

Audit & Risk Committee Meeting

Agenda for Monday 4 August 2014



**shire of
kalamunda**

NOTICE OF MEETING AUDIT AND RISK COMMITTEE

Dear Councillors

Notice is hereby given that the next meeting of the Audit & Risk Committee will be held in the Council Chambers, Administration Centre, 2 Railway Road, Kalamunda on **Monday 4 August 2014 at 6.30pm.**



Rhonda Hardy
Chief Executive Officer
1 August 2014

Our Vision and Our Values

Our Vision

The Shire will have a diversity of lifestyle and people. It will take pride in caring for the natural, social, cultural and built environments and provide opportunities for people of all ages.

Our Core Values

Service – We deliver excellent service by actively engaging and listening to each other.

Respect – We trust and respect each other by valuing our difference, communicating openly and showing integrity in all we do.

Diversity – We challenge ourselves by keeping our minds open and looking for all possibilities and opportunities.

Ethics – We provide honest, open, equitable and responsive leadership by demonstrating high standards of ethical behavior.

Our Aspirational Values

Prosperity – We will ensure our Shire has a robust economy through a mixture of industrial and commercial development.

Harmony – We will retain our natural assets in balance with our built environment.

Courage – We take risks that are calculated to lead us to a bold new future.

Creativity – We create and innovate to improve all we do.

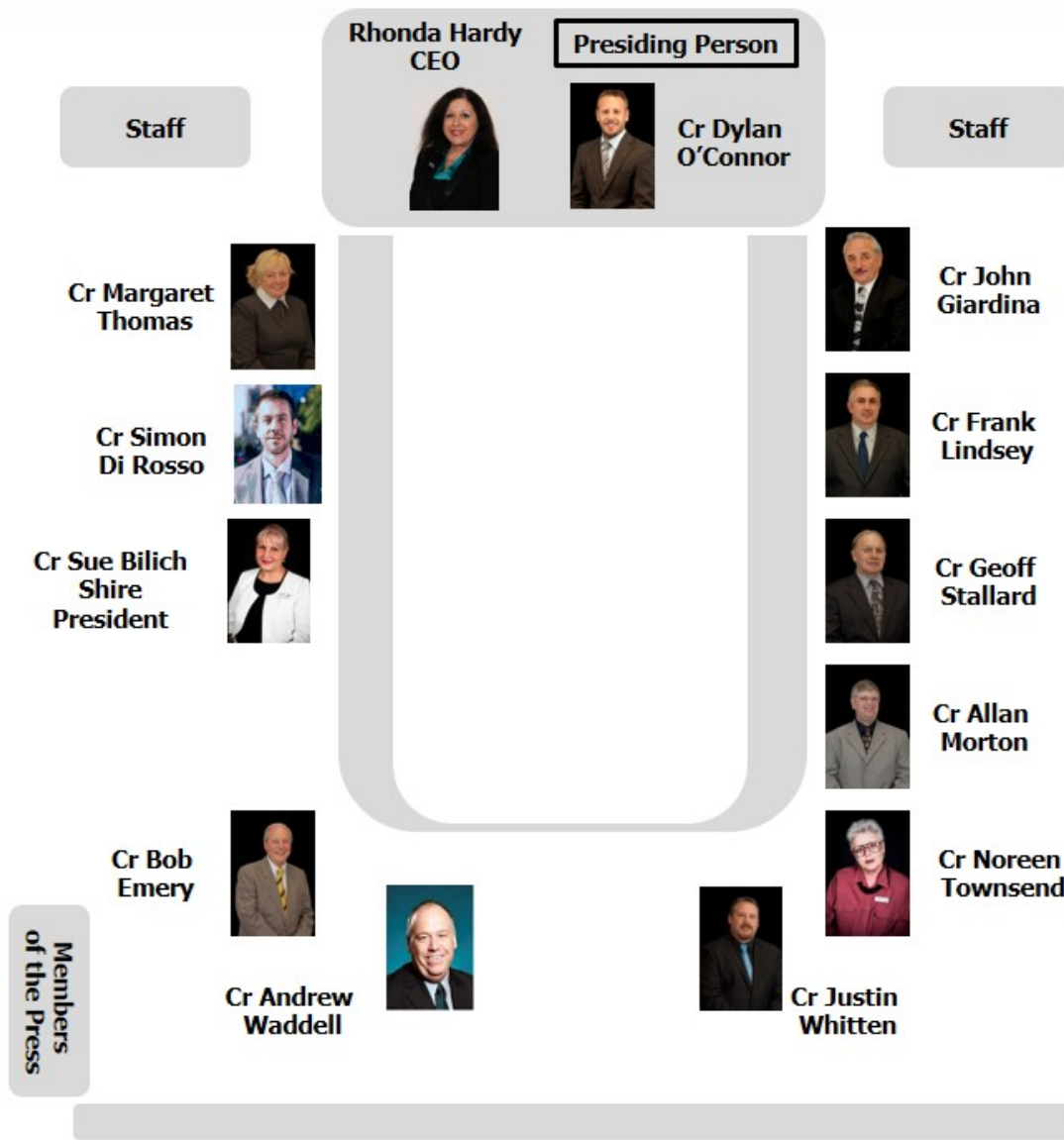


Audit & Risk Committee Meeting Procedure

1. Audit & Risk Committee is not open to the public.
2. Audit & Risk Committee has a membership of all Councillors.
3. The Committee makes recommendations only to Full Council (held on the fourth Monday of each month at 6.30pm).
4. All other arrangements are in general accordance with Council's Audit & Risk Committee Terms of Reference February 2013.

Council Chambers Seating Layout

Council Chambers



Public Gallery



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AGENDA

1.0 OFFICIAL OPENING

2.0 ATTENDANCE, APOLOGIES AND LEAVE OF ABSENCE PREVIOUSLY APPROVED

3.0 CONFIRMATION OF THE PREVIOUS MINUTES

- 3.1 That the Minutes of the Audit and Risk Committee Meeting held on 19 May 2014 are confirmed as a true and accurate record of the proceedings.

Moved:

Seconded:

Vote:

Statement by Presiding Member

“On the basis of the above Motion I now sign the Minutes as a true and accurate record of the meeting of 19 May 2014”.

4.0 CONFIDENTIAL ITEMS

- 4.1 **17. CONFIDENTIAL ITEM - Quotations for External Audit Services – Reason for Confidentiality** *Local Government Act 1995 Section S23 (c)* a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting.

5.0 DISCLOSURE OF INTERESTS

5.1 Disclosure of Financial and Proximity Interests

- a. Members must disclose the nature of their interest in matters to be discussed at the meeting. (Sections 5.60B and 5.65 of the *Local Government Act 1995*.)
- b. Employees must disclose the nature of their interest in reports or advice when giving the report or advice to the meeting. (Sections 5.70 and 5.71 of the *Local Government Act 1995*.)

5.2 Disclosure of Interest Affecting Impartiality

- a. Members and staff must disclose their interest in matters to be discussed at the meeting in respect of which the member or employee had given or will give advice.

6.0 REPORTS TO COUNCIL

Please Note: declaration of financial/conflict of interests to be recorded prior to dealing with each item.

Declaration of financial / conflict of interests to be recorded prior to dealing with each item.

13. Internal Audit Report July 2014

Previous Items	N/A
Responsible Officer	Director Corporate Services
Service Area	Internal Auditor
File Reference	
Applicant	Nil
Owner	Nil
Attachment 1	Internal Audit Report July 2014
Attachment 2	Audit Risk Register
Attachment 3	Review of Key Control Activities
Attachment 4	Review of Recommended Monitoring Activities

PURPOSE

1. To provide the Audit and Risk Committee with assurance that the financial and statutory functions of the Shire are being undertaken in accordance with the provisions of the *Local Government Act 1995*, associated regulations, Australian Accounting Standards, and the appropriateness of the local governments processes and financial systems in relation to risk management, internal control and legislative compliance.

BACKGROUND

2. The Internal Auditor examined a number of areas and conducted a review of Key Control Activities and Recommended Monitoring Activities. Items noted from this review have been included in an Audit Risk Register for monitoring and actioning by management. The Internal Audit Report for July 2014 (attachment 1) includes comment on the following:
 - Preparation of Audit Risk Register
 - Year End Stocktake
 - Review of Key Control Activities
 - Review of Recommended Monitoring Activities

DETAILS

3. The following summarises the findings and action being taken by management (Attachment 1)

Preparation of Audit Risk Register

The Audit Risk Register (Attachment 2) will be reviewed quarterly to ensure the responsible managers are monitoring or have actioned their particular items of risk. This document will be regularly updated to ensure risks are controlled, monitored and are being actioned.

4. **Review of Key Control Activities**

The main areas of concern following the review of Key Control Activities (Attachment 3) related to the need for accounting software controls that could reduce the risk of purchase requisitions exceeding approved thresholds (excluding contracts and preferred suppliers).

5. **Review of Recommended Monitoring Activities**

The majority of the recommended monitoring activities are in place and are being regularly reviewed. Certain activities are undertaken more frequently and discrepancies reported by management on a regular basis.

Management complies with legislative requirements by preparing monthly Statements of Financial Activity, and conducting a Statutory Budget Review each year, and meets its other statutory obligations as listed in the schedule of Recommended Monitoring Activities.

The main areas where controls are not in place relates to payroll and journal entries. These items have been included in the Audit Risk Register to be monitored and actioned.

STATUTORY AND LEGAL CONSIDERATIONS

6. *Local Government Act 1995*
Local Government (Financial Management) Regulations 1996
Local Government (Audit) Regulations 1996
Australian Accounting Standards

POLICY CONSIDERATIONS

7. Purchasing Policy

COMMUNITY ENGAGEMENT REQUIREMENTS

8. Nil.

FINANCIAL CONSIDERATIONS

9. The implementation of the recommendations will reduce exposure to financial risk and loss to the Shire and ensure compliance with legislative requirements.

STRATEGIC COMMUNITY PLAN

Strategic Planning Alignment

10. *Kalamunda Advancing: Strategic Community Plan to 2023*

Strategy 6.3.3 Regularly review the organisations structure and procedures in response to changing circumstances.

Strategy 6.8.4 provide effective financial services to support the Shire’s operations and to meet sustainable planning, reporting and accountability requirements.

SUSTAINABILITY

Social Implications

11. Nil.

Economic Implications

12. Nil.

Environmental Implications

13. Nil.

RISK MANAGEMENT CONSIDERATIONS

14. From a review of Key Internal Controls and Recommended Monitoring Activities the following risks were noted and included in the Audit Risk Register:

Risk	Likelihood	Consequence	Rating	Action/Strategy
Suppliers exceeding the \$100,000 threshold	Possible	Minor	Medium	Development of computer system blocks to prevent the raising of purchase orders when the \$100,000 threshold is reached. Centralisation of procurement into the finance area will reduce the risk from occurring.
Lack of independent review of master file changes occurring when a new person enters the system.	Possible	Minor	Medium	The proposed appointment for an independent person to undertake this work will provide the independent support.

OFFICER COMMENT

15. The Internal Audit Report found that most key controls are operating effectively and that monitoring activities are in place.
16. The issues identified and recommended management actions were discussed with management to mitigate risk, strengthen the internal control practices of the Shire and ensure the Shire was compliant with legislation. The items noted have been placed in the Audit Risk Register for monitoring and actioning.

Voting Requirements: Simple Majority

OFFICER RECOMMENDATION (A&R 13/2014)

That Council:

1. Notes the following recommendations included in the Internal Audit Report for July 2014 (Attachment 1).

Purchases

- Management considers the development of computer system blocks to prevent the raising of purchase requisitions once a supplier reaches the \$100,000 threshold except for tenders and preferred suppliers.

Expenses – Payroll

- An independent review should be carried out when a person is entered into the payroll system or when changes are made to master file details to ensure the information has been entered correctly.
- A person independent from entering information in the master file for bank details, setting up of new employees and making a file inactive should review master file changes.

Moved:

Seconded:

Vote:

Attachment 1

Internal Audit Report July 2014 Financial Management Review

Objectives and Scope of the Internal Audit

The objectives and scope of the internal audit is to provide the CEO and the Audit and Risk Committee with surety that the financial and statutory functions of the Shire are being undertaken in accordance with the provisions of the Local Government Act 1995, associated regulations, the Australian Accounting Standards, any other legislation, and that key controls have operated effectively during the financial year.

Amendments in 2013 to the *Local Government (Audit) Regulations 1996*, now require all reports prepared for the CEO and the Audit and Risk Committee to examine the appropriateness of the local government's system in regard to risk management, internal control and legislative compliance.

The report covers areas examined in accordance with the Audit Plan and legislative requirements and includes:

- Preparation of an Audit Risk Register
- Year-end Stock Take
- Review of Key Control Activities
- Review of Recommended Monitoring Activities

Attachments

2. Audit Risk Register
3. Key Control Activities
4. Recommended Monitoring Activities

Preparation of an Audit Risk Register

Background

Following the adoption of the Integrated Risk Management Plan, an Audit Risk Register has been prepared of audit findings by the internal and external auditors in order to action, manage and monitor identified risks (refer attachment 2).

Work Performed

All items from previous reports with identifiable risks that have not been actioned have been entered in an Audit Risk Register.

Management Response

The Audit Risk Register will be reviewed quarterly to ensure the responsible business owners of the risk have actioned their particular items. This document will be regularly updated to ensure risks are controlled, monitored and actioned.

Year End Stock Take

Background

Physical inventory held by the Shire on the 30 June 2014 was counted by Shire staff. Proper instructions were issued by the Manager Finance Services to all managers in control of inventory to ensure stock takes were conducted properly and actual quantities counted, checked and properly entered on stock sheets. Stock sheets were priced for each stock item, extended and added. Stock sheets were signed off by the responsible person conducting the counts.

Work Performed

Stock checks were conducted at the Depot, Zig Zac Centre and Hartfield Park with quantities tested against stock sheets. Pricing, extensions and additions of stock sheets were tested. Ensured consignment stock held at the Zig Zag Centre had been counted and placed on separate stock sheets and excluded from Shire stock.

Findings

Stock had been accurately counted at the locations visited and had been carried out in accordance with managements instructions.

Review of Key Internal Controls

Background

Amendments to the *Local Government (Audit) Regulations 1996* (Audit Regulations) in 2013 requires the Chief Executive Officer to report on the effectiveness of the local governments system in regard to risk management, internal control and legislative compliance; and reporting the results of the Audit and Risk Committees for consideration of that review, to the council. This report is currently being prepared for Council consideration by the 31 December 2014.

Items for inclusion in the Chief Executive Officers review of risk management, internal control and legislative compliance includes a review of key financial controls and recommended monitoring activities under Section 7 – Internal Control Framework in the Department of Local Government and Communities Accounting Manual.

Work Performed

As part of the risk management process, key control activities covering major areas of financial activity were summarised and reviewed to establish whether internal controls are in place and operating effectively to provide a level of assurance for management that the financial information is reliable (refer attachment 3).

Findings

Majority of the key internal control activities are in place and have been operating effectively. Items identified for attention have been included in the Audit Risk Register.

The main area of concern related to the need for accounting software controls that prevent or detect errors from occurring mainly in relation to procurement to prevent the processing of purchase requisitions when they reach the \$100,000 threshold for each supplier (excluding contracts and preferred suppliers).

Managements Response

Centralisation of procurement into the finance area and software applications controls will detect suppliers exceeding \$100,000 and prevent purchase requisitions being raised when the supplier threshold is reached.

Recommendation

Management considers the development of computer system blocks to prevent the raising of purchase requisitions once a supplier reaches the \$100,000 threshold except for tenders and preferred suppliers.

Risk

The risk in relation to procurement is considered high, however changes to procedures and the implementation of software application controls will reduce this risk from occurring in the future.

Review of Recommended Monitoring Activities

Background

Amendments to the Audit Regulations now requires certain monitoring activities to be performed on a routine and timely basis of certain financial areas considered to be of prime risk. Where the items are considered high risk, then the interval between monitoring should be carried out more frequently and for low risk the intervals between monitoring may be extended.

The monitoring activities will form part of the Chief Executive Officer's review of risk management, internal control and legislative compliance to be reported every two years to the Department of Local Government and Communities.

Work Performed

As part of the risk management process, recommended monitoring activities covering the main financial areas were summarised and reviewed in order to establish whether certain controls were in place and operating to provide a level of assurance of the effectiveness of financial procedures (refer attachment 4).

Findings

Majority of the recommended monitoring activities are in place and being regularly reviewed. Certain activities are undertaken more frequently and discrepancies investigated or reported by management on a regular basis.

Management complies with legislative requirements in preparing monthly Statements of Financial Activity, and conducting a Statutory Budget review each year, and meets its other statutory obligations as listed in the schedule of monitoring activities.

The key areas where controls are not in place relate to payroll and journal entries. These have been included in the Audit Risk Register to be actioned.

Managements Response

Management will be addressing the payroll items when it appoints a new person to undertake independent reviews of changes to the payroll such as changes to deductions, and when new persons are entered in the payroll system. This will include an independent review of all master file information when this information is first entered.

Journal entries are normally reviewed by either the Manager Financial Services or senior accounting staff before they are put through. Acknowledge that at times they may not be signed as evidence of review prior to processing.

Recommendation

Expenses – Payroll

- An independent review should be carried out when a person is entered into the payroll system or when changes are made to master file details to ensure the information has been entered correctly.
- A person independent from entering information in the master file for bank details, setting up of new employees and making a file inactive should review master file changes.

Journals

All journal entries should be approved before they are processed and evidenced by means of signature that this has been done. All journal entries should also be properly supported.

Risk

The risk in relation to payroll is considered high and will be actioned by October 2014. Journal entries being incorrectly processed is considered a low risk item as accounts are invariably reconciled and reviewed each month and during budget reviews.

The risk in relation to journals is considered medium to low as other measures will invariably pick up journal errors especially during budget reviews and reconciliation of general ledger accounts. However approval and ensuring journal entries are properly supported needs to be improved with evidence that the transaction has been approved before entry to prevent unauthorised changes.

Attachment 2

Audit Risk Register							
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned
Financial							Page 1
Rates R1	Regular updating of rating documentation procedures for new staff to prevent errors in data entry	Possible	Minor	Medium	Proper documentation of rates systems and procedures will be updated for new staff	Manager Financial Services	30-Jun-15
Rates R2	No external training for new staff on rates system and legislative compliance requirements.	Possible	Minor	Medium	External training on the use of the Synergy rates system and on compliance with legislation will be conducted after completion of probation period of new rates officers.	Manager Financial Services	30-Jun-15
Rates R3	Front counter having access to master file information and making unauthorised changes	Possible	Minor	Medium	IT controls established to restrict front counter staff to master file information	Manager Technology & Corporate Support	Sep-14
Assets A1	Asset management plans are up to date and support the Long Term Financial Plan (LTFP)	Possible	Minor	Medium	Asset management plans brought up to date in support of LTFP	Manager Operations	30-Jun-15
Payroll P1	There is no independent review performed when a person is entered in the payroll system to ensure information is entered accurately.	Likely	Minor	High	The proposed appointment of a new independent person to undertake this work will address this matter.	Manger Financial Services	Oct-14

Audit Risk Register							
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned
Financial							Page 2
Payroll P2	There is no independent review of audit trails for changes to master file information.	Possible	Minor	Medium	The proposed appointment of a new independent person to undertake this work will provide the independent support, and the manager will check and approve all changes to the master file.	Manager Financial Services	Oct-14
Payroll P3	There is only one person in payroll that has a full understanding of the IT system. There is a risk if this person leaves there is no other person who fully understands the payroll system.	Likely	Minor	High	A second person is being trained in the payroll system. A proposal has been developed to have an officer from Financial Services trained in the use of the Synergy payroll system.	Manager Strategy & People Services/Manager Financial Services	Dec-14
Payroll P4	Not all managers confirm a person's leave entitlement with HR before granting approval on the leave application form.	Possible	Minor	Medium	The system will not allow the processing of a leave application greater than a persons accrued entitlement. However to avoid disputes managers should check a person's entitlement with HR before approving leave entitlement forms.	All Managers	Dec-14
Purchases Tendering PU 1	Training is required for all staff involved in the procurement of goods and tendering to prevent breaches in legislation	Likely	Minor	High	Suitable training will be organised.	Manager Financial Services	Sep-14

Audit Risk Register							
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned
Financial							Page 3
Purchases Tendering PU 2	Despite controls being in place to monitor purchases from one supplier not exceeding the \$100,000 threshold, there were a small number of suppliers that exceeded this threshold.	Possible	Minor	Medium	Management considers the development of computer system blocks to prevent the raising of purchase requisitions once they get near to reaching the \$100,000 threshold to prevent the raising of a purchase order. Centralising the raising of purchase orders will reduce the risk of this happening.	Manager Financial Services	Sep-14
FBT on Motor Vehicles FBT 1	Staff with commuting rights are using shire vehicles for private use subjecting both commuting and private use to FBT	Likely	Minor	High	All staff with commuting rights are made aware of their employment obligations when using a shire vehicle. The review and update of the Light Vehicle Policy will largely address this issue.	Manager Infrastructure Services	Sep-14
Journals	Lack of evidence that entries have been approved prior to being entered.	Possible	Minor	Medium	Carried out but may not always be signed as evidence of approval. Reconciliation of accounts and budget reviews will pick up misallocations.	Manager Financial Services	Sep-14

Audit Risk Register							
Risk ID	Audit Findings	Likelihood	Consequences	Risk Rating	Management Response	Business Owner	Est Date Actioned
Records							Page 1
Records R 1	Record Keeping Plan to be reviewed and submitted to the State Records Office by 2nd October 2014	Unlikely	Minor	Low	Record Keeping Plan will be reviewed by records and submitted to Council for approval before the due date for submission	Corporate Information Coordinator	Aug-14
Governance							Page 1
Policy PO 1	The Record Keeping and Councillor Record Keeping Policy has not been reviewed in over 5 years	Unlikely	Minor	Low	These policies will be reviewed with other policies	Manager of Governance	Dec-14

Attachment 3

Risk Area	Key Control Activities	In Place (Yes)	Not in Place (No)	Comments
1. Financial Report Preparation	<ul style="list-style-type: none"> a) Employees responsible for financial report preparation are competent and adequately trained. b) All journal entries require supporting documentation. Any non-routine entries require documented approval prior to being posted. c) Accounting software used contains application controls that prevent or detect errors from occurring. 	Yes	No	<p>Three qualified accountants with local government experience and training</p> <p>By Manager Financial Services</p> <p>Items can be processed without a budget allocation or creditors processed if they exceed \$100,000 Management over-ride required. Procurement being centralised, policy reviewed to prevent breaches and creditors exceeding \$100,000.</p>
2. Payroll	<ul style="list-style-type: none"> a) Payroll staff are competent for their assigned tasks, adequately trained and supervised. b) Persons processing payroll are independent of other payroll functions, such as hiring/firing of staff, timekeeping and EFT payment. c) Approval in writing is obtained before adding new employees to payroll. d) Signed and dated approval of each employee's pay rate is documented on employee file. e) Timesheets and total hours worked are approved before being processed for payment. f) Procedures exist to ensure terminated employees are immediately removed from payroll. 	Yes		

Risk Area	Key Control Activities	In Place (Yes)	Not in Place (No)	Comments
3. Revenue	g) Payroll register is reconciled to the general ledger and reviewed by a senior officer independent of payroll.	Yes		
	h) Costs by sub program, are completed to budget	Yes		Budget Reviews conducted line by line for each a/c
	a) Rates/debtors officers are competent for their assigned tasks, adequately trained and supervised.	Yes		There is ongoing on the job training. Awaiting completion of probation before committing to IT Vision training.
	b) Monthly statements are issued to trade debtors	Yes		
	c) Rates are raised in line with the approved budgeted rate in the dollar.	Yes		
	d) The rate record is updated and reconciled monthly to the Valuer Generals Office (VGO) records.	Yes		
	e) Documented procedures are in place to ensure the VGO is informed of any building works approved.	Yes		
	f) The rates ledger is reconciled to the General Ledger.	Yes		
	g) The approved schedule of Fees and Charges is used for invoice preparation. Exceptions require documentation and approval.	Yes		
	h) Automatic or manual checks are performed on serial continuity of invoice documents.	Yes		Automatic
i) Credit note approvals are independent of accounts receivable.	Yes		Approvals are either by Business Unit managers or Manager Financial Services.	

Risk Area	Key Control Activities	In Place (Yes)	Not in Place (No)	Comments
4. Receivables/ Receipting	<p>a) Staff handling cash receipts and managing receivables are competent for their assigned tasks, adequately trained and supervised.</p> <p>b) Bank reconciliation is prepared monthly (with statements from bank) and management approval documented</p> <p>c) Customers are informed (signs, etc) that they should obtain receipts.</p> <p>d) Pre-numbered cash receipts are issued for every cash sale. Serial continuity is reviewed periodically and checked against cash deposit data.</p> <p>e) Staff required to take their leave entitlements annually.</p> <p>f) When opening mail, cheques are stamped "for deposit only" with the local government bank account number. Cheques received are listed, totalled and reviewed before deposit.</p> <p>g) All receipts cash/cheques are deposited on a regular and timely basis</p> <p>h) Reconciliation of daily deposit total to receivable posting and cash sales is prepared and reviewed.</p> <p>i) A reconciliation of aged receivables to control accounts is prepared monthly and management approval documented.</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>No</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	<p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p>	<p>Front counter, four cashiers and one supervisor</p> <p>Prepared by Finance Officer and approved by Manager Financial Services.</p> <p>It is an option they have by ticking the appropriate box.</p> <p>Serial numbers are generated by computer No independent checks carried out.</p> <p>Constantly reviewed and monitored by management</p> <p>Two to three times a week by a security contractor. Sealed cash bag countersigned by SOK staff and CBA</p> <p>Signed off by Manager Financial Services</p>

Risk Area	Key Control Activities	In Place (Yes)	Not in Place (No)	Comments
5. Purchases, payables, payments	j) Procedures exist to ensure receipts are recorded in the correct period.	Yes		Cut off procedures are in place.
	k) Significant overdue customer accounts are investigated by management and actions taken documented.	Yes		Aged analysis reviewed at month end and ant > 60 day accounts are followed up. A report to Council is prepared each month.
	a) Personnel responsible for the purchasing, shipping, receiving and payable functions are competent, adequately trained and supervised.	Yes		
	b) Management reviews outstanding cheques on period – end bank reconciliations.	Yes		Manager Financial Services
	c) Pre-numbered cheques are used EFT's are allocated a sequential number for each creditor payment and details for every number is documented. Spoilt cheques are clearly marked "VOID" and cancelled.	Yes		A register needs to be put in place documenting the serial numbers used each month.
	d) The purchasing policy clearly defines who can raise purchase requisitions/orders and to what dollar limit.	Yes		
	e) Access to purchasing, receiving, accounts payable, and inventory records is restricted to authorised personnel.	Yes		
	f) Spending limits are set by budget or individual levels of authority. These limits are monitored by the system or manually.	Yes		
	g) A list of preferred suppliers is maintained and used where possible.	Yes		

Risk Area	Key Control Activities	In Place (Yes)	Not in Place (No)	Comments
	<p>h) Controls exist to ensure corporate buying/credit cards are only issued to authorised staff, and personal purchases are not allowed.</p> <p>i) Pre-numbered purchase orders and receiving reports are used and exceptions are approved and documented.</p> <p>j) Period -end procedures exist to detect and account for unprocessed goods/service receipts.</p> <p>k) Personnel receiving goods do not perform any accounting functions.</p> <p>l) An aged accounts payable listing is reconciled to general ledger each month and exceptions investigated by management.</p> <p>m) Aged report of open orders is reviewed each month and old/unusual items are investigated.</p> <p>n) Unit prices on invoices received are checked against price lists, quotes or approved purchase orders. Invoices are checked for correct calculations, discounts, taxes and freight before payment.</p> <p>o) System has checks to prevent duplicate payments on the same order.</p> <p>p) A list of accounts for payment is prepared in line with the legislation and authorised by council or a person with delegated authority before cheques are signed or EFT is authorised.</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>		<p>Orders are generated by computer in sequential number via purchase requisition.</p> <p>Outstanding position at year end are reviewed and those not required are purged.</p> <p>Goods normally received at depot or on work site if a construction job. Goods received note signed.</p> <p>A report to Council is prepared at each month end.</p> <p>One copy of order is matched to invoice</p>

Risk Area	Key Control Activities	In Place (Yes)	Not in Place (No)	Comments
	<p>q) Signing officers examine supporting documentation to payments and document approval.</p> <p>r) All cheques must be made out to authorised vendors and cannot be made out to cash.</p> <p>s) A reconciliation of the accounts payable sub ledger to the general journal is prepared monthly and approved by management.</p> <p>t) Suppliers' statements are reconciled to accounts payable monthly and reviewed by management.</p> <p>u) Procedures exist to ensure payments are recorded in the correct period.</p> <p>v) Procedures exist to ensure all bank accounts and signatories are authorised by council.</p> <p>w) The accounting policy for when goods should be capitalised is documented and clearly understood by accounting personnel.</p> <p>x) Management regularly compares actual purchases (costs and expenses) to budgeted purchases and investigates and documents variances.</p> <p>y) Management follows up creditors queries on a timely basis.</p> <p>z) Management addresses the reasons for debit balances on creditors accounts on a timely basis.</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>No</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	<p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p> <p></p>	<p>Two officers each time.</p> <p>Endorsed please pay cash for petty cash and till floats</p> <p>Only done in May and June before year end other months if a statement is received by AP staff.</p> <p>Through powers conferred on the CEO and delegations.</p> <p>Still an ongoing process.</p> <p>Monthly and during budget reviews</p> <p>Monthly review</p>

Attachment 4

Risk Area	Recommended Monitoring Activities	In Place (Yes)	Not in Place (No)	Comments
1. Annual Budget	a) Monthly actuals are compared to budget and significant variances fully investigated and explained	Yes		Management reports reviewed by relevant managers at end of each month.
2. Financial Reporting	a) Through the presentation of the Monthly Statement of Financial Activity (SFA) to council actual results are compared to budget each month; management reviews investigated and significant variances explained.	Yes		Reported at Ordinary Council Meetings under Chief Executive Officers Report.
3. Grants	b) Through a Statutory Budget Review conducted between January and March significant variances are investigated, reviewed and explained.	Yes		Budget review for 7 months to January 2014 adopted 3/24/2014. Additional review is done in November, which is at 5 months.
	a) Management regularly reviews all grant income and monitors compliance with both the terms of grants and council's grant policy (including claiming funds on a timely basis)	Yes		Monitor and report to Council on a quarterly basis.
	b) b) Through the SFA grant revenue is compared to budget; management reviews, investigates and explains significant variances.	Yes		

Risk Area	Recommended Monitoring Activities	In Place (Yes)	Not in Place (No)	Comments
4. Receipting	a) Income is compared to budget regularly in the SFA; management reviews, investigates and explains significant variances.	Yes		Management reports reviewed by each business unit manager at month end.
5. Rates	b) Statements of accounts receivable are sent to customers enabling review.	Yes		Rate debtors depending on their election of payment. A reminder notice is issued prior to instalment due date. Sundry debtors reminder notices issued on >60 day accounts
	a) Management reviews rates ageing profile on a monthly basis and investigates any outstanding items	Yes		
	b) Actual rate revenue is compared to budget; management reviews, investigates and explains significant variances	Yes		KPI targets in Interplan which is reviewed monthly.
	c) Annual valuation update is balanced prior to the generation of rates; this is reconciled to the rate record and reviewed.	Yes		Reconciled prior to issue of rate notices for 2014/2015 Financial Year
	d) Interim valuation updates are balanced prior to the generation of interim rates; this is reconciled to the rate record and reviewed.	Yes		Each schedule is balanced by the rates reconciliation clerk.

Risk Area	Recommended Monitoring Activities	In Place (Yes)	Not in Place (No)	Comments
6. Receivables	a) Receivables and revenues are compared to budget monthly, management reviews, investigates and explains significant variances. b) Management reviews provision for doubtful debts on a regular basis. c) Management reviews debtors ageing profile on a monthly basis and investigates any outstanding items. d) trade receivables age reconciliation to the general ledger is reviewed at least monthly.	Yes Yes Yes Yes		As per above, management reports reviewed by Business Unit manager at month end. Only at year end At each month end and considered during Audit and Risk Committee at year end for those considered for write off. By Manager Financial Services
7. Bank accounts and banking	a) Management reviews journal transactions to the bank account. b) Management reviews bank reconciliations monthly to confirm large outstanding items are adequately explained and subsequently resolved.	Yes	No	Signed off by Manager Financial Services.

Risk Area	Recommended Monitoring Activities	In Place (Yes)	Not in Place (No)	Comments
8. Investments	a) Review the council investment performance regularly. b) Actual investment income compared to budget on a regular basis; management reviews, investigates and explains significant variances. c) Investment register maintained in accordance with regulations and investment policy. d) Reconciliations of investment register to general ledger routinely prepared and reviewed.	Yes Yes Yes Yes		By Manager Financial Services Report to Council as part of month end financial reporting cycle. Reviewed on an annual basis and updated when necessary.
9. Payroll	a) Management reviews employee costs against budget on a monthly basis and investigates any outstanding items. b) Each department manager performs a regular review of reports detailing all employees listed on payroll master file; all unusual items are investigated c) Salary and hourly payroll reports (including compensation and withholding information) are reviewed and approved by management before payments are approved. d) The payroll deduction table data is periodically reviewed by management for accuracy and ongoing pertinence.	Yes Yes Yes	No	Management reports are reviewed by the manager on a monthly basis. Refer above and as part of budget reviews Manager Financial Services also does an actual review at month end.

Risk Area	Recommended Monitoring Activities	In Place (Yes)	Not in Place (No)	Comments
	e) Management reviews a selection of salary sacrifice calculations for accuracy and compliance with statutory requirements; identified errors are promptly corrected. f) Each pay run is reviewed prior to authorisation for payment for consistency with prior pay runs and for abnormal items such as overtime.	Yes	No	
10. Purchasing, procurement and payments	a) Actual expenditure is compared to budget monthly; management reviews, investigates and explains significant variances. b) A list of all payments is prepared and presented monthly to the council; management reviews, investigates and explains any unusual or large payments. c) Management reviews supporting documentation before approving payments	Yes		Purchasing is now centralised within finance, which will strengthen the controls further.
11. Trade payables	a) Management reviews trade payables ageing profile on a monthly basis and investigates any outstanding items. b) Trade payables age reconciliations to the general ledger is reviewed at least monthly.	Yes		Part of month end reporting to the Council. By Manager Financial Services

Risk Area	Recommended Monitoring Activities	In Place (Yes)	Not in Place (No)	Comments
12. Fixed Assets	<p>a) Management compare actual fixed asset balance to budget; management reviews, investigates and explains significant variances.</p> <p>b) Activity recorded in fixed asset register is reviewed by management, including comparison to the capital budget.</p> <p>c) Management regularly reviews valuation of fixed assets (i.e. methodology and useful lives of assets) to ensure that assets' valuation is appropriate and in accordance with Australian Accounting Standards</p> <p>d) Management reviews depreciation rates and methodology (at least annually) to ensure rates and remaining useful lives are reasonable.</p> <p>e) Fixed asset register to the general ledger reconciliation is prepared and reviewed routinely.</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>		<p>Part of the Financial Activity Statement and reporting to the Council as part of month end.</p> <p>As part of phasing in and treatment of assets at Fair Value Plant and Equipment completed 30 June 2013, Land and Buildings completed 30 June 2014 Infrastructure due 30 June 2015</p> <p>Reviewed and signed off by Systems and Financial Accountant</p>
13. Borrowings	<p>a) Borrowings actual and interest charges are compared to budget monthly; management reviews investigates and explains significant variances.</p>	<p>Yes</p>		<p>Part of month end reporting to the Council.</p>

Risk Area	Recommended Monitoring Activities	In Place (Yes)	Not in Place (No)	Comments
14. Journals	a) All journals are independently reviewed (including check to ensure correct account allocation) and contains sufficient support information		No	Not being independently reviewed and not always have supporting information
15. General IT Risks	a) Regular IT audits performed focusing on data accuracy, retention and security. Results of these IT audits reviewed by management and action plan promptly implemented.	Yes		With the recent upgrades to the computer system, audits were carried out by Datacom and Microsoft

Declaration of financial / conflict of interests to be recorded prior to dealing with each item.

14. External Auditor – Interim Audit Report

Previous Items	N/A
Responsible Officer	Director Corporate Services
Service Area	Internal Audit
File Reference	
Applicant	Nil
Owner	Nil

[Attachment 1](#) Interim Audit Report for Year Ended 30 June 2014

PURPOSE

1. To provide the Audit and Risk Committee with assurance that the financial and statutory functions of the Shire are being undertaken in accordance with the provisions of the *Local Government Act 1995*, associated regulations, Australian Accounting Standards, Policies and that key controls are operating effectively.

BACKGROUND

2. The Interim Audit Report included;
 - i. Compliance
 - ii. Systems and Procedures
 - iii. Status of Fair Value Accounting
 - iv. Reminders

DETAILS

3. The Interim External Audit Report for the year ended 30 June 2014 contained the following findings which are detailed in (Attachment 1).

Financial Interest Register

4. Audit found one annual and primary return that was submitted incomplete.

Managements Response

5. Acknowledgement by CEO of one annual and one primary return will be remedied. This task will be placed on the checklist for the Manager Governance who will also be tasked with providing instructions to all officers with the delegated authority to complete each box when they complete their primary and annual returns.

Systems and Procedures – Month End Reconciliations

6. The Audit identified some completed month end reconciliations that had not been subject to independent verifications by a senior officer. It was also noted that a reconciliation between the Rates system and Landgate had not been completed. This matter was rectified as at 31 May 2014.

Systems and Procedures – Minutes

7. The review of Council Meeting minutes identified that authorised minutes did not show the date of authorisation.

Systems and Procedures – Waste Charges

8. The Audit identified that regular reconciliations had not been performed between the Shire's BINS database and contractor's information.

Systems and Procedures – Purchasing Procedure

9. The Audit identified some instances where significant maintenance works had been carried out valued at more than \$100,000 without tenders being called.

Status of Fair Value Accounting

10. The final items contained in the Audit report outlined the mandated requirements and timing involved in adopting Fair Value Accounting. The Shire has completed two asset classes and will complete the final asset class revaluations next year. This is in accordance with the legislative audit requirements.

Reminders

11. In addition, the Shire was issued reminders relating to reviews of:

- Risk Management;
- Internal Controls; and
- Legislative Compliance.

The deadline for the first report on these items is 31 December 2014.

12. The details of each Audit recommendation is contained within Attachment 1. Management's responses that address each Audit recommendation are also outlined in the attachment.

13. An Audit Risk Register has been developed containing the audit findings and its management response. This register will be used to monitor and review the status of audit recommendations.

POLICY CONSIDERATIONS

14. Purchasing Policy and Procedures will need to be reviewed and updated.

COMMUNITY ENGAGEMENT REQUIREMENTS

15. Nil.

FINANCIAL CONSIDERATION

16. The implementation of the recommendations will reduce exposure to financial risk and loss to the Shire, and ensure it remains compliant with legislation.

STRATEGIC COMMUNITY PLAN

Strategic Planning Alignment

17. *Kalamunda Advancing: Strategic Community Plan to 2023*

Strategy 6.3.3 Regularly review the organisation's governance structure and procedures in response to changing circumstances.

Strategy 6.8.4 Provide effective financial services to support the Shire's operations and meet sustainability planning, reporting and accountability requirements.

SUSTAINABILITY

Social Implications

18. Nil.

Economic Implications

19. Nil.

Environmental Implications

20. Nil.

RISK MANAGEMENT CONSIDERATIONS

21.

Risk	Likelihood	Consequence	Rating	Action/Strategy
Failure to adopt the audit findings and recommendations.	Unlikely	Major	Medium	Address audit findings and legislative requirements.

OFFICER COMMENT

22. The issues identified by the external auditor were discussed with management for implementation to improve the internal control framework, reduce any exposure to financial risk and ensure the Shire is compliant with legislative requirements. Management responses have been provided against each Audit recommendation. An Audit Risk Register has also been implemented so as to ensure the timely resolution of all Audit recommendations.

Voting Requirements: Simple Majority

OFFICER RECOMMENDATION (A&R 14/2014)

That Council:

1. Receives the findings and recommendations, together with the Shire's management responses, contained in the Interim Audit Report for the year ended 30 June 2014 ([Attachment 1](#)).

Moved:

Seconded:

Vote:

Attachment 1

[Interim Audit Report for Year Ended 30 June 2014](#)

Declaration of financial / conflict of interests to be recorded prior to dealing with each item.

15. Financial Management Review

Previous Items	N/A
Responsible Officer	Director Corporate Services
Service Area	Internal Auditor
File Reference	
Applicant	Nil
Owner	Nil

[Attachment 1](#) Financial Management Review 2014

PURPOSE

1. To examine the appropriateness and effectiveness of the financial management systems and procedures of the Shire on behalf of the Chief Executive Officer (CEO) as required by *Local Government (Financial Management) Regulation 5(2)(c)*.

BACKGROUND

2. There is a statutory requirement for the CEO to undertake a review 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 to report to the local government the results of those reviews. The last review was completed in August 2010.
3. The Internal Auditor has reviewed the financial management systems of the Shire for the period May 2013 to June 2014 and summarised his findings, management's responses and recommendations in his report (Attachment 1).
4. An Audit Risk Register has been established that will include details of audit findings and associated management responses. This will enable timelier monitoring of audit findings.

DETAILS

5. Regular reports to the Audit and Risk Committee have identified a number of areas requiring attention. These items have been included in an Audit Risk Register for control, monitoring and actioning by management and in the Financial Management Review.

STATUTORY AND LEGAL CONSIDERATIONS

6. *Local Government Act 1995*
Local Government (Financial Management) Regulations 1996
Local Government (Functions and General) Regulations 1996
Local Government (Administration) Regulations 1996
State Records Act 2000
Fringe Benefits Tax Assessment Act 1986
Australian Accounting Standards

POLICY CONSIDERATIONS

7. Code of Conduct (ADM 5)
Purchasing Policy (PUR 1)
Investment Policy
Corporate Credit Card Policy

COMMUNITY ENGAGEMENT REQUIREMENTS

8. Nil.

FINANCIAL CONSIDERATIONS

9. The implementation of an Audit Risk Register and regular reviews of key controls will reduce the exposure to financial risk and financial loss to the Shire and ensure it complies with legislative requirements.

STRATEGIC COMMUNITY PLAN

Strategic Planning Alignment

10. *Kalamunda Advancing: Strategic Community Plan to 2023*

Strategy 6.3.3 regularly review the organisations structure, policies and procedures in response to changing circumstances.

Strategy 6.7.2 regularly review services, business processes and standards offered by the Shire to ensure they meet community needs.

SUSTAINABILITY

Social Implications

11. Nil.

Economic Implications

12. Nil.

Environmental Implications

13. Nil.

RISK MANAGEMENT CONSIDERATIONS

14.

Risk	Likelihood	Consequence	Rating	Action/Strategy
Rates- proper documentation and training required	Possible	Minor	Medium	Proper documentation and training for new staff
Rates – Front Counter having access to Master File information	Possible	Minor	Medium	IT controls established to restrict Front Counter staff to Rates Master File information
Asset Management Plans are not up to date	Unlikely	Minor	Low	Asset Management Plans brought up to date
Record Keeping Plan not reviewed by due date	Unlikely	Minor	Low	Record Keeping plan will be reviewed by end of August 2014
Payroll – no independent review when new person entered into system or changes to Master File information	Likely	Minor	High	The proposed appointment of a new person will address this matter
Payroll/ Provisions, not all managers confirm an individual's entitlement with HR before approval	Possible	Minor	Medium	System will not allow processing, however to avoid disputes this will be confirmed
Payroll – There is only one person that fully understands the IT system	Likely	Minor	High	A second person is being taught how to use the payroll system
Procurement – training is required to prevent breaches in legislation	Likely	Minor	High	Suitable training will be organised

OFFICER COMMENT

15. The Financial Management Review includes a number of findings and recommendations that are being acted upon and included in an Audit Risk Register for attention and monitoring by management.

Voting Requirements: Absolute Majority

OFFICER RECOMMENDATION (A&R 15/2014)

That Council:

1. Receives the findings and recommendations contained in the Internal Auditor's Financial Management Review ([Attachment 1](#)).

Moved:

Seconded:

Vote:

Attachment 1

[Click Here - Financial Management Review 2014](#)

Declaration of financial / conflict of interests to be recorded prior to dealing with each item.

16. Debtor Write Off to 30 June 2014

Previous Items	N/A
Responsible Officer	Director Corporate Services
Service Area	Finance
File Reference	
Applicant	Nil
Owner	Nil
Attachment 1	Sundry Debtors Services Write Off to 30 June 2014

PURPOSE

1. To consider the write off of debts identified as uncollectable (Attachment 1).

BACKGROUND

2. The Shire has in place a debt collection procedure for sundry debtors. This involves follow up reminders, phone calls and ultimately referral to Dun & Bradstreet for an initial free reminder service before commencing formal collection proceedings.
3. In some cases the Shire can also choose to review the debt incurred or recognise the debt is not recoverable for various reasons and in these cases will recommend they be written off.

DETAILS

4. A total write off amount of \$910.51 has been identified and is shown as Sundry Debtors Services Write Off.
5. The reason for the write off falls into two broad categories:
 - Minor amounts economically unviable to pursue legally; and
 - Uncollectable amounts

The debts recommended to write off relate to both categories.

6. The Shire's Auditors, UHY Haines Norton, will be reviewing all debts which remain uncollected for a period of more than three months during the final audit commencing 20 August 2014. The Auditors will need to be satisfied that whilst the long outstanding debtors are not significant, no further action can be taken to recover the amounts.

STATUTORY AND LEGAL CONSIDERATIONS

7. As these debtors relate to monies owed to the Shire, the provision of Section 6.12(1)(c) of the *Local Government Act 1995* is applicable.

POLICY CONSIDERATIONS

8. Nil.

COMMUNITY ENGAGEMENT REQUIREMENTS

9. Nil.

FINANCIAL CONSIDERATION

10. The total budget allocation for doubtful and bad debts for 2013/14 is \$5150.00.

STRATEGIC COMMUNITY PLAN

Strategic Planning Alignment

11. Strategic Community Plan to 2023 - Kalamunda Advancing

6.8.4 Provide effective financial services to support the Shires operations and to meet sustainability planning, reporting and accountability requirements.

SUSTAINABILITY

Social Implications

12. Nil.

Economic Implications

13. Nil.

Environmental Implications

14. Nil.

RISK MANAGEMENT CONSIDERATIONS

15.

Risk	Likelihood	Consequence	Rating	Action/Strategy
The write off may create a precedence for other debtors to not pay their debts to the Shire	Unlikely	Minor	Low	Shire administration have a robust debt collection strategy in place and where necessary take legal action to ensure its debts are settled.

OFFICER COMMENT

16. The Shire has a robust debt management strategy in place to ensure that it achieves a high collection rate. In particular, processes relating to library debts have been strengthened which has proved highly effective with no write offs determined for 2013/14 in this operational area. The debts requested for write off relate to infringements issued for which it has been deemed un-economical to pursue the debts further.

Voting Requirements: Absolute Majority

OFFICER RECOMMENDATION (A&R 16/2014)

That Council:

1. Authorises the write off of Sundry debts totalling \$910.51 (Attachment 1).

Moved:

Seconded:

Vote:

Attachment 1

Invoices 2013/14 - Consideration for Write-Off

Debtor No.	Debtor Name	\$	Notes
27100	FAYYAZ AHMAD RAJA	317.63	Ranger services - slashing at property. Registered with rates as debtor has property with rates owing - see A210225. Information received from Dun & Bradstreet confirms that the debtor has no other assets worth pursuing. The sundry debt cannot be attached to the land and remains an un-secured debt to the Shire.
72310	COLIN GROW	226.88	Ranger services - slashing at property. Registered with Dun & Bradstreet - no point of contact for debtor.
96086	GEES PIZZA	183.00	Health Services - surveillance fee. Business closed - request by Health Services to write off debt
112960	MEAT WAYNE'S WAY	183.00	Health Services - surveillance fee. Regular contact with debtor but no payment - pending referral to Dun & Bradstreet. Invoice would be reduced to \$91.50 if debtor contacted HS as only had one inspection.
		910.51	

Declaration of financial / conflict of interests to be recorded prior to dealing with each item.

17. CONFIDENTIAL ITEM - Quotations for External Audit Services

Reason for Confidentiality – *Local Government Act 1995 S5.23 (2)(c)* a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting.

Previous Items	N/A
Responsible Officer	Director Corporate Services
Service Area	Internal Auditor
File Reference	
Applicant	Nil
Owner	Nil

Confidential Attachment 1 Grant Thornton Quotation
Reason for Confidentiality – *Local Government Act 1995 S5.23 (2)(c)* a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting.

Confidential Attachment 2 UHY Haines Norton Quotation
Reason for Confidentiality – *Local Government Act 1995 S5.23 (2)(c)* a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting.

Confidential Attachment 3 Qualitative Comparative Assessment of Audit Practices – Perth
Reason for Confidentiality – *Local Government Act 1995 S5.23 (2)(c)* a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting.

Confidential Attachment 4 Summary of Audit Fees
Reason for Confidentiality – *Local Government Act 1995 S5.23 (2)(c)* a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting.

This report has been circulated to Councillors for discussion at the Audit & Risk Committee Meeting. This Committee is not open to the public.

**7.0 URGENT BUSINESS APPROVED BY THE PERSON PRESIDING OR BY
DECISION**

8.0 CLOSURE