

COUNCIL'S VISION

Gnowangerup Shire – A thriving, inclusive and growing community built on opportunity



SHIRE OF GNOWANGERUP

MINUTES

Audit Committee

Wednesday 24th August 2016
Commencing at 3:00pm

Council Chambers
28 Yougenup Road
GNOWANGERUP WA 6335

COUNCIL'S VISION

Gnowangerup Shire – A thriving, inclusive and growing community built on opportunity

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AGENDA

1. OPENING OF MEETING

Shire President Keith House, welcomed Councillors, Staff and visitors and opened the meeting at 3:15pm.

2. ATTENDANCE/APOLOGIES

2.1 ATTENDANCE

Keith House	Shire President
Fiona Gaze	Deputy Shire President
Bronwyn Gaze	
Sue Lance	
Ben Moore	
Shelley Hmeljak	
Shelley Pike	Chief Executive Officer
Carol Shaddick	Senior Finance Officer
Abbey Sergeant	Executive Assistant

2.2 APOLOGIES

Cr Lex Martin, Cr Richard House & Cr Frank Hmeljak

3. CONFIRMATION OF PREVIOUS MEETING MINUTES

3.1 AUDIT COMMITTEE MEETING MINUTES 23RD MARCH 2016

COMMITTEE RESOLUTION

Moved: Cr S Hmeljak

Seconded: Cr B Gaze

AC0816.5 That the minutes from Audit Committee meeting held on 23rd March 2016 be confirmed as true and correct record of proceedings.

UNANIMOUSLY CARRIED: 6/0

4. OFFICER ITEMS

4.1	AMD 2016 FINANCIAL MANAGEMENT SYSTEMS REVIEW
Location:	Administration
Proponent:	UHY Haines Norton
Business Unit:	Statutory & Governance
File Ref:	
Date of Report:	19 th August 2016
Officer:	S Pike, Chief Executive Officer
Disclosure of Interest:	Nil.

ATTACHMENT

- Copy of the 2016 Financial Management Systems Review

PURPOSE OF REPORT

That the Audit Committee receive and note the 2016 Financial Management Systems Review.

BACKGROUND

The responsibility of determining the adequacy of the procedures undertaken by AMD is that of the Chief Executive Officer. The procedures are performed solely to assist in satisfying the duties of the CEO under section 6.10 of the Local Government Act 1995 and regulation 5(1) of the Local Government (Financial Management) Regulations 1996. The findings included within the report are based on the site-work completed by AMD between the 16th and 19th May 2016.

COMMENTS

The review is a useful tool in prompting and assisting both Councillors and staff to comply with the requirements of all the various legislation that is administered by a local government. It also allows Council to monitor how the organisation is functioning.

A copy of the 2016 Financial Management Systems Review is attached.

CONSULTATION WITH THE COMMUNITY AND GOVERNMENT AGENCIES

Nil

LEGAL & STATUTORY REQUIREMENTS

Local Government (Audit) Regulations 1996

Local Government (Audit) Amendment Regulations 1999

POLICY IMPLICATIONS

Nil

FINANCIAL IMPLICATIONS

Nil

STRATEGIC IMPLICATIONS

Shire of Gnowangerup Plan for the Future / Strategic Plan – Functional Area 1

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION

That the Audit Committee recommends to council:

That they receive and note the 2016 Financial Management Systems Review for the period ending 30th June 2016.

DISCUSSION OF MEETING

To include in the officers recommendation “and report on the outcomes arising at the next audit committee meeting”

COMMITTEE RECOMMENDATION

Moved: Cr S Hmeljak

Seconded: Cr F Gaze

AC0816.6 That the Audit Committee recommends to council:

That they receive and note the 2016 Financial Management Systems Review for the period ending 30th June 2016 and report on the outcomes arising at the next audit committee meeting.

UNANIMOUSLY CARRIED: 6/0

28 June 2016

Mrs S Pike
Chief Executive Officer
Shire of Gnowangerup
28 Yougenup Road
GNOWANGERUP WA 6335

Dear Shelley

2016 FINANCIAL MANAGEMENT SYSTEMS REVIEW

We are pleased to present our findings and recommendations resulting from AMD's Financial Management Systems Review ("FMSR").

1.0 APPROACH AND OBJECTIVES

The primary objective of our FMSR was to assess the adequacy and effectiveness of systems and controls in place within the Shire of Gnowangerup; in accordance with our Financial Management Systems Review Services proposal dated 9 September 2015 and related terms of reference.

The responsibility of determining the adequacy of the procedures undertaken by us is that of the Chief Executive Officer ("CEO"). The procedures were performed solely to assist in satisfying your duties as CEO under Section 6.10 of the Local Government Act 1995 and Regulation 5(1) of the Local Government (Financial Management) Regulations 1996.

Our findings included within this report are based on the site-work completed by us between the 16th and 19th of May 2016. Findings are based on information provided and available to us following our requests during this site visit.

2.0 SUMMARY OF FINDINGS

The procedures performed and our findings on each of the FMSR areas are detailed in the attached appendices as follows:

- Appendix A - Collection of money;
- Appendix B - Custody and security of money;
- Appendix C - Maintenance and security of the financial records;
- Appendix D - Accounting for municipal or trust transactions;
- Appendix E - Authorisation for incurring liabilities and making payments;
- Appendix F - Maintenance of payroll, stock control and costing records; and
- Appendix G - Preparation of budgets, budget reviews, accounts and reports required by the Act or the regulations.

Guidance as to finding classifications utilised in completing our FMSR are detailed in appendix H.

In addition to the review of processes, procedures and testing completed at the Shire of Gnowangerup administration office, our FMSR included a visit to the Gnowangerup Depot.

Following the completion of our FMSR on those areas outlined within appendix A to G, we are pleased to report that in context of Council's overall operations and size we consider procedures and systems in place to be adequate, and have operated effectively from July 2015 to the date of our site visit, with the exception of the recommendations outlined within this report. Recommendations raised by us do not take into account materiality and are raised in accordance with Local Government best practice guidelines.

Findings reported by us are on an exceptions basis, and do not take into account the various internal controls tested during our FMSR which were determined to operate effectively.

Many of the findings raised by AMD are considered to be minor in nature, when taken in context of overall operations of the Shire.

3.0 OTHER MATTERS

Our report is solely for the purpose set forth in the first section of this report and for your information and is not to be used for any other purpose or distributed to any other party.

We would like to thank Vin, Carol and the Shire of Gnowangerup team for the co-operation and assistance provided to us while conducting our FMSR.

Should you have any queries in respect to this report or any other matters relating to our FMSR, please do not hesitate to contact me.

Yours Sincerely
AMD Chartered Accountants



TIM PARTRIDGE FCA
Partner

APPENDIX A

SHIRE OF GNOWANGERUP

COLLECTION OF MONEY

SCOPE

For all the following locations operated by the Shire of Gnowangerup including Gnowangerup Administration Office and Gnowangerup Depot we:

- Documented internal controls, procedures and reconciliations in relation to all sources of income;
- Counted petty cash and float on hand ensuring materially correct;
- Reviewed fees and charges schedule and ensured adequate internal controls in place over receipting;
- Tested collection, receipting, invoicing and posting procedures over cash receipts on a sample basis; and
- Reviewed credit control procedures in respect to sundry debtors and rates debtors.

FINDINGS

1. DEBTOR INVOICING

Finding Rating: High

- Our enquiries indicated there is no formal authorisation and approval process in respect to the raising of debtor invoices, including the lack of independent review to ensure calculations are correct.
- Our testing identified invoice number 4574 raised to Co-operative Bulk Handling ("CBH") dated 31 August 2015 which did not include the correct calculation in respect to ex-gratia rates. CBH were incorrectly charged \$8,288.61; although the invoice states charges should have been 565,395 tonnage capacity at \$0.139212 equating to \$78,709.77.

In addition, we understand clarification is required on the basis of the calculation methodology and the \$0.139212 rate used, based on what is stated within the deed of agreement between Council and CBH

Implication

Risk of misstatement or omission with potential loss of Council income.

Recommendation

- We recommend Council document on authorisation and approval process in respect to raising debtor invoices, which ensures delegation to the appropriate level of staff. This could be through an "Authority to Raise an Invoice" form completed by the appropriate staff member prior to providing to administration for processing. We also recommend an independent review of debtor invoices raised be undertaken to ensure calculations are correct.
- We recommend a review of CHB invoices raised since the Deed of Agreement was entered into be performed to ensure calculation basis and resulting correct amount of ex-gratia rates has in fact been charged.

Management Comment

- An "Authority to Raise an Invoice" template was obtained from Rebecca Broad during the review and the form is now in use. The Senior Finance Officer is now reviewing the Customer Service Officer's debtor invoice calculations as recommended.
- Tim Partridge has been contacted to carry out an investigation of CBH invoices raised since the Deed of Agreement was entered into.

APPENDIX B

SHIRE OF GNOWANGERUP

CUSTODY AND SECURITY OF MONEY

SCOPE

- Completed site visits to cash collection points and reviewed the controls and procedures over the collection, receipting, recording and banking of cash collected offsite; and
- Reviewed the security of cash and banking procedures to ensure appropriate controls and procedures are in place.

FINDINGS

Our review indicated key underlying policies and processes in relation to the custody and security of monies is appropriate, in line with best practice and operate effectively.

Accordingly, we have no recommendations to raise in respect to the custody and security of money.

APPENDIX C

SHIRE OF GNOWANGERUP

MAINTENANCE AND SECURITY OF THE FINANCIAL RECORDS

SCOPE

- Reviewed information technology systems to assess physical security, access security, data backups, contingency plans, compliance and systems development; and
- Reviewed registers maintained (including key register, tender register etc.) and Audit Committee and Council minutes.

Please note, our inquiries indicated no major IT projects have been completed at the time of our site visit therefore, our assessment to IT projects undertaken by the Shire of Gnowangerup from the planning to contractor selection to inception phase, was limited.

FINDINGS

1. GNOWANGERUP SECURITY – RECORDS AND ASSETS

Finding Rating: Medium

Our inquiries indicated the following access and security rights which may result in unauthorised access and misappropriation of Council assets:

- Access to the server room is unrestricted;
- There is no formal documented policy or procedure in place for the issuing of Council keys or maintenance of Council key register;
- An alarm is not utilised at the depot;
- Plant and machinery keys located at the depot are not securely maintained in a locked cabinet; and
- There is no formal documented policy maintained in respect to acceptable use of plant and machinery and security of access to keys.

We also note a key register is not maintained to record the access and subsequent returns of keys maintained at the depot (i.e. date of vehicle use, employee name, vehicle registration, date key returned and signature).

Implication

Increased risk of theft, misuse of Council assets and unauthorised access to records.

Recommendation

We recommend access and security be enhanced with the consideration of the following:

- Restricting access to the server room to only those personnel who require access;
- Implementation of a formal documented policy or procedure relating to issuing of Council keys and responsibilities regarding maintenance of Council key register, which includes keys in respect to all Council buildings, vehicles, machinery and plant;
- Consider purchasing an alarm for the depot;
- Plant and machinery keys located at the depot are not securely maintained in a locked cabinet at all times with key access being restricted to pre-determined senior employees and employees requiring access to conduct their stated duties; and
- Implementation of a formal documented policy or procedure relating to the use of plant and machinery and security of access to keys at the depot.

APPENDIX C

SHIRE OF GNOWANGERUP

MAINTENANCE AND SECURITY OF THE FINANCIAL RECORDS

We also recommend a key register be maintained to record key access at the depot.

Management Comment

- Restricting access to the server room is unrealistic. There are three separate doors which lead into the room and the room is accessed via any of three other rooms.
- Agreed.
- The surveillance camera in place at the depot is considered adequate security at this point in time.
- This matter will be addressed with the Manager Works.
- AMD is requested to provide an example of such a policy or procedure for the Shire of Gnowangerup to adopt.
- Manager Works has already been requested to create and maintain a key register at the depot.

2. LOCAL GOVERNMENT FRAMEWORK

Finding Rating: Medium

The Shire of Gnowangerup does not have documented policy or procedure in respect to Bring Your Own Devices (personal devices including smartphones, tablets memory sticks, etc., owned by employees) which may be utilised to receive emails or connect to Council's IT network.

Implication

Risk that the Shire of Gnowangerup's IT systems and confidentiality of information may be compromised.

Recommendation

We recommend a policy and procedure in respect to personal devices be documented, approved, implemented and monitored on an ongoing basis.

Management Comment

AMD is requested to provide an example of such a policy or procedure for the Shire of Gnowangerup to adopt.

APPENDIX D

SHIRE OF GNOWANGERUP

ACCOUNTING FOR MUNICIPAL OR TRUST TRANSACTIONS

SCOPE

- Reviewed all monthly reconciliations including bank, sundry debtors, sundry creditors, fixed assets, rates debtors and rateable value reconciliations ensuring correctly reconciled and independently reviewed;
- Reviewed and tested most recent municipal and trust bank reconciliations prepared;
- Reviewed processes in respect to BAS, FBT Return and other statutory returns preparation;
- Reviewed use of reserve funds and determined whether changes in reserve purposes had been budgeted or public notice provided;
- Reviewed self-supporting loan transactions ensuring debtor invoices raised in accordance with payment schedule;
- Reviewed trust ledger balances; and
- Reviewed policies and procedures in respect to insurance, recording claims and insuring newly acquired assets.

FINDINGS

1. REVIEW OF TRUST BALANCES

Finding Rating: Low

Our review of the detailed trust ledger balances listing at 31 March 2016 indicate there are various old trust balances (dating back to 2005). Our inquiries confirmed that a detailed review of old trust balances, specifically relating to bond accounts is required to be completed to determine the correct course of action.

Implication

Risk that Shire of Gnowangerup continues to hold monies in trust which are to be refunded or recognised as income in the event that the amount relates to performance bonds where conditions have not been met.

Recommendation

We recommend a detailed review of the trust ledger balances listing be completed to determine if monies are required to be returned (or transferred to unclaimed monies if you cannot determine who the funds relate to) or recognised as income where related obligations have not been met.

Management Comment

The DCEO and SFO will conduct a review and then discuss further action with AMD.

APPENDIX D

SHIRE OF GNOWANGERUP

ACCOUNTING FOR MUNICIPAL OR TRUST TRANSACTIONS

2. INSURANCE

Finding Rating: Low

Our inquiries indicated there is no formal documented process for lodgement of insurance claims, including workers compensation.

In addition, we noted a claims register is not maintained as part of the claims process.

Implication

Risk that claims are not lodged on a timely basis and lack of monitoring of insurance claims.

Recommendation

We recommend a formal documented policy or procedure be implemented outlining the process to be followed in the event an insurance claim, including workers compensation claims is required to be made.

We also recommend a claims register is maintained as part of the claims process including all relevant information required (such as date of loss, team / department, date of claim submission, claim amount, excess, and recovery and claim status).

Management Comment

AMD is requested to provide an example of such a policy or procedure for the Shire of Gnowangerup to adopt.

A claims register will be set up and maintained for all insurance claims. Please note that all claims are recorded in the SynergySoft records system.

APPENDIX E

SHIRE OF GNOWANGERUP

AUTHORISATION FOR INCURRING LIABILITIES AND MAKING PAYMENTS

SCOPE

- Reviewed controls and procedures over the authorisation of purchase orders and making of payments;
- Tested a sample of payments to ensure compliance with stated procedures;
- Reviewed tender procedures and ensured compliance with stated procedures;
- Reviewed credit card processes and procedures, and tested transactions on a sample basis;
- Reviewed petty cash processes and procedures, and tested transactions on a sample basis;
- Completed sample tests in respect to asset additions and asset disposals;
- Reviewed asset capitalisation and depreciation policies and ensured compliance with stated policies; and
- Reviewed new loans received ensuring budgeted for or public notice provided.

FINDINGS

1. MINIMUM QUOTATIONS

Finding Rating: Low

During our sample testing of purchases we noted the minimum number of quotations as specified in Council Policy '4.1 Purchasing Procedure' were not always obtained, including for some asset purchases. Examples can be supplied upon request.

Implication

Risk of non-compliance with stated policy.

Recommendation

To ensure compliance with Council's stated policy, we recommend the minimum number of quotes as per policy requirements be obtained prior to the purchase of goods or services.

We also suggest that information pertaining to any payment, such as quotes obtained (whether verbal or written), advertising and other significant notes should be attached or noted on payment advices. We recommend the use of a formal quotation form be used whereby details of verbal quotes obtained are noted and written quotes obtained a summarised.

Management Comment

We acknowledge AMD's recommendations and advise that an updated purchasing policy/procedure has been drafted which addresses these comments. All staff will be advised to follow it carefully once it has been approved.

APPENDIX F

SHIRE OF GNOWANGERUP

MAINTENANCE OF PAYROLL, STOCK CONTROL AND COSTING

SCOPE

- Completed a site visit to the depot in Gnowangerup and reviewed security over stocks held and allocation/ costings of stocks used (including fuel and inventory stocks);
- Reviewed allocation of public works overheads, plant operating costs and administration overheads;
- Reviewed payroll controls and procedures to ensure effective controls are in place, and complete tests on a sample basis to ensure controls were operating effectively;
- Reviewed procedures and policies in place in respect of human resource management legislative and compliance requirements, recruitment, performance appraisal, disciplinary and termination procedures and leave entitlements;
- Reviewed listing of leave taken by employees ensuring authorised leave forms completed; and
- Reviewed annual leave balances and identified employees with excessive annual leave balances.

FINDINGS

1. PAYROLL

Finding Rating: Medium

During our sample testing of payroll, we identified the following:

- We noted employees who were paid and industry allowance above that stated within the Municipal award with no documentation to support this increase;
- We identified two instances whereby allowances were paid at \$100 per fortnight however the supporting payroll memorandum states allowance will be paid at a rate of \$100 per week;
- We noted an instance where there was no supporting contract, authorised email or other documentation to support a wage rate paid to an employee;
- We identified an instance where a timesheet was not authorised by the supervisor as evidence of independent confirmation of hours worked;
- Leave forms are not utilised for sick leave;
- We identified numerous instances where a medical certificate was not provided for more than one day of sick as required by stated Council policy;
- Various authorised leave forms were not available to support annual leave taken; and
- Various leave forms were not signed by the CEO as required by the form.

Implication

Risk of non compliance with stated policy.

APPENDIX F

SHIRE OF GNOWANGERUP

MAINTENANCE OF PAYROLL, STOCK CONTROL AND COSTING

Recommendation

We recommend consider the following:

- Undertake a review of allowances paid and ensure in accordance with the relevant award or documentation maintained on the employee personnel file;
- Ensure all wage rates are supported by contract, authorised documentation or award;
- Ensure all timesheets are authorised as evidence of independent confirmation of hours worked;
- Consider implementing leave forms for sick leave which can trigger the provision of a medical certificate if greater than one day;
- Ensure sick leave is only paid where an employee has a medical certificate in accordance with stated Council policy; and
- Ensure all leave is supported by an authorised leave form.

Management Comment

- DCEO will undertake a review of allowances as recommended.
- DCEO has already been reviewing supporting documentation for wage rates.
- Amendments will be made to our leave forms noting the medical certificate requirements.
- Managers and supervisors will be reminded of the matters that have been raised above.

2. TERMINATION CHECKLIST

Finding Rating: Low

We note that there is no formal termination checklist in place when an employee either resigns or is terminated, to ensure all tasks relating to the employee's termination have been completed.

Implication

Risk that tasks required to be undertaken and following an employee's departure are not completed on a timely basis.

Recommendation

We recommend a formal termination checklist be developed which is required to be completed on termination and signed off once completed. Items which may be relevant to include on the termination checklist would vary according to the individual employee role, and should include sign off by the terminated employee, their manager and the HR co-ordinator in respect of:

- Return of laptop, computers and accessories;
- Return of gate key / office key and updating of register;
- Return of business cards;
- Removal from IT access;
- Redirect team member's emails for one month to an alternative employee;
- Disable team member from company login system;
- Update payroll database;
- Email team member for updated postal address for PAYG summary; and
- Alarm codes to be deactivated.

APPENDIX F

SHIRE OF GNOWANGERUP

MAINTENANCE OF PAYROLL, STOCK CONTROL AND COSTING

Management Comment

An appropriate termination checklist will be developed as recommended.

3. EXCESSIVE ANNUAL LEAVE BALANCES

Finding Rating: Low

From our review of the annual leave listing, we noted various employees who have accrued in excess of eight weeks annual leave as at 31 March 2016.

Implication

1. The cost to Council is greater if annual leave is not paid out on a regular basis due to the cumulative effect of salary increases over a period of time.
2. Recreational leave enhances employee performance.
3. It is a fundamental principle of good internal control that all employees take regular holidays.

Recommendation

We recommend leave balances be managed to reduce the number of employees with excess leave due.

Management Comment

Acknowledged. There is already a process in place and we try to manage leave in line with operational requirements.

APPENDIX G

SHIRE OF GNOWANGERUP

PREPARATION OF BUDGETS, BUDGET REVIEWS, ACCOUNTS AND REPORTS REQUIRED BY THE ACT OR THE REGULATIONS

SCOPE

- Reviewed of policy and procedure manual;
- Reviewed the procedures for preparation of the monthly financial statements, annual financial statements and annual Budget, including assessment of accounting policy, notes and applicable reporting requirements and efficiency of the process;
- Reviewed monthly financial statements ensuring presented to Council within two months and information contained within monthly financial statements is in accordance with Regulation 34 of Local Government (Financial Management) Regulations 1996;
- Reviewed the mid-year budget review to ensure compliance with Regulation 33A of the Local Government (Financial Management) Regulations 1996 and assessment of budgetary expenditure controls in place;
- Ensured prior year audit report and management letter had been presented to audit committee and Council; and
- Reviewed compliance with Part 6 of the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.

FINDINGS

Our review indicated key underlying policies and processes in relation to the preparation of budgets, budget reviews, accounts and reports required by the act or the regulations are appropriate, in line with best practice and operating effectively.

Accordingly, we have no recommendations to raise in respect to the preparation of budgets, budget reviews, accounts and reports required by the act or the regulations.

We note the Shire of Gnowangerup has a number of policies due for review by June 2016, which we understand are currently in the process of being reviewed.

APPENDIX H

SHIRE OF GNOWANGERUP

RISK ASSESSMENT

GUIDANCE AS TO RISK CLASSIFICATION

Risk is uncertainty about an outcome. It is the threat that an event, action or non-action could affect an organisation's ability to achieve its business objectives and execute its strategies successfully. Risk is an inherent component of all service activities and includes positive as well as negative impacts. As a result not pursuing an opportunity can also be risky. Risk types take many forms – business, economic, regulatory, investment, market, and social, just to name a few.

Risk management involves the identification, assessment, treatment and ongoing monitoring of the risks and controls impacting the organisation. The purpose of risk management is not to avoid or eliminate all risks. It is about making informed decisions regarding risks and having processes in place to effectively manage and respond to risks in pursuit of an organisation's objectives by maximising opportunities and minimising adverse effects.

Risk guidelines are stated within Risk Management – Principles and Guidelines Standard AS / NZS ISO 31000-2009.

Our guidance to risk classification in completing our internal audit review is as follows:

- Consequence is the severity of the impact that would result if the event were to occur.
- Likelihood is the chance that the event may occur given knowledge of Council and its environment.

Finding Rating for each audit issue was based on the following table:

Likelihood	Consequence		
	Insignificant	Significant	Highly Significant
Low	L	M	M
Medium	L	M	H
High	L	H	H

5. CLOSURE

There being no further business President Cr K House closed the meeting at 3.26pm