



Audit Committee Attachments
Wednesday, 17 March 2021

REPORT NUMBER	REPORT TITLE AND ATTACHMENT DESCRIPTION	PAGE NUMBER(S)
6.2	Financial Management Review 1. Financial Management Review	1-12

BUTLER SETTINERI

Real People. Better Business



FINANCIAL MANAGEMENT
SYSTEM REVIEW

*“Better **Business**
People”*

SHIRE OF CHITTERING

www.butlersettineri.com.au

Table of Contents

Disclaimer.....	2
Executive Summary	3
1.0 Background	3
2.0 Review Objectives and Scope	3
3.0 Approach	3
4.0 Key Findings.....	4
Appendix A Detailed Findings	5
Appendix B List Of Policies and Procedures Covered By This Review.....	9

DISCLAIMER

This report is provided in accordance with the Agreed Upon Procedures engagement covering the Financial Management Review conducted on behalf of the Chief Executive Officer as required by Local Government (Financial Management) Regulation 5(2) per the Request for Quote as advertised on the Vendor Panel Pty Ltd platform and is subject to its terms and conditions.

Our work was limited to that described in this report and was performed in accordance with ASRS 4400 as issued by AUASB. It did not constitute an examination or a review in accordance with generally accepted auditing standards or assurance standards. Accordingly, we provide no opinion or other form of assurance with respect to our work or the information upon which our work was based. We did not audit or otherwise verify the information supplied to us in connection with this review, except to the extent specified in this report.

Our work was based only on the information made available up to the date of the review. Accordingly, changes in circumstances after this date or the availability of other information could affect our findings

This report is intended solely for Shire of Chittering's internal use and benefit and may not be relied on by any other party. We accept no liability or responsibility to any other party who gains access to this report.

EXECUTIVE SUMMARY

1.0 Background

As outlined in the Request for Quote as advertised on the Vendor Panel Pty Ltd platform, you engaged us to perform a review of the policies, procedures and practises (“framework”) relating to particular areas of the Shire of Chittering.

The Shire of Chittering is a local government based in Western Australia. It is governed by seven (7) Councillors and the four (4) staff members as part of the Executive team of the Shire. Council is responsible for planning and making decisions on policies and developments affecting the area.

At the time of the review, the Shire employed approximately sixty (60) staff to implement the Council’s decisions, run its day-to-day operations and provide a range of programs and services for the community.

As required by Regulation 5(2) of the Local Government (Financial Management) Regulations 1996, the Chief Executive Officer (“CEO”) is to review the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly. The CEO is also required to report to the audit committee the results of this review.

During the beginning of the month of August 2020, the CEO outsourced the above review and engaged Butler Settineri (Audit) Pty Ltd to conduct a review of the local government’s system covering key financial management areas in the framework.

2.0 Review objectives and scope

The objective of this review is to compare the internal control policies and procedures adopted by the Shire of Chittering with the minimum requirements of the Local Government Act 1995 and its associated regulations and to determine the extent to which the stated policies and procedures as adopted by Shire of Chittering have been implemented by the CEO.

The scope included review of the policies and procedures and the areas and cycles described in Appendix B to this report.

3.0 Approach

The review process was carried out covering the period 1 July 2019 to 30 June 2020 as follows:

We obtained a list of all the policies and procedures as documented by the Shire from the Executive Manager Corporate Services, Melinda Prinsloo.

We compared this listing and the relevant areas covered by these policies to the Local Government Act and Regulations, in particular the Local Government (Financial Management) Regulations, as amended from time to time.

We noted areas of concern, in particular where we identified a lack of documented policies and procedures, or where documented policies and procedures deviated from the requirements of the Regulations.

We further performed walkthroughs of all significant transaction cycles. Our decision to perform a walkthrough was based on the significance of a particular cycle in terms of either the dollar value it represented in the annual financial statements (reference year 2019/20) or the strategic importance as noted in the Regulations or discussions from management.

From these walkthroughs we noted areas of concern for discussion with management. Areas of concern include any significant deviation from the documented framework, or where the current framework did not address key risk areas.

From the work performed above, we prepared a draft report to identify specific key risk areas and potential improvement recommendations.

After consulting with management and obtaining their comments on our recommendations, we now issue our final report to the audit committee.

4.0 Key Findings

From the work performed during our review, we note that the financial management framework is generally in good order.

In particular, we found that all major controls in relation to compliance and succession planning as well as financial controls for the receipting of monies, safeguarding of assets and control over expenditure are in place and functional.

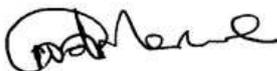
Therefore, all our findings in relation to these areas are categorised as “Moderate” or “Minor”, which indicate a generally good system of internal control.

Overall we wish to congratulate Matthew, Melinda and the team on maintaining a reasonably high level of control with regards to the financial systems of the Shire.

We do have several recommendations to make however, and the detailed findings identified during our review can be found in Appendix A of this report. These recommendations have been discussed with management and action plans to address these risks within acceptable timeframes were agreed on.

We would like to take this opportunity to thank all staff involved in this review for their courteous assistance, in particular Melinda and the finance team.

BUTLER SETTINERI (AUDIT) PTY LTD



MARIUS VAN DER MERWE CA
Director

12 October 2020

APPENDIX A DETAILED FINDINGS

RISK RATINGS

The Ratings in this Appendix are based on the audit team’s assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

Risk ratings have been assigned to issues raised in this report as follows:

Control is Inadequate	Extreme	<p>Can be expected to occur in most circumstances; more than 75% chance of occurring; complex process with minimal checks & balances; impacting factors outside the control of the organisation.</p> <p>Those findings where there is potentially an extreme risk to the entity should the finding not be addressed by the entity promptly. An extremely significant rating could indicate the need for a modified audit opinion in the current year, or in a subsequent reporting period if not addressed.</p>
	Significant	<p>Will probably occur in most circumstances; 50-75% chance of occurring; complex process with some checks & balances; impacting factors outside the control of the organisation.</p> <p>Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating could indicate the need for a modified audit opinion in the current year, or in a subsequent reporting period if not addressed.</p>
	Moderate	<p>Might occur at some time; 25 – 50% chance of occurring; previous audits/reports indicate non-compliance; complex process with extensive checks & balances; impacting factors outside control of organisation.</p> <p>Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.</p>
Control is Adequate	Minor	<p>Could occur at some time; less than 25% chance of occurring; non-complex process &/or existence of checks and balances.</p> <p>Those findings that are not of primary concern but still warrant action being taken.</p>

Key to Titles:			
CEO	Chief Executive Officer	SFO	Supporting Finance Officer
EMCS	Executive Manager Corporate Services	FCO	Finance Coordinator
EMTS	Executive Manager Technical Services	CSO	Customer Services Support Officer
AO	Accounts Officer	HR	Human Resources

Number	Accounting Cycle	Audit Findings/Comment	Rating	Recommendation	Management comment
1.	Compliance – Asset Management Plan	<p>We noted that the Asset Management Plan highlights infrastructure assets as a major corporate function that requires an organisation-wide approach and as such has been incorporated into the Shire’s Corporate Business Plan, Strategic Community Plan and Annual Budget.</p> <p>On review of the Corporate Business Plan we note that the Shire has adopted a 10 year replacement policy in respect of Plant and Equipment. We note an example being the school bus which has reached 10 years of service yet has not been scheduled for replacement as required by the policy.</p>	Moderate	<p>We recommend that management review the age of assets to ensure all assets are marked for replacement after the expiry of 10 years as specified in the Asset Management Plan and that the Council ensure the policy is adhered to.</p> <p>We further recommend that Council review the 10 year replacement policy as specified in the Corporate Business Plan in respect of Plant and Equipment to include a consideration of the condition of assets before making the decision to replace the assets based on the 10 year policy.</p>	<p>Management acknowledges the finding.</p> <p>A review of the 10 year replacement policy will be conducted to better reflect the operational considerations when assets are renewed or replaced.</p>

2.	Compliance – Corporate Business Plan	We noted that the current Corporate Business Plan was adopted in 2018 and covers the period 2017 to 2021.	Minor	We recommend that the Corporate Business Plan be updated within the next 12 months to cover the period to 2030.	Management acknowledges the finding. The CBP will be reviewed within the coming year.
3.	Payroll - Employee Termination Checklist	We noted that while there is an Employee Termination Checklist in place, there is no requirement to evidence the sign-off of each procedure listed or the overall sign off of the form.	Minor	We recommend that the Employee Termination Checklist be updated to include a requirement for each procedure to be signed off by the member of management completing the Employee Termination Checklist to ensure the procedures are completed.	Management acknowledges the finding. The employee termination checklist has been amended to include an additional level of sign-off.
4.	IT Control Environment - Cyber Attack Policy	On review of the IT control environment, we noted that there is no Disaster Recovery Plan in place which details policy concerning back-up procedures, the protection of electronic data and records and the recovery of these in the event of a disaster. We note that there is no formal policy covering the Shire's response to cyber-attacks.	Moderate	We recommend that a Disaster Recovery Plan be adopted which details policy concerning back-up procedures, the protection of electronic data and records and the recovery of these in the event of a disaster. We further recommend that a formal policy covering the Shire's response to cyber-attacks is adopted.	Management acknowledges the finding and will formalise the current stringent backup-regime and cyber-attack monitoring & controls into a policy.

5.	IT Control Environment – Server Cabinet	We noted that the server cabinet is not enclosed and that the cabling is not stored neatly. This increases the risk of physical damage and potential loss or business disruption whether accidental or intentional.	Moderate	We recommend that the server cabinet is enclosed and that all cables are stored neatly to limit the risk of physical damage and potential loss or business disruption.	<p>Management Acknowledges the finding.</p> <p>A lock has been ordered for the server room, to add a level of security.</p>
----	---	---	----------	--	---

APPENDIX B LIST OF POLICIES AND PROCEDURES COVERED BY THIS REVIEW

▀ Shire Policies included in the Policy Manual Reviewed November 2020

- » Risk Management Policy
- » Purchasing & Procurement Policy
- » Purchasing Authority Limits Policy
- » Rate Recovery Policy
- » Delegation Authority Register
- » Management of Investments Policy
- » Corporate Credit Card Policy
- » Staff Policies
- » Asset Management Policy (separate policy)
- » Business Continuity Plan (separate policy)

▀ Shire Procedures

- » Internal Control Procedure

▀ Legislative Compliance

- » Local Government (Audit) Regulations 1996
Regulation 7, Regulation 10 and Regulation 17
- » Section 7 of the Department of Local Government Accounting Manual
- » Local Government (Elections) Regulation 1996
Part 5A Disclosure of gifts-30G Register
- » Local Government (Administration) Regulation 1996
Part 4 Local Government Employees-Regulation 18A to 18G

- » Local Government Act 1995
 - Section 6.4*
 - Section 5.16 to 5.18A*
 - Section 5.36 to 5.37*
 - Section 5.45 to 5.46*
 - Section 5.67 to 5.68*
 - Section 5.73 to 5.77*
 - Section 5.88*
 - Section 5.103*
 - Section 5.120 to 5.121*
 - Section 3.57 to 3.58*
 - Section 7.1A to 7.1C*
 - Section 7.3*
 - Section 7.9*
 - Section 7.12*

- » Local Government (Functions and General) Regulations 1996
 - Part 4 Provision of goods and services-Regulation*
 - Part 3 Commercial enterprises by local governments*

- » Local Government (Financial Management) Regulations 1996
 - Regulation 5 to Regulation 13*
 - Regulation 34*



Address

Unit 16, First Floor
Spectrum Offices
100 Railway Road (Cnr Hay Street)
SUBIACO WA 6008

Postal Address

Locked Bag 18
Subiaco WA 6904

Phone

[\(08\) 6389 5222](tel:(08)63895222)

www.butlersettineri.com.au

BUTLER  SETTINERI

Real People. Better Business