MOORE

Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls

Shire of Laverton
May 2021

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1.0   Engagement Overview

1.1.   Scope of Services

The Shire of Laverton (Shire) engaged Moore Australia to undertake a review service with a dual purpose, firstly to provide the basis for a report by the CEO to the Audit Committee on the appropriateness and effectiveness of the Shire's risk management, internal controls and legislative compliance systems and procedures as required by the *Local Government (Audit) Regulations 1996* Regulation 17. Secondly, a review of financial management systems to assess the appropriateness and effectiveness of these systems and procedures, as required by *Local Government Financial Management Regulations* 5(2)(c).

For efficiency, the reviews were undertaken simultaneously, and the results contained in this single report. Financial management systems and procedures are considered a subset of broader overall risk management, legislative compliance and internal controls. The matters examined in respect of financial management systems are detailed in Appendix A and where opportunities for improvement were identified, they are reported within the relevant section of the risk management, legislative compliance and internal controls framework design, implementation and evaluation sections of this report.

The results of the risk management, legislative compliance and internal controls review are to be reported by the CEO to the Audit Committee. The Audit Committee is required to review the CEO's report and on-report to the Council. The report from the Audit Committee to the Council is required to have attached a copy of the CEO's initial report to the Audit Committee.

1.1.1.   Procedures – Financial Management Review

Our procedures for the Financial Management Review encompassed a review of the Shire's financial systems including, but not necessarily limited to:

- Collection of money owed;
- Custody and security of money held;
- Maintenance and security of financial records;
- Accounting for revenue and expenses;
- Accounting for assets and liabilities;
- Accounting for trust transactions;
- Authorisation of purchases;
- Authorisation of payments;
- Maintenance and processing of payroll;
- Stock controls and costing records;
- Preparation of budgets and budget reviews; and
- Preparation of financial reports.

Our procedures and approach have been developed over a number of years taking into account our extensive local government background and seeks to examine financial systems and procedures in use.

The financial management review does not examine systems and procedures which are non-financial in nature and did not specifically test for legislative breaches.

1.0　Engagement Overview

1.1.2.　Procedures – Risk Management, Legislative Compliance and Internal Controls Review

Our procedures for the systems and procedures review, as required by regulation 17 of the *Local Government (Audit) Regulations 1996*, on behalf of the CEO encompassed the following services:

- A review of the risk management systems policies, procedures and plans in place at the Shire;

- Evaluate the non-financial/operational internal control systems and procedures at the Shire;

- Assess systems and procedures for maintaining legislative compliance; and

- Prepare a report of matters identified during the review to assist the CEO assess the appropriateness and effectiveness of the relevant systems and procedures in accordance with regulation 17 of the *Local Government (Audit) Regulations 1996*.

To undertake these procedures, we applied the following methodology:

- Conduct onsite interviews with key personnel involved in risk management, financial management and the Shire's adherence to legislative requirements;

- Identify the extent of commitment and mandate to Risk Management principles, using AS/NZS ISO 31000:2018 as the framework, within the overall risk management framework;

- Review each component of risk management, legislative compliance and internal controls after considering the overall risk environment, governance structure and internal control environment;

- Assess the gaps, if any, between the current processes and the expected risk management, internal controls and legislative compliance systems and procedures and recommend suggested improvements; and

- Report on the appropriateness and the effectiveness of current systems and procedures.

The review was a high-level review given the scale, variety and breadth of non-financial activities and considered, as a minimum, the issues identified by the Department of Local Government, Sport and Cultural Industries to Local Government Operational Guideline Number 09 – Audit in Local Government (listed in Appendix E).

1.2.　Legislative Changes

Our review was undertaken in January 2021, at this time changes to regulations were being progressively implemented following royal assent to the *Local Government Legislation Amendment Act 2019* on the 5 July 2019. This report and findings reflect compliance and matters identified against legislation current at the time of the review.

2.0   Review Context

2.1.   Review Context - Shire of Laverton

Understanding the external and internal context in which the Shire operates, relevant to financial management, risk, the internal control environment and its legislative compliance obligations, as it seeks to achieve its overall strategic objectives is important to the review of the related systems and procedures.

The external and internal environmental influences identified during the review are set out below:

External Influences	Internal Influences
Increasing community expectations in relation to service levels and delivery.	The objectives and strategies contained in the current Strategic Community Plan.
Rapid changes in information technology, changing the service delivery environment.	The timing and actions contained in the current Corporate Business Plan.
Increased compliance requirements due to Government Policy and Legislation.	Organisational size, structure, activities and location.
Cost shifting by the Federal and State Governments.	Human resourcing levels and staff retention.
Climate change and subsequent response.	The financial capacity of the Shire.
Reducing external funding for infrastructure and operations.	Maintenance of corporate records.
Demand for resourcing due to potential expansion in service delivery.	Allocation of resources to achieve strategic outcomes.
Changes in mining and pastoral practices and the associated social impacts.	COVID 19 and impact on the internal environment
COVID 19 and impact on the external environment	

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3.0 Review Summary

3.1. Financial Management

The Shire has a number of financial management system controls to cover the wide variety of operations undertaken. Council has responsibility for the adoption of the annual budget and annual report, review of the monthly statement of financial activity and review of the monthly list of payments. Responsibility for the financial management of the Shire rests with the CEO, as detailed under *Financial Management Regulation 5(1).*

3.1.1. Appropriateness

Considering the size, resources, variety of operations and the context in which the Shire operates, documented internal control procedures relating to financial management systems, are considered largely appropriate as a means of maintaining a high level of control over the financial management of the Shire. Our assessment as to the appropriateness is subject to identified weaknesses being addressed, and provided internal control procedures are routinely and consistently applied.

Weaknesses were identified with current controls and procedures, these are explained within Section 6.0 Framework Design of this report.

3.1.2. Effectiveness

Considering the results of other elements of financial management systems and processes where documented and routinely tested, the current practices undertaken by the Shire of Laverton may be considered generally effective. Our assessment as to effectiveness is subject to the implementation of the improvements highlighted in Section 7.0 Framework Implementation of this report.

Whilst generally considered effective, weaknesses were identified where internal controls are not considered effective. These are explained within Section 7.0 Framework Implementation of this report.

3.1.3. Improvements

Details of recommended improvements to the current financial management, procedures and systems for the Shire are set out within the framework design and implementation sections of this report. Key improvements to the appropriateness and effectiveness of these procedures and internal controls include:

- Stock controls;

- Security controls for cash handling;

- Record keeping practices;

- Investment register;

- Contracts and agreements;

- Fixed asset disposals;

- Change of banking and creditor master file;

- Accounting for the Trust fund;

- Procurement controls, including tender assessment; and

- Payroll controls.

3.0 Review Summary

3.2. Risk Management

The Shire initially developed its formal risk management processes with the adoption of an updated Risk Management Policy in December 2018. The policy document is support by a Risk Management Strategy and forms the basis for risk management activities within the Shire.

3.2.1. Appropriateness

Currently, a documented entity wide Risk Management Policy and Strategy is in existence to guide the implementation of risk management throughout the Shire. The current policy and strategy are aligned to the current Risk Management Standard, AS/NZ ISO 31000:2018. The updates to this Standard in February 2018 were to highlight the leadership of top management and integration of risk management in organisations, along with the iterative nature of risk management.

Considering the size, resources, operations and the context in which the Shire operates, the current documented risk management policy and strategy aligned to ISO 31000:2018 is considered appropriate as a means of uniformly supporting decision making and documenting the organisation's response to risks.

3.2.2. Effectiveness

The current risk management policy and strategy reflects the Shire's commitment to organisation wide risk management principles, systems and processes aimed at optimising the achievement of objectives, embedding controls to mitigate risk, improving corporate governance and planning for continuity of critical operations. Further development and consistent application of risk management systems and processes are required to be implemented throughout the organisation in order for risk management processes and procedures to be considered effective.

3.2.3. Improvements

Improvements to risk management practices and policies are detailed within the framework design and implementation sections of this report, with key matters summarised as follows:

- Align risk management activities and practices throughout the organisation and apply consistently in accordance with the Shire's policy and strategy;

- Review contractor insurance to ensure they are in place;

- Undertake a comprehensive ICT security review; and

- Ensure appropriate management of operational risks for high risk areas.

3.0 Review Summary

3.3. Internal Control

A formal internal control policy was adopted by the Shire in March 2018. A documented policy to guide the Shire is intended to assist to ensure an iterative approach to evaluating the internal controls, systems and procedures, as well as providing a mechanism whereby regular review and updates occur.

3.3.1. Appropriateness

Considering the size, resources, operations and the internal/external context in which the Shire operates, the internal control framework, procedures and systems as described to us are considered appropriate for certain areas of operations. A number of internal controls were identified where these controls are not considered appropriate, as described with section 7.0 Framework Implementation of this report.

3.3.2. Effectiveness

Considering the overall results of monitoring and compliance practices undertaken by the Shire of Laverton, the current internal control framework, procedures and systems (where documented and routinely tested) may be considered effective. Our assessment as to effectiveness is subject to the implementation of the improvements detailed at Section 7.0 Framework Implementation of this report.

3.3.3. Improvements

Recommended improvements to the current internal control framework, procedures and systems are detailed later within the framework design and implementation sections of this report with selected key improvements to internal controls summarised as follows:

- Update the current internal control policy, promoting a risk-based approach to the development and maintenance of documented internal controls and procedures. This suggestion is intended to support a continual assessment of appropriate controls throughout the organisation by identifying the need for new controls (based on risk) and ensuring existing outdated and unnecessary controls are discontinued;

- Development, testing and maintenance of an IT Disaster Recovery Plan;

- Development and maintenance of a Business Continuity Plan;

- Key internal controls should be documented either as procedures, checklists or workflow diagrams;

- Define procedures to manage changes to internal controls;

- Develop and maintain a number of registers to improve existing internal controls as discussed at Section 8.2 of this report;

- Undertake appropriate training at induction and at regular intervals to ensure staff are fully aware of, and understand, relevant internal controls; and

- Implement financial management control recommendations discussed at Section 3.1 of this report.

3.0 Review Summary

3.4. Legislative Compliance

A legislative compliance policy was adopted by Council in March 2018 to communicate expectations of Council in relation to legislative breaches and regulatory compliance. Reliance in delivering the policy objectives is largely dependent upon the knowledge and experience of senior staff and their individual desire to achieve high levels of legislative and regulatory compliance.

3.4.1. Appropriateness

Considering local governments generally maintain a low risk appetite for breaches of legislation, a documented legislative compliance policy is considered appropriate and good governance. Whilst reliance on experienced senior staff for legislative compliance is also considered appropriate it carries high risk where the number of experienced senior staff is low.

3.4.2. Effectiveness

Maintaining legislative compliance is heavily reliant on the knowledge, experience and commitment of senior staff, to identify and prevent breaches of legislation. As a consequence, staff turnover, competing priorities and variations in workloads may have a significant negative impact on legislative compliance. Therefore, one of the most effective controls in maintaining legislative compliance is a motivated, stable, experienced and knowledgeable senior management group.

Instances of non-compliance with legislative requirements were identified during our review. Apart from the identified breaches of legislation, and in the instances where the effectiveness was able to be assessed, the current legislative compliance framework is considered effective.

3.4.3. Improvements

Improvements to the current legislative compliance framework, are set out later within this report and summarised as follows:

- Review and improve legislative compliance frameworks for operations within highly regulated environments, such as the aerodrome;

- Further development and approval of authorised checklists for functions which require a high level of legislative compliance; and

- Develop and maintain a staff training matrix and coordinate across the Shire. A risk based training matrix should help ensure staff with the responsibility for preventing, identifying and reporting breaches of legislation, are offered relevant training to ensure their knowledge of legislative requirements is maintained and qualifications are maintained and up to date where required.

4.0 Methodology

4.1. Review Methodology – Financial Management Review

The objective of this review is to assist the CEO of the Shire of Laverton to discharge responsibilities in respect to Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996 (as amended)*.

In carrying out our review, we examined documented policies / procedures, undertook walkthroughs of key systems and procedures and performed limited detailed testing procedures to identify weaknesses in the financial management system and report to the CEO on the appropriateness and effectiveness of the control environment within the Shire, as required by regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.

To this end we examined the following financial systems and procedures of the Shire.

- Bank reconciliations and petty cash management;

- Trust fund;

- Receipts/receivables;

- Rates;

- Fees and charges;

- Purchases, payments and payables (including purchase orders);

- Payroll;

- Credit card procedures;

- Fixed assets (including acquisitions, disposal and depreciation);

- Cost allocations;

- Administration allocations;
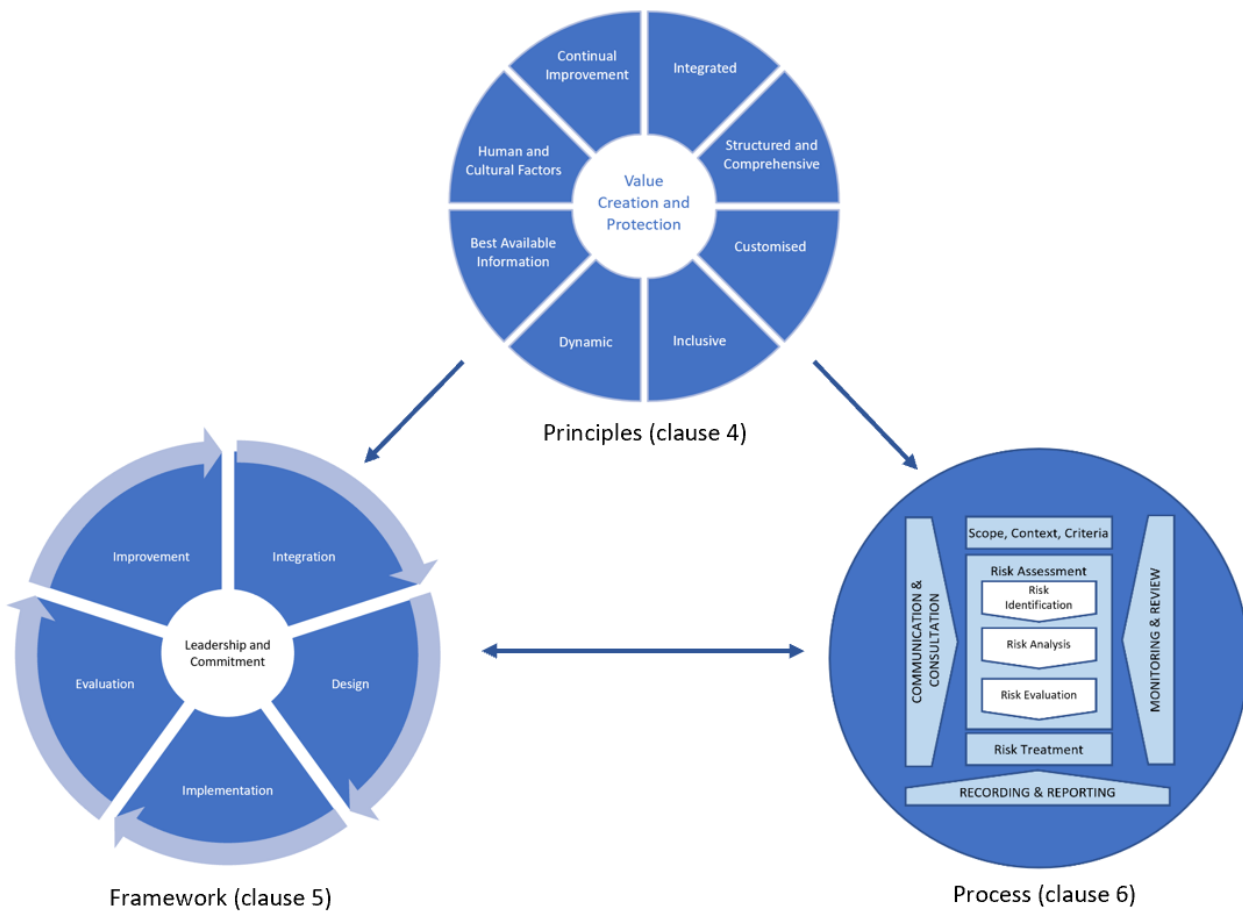
- Financial reports; and

- Budget.

4.0 Methodology

4.2. Review Methodology – Risk Management, Legislative Compliance and Internal Controls

The primary goal of this review is to assist the CEO to establish the appropriateness and effectiveness of the Shire systems and procedures in relation to risk management, legislative compliance and internal controls.

Internal controls are designed to treat risks and form part of the risk management process. Non-compliance with legislation is one of the risks that would usually be identified as a consequence of applying a risk management process.

The Australian Standard for Risk Management, ISO 31000:2018(E), identifies three components in the application of risk management, being *Principles, Framework* and *Process,* as set out in Diagram 1 below.

Diagram 1. Risk Management Principles, Framework and Process

Principles (clause 4)

Framework (clause 5)

Process (clause 6)

Source: Australia/New Zealand Standard ISO 31000:2018

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4.0 Methodology

4.2. Review Methodology – Risk Management, Legislative Compliance and Internal Controls (continued)

In undertaking our review, we have applied the three ISO 31000:2018 framework components, as set out on the previous page, to the review topics (risk management, internal controls and legislative compliance). This involves a process incorporating the five risk management framework components, *Integration, Design, Implementation, Evaluation and Improvement,* into the review of systems and processes:

- Identify the extent of leadership and commitment to the principles;

- Assess the extent of integration of risk management within the Shire;

- Assess the design of the current framework through an understanding of the Shire and the context within which it operates (risk management, legislative compliance and internal controls) after considering the overall context in which the review occurs;

- Assess the implementation of the current framework;

- Assess the extent of evaluation of the current framework and its effectiveness in supporting the Shire's objectives;

- Assess the current framework and improvements to the suitability, adequacy and effectiveness of the framework;

- Review the current process for the Shire's systematic application of policies, procedures and practices to the activities of communicating and consulting, establishing context, assessing, treating, monitoring, reviewing, recording and reporting risk, internal controls and legislative compliance; and

- Report on the appropriateness and effectiveness of current systems and procedures.

This evaluation is based on interviews with key staff, review of requested documentation listed in the Appendices and reference to any external audit reports or reviews previously conducted.

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5.0　Appropriate Framework

5.1.　Risk Management, Internal Control and Legislative Compliance

The following framework was identified as being appropriate for risk management, internal control and legislative compliance for the Shire of Laverton, after consideration of the current internal and external influences, detailed in Section 2.1.

Diagram 2. Risk Management, Internal Control and Legislative Compliance Framework
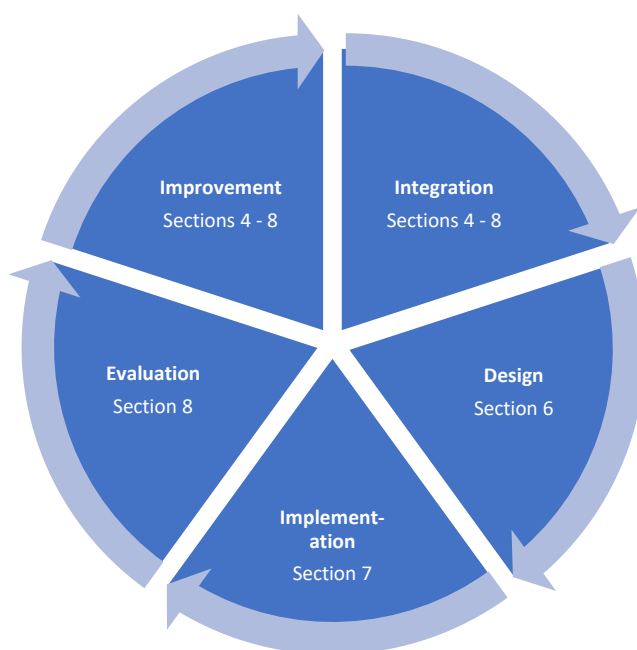
Source: Australia/New Zealand Standard ISO 31000:2018

A high-level review of risk management systems, internal controls and legislative compliance was undertaken which precluded detailed testing in all areas.

The results of our review, as detailed on the following pages, are set out with reference to the structure of the above framework. We assessed the following areas:

Design	Implementation	Evaluation
6.1 Strategic Plans	7.1 Strategic and Operational Plans	8.1 Council and Audit and Risk Committee
6.2 Council Policies	7.2 Operational and Financial Procedures	8.2 Strategic and Operational Registers
	7.3 Human Resource Management and Practices	8.3 Annual Compliance Audit Returns
	7.4 Insurance	8.4 Complaint Handling
		8.5 Audit Practices
		8.6 Reviews required by the CEO

Integration along with Leadership and Commitment were assessed within each of the elements of the framework.

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6.0 Framework Design

6.1. Strategic Plans

The Shire has adopted two key strategic documents, the Strategic Community Plan 2016-2026 and the Corporate Business Plan 2019-2023. The Strategic Community Plan commenced a major review during 2020, which remained ongoing at the time of our review. These plans identify the Council's organisational objectives and key outcomes, as the Shire progress on its stated vision "*The Shire of Laverton will strive to work with the community to fulfil their needs and support their aspirations while acting with fairness and demonstrating leadership.*"

The Strategic Community Plan recognises the community's aspirations and values through the following key focus areas:

1. **Social:** Proud, spirited, harmonious and connected community;

2. **Economic:** Prosperous local economy attracting businesses, opportunities and people;

3. **Environment:** Welcoming and safe natural and built environment; and

4. **Civic Leadership:** Responsible financial management and governance, leading an empowered community.

In seeking to achieve its objectives, the Shire of Laverton faces both inherent and business risks. Whilst striving to fulfil expectations, it is also expected to meet compliance with numerous legislative requirements. To manage these risks, the Shire has established various processes, systems and controls.

The Strategic Community Plan references strategic challenges which might affect the Shire, and the community's aspirations / vision, and the projects and programs which will be implemented through the plan.

This review examines the appropriateness and effectiveness of the organisation's risk management systems, internal controls and legislative compliance in the context of the Shire striving to achieve its stated objectives.

6.0 Framework Design

6.2.   Council Policies

Whilst the operations of the Shire are the responsibility of the CEO, the Council is responsible for setting the framework for operations via adopted Council policies. These policies represent an overarching framework relevant to risk management, internal controls and legislative compliance and have been reviewed for appropriateness and effectiveness.

In general, Council policies are well formulated and provide clear guidance regarding Council's position on certain matters. A list of policies reviewed is provided in Appendix B - Council Policies Examined. The table below details matters identified and associated suggested improvements.

Policy	Purpose / Goal	Matters Identified / Improvements
02.06 Tender Procedures	Policy to define operating procedures to be followed to support compliance with the *Local Government Act 1995* and *Local Government (Functions and General) Regulations 1996.*	The policy statement point 8 makes reference to tenders being opened in the presence of the Chief Executive Officer and preferably at least one other officer, which does not comply with legislation.
		Improvements: Review and update the policy to require at least two employees of a local government to be present when opening tenders, or one employee and at least one person authorised by the CEO to open tenders as required by Regulation 16(3)(a) of the *Local Government (Functions and General) Regulations 1996.*
02.11 Corporate Credit Cards - Guidelines	Policy to regulate the use of corporate credit cards issued to employees.	The policy requires corporate credit cards to be securely stored with a register to be maintained to sign out credit cards when they are required to be used. This practice does not appear to occur and credit cards are maintained and held by the cardholders.
		Improvement: Either implement controls for compliance with Council policy, or alternatively review and update the policy with appropriate controls and ensure these are applied and maintained.
02.18 Purchasing	Policy providing a best practice approach and procedures for purchasing. Ensure consistency for all purchasing activities that integrates with all operational areas. Requires compliance with the *Local Government Act 1995* and *Functions and General Regulations 1996.*	The policy provides limited direction regarding contract variations and extensions awarded or against a written specification not awarded by tender. Extension of contracts and associated price changes are also not covered by the policy. For contracts awarded by tender, legislation provides minimum requirements.
		Improvements: Amend the Policy to provide the following: • Purchasing requirements for the issuing of contract variations and extensions for contracts not awarded by public tender. Consideration should be given to circumstances where the contract value increase over a policy threshold level, due to the variation or extension.

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6.0 Framework Design

Policy	Purpose / Goal	Matters Identified / Improvements
02.22 Internal Control	Policy to evidence Council's commitment to Internal Controls and their importance to the organisation.	The policy provides limited direction to support an internal control framework designed to promote compliance, encourage effective and efficient operations and to protect the Shire's assets.
		Improvement: Update the current internal control policy, promoting a risk-based approach to the development and maintenance of documented internal controls and procedures. This suggestion is intended to support a continual assessment of appropriate controls throughout the organisation by identifying the need for new controls (based on risk) and ensuring existing outdated and unnecessary controls are discontinued.
02.24 Corporate Credit Card Usage	Policy to regulate the use of corporate credit cards issued to employees.	The policy requires the Shire President to approve and sign the CEO's credit card statement. Under the *Local Government Act 1995* the Shire President has no administrative authority and as such no authority to approve the CEO's credit card statement.
		The policy contradicts provisions within policy 02.11 Corporate Credit Cards – Guidelines, and may cause confusion with compliance requirements.
		Improvement: Review the policy/procedure to amend the authorisation process of the CEO's credit card. Periodic reports to Council should be undertaken acknowledging transactions as having been made and authorised by the CEO.
		Update the policy to ensure contradicting provisions with policy 02.11 Corporate Credit Cards – Guidelines are removed, or alternatively consider reviewing and consolidating the two policies with appropriate controls and ensure these are applied and maintained.
03.10 Attendance of Councillors and Staff at Conferences, Seminars, Training Courses etc	Policy to set out criteria to determine expenses to be met by Council for travel or attendance at conferences and training seminars.	The policy sets out the rate for allowances and reimbursements for elected members when attending conferences, seminars and training. The current policy does not align with the provisions of the most recent determination published by the Salaries and Allowances Tribunal (SAT) which sets out the reimbursement rate and allowances where elected members are discharging their duties. The policy also requires Council approval prior to any staff member or elected member attending any conference, however it appears this practice does not occur. Legislation provides for requirements for elected members to attend events.
		Improvement: Review and amend the policy to correctly reflect allowances and reimbursements for elected members permitted under the current SAT determination. The policy should also be reviewed to reflect current operational procedures in relation to approvals for attendance by staff at conferences.

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6.0 Framework Design

Policy	Purpose / Goal	Matters Identified / Improvements
03.18 Significant Accounting Policies	Policy to guide the Shire's financial framework in addition to the Australian Accounting Standards (AAS).	Formalisation of accounting policies may result in a conflict with information prepared in annual financial reports required to be prepared in accordance with AAS and the *Local Government Financial Management Regulations 1996,* given accounting policies with the budget and annual financial report may differ when prepared at the same time but relate to different financial years.
		Improvement: Ideally, to avoid conflict with the standards and legislation the policy should not include legislative and standards requirements and should enhance these requirements or provide a policy decision where an accounting standard allows a policy choice. Consider rescinding the policy or reviewing and amending the policy accordingly.
03.11 Reimbursement of Expenses / Authorisation to Incur Expenditure	Policy to set out conditions for reimbursement of expenses by Councillors and staff.	The policy notes a requirement to reimburse incidental expenses of a personal or private nature. These types of expenses should not be incurred on behalf of Council at all. In its current form, the policy may lead to non compliance with legislation and other policies.
		Improvement: Review and update the policy to comply with legislation and provisions within the most recent determination published by the Salaries and Allowances Tribunal (SAT), and to align with other Council policies.
05.09 Staff – Senior Employees	Policy to define senior employees within the Shire.	One of the position titles defined as a senior employee within the policy does not reflect the current staff structure.
		Improvement: Review and amend the policy to correctly reflect position titles as per current staff structure.
05.25 Grievance and Complaints Handling	Policy to provide guidance to the Shire's approach to managing complaints and grievances.	The policy provides limited direction to ensure complaints are dealt with and resolved in a timely manner. It also does not adequately provide for the handling of complaints against the CEO.
		A procedure for management and resolution of workplace grievances and complaints is referenced within the policy, however a copy of the procedure was not available for our review. Restricted access to such a procedures limits its effectiveness for its intended purpose.
		Improvement: Establish a complaints register (separate to the register required by section 5.121(1) of the *Local Government Act 1995)* or procedure to ensure complaints are monitored, managed and dealt with. Review and update the policy to provide a mechanism for the handling and resolution of complaints regarding the CEO. Ensure procedures are easily accessible and available to facilitate a structured approach, management and timely response to complaints and grievances.

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6.0 Framework Design

Policy	Purpose / Goal	Matters Identified / Improvements
08.38 Grading of Station and Remote Airstrips	Policy to assist station owners and remote communities with grading of airstrips.	Limited controls are noted within the policy to determine parameters for the grading of remote airstrips which may present some risk and liability to the Shire. Consideration should also be given to principles of equity in relation to the provision of services free of charge to some rate payers within the district. **Improvement:** Review and amend the policy to consider and address risks, or rescind the policy and consider alternate options for service delivery including fee for service arrangements.
Attendance at Events Policy	A policy to enable council to actively consider the purpose of and benefits to the community from attendance at events by elected members and the chief executive officer.	At the time of our review, no policy on attendance at events had been adopted by Council. **Improvement:** Develop and adopt an attendance at events policy as required by section 5.90 of the *Local Government Act 1995*.
Ongoing Elected Member Professional Development Policy	A policy to ensure equitable access to ongoing professional development and training opportunities to enable elected members to fulfil their function and perform the duties required of them under the Local Government Act 1995.	At the time of our review, no policy on Ongoing Elected Member Professional Development had been adopted by Council. **Improvement:** Review and adopt draft policy for Ongoing Elected Member Professional Development to comply with section 5.128 of the *Local Government Act 1995*. Publish the policy on the Shire's website as required.
Policy Reference to Legislation and External Information	To support the link between Council policy, legislation and other information sources.	We noted several policies contain specific detail relating to legislation and other external references. References within these policies may be outdated or superseded by changes to legislation, Australian Standards, the Town Planning Scheme or other external references. **Improvement:** Update policies to remove specific and / or detailed references to legislation and other external references to assist with maintaining appropriate alignment and consistency in Council policies.
General Policy Actions	To set out parameters for the implementation of policies.	Legislation provides for policies to be determined by Council, and for the CEO to manage the day to day operations of the local government. We noted a number of Council policies which may be operational in nature. Policies are not necessarily intended to provide direction on how different functions are to be executed, except where legislation requires it. **Improvement:** Consider review and update of policies to ensure they provide guidance to articulate the strategic direction of Council and set out a high level position to follow at an operational level (e.g. we shall, we shall not), particularly where legislation does not provide such guidance.

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7.0 Framework Implementation

7.1. Strategic and Operational Plans

The Council has several strategic and operational plans which form the basis of entity level controls and entity level risk assessments.

A list of plans reviewed is provided in Appendix C - Plans Examined. The table below details areas for possible improvement in relation to the plans examined.

Plan	Purpose / Goal	Matters Identified / Improvements
Strategic Community Plan	A community based plan to guide the strategic direction of the Shire.	The Strategic Community Plan commenced a major review within four years as required by *Local Government (Administration) Regulations 1996* in August 2020. The reviewed plan was not adopted by Council by an absolute majority within four years as required by legislation. Some delays to commence this review were noted as a result of Covid-19 travel restrictions. Improvement: Finalise review of the Strategic Community Plan and present to Council for consideration to adopt by absolute majority as required by legislation.
Business Continuity Plan	Plan to facilitate organised decision-making in the event of a major incident impacting the Shire's ability to continue normal operations.	A Business Continuity Plan was not available for our inspection. Improvement: Develop a Business Continuity Plan and test it to ensure validity. Identify and document key business continuity risks along with the treatments, to reduce the risk to an acceptable level. Ensure risk treatments are consolidated with overarching risk management activities.
ICT Strategic Plan	Plan to guide the future development and delivery of ICT services and address the handling of ICT disaster recovery.	The development of an ICT Strategic Plan was being undertaken at the time of our review, but had not yet been completed. Presently a single consultant is engaged to provide IT support services and advice regarding security etc. A high level of risk could be assumed by engaging a single entity to provide all IT services. Improvements: Finalise the ICT Strategic Plan identifying and documenting key ICT risks along with the treatments to reduce the risk to an acceptable level. Consider independent review of identified ICT risks. Consider implementation of routine review and verification of skills, competencies, qualifications and experience for IT service providers. Careful development of a strategy will assist in considering the risks of utilising a single IT provider, and may assist in developing a scope to articulate service level agreements for a range of IT services to be potentially issued to different providers.

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7.0 Framework Implementation

Plan	Purpose / Goal	Matters Identified / Improvements
ICT Disaster Recovery Plan	Plan to address the handling of ICT disaster recovery.	An ICT Disaster Recovery Plan was not available for inspection.
		Improvement: Develop an ICT Disaster Recovery Plan. Identify and document key ICT risks, along with the treatments to reduce the risk to an acceptable level. Maintain, review and test the plan to ensure validity.
Code of Conduct for Council Members, Committee Members and Staff	To provide guidance to Council members, committee members, contractors and employees of enforceable rules and requirements as prescribed in relevant legislation.	Regulations gazetted on the 3 February 2021 introduced minimum requirements for an employee code of conduct and introduced a model Code of Conduct for Council members.
		At the time of our review, we noted contractors and volunteers are not bound by a Code of Conduct when performing functions on behalf of the Shire.
		Elected members, committees, contractors and volunteers are not required to sign the Code of Conduct acknowledging they have read and understand the requirements within.
		Improvements: Adopt a new Code of Conduct for employees in accordance with the employee code regulations and the Model Code of Conduct for Council members as required by legislation.
		Expand the scope of the employee Code of Conduct to include actions by volunteers and contractors. Alternatively, a separate Code of Conduct be developed for volunteers and contractors.
		Update the Code of Conduct as well as induction procedures to ensure all persons subject to the Code of Conduct sign and acknowledge they understand the content.

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7.2. Operational and Financial Procedures

In seeking to achieve its stated vision, the Shire delivers a number of services to the community. Meetings were undertaken with key staff in each of the areas of service responsibility, as well as examination of documented processes, to determine the practices applied to issues of risk management, internal controls and legislative compliance. A summary of the reviews undertaken to evaluate the controls is included at Appendix C.

We observed a number of practices and procedures in place, however their application was not always consistent. Considering the number of services provided and current staff resourcing, a risk based approach to the prioritisation of the review and development of new procedures is recommended. The table below details areas of suggested improvement in relation to policies and procedures examined.

Component	Purpose / Goal	Matters Identified / Improvements
Checklists	Checklists document the completion of multiple steps within an overall process.	Checklists of key functions are maintained for selected functions. Checklists were not maintained and evidenced for all standard routine functions such as end of month reconciliations and reporting across the organisation. It was noted some staff have commenced with the creation of checklists and procedures.
		Improvement: Creation and maintenance of standard checklists may assist in evidencing key points of control. Checklists assist in ensuring compliance with repetitive legislative compliance tasks. Staff are encouraged to continue with the development of checklists and procedures for routine functions, including evidencing independent review.
Workflow Diagrams	Workflow process diagrams create a visual representation of a process, clearly identifying key points of control and responsibility.	Workflow diagrams have not been compiled for undocumented / documented procedures.
		Improvement: In conjunction with, or as an alternative to, the development of documented procedures and checklists, development of workflow process diagrams may assist in clearly identifying controls and processes to be followed.
Procedure Changes	Process to control and manage change to procedures.	Process for amending or changing procedures are not formalised. We noted this had resulted in several instances of unilateral unauthorised changes to procedures and a breakdown in key controls within internal and financial controls.
		Improvement: Establish a process for the development, review, amendment and authorisation of procedures, checklists and other internal control documentation, throughout the Shire to assist with managing changes to procedures.
Overhead & Administration Allocations	To allocate indirect costs in a practical and efficient manner.	No formal process is currently in place to determine the allocation of indirect costs. From staff representations, current allocation rates are based on historical estimates and reviewed informally during budget preparations each year. A calculation method to support overhead allocations was not available for our review.
		Improvement: Undertake a review of activity based costings to support calculation of overhead and administration allocations.

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Component	Purpose / Goal	Matters Identified / Improvements
Aerodrome Operations	Processes to control and manage compliance with regulatory requirements and security relating to the Laverton Aerodrome.	We noted during a period from December 2020 to January 2021, evidence of aerodrome inspections being performed were not available for review. We were also unable to verify any staff member being on duty during that time who held a current and valid Aviation Security Identification Card (ASIC). It is unclear what measures were in place at the aerodrome during this period for qualified aerodrome reporting officers or personnel with ASICs to access secure areas of the aerodrome, including to perform inspections as required by legislation and/or in the event of an emergency.
		A current risk register relating to the aerodrome was not available for inspection at the time of our review.
		Improvements: Urgently review systems and processes to ensure appropriately qualified personnel are available to maintain security measures and regulatory obligations associated with the aerodrome operations.
		Review systems and processes to ensure regular updates are maintained to the aerodrome risk register, including the recording and communication of risk management activities as required by the Shire's risk management policy and strategy.
End of Month Processes	Processes for the completion of tasks and evidencing key points of control	Evidence of end of month procedures being followed, completed or reviewed by an authorised officer independent of preparing/collating the documentation had not been consistently or routinely applied prior to preparation of monthly financial reports.
		Improvement: Develop checklists and procedures to demonstrate appropriate controls and reviews are in place when preparing monthly financial reports as a key control.
Asset Disposals	Procedures for the disposition of property in accordance with the requirements of section 3.58 of the *Local Government Act 1995* and regulation 30 of the *Local Government (Functions and General) Regulations 1996*.	Our limited testing noted an instance where an asset had not been disposed of in accordance with section 3.58 of the *Local Government Act 1995* and the *Local Government (Functions and General) Regulations 1996*. This appeared to be the result of a plant item being traded at the same time of purchasing a new plant item. Although the purchasing policy and legislative requirements allowed for new plant items to be purchased without going to tender in some instances, the disposition of the traded plant item is not captured by these same exclusions.
		Improvements: Ensure future asset disposals are in accordance with the requirements of section 3.58 of the *Local Government Act 1995* and the *Local Government (Functions and General) Regulations 1996*.

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Component	Purpose / Goal	Matters Identified / Improvements
Rates	Rates are correctly imposed and rate system is properly maintained.	Evidence of routine reviews of rate exempt properties as defined by section 6.26(2)(g) of the *Local Government Act 1995* was not available for our inspection.
		Improvements: Develop and maintain systems and processes whereby routine reviews are undertaken of rate exempt properties within the Shire, confirming these properties are used exclusively for rate exempt purpose.
General Journal Entries	Journals are initiated processed which are independently reviewed and approved.	There are limited documented internal control procedures for general journals. We noted review and evidence of review of journals after posting has not been consistently maintained.
		Improvements: Document internal controls to ensure journals requests initiated are reviewed and approved/authorised prior to posting by an appropriate officer, the current practice of independent review is maintained, and evidence of review is consistently applied.
Risk Management Procedures	Procedures and practices to set out a uniform approach to the identification, assessment, management, reporting and monitoring of risks.	Risk management activities currently undertaken within individual departments are largely performed independently and are not always communicated to executive management. Some of these activities may not align with the Shire's Risk Management Strategy, and may not align with ISO 31000:2018.
		Improvements: Communicate throughout the Shire current risk management procedures and processes to assist with routine and consistent applications in accordance with Council policy.
Procurement Assessment	Procedures to provide probity for the assessment of procurement options received.	We did not observe any documented formal requirements when undertaking assessments of responses to requests for quotations.
		Documented procedures are not in place to require declarations of interest and confidentiality to be signed prior to assessments being undertaken for high value purchases.
		Improvements: To help ensure probity and fairness when assessing high value procurement, at least three persons should assess the procurement responses independently of each other. Documented processes should require a higher level of probity and due diligence, for higher value or higher risk purchases.
		Persons assessing any significant procurement should be required to declare any matters which may impact or be perceived to impact on their independence. Procedures for the declaration of interests prior to procurement assessments being undertaken should also be documented for high value purchases and tenders.

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Component	Purpose / Goal	Matters Identified / Improvements
Procurement	Procedures for the procurement of goods or services.	Through limited testing of payments, we noted several instances where purchase orders did not pre-date invoices, and instances where purchase orders had not been signed by the authoriser.
		Non-compliance between procurement thresholds and purchasing requirements in accordance with Council policy were noted during our review, in that the required number of quotations were not always sought, or appropriate documentation maintained to support the absence of quotations as required.
		Evidence to support goods having been received prior to invoices being presented for authorisation for payment was not routinely or consistently observed during our review.
		Improvements:
		All procurement of goods or services should be undertaken in accordance with legislative requirements and the Purchasing Policy. Any instances where a purchase pre-dates a purchase order should be documented, reviewed and authorised to demonstrate controls have been developed to comply and ensure the purchasing policy has been adhered to.
		Examine systems, processes and training to ensure those with delegated purchasing authority comply with the provisions of the purchasing policy and with legislation. We noted new controls introduced in relation to evidencing quotations prior to purchase orders being approved, and strongly encourage these improvements and review continue.
		Review and update procedures to ensure invoices are not paid prior to appropriate review and authorisation has occurred, evidencing receipt of goods and/or services requested by the Shire.
Outstanding Purchase Orders	Process to ensure invoices are being processed in a timely manner and in accordance with the purchasing policy.	We did not observe any formal procedures relating to the routine monitoring of and clearance of outstanding purchase orders.
		Improvements:
		Establish procedures to include review of the status of outstanding purchase orders as part of end of month processes. Ensure any controls developed are routinely and consistently applied.
ICT Security	Procedures and practices to ensure the security of IT information, systems and Data.	We noted limited controls in relation to the access to IT systems including physical access to hardware. Some levels of permissions have been established to network access to software and data, however this is largely undocumented.
		Improvement:
		Undertake a comprehensive IT security review, articulate current practices and implement findings of the review.

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Component	Purpose / Goal	Matters Identified / Improvements
Tender Assessment	Procedures to provide probity for the assessment of tenders received.	No procedures were available for the assessment of tenders against the selection criteria. Limited procedures or correspondence were available to ensure the independence of persons in assessing tenders.
		Improvements: To help ensure probity and fairness when assessing tenders, procedures for the process to be undertaken in assessing tenders should be followed and documented with at least three persons assessing the tender independently of each other. Persons assessing any significant procurement should be required to declare any matters which may impact or be perceived to impact on their independence.
		For tenders already awarded, ensure dual reviews of invoices submitted continues to occur by appropriately authorised officers. Consider a review of existing tenders which are still open to determine any systems, processes or controls required to maintain probity and fairness.
Contract Management	To provide clear documentation of key contract / agreement information entered into with third parties by the Shire.	We noted a tender awarded for roadworks which provided almost no controls relating to cost or performance management for works performed. The contract scope provided no estimate of hours to complete works, and was awarded on hourly plant rates to complete works. Purchase orders were noted to be issued after works had been completed with no performance obligations required to be met, and some invoices approved which may not have been within the scope of the original contract. Significant cost overruns were noted for the project, which appear to have been authorised without appropriate review and approval. The absence of controls in relation to cost, performance and project management also impose limitations to compliance requirements by legislation in relation to management of contract variations.
		Improvements: Review and update systems and processes to provide for higher level controls and oversight of contracts entered into with third parties by the Shire. Agreements should be dually executed to ensure contract obligations are met by both parties.
Overdraft Facility and Lending Agreements	Controls for compliance with lending agreements entered into with financial institutions.	At the time of authorising the signing of the overdraft facility the Shire has pre-existing loan facilities with WATC. There is no mention in the agenda item of whether WATC had been consulted before the Shire established an overdraft facility however it would be normal practice and good governance to do so. We note the standard terms and conditions of WATC loan facilities require their approval before any further debt arrangements are agreed to.
		Improvement: To help ensure breaches of existing loan arrangements do not occur the Shire engages with existing lenders and ensures their agreement. Council should also be advised of any such discussions to ensure they fully understand the risks associated with taking on further debt.

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Component	Purpose / Goal	Matters Identified / Improvements
Creditors Audit Trails	Procedure to allow for appropriate review and approval of changes made within the creditors system.	Limited review of changes made to creditor master file details is currently undertaken when each payment run is processed.
		Improvement: Procedures to minimise risk of unauthorised changes to creditor details should be implemented. Independent regular reviews of software audit trails is one form of control and should be undertaken as a minimum. Where possible, segregation of duties should exist where employees responsible for processing creditors transactions are unable to make changes to creditor master file details.
Credit Cards	Systems and processes to control use of Corporate Credit Cards held	We noted instances through our testing where credit card reconciliations were not fully completed and/or reviewed by an independent more senior member of staff. We also noted occurrences where transactions had not been properly completed or coded by the credit card holder.
		Credit card reconciliations for the CEO sampled in our testing as well as representations from staff noted the practice of the Shire President reviewing and authorising transactions incurred. Under the *Local Government Act 1995* the Shire President has no administrative authority and as such no authority to approve the CEO's credit card statement
		Improvements: Update procedures to require cardholders to review and certify expenses incurred on their credit cards each month. Maintain and regularly review these controls and ensure staff responsible for processing of credit card transactions are appropriately educated with approved systems and processes.
		Review systems and processes to amend the authorisation process of the CEO's credit card by the Shire President. Periodic reports to Council should be undertaken acknowledging transactions as having been made and authorised by the CEO. Transactions should be separately highlighted made on the CEO's credit card for presentation to Council. This is in line with the Western Australian Auditor General's Report dated 7 May 2018 relating to Controls Over Corporate Credit Cards.

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Component	Purpose / Goal	Matters Identified / Improvements
Security Controls for Cash Handling	Procedures and systems for the handling of cash at Shire facilities.	Security controls for physical cash held at some Shire facilities are considered inadequate. Controls are not consistently documented to ensure appropriate review and authorisation processes occur in relation to the storage, management and handling of cash by staff.
		Improvement:
		Ensure access to any cash held is restricted only to authorised personnel through secure storage. Implement appropriate documented procedures and controls for cash maintained by staff including processing of cash donations received. Processes should also include reference to insured amounts relating to cash, to ensure adequate insurance levels are maintained relating to cash.
Trust Fund	Controls to ensure that no errors exist in the transactions for the Trust Fund account	The Trust Fund currently includes bonds. It is understood from staff representations, the Trust Fund has been undergoing examination to correctly allocate bonds.
		Improvement:
		Remove all funds which are not required by law to be held in the Trust Fund, and transfer to the Municipal Fund, in line with the Office of the Auditor General (OAG) position paper on Accounting for Work Bonds, Building Bonds and Hire Bonds released in July 2019.
Mid-Year Budget Review	To undertake a review of budget forecasts and estimated outcomes in accordance with regulatory requirements.	The Shire's 2020-21 budget review examined accounts with a review date at 31 December 2020, and was presented to Council for adoption on 25 February 2021. To comply with regulations whereby the budget review is considered within 30 days of the review date, the review would have been required to be considered by 30 January 2021.
		Improvement:
		Review systems and procedures to ensure future budget reviews are undertaken as required by regulation 33A of the *Local Government (Financial Management) Regulations 1996.*
Local Laws	To assist local governments in performing its functions.	Not all local laws are published on the Shire's official local government website as required by legislation at the time of our review. The DLGSC Local Law register notes following local laws: • Fencing Amendment Local Law 2014 (published) • Fencing Local Law 2013 (published) • Dogs Local Law (published) • Local Government Property Local Law 2018 (published) • Health Local Laws 1999 (published) • Removal and Disposal of Obstructing Animals or Vehicles (not published) • Shire of Laverton Cemetery By-laws (not published) • Standing Orders Draft Model No. 4 (not published)
		Improvement:
		Publish current and consolidated local laws on the Shire's official local government website as required by section 5.96A of the *Local Government Act 1995.*

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Component	Purpose / Goal	Matters Identified / Improvements
Stock Controls	Process to ensure stock is correctly allocated, as well as to reduce the potential for theft or misappropriation.	Processes to monitor fuel stock allocated through bulk fuel stores at the depot are considered inadequate. Fuel sheets are manually adjusted following a reported calibration issue with the bowser, in order to reflect what the metre reading should read, rather than actual display/reading. Staff representations also indicated where large quantities of fuel are dispensed, metre readings and fuel dips will often have up to a 10% discrepancy.
		Limited controls are in place to monitor potential erroneous allocations or misuse of stock. Fuel dips are not independently reviewed for accuracy at periodic intervals, nor mechanisms to detect where excess stock (including fuels, oils, materials etc) may be allocated inappropriately or erroneously.
		Controls in relation to management of stock at Shire facilities are considered inadequate. Although periodic routine stocktakes appear to be performed, reconciliations of items of value to validate effectiveness of controls are not implemented.
		Improvement:
		Review security and access to bulk fuel stores at the depot, including fuel bowser meters which monitors the distribution of bulk fuel stores. Develop and implement procedures for the monitoring of fuel stock on hand in an effort to improve opportunities to detect any issues or potential misuse with fuel allocations in a timely manner.
		Review and implement processes to undertake regular stock reconciliations and allocations. Ensure appropriate controls exist to evidence independent review of data as required.
		Review and update systems and procedures relating to stock controls at the Shire facilities, including the requirement to undergo periodic stocktakes with reconciliations and independent review of data etc. to be performed.
Changes to Banking Details	Controls to validate banking change requests.	Currently no independent review of changes to employee and creditor banking details is performed. Formal procedures relating to changes to banking details for employees and creditors should be developed to ensure sufficient controls exist in both substantiating the change request and the changes performed within the Shire's ERP system.
		Improvement:
		Review and update procedures to ensure the following matters are appropriately considered and controls are adequate to:
		• Validate the change request and its origin;
		• Authority exists for the change request; and
		• Validate and control the changes once completed.

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Component	Purpose / Goal	Matters Identified / Improvements
Annual Report	Ensure the annual report is accepted by Council and published to the local government website as required.	The 201819 Annual Report was accepted by Council at its meeting held 23 April 2020 but was not uploaded to the Shire's website on 19 June 2020. **Improvement:** Ensure process is in place for the annual report to be uploaded to the Shire's website within 14 days of acceptance by Council, as required by section 5.55A of the *Local Government Act 1995*.
Information Required to be Published on Official Local Government Website	Ensure information is published for public information as required by legislation.	At the time of our review, we noted the following information (in addition to other matters noted throughout this report) has not been published on the Shire's official website as required by legislation: • Report on Elected Member Training for 2019/20; • Public notices including local and statewide public notices; and • Notice papers, agenda, reports and other documents presented at Council and committee meetings. **Improvement:** Ensure information is published on the Shire's official website as required by section 5.96A of the *Local Government Act 1995*.
Record Keeping Practices	To demonstrate compliance of record keeping systems and practices with legislative requirements	At the time of our review, a copy of the Record Keeping Plan as required by the *State Records Act 2000,* was not available for our inspection. **Improvement:** Ensure currency of the Record Keeping Plan including reviews required to be submitted to the State Records Office, as well as implementation of any improvements noted within the Plan, including self evaluated improvements and any actions noted by the State Records Office.

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7.3. Human Resource Management and Practices

A number of components constitute the Shire's human resource management practices and form an essential element of risk management, internal control and legislative compliance. Each of these elements is examined in the table below.

Component	Purpose / Goal	Matters Identified / Improvements
Employee Appointment Procedures	Procedures to ensure appointment of staff are appropriately authorised, and onboarding processes are consistently and routinely applied.	Based upon staff representations during our review and samples of employee files, there appear to be instances where employees have commenced with the Shire prior to required onboarding processes having been completed and reviewed.
		Staff inductions are inconsistently applied throughout the Shire, and induction processes do not consistently communicate to staff required expectations and requirements when performing local government functions.
		Improvement:
		Establish policies, procedures or checklists to manage and document the appointment of employees and consider appropriate controls to minimise opportunities to circumvent procedures.
		Develop and implement procedures to ensure all new staff are appropriately inducted and aware of the parameters of their employment responsibilities and obligations including: • OH&S; • Duties and responsibilities; • Security; • Code of Conduct; • HR Policies and Procedures; • Legislative Compliance; • Risk Management; and • Other relevant and required topics.
Employee Termination Procedures	Procedures to ensure staff physical and IT access is removed and Shire assets returned at the time of departure.	No formal process or procedure is currently in place to ensure the appropriate termination of employees. Departmental managers have the responsibility of ensuring Shire assets are recovered, however there is no formal policy, procedure or practice in place to ensure security and IT permissions are restricted, or for Shire property (phones, vehicles, keys) to be returned prior to the employee finishing with the Shire.
		Improvement:
		Establish policies, procedures or checklists to manage and document the termination of employees, ensuring access to IT systems, etc. is appropriately restricted and all allocated Shire assets are recovered.

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Component	Purpose / Goal	Matters Identified / Improvements
Staff Training	To ensure staff have access to ongoing and appropriate training.	Planned and required staff training needs for employees are not currently identified and recorded in a central training matrix.
		Improvement:
		Develop and maintain a staff training matrix to identify staff training needs relevant to their role, ensuring it is co-ordinated across the organisation and monitors currency of required licences and qualifications.
Time Records	To provide a record of hours worked by staff.	Time records completed by employees sampled through our review were not always authorised by a senior officer.
		Improvement:
		Time records should be authorised by a more senior officer, and maintained with payroll reports for future reference where required.
Staff Contracts & Employee Files	To provide a documented record of the terms and conditions of each employee's contract of employment.	Evidence of correspondence for two employee files sampled to support the current rate of pay applied through the payroll was not available.
		Our testing noted instances where employee files had not been consistently maintained for some employees, where documentation and signed paperwork from employees (normally completed upon commencement) was not available for review. One personnel file for an employee who commenced in November 2020 had not yet been created at the time of our review.
		Evidence of qualifications for some staff were either not available for our review, or were maintained by individual departments separate from the payroll/administration.
		Improvement:
		Undertake a review of all personnel files to reconcile documentation relating to conditions of employment, remuneration, roles and responsibilities. We observed this process had commenced at the time of our review, and we strongly encourage the continuation and completion of this process

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Component	Purpose / Goal	Matters Identified / Improvements
Payroll Authorisation	Procedure to allow for appropriate review and approval of fortnightly payroll.	Evidence of review and authorisation of fortnightly payroll reports was not recorded by both review/authorising officers. Improvement: Implement documented procedures to ensure adequate controls are consistently followed for review and authorisation of fortnightly payroll reports, with appropriate evidence of these reviews consistently recorded.
Payroll Exception Reporting	Procedures to assist with accurate processing of employee entitlements.	The officers responsible for processing and reviewing payroll are tasked with review and capture of employee entitlements, allowances, deductions, etc. Staff have advised more formal documentation / checklists are intended to be created to assist with payroll processing, review and authorisation. Improvement: Review procedures and controls for the accurate processing of payroll each fortnight. Details for each employee should be reviewed against individual employment contracts to capture allowances, deductions, entitlements etc, into a master list, with appropriate review and authorisation for changes. Payroll exception reporting and review of audit trails should be undertaken to capture anomalies or unauthorised changes.
Payroll Audit Trails	Procedure to allow for appropriate review and approval of changes made within the payroll system.	Limited review of changes made to employee master file and parameters is currently undertaken when each payroll is processed. Audit trail reports appear to be produced, however regular independent review is not undertaken to ensure bank account details have not been altered or manipulated without prior verification and authorisation. Improvement: Procedures to minimise risk of erroneous or unauthorised changes to employee details should be implemented. Regular reviews of software audit trails is one form of control and should be undertaken as a minimum. Where possible, segregation of duties should exist where those responsible for processing payroll transactions are unable to make changes to employee master file. Payroll exception reporting and review of audit trails should be undertaken to capture anomalies or unauthorised changes.
Employee Identity and Credentials	Systems and controls for screening of new employee and monitoring existing employees for changes in their circumstances which may impact their employment.	Practices and procedures for verifying employee identity, right to work in Australia, verification of employment history and qualifications are considered inadequate. Improvement: Develop, implement and maintain appropriate policies and procedures to reduce the risk of unqualified or unsuitable staff being employed by the Shire, in line with the Western Australian Auditor General's Report in June 2019 relating to Verifying Employee Identity and Credentials.

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7.4.   Insurance

At present, the Deputy Chief Executive Officer annually reviews the completeness of insurance. Discussions are also held with the insurers annually and adjustments to policies and insurance levels made as considered appropriate. The insurance values of buildings, plant and equipment are based on the three to five yearly valuations of building assets undertaken by registered valuers.

Component	Purpose / Goal	Matters Noted / Improvements
Contractor Insurance	Insurance cover maintained by contractors for damage caused when undertaking works for the Shire.	Contractors' insurances are not always assessed prior to award of contracts in all cases. Reliance is placed on contract managers to ensure copies of insurances are provided.
		Improvement:
		To help ensure all contractors have the relevant licences and have adequate insurance cover for the works they undertake for the Shire, procedures should be developed, and records maintained to ensure copies of contractor's insurances are obtained and held on file prior to award of contracts.

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8.0 Framework Evaluation

Developing and implementing systems and procedures for risk management, legislative compliance and internal controls within a Shire can be a time consuming and expensive exercise with the potential to divert resources away from direct services. Considering the level of investment necessary to establish these systems, actions to monitor their effectiveness are an essential practice.

Over time, the relevancy of established controls may change, their purpose may be forgotten, or technology may offer a more efficient or effective way to achieve the initial goal. For these reasons, formal review procedures are required to ensure the resources applied to maintaining these systems, practices and controls are done so in the most efficient way.

Evidence of the monitoring of risk management, internal controls and legislative compliance is sourced from Minutes of Meetings, Registers of Disclosures and reports reviewed.

8.1. Council and Audit and Risk Committee

Regular monthly financial statements and lists of payments, made in the intervening period between each meeting, have been presented to the Council for review, as required by legislation. This provides the basis for high level oversight of the expenditure transactions of the organisation.

Component	Purpose / Goal	Matters Noted / Improvements
Council and Audit Risk Committee	Monitoring and consideration of risks when making strategic decisions.	Identified risks are not consistently included within agenda items for elected member consideration for recording in the risk register.
		Improvement: Identified risks relating to a Council decision should be communicated within the agenda item, to enable elected members to be fully informed of the identified risks when making decisions. Risks should also be appropriately recorded in a risk register.
Monthly Statement of Financial Activity	Monthly statements of financial activity prepared in accordance with legislative requirements.	The monthly statement of financial activity relating to November 2019 and January 2020 presented to Council did not comply with regulation 34 (4) of the *Local Government (Financial Management) Regulations 1996,* in that the report was not presented to the Council within two months after the end of the month to which the statement relates.
		The monthly statement of financial activity relating to July 2020 and August 2020 contained inaccuracies in balances to between Nature / Type and Reporting Program statements.
		Improvement: Ensure the monthly statement of financial activity is completed accurately and presented to Council for consideration within timeframes required by legislation.

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8.2. Strategic and Operational Registers

A number of registers are maintained by the Shire. The table below details areas for possible improvement in relation to these registers.

Register	Purpose / Goal	Matters Identified / Improvements
Risk Register	Provide a record of risk breaches and remedial action taken.	A risk register was available for our inspection to reflect identified risks, and if they have been adequately treated, however supporting documents noted as controls within the risk register had not been maintained or were not available for our review.
		Improvement: Maintaining risk registers for all identified key risks is important to help ensure appropriate identification, recording and communication of high rated risks, along with providing a record to enable the verification of whether treatment plans have appropriately mitigated to within accepted risk appetite. Routine (at least quarterly) review of the risk register is required for sound risk management. Risk management should be embedded and coordinated throughout the organisation.
Register of Hazardous Materials	Provide a record of properties under the Shire's control containing hazardous materials.	A register of hazardous materials was not available for our inspection, to reflect properties under the control of the Shire which may contain hazardous materials such as asbestos, and if associated risks have been adequately treated.
		Improvement: Develop and maintain a register to record details of hazardous materials, such as asbestos, for properties under the control of the Shire.
Contracts Register	Provide a record of contracts entered into by the Shire.	A contracts register was not available for our inspection detailing the status of contracts held by the Shire.
		Improvement: Maintain a register to record details of contracts and their status to assist with ensuring contracts are monitored and actioned as required.
Investment Register	Register of investments held to evidence the nature and location of all investments and all transactions in relation to investments.	An investment register was not available for our inspection detailing the nature and location of all investments and all related transactions.
		Improvement: Recording the nature and location of all investments and related transactions is required by Regulation 19 (2) of the *Local Government (Financial Management) Regulations 1996.* Tracing of funds on maturity of investments is essential and record of where funds are transferred and who authorised the transfer should be maintained within the register. Maintaining printed copies of the investment register, reviewed and authorised by a senior manager, independent of the control of the investments, prevents subsequent amendment to the register.

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Register	Purpose / Goal	Matters Identified / Improvements
Swimming Pool Inspection Register	Register of inspections undertaken.	A register of inspections of private swimming pools within the district was available for our inspection which was last updated in 2017. Several entries had not been correctly updated to record the required date of next inspections.
		Improvement:
		Update the register to accurately present the current status of private swimming pool inspections. Routine monitoring and review of the register will assist to ensure inspections are undertaken within required timeframes.
Credit Card Register	Register of credit cards held by the Shire.	A register of current credit card holders detailing card number, expiry date, credit limits and details of goods and services the cardholder is authorised to purchase was not available for our inspection.
		Improvement:
		Develop and maintain a register to comply with Finance Policy No. 02.11 Corporate Credit Cards – Guidelines.

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8.3. Annual Compliance Audit Returns (CAR)

Returns have been completed on a self-assessment basis and approved by Council each year. The CAR was completed by independent consultants for 2018, 2019 and 2020 return periods. Improvements are noted is the table below relating to the CAR processes.

Component	Purpose / Goal	Matters Noted / Improvements
Compliance Audit Return	Checklist concentrating on areas of compliance considered "high risk" of a local government's compliance with the requirements of the Act and its Regulations.	The CAR for 2019 was not reviewed prior to 31 March 2020 by the Audit Committee prior to adoption by Council, as required by legislation
		Improvement: Ensure future CARs are reviewed and adopted as required by regulation 14 of the *Local Government (Audit) Regulations 1996*.

8.4. Complaint Handling

Community complaints are received by administration staff and allocated to the relevant manager to address. Responsibility for the routine follow up of complaints to ensure they have been adequately addressed remain with the manager who has been allocated the complaint.

Component	Purpose / Goal	Matters Noted / Improvements
Community Complaints Procedures	Procedures for the recording handling and resolution of community complaints.	A community complaints register is not currently maintained to follow up and ensure all complaints are adequately addressed.
		Improvement: To help ensure all complaints are adequately resolved, a register of customer complaints received should be maintained to comply with policy 04.07 Customer Complaints handling.

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8.0 Framework Evaluation

8.5.   Audit Practices

Audits for the 2017-18, 2018-19 and 2019-20 periods were through engagement with auditors contracted by the Office of the Auditor General (OAG). The 2018-19 audit report was unqualified, however did note a significant adverse trend relating to the asset renewal funding ratio, as well as a number of matters of non compliance, which has been noted in Section 7 Framework Implementation of this report. The 2019-20 audit had not been completed at the time of our review.

The table below details areas for possible improvement in relation to audit practices.

Component	Purpose / Goal	Matters Noted / Improvements
OSH Audit	Review of occupational safety and health procedures.	An OSH audit was performed in December 2020, resulting in a number of recommendations. Evidence of a prior review was not available for our inspection.
		Improvement: Consider resourcing requirements toward ensuring subsequent actions and matters identified through the OSH audit are adequately addressed.
Internal Audit	Internal audit monitors the level of compliance with internal procedures and process along with assessing the appropriateness of these procedures.	Currently, no internal auditors have been appointed, and limited internal audit functions have been undertaken.
		Improvement: We suggest as the level of documented procedures increases, an expanded internal audit function to confirm adherence to documented policies and procedures may be required as recommended by the OAG in their report to Parliament on the Audit Results Report – Annual 2017-18 Financial Audits of Local Government Entities.
Significant Adverse Trend Report	To ensure action is taken to improve significant matters raised by auditors.	A significant adverse trend was identified during the 2018-19 audit. Matters noted within the auditors report for 2018-19 were treated as follows: - A report was prepared with management comments addressing several points raised during the audit, however this report is not sufficient to satisfy the requirement of stating actions intended to be taken in relation to the adverse trend noted; - The above mentioned report was considered by the audit committee and Council In April 2020; - The report was not submitted to the Minister; and - The report was not published on the official local government website. as required by legislation.
		Improvements: Prepare a report stating actions intended to be taken relating to the significant adverse trend and present for consideration by the Audit Committee and Council, forward to the Minister after adoption, and publish the report on the Shire's website. Ensure any future reports are prepared and published as required by section 7.12A of the *Local Government Act 1995.*

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8.0 Framework Evaluation

8.6.   Review required to be undertaken by the CEO

The CEO is required to undertake reviews of systems and procedures of the local government. The table below presents matters noted in relation to these reviews.

Component	Purpose / Goal	Matters Noted / Improvements
Audit Regulation 17 Review	CEO's review of the appropriateness and effectiveness of systems and procedures for Risk Management, Internal Controls and Legislative Compliance in accordance with Regulation 17 of *Local Government (Audit) Regulations 1996.*	A review was last undertaken in July 2018 and made 21 recommendations. It was noted 12 items identified within the review remain to be addressed. Improvements: Implement systems to regularly monitor and action items raised within reviews of internal controls.
Financial Management Review	Review of the appropriateness and effectiveness of the Financial Management systems and procedures of the local government required to be undertaken every three years by Regulation 5(2) of Local Government (Financial Management) Regulations 1996.	A financial management review was not undertaken within the time period as required by Regulation 5(2) of *Local Government (Financial Management) Regulations 1996*. Improvement Ensure the next review is undertaken within the next three years as required by legislation.

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9.0 Other Matters

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Appendix A – Financial Management Systems Review

The following reviews were undertaken to evaluate the appropriateness and effectiveness of financial management system controls:

System	Description
Bank reconciliation and petty cash management	Examination of procedures and review of maintenance and management practices undertaken by staff
Trust funds	Examination of trust funds to determine proper accountability in the Shire's financial management system and compliance with regulatory requirements
Receipts and receivables	Examination of end of day banking procedures to determine if they were adequate in ensuring cash collection is being recorded and allocated properly to the general ledger. The receivables system including raising of invoices was also reviewed with limited testing in respect to allocation/posting
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 rate notices which 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
Purchases, payments and payables (including purchase orders)	Random selection of payment transactions 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 incidents of payment scams/frauds within the local government industry during recent years. 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
Payroll	A sample of eight employees were randomly selected from four 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 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
Credit card procedures	A review of the Shire's credit card procedures was performed to determine if adequate controls were in place. We randomly selected and tested credit card transactions to determine whether they 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.

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Appendix A – Financial Management Systems Review

System	Description
Fixed assets (including depreciation, 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 asset additions and 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. In addition, a sample of four assets were judgmentally selected and testing performed to ensure the depreciation rates used are in line with the Shire's policy
Cost and administration 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 review of the allocation basis and rates used to ensure they are appropriate and regularly reviewed
Financial reports	The format of the annual report, annual financial report and monthly financial reports were reviewed for compliance with legislative requirements
Budget	The 2020-21 budget document and documents surrounding budget adoption were reviewed to ensure compliance with regulatory requirements.

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Appendix B – Council Policies Examined

The Council Policies examined as part of the review were as follows:

Policy Topic (as at 27 May 2020)

02. ADMINISTRATION	
02.01 Disclaimer	02.14 Sheila Laver Award
02.02 Election Signs	02.15 Production of Local Newspaper – 'The Sturt Pea'
02.03 Australian Flag	02.16 Guidelines for Use of the Community Bus
02.04 Native Title Claims	02.17 Policy Manual
02.05 Proceedings and Prosecutions	02.18 Purchasing
02.06 Tender Procedures	02.19 Community Service Excellence Award
02.07 Execution of Documents	02.20 Related Party Disclosures
02.08 Meetings of Council and Committees – Distribution and Release of Minutes	02.21 Risk Management
02.10 Administration Value – Usage Guidelines	02.22 Internal Control
02.11 Corporate Credit Cards – Guidelines	02.23 Legislative Compliance
02.12 Community Development Manager Vehicle – Usage Guidelines	02.24 Corporate Credit Card Usage
02.13 Internet and Email Usage	02.25 Regional Price Preference

03. FINANCE	04. MEMBERS
03.02 Investments	04.04 Handbooks – Councillor Issues
03.05 Making Payments	04.05 Well Wishes from Councillors
03.07 Goods and Services Tax	04.06 Policy on Legal Representation Costs Indemnification
03.08 Budget – Preparation	04.07 Customer Complaints Handling
03.09 Rating of Mining Tenements Crossing Shire Boundaries	04.08 Councillor Service – Recognition
03.10 Attendance of Councillors and Staff at Conferences, Seminars, Training Courses, etc.	04.09 Remote Attendance at Meetings
03.11 Reimbursement of Expenses/Authorisation to Incur Expenditure	
03.18 Significant Accounting Policies	
03.20 Authorisation for Payment of Accounts	
03.21 Charges Against Land – Fire Preventative Costs	

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Appendix B – Council Policies Examined

05. STAFF	
05.01 Staff Housing Subsidies	05.16 Drug and Alcohol Policy
05.02 Employment of Staff	05.17 Staff Training
05.03 Relocation Expenses	05.18 Satellite Telephone – Road Works Crew
05.04 Superannuation	05.19 Provision of Tea, Coffee and Sugar and Cleaning Materials
05.05 Telephone Charges – Council Installed Telephone	05.20 Provision of Cooking Utensils, Cutlery and Crockery
05.06 Uniforms – Council Staff	05.22 Rostered Day Off – Salaried Staff
05.07 Occupational Health and Safety Policy	05.23 Defence Reservist's Leave Policy
05.09 Senior Employees	05.24 Harassment within the Workplace
05.10 Protection from the Sun for Outdoor Work	05.25 Grievance and Complaint Handling
05.13 Staff Incentives – Sick Leave Bonus	05.26 Incident Disciplinary Action
05.14 Employee Housing Subsidy	05.27 Service Pay
05.15 Payments on Termination to Employees in Addition to Contracts and Award	05.28 Employees Attending Emergency Callouts

06. PROPERTIES	07. TOWN PLANNING AND DEVELOPMENT
06.01 Building Maintenance	07.02 Tourism Promotion and Development
06.05 Hall Cleaning	
06.06 Swimming Pool	
06.07 Housing – Tenancy Agreements	
06.08 Laverton Airport – Terminal and Surrounds	

08. ENGINEERING	09. HEALTH AND BUILDING
08.01 Licensing Plates and Emblems	09.01 Relocation of Second Hand Buildings Within the Laverton Town Site
08.02 Vehicle Replacement Programme	09.05 Heritage Clearances – Aboriginal Heritage Act
08.05 Crossovers	09.08 Nurses' Incentive Payments
08.09 Guidelines for Maintenance Grading	
08.15 Timing of Road Works	**10. OTHER**
08.16 Right to Extract Gravel	10.01 Matters Pertaining to Camping Out
08.17 Gravel Pit Rehabilitation	10.02 Camping Control on Land Under Shire Management
08.18 Use of Explosives Within Laverton Town Site	
08.19 Basic Tool Kit for Each Machine	
08.20 Water Pipes Under Roads	
08.24 Street Verges – Allocation of Services	
08.37 Seed Collection	
08.38 Grading of Station and Remote Airstrips	
08.41 Removal of Car Bodies	

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Appendix C – Plans Examined

The Plans examined as part of the review were as follows:

Plan	Status
Strategic Community Plan	2016-2026
Corporate Business Plan	2019-2023
Long Term Financial Plan	2016-2031
Strategic Resource Plan	2020-2035 (draft)
Workforce Plan (draft)	2020-2024
Code of Conduct	2016
Local Emergency Management Arrangements	2018
Risk Management Strategy	2018
Annual Report	2017-18 & 2018-19

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Appendix D – Strategic and Operational Registers Examined

The registers examined as part of the review were as follows:

Register
Tender Register
Gifts Register
Delegation Register (adopted February 2020
Financial Interests Register
Official Complaints Register
Risk Profiles (December 2020)

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Appendix E – Operational Guidelines

Risk Management

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

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

Reviewing whether the local government has a current and effective Business Continuity Plan (including disaster recovery) which is tested from time to time;

Assessing the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas:

- *potential non-compliance with legislation, regulations and standards and local government's policies*

- *important accounting judgements or estimates prove to be wrong*

- *litigation and claims*

- *misconduct, fraud and theft*

- *significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the local government*

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

Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;

Reviewing the effectiveness of the local government's internal control system with management and the internal and external auditors;

Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;

Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied;

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

Ascertaining whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated, monitored and there is regular reporting and ongoing management of fraud and misconduct risks.

Legislative Compliance

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

a)	*Monitoring compliance with legislation and regulations*

b)	*Reviewing the annual Compliance Audit Return and reporting to Council the results of that review*

c)	*Staying informed about how management is monitoring the effectiveness of its compliance and making recommendations for change as necessary*

d)	*Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints*

e)	*Obtaining assurance that adverse trends are identified and review management's Plans to deal with these*

Appendix E – Operational Guidelines

Legislative Compliance (continued)

f) *Reviewing management disclosures in financial reports of the effect of significant compliance issues*

g) *Reviewing whether the internal and / or external auditors have regard to compliance and ethics risks in the development of their Audit Plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee*

h) *Considering the internal auditor's role in assessing compliance and ethics risks in their Plan;*

i) *Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements*

j) *Complying with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest*

Internal Controls

Internal controls are systems of policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations.

These systems not only relate to accounting and reporting but also include communication processes both internally and externally, staff management and error handling.

Operational Guidelines prepared by the Department of Local Government and Communities (Audit in Local Government number 09 September 2013) provide the background to Internal Controls in the context of this review as follows:

'Internal control is a key component of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Strategies to maintain sound internal controls are based on risk analysis of the internal operations of a local government.

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

a) *integrity and ethics;*

b) *policies and delegated authority;*

c) *levels of responsibilities and authorities;*

d) *audit practices;*

e) *information system access and security;*

f) *management operating style; and*

g) *human resource management and practices.*

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

Aspects of an effective control framework will include:

h) *delegation of authority;*

i) *documented policies and procedures;*

j) *trained and qualified employees;*

k) *system controls;*

l) *effective Policy and process review;*

m) *regular internal audits;*

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Appendix E – Operational Guidelines

Internal Controls (continued)

    n) documentation of risk identification and assessment; and

    o) regular liaison with auditor and legal advisors.

The following are examples of controls that are typically reviewed:

    p) separation of roles and functions, processing and authorisation;

    q) control of approval of documents, letters and financial records;

    r) comparison of internal data with other or external sources of information;

    s) limit of direct physical access to assets and records;

    t) control of computer applications and information system standards;

    u) limit access to make changes in data files and systems;

    v) regular maintenance and review of financial control accounts and trial balances;

    w) comparison and analysis of financial results with budgeted amounts;

    x) the arithmetical accuracy and content of records;

    y) report, review and approval of financial payments and reconciliations; and

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

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