

SHIRE OF NUNGARIN

Review of Legislative Compliance, Internal Controls and Risk Management Systems

MARCH 2023



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EXECUTIVE SUMMARY

Introduction

Pursuant to Regulation 17(1) of the *Local Government (Audit) Regulations 1996*, the Chief Executive Officer (CEO) of a local government is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to:

- (a) Legislative compliance;
- (b) Internal control; and
- (c) Risk management

Regulation 17(2) states that the review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.

In addition, Regulation 17(3) requires the CEO to report to the audit committee the results of that review.

The Department of Local Government, Sport and Cultural Industries provides guidance for the areas that should be considered for this review in Appendix 3 of Operational Guideline No. 9 (Attachment 4).

Purpose Of Review

The Shire of Nungarin appointed Darren Long Consulting to undertake a review of the local government's legislative compliance, internal control and risk management systems and procedures, as required by regulation 17(1) of the *Local Government (Audit) Regulations 1996* and report as to their appropriateness and effectiveness.

The compliance programs of a local government are a strong indication of attitude towards meeting legislative compliance and risk management approach.

Internal control is a key component of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government.

Understanding risk appetite and tolerance is important, as they assist in determining the level of risk the local government is willing to accept and pursue in attaining its goals and objectives.

Risk appetite is the amount of risk a local government is willing to accept or retain in order to achieve its objectives.

Risk appetite is usually expressed in a form of a statement and are aligned to categories of risk. Risk appetite statements will have a different look and feel based on a local government's internal and external context (influences).

Risk tolerance is the levels of risk taking acceptable to achieve a specific objective or manage a category of risk.

Risk tolerance “represents the practical application of risk appetite and is typically aligned to categories of risk such as strategy, financial, people or reputation”¹.

Risk culture is the norms, traditions and behaviours of individuals and groups within the local government that determine the way in which they identify, understand, discuss and act on the risks the local government confronts and takes.

Being a public body, there is an expectation that the Shire’s risk appetite for legislative non-compliance will be very low, to protect the entity’s reputation and to guard against misappropriation or loss of public monies.

The Shire’s risk appetite when reviewing its service delivery, health, safety, environmental and financial management is considered to be ‘low to moderate’, requiring treatment with sound internal controls. Strategic and project-based initiatives will require individual assessment, and where considered to be ‘high or extreme’, additional controls will be required to reduce the risk level. These additional controls will need continual monitoring and evaluation to confirm they are effective.

Disclosure

For the purposes of s5.70 I disclose that I am a Local Government Consultant involved with a wide range of local governments in the State of Western Australia providing financial and governance consulting services.

I am engaged by the Shire of Nungarin to provide financial consulting services in relation to annual budget preparation, monthly and annual financial reporting. I declare I have a financial interest in the preparation of this report, but am not involved in the monitoring of systems, procedures or processes relating to financial internal controls. This interest has not impacted on my objectiveness or the impartial approach in undertaking the Review.

The review was conducted independent of Management.

Findings

The Legislative Compliance, Internal Control and Risk Management Review for the Shire of Nungarin involved the examination of approximately 105 areas of the local governments’ control environment; of which 83 were found to have a high standard of policies, procedures, processes and systems in place.

The local governments overall control environment is considered appropriate and was operating effectively at the time of the review.

¹ Australian Government Department of Finance – Risk Management Policy, 2016.



The following findings are deemed to be minor in nature and present an opportunity for the local government to consider suggested improvements to internal procedures and processes to enhance the overall control environment.

Internal Monitoring of Compliance with Legislation and Regulations

- (1) Government gazettes should be monitored for any legislative changes that may have an impact on the operations of the local government.

Staying Informed about how Management is Monitoring the Effectiveness of its Compliance and making Recommendations for change as necessary

- (2) It is essential that the Shire prepare Asset Management Plans for all relevant asset classes, as it is a statutory requirement of regulation 19DA(3)(c) of the *Local Government (Financial Management) Regulations 1996*.
- (3) It is essential that the Shire prepare a Workforce Plan, as it is a statutory requirement of regulation 19DA(3)(c) of the *Local Government (Financial Management) Regulations 1996*.
- (4) The local government does not have an Internal Control Policy
- (5) The local government does not have a Legislative Compliance Policy
- (6) Procedure Manuals should be created for key processes, inclusive of screenshots, so there is clear documentation on how a process should be performed.
- (7) The introduction of additional delegations of authority to the CEO may assist in improve efficiencies of operation.

Sample suggested delegations have been attached at Attachment “1” for the CEO and Councils consideration.

Review Whether the Local Government has Procedures for it to Receive, Retain and Treat Complaints, Including Confidential and Anonymous Employee Complaints

- (8) The local government does not have an internal procedure manual relating to Public Interest Disclosures as required by the PID Act.
- (9) The local government does not have a procedure on how to handle complaints about Elected Member Official Conduct matters.

Assess the Local Governments’ Compliance Framework Dealing with Relevant External Legislation and Regulatory Requirements

- (10) The local government does not have a Governance Manual.

Review Audit Committee’s Processes and Procedures Regarding Compliance with Legislation and Regulatory Requirements Imposed on Members Including Not



Misusing Their Position to Gain an Advantage for themselves or another, or Cause Detriment to the Local Government, and Disclosing Conflicts of Interest

(11) The local government does not have a Governance Manual.

Separation of Roles and Functions, Processing and Authorisation

- (12) There is a weakness in the debtors control system resulting from the lack of separation of the invoice raiser and invoice approver roles, which are currently performed by the same person.
- (13) There is a lack of sound internal controls in place for the management of residential rents, including rental charged and paid.
- (14) There is a weakness in internal controls as no monthly reconciliation is performed of the sundry debtor's subsidiary ledger to the general ledger control account.
- (15) There is a weakness in the creditors control system where the current certification stamp placed on supplier invoices does not provide for the data entry officer to initial they have check additions on the invoice for accuracy, or that the GST amount raised in the software matches the GST amount on the supplier invoice. It also does not provide for the flagging of supplier invoices as input taxed detailing that GST cannot be claimed on the supplier invoice.
- (16) There is a lack of internal controls in place for the management of GST raised on supplier invoices. Evidence indicates that only the total value of the supplier invoice is checked, and not the GST entries.
- (17) The introduction of a check for ABN registration on the certification stamp would be helpful, ensuring a check is performed on whether the supplier has an ABN and whether they are registered for GST.
- (18) There is a lack of supporting documentation for the credit card batch payments processed in SynergySoft.
- (19) There is an internal control weakness in the till cash count process, as it is only counted by one officer. It is noted that only small irregular amounts of cash are handled.
- (20) A verification of EFTPOS receipts from the terminal to those processed in Synergysoft is not performed until the following morning. As the office now closes earlier to facilitate the reconciliation of the counter till, it is suggested the EFTPOS terminal supplier be contacted to initiate settlement of the terminal at an earlier time to allow the matching of the terminal takings to those processed in SynergySoft.
- (21) A monthly reconciliation of the Rates subsidiary ledger to the general ledger control account needs to be re-instituted as soon as possible.
- (22) The introduction of a Monthly Reconciliations Checklist may be advantageous in ensuring all relevant reconciliations are completed and certified at the end of each month by a supervising officer.



Limit of Direct Physical Access to Assets and Records

- (23) The local government does not have an IT Security Policy or Procedure.
- (24) A locked key box at the depot for keys to plant and equipment would provide added security.

Control of Computer Applications and Information Systems Standards

- (25) The local government does not have an IT Security Policy or Procedure.
- (26) The local government does not have an IT Disaster Recovery Plan.
- (27) The current data backup system in place is considered inadequate and a new backup solution should be investigated. Consideration should be given to a backup solution that incorporates a combination of local and remote back-ups, including hourly snapshots of data to minimise loss of data and protect from ransomware attacks.

Regular Maintenance and Review of Financial Control Accounts and Trial Balance

- (28) The implementation of a Monthly Reconciliations Checklist would assist in verifying all required reconciliations have been performed by designated officers and certified by relevant line manager.

Arithmetical Accuracy and Content of Records is Regularly Checked

- (29) There is a weakness in the creditors control system where the current certification stamp placed on supplier invoices does not provide for the data entry officer to initial they have check additions on the invoice for accuracy, or that the GST amount raised in the software matches the GST amount on the supplier invoice. It also does not provide for the flagging of supplier invoices as input taxed detailing that GST cannot be claimed on the supplier invoice.
- (30) There is a lack of internal controls in place for the management of GST raised on supplier invoices. Evidence indicates that only the total value of the supplier invoice is checked, and not the GST entries.
- (31) The introduction of a check for ABN registration on the certification stamp would be helpful, ensuring a check is performed on whether the supplier has an ABN and whether they are registered for GST.
- (32) There is a lack of supporting documentation for the credit card batch payments processed in SynergySoft.
- (33) There are weaknesses in the internal control environment for sundry debtors as a result of lack of segregation of duties with no independent check carried out on customer invoices raised.

Report, Review, and Approval of Financial Payments and Reconciliations

- (34) It is suggested an accounts payable procedure manual be implemented, including screenshots of data entry screens.
- (35) It is suggested three new checks be added to the current certification stamp to acknowledge that:
 - (i) goods have been received/services have been rendered; and
 - (ii) calculations and additions have been checked, including GST calculation; and
 - (iii) ABN and GST registration check has been performed
- (36) There is no consistent check performed on whether the purchase has complied with Council's purchasing policy requirements in relation to three quotes for purchases over \$7,500 in value. It is noted that there are limited purchases made over this threshold.

Comparison of the Result of Physical Cash and Inventory Counts with Accounting Records

- (37) A cross-check of the cash register float is not performed by another officer.
- (38) A cash handling procedure should be prepared.
- (39) It is suggested that a procedure for the reconciliation of daily receipts be created, including detailed description and include screenshots of data entry screens so a user that is not familiar with the end of day receipting reconciliation process would be able to follow the procedure step by step.
- (40) A more robust fuel stock management approach is required to minimise discrepancies occurring between physical fuel stock balance when compared to Stock on Hand reconciliation from fuel receipts and fuel issues.

Review whether the local government has an effective risk management system and that material operating risks to the local government are appropriately considered

- (41) The local government needs to develop a Risk Management System that includes policies, operational procedures and risk profiles.
- (42) Risk profiles should be developed for strategic and operational risks.
- (43) The local government has not documented its risk appetite or risk tolerance.
- (44) The compilation of risk policies, procedures, and profiles into a single document may assist in articulating the local governments approach to risk management in a more cogent manner by presenting it as its' Risk Management Framework/Manual.

Review whether the local government has a current and effective Business Continuity Plan (including Disaster Recovery) which is tested from time to time

- (45) The CEO should consider developing a schedule for the BCP testing methods to be undertaken and the frequency they are to be performed.



- (46) IT Disaster Recovery is an integral part of BCP and should be addressed as a high priority action.

Assess internal control processes for determining and managing material operational risks in accordance with the local governments' identified tolerance for risk

- (47) Formally documenting and process mapping of internal processes will enable the local government to evaluate and determine their effectiveness; and identify areas for improvement.
- (48) The local government needs to develop a Risk Management System that includes operational procedures, risk profiles, risk appetite and risk tolerance.
- (49) Risk profiles should be developed for strategic and operational risks.
- (50) The local government should develop a Risk Management Framework/Manual.

Obtaining regular risk reports, which identify key risks, the status, and effectiveness of the risk management systems, to ensure identified risks are monitored and new risks are identified, mitigated and reported

- (51) Risk profiles should be developed for strategic and operational risks.
- (52) A risk register needs to be implemented.
- (53) The local government should consider whether there is a need for the Audit Committee to meet more frequently than the current two times per year, given the recommended frequency of quarterly by the Department of Local Government, Sport and Cultural Industries.

Assess the adequacy of the local governments' processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self insurance

- (54) The local government does not have a procedure for managing insurance claims.

Assess 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.

- (55) There is no check performed by a supervisor of the supplier invoices received and the data entered into SynergySoft, via a batch listing report. This independent check would provide internal control measures that data entry is occurring correctly including GST being reported appropriately.

Assess the local governments' procurement framework with a focus on probity and transparency of policies and procedures/processes and whether these are being applied



- (56) There is a need for an updated certification stamp that includes all of the verifications/certifications that are required to be performed, to ensure these are methodically completed prior to a supplier invoice being entered into the Accounts Payable system in SynergySoft.
- (57) The local government should consider developing a risk profile for Procurement, Disposal, and Tender Practices.

Ascertain 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

- (58) The local government should compile a risk profile on fraud and corruption to better understand their exposure to fraud and corruption risks.
- (59) The local government should consider incorporating Misconduct into its Fraud and Corruption Control Policy, so there is clear guidance to staff on Councils position on misconduct issues.



Recommendations

As a result of the findings, the following improvement recommendations are made:

- (1) That the CEO consider the implementation of a monitoring process of Government Gazettes for any legislative changes that may have an impact on the operations of the local government.
- (2) It is essential that the Shire prepare Asset Management Plans for all relevant asset classes, as it is a statutory requirement of regulation 19DA(3)(c) of the *Local Government (Financial Management) Regulations 1996*.
- (3) It is essential that the Shire prepare a Workforce Plan, as it is a statutory requirement of regulation 19DA(3)(c) of the *Local Government (Financial Management) Regulations 1996*.
- (4) That the CEO consider implementing an Internal Control Policy.
- (5) That the CEO consider implementing a Legislative Compliance Policy.
- (6) That the CEO consider the formalisation of internal procedure manuals for key processes so there is clear documentation on how tasks and processes should be performed.
- (7) That the Council consider the suitability of model delegations included at Attachment "1".
- (8) That the CEO consider implementing an internal work procedure that meets the requirements of the Public Interest Disclosures Act.
- (9) That the CEO consider implementing a work procedure that details the process of handling complaints about elected members under the Official Conduct Rules.
- (10) That the CEO consider implementing a Governance Manual that provides guidance on the corporate governance framework that applies to the local government for Elected Members and Staff.
- (11) That the CEO consider implementing a new internal control procedure where the MCS undertakes the role of checking customer sales invoices raised and to certify debtor batch listings by verifying the sales invoices to the Debtor Invoice Batch Report.
- (12) That the CEO consider implementing a new internal control procedure relating to residential rents where the total annual rental amount is raised as a debt against the debtor and all payments made through-out the year are receipted against the debtor account.
- (13) That the CEO consider implementing a new internal control procedure relating to the reconciliation of the debtor's general ledger control account to the debtor's subsidiary ledger at the end of each month.
- (14) That the CEO consider implementing a new certification stamp for supplier invoices that incorporates an initial and check box for verifying the additions on the supplier invoice for accuracy, verifying the GST amount matches that specified on the invoice, verifying if GST



credits can be claimed on the supplier invoice, and verifying the supplier's ABN and GST registration status.

- (15) That the CEO implement new internal control procedures to ensure the certification stamp on supplier invoices is signed by the ordering/receiving officer that goods have been received in appropriate condition or services have been rendered at the appropriate standard and also the 'Authorised for Payment' certification line.
- (16) That the CEO consider implementing a new internal control process to the accounts payable procedure to ensure the proper number of quotations have been sourced according to the Purchasing Policy, and that a check is performed on the approval threshold for purchase orders as part of the invoice checking process.
- (17) That the CEO consider implementing a new internal control procedure to ensure a count of the administration office cash register float is performed by two employees; one doing the initial count and a second employee verifying the cash float count and the cash takings for the day, with both employees signing and dating the cash register reconciliation worksheet.
- (18) That the CEO consider implementing a new internal control procedure relating to EFTPOS cash receipts processed and contact the EFTPOS terminal supplier to initiate settlement of the terminal at an earlier time to allow the matching of the terminal takings to those processed in SynergySoft.
- (19) That the CEO consider introducing a Monthly Reconciliations Checklist that captures all end of month reconciliations.
- (20) That the CEO consider implementing an IT Security Policy and/or an IT Security Procedure.
- (21) That the CEO consider implementing a lockable key box at the depot to house all keys for plant and equipment.
- (22) That the CEO consider implementing an IT Disaster Recovery Plan that contains annual disaster recovery tests of full system restores.
- (23) That the CEO consider investigating a new backup solution that incorporates a combination of local and remote back-ups, including hourly snapshots of data to minimise loss of data.
- (24) That the CEO consider developing a Risk Management System that includes operational procedures, key risk profiles, risk appetite and risk tolerance.
- (25) That the CEO consider developing risk profiles for strategic and operational risks.
- (26) That the CEO consider the implementation of a Risk Management Framework/Manual that articulates the local governments' risk policies, procedures, profiles, appetite and tolerance in a single document.
- (27) That the CEO consider developing a schedule for the Business Continuity Plan testing methods to be undertaken and the frequency they are to be performed.

- (28) That the CEO consider implementing a risk register.
- (29) That the CEO evaluate whether there is a need for the Audit Committee to meet more frequently than twice per year.
- (30) That the CEO consider implementing a work procedure for managing insurance claims, which will ensure consistency of claims management.
- (31) That the CEO consider developing a risk profile for Procurement, Asset Disposal, and Tender Practices.
- (32) That the CEO consider incorporating Misconduct into its Fraud and Corruption Control Policy, so there is clear guidance to staff on Councils position on misconduct issues.

Opinion

The review of the Legislative Compliance, Internal Control and Risk Management mechanisms developed by the Shire of Nungarin indicates that, except for those matters identified in the findings and recommendations section of this report, they are appropriate and effective for the particular operations and size of the local government.



1.0 INTRODUCTION

1.1 BACKGROUND

Pursuant to Regulation 17(1) of the *Local Government (Audit) Regulations 1996*, the Chief Executive Officer (CEO) of a local government is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to:

- (a) Risk Management;
- (b) Internal Control; and
- (c) Legislative Compliance.

Regulation 17(2) states that the review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.

In addition, Regulation 17(3) requires the CEO to report to the audit committee the results of that review.

The Department of Local Government, Sport and Cultural Industries provides guidance for the areas that should be considered for this review in Operational Guideline No. 9 (Attachment 4).

1.2 PURPOSE OF REPORT

The Shire of Nungarin appointed Darren Long Consulting to undertake a review of the local government's internal control, legislative compliance and risk management systems and procedures, as required by regulation 17(1) of the *Local Government (Audit) Regulations 1996* and report as to their appropriateness and effectiveness.

1.3 DISCLOSURE

For the purposes of s5.70 I disclose that I am a Local Government Consultant involved with a wide range of local governments in the State of Western Australia providing financial and governance consulting services.

I am engaged by the Shire of Nungarin to provide financial consulting services in relation to annual budget preparation, monthly and annual financial reporting. I declare I have a financial interest in the preparation of this report, but am not involved in the monitoring of systems, procedures or processes relating to financial internal controls. This interest has not impacted on my objectiveness or the impartial approach in undertaking the Review.

The review was conducted independent of Management.

1.4 METHODOLOGY

The methodology adopted to undertake the Reviews and prepare this report included:

- (1) Introduction
- (2) Purpose of Legislative Compliance, Internal Controls and Risk Management Systems



- (3) Review Context
- (4) Legislative Compliance
- (5) Internal Controls
- (6) Risk Management
- (7) Findings
- (8) Recommendations
- (9) Opinion



2.0 PURPOSE OF LEGISLATIVE COMPLIANCE, INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

2.1 LEGISLATIVE COMPLIANCE SYSTEMS

The compliance programs of a local government are a strong indication of attitude towards meeting legislative compliance. Practices in regard to monitoring compliance programs typically include:

- Assess internal monitoring of compliance with legislation and regulations;
- Assess completion of annual Compliance Audit Return and the reporting of the results of the review to the Audit Committee and Council;
- Assess how Audit Committee is kept informed about how management is monitoring the effectiveness of its compliance and making recommendations for change as necessary;
- Review whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints;
- Review internal processes as to how management identifies adverse trends and how management plans to deal with these;
- Review management disclosures in financial reports of the effect of significant compliance issues;
- Assess whether the external auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of audit projects, and report compliance and ethics issues to the Audit Committee;
- Assess local government's compliance framework dealing with relevant external legislation and regulatory requirements;
- Review Audit Committee's processes and procedures regarding compliance with legislation and regulatory requirements imposed on members, including not misusing their position to gain an advantage for themselves or another or cause detriment to the local government and disclosing conflicts of interest.

2.2 INTERNAL CONTROL SYSTEMS

Internal control is a key component of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government. Aspects of an effective control framework will include:

- Separation and segregation of roles and functions, processing and authorisation;
- Control of approval of documents, letters and financial records;
- Management internal reviews of comparison of internal data with external sources of information;
- Limits of direct physical access to assets and records;
- Security controls in regard to computer applications and information system standards;



- Security controls to limit changes in data files and systems;
- Whether maintenance and review of financial control accounts and trial balances is regular and appropriate;
- Whether comparison and analysis of financial results with budgeted amounts is appropriate;
- Whether reviews of arithmetical accuracy and context of records are regular and appropriate;
- Whether control and approval of financial payments and reconciliations is appropriate;
- Whether comparison of physical cash and inventory counts with accounting records is appropriate.

2.3 RISK MANAGEMENT SYSTEMS

Risk management systems and programs are a key expression of a local government's attitude to effective controls. Good audit committee practices in monitoring internal control and risk management programs typically include:

- Reviewing whether the local government has an effective risk management system and that material operating risks to the local government are appropriately considered;
- Reviewing whether the local government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time;
- Assessing 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;
 - 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;
- Obtaining regular risk reports, 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;
- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Reviewing the effectiveness of the local government's internal control system with management and the internal and external auditors;
- Assessing 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;
- Assessing 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;

- Should the need arise, meeting periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment;
- Ascertaining 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.



3.0 REVIEW CONTEXT

3.1 RISK APPETITE AND TOLERANCE

Understanding risk appetite and tolerance is important, as they assist in determining the level of risk the local government is willing to accept and pursue in attaining its goals and objectives.

Risk appetite is the amount of risk a local government is willing to accept or retain in order to achieve its objectives.

Risk appetite is usually expressed in a form of a statement and are aligned to categories of risk. Risk appetite statements will have a different look and feel based on a local government's internal and external context (influences).

Risk tolerance is the levels of risk taking acceptable to achieve a specific objective or manage a category of risk.

Risk tolerance “represents the practical application of risk appetite and is typically aligned to categories of risk such as strategy, financial, people or reputation”².

Risk culture is the norms, traditions and behaviours of individuals and groups within the local government that determine the way in which they identify, understand, discuss and act on the risks the local government confronts and takes.

The Shire's risk appetite is yet to be quantified through the development and endorsement of 'Risk Assessment and Acceptance Criteria'.

Being a public body, there is an expectation that the Shire's risk appetite for legislative non-compliance will be very low, to protect the entity's reputation and to guard against misappropriation or loss of public monies.

The Shire's risk appetite when reviewing its service delivery, health, safety, environmental and financial management is considered to be 'low to moderate', requiring treatment with sound internal controls. Strategic and project based initiatives will require individual assessment, and where considered to be 'high or extreme', additional controls will be required to reduce the risk level. These additional controls will need continual monitoring and evaluation to confirm they are effective.

3.2 INTERNAL AND EXTERNAL CONTEXT

Evaluating and understanding the internal and external context the Shire of Nungarin operates within is essential, as they impact on the level of integration of risk management into the entity, and therefore can impact on the legislative compliance and the internal control environments implemented.

² Australian Government Department of Finance – Risk Management Policy, 2016.

The internal and external context are detailed below:

Internal Context	External Context
Increasing workplace change leading to an increase in HR/IR related issues	Increasing compliance requirements and changes to legislation
The existing local government structure, size, location, functions and activities	Cost shifting and devolution of services by Commonwealth and State Governments
The current human and financial resources of the local government	Difficulty in accessing external grant funding for operational activities and capital infrastructure
Challenges in recruiting suitably experienced staff	Changing community expectations regarding service delivery and service levels
The changing dynamics of workforce culture	Local labour shortage
Lack of asset management planning and capability	Community pressure to keep rate increases low
A focus on new infrastructure rather than renewal of existing	Population decline and changing demographics
Implementing technological change to improve productivity where resources are limited	Change in government leadership at State and Commonwealth levels
Ageing plant and equipment and lack of capacity to fund plant replacements	Increasing external supply costs
	Ageing state infrastructure inhibiting growth of new industry/economic development

4.0 LEGISLATIVE COMPLIANCE SYSTEMS

4.1 INTERNAL MONITORING OF COMPLIANCE WITH LEGISLATION AND REGULATIONS

Key aspects assessed include:

4.1.1 Management has implemented a compliance calendar and/or compliance checklist to ensure staff are aware of statutory compliance requirements, their timeframes and due dates.

Comments

The Shire has an annual compliance calendar that it utilises to ensure staff are aware of key compliance requirements under a range of legislation. An annual compliance calendar provides a sound control mechanism for ensuring compliance requirements are considered and evaluated on an on-going basis.

The Shire has developed a compliance checklist in Smartsheet to assist staff in meeting statutory compliance requirements on the compliance calendar.

Observations

- (a) Current control mechanisms are considered appropriate.

4.1.2 Management reviews Government Gazettes and monitors circulars from the Department of Local Government, Sport and Cultural Industries for changes to legislation

Comments

The CEO reviews all Department of Local Government, Sport and Cultural industries circulars for notifications of changes to legislation that may impact on the Shire.

The Parliamentary Counsel's Office within the Department of Justice is the editor and publisher of the Government Gazette. The Government Gazette contains statutory and other notices that are required by law and Government Authority to be published in the Gazette, including official publications required under enactments such as Acts, regulations, rules and by-laws. It is a rich source of information on changes to Acts of Parliament, and regulation amendments/changes, which may impact on local government.

Government Gazette publications are currently not monitored for any amendments/changes to legislation that may have an impact on the local government's operations.

Observations

- (a) Government gazettes should be monitored for any legislative changes that may have an impact on the operations of the local government.

4.1.3 Management monitors compliance with Landfill Licence/Registration conditions, reviews audit reports and addresses adverse findings

Comment

The local government is required under its 'Waste Management Facility' registration for Nungarin to comply with specific conditions imposed by the Department of Environment and Conservation.

The Shire is required to submit an annual audit compliance report to the Department of Environment and Conservation for each landfill licence issued. The report is a self-assessment of whether the Shire has complied with all registration conditions within the reporting period.

The annual audit compliance report has been incorporated into the Annual Compliance Calendar to ensure the report is completed within the designated timeframe (lodgement by 31 March each year).

Observations

- (a) Current control mechanisms are considered appropriate.

4.1.4 Management reviews agenda report template to ensure a contemporary format is used that ensures legislative compliance is one of the key headings to be addressed.

Comment

The local government's existing Agenda Report template contains headings for statutory implications, ensuring relevant implications are reported and evaluated for any matter of business presented to Council for consideration.

Observations

- (a) Current control mechanisms are considered appropriate.

4.1.5 The local government holds Executive Team (EMT) meetings on a regular basis to discuss matters of strategic and operational importance. This includes compliance issues with the potential to significantly impact on business operations.

Comment

The Shire of Nungarin is a relatively small local government from an organisational structure perspective. The key senior positions consist of the Chief Executive Officer, Manager Corporate Services and Works Manager, who meet each fortnight to discuss issues of strategic and operational importance.

Observations

- (a) Given the size and structure of the local government, current control mechanisms are considered appropriate.

**4.2 ANNUAL COMPLIANCE AUDIT RETURN AND REPORTING TO COUNCIL
THE RESULTS OF THAT REVIEW**

Key aspects reviewed include:

4.2.1 The Compliance Audit Return is completed on an annual basis and is submitted in accordance with the Local Government Act 1995 and associated Regulations. Comprehensive work papers are compiled containing evidence of compliance with each of the legislative requirements.

Comments

The 2020 Compliance Audit Return was completed in March 2021 and submitted to the Ordinary Council Meeting held on 17 March 2021.

Non-compliance issues identified in the 2020 Compliance Audit Return include:

- (a) Optional questions Item 1, relating to the review of the appropriateness and effectiveness of the local government's financial management systems and procedures. A review report was prepared but not submitted to Council.
- (b) Optional questions Item 2, relating to the review of the appropriateness and effectiveness of the local government's systems and procedures in relation to risk management, internal control and legislative compliance. A review report was prepared but not submitted to Council.
- (c) Tenders for Good and Services – Item 10 relating to all tenders that were not rejected were assessed by the local government via a written evaluation of the extent to which each tender satisfies the criteria for deciding which tender to accept. No written evaluation kept on record.

The 2021 Compliance Audit Return was completed in March 2021 and was submitted to the Ordinary Council Meeting held on 16 March 2022. No non-compliance issues were identified in the 2021 Compliance Audit Return.



The 2022 Compliance Audit Return is currently being prepared and will be submitted to the March 2023 Council meeting.

Findings

- (a) Current control mechanisms are considered appropriate.

4.3 STAYING INFORMED ABOUT HOW MANAGEMENT IS MONITORING THE EFFECTIVENESS OF ITS COMPLIANCE AND MAKING RECOMMENDATIONS FOR CHANGE AS NECESSARY

Key aspects reviewed include:

4.3.1 The local government has an audit committee that is responsible for reviewing the audit function, including legislative compliance requirements from a financial perspective, and monitoring enterprise financial risks.

Comment

The local government has adopted a Terms of Reference for the Audit Committee, clearly establishing the Objectives of the Committee, its membership, meeting frequency, reporting, and duties and responsibilities.

Department of Local Government, Sport and Cultural Industries (DLGSC) Operational Guideline No. 9 recommends meetings should be conducted at least quarterly.

The Shire of Nungarin Audit Committee Terms of Reference stipulates that the Committee will meet at least twice per financial year to deal with legislative responsibilities under the *Local Government Act 1995* and associated Regulations.

Council and the CEO should assess whether the current frequency of Audit Committee meetings allows enterprise risks to be appropriately monitored and evaluated.

Findings

- (a) Current control mechanisms are considered appropriate.

4.3.2 The local government has Integrated Planning Documents that guide the strategic direction of Council, provide implementation and action plans, and identify asset, financial and human resourcing requirements.

Comment

The local government adopted its Strategic Community Plan in 2023 for the period 2023-2033 containing five focus areas:

- (i) Our Community;
- (ii) Our Economy;
- (iii) Our Infrastructure and Natural Environment;
- (iv) Our Organisation.



The Corporate Business Plan has been integrated into the Strategic Community Plan.

The local government is currently reviewing its Long-Term Financial Plan.

The local government has prepared a Road Asset Management Plan and is currently collecting data for its Building Asset Management Plan.

The local government has not reviewed its Workforce Plan since adoption in May 2013.

Observations

- (a) It is essential that the Shire prepare Asset Management Plans for all relevant asset classes as a matter of urgency, as the projected renewal requirements from the Asset Management Plans are required to report on the Asset Renewal Funding Ratio in the Annual Financial Report.
- (b) It is essential that the Shire prepare an updated Workforce Plan.

4.3.3 The local government reviews policies on a regular basis, at least biennially, and changes to legislation are considered and incorporated during the review process

Comment

The local government has a Policy Manual, which contains policies adopted by the Council that provide a framework for officers to work within. The Manual classifies Policies into the categories of:

- (i) Governance;
- (ii) Corporate Management;
- (iii) Administration;
- (iv) Finance;
- (v) Community;
- (vi) Works and Services;
- (vii) Planning and Development;
- (viii) Emergency Service.

The Policy Manual was reviewed in October 2022.

Observations

- (a) An Internal Control Policy does not exist that details the local governments' commitment to internal controls. A sample policy is attached for Council's consideration.



- (c) A Legislative Compliance Policy does not exist that details the local governments' commitment to legislative compliance. A sample policy is attached for Council's consideration.

4.3.4 The local government reviews procedures and internal processes regularly, and changes to legislative requirements are considered and incorporated during the review process

Comment

Documented procedures provide a consistent approach to how processes are undertaken and allow for key controls to be identified. Once documented, procedures require constant monitoring for compliance and effectiveness.

The local government does not have any procedure manuals for any processes in place. Procedures manuals should be prepared so there is clear documentation on the processes to be performed, with step-by-step instructions. Formalised procedure manuals ensure consistency of process, generally result in increased accuracy, and reduced loss of corporate knowledge.

Procedures manuals should contain screenshots of the software modules used, so that users have some visual prompts to identify they are in the correct software program, or section of the software program, and the requirements for each input field.

Observations

- (a) Procedure Manuals should be created for key processes, inclusive of screenshots, so there is clear documentation on how a process should be performed.

4.3.5 The local government has authorised persons to carry out some of its discretionary functions under its legislative obligations and delegated authority to do the same. The Delegations Register is reviewed on an annual basis, and authorisations are reviewed when changes to legislation are identified. Delegations are included in the Compliance Calendar and reviewed accordingly.

Comments

The local government has a Delegation Register in place.

The Delegations Register was reviewed on 21 October 2022.

Observations

- (a) A number of suggested delegations have been included at Attachment "1" for Councils consideration.



4.4 REVIEW WHETHER THE LOCAL GOVERNMENT HAS PROCEDURES FOR IT TO RECEIVE, RETAIN, AND TREAT COMPLAINTS, INCLUDING CONFIDENTIAL AND ANONYMOUS EMPLOYEE COMPLAINTS

Key aspects assessed include:

4.4.1 The local government has a Customer Services Charter that details the steps the local government will follow when dealing with a complaint. The Charter sets out the standards of service, compliments, enquiries, requests and complaints. The local government has a Customer Services Policy that provides guidance to staff and customers on the standards of service

Comments

The local government has a Customer Service Charter that sets out the standards of service that a customer can expect, access and inclusion, and customer satisfaction and feedback.

The local government has Policy CM4 that provides a framework for dealing with complaints, including anonymous complaints, vexatious complaints, allegations of serious misconduct, Public Interest Disclosures, and complaints to the Ombudsman.

The local government has a formal procedure to deal with internal complaints, grievances, or confidential or anonymous employee complaints.

Observations

- (a) The local government does not have a procedure that deals with internal complaints, grievances, confidential and anonymous employee complaints.

4.4.2 The local government has a grievance policy and procedure for the investigation and resolution of grievances, disputes and allegations of serious misconduct are managed.

Comments

Policy A6 in relation to Equal Employment Opportunity deals with grievances under employment and workplace laws.

The local government has a grievance procedure that deals with investigating, managing and resolving other grievances, disputes or allegations of serious misconduct.

Observations

- (a) The systems, processes and procedures implemented as control mechanisms for investigating and resolving grievances are considered appropriate.

4.4.3 The local government has appointed a Public Interest Disclosure (PID) Officer to handle any PID complaint in a confidential manner, and has implemented internal procedures relating to the local governments' obligations under the PID Act

Comments

The CEO is the local government's PID Officer, in accordance with the PID Act.

Section 23(1)(e) of the PID Act requires the principle executive officer of a public authority to prepare and publish internal procedures relating to the local governments' obligations under the PID Act.

The local government does not have an internal procedure manual relating to Public Interest Disclosures as required by the PID Act.

Observations

- (a) The local government does not have an internal procedure manual relating to Public Interest Disclosures as required by the PID Act.

4.4.4 The local government has implemented an Elected Member Official Conduct Complaints Procedure.

Comments

The local government has a Code of Conduct for elected members, committee members and candidates that was reviewed in October 2022.

The local government does not have an internal procedure that deals with complaints about Elected Member Official Conduct matters.

Observations

- (a) The local government does not have an internal procedure that deals with complaints about Elected Member Official Conduct matters.

4.5 OBTAIN ASSURANCE THAT ADVERSE TRENDS ARE IDENTIFIED AND REVIEW MANAGERMENTS' PLANS TO DEAL WITH THESE

Key aspects assessed and reviewed include:

4.5.1 Non-compliance issues identified in the Compliance Audit Return are reported to the Audit Committee and to Council, as well as the action to be taken to ensure compliance in future years

Comments

Non-compliance issues identified in the 2020 Compliance Audit Return include:



- (a) Optional questions Item 1, relating to the review of the appropriateness and effectiveness of the local government's financial management systems and procedures. A review report was prepared but not submitted to Council.
- (b) Optional questions Item 2, relating to the review of the appropriateness and effectiveness of the local government's systems and procedures in relation to risk management, internal control and legislative compliance. A review report was prepared but not submitted to Council.
- (c) Tenders for Good and Services – Item 10 relating to all tenders that were not rejected were assessed by the local government via a written evaluation of the extent to which each tender satisfies the criteria for deciding which tender to accept. No written evaluation kept on record.

The 2021 Compliance Audit Return was completed in March 2021 and was submitted to the Ordinary Council Meeting held on 16 March 2022. No non-compliance issues were identified in the 2021 Compliance Audit Return.

The 2022 Compliance Audit Return is currently under review.

Findings

- (a) Non-compliance items have been reported to the Audit Committee and Council, with rectification action proposed to address the non-compliance for future years.
- (b) The systems and processes implemented as control mechanisms for the Compliance Audit Return are considered appropriate.

4.6 REVIEW MANAGEMENT DISCLOSURES IN FINANCIAL REPORTS OF THE EFFECT OF SIGNIFICANT COMPLIANCE ISSUES

Key aspects reviewed include:

4.6.1 The Annual Financial Report and Annual Budget of the local government contain disclosures that report on significant compliance issues, their effect and impact on the local government

Comments

The 2020 Annual Budget and 2020 Annual Financial Report were reviewed for significant compliance issues and related disclosures. The following matters were raised by the Office of the Auditor General:

- (i) Changes made to employee and supplier masterfiles were not independently reviewed and authorised. This increased the risk of unauthorised changes to key information, although our audit sampling did not identify any.
- (ii) The Asset Sustainability Ratio is below the Department of Local Government, Sport and Cultural Industries standard for the past 3 year.
- (iii) The Operating Surplus Ratio is below the Department of Local Government, Sport and Cultural Industries standard for the past 3 year.

- (iv) The Own Source Revenue Coverage Ratio is below the Department of Local Government, Sport and Cultural Industries standard for the past 3 year.

The above matters were reported to the Audit Committee on 20 March 2021 and the subsequent ordinary meeting of Council in March 2021.

The 2021 Annual Budget and 2021 Annual Financial report were reviewed for significant compliance issues and related disclosures. The following matters were raised by the Office of the Auditor General:

- (i) The Shire has not reported the Asset Renewal Funding Ratio for 2021 in the annual financial report as required by section 50(1)(c) of the Local Government (Financial Management) Regulations 1996, as information on planned capital renewals and required capital expenditure was outdated.
- (ii) For approximately 11 % of transactions sampled, the Shire did not have a sufficient number of supplier quotes as required under the Shire's purchasing policy or there was no documentation to explain why other quotes were not sought.
- (iii) All users of the Shire's financial management system (Synergy) have privileged (super user) access levels. This access could be used to undermine the effectiveness of system controls (such as segregation of duties) and diminish accountability.

The above matters were reported to the Audit Committee on 15 December 2021 and the subsequent ordinary meeting of Council in December 2021.

The 2022 Annual Budget and 2022 Annual Financial Report were reviewed for significant compliance issues and related disclosures. No issues were raised by the Office of the Auditor General.

The 2023 Annual budget were reviewed for significant compliance issues and related disclosures.

No matters were found.

Observations

- (a) No other matters were identified in any local government documents, records or registers that any significant compliance issues were present that needed to be disclosed.
- (b) The systems, processes and structures in place for the identifying and reporting significant compliance issues are considered appropriate.



4.7 REVIEW WHETHER THE INTERNAL AND/OR EXTERNAL AUDITORS HAVE REGARD TO COMPLIANCE AND ETHICS RISKS IN THE DEVELOPMENT OF THEIR AUDIT PLAN AND IN THE CONDUCT OF AUDIT PROJECTS, AND REPORT COMPLIANCE AND ETHICS ISSUES TO THE AUDIT COMMITTEE

Key aspects reviewed include:

4.7.1 The local government uses registered company auditors and the audit contract details the compliance areas covered and whether ethics risks are addressed

Comments

From the 28 October 2017, the Office of the Auditor General (OAG) has assumed responsibility for auditing local governments in Western Australia. The OAG has contracted out the audit for the Shire of Nungarin to Butler Settineri (now merged with Dry Kirkness), with oversight and signing by the Auditor General.

Dry Kirkness provided the Shire with an “Audit Planning Memorandum” letter which set out the compliance areas to be examined and potential risks that may be present as part of the audit process. It also set out the risk assessments undertaken by the auditors and the focus of these risk assessments for the audit process to be conducted.

The Audit Planning Memorandum identifies that ethical requirements are to be complied with, including independence, and ethical risks will be evaluated prior to the commencement of the audit process.

The Audit Planning Memorandum includes an audit plan.

Observations

- (a) Audit contract/engagement letter addresses compliance issues and ethical risks that require consideration.
- (b) An external audit plan is prepared each year and provided to the local government.
- (c) The systems, processes and structures in place for the external audit are considered appropriate.

4.7.2 The audit process consists of an interim and final audit, with any findings arising from the audit process reported to the local government. Audit and management reports are provided to the local government detailing non-compliance issues and any significant deficiencies in internal controls.

Comments

An interim audit process is generally conducted in May each year, with an interim audit report provided to the CEO on any findings.

Findings contained in the 2020 interim report were addressed by management with actions implemented to rectify the deficiencies identified.



Findings contained in the 2021 interim report were addressed by management with actions implemented to rectify the deficiencies identified.

A 2022 interim report was not provided due to the change in auditors (from Audit Partners to Dry Kirkness) during the 2022 financial year.

The final audit process is generally conducted in October each year, with an Audit Report and a management report provided to the CEO.

Findings contained in the 2020 Auditors management report were addressed by the local government with actions implemented to rectify the deficiencies identified. The 2020 management report was presented to the local governments' Audit Committee for consideration and notation of the actions taken to address the deficiencies identified.

Findings contained in the 2021 Auditors management report were addressed by the local government with actions implemented to rectify the deficiencies identified. The 2021 management report was presented to the local governments' Audit Committee for consideration and notation of the actions taken to address the deficiencies identified.

Findings contained in the 2022 Auditors management report were addressed by the local government with actions implemented to rectify the deficiencies identified. The 2022 management report was presented to the local governments' Audit Committee for consideration and notation of the actions taken to address the deficiencies identified.

Observations

- (a) The systems, processes and structures in place for the identifying non-compliance issues and internal control weaknesses are considered appropriate.

4.8 CONSIDER THE INTERNAL AUDITORS' ROLE IN ASSESSING COMPLIANCE AND ETHICS RISKS IN THEIR INTERNAL AUDIT PLAN

Comment

The local government does not conduct a discrete internal audit function.

This is considered reasonable given the size, location and resourcing capability of the local government.

4.9 ASSESS THE LOCAL GOVERNMENTS' COMPLIANCE FRAMEWORK DEALING WITH RELEVANT EXTERNAL LEGISLATION AND REGULATORY REQUIREMENTS

Key aspects assessed include:

4.9.1 A Governance Manual has been implemented that outlines the governance framework and the legislation applicable to local government

Comments

Corporate governance is a system of policies, procedures and processes through which an organisation makes decisions and directs, controls and monitors its operations. The systems are complex and are required by legislation.

A Governance Manual will assist the local government to achieve its commitment to good governance.

Observations

- (a) The local government does not have a Governance Manual.

4.9.2 The local government has an Annual Compliance Calendar which contains key legislative obligations it is required to comply with each month of the year

Comments

The Shire has an annual compliance calendar.

The aim of a compliance calendar is to ensure staff are aware of key compliance requirements under a range of legislation. The use of an annual compliance calendar provides a sound control mechanism for ensuring compliance requirements are considered and evaluated on an on-going basis.

Observations

- (a) The systems, processes and structures in place for the identifying key legislative obligations are considered appropriate.

4.9.3 The local government holds regular management meetings where compliance items for the current and forthcoming months are monitored

Comments

The Shire of Nungarin is a relatively small local government from an organisational structure perspective. The key senior positions consist of the Chief Executive Officer, Manager Corporate Services and Works Manager, who meet informally on an as needs basis to discuss issues of strategic and operational importance.

Observations



- (a) Given the size and structure of the local government, current control mechanisms are considered appropriate.

4.9.4 The local government prepares business plans for key activities and major projects that identify relevant external legislation and regulatory requirements, including risk management and financial modelling

Comments

Business plans are prepared on an as required basis for major projects.

Observations

- (a) The use of business plans for key activities and major projects occurs on an as required basis.

4.10 REVIEW AUDIT COMMITTEE'S PROCESSES AND PROCEDURES REGARDING COMPLIANCE WITH LEGISLATION AND REGULATORY REQUIREMENTS IMPOSED ON MEMBERS, INCLUDING NOT MISUSING THEIR POSITION TO GAIN AND ADVANTAGE FOR THEMSELVES OR ANOTHER, OR CAUSE DETRIMENT TO THE LOCAL GOVERNMENT, AND DISCLOSING CONFLICTS OF INTEREST

Key aspects assessed and reviewed include:

4.10.1 Inductions are provided for newly elected members which covers conflicts of interest

Comments

The local government conducts an induction with newly elected members, covering conflicts of interest and their role as a councillor and a committee member.

Observations

- (a) The systems, processes and structures in place for induction of newly elected members are considered appropriate.

4.10.2 Elected Members are provided with the opportunity to attend relevant training delivered by Western Australian Local Government Association (WALGA)

Comment

The local government promotes training courses conducted by WALGA and provides an annual training budget to ensure councillors can attend relevant training courses.

Observations

- (a) The systems, processes and structures in place for training for elected members are considered appropriate.

4.10.3 The local government has a Code of Conduct that clearly sets out the requirements for elected members declaring conflicts of interest, including not misusing their position to gain an advantage for themselves or another

Comments

The local government has a Code of Conduct for Councillors that was reviewed in October 2022.

The existing Code contains clauses that clearly set out the requirement for declaring conflicts of interest for Councillors. Specific reference is made in the Code about not misusing their position to improperly influence other to gain undue or improper advantage (direct or indirect) for themselves, or any other person, or organisation.

Observations

- (a) The systems, procedures and processes in place for elected members to be aware of, and declare, conflicts of interest, and not to misuse their position for advantage or gain, are considered appropriate.

4.10.4 A Governance Manual clearly sets out the overarching governance framework that the local government operates within and describes in detail the statutory obligations of the local government and of a Councillor

Comments

Corporate governance is a system of policies, procedures and processes through which an organisation makes decisions and directs, controls and monitors its operations. The systems are complex and are required by legislation.

A Governance Manual will assist the local government to achieve its commitment to good governance.

Observations

- (a) The local government does not have a Governance Manual.

4.10.5 The local government has implemented and maintains Registers for Annual and Primary Returns, Declarations of Financial Interests and Gifts

Comments

The local government has implemented Registers for Annual and Primary Returns, and for Gifts, that meet legislative requirements.

Observations

- (a) The local government has implemented a Register for Declaration of Financial Interests that meets the requirements of Regulation 28 of the *Local Government (Administration) Regulations 1996*.



5.0 INTERNAL CONTROL SYSTEMS

5.1 SEPARATION OF ROLES AND FUNCTIONS, PROCESSING AND AUTHORISATION

Key aspects assessed and reviewed include:

5.1.1 Debtors Control – Separation of roles between invoice raiser, invoice approver, and receipting functions

Comments

There limited role separations in place between debtor invoice raiser and receipting functions, as often there is overlap between performance of receipting roles and debtor invoice raiser.

There is no segregation of duties, as the Finance Officer (FO) is the debtor invoice raiser and invoice approver. There is no independent verification or authorisation of batches by another officer before updating by the FO.

It does not appear a monthly reconciliation is performed of the debtor's subsidiary ledger to the general ledger control account.

There is a lack of sound internal controls in place for residential rents charged and paid, creating a risk of underpaid or overpaid rents for residential properties. It is suggested that each tenant be established as an individual sundry debtor in the SynergySoft system. At the beginning of each financial year an annual rental fee for each tenant be raised in SynergySoft against each individual debtor. The rental payments then made by each individual tenant can be recorded against their sundry debtor account. This will allow for the tracking of payments, and also highlight any overpayment or underpayment of rent.

There are no specific role separations in place between debtor invoice raising and direct credit receipting, as they are often performed by the same officer due to the small size of the office.

Observations

- (a) There is a weakness in the debtors control system resulting from the lack of separation of the debtor invoice raiser and approver roles, which are currently performed by the same person.
- (b) There is a lack of sound internal controls in place for the management of residential rents, including rental charged and paid.
- (c) There is a weakness in internal controls as no monthly reconciliation is performed of the sundry debtor's subsidiary ledger to the general ledger control account.

5.1.2 Purchases, Creditors and Cash Payments – Separation of roles between ordering, invoice entry, invoice approver, petty cash payments and recoups, and payment approvals

Comments

Given the size of the administration, there are reasonable role separations in place between ordering, supplier invoice entry, invoice approver, petty cash payments and recoups, and payment approvals.

Currently creditor payment batches, EFT and cheque remittance advices and invoices are stored separately from one another. Further, EFT and cheque remittances are not filed according to any order. A more orderly approach would be to collate supplier invoice batches together with the EFT and cheque remittances and supplier invoices, as well as any payments made by direct debit by including the bank transfer listing report. This would ensure that supplier invoice amounts, and payments could be reconciled to the batches entered.

The creditor payment batches reviewed for May 2022, November 2022 and January 2023 revealed the following:

1. The certification stamp is lacking information and it does not provide for the following:
 - (a) Computations/calculations checked initial box;
 - (b) GST verified initial box; and
 - (c) ABN registration verification.
2. Only one initial is recorded on the certification stamp – that being the invoice approver/authoriser. There is no initial/signatory certification place of the data entry officer to verify they have entered the invoice or checked it for correctness.
3. A small number of errors in GST raised in SynergySoft when compared to the supplier invoice were detected.
4. A small number of payments did not have relevant supporting documentation included in remittance advices, particularly for credit card payments processed.

Observations

- (a) There is a weakness in the creditors control system where the current certification stamp placed on supplier invoices does not provide for the data entry officer to initial they have check additions on the invoice for accuracy, or that the GST amount raised in the software matches the GST amount on the supplier invoice. It also does not provide for the flagging of supplier invoices as input taxed detailing that GST cannot be claimed on the supplier invoice.
- (b) There is a lack of internal controls in place for the management of GST raised on supplier invoices. Evidence indicates that only the total value of the supplier invoice is checked, and not the GST entries.
- (c) The introduction of a check for ABN registration on the certification stamp would be helpful, ensuring a check is performed on whether the supplier has an ABN and whether they are registered for GST.



- (c) There is a lack of supporting documentation for the credit card batch payments processed in SynergySoft.

5.1.3 Payroll – Separation of roles between timecard approver, timecard entry, payroll approver and pay run payment authorisers

Comments

Given the size of the administration, there are reasonable role separations in place between timecard approver, timecard entry, payroll approver and pay run payment authorisers.

The payroll records for 11 May 2022 and 9 November 2022 were reviewed and the following items were identified:

1. On 11 May 2022, one timecard for an employee showed different hours split between jobs from those entered into the payroll timecard system. The overall hours paid were correct. In these instances, if the timecard is incorrect, it should be amended and initialled by the supervisor, to record the correct time allocation.
2. The bank confirmation/transfer listing report on net pay paid for pay-runs from 24 October 2022 through to 26 February 2023 were not contained in the payroll file. These were subsequently located and placed on file.

Observations

- (a) Other than the above matters, the systems, procedures and processes in place for Payroll are considered appropriate.

5.1.4 Receipting – Separation of roles between daily receipting, cash count at end of day, bank reconciliation process and review by Supervisor

Comments

A cash count of the till is performed at the end of the day by one officer; there is no cross-check by a second officer.

The EFTPOS terminal takings are not verified with those processed in SynergySoft until the following morning.

Bank reconciliations are performed by an external financial consultant.

Given the size of the administration, there are reasonable role separations in place between daily receipting, cash count at end of day, bank reconciliation process and review by line manager.

Observations

- (a) There is an internal control weakness in the till cash count process, as it is only counted by one officer. It is noted that only small irregular amounts of cash are handled.
- (b) A verification of EFTPOS receipts from the terminal to those processed in Synergysoft is not performed until the following morning. As the office now closes earlier to facilitate the reconciliation of the counter till, it is suggested the EFTPOS terminal



supplier be contacted to initiate settlement of the terminal at an earlier time to allow the matching of the terminal takings to those processed in SynergySoft.

- (c) Given the size of the administration, the remaining systems, procedures and processes in place for Receipting are considered appropriate.

5.1.5 Rating – Separation of roles between rates levied, cash receipting over the counter and direct deposit, bank reconciliation process and review by supervisor, debt collection and review by supervisor

Comments

There is limited role separation in place between officer levying rates and receipting functions performed, as often there is overlap between performance of receipting roles and the raising of rates.

There is no segregation of duties, as the Finance Officer (FO) is the rates raiser and approver. There is no independent verification or authorisation of rating batches by another officer before updating by the FO.

It does not appear a monthly reconciliation has been performed of the Rates subsidiary ledger to the general ledger control account since September 2022.

Bank reconciliations are performed by an external financial consultant.

Given the size of the administration, there are limited role separations in place between rates levied, cash receipting by direct deposit, and review by supervisor, debt collection and review by supervisor.

Observations

- (a) A monthly reconciliation of the Rates subsidiary ledger to the general ledger control account needs to be re-instituted as soon as possible.
- (b) Given the size of the administration, the systems, procedures and processes in place for Rating are considered appropriate.

5.1.6 Banking – Separation of roles between cash receipting and daily banking, and bank reconciliation process

Comments

Banking is often performed by the officer in charge of cash receipting function due to the size of the administration.

Bank reconciliations are performed by an external financial consultant.

Given the size of the administration, there are reasonable role separations in place between cash receipting and daily banking, and bank reconciliation process.

Observations



- (a) Given the size of the administration, the systems, procedures and processes in place for Banking are considered appropriate.

5.1.7 Monthly Reconciliations – Separation of roles to ensure supervisor is certifying monthly reconciliations prepared by relevant officers

Comments

The local government has implemented monthly reconciliations that are prepared by the each of the respective officers responsible for the functions of cash receipting, payroll, and bank reconciliations. However, each of the monthly reconciliations prepared is not checked and certified by the relevant line manager in every instance.

The implementation of a Monthly Reconciliations Checklist would enhance the control over identifying that all reconciliations, including rates, payroll, accounts payable and accounts receivable, are completed and certified at the end of each month.

Observations

- (a) The introduction of a Monthly Reconciliations Checklist may be advantageous in ensuring all relevant reconciliations are completed and certified at the end of each month.
- (b) Given the size of the administration, all other systems, procedures and processes in place for Monthly Reconciliations are considered appropriate.

5.2 CONTROL OF APPROVAL OF DOCUMENTS, LETTERS AND FINANCIAL RECORDS

Key aspects assessed include:

5.2.1 Letter and Document Approval – Letters and Documents are created by authorised officers and managed in a centrally controlled repository. Versions of documents are controlled by authorised officers in accordance with the local governments Document and Records Management Guideline – Access and Security

Comments

The local government has implemented a networked drive where all corporate documents and forms are stored. All staff have read and write access to the documents on the network drive.

The Customer Services Officer (CSO) is responsible for recording all incoming correspondence into the Altus ECM records system.

The CEO signs off on all documents generated before being mailed. All documents mailed are saved in the Altus ECM records system. The exception to this rule is emails, which are sent by individual administration officers. Emails are also saved in the Altus ECM records system.



Document security and access is controlled by the CEO, who places confidential and sensitive documents into a private container within Altus ECM.

The Record Keeping Plan was reviewed in 2022.

Key areas of development include:

- (i) Disaster Recovery Plan;
- (ii) Electronic records procedure;
- (iii) Website management procedure; and
- (iv) Social media procedure.

Observations

- (a) Other than the areas of development identified above, the remaining systems, procedures and processes in place for Document Approval are considered appropriate.

5.2.2 Financial Records Approval – The local government has sound oversight over the review and approval of financial records

Comments

The CEO approves and reviews the generation of financial records. The CEO approves and reviews financial records prepared for external publication, as part of the Agenda review process.

Other financial records generated are approved via controls established through Purchasing Policies and Procedures, and payment delegations.

Observations

- (a) The systems, procedures and processes in place for Financial Records Approval are considered appropriate.

5.3 COMPARISON OF INTERNAL DATA WITH EXTERNAL SOURCES OF INFORMATION

Key aspect assessed included:

5.3.1 Compare Internal Data to External Sources

Comments

The local government undertakes comparison of internal data with external sources on an ad-hoc, as required basis.

Observations

Nil.

5.4 LIMIT OF DIRECT PHYSICAL ACCESS TO ASSETS AND RECORDS

Key aspects assessed and reviewed include:

5.4.1 Physical access to electronic records is controlled by sound security policies

Comments

The local government does not have an IT Security Policy or an IT Security Procedure. Access to electronic records is controlled by unique user login and passwords, with security based on user assigned credentials.

The local government has a basic Service Level Agreement (SLA) with an external IT Provider, with support based on block hours purchased.

Networked drives are controlled by group policy settings implemented by the external IT Provider under direction of the local government. All system users have access to a network drive, which allows users to gain access to all folders, except those assigned password protection at the CEO's direction.

Observations

- (a) The local government does not have an IT Security Policy or Procedure.
- (b) Given the size of the administration, all other the systems, procedures and processes in place for access to electronic records are considered appropriate.

5.4.2 Physical access to paper records is controlled by sound security policies, procedures and a sign-out, sign-in register

Comments

Access to the physical filing system is uncontrolled with all staff having access to all records except confidential and sensitive records.

At time of inspection, there was no control mechanism over the removal of physical files from the filing system in the filing room. The lack of a control mechanism makes it impossible to trace the last officer who accessed and removed a physical file from the filing system. The CEO had implemented a check-out check-in register at the conclusion of the on-site review.

Observations

- (a) Given the size of the administration, all other the systems, procedures and processes in place for access to physical paper records are considered appropriate.

5.4.3 Physical access to IT systems hardware is controlled by sound security procedure

Comments

The local governments IT system hardware is contained within a separate server room, with a lockable door.

Access to the Server requires an Administrator user login and password.

Observations

- (a) The systems, procedures and processes in place for physical access to the IT systems hardware is considered appropriate.

5.4.4 Physical access to assets, such as keys to plant and equipment, is controlled by a sign-out sign-in register, with keys kept in a lockable cabinet

Comments

The local government houses all keys for access to property on a key board located within the safe. A key register has been implemented which staff must fill out to obtain access to keys for property.

The local government houses all keys for plant and equipment at the depot in a key box in the Works Manager's office. Access to the depot is restricted to employees approved by the CEO.

Observations

- (a) A locked key box for keys for plant and equipment would provide added security.
- (b) All other systems, procedures and processes in place for physical access to Assets are considered appropriate.

5.5 CONTROL OF COMPUTER APPLICATIONS AND INFORMATION SYSTEMS STANDARDS

Key aspects assessed and reviewed include:

5.5.1 Access to corporate applications is controlled by unique user login and password. User access control is managed via access limitations imposed at individual user level

Comments

The local government does not have an IT Security Policy or Procedure in place.

The local government controls security to corporate applications by assigning each user a unique login and password, including access to the corporate network.



Observations

- (a) The local government does not have an IT Security Policy or Procedure.
- (b) Given the size of the administration, all other the systems, procedures and processes in place for access to corporate business systems are considered appropriate.

5.5.2 Corporate network controls include virus protection, cyber-security and firewall protection, regular back-ups and testing, system passwords and access controls

Comments

The local government has a basic Service Level Agreement (SLA) with an external IT Provider, with support based on block hours purchased.

System access is controlled by an Administrator login and password, which is held by the local governments' external IT Provider.

The local government does have a hardware firewall protection device. There is enterprise level virus protection which is maintained by the external IT Provider.

A basic data backup system, utilising hard disks, is in place but is considered inadequate.

The local government does not have an IT Disaster Recovery Plan to address disruption and financial loss resulting from a failure of IT systems.

Observations

- (a) The local government does not have an IT Disaster Recovery Plan.
- (b) The current data backup system in place is considered inadequate and a new backup solution should be investigated.
- (b) All other systems, procedures and processes in place for corporate network controls are considered appropriate.

5.6 LIMIT ACCESS TO MAKE CHANGES IN DATA FILES AND SYSTEMS

Key aspects assessed and reviewed include:

5.6.1 Authority to access and use corporate business systems is approved by the CEO

Comments

The CEO of the local government controls access to the corporate network and approves access for newly appointed employees.

The CEO approves the access removal of all terminated employees.

Access and removal to the corporate network is conducted by the external IT Provider based upon authorisation by the CEO.



Observations

- (a) The systems, procedures and processes in place for authority to access and use Corporate Business Systems are considered appropriate.

5.6.2 Access to networked corporate drives is controlled by unique user login and password at each device

Comments

Each user has a unique login and password that controls access to the corporate network and business applications, based on the role assigned via group membership designed by the Systems Administrator.

Networked drives are controlled by group policy settings implemented by the external IT Provider under direction of the local government CEO.

Observations

- (a) The systems, procedures and processes in place for authorisation and access to networked corporate drives are considered appropriate.

5.7 REGULAR MAINTENANCE AND REVIEW OF FINANCIAL CONTROL ACCOUNTS AND TRIAL BALANCES

Key aspects assessed and reviewed include:

5.7.1 Monthly and regular reconciliations are performed on key financial risk areas with the local government

Comments

The local government performs regular reconciliations in the following areas:

Area	Process undertaken
Annual Budget	Monthly actuals are compared to budget and significant variances fully investigated and explained.
Financial Reporting	Actuals are compared to budget each month, with management reviewing variances, with significant variances investigated and explained.
Grants	Regular reviews of all grant income and monitor compliance with terms of grant agreements; actual grant revenue is compared to budget estimates each month.
Receipting	Revenue is compared to budget each month; Accounts receivable statements are sent to customers each month.
Rates	Subsidiary ledger was reconciled to the general ledger each month but has since ceased as of September 2022.
Rates	Annual valuation update is balanced prior to generation of rates
Rates	Actual rate revenue is compared to budget each month.
Rates	Annual valuation update is balanced prior to generation of rates

Area	Process undertaken
Rates	Interim valuation updates are balanced prior to generation of interim rates and issue of notices but not verified by an independent officer.
Bank Accounts	Bank reconciliations and checked and counter-signed by the CEO.
Bank Accounts	All general journals to the bank accounts are verified by the financial consultant as part of the bank reconciliation check process, including supporting documentation for general journals posted.
Investments	Investment income is compared to budget estimates each month.
Investments	Investment register is maintained in accordance with Regulations and Council Policy and updated when investments mature, or new investments are made
Investments	Investment register is reconciled to general ledger each month.
Payroll	Actual employee costs are compared to budget estimates each month, with significant variances investigated.
Payroll	Salary and hourly payroll reports are reviewed and approved by management prior to payments being made.
Payroll	Fortnightly pay run is reviewed by management prior to authorisation for payment for consistency and abnormal items.
Payroll	Payroll deduction reports are periodically reviewed for accuracy and ongoing relevance
Payments	Actual expenditure is compared to budget estimates each month, with significant variances investigated.
Payments	A List of Payments is prepared and presented to Council each month; management reviews any unusual or large payments.
Payments	All supporting documentation is reviewed by management prior to approving/authorising payments.
Fixed Assets	Management compares all fixed asset balances to budget estimates each month.
Fixed Assets	Asset register is reconciled to general ledger monthly.
Fixed Assets	Asset register additions and disposals are checked monthly and then again at year end.
Fixed Assets	Depreciation rates and methodology are reviewed annual for assets classes that have undergone a fair value revaluation.
Borrowings	All loan repayments of principal and interest are reviewed monthly.
General Journals	All general journals are reviewed prior to posting, including supporting documentation by the CEO.

The local government does not perform regular reconciliations in the following areas:

Area	Process not undertaken
Rates	Ageing profile report run after instalment payment option date passes.
Rates	Subsidiary ledger was reconciled to the general ledger each month but has since ceased as of September 2022.
Rates	Ageing profile report run at the end of each month.
Rates	Interim valuation updates are balanced prior to generation of interim rates and issue of notices, but not by an independent officer.



Area	Process not undertaken
Receivables	Ageing profile report is run monthly, and outstanding balances are investigated, and referred to debt collection if required.
Receivables	Management reviews provision for doubtful debts on a monthly basis as part of the outstanding balances review.
Receivables	Subsidiary ledger is reconciled to the general ledger each month.
Payroll	Salary sacrifice calculations are periodically reviewed for accuracy and compliance with legislative requirements.
Payables	Ageing profile report is reviewed on a monthly basis, and any long outstanding items are investigated.
Payables	Subsidiary ledger is reconciled to the general ledger each month.

Findings

- (a) The implementation of a Monthly Reconciliations Checklist would assist in verifying all required reconciliations have been performed by designated officers and certified by relevant line manager.

5.8 COMPARISON AND ANALYSIS OF FINANCIAL RESULTS WITH BUDGETED AMOUNTS

Key aspects assessed and reviewed include:

5.8.1 Presentation of Monthly Statement of Financial Activity and supporting information to Council with actual results compared to year-to-date budget estimates each month, with adequate explanation of significant variances

Comment

The local government prepares a Monthly Statement of Financial Activity with supporting documentation, which is included in the Council Agenda. Significant variances reported in the Statement of Financial Activity are explained in detail.

Observations

- (a) The systems, procedures and processes in place for the Presentation of the Monthly Statement of Financial Activity are considered appropriate.

5.8.2 Presentation of Mid-Year Budget Review to Council with actual results compared to the budget for the month, and projections undertaken through to 30 June, with recommendations on any budget amendments required based on projection trends

Comments

The local government prepares a mid-year budget review that is submitted to Council in February/March of each year. Significant variations are explained, and recommendations are made on budget amendments based on projection trends.

Observations

- (a) The systems, procedures and processes in place for the Mid-Year Budget Review are considered appropriate.

5.8.3 End of Financial Year Review is conducted with actual results compared to amended budget, with significant variations explained

Comments

The local government conducts an end of financial year review of its finances, with the aim of identifying key areas that were over or under budget estimates, with explanations provided on what has caused the outcome.

Observations

- (a) The systems, procedures and processes in place for the End of Financial Year Review are considered appropriate.

5.9 ARITHMETICAL ACCURACY AND CONTENT OF RECORDS IS REGULARLY CHECKED

Key aspects assessed and reviewed include:

5.9.1 Supplier invoices are cross-checked for arithmetic accuracy prior to data entry

Comments

A verification/certification stamp is utilised for supplier invoice certification/verification purposes. The certification stamp is lacking information and it does not provide for the following:

- (a) Computations/calculations checked initial box;
- (b) GST verified initial box; and
- (c) ABN registration verification.

The certification stamp only has space for one officer – that being the invoice approver/authoriser. There is no initial/signatory certification place for the data entry officer to verify they have entered the invoice or checked it for correctness.

A sample check of invoices for May 2022, November 2022 and January 2023 revealed the following.

1. No check was conducted on ABN registration for suppliers, or whether they are registered for GST.
2. A small number of errors in GST raised in SynergySoft when compared to the supplier invoice were detected.
3. A small number of payments did not have relevant supporting documentation included in remittance advices, particularly for credit card payments processed.



It was noted that all invoices were initialled by the CEO as being checked and approved for payment.

Observations

- (a) There is a weakness in the creditors control system where the current certification stamp placed on supplier invoices does not provide for the data entry officer to initial they have check additions on the invoice for accuracy, or that the GST amount raised in the software matches the GST amount on the supplier invoice. It also does not provide for the flagging of supplier invoices as input taxed detailing that GST cannot be claimed on the supplier invoice.
- (b) There is a lack of internal controls in place for the management of GST raised on supplier invoices. Evidence indicates that only the total value of the supplier invoice is checked, and not the GST entries.
- (c) The introduction of a check for ABN registration on the certification stamp would be helpful, ensuring a check is performed on whether the supplier has an ABN and whether they are registered for GST.
- (d) There is a lack of supporting documentation for the credit card batch payments processed in SynergySoft.
- (d) All other remaining systems, procedures and processes in place for the checking of supplier invoices are considered appropriate.

5.9.2 Customer invoices are cross-checked for arithmetic accuracy prior to issue

Comments

There is no segregation of duties, as the Finance Officer (FO) is the invoice raiser and invoice approver. This creates a weakness in the internal control environment for sundry debtors, as there is no independent review/check of invoices raised to source documentation and supporting documentation for purpose and accuracy.

It is noted that due to the small office, it is difficult to achieve segregation of duties in all areas at all times.

An inspection of customer invoices raised revealed that:

- (i) some invoices did not have source documents attached, making it difficult to verify the purpose the fee was being raised for;
- (ii) some invoices did not have supporting documentation attached, making it difficult to verify the calculation methodology for the fee.

Observations

- (a) There are weaknesses in the internal control environment for sundry debtors as a result of lack of segregation of duties with no independent check carried out on customer invoices raised.



5.10 REPORT, REVIEW AND APPROVAL OF FINANCIAL PAYMENTS AND RECONCILIATIONS

Key aspects assessed and reviewed include:

5.10.1 Accounts Payable Procedure provides guidance on the method for paying creditors that meets internal control, organisational and legislative requirements

Comments

The local government does not have an Accounts Payable procedure manual that identifies the main steps involved in the process.

Observations

- (a) It is suggested an accounts payable procedure manual be implemented, including screenshots of data entry screens.
- (b) It is suggested the manual document the process of ensuring proper number of quotations have been received and a check is performed on the approval threshold for purchase orders as part of the process.
- (c) It is suggested three new checks be added to the current certification stamp to acknowledge that:
 - (i) goods have been received/services have been rendered; and
 - (ii) calculations and additions have been checked, including GST calculation; and
 - (iii) ABN and GST registration check has been performed.
- (d) There is no consistent check performed on whether the purchase has complied with Council's purchasing policy requirements in relation to three quotes for purchases over \$7,500 in value. It is noted that there are limited purchases made over this threshold.
- (e) Given the size of the administration, all other systems and processes in place for the Accounts Payable Procedure are considered appropriate.

5.10.2 List of Accounts is prepared, reviewed and submitted to Council

Comments

Management prepares a List of Accounts that is presented to Council each month. Management reviews each payment on the list, cross-checking each item has been appropriately authorised and certified prior to payment authorisation and/or signing.

Findings

- (a) The systems, procedures and processes in place for the preparation, review and approval of the List of Accounts are considered appropriate.

5.11 COMPARISON OF THE RESULT OF PHYSICAL CASH AND INVENTORY COUNTS WITH ACCOUNTING RECORDS

Key aspects assessed and reviewed include:

5.11.1 Cash float in Cash Registers is reconciled at the end of each day

Comments

Current practice is for only one staff member to count the cash float and remove any cash takings. There is no cross-check by a second officer.

The standard practice should be as follows:

The cashier should count the cash float and reconcile the cash register takings for the day.

A council officer, other than the council officer performing the cashier function, should cross-check the cash float and countersign the receipting report for the day.

A cash count of the cash register float should be performed at the beginning of the day by the Cashier, and then re-counted at the end of day by a separate officer. Any discrepancies should be reported to CEO for further action.

Observations

- (a) A cross-check of the cash register float is not performed by another officer.
- (b) A cash handling procedure should be prepared.

5.11.2 Cash collected is accounted for correctly

Comments

There is no documented procedure that provides guidance on how a daily receipts reconciliation is performed at the end of each day.

Current practice is for only one staff member to count the cash float and remove any cash takings. There is no cross-check by a second officer.

Standard practice should be as follows:

A system generated report from SynergySoft for daily cash received is printed off at the end of day and is utilised to verify the actual amount of cash on hand to cash receipts processed. The contents from this report are entered into an Excel spreadsheet to categorise each type of payment takings for the day.

Another officer must cross-check the cash takings and countersign the receipting report for the day.

Observations

- (a) It is suggested that a procedure for the reconciliation of daily receipts be created, including detailed description and include screenshots of data entry screens so a user that is not familiar with the end of day receipting reconciliation process would be able to follow the procedure step by step.
- (b) A cross-check of the cash register float is not performed by another officer.

5.11.3 Cash floats at outstations are reconciled at the end of each day and are periodically checked by management

Comments

The Nungarin swimming pool is issued with a cash float of \$100 at the beginning of each season. The Pool Manager collects cash for pool entry fees and season passes and issues a receipt for each cash taking amount. The attendances are also recorded on the attendance sheet. The cash takings collected by the Swimming Pool Manager are delivered to the Nungarin Administration office for banking at the end of each week. A reconciliation of the cash float is undertaken by the Pool Manager at the end of each day. The \$100 cash float when returned at the end of the pool season is verified by a Council Officer at the Administration centre.

Observations

- (a) The systems, procedures, and processes in place for cash floats at outstations are considered appropriate.

5.11.4 Petty cash is recouped on a regular basis and reconciliation is approved by supervisor

Comments

The local government recoups petty cash on an ad-hoc basis, unless there is a need for a recoup to be done earlier. Petty cash reconciliation worksheets are completed; receipts are attached to the worksheet. Remaining cash is counted by the Finance Officer to verify cash balance and recoup amount. MCS cross-checks recoup to receipts and authorises recoupment.

A cash count of the petty cash float revealed there was an additional \$0.05 held in the cash tin. All petty cash payments were supported by receipts and vouchers.

Observations

- (a) Given the size of the administration, the systems, procedures and processes in place for Petty Cash Recoups are considered appropriate.



5.11.5 Physical stock on hand is checked and reconciled to stock register on a monthly basis

Comments

Only diesel fuel is kept as stock. The local government takes monthly fuel dips to monitor physical stock levels.

Fuel issues are recorded via a manual fuel issues worksheet. The litres issued are recorded on the fuel worksheet alongside the relevant plant number. At the end of each month the fuel worksheet is delivered to the Finance Officer. The Finance Officer prepares a general journal to post the fuel issue transactions into the SynergySoft system.

An average cost per litre from the purchases made is used to determine the fuel expense for each item of plant based on the litres used. Stock receipts are obtained from fuel supplier invoices and are included in the monthly fuel reconciliation.

Physical fuel stock takes have shown significant discrepancies when compared to the fuel receipts and fuel issues for the month. Pump calibrations have been undertaken to rule out any anomalies associated with calibration irregularities. The discrepancy potentially indicates employees are not recording all fuel issues from the bowsers. This can only be verified by the Works Manager instituting a month-long process of signing off and personally recording the start meter and finish meter reading for each fuel issue taken from the bowser.

Observations

- (a) A more robust fuel stock management approach is required to minimise discrepancies occurring between physical fuel stock balance when compared to Stock on Hand reconciliation from fuel receipts and fuel issues.
- (b) The volume of diesel fuel stock on hand is minor and considered immaterial in the context of the operations of the local government. The time and cost involved in implementing a monthly stock reconciliation and allocation system would outweigh any benefit in minimising the risk of mis-statement involved.

6.0 RISK MANAGEMENT SYSTEMS

6.1 REVIEW WHETHER THE LOCAL GOVERNMENT HAS AN EFFECTIVE RISK MANAGEMENT SYSTEM AND THAT MATERIAL OPERATING RISKS TO THE LOCAL GOVERNMENT ARE APPROPRIATELY CONSIDERED

Comment

The local government does not have a Risk Management System Framework in place. A framework that consists of a range of formal policies, operational procedures and risk profiles.

The local government adopted a Risk Management Policy on 19 October 2022 that articulates the local governments' risk management objectives, roles and responsibilities of staff, and the monitoring and review process.

No risk profiles were documented at the time of writing this report.

The Strategic Community Plan (SCP) references some key strategic risks of the local government.

Observations

- (a) The local government needs to develop a Risk Management System that includes operational procedures and risk profiles.
- (b) Risk profiles should be developed for strategic and operational risks.
- (c) The local government has not documented its risk appetite or risk tolerance.
- (c) The local government should develop a Risk Management Framework/Manual.

6.2 REVIEW WHETHER THE LOCAL GOVERNMENT HAS A CURRENT AND EFFECTIVE BUSINESS CONTINUITY PLAN (INCLUDING DISASTER RECOVERY) WHICH IS TESTED FROM TIME TO TIME

Key aspects assessed and reviewed include:

6.2.1 Business Continuity Plan

Comment

The local government adopted a Business Continuity Plan (BCP) in October 2018 and implemented a Business Continuity Management Procedures Manual. Testing has not been performed on the BCP as yet.

Observations

- (a) The CEO should consider developing a schedule for the BCP testing methods to be undertaken and the frequency they are to be performed.

6.2.2 IT Disaster Recovery Plan

Comment

The local government does not have an IT Disaster Recovery Plan.

Findings

- (a) IT Disaster Recovery is an integral part of BCP and should be addressed as a high priority action.
- (b) Once completed, CEO should consider developing a schedule for the testing of IT disaster recovery process.

6.2.3 Emergency Risk Management

Comment

The local government has prepared a Local Emergency Management Arrangement (LEMA) Plan.

In accordance with Section 5.5, LEMA is due for review 5 years from its last full review date, with the next review date being 30 June 2024.

Observations

- (a) The systems, procedures and processes for Local Emergency Management Arrangements are considered appropriate.

6.3 ASSESS INTERNAL PROCESSES FOR DETERMINING AND MANAGING MATERIAL OPERATIONAL RISKS IN ACCORDANCE WITH THE LOCAL GOVERNMENTS' IDENTIFIED TOLERANCE FOR RISK

6.3.1 Potential Non-Compliance with legislation, regulations, standards and local government policies

Comment

The Shire has an annual compliance calendar in place, which assists with identification of compliance requirements.

The Shire has not formally documented its risk appetite or risk tolerance levels, however most local governments take a risk adverse approach.

The 2020 Compliance Audit Return was completed in March 2021 and submitted to the Ordinary Council Meeting held on 17 March 2021.

Non-compliance issues identified in the 2020 Compliance Audit Return include:

- (a) Optional questions Item 1, relating to the review of the appropriateness and effectiveness of the local government's financial management systems and procedures. A review report was prepared but not submitted to Council.



- (b) Optional questions Item 2, relating to the review of the appropriateness and effectiveness of the local government's systems and procedures in relation to risk management, internal control and legislative compliance. A review report was prepared but not submitted to Council.
- (c) Tenders for Good and Services – Item 10 relating to all tenders that were not rejected were assessed by the local government via a written evaluation of the extent to which each tender satisfies the criteria for deciding which tender to accept. No written evaluation kept on record.

The 2021 Compliance Audit Return was completed in March 2021 and was submitted to the Ordinary Council Meeting held on 16 March 2022. No non-compliance issues were identified in the 2021 Compliance Audit Return.

The 2022 Compliance Audit Return is currently being prepared and will be submitted to the March 2023 Council meeting.

The local government has a Policy Manual that contains all of the policies approved by the Council. It was last reviewed in October 2022. Staff are able to access the Policy Manual via a corporate networked drive. Staff are made aware of Council Policies during their induction process.

The Agenda Report template contains specific headings for statutory/legislative implications and policy implications that apply to any item of business presented to Council.

The local government has numerous internal processes, but only a few have been formally documented or process mapped/flow charted. Five key financial processes have been process mapped/flow charted.

Findings

- (a) Formally documenting and process mapping of internal processes will enable the local government to evaluate and determine their effectiveness; and identify areas for improvement.
- (c) Non-compliance items have been reported to the Audit Committee and Council, with rectification action proposed to address the non-compliance for future years.
- (d) The systems and processes implemented as control mechanisms for the Compliance Audit Return are considered appropriate



6.3.2 Important Accounting Judgements or Estimates that prove to be wrong

Comment

The local government prepares a 10 year Long Term Financial Plan (LTFP) and undertakes sensitivity modelling to identify what potential financial impacts could occur if actual economic conditions differ from financial assumptions made.

Business plans are prepared for large projects to evaluate financial and other associated risks, and to provide a financial estimate for LTFP forecasts and budgeting.

Accounting judgements or estimates made in the LTFP are then reviewed during the compilation of the draft budget and market tested via price estimates, where possible.

Officers of the local government monitor budget allocations through-out the year to identify any variations to actual costs when compared to accounting estimates, that will significantly impact on the closing position for the reporting period. Any variations identified are reported to the EMT for evaluation, and if considered significant, an agenda report is prepared and submitted to Council with corrective action.

A mid-year budget review is undertaken to identify if projects and programs are tracking according to budget estimates; discover any projected variations that may have a significant impact on the closing position for the reporting period, and to suggest any corrective action that may be required as a result of the variations identified.

Observations

- (a) The systems and processes implemented as control mechanisms for the important accounting judgements and estimates are considered appropriate.

6.3.3 Litigations and Claims

Comment

The local government has a risk management policy, which details the responsibilities of staff in relation to risk and control management.

All insurance claims are coordinated by the CEO, who maintains a register of all current litigation claims against the local government.

The local governments' approach once the potential for claim or litigation arise is to advise their Insurer immediately so that appropriate mitigation activities can begin to contain or reduce the potential consequences or likelihood of occurrence.

In the last two years there have been no claims on the local government from a Liability perspective.

Observations

- (a) The local government needs to develop a Risk Management System that includes operational procedures, risk profiles, risk appetite and risk tolerance.
- (b) Risk profiles should be developed for strategic and operational risks.



- (c) The local government should develop a Risk Management Framework/Manual.
- (d) The remaining systems and processes implemented as control mechanisms for managing litigations and claims are considered appropriate.

6.3.4 Misconduct, Fraud and Theft

Comment

The local government has a policy on fraud and corruption control – CM11.

The local governments' Auditors reports over the last two years state that whilst there are limitations in the audit process they did not identify or suspect fraudulent activity.

The local government does have crime insurance cover for fraud or corruption activities with an insured limit of \$100,000.

Observations

- (a) The systems, procedures and processes as control mechanisms for misconduct, fraud and theft are considered appropriate.

6.3.5 Significant Business Risks, recognising responsibility for general or specific risk areas, such as environmental risk, occupational health and safety risk, and how they are managed by the local government

Comment

The local government has prepared a Local Emergency Management Plan and a Business Continuity Plan.

The local government has not prepared any risk profiles of areas considered to have potential to represent substantial business risk to operations.

Observations

- (a) Risk profiles should be developed for strategic and operational risks.

6.4 OBTAINING REGULAR RISK REPORTS, WHICH IDENTIFY KEY RISKS, THE STATUS AND THE EFFECTIVENESS OF THE RISK MANAGEMENT SYSTEMS, TO ENSURE IDENTIFIED RISKS ARE MONITORED AND NEW RISKS ARE IDENTIFIED, MITIGATED AND REPORTED

Key aspects assessed include:

6.4.1 Risk Registers and Risk Profiles

Comment

The local government has not prepared any risk profiles of areas considered to have potential to represent substantial business risk to operations.

It is suggested that the local government contact LGIS for assistance in the development of risk profiles and the implementation of a risk register.

Observations

- (a) Risk profiles should be developed for strategic and operational risks.
- (b) A risk register needs to be implemented.

6.4.2 Audit Committee Meetings

Comment

The Local Government Act and Regulations stipulate that each local government is to establish an Audit Committee. The role of the Audit Committee is to support Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions, and ethical accountability³.

The local government has an Audit Committee consisting of all councillors. The Audit Committee is required to review financial and audit reports, annual compliance audit returns, in addition to meeting the Auditor as per the regulatory requirements.

An inspection of the Audit Committee minutes detailed the following:

- (1) 25 March 2021
 - Adoption of 2019/2020 Annual Report
- (2) 17 November 2021
 - Interim Management Letter and findings of interim audit.

³ Local Government Operational Guidelines #9



(3) 15 December 2021

- Receipt of 2020/2021 Annual Financial Report and audit report.

(4) 16 March 2022

- 2021 Compliance Audit Return.

Department of Local Government, Sport and Cultural Industries (DLGSC) Operational Guideline No. 9 recommends audit committee meetings should be conducted at least quarterly.

Observations

- (a) It is suggested the local government consider whether there is a need for the Audit Committee to meet more frequently than the current 2 times per year, given the recommended frequency of quarterly by the Department of Local Government, Sport and Cultural Industries.

6.5 ASSESS THE ADEQUACY OF THE LOCAL GOVERNMENTS' PROCESSES TO MANAGE INSURABLE RISKS AND ENSURE THE ADEQUACY OF INSURANCE COVER, AND IF APPLICABLE, THE LEVEL OF SELF INSURANCE

Comment

All insurance products are arranged through Local Government Insurance Services (LGISWA) and are formally reviewed on an annual basis. Formal renewal meetings are generally held in February/March with the insurable periods being based on the financial year. Regular contact is maintained with the LGISWA to ensure that relevant exposures are appropriately covered. The local government is a participant of the workers compensation, public liability, and industrial special risks (property) self-insurance schemes through the WA Local Government Association.

The local government does not have a procedure for managing insurance claims.

Observations

- (a) The local government does not have a procedure for managing insurance claims.
- (b) The remaining systems and processes in place for management of insurable risk are considered appropriate.

6.6 REVIEW THE EFFECTIVENESS OF THE LOCAL GOVERNMENTS' INTERNAL CONTROL SYSTEM WITH MANAGEMENT AND THE INTERNAL AND EXTERNAL AUDITORS

Comment

The Local Government Act and Regulations stipulate that each local government is to establish an Audit Committee. The role of the Audit Committee is to support Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal



control structure, *risk management systems*, internal and external audit functions, and ethical accountability⁴.

The local government has established an Audit Committee consisting of all councillors. See item 6.4.2 for the matters considered by the Audit Committee minutes.

A Financial Management Review, as required by *Local Government (Financial Management) Regulations 1996*, regulation 5 was last conducted in 2019. A review is required to be conducted once every three years.

The local government was due for a Financial Management Review in 2022. The Review has been scheduled to be completed in 2023.

Observations

- (a) The local government was due for a Financial Management Review in 2022, with a Review scheduled to be completed during 2023.

6.7 ASSESS WHETHER MANAGEMENT HAS CONTROLS IN PLACE FOR UNUSUAL TYPES OF TRANSACTIONS AND/OR ANY POTENTIAL TRANSACTION THAT MIGHT CARRY MORE THAN AN ACCEPTABLE DEGREE OF RISK.

Comment

The local government has clear segregation of duties in the accounts payable function, with supplier invoices being checked and certified to batch report listings by a supervisor.

The local governments' delegation and policy framework provide the controls for all transaction types, including unusual transactions.

Purchasing policy controls include:

- (i) limitations on which officers have authority to make purchases on behalf of the local government;
- (ii) An approved budget allocation existing, or a resolution of Council being obtained, prior to the purchase taking place; and
- (iii) the purchasing process that must be followed prior to the purchase being made.

Delegation controls include:

- (i) Limiting the officers who can make payments from the Municipal or Trust Funds;
- (ii) The number of officers required to certify and authorise payments over a specified value threshold; and

⁴ Local Government Operational Guidelines #9



- (iii) A report list being compiled of all payments made each month from the Municipal Fund and Trust Fund.

Any transaction that is not referenced within this framework requires CEO and Council oversight and approval to proceed.

General journals are prepared by staff or the finance consultant and submitted for review to the CEO prior to posting. A standard general journal form is used as well as a general journal register, recording the date, number and purpose of each general journal raised. All general journals prepared and posted are placed on file along with copies of the batch listing and general ledger postings report.

Observations

- (a) The systems, procedures, and processes in place for reviewing internal control systems are considered appropriate

6.8 ASSESS THE LOCAL GOVERNMENTS' PROCUREMENT FRAMEWORK WITH A FOCUS ON PROBITY AND TRANSPARENCY OF POLICIES AND PROCEDURES/PROCESSES AND WHETHER THESE ARE BEING APPLIED

Comment

The local government has a purchasing policy in place, that describes the process applicable to purchases within specific thresholds. The policy contains the ethics and integrity principles that must be adhered to when making purchases on behalf of the local government.

Purchasing is a centralised function, with only the CEO, Manager Corporate Services and Works Manager having the authority to issue purchase orders and incur liabilities on behalf of the local government. There are no purchasing thresholds applicable to officer positions.

A sample of supplier invoices and payments for May 2022 and November 2022 were analysed for compliance with the following:

- (a) Purchase order had been raised for purchase and was attached with suppliers' invoice to payment voucher;
- (b) Certification stamp on supplier invoice was signed by ordering or receiving officer that goods had been received in appropriate condition or services had been rendered at appropriate standard;
- (c) Certification stamp on supplier invoice was signed by ordering officer noting that computations of invoice had been checked;
- (d) Authorisation stamp on supplier invoice was signed by ordering officer or manager confirming that the invoice was approved for payment;
- (e) Purchasing policy requirements in relation to quotations or tenders had been met.

The analysis of the 167 payments, (164 EFT's and 3 cheques), revealed that:



- (a) The certification stamp placed on the supplier invoice does not have a designated place for initialling by the data entry officer that calculations on the invoice had been checked and verified.
- (b) The certification stamp placed on the supplier invoice does not have a designated place for initialling by the data entry officer verifying whether the ABN of the supplier had been verified; and whether a check had been performed on if the supplier was registered for GST or not. This lack of verification resulted in the overclaiming of GST credits in some instances where the supplier was not registered for GST.
- (c) The certification stamp placed on the supplier invoice does not have a designated place for initialling by the data entry officer verifying whether GST credits can be claimed on the supply made.
- (d) The certification stamp placed on the supplier invoice only has a designated place for initialling by the approving officer certifying that payment can be made. The certification stamp was not initialled as authorised for payment in the majority of supplier invoices reviewed.
- (e) There were 12 errors in the GST coding of supplier invoices, resulting in the underclaiming and overclaiming of entitled GST credits, depending on the circumstances of the supply.
- (f) There were 3 instance where no supporting documentation was attached to an EFT payment made.

Observations

- (a) There is a need for an updated certification stamp that includes all of the verifications/certifications that are required to be performed, to ensure these are methodically completed prior to a supplier invoice being entered into the Accounts Payable system in SynergySoft.
- (b) The local government should consider developing a risk profile for Procurement, Disposal, and Tender Practices.

6.9 WHERE REQUIRED, EXECUTIVE MANAGEMENT TEAM, EXTERNAL AUDITORS AND COMPLIANCE STAFF PERIODICALLY MEET TO UNDERSTAND AND DISCUSS ANY CHANGES IN THE LOCAL GOVERNMENTS' CONTROL ENVIRONMENT

Comment

The Shire of Nungarin is a relatively small local government from an organisational structure perspective. The key senior positions consist of the Chief Executive Officer, Manager Corporate Services, and Works Manager, who meet fortnightly to discuss issues of strategic and operational importance.



Observations

- (a) Given the size and structure of the local government, current control mechanisms are considered appropriate.

6.10 ASCERTAIN 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

Key aspects assessed include:

6.10.1 Fraud and Corruption

Comment

The local government has not compiled a risk profile for fraud and corruption.

The local government has adopted a fraud and corruption policy – CM11.

Audit Management reports from auditors over the last two years state whilst there are limitations in the audit process, they did not identify or suspect fraudulent activity.

Observations

- (a) The local government should compile a risk profile on fraud and corruption to better understand their exposure to fraud and corruption risks.

6.10.2 Misconduct

Comment

The local government has not compiled a risk profile for Misconduct.

The local government has not yet adopted a misconduct policy or implemented a procedure regarding misconduct.

Observations

- (a) The local government should consider incorporating Misconduct into its Fraud and Corruption Control Policy, so there is clear guidance to staff on Councils position on misconduct issues.

7.0 FINDINGS

The Legislative Compliance, Internal Control and Risk Management Review for the Shire of Nungarin involved the examination of approximately 105 areas of the local governments' control environment; of which 83 were found to have a high standard of policies, procedures, processes and systems in place.

The local governments overall control environment is considered appropriate and was operating effectively at the time of the review.

The following findings are deemed to be minor in nature and present an opportunity for the local government to consider suggested improvements to internal procedures and processes to enhance the overall control environment.

Internal Monitoring of Compliance with Legislation and Regulations

- (1) Government gazettes should be monitored for any legislative changes that may have an impact on the operations of the local government.

Staying Informed about how Management is Monitoring the Effectiveness of its Compliance and making Recommendations for change as necessary

- (2) It is essential that the Shire prepare Asset Management Plans for all relevant asset classes, as it is a statutory requirement of regulation 19DA(3)(c) of the *Local Government (Financial Management) Regulations 1996*.
- (3) It is essential that the Shire prepare a Workforce Plan, as it is a statutory requirement of regulation 19DA(3)(c) of the *Local Government (Financial Management) Regulations 1996*.
- (4) The local government does not have an Internal Control Policy
- (5) The local government does not have a Legislative Compliance Policy
- (6) Procedure Manuals should be created for key processes, inclusive of screenshots, so there is clear documentation on how a process should be performed.
- (7) The introduction of additional delegations of authority to the CEO may assist in improve efficiencies of operation.

Sample suggested delegations have been attached at Attachment "1" for the CEO and Councils consideration.

Review Whether the Local Government has Procedures for it to Receive, Retain and Treat Complaints, Including Confidential and Anonymous Employee Complaints

- (8) The local government does not have an internal procedure manual relating to Public Interest Disclosures as required by the PID Act.
- (9) The local government does not have a procedure on how to handle complaints about Elected Member Official Conduct matters.



Assess the Local Governments' Compliance Framework Dealing with Relevant External Legislation and Regulatory Requirements

(10) The local government does not have a Governance Manual.

Review Audit Committee's Processes and Procedures Regarding Compliance with Legislation and Regulatory Requirements Imposed on Members Including Not Misusing Their Position to Gain an Advantage for themselves or another, or Cause Detriment to the Local Government, and Disclosing Conflicts of Interest

(11) The local government does not have a Governance Manual.

Separation of Roles and Functions, Processing and Authorisation

- (12) There is a weakness in the debtors control system resulting from the lack of separation of the invoice raiser and invoice approver roles, which are currently performed by the same person.
- (13) There is a lack of sound internal controls in place for the management of residential rents, including rental charged and paid.
- (14) There is a weakness in internal controls as no monthly reconciliation is performed of the sundry debtor's subsidiary ledger to the general ledger control account.
- (15) There is a weakness in the creditors control system where the current certification stamp placed on supplier invoices does not provide for the data entry officer to initial they have check additions on the invoice for accuracy, or that the GST amount raised in the software matches the GST amount on the supplier invoice. It also does not provide for the flagging of supplier invoices as input taxed detailing that GST cannot be claimed on the supplier invoice.
- (16) There is a lack of internal controls in place for the management of GST raised on supplier invoices. Evidence indicates that only the total value of the supplier invoice is checked, and not the GST entries.
- (17) The introduction of a check for ABN registration on the certification stamp would be helpful, ensuring a check is performed on whether the supplier has an ABN and whether they are registered for GST.
- (18) There is a lack of supporting documentation for the credit card batch payments processed in SynergySoft.
- (19) There is an internal control weakness in the till cash count process, as it is only counted by one officer. It is noted that only small irregular amounts of cash are handled.
- (20) A verification of EFTPOS receipts from the terminal to those processed in Synergysoft is not performed until the following morning. As the office now closes earlier to facilitate the reconciliation of the counter till, it is suggested the EFTPOS terminal supplier be contacted to initiate settlement of the terminal at an earlier time to allow the matching of the terminal takings to those processed in SynergySoft.



- (21) A monthly reconciliation of the Rates subsidiary ledger to the general ledger control account needs to be re-instituted as soon as possible.
- (22) The introduction of a Monthly Reconciliations Checklist may be advantageous in ensuring all relevant reconciliations are completed and certified at the end of each month by a supervising officer.

Limit of Direct Physical Access to Assets and Records

- (23) The local government does not have an IT Security Policy or Procedure.
- (24) A locked key box at the depot for keys to plant and equipment would provide added security.

Control of Computer Applications and Information Systems Standards

- (25) The local government does not have an IT Security Policy or Procedure.
- (26) The local government does not have an IT Disaster Recovery Plan.
- (27) The current data backup system in place is considered inadequate and a new backup solution should be investigated. Consideration should be given to a backup solution that incorporates a combination of local and remote back-ups, including hourly snapshots of data to protect from loss of data and ransomware attacks.

Regular Maintenance and Review of Financial Control Accounts and Trial Balance

- (28) The implementation of a Monthly Reconciliations Checklist would assist in verifying all required reconciliations have been performed by designated officers and certified by relevant line manager.

Arithmetical Accuracy and Content of Records is Regularly Checked

- (29) There is a weakness in the creditors control system where the current certification stamp placed on supplier invoices does not provide for the data entry officer to initial they have check additions on the invoice for accuracy, or that the GST amount raised in the software matches the GST amount on the supplier invoice. It also does not provide for the flagging of supplier invoices as input taxed detailing that GST cannot be claimed on the supplier invoice.
- (30) There is a lack of internal controls in place for the management of GST raised on supplier invoices. Evidence indicates that only the total value of the supplier invoice is checked, and not the GST entries.
- (31) The introduction of a check for ABN registration on the certification stamp would be helpful, ensuring a check is performed on whether the supplier has an ABN and whether they are registered for GST.
- (32) There is a lack of supporting documentation for the credit card batch payments processed in SynergySoft.



- (33) There are weaknesses in the internal control environment for sundry debtors as a result of lack of segregation of duties with no independent check carried out on customer invoices raised.

Report, Review, and Approval of Financial Payments and Reconciliations

- (34) It is suggested an accounts payable procedure manual be implemented, including screenshots of data entry screens.
- (35) It is suggested three new checks be added to the current certification stamp to acknowledge that:
- (i) goods have been received/services have been rendered; and
 - (ii) calculations and additions have been checked, including GST calculation; and
 - (iii) ABN and GST registration check has been performed
- (36) There is no consistent check performed on whether the purchase has complied with Council's purchasing policy requirements in relation to three quotes for purchases over \$7,500 in value. It is noted that there are limited purchases made over this threshold.

Comparison of the Result of Physical Cash and Inventory Counts with Accounting Records

- (37) A cross-check of the cash register float is not performed by another officer.
- (38) A cash handling procedure should be prepared.
- (39) It is suggested that a procedure for the reconciliation of daily receipts be created, including detailed description and include screenshots of data entry screens so a user that is not familiar with the end of day receipting reconciliation process would be able to follow the procedure step by step.
- (40) A more robust fuel stock management approach is required to minimise discrepancies occurring between physical fuel stock balance when compared to Stock on Hand reconciliation from fuel receipts and fuel issues.

Review whether the local government has an effective risk management system and that material operating risks to the local government are appropriately considered

- (41) The local government needs to develop a Risk Management System that includes policies, operational procedures and risk profiles.
- (42) Risk profiles should be developed for strategic and operational risks.
- (43) The local government has not documented its risk appetite or risk tolerance.
- (44) The compilation of risk policies, procedures, and profiles into a single document may assist in articulating the local governments approach to risk management in a more cogent manner by presenting it as its' Risk Management Framework/Manual.



Review whether the local government has a current and effective Business Continuity Plan (including Disaster Recovery) which is tested from time to time

- (45) The CEO should consider developing a schedule for the BCP testing methods to be undertaken and the frequency they are to be performed.
- (46) IT Disaster Recovery is an integral part of BCP and should be addressed as a high priority action.

Assess internal control processes for determining and managing material operational risks in accordance with the local governments' identified tolerance for risk

- (47) Formally documenting and process mapping of internal processes will enable the local government to evaluate and determine their effectiveness; and identify areas for improvement.
- (48) The local government needs to develop a Risk Management System that includes operational procedures, risk profiles, risk appetite and risk tolerance.
- (49) Risk profiles should be developed for strategic and operational risks.
- (50) The local government should develop a Risk Management Framework/Manual.

Obtaining regular risk reports, which identify key risks, the status, and effectiveness of the risk management systems, to ensure identified risks are monitored and new risks are identified, mitigated and reported

- (51) Risk profiles should be developed for strategic and operational risks.
- (52) A risk register needs to be implemented.
- (53) The local government should consider whether there is a need for the Audit Committee to meet more frequently than the current two times per year, given the recommended frequency of quarterly by the Department of Local Government, Sport and Cultural Industries.

Assess the adequacy of the local governments' processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self insurance

- (54) The local government does not have a procedure for managing insurance claims.

Assess 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.

- (55) There is no check performed by a supervisor of the supplier invoices received and the data entered into SynergySoft, via a batch listing report. This independent check would provide internal control measures that data entry is occurring correctly including GST being reported appropriately.



Assess the local governments' procurement framework with a focus on probity and transparency of policies and procedures/processes and whether these are being applied

- (56) There is a need for an updated certification stamp that includes all of the verifications/certifications that are required to be performed, to ensure these are methodically completed prior to a supplier invoice being entered into the Accounts Payable system in SynergySoft.
- (57) The local government should consider developing a risk profile for Procurement, Disposal, and Tender Practices.

Ascertain 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

- (58) The local government should compile a risk profile on fraud and corruption to better understand their exposure to fraud and corruption risks.
- (59) The local government should consider incorporating Misconduct into its Fraud and Corruption Control Policy, so there is clear guidance to staff on Councils position on misconduct issues.



8.0 IMPROVEMENT RECOMMENDATIONS

As a result of the findings, the following improvement recommendations are made:

- (1) That the CEO consider the implementation of a monitoring process of Government Gazettes for any legislative changes that may have an impact on the operations of the local government.
- (2) It is essential that the Shire prepare Asset Management Plans for all relevant asset classes, as it is a statutory requirement of regulation 19DA(3)(c) of the *Local Government (Financial Management) Regulations 1996*.
- (3) It is essential that the Shire prepare a Workforce Plan, as it is a statutory requirement of regulation 19DA(3)(c) of the *Local Government (Financial Management) Regulations 1996*.
- (4) That the CEO consider implementing an Internal Control Policy.
- (5) That the CEO consider implementing a Legislative Compliance Policy.
- (6) That the CEO consider the formalisation of internal procedure manuals for key processes so there is clear documentation on how tasks and processes should be performed.
- (7) That the Council consider the suitability of model delegations included at Attachment "1".
- (8) That the CEO consider implementing an internal work procedure that meets the requirements of the Public Interest Disclosures Act.
- (9) That the CEO consider implementing a work procedure that details the process of handling complaints about elected members under the Official Conduct Rules.
- (10) That the CEO consider implementing a Governance Manual that provides guidance on the corporate governance framework that applies to the local government for Elected Members and Staff.
- (11) That the CEO consider implementing a new internal control procedure where the MCS undertakes the role of checking customer sales invoices raised and to certify debtor batch listings by verifying the sales invoices to the Debtor Invoice Batch Report.
- (12) That the CEO consider implementing a new internal control procedure relating to residential rents where the total annual rental amount is raised as a debt against the debtor and all payments made through-out the year are receipted against the debtor account.
- (13) That the CEO consider implementing a new internal control procedure relating to the reconciliation of the debtor's general ledger control account to the debtor's subsidiary ledger at the end of each month.
- (14) That the CEO consider implementing a new certification stamp for supplier invoices that incorporates an initial and check box for verifying the additions on the supplier invoice for accuracy, verifying the GST amount matches that specified on the invoice, verifying if GST credits can be claimed on the supplier invoice, and verifying the supplier's ABN and GST registration status.



- (15) That the CEO implement new internal control procedures to ensure the certification stamp on supplier invoices is signed by the ordering/receiving officer that goods have been received in appropriate condition or services have been rendered at the appropriate standard and also the 'Authorised for Payment' certification line.
- (16) That the CEO consider implementing a new internal control process to the accounts payable procedure to ensure the proper number of quotations have been sourced according to the Purchasing Policy, and that a check is performed on the approval threshold for purchase orders as part of the invoice checking process.
- (17) That the CEO consider implementing a new internal control procedure to ensure a count of the administration office cash register float is performed by two employees; one doing the initial count and a second employee verifying the cash float count and the cash takings for the day, with both employees signing and dating the cash register reconciliation worksheet.
- (18) That the CEO consider implementing a new internal control procedure relating to EFTPOS cash receipts processed and contact the EFTPOS terminal supplier to initiate settlement of the terminal at an earlier time to allow the matching of the terminal takings to those processed in SynergySoft.
- (19) That the CEO consider introducing a Monthly Reconciliations Checklist that captures all end of month reconciliations.
- (20) That the CEO consider implementing an IT Security Policy and/or an IT Security Procedure.
- (21) That the CEO consider implementing a lockable key box at the depot to house all keys for plant and equipment.
- (22) That the CEO consider implementing an IT Disaster Recovery Plan that contains annual disaster recovery tests of full system restores.
- (23) That the CEO consider investigating a new backup solution that incorporates a combination of local and remote back-ups, including hourly snapshots of data to minimise loss of data.
- (24) That the CEO consider developing a Risk Management System that includes operational procedures, key risk profiles, risk appetite and risk tolerance.
- (25) That the CEO consider developing risk profiles for strategic and operational risks.
- (26) That the CEO consider the implementation of a Risk Management Framework/Manual that articulates the local governments' risk policies, procedures, profiles, appetite and tolerance in a single document.
- (27) That the CEO consider developing a schedule for the Business Continuity Plan testing methods to be undertaken and the frequency they are to be performed.
- (28) That the CEO consider implementing a risk register.



- (29) That the CEO evaluate whether there is a need for the Audit Committee to meet more frequently than twice per year.
- (30) That the CEO consider implementing a work procedure for managing insurance claims, which will ensure consistency of claims management.
- (31) That the CEO consider developing a risk profile for Procurement, Asset Disposal, and Tender Practices.
- (32) That the CEO consider incorporating Misconduct into its Fraud and Corruption Control Policy, so there is clear guidance to staff on Councils position on misconduct issues.



19.0 OPINION

The review of the Legislative Compliance, Internal Control and Risk Management mechanisms developed by the Shire of Nungarin indicates that, except for those matters identified in the findings and recommendations section of this report, they are appropriate and effective for the particular operations and size of the local government.



ATTACHMENT 1

SAMPLE POLICIES AND DELEGATIONS



Policy Type:	
Date Adopted:	

Policy No:	XX
Date Last Reviewed:	

Legal (Parent):
<ol style="list-style-type: none"> 1. Local Government Act 1995 (As Amended) – Section 6.5. 2. Local Government Act 1995 (As Amended) – Section 7.13.

Legal (Subsidiary):
<ol style="list-style-type: none"> 1. Regulation 5, Local Government (Financial Management) Regulations 1996. 2. Regulation 17, Local Government (Audit) Regulations 1996.

Delegation of Authority Applicable	Yes/No
Delegation Number	

Work Procedure Applicable	
Work Procedure Number	

ADOPTED POLICY	
Title:	INTERNAL CONTROL POLICY
Objective:	To provide a policy framework for the establishment of documented internal controls that are implemented based on risk management principles.

1.0 General

Systems of policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems not only relate to accounting and reporting but also include communication and organisational processes both internally and externally, staff management and error handling.

2.0 Internal Control Framework

An appropriate and effective internal control framework is the responsibility of all employees. All employees are accountable for implementing systems, controls, processes and procedures in their own area of responsibility and will play a part in the internal control framework in differing degrees.

The Audit Committee and Council are responsible for mandating that a strong internal control framework be implemented in order to have assurance of the good governance of the organisation. The Chief Executive Officer will report regularly to the Audit Committee and Council on the review and improvement to Council's internal control framework.

3.0 Monitoring, Reviewing and Reporting

A monitoring and reporting system will be implemented with will provide biannual reports to management, the Audit Committee and Council on the status of Risk Management, Internal Controls and Legislative Compliance within the local government, which will identify for specific areas for review.



Policy Type:	
Date Adopted:	

Policy No:	XX
Date Last Reviewed:	

Legal (Parent):
<ol style="list-style-type: none"> 1. Local Government Act 1995 (As Amended) – Section 6.5. 2. Local Government Act 1995 (As Amended) – Section 7.13.

Legal (Subsidiary):
<ol style="list-style-type: none"> 1. Regulation 5, Local Government (Financial Management) Regulations 1996; 2. Regulation 17, Local Government (Audit) Regulations 1996.

Delegation of Authority Applicable	Y/N
Delegation Number	

Work Procedure Applicable	Y/N
Work Procedure Number	XX

ADOPTED POLICY	
Title:	LEGISLATIVE COMPLIANCE POLICY
Objective:	To provide a policy framework for the establishment of documented processes and procedures to ensure the local government complies with legislative requirements

1.0 General

The local government will have appropriate processes and structures in place to ensure that legislative requirements are achievable and are integrated into the operations of the local government.

These processes and structures will aim to:-

- (a) Develop and maintain a system for identifying the legislation that applies to the Shire's activities.
- (b) Assign responsibilities for ensuring that legislation and regulatory obligations are fully implemented.
- (c) Provide training for relevant staff, Councillors, volunteers and other relevant people in the legislative requirements that affect them.
- (d) Provide people with the resources to identify and remain up-to-date with new legislation.
- (e) Establish a mechanism for reporting non-compliance.
- (f) Review accidents, incidents and other situations where there may have been non-compliance.
- (g) Review audit reports, incident reports, complaints and other information to assess how the systems of compliance can be improved.



2.0 Roles and Responsibilities

(a) Councillors and Committee Members

Councillors and Committee members have a responsibility to be aware and abide by legislation applicable to their role.

(b) Senior Management

Senior Management should ensure that directions relating to compliance are clear and unequivocal and that legal requirements which apply to each activity for which they are responsible are identified. Senior Management should have systems in place to ensure that all staff are given the opportunity to be kept fully informed, briefed and/or trained about key legal requirements relative to their work within the financial capacity to do so.

(c) Employees

Employees have a duty to seek information on legislative requirements applicable to their area of work and to comply with the legislation.

Employees shall report through their supervisors to Senior Management any areas of non-compliance that they become aware of.

3.0 Implementation of Legislation

The local government will have procedures in place to ensure that when legislation changes, steps are taken to ensure that future actions comply with the amended legislation.



Policy Type:	
Date Adopted:	

Policy No:	xx
Date Last Reviewed:	

Legal (Parent):
<ol style="list-style-type: none"> 1. Local Government Act 1995 (As Amended) – Section 6.13. 2. Financial Management Regulations 19A & 19B

Legal (Subsidiary):
<ol style="list-style-type: none"> 1. 2.

Delegation of Authority Applicable	Y/N
Delegation Number	

Work Procedure Applicable	Y/N
Work Procedure Number	

ADOPTED POLICY	
Title:	COLLECTION OF NON-RATES DEBTS POLICY
Objective:	To provide for the collection of outstanding debts and charging of interest in relation to debts other than rates.

1.0 Debt Management

- 1.1 All monies owed to Council for any fee or charge raised under Sections 6,16 and 6.17 of the *Local Government Act 1995*, or any reimbursement that is due to Council, are deemed to be overdue following a period of thirty-five (35) days from the date of the original invoice.
- 1.2 If the invoice is not paid by the due date specified in 1.1, then the following recovery process will take place.
 - (a) For amounts outstanding for up to 30 days, the Responsible Officer is to issue a Statement to the debtor with an 'overdue' sticker attached to the Statement.
 - (b) For amounts outstanding for greater than 30 days but less than 60 days, the Responsible Officer is to issue a Statement to the debtor with 'any reason for overdue account' sticker attached to the statement.
 - (c) For amounts outstanding for greater than 60 days, the Responsible Officer is to issue a letter of demand to the debtor and instruct a debt collection agency to initiate debt recovery action.
 - (d) Any further line of credit is to be withdrawn until the debt is paid in full, or an arrangement has been entered into to pay off the outstanding debt.
- 1.3 Before any third party is engaged to take legal action to recover an outstanding debt, the CEO is to be consulted to ensure that this action is appropriate giving due consideration to all issues that have led to the debt being overdue and not paid.
- 1.4 Once all reasonable attempts to either locate the debtor or to obtain payment have failed, the responsible officer for raising the debt will be asked to submit a written request for the invoice to be considered for write off.
- 1.5 Approval will be sought from Council for the debt to be written off. Once approval has been received, the appropriate entries are to be made in the Accounts Receivable Ledger.



2.0 Debt Raised in Error or Debt Adjustment

- 2.1 If a debt has been raised in error or requires an adjustment then an explanation will be sought from the relevant staff members. Once this has been received a credit note request will be raised which is to be authorised by both the staff member who raised the initial invoice and the CEO.

3.0 Interest on Overdue Accounts

- 3.1 Interest may be calculated on the total outstanding debt once it has exceeded the due date of the invoice. The rate of interest imposed is that as determined by Council as contained in the Annual Budget and in accordance with Section 6.13 of the Local Government Act.



Delegation No:

Permits for Heavy Haulage Vehicles

Date Adopted:	
Date Last Reviewed:	
Policy Reference:	

Delegate:	CEO
Sub-Delegated:	Yes [specify to whom]
Chief Executive Instruction/Procedure:	

Legal (Parent): 1. Local Government Act 1995, Section 5.42. 2.

Legal (Subsidiary): 1.

Council delegate its authority and power to the Chief Executive Officer to recommend to Main Roads WA approval or refusal of any heavy haulage applications,

Subject to-

- (a) The requirements of Policy [xx – if a policy exists, otherwise delete this clause] and the approved routes and conditions listed therein.



Delegation No:

Regulatory Sign Applications (Stop, Give-Way, Speed, etc)

Date Adopted:	
Date Last Reviewed:	
Policy Reference:	

Delegate:	CEO
Sub-Delegated:	Yes [specify to whom]
Chief Executive Instruction/Procedure:	

Legal (Parent): 1. Local Government Act 1995, Section 5.42. 2.

Legal (Subsidiary): 1.

Council delegate its authority and power to the Chief Executive Officer to make applications to the Main Roads WA for the installation of regulatory signs and markings at such places as the Chief Executive Officer considers warranted.



Date Adopted:	
Date Last Reviewed:	
Policy Reference:	

Delegate:	CEO
Sub-Delegated:	No
Chief Executive Instruction/Procedure:	

Legal (Parent):
<ol style="list-style-type: none"> 1. Local Government Act 1995, Section 5.42. 2. Local Government Act 1995, Section 5.48

Legal (Subsidiary):
<ol style="list-style-type: none"> 1. Local Government (Long Service Leave) Regulations.

Council delegates its authority and power to the Chief Executive Officer to consider and decide on applications received from employees under the *Local Government (Long Service Leave) Regulations*

Subject to-

- 1.0 The Chief Executive Officer to ensure operations of the Council will not be unduly hindered by the absence of the applicant on long service leave.



Delegation No:

**Notices Requiring Certain Things to be Done by
Owner or Occupier of Land**

Date Adopted:	
Date Last Reviewed:	
Policy Reference:	

Delegate:	CEO
Sub-Delegated:	Yes [specify to whom]
Chief Executive Instruction/Procedure:	

Legal (Parent): <ol style="list-style-type: none">1. Local Government Act 1995, Section 5.42.2. Local Government Act 1995, Section 3.25.3. Local Government Act 1995, Section 3.26

Legal (Subsidiary): <ol style="list-style-type: none">1.

Council delegates its authority and power to the Chief Executive Officer to-

- 1.0 Issue a notice in writing to the owner or occupier of land requiring them to do anything specified in Division 1 of Schedule 3.1 of the Local Government Act 1995.
- 2.0 Do anything that is considered necessary to achieve, so far as practicable, the purpose for which the notice was given, including recovering the cost of anything done as a debt due from the person who failed to comply with the notice.



Date Adopted:	
Date Last Reviewed:	
Policy Reference:	

Delegate:	CEO
On-Delegated:	Yes
Chief Executive Instruction/Procedure:	

Legal (Parent):
<ol style="list-style-type: none"> 1. Local Government Act 1995, Section 3.58. 2. Function and General Regulations 1996, Regulation 30. 3. Local Government Act 1995, Section 5.42.

Legal (Subsidiary):
<ol style="list-style-type: none"> 1. .

Council delegate its authority and power to the Chief Executive Officer to dispose of property by way of lease,

Subject to-

- 1.0 Compliance with the requirements of Section 3.58 of the Local Government Act 1995 and Regulation 30 of the *Local Government (Functions and General) Regulations* 1996.
- 2.0 The lease fee being in accordance with Council’s Schedule of Fees and Charges; and
- 3.0 Any lease term not to exceed five years.



Delegation No:

**Caravan Park and Camping Grounds Act–
Authorised Persons**

Date Adopted:	
Date Last Reviewed:	
Policy Reference:	

Delegate:	To employees
On-Delegated:	No
Chief Executive Instruction/Procedure:	

Legal (Parent): <ol style="list-style-type: none">1. Caravan Park and Camping Grounds Act 1995, Section 17(1).2.
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Legal (Subsidiary): <ol style="list-style-type: none">1. Caravan Park and Camping Grounds Regulations 1997.2.

Council delegates its authority and power to the Officers named in the “Schedule of Authorisations” to perform the duties of an authorised person under the Caravan Park and Camping Grounds Act 1995 and the Caravan Park and Camping Ground Regulations 1997,

Subject to-

- 1.0 A Schedule of Authorisations being submitted to Council from time to time; and
- 2.0 The Officers and/or Employees exercising the Delegation, keeping a written record of details of how the Delegation was exercised, when the delegation was exercised, the persons or classes of persons directly affected by the exercise of the power on the discharge of the duty.

[Note:** A schedule of persons needs to be attached to this delegation listing their name and position].



ATTACHMENT 2
OPERATIONAL GUIDELINES NO. 9
Appendix 3



Appendix 3

Issues that should be considered for inclusion in the CEO's Review of Risk Management, Internal Control and Legislative Compliance

Risk Management

Internal control and risk management systems and programs are a key expression of a local government's attitude to effective controls. Good audit committee practices in monitoring internal control and risk management programs typically include:

- Reviewing whether the local government has an effective risk management system and that material operating risks to the local government are appropriately considered;
- Reviewing whether the local government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time;
- Assessing 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;
 - 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;
- Obtaining regular risk reports, 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;
- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Reviewing the effectiveness of the local government's internal control system with management and the internal and external auditors;
- Assessing 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;
- Assessing 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;
- Should the need arise, meeting periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment;
- Ascertaining 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.



Internal Control

Internal control is a key component of a sound governance framework, in addition to leadership, long-term

planning, compliance, resource allocation, accountability and transparency. Strategies to maintain sound internal controls are based on risk analysis of the internal operations of a local government.

An effective and transparent internal control environment is built on the following key areas:

- integrity and ethics;
- policies and delegated authority;
- levels of responsibilities and authorities;
- audit practices;
- information system access and security;
- management operating style; and
- human resource management and practices.

Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government. Aspects of an effective control framework will include:

- delegation of authority;
- documented policies and procedures;
- trained and qualified employees;
- system controls;
- effective policy and process review;
- regular internal audits;
- documentation of risk identification and assessment; and
- regular liaison with auditor and legal advisors.

The following are examples of controls that are typically reviewed:

- separation of roles and functions, processing and authorisation;
- control of approval of documents, letters and financial records;
- comparison of internal data with other or external sources of information;
- limit of direct physical access to assets and records;
- control of computer applications and information system standards;
- limit access to make changes in data files and systems;
- regular maintenance and review of financial control accounts and trial balances;
- comparison and analysis of financial results with budgeted amounts;
- the arithmetical accuracy and content of records;
- report, review and approval of financial payments and reconciliations; and



- comparison of the result of physical cash and inventory counts with accounting records.

Legislative Compliance

The compliance programs of a local government are a strong indication of attitude towards meeting legislative requirements. Audit committee practices in regard to monitoring compliance programs typically include:

- Monitoring compliance with legislation and regulations;
- Reviewing the annual Compliance Audit Return and reporting to Council the results of that review;
- Staying informed about how management is monitoring the effectiveness of its compliance and making recommendations for change as necessary;
- Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints;
- Obtaining assurance that adverse trends are identified and review management's plans to deal with these;
- Reviewing management disclosures in financial reports of the effect of significant compliance issues;
- Reviewing whether the internal and/or external auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee;
- Considering the internal auditor's role in assessing compliance and ethics risks in their plan;
- Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements; and
- Complying with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest.

