purchasing Policy, for three purchases within our sample;
- Three purchase orders were prepared after the date of the associated invoices; and
- Two invoices were not accompanied by an approved purchase orders.

The above examples can be provided upon request.

Implications / Risks

Risk of non-compliance with current Shire policies and procedures.

Recommendation

We recommend:

- A pro forma document be developed which summaries any quotations obtained from suppliers, including verbal quotes, to evidence compliance with the Shire’s current Purchasing Policy;
- All written quotations are retained in an accessible location to demonstrate compliance with the Shire’s current Purchasing Policy; and
- All relevant purchases are accompanied by a purchase order which is prepared and authorised prior to incurring the expenditure.

Management Comment

Management does not consider this to be a significant finding.

- Verbals quotes – not the intent of the Policy to require staff to document verbal quotes.
- Management acknowledges that there is not a consistent method for recording quotations which in some cases makes it difficult to locate source documents. The following changes will be implemented:
 - The developers of the new computer software have been requested to have a built in “Quote system” so Purchase Orders cannot be raised unless the required quotations have been attached.
 - A monthly “spot check audit” of Purchase Orders to make sure all procurement documents are correct and following Shire’s Purchasing Policy.
 - Monthly “spot check audits” to ensure all PO’s are being raised and approved before being ordered and invoice received.
 - All purchasing officers to receive a refresher on purchasing policy and procedures.

Responsible Officer: Senior Finance Officer

Completion Date: 30 June 2019



6.2.3. Credit Card Transactions

Finding Rating: Moderate

We noted the following in respect of our review of credit card transactions:

- Cardholders sign the spreadsheet attached to credit card statements, which list all transactions, however do not sign the statement itself;
- There is no evidence that credit card statements are independently reviewed; and
- Where supporting documentation (invoice/ receipt) is not provided for a credit card transaction, this is clearly noted on the spreadsheet however no statutory declaration or equivalent is completed by the cardholder.

Implications / Risks

- Increased risk of fraud or error.
- Practices not currently aligned to better practice, Local Government Operation's Guideline Number 11.

Recommendation

We recommend:

- Cardholders sign their credit card statement as evidence they have reviewed, acknowledged and endorsed the transactions;
- Each credit card statement be subject to independent review and evidence of this review is documented. As best practice we recommend the CEO's credit card statement is reviewed by a representative of Council and evidenced accordingly; and
- Where supporting documentation is not able to be provided a statutory declaration or equivalent should be prepared by the cardholder documented why supporting information could not be provided.

Management Comment

- All recommendations as listed will be implemented so as to adhere to Local Government Operation's Guideline Number 11.
- Noted that all credit card transactions are individually listed in the monthly report to Council – therefore Council are endorsing all transactions on credit cards each month.

Responsible Officer: Coordinator Finance

Completion Date: 31 May 2019



7. Maintenance of payroll, stock control and costing

7.1. Scope and approach

- Completed site visit to the Murray depot fuel bowers to review security over stocks held and allocation / costings of stocks used (including fuel and inventory stocks);
- Reviewed 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. Review of Payroll

Finding Rating: Moderate

During our review and testing of the payroll function, we identified the following:

- There is no formal review process relating to the general journals raised within Synergy to reflect pay runs which are prepared and processed within the separate payroll software (NAV); and
- As part of the payroll process a “pay variance report” is prepared, which identifies fluctuations between pay runs, however there is no evidence this report is reviewed as part of the overall payroll review function.

Implication

Risk that error or fraud may not be identified in a timely manner.

Recommendation

Given the journal raised in Synergy is a manual journal (no automatic posting from NAV to Synergy), we recommend the payroll journals be independently reviewed and evidence of the review be documented.

We also recommend the “pay variance report” forms part of the pay run review process and evidence of the review is documented.

Management Comment

- The payroll variance reports have always been reviewed by an independent officer but were not officially signed off. This process has already been amended and the variance report spreadsheet is converted to PDF and digitally signed after review.
- The fortnightly payroll journal is produced directly from NAV where it is coded to correctly reflect costings. Management reports are issued fortnightly and monthly reconciliations are performed.

Responsible Officer: Manager Finance

Completion Date: 31 March 2019



7.2.2. Depot Plant & Vehicle Keys

Finding Rating: Moderate

Observations made during our attendance at the shire's depot identified that the plant keys are stored on the wall of the administration depot building and are easily accessible.

Implications / Risks

Risk of unauthorised use of shire owned assets.

Recommendation

Access to keys should be restricted to relevant employees. Keys should be kept in a locked key cabinet/box to increase after-hours security.

We further recommend a register is developed for plant keys located at the depot and keys are required to be signed in and out daily. The signing in and out of keys and access to the keys should be overseen by a designated employee.

Management Comment

- The Operations Centre has a full monitored alarm system, both external and internal to the buildings. It is acknowledged that a locked key box would be advantageous and one will be sourced and installed.
- No Operations Centre vehicles are designated as pool vehicles and all have a nominated operator or driver who are responsible to collect the appropriate key on a daily basis and are responsible for the safe keeping of the vehicle. Due to this fact a separate register is considered by management as unnecessary.

Responsible Officer: Chris Pretorius, Manager Operations

Completion Date: 30 June 2019



7.2.3. Fuel Usage & Analysis

Finding Rating: Minor

Review and assessment of Caltex Fuel Statements and Puma Fuel Statements 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, we also note that there is no policy or procedure governing the use of fuel cards.

Implications / Risks

Risk Shire employees are using asset for unapproved personal use and/or purchasing fuel using the Shire's fuel card 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 Caltex and Puma Fuel Cards. 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 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; and
- Fuel card policy and/or procedure be developed and implemented. Those that use the fuel cards should be required to acknowledge in writing their understanding of the terms and conditions of use detailed within the documented policy and/or procedure.

Management Comment

- It is acknowledged that this would be beneficial, however resources are currently not available to undertake this task.
- The Shire is already in the process of implementing an integrated two way system that provides the GPS functionality. This will be rolled out over the next few years commencing with the emergency services vehicles and key heavy fleet. Management considers this to be outside the scope of the FMSR.
- Management Practice in place that outlines usage of fuel cards. All officers responsible for vehicles, both permanent and temporary assignees, are required to sign in acknowledgement of the Management Practice. Examples attached (Document 3. Vehicle Assignment Forms).

Responsible Officer: Manager Finance Completion Date: 31 May 2019



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. Audit Committee Meetings

Finding Rating: Minor

We noted that to the date of this review there has only been one audit committee meeting held in the 2018/19 financial year. Further enquiries indicate there is only one more meeting scheduled for the remainder of the year.

Implications / Risks

Practices not currently aligned to Local Government Operational Guideline Number 09 – Audit in Local Government.

Recommendation

We recommend, as best practice, audit committee meetings are held quarterly, in accordance with Local Government Operational Guideline Number 09 – Audit in Local Government.

Management Comment

The model terms of reference contained within Guideline 09, suggests quarterly meetings could be considered, however this is not within Section 3 – Operation of Audit Committees. It is considered that mandated quarterly Audit Committee meetings would not be efficient, and the Shire believes that we need to be more flexible to have meetings that can be convened as required to address matters of relevance and significance. Management considers this to be insignificant.

Responsible Officer: Director Corporate and Community Dev.

Completion Date: N/A



8.2.2. Monthly Variance Analysis Presented To Council

Finding Rating: Minor

Our review of the monthly variance analysis presented to Council as part of the monthly financial statement review identified that budget variances are not categorised as “permanent” or “due to timing”.

Implications / Risks

Reduced understanding of variance analysis contained within monthly financial statements.

Recommendation

We suggest management consider whether the monthly budget variance analysis presented to Council could be enhanced by categorising each variance as either “permanent” or “due to timing”.

Permanent variances are due to changes in conditions or events which were not reflected in the budget figures- these variances are not expected to correct by the end of the financial year.

Timing variances are due to a mismatch in the expected timing of revenue or expenditure per the budget vs the actual timing of revenue or expenditure- these variances are expected to correct by the end of the financial year.

Management Comment

This is considered an improvement to the information supplied to Council and will be implemented in the next monthly financial report.

Responsible Officer: Coordinator Finance

Completion Date: 31 May 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.