

**MINUTES FOR THE
AUDIT COMMITTEE**
WEDNESDAY, 20 SEPTEMBER 2017

Council Chambers
6177 Great Northern Highway
Bindoon

Commencement: 4:35PM
Closure: 4:44PM



Preface

When the Chief Executive Officer approves these Minutes for distribution they are in essence "Unconfirmed" until the following Chittering Audit Committee (CAC) Meeting, where the minutes will be confirmed subject to any amendments.

The "Confirmed" Minutes are then signed off by the Chairperson.

Attachments that formed part of the agenda, in addition to those tabled at the CAC Meeting are put together as an addendum to these Minutes.

Unconfirmed Minutes

These minutes were approved for distribution on 29 September 2017.



Alan Sheridan
Chief Executive Officer
Shire of Chittering

Confirmed Minutes

These minutes will be confirmed at a meeting yet to be confirmed.

Signed

Note: The Chairperson at the meeting at which the minutes were confirmed is the person who signs above.

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* indicates separate attachments

1. DECLARATION OF OPENING OF MEETING / ANNOUNCEMENTS OF VISITORS

The Presiding Member declared the meeting open at 4:35PM.

2. RECORD OF ATTENDANCE / APOLOGIES / APPROVED LEAVE OF ABSENCE

2.1 Attendance

The following members have confirmed their attendance:

| | | |
|-----------------------|---------------------|--|
| Members | Cr Gordon Houston | Shire of Chittering (Presiding Member) |
| | Cr Peter Osborn | |
| | Cr George Tilbury | |
| | Cr Michelle Rossouw | <i>arrived at 4.44pm</i> |
| | Cr Mary Angus | |
| | Cr Aaron King | |
| | Cr Don Gibson | |
| Observers | Rhona Hawkins | Executive Manager Corporate Services |
| | Peter Stuart | Executive Manager Development Services |
| | Natasha Mossman | Executive Support Officer (Minute Secretary) |
| Members of the public | 0 | |
| Media | 0 | |

2.2 Apologies

| | |
|----------------|--------------------------------------|
| Alan Sheridan | Chief Executive Officer |
| Jim Garrett | Executive Manager Technical Services |
| Wen Shien Chai | Moore Stephens |

2.3 Approved leave of absence

Nil

3. DISCLOSURE OF INTEREST

Nil

4. PUBLIC QUESTION TIME

4.1 Public question time

Nil

5. CONFIRMATION OF MINUTES: Wednesday, 15 March 2017

5.1 OFFICER/COMMITTEE RECOMMENDATION

Moved Cr Osborn / Seconded Cr Gibson

That the minutes of the Audit Committee meeting held on Wednesday, 15 March 2017 be confirmed as a true and correct record of proceedings.

THE RECOMMENDATION WAS PUT AND DECLARED CARRIED 6/0

4:37PM

6. PURPOSE OF MEETING

6.1 Financial Management Review April 2017*

| | |
|---------------------|---|
| Report date | 20 September 2017 |
| Applicant | Shire of Chittering |
| File ref | 12/01/1 |
| Prepared by | Natasha Mossman, Executive Support Officer |
| Supervised by | Rhona Hawkins, Executive Manager Corporate Services |
| Voting requirements | Simple Majority |
| Documents tabled | Nil |
| Attachments | 1. Financial Management Review April 2017 |

Executive Summary

That the Chittering Audit Committee receives the Financial Management Review dated April 2017 (**Attachment 1**) and for it to be tabled at the Ordinary Council Meeting on 21 June 2017.

Background

Regulations 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* requires the Chief Executive Officer to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every four financial years) and report to the local government the results of those reviews.

The last review was undertaken in May 2013.

Consultation

Moore Stephens (appointed Shire of Chittering auditors)

Statutory Environment

State

- Local Government (Financial Management) Regulations 1996

The financial management responsibilities of the Chief Executive Officer are established under Regulation 5 of the *Local Government (Financial Management) Regulations 1996*:

- "(1) Efficient systems and procedures are to be established by the CEO of a local government:*
- (a) for the proper collection of all money owing to the local government;*
 - (b) for the safe custody and security of all money collected or held by the local government;*
 - (c) for the proper maintenance and security of the financial records of the local government (whether maintained in written form or by electronic or other means or process);*
 - (d) to ensure proper accounting for municipal or trust:*
 - (i) revenue received or receivable;*
 - (ii) expenses paid or payable; and*
 - (iii) assets and liabilities;*
 - (e) to ensure proper authorisation for the incurring of liabilities and the making of payments;*
 - (f) for the maintenance of payroll, stock control and costing records; and*
 - (g) to assist in the preparation of budgets, budget reviews, accounts and reports Required by the Act or these Regulations."*

In addition, the Chief Executive Officer is to:

- "(2) (a) ensure that the resources of the local government are effectively and efficiently managed;*
- (b) assist the council to undertake reviews of fees and charges regularly (and not less than once in every financial year); and*
 - (c) undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 4 financial years) and report to the local government the results of those reviews."*

Policy Implications

Nil

Financial Implications

Nil

Strategic Implications

Nil

Site Inspection

Not applicable

Triple Bottom Line Assessment

Economic implications

There are no known significant economic implications associated with this proposal.

Social implications

There are no known significant social implications associated with this proposal.

Environmental implications

There are no known significant environmental implications associated with this proposal.

Officer Comment/Details

To comply with the requirements of the Regulations Moore Stephens were commissioned by the Chief Executive Officer to undertake the review and report on Council's financial management systems and procedures.

The financial management review provides the Chief Executive Officer and the Council with an independent assessment of the appropriateness and effectiveness of the Shires Financial Management Systems.

The review procedures undertaken included documentation, analysis and testing of financial internal controls. The Shires financial records were examined for the period 1 July 2016 to 28 February 2017, including the following financial systems and procedures:

- Bank Reconciliations and Petty Cash
- Trust Fund
- Receipts and Receivables
- Rates
- Fees and Charges
- Purchases, Payments and Payables (Including Purchase Orders)
- Payroll
- Credit Card Procedures
- Fixed Assets (Including acquisition and disposal of property)
- Cost and Administration Overhead Allocations
- Minutes and Meetings
- Financial Reports
- Budget
- Plan for the Future
- Registers (Including Annual and Primary Return)
- Delegations
- Audit Committee
- Insurance
- Storage of Documents/Record Keeping
- General Compliance issues

The review reveals the following:

| Area Examined | Matters noted and raised | Shire comments | Rating assessment |
|--|---|---|-------------------|
| Purchases, Payments and Payables (including Purchase Orders) | <p>Review of processing of payments by EFT revealed controls over the loading of EFT payments and changing of supplier banking details are not adequately segregated.</p> <p><u>Comment</u> To maintain the integrity of EFT, each step in the process if reviewed by a person independent of preparation. This independent review should be evidenced accordingly.</p> | A strict process has been implemented to track all supplier detail changes which includes the approval of the Executive Manager Corporate Services prior to the changes being made and submitting an Audit Trail at the same time a payment is being made. | Significant |
| Purchases, Payments and Payables (including Purchase Orders) | <p>System audit trail report for changes made to supplier details, including bank details, is reviewed by a senior staff member at month end instead of every payment run.</p> <p><u>Comment</u> To help ensure all changes to supplier details in the system are correct and all payments bona fide, the system's audit trail report showing all changes made to the system should be printed and reviewed by a senior staff member independent of processing prior to the processing of each payment run. This independent review should seek to confirm the integrity of the changes/details in the system against appropriate authorisations and should be evidenced accordingly.</p> | The Audit Trail is now presented at the same time a payment is being made. The Audit Trail date and time stamp is checked against the time the payment is made to ensure there have been no delays in making the payment. If there has been a significant time change the Audit Trail must be regenerated prior to the payment being processed. | Significant |
| Payroll | <p>Review of the processing of payroll by EFT revealed the controls of the loading of EFT payments and changing of staff banking details are not adequately segregated.</p> <p><u>Comment</u> To maintain the integrity of EFT payments, ensure that the process of changing the employee bank details is documented, and each step in the process is reviewed by a person independent of preparation</p> | A strict process has been implemented to track all employee detail changes which includes the approval of the Executive Manager Corporate Services prior to the changes being made and submitting an Audit Trail at the same time a payment is being made. | Significant |

| Area Examined | Matters noted and raised | Shire comments | Rating assessment |
|---|--|--|-------------------|
| Payroll | <p>System audit trail report for changes made to employee details, including bank details, is reviewed by a senior staff member at month end instead of at every pay run.</p> <p><u>Comment</u> To help ensure all changes to employee details in the system are correct and hence all payments are bona fide, the system's audit trail report showing all changes made to the system should be printed and reviewed by a senior staff member independent of processing prior to the processing of each pay run. The independent review should seek to confirm the integrity of the changes/details in the system against appropriate authorisations and should be evidenced accordingly.</p> | <p>The Audit Trail is now presented at the same time a payment is being made. The Audit Trail date and time stamp is checked against the time the payment is made to ensure there have been no delays in making the payment. If there has been a significant time change the Audit Trail must be regenerated prior to the payment being processed.</p> | Significant |
| Fixed Assets (including Acquisition and Disposal of Property) | <p>The Fixed Asset Register (FAR) reconciliation with General Ledger is not always reviewed by a senior officer independent of preparation. The Profit and Loss on assets disposal was incorrectly calculated, as the depreciation expense up to the date of disposal was not processed and included in the calculation.</p> <p><u>Comment</u> To ensure all asset transactions (including Profit and Loss on asset disposal) are completely and correctly posted into the General Ledger, FAR reconciliations should be reviewed by a senior staff member independent of preparation. The independent review should seek to confirm the accuracy of the reconciliation and should be evidenced accordingly.</p> | <p>The monthly reconciliation process has been reinstated and had been missed due to the changeover of staff.</p> <p>The procedures have been formally documented to ensure the process is not missed again.</p> <p>In the next few months we will transition to a new COA and monthly financial statements that integrate with SynergySoft including an Asset Reconciliation to the General Ledger so it will be a more robust balancing process.</p> | Moderate |

| Area Examined | Matters noted and raised | Shire comments | Rating assessment |
|--|--|--|-------------------|
| General Compliance Issues and Other Matters – IT General Environment | <p>Regular changes to passwords are not performed. Some passwords have not been changed since 2011.</p> <p><u>Comment</u> To ensure access and security of Shire records and information is maintained, we recommend all critical passwords, and software user passwords are updated at least every quarter.</p> | The Shire has completed an ITC Review. The recommendations will be implemented over the next few months including a policy for password changes. | Moderate |

Conclusion

“Based on our work described in this report, nothing has come to our attention to indicate the Shire of Chittering has not established and maintained, in all material respects, appropriate and effective financial management systems and procedures during the period covered by our review being 1 July 2016 to 28 February 2017.”

It is recommended that the Audit Committee review the Financial Management Review and recommend to Council that the Financial Management Review be adopted by Council at the next Ordinary meeting to be held on 18 October 2017.

Cr Rossouw entered the Chambers at 4:44PM

6.1 OFFICER/COMMITTEE RECOMMENDATION

Moved Cr King / Seconded Cr Osborn

That the Audit Committee reviews the Financial Management Review April 2017 and present to Council for adoption.

THE RECOMMENDATION WAS PUT AND DECLARED CARRIED 7/0
4:47PM

7. CLOSURE

The Presiding Member declared the meeting closed at 4:48PM.



Audit Committee Attachments
Wednesday, 20 September 2017

| REPORT NUMBER | REPORT TITLE AND ATTACHMENT DESCRIPTION | PAGE NUMBER(S) |
|---------------|--|----------------|
| 6.1 | Financial Management Review April 2017 1. Financial Management Review April 2017 | 9 – 22 |

MOORE STEPHENS

CHITTERING

ROAD

BO

Financial Management Review

Shire of Chittering

April 2017

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Disclaimer

The objective of this review as outlined in greater detail in Part 2.0 of this report as presented, is to assist the Chief Executive Officer of the Shire of Chittering discharge responsibilities in respect to Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 (as amended).

It has been prepared by Moore Stephens (WA) Pty Ltd for this sole purpose.

It is not intended to be used by any other individual or organisation.

Confidential – this document and the information contained in it are confidential and should not be used or disclosed in any way without our prior consent.

Moore Stephens (WA) Pty Ltd carries on business separately and independently from other Moore Stephens member firms around Australia and worldwide.

Services provided under this engagement are provided by Moore Stephens (WA) Pty Ltd and not by any other independent Moore Stephens member firm. No other independent Moore Stephens member has any liability for services provided by other members.

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1.0 Independent Reviewer's Report to the Chief Executive Officer (CEO) of the Shire of Chittering

At the request of the CEO, Moore Stephens (WA) Pty Ltd was engaged to conduct a limited assurance review of the appropriateness and effectiveness of the Shire of Chittering's financial management systems and procedures. The objective of the review is to assist the CEO discharge responsibilities in respect to Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 (as amended). The review was conducted for the period 1 July 2016 to 28 February 2017.

CEO's Responsibility for Maintaining and Reviewing Financial Management Systems and Procedures

The CEO is responsible for implementing policies, procedures and controls which are designed to ensure the effective and efficient management of the Shire's resources. In accordance with Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 (as amended), the CEO is to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures. At least once in every four financial years the CEO is to report the results of those reviews to Council.

Our responsibility

Our responsibility is to provide a report expressing limited assurance, designed to enhance the confidence of the CEO to assist reporting on the appropriateness and effectiveness of the financial management systems as required by Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 (as amended). We conducted our engagement in accordance with Australian Standard on Assurance Engagements ASAE 3500 Performance Engagements issued by the Australian Auditing and Assurance Standards Board and the Audit Guidelines, in order to state whether, based on the procedures performed, anything has come to our attention that causes us to believe that the Shire's financial management systems have not been operating effectively. Our engagement provides limited assurance as defined in ASAE 3500.

Our procedures were agreed to with the CEO in our engagement letter dated 22 December 2016.

Limitations of use

This report is made solely to the CEO of the Shire of Chittering for the purpose of reporting under Local Government (Financial Management) Regulation 5(2)(c). We disclaim any assumption of responsibility for any reliance on this report to any person other than the CEO of the Shire of Chittering, or for any purpose other than that for which it was prepared. We disclaim all liability to any other party for all costs, loss, damages, and liability that the other party might suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party, or the reliance on our report by the other party.

MOORE STEPHENS

1.0 Independent Reviewer's Report to the Chief Executive Officer (CEO) of the Shire of Chittering (continued)

Inherent limitations

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with ASAE 3500 and consequently does not allow us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we will not express an opinion providing reasonable assurance.

We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and its responsibility to prevent and detect irregularities, including fraud. Accordingly, readers of our reports should not rely on the report to identify all potential instances of non-compliance which may occur.

Any projection of the evaluation of the level of compliance to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with management procedures may deteriorate.


Independence

In conducting our engagement, we have complied with the independence requirements of the Australian professional accounting bodies.

Conclusion

Based on our work described in this report (which is not an audit), nothing has come to our attention to indicate the Shire of Chittering has not established and maintained, in all material respects, appropriate and effective financial management systems and procedures during the period covered by our review being 1 July 2016 to 28 February 2017.

For those aspects of the Shire of Chittering's Financial Management systems and procedures which were assessed as having opportunities for improvement, our findings are summarised as Part 3.0 of this report and detailed observations and comments are located at Part 4.0 of this report.



WEN-SHIEN CHAI
DIRECTOR



MOORE STEPHENS (WA) PTY LTD
CHARTERED ACCOUNTANTS

Date: 26 April 2017
Perth, WA

2.0 Objective, Scope and Overview of Findings

Objective

The objective of our engagement as outlined in our engagement letter dated 22 December 2016 is as follows:

To provide a report expressing limited assurance designed to enhance the confidence of the intended user (in this instance the CEO) in the performance of the control environment of the financial management system of the Shire of Chittering (administered by Shire staff being the Responsible Party) for which the intended user (CEO) is ultimately responsible in accordance with the Act and Regulations.

It includes the performance of assurance procedures designed to test the financial management system and report to the CEO on the appropriateness and effectiveness of the control environment within, as required by Financial Management Regulation 5(2)(c).

We trust this report will assist in the ongoing review and improvement of the Shire's financial management practices and procedures.

Scope

As agreed our examination covered the period 1 July 2016 to 28 February 2017. To this end we examined the following financial systems and procedures of the Shire:

- Bank Reconciliations and Petty Cash
- Trust Fund
- Receipts and Receivables
- Rates
- Fees and Charges
- Purchases, Payments and Payables (Including Purchase Orders)
- Payroll
- Credit Card Procedures
- Fixed Assets (Including Acquisition and Disposal of Property)
- Cost and Administration Overhead Allocations
- Minutes and Meetings
- Financial Reports
- Budget
- Plan for the Future
- Registers (Including Annual & Primary Return)
- Delegations
- Audit Committee
- Insurance
- Storage of Documents/Record Keeping
- General Compliance Issues and Other Matters

We did not necessarily examine compliance with provisions of the Act or Regulations, which were not financial in nature. That is, Parts 2, 4, 8 and 9 of the Act, some provisions of Parts 3 and 5 as well as most regulations (apart from the Financial Management Regulations), which did not impact on the areas examined above.

Overview of Findings

As referred to in Part 1.0 of this report, a summary of our findings and detailed observations may be found in Parts 3.0 and 4.0 on the following pages.

Addressing the issues highlighted will help to ensure the controls and procedures established are not compromised in the future and the integrity of the financial management system is maintained.

3.0 Summary of Findings

The following is a brief summary of the key matters noted for improvement together with our assessment of the level of risk in relation to each item:

| FINDINGS | REF | PAGE | NATURE | RATING |
|---|------|------|--------|-------------|
| PURCHASES, PAYMENTS AND PAYABLES (INCLUDING PURCHASE ORDERS) | 4.6 | 9 | | |
| Changes to supplier details not adequately segregated. | | | S | Significant |
| Audit trail for changes to master file details only reviewed monthly, instead of at every payrun. | | | S | Significant |
| PAYROLL | 4.7 | 10 | | |
| Changes to employee details not adequately segregated. | | | S | Significant |
| Audit trail for changes to master file details only reviewed monthly, instead of at every payrun. | | | S | Significant |
| FIXED ASSETS (INCLUDING ACQUISITION AND DISPOSAL OF PROPERTY) | 4.9 | 11 | | |
| No evidence of independent review of Fixed Asset Register (FAR) reconciliation. | | | S | Moderate |
| GENERAL COMPLIANCE ISSUES AND OTHER MATTERS | 4.20 | 13 | | |
| User passwords for the accounting system are not changed on a regular basis. | | | S | Moderate |

Please Note: The rating assessment as detailed above is our assessment based on the circumstances surrounding the procedures performed. They are intended to be read in the context of our rating assessment to the organisation as a whole. They are provided solely to assist you understand the nature of the matters raised and to prioritise any remedial action.

Key:

Nature:

| | |
|---|------------------------|
| S | Systems and Procedures |
| C | Compliance Matter |

Rating Assessment:

| | |
|-------------|--|
| Significant | Issue represents a weakness which will/may have an adverse affect on the ability to achieve business objectives. Requires immediate management action. |
| Moderate | Issue represents a weakness which may become more serious if not addressed. Requires management action within a reasonable time period. |
| Minor | Issue represents an opportunity for improvement. Management should consider cost benefit analysis within a reasonable time period. |

4.0 Areas Examined with Detailed Observations and Comments

4.1 Bank Reconciliations and Petty Cash

Bank Reconciliations

An examination of bank reconciliations and procedures for the period under review noted they are up to date as well as being prepared regularly and promptly for all bank accounts.

Petty Cash

We also examined the petty cash system and procedures and concluded these were being properly controlled and maintained.

4.2 Trust Funds

Trust funds held by the Shire were examined to determine proper accountability in the Shire's financial management system and compliance with regulatory requirements.

Our observation and testing of four receipts and four payments, judgmentally selected, confirmed that trust funds are adequately controlled and all statutory requirements were satisfactorily met.

4.3 Receipts and Receivables

Detailed testing of twenty-two receipts, randomly selected, was performed. This included tracing to individual receipt detail, bank deposits, the general ledger and review of the end-of-day receipting procedure to ensure balancing and allocation/posting were correctly performed. The receivables system including raising of invoices was also reviewed with limited testing in respect to allocation/posting.

Overall, testing was completed satisfactorily. Controls and procedures over receipts and receivables are considered to be operating effectively and are appropriate for the Shire's current scope of operations.

4.4 Rates

The Shire's rating procedures were examined to determine if they were adequate in ensuring rates were being imposed or raised correctly. This also included inspection of the rate record, rate notices, instalment notices, valuation reconciliations and general ledger.

We randomly selected and tested ten annual rate notices and five interim notices for the period under review. This included:

- sighting the notices;
- re-performing the calculations;
- ascertaining whether the valuations applied agree to Landgate's valuation roll/report and rates per dollar imposed are as per adopted budget;
- ensuring the rate system is properly updated; and
- checking proper posting to the general ledger.

From testing, we concluded the rate system and record are being properly maintained, rates are correctly imposed as well as posted to general ledger.

4.0 Areas Examined with Detailed Observations and Comments (continued)

4.5 Fees and Charges

Fees and Charges imposed at the time of budget adoption were found to be in accordance with legislative requirements.

4.6 Purchases, Payments and Payables (Including Purchase Orders)

Sixteen payment transactions were randomly selected and tested to determine whether purchases were authorised/budgeted and payments were supported, certified/authorised and correctly allocated.

The Shire's purchases, payments and payables system was also examined to determine if adequate controls were in place in ensuring liabilities are properly recorded and payments are properly controlled.

We are aware of many recent incidents of payment scams/frauds within the local government industry. As a consequence of this activity, we have had a specific focus on the controls around the changes to supplier details within the EFT payment system.

In general controls and procedures relating to purchases, payments and payables are operating effectively and appropriate for the Shire's current scope of operations, with the following matters being noted and raised for your consideration:

- Our review of the processing of payments by Electronic Funds Transfer (EFT) revealed the controls over the loading of EFT payments and changing of supplier banking details are not adequately segregated.

Comment: To maintain the integrity of the EFT payments system, each step in the process is reviewed by a person independent of preparation.

This independent review should be evidenced accordingly.

- The system audit trail report for changes made to supplier details, including bank details, is reviewed by a senior staff member at month end instead of every payment run.

Comment: To help ensure all changes to supplier details in the system are correct and hence all payments are bona fide, the system's audit trail report showing all changes made to the system should be printed and reviewed by a senior staff member independent of processing prior to the processing of each payment run.

This independent review should seek to confirm the integrity of the changes/details in the system against appropriate authorisations and should be evidenced accordingly.

4.0 Areas Examined with Detailed Observations and Comments (continued)

4.7 Payroll

A random sample of fourteen individual employees was selected from six randomly selected pay runs, and detailed testing of each employee's pay was performed to help ensure:

- the employee existed;
- the correct rate of pay was used;
- non-statutory deduction authorities are on hand;
- time sheets were properly completed and authorised;
- hours worked were properly authorised; and
- allocations were reasonable and correctly posted.

We also tested the first pay of two new employee's and the last pay of two terminated employee's (randomly selected).

The Shire's payroll system was also reviewed to determine if adequate controls were in place to help ensure wages and salaries are properly processed and payments are properly controlled.

The system described to us and its supporting controls were found to be operating effectively, except for the following matters:

- Our review of the processing of payroll by Electronic Funds Transfer (EFT) revealed the controls over the loading of EFT payments and changing of staff banking details are not adequately segregated.

Comment: To maintain the integrity of the EFT payments system, the Shire should ensure that the process of changing the employee bank details is documented, and each step in the process is reviewed by a person independent of preparation.

- The system audit trail report for changes made to employee details, including bank details, is reviewed by a senior staff member at month end instead of at every pay run.

Comment: To help ensure all changes to employee details in the system are correct and hence all payments are bona fide, the system's audit trail report showing all changes made to the system should be printed and reviewed by a senior staff member independent of processing prior to the processing of each pay run.

The independent review should seek to confirm the integrity of the changes/details in the system against appropriate authorisations and should be evidenced accordingly.

4.0 Areas Examined with Detailed Observations and Comments (continued)

4.8 Credit Card Procedures

A review of the Shire's credit card procedures was performed to determine if adequate controls were in place.

Five credit cards are currently in use. We randomly selected credit card transactions during the period (one whole month per card) for testing, to determine whether these are legitimate and usual in the context of the Shire's operations. This included:

- sighting tax invoices;
- ascertaining whether the transaction is for bona fide Shire business; and
- determining whether transactions are in line with the Shire's policy.

Overall testing was completed satisfactorily. Controls and procedures over credit card transactions are considered to be operating effectively and are appropriate for the Shire's current scope of operations.

4.9 Fixed Assets (Including Acquisition and Disposal of Property)

The fixed assets system including controls over acquisition and disposal of assets, updating of the fixed assets register, depreciation of fixed assets and reconciliation of the fixed assets register to the general ledger was examined.

A sample of two asset additions and two asset disposals were judgmentally selected and testing performed to ensure:

- the tax invoices existed;
- correct posting to the general ledger;
- fixed assets register was promptly updated; and
- classification of assets was correct;

We concluded fixed assets are properly accounted for and supporting controls are operating effectively, except for the following matters:

- The Fixed Asset Register (FAR) reconciliation with General ledger is not always reviewed by a senior officer independent of preparation.
- The profit and loss on assets disposal was incorrectly calculated, as the depreciation expense up to the date of disposal was not processed and included in the calculation.

Comment: To ensure all asset transactions (including profit and loss on asset disposal) are completely and correctly posted into the general ledger, FAR reconciliations should be reviewed by a senior staff member independent of preparation.

The independent review should seek to confirm the accuracy of the reconciliation and should be evidenced accordingly.

4.0 Areas Examined with Detailed Observations and Comments (continued)

4.10 Costs and Administration Overhead Allocation

The Shire's cost and administration allocation system was examined to determine if indirect costs have been properly reallocated to various jobs/programs. This included a review of the allocation basis or rates used to ensure they are appropriate and regularly reviewed.

Our review noted the system is being maintained properly.

4.11 Minutes and Meetings

Council and Committee meeting minutes were reviewed to ensure compliance with procedures and protocols.

The procedures and protocols surrounding meetings and the quality of minutes were found to be of a satisfactory standard and in accordance with legislative requirements.

4.12 Financial Reports

The following reports were reviewed for compliance with legislative requirements:

- Annual Report;
- Annual Financial Report; and
- Monthly Financial Reports.

All were found to be of a satisfactory standard and in compliance with legislative requirements.

4.13 Budget

The 2016/17 budget document and documents surrounding budget adoption were reviewed to ensure compliance with regulatory requirements.

All statutory requirements were satisfactorily met and the adopted budget was of satisfactory form and content.

4.14 Plan for the Future

The Strategic Community Plan and Corporate Business Plan together comprise the Plan for the Future.

The Shire's current Strategic Community Plan (2012 - 2022) and Corporate Business Plan (2015 - 2019) were adopted in November 2012 and June 2015 respectively. From examination they appeared to meet all statutory requirements.

4.0 Areas Examined with Detailed Observations and Comments (continued)

4.15 Registers (Including Annual & Primary Returns)

Financial Interest Register

The register was examined to ensure compliance with regulatory requirements.

Our review noted the register was deemed to be satisfactorily maintained and appropriate for the Shire's needs.

Tender Register

The tender register was reviewed for completeness, compliance and appeared to be satisfactorily maintained and appropriate for the Shire's needs.

4.16 Delegations

The delegations register was reviewed for completeness and compliance. It was considered satisfactorily maintained and appropriate for the Shire's needs.

4.17 Audit Committee

The Shire's establishment of its audit committee and the constituted membership was examined by us and considered satisfactory.

4.18 Insurance

Discussions with staff and review of policy documents revealed policies are current. Evidence also exists to suggest an annual review of insurance risks occurs.

4.19 Storage of Documents / Record Keeping

A detailed and fully indexed register and filing system is in place and appears to be complete and operating effectively.

4.20 General Compliance Issues and Other Matters

Investments

The Shire's investment policy was reviewed to help ensure its adequacy and compliance with legislative requirements.

Internal control procedures and restrictions over investments are properly maintained and adhered to, the investment policy which fully comply with the requirements of Local Government (Financial Management) Regulation 19C.

IT General Environment

Whilst reviewing the adequacy of the Shire's IT general environment, we noted general controls such as authorised access to the computer system, and regular data backup are being properly performed, except for the following matter:

- Regular changes to passwords are not performed. Some passwords have not been changed since 2011.

Comment: To ensure access and security of Shire records and information is maintained, we recommend all critical passwords, and software user passwords be updated at least every quarter.

5.0 Reminders

Fixed Assets

- Revaluation of the Land and Buildings class of assets should be performed as at 30 June 2017.
Management advised that the valuation will be undertaken by an independent practising valuer in accordance with AASB 13.
Depreciation for roads – We stress the need for an assessment of Remaining Useful Life (RUL) to be performed on individual road components, along with a detailed assessment of road conditions by 30 June 2018.

Plans for the future

- The Corporate Business plan is required to be renewed every year. At the time of our visit it had not been reviewed for the current year.
To avoid a compliance breach, the plan will require review by 30 June 2017.

Budget

- Whilst the 2016/2017 budget review was carried out by 31 March 2017, it has not yet been submitted to the Council for consideration and determination.
To avoid a compliance breach, the review is required to be presented to the Council prior to 30 April 2017.

Other

- The Fringe Benefit Tax return had not yet been lodged at the time of our visit. Due date for lodgement is 21 May 2017.
- The Delegations register is required to be reviewed once in each financial year. At the time of our visit, it had not been reviewed for the current financial year.
To avoid a compliance breach, the register will require review prior to 30 June 2017.



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