

SHIRE OF WANDERING

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Our Vision:

Wandering is a community of responsible, resilient and adaptable residents thriving in our scenic, economically diverse environment.

Audit Committee

Agenda 19 May 2022

Dear Committee Member

The next Meeting of the Audit Committee of the Shire of Wandering will be held on 19/05/2022 in the Council Chambers, 22 Watts Street, Wandering, commencing at 5:00pm.

Ian Fitzgerald
A/CHIEF EXECUTIVE OFFICER

We wish to acknowledge the traditional custodians of the land we are meeting on today. We acknowledge and respect their continuing culture and the contribution they make to the Shire of Wandering, and convey our respects to Elders past, present and emerging.

CONTENTS

1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS	3
1.1. <i>DISCLOSURE OF INTEREST AFFECTING IMPARTIALITY</i>	3
2. RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE (PREVIOUSLY APPROVED)	3
3. PUBLIC QUESTION TIME	3
4. STATUS REPORT FROM PREVIOUS MEETINGS	3
5. OFFICER'S REPORT	4
5.1. <i>2021/22 ANNUAL AUDIT PROCESS</i>	4
5.2. <i>FINANCIAL MANAGEMENT REVIEW</i>	28
6. CLOSURE OF MEETING	29

1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

1.1. DISCLOSURE OF INTEREST AFFECTING IMPARTIALITY

Division 6 Subdivision 1 of the Local Government Act 1995 requires Council Members and Employees to declare any direct or indirect financial interest or general interest in any matter listed in this Agenda.

The Act also requires the nature of the interest to be disclosed in writing before the meeting or immediately before the matter be discussed.

NB: A Council member who makes a disclosure must not preside or participate in, or be present during, any discussion or decision-making procedure relating to the declared matter unless the procedures set out in Sections 5.68 or 5.69 of the Act have been complied with.

DISCLOSURE OF INTEREST AFFECTING IMPARTIALITY

Disclosures of Interest Affecting Impartiality are required to be declared and recorded in the minutes of a meeting. Councillors who declare such an interest are still permitted to remain in the meeting and to participate in the discussion and voting on the particular matter. This does not lessen the obligation of declaring financial interests etc. covered under the Local Government Act.

To help with complying with the requirements of declaring Interests Affecting Impartiality the following statement is recommended to be announced by the person declaring such an interest and to be produced in the minutes.

"I (give circumstances of the interest being declared, eg: have a long-standing personal friendship with the proponent). As a consequence, there may be a perception that my impartiality on this matter may be affected. I declare that I will consider this matter on its merits and vote accordingly".

2. RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE (PREVIOUSLY APPROVED)

Present:

Cr I Turton	Chairman	Cr G Curtis	Mr I Fitzgerald	A/CEO
Cr G Parson		Cr P Treasure	Mr B Gibbs	EMTS
Cr S Little		Cr M Watts		
Cr G Hansen				

Apologies:

Nil

3. PUBLIC QUESTION TIME

4. STATUS REPORT FROM PREVIOUS MEETINGS

Nil

5. OFFICER'S REPORT

5.1. 2021/22 ANNUAL AUDIT PROCESS

Proponent	Office of Auditor General & AMD
Owner	Shire of Wandering
Location/Address	
Author of Report	Ian Fitzgerald, A/CEO
Date of Meeting	18/05/2022
Previous Reports	Nil
Disclosure of any Interest	Nil
File Reference	14.145.14512
Attachments	2021/22 Audit Planning Summary

BRIEF SUMMARY

As a part of the process leading up to the 2021/22 annual audit a planning meeting was recently held. Unfortunately no councillors were able to attend so the information is presented to the Audit Committee for their noting – no action required.

BACKGROUND

The Shire's Auditors, Office of Auditor General and AMD have provided information on the process and timeline for the auditing of the 2021/22 financial statements.

STATUTORY/LEGAL IMPLICATIONS

Local Government Act 1995 Section 7.12(A).

Local Government Audit Regulations 1996 Regulation 16

Local Government Financial Management Regulations 1996

POLICY IMPLICATIONS

As per Significant Accounting Policies

FINANCIAL IMPLICATIONS

Nil. The audit fee will form part of the 2022/23 annual budget.

STRATEGIC IMPLICATIONS

IMPROVE OUR FINANCIAL POSITION

Our Goals	Our Strategies	Our Measurement
The Wandering Shire is financially sustainable	Improve accountability and transparency Develop an investment strategy that plans for the future and provides cash backed reserves to meet operational needs Prudently manage our financial resources to ensure value for money	Rate review implemented over a staged process by 2020 Balanced budget delivered annually Annual external financial audit identifies no adverse issues Long Term Financial Plan updated annually Investment Strategy

CONSULTATION/COMMUNICATION

Office of Auditor General and AMD

COMMENT

Nil

VOTING REQUIREMENTS

Simple Majority

OFFICER'S RECOMMENDATION – ITEM 9.1.1 2021/22 ANNUAL AUDIT PROCESS

That the Audit Committee acknowledge receipt of the Audit Planning Summary from OAG and AMD for the 2021/22 annual financial audit.

AUTHOR'S SIGNATURE:

A handwritten signature in black ink, appearing to be 'J. Smith', written in a cursive style.



AUDIT PLANNING SUMMARY

SHIRE OF WANDERING

Year ended 30 June 2022

March 2022

AMD Chartered Accountants on behalf of
Office of the Auditor General for Western
Australia



Table of Contents

1.	Purpose of the Audit Planning Summary	3
2.	Introduction	4
2.1	Background and General Information	4
	Role of Council	4
2.2	Shire Council and Executive Management	4
2.3	Governance and Roles and Responsibilities	5
2.4	Financial Report and Regulation	5
3.	Terms of Engagement and Appointment	6
3.1	Auditor General	6
3.2	Contractor Appointment – AMD Chartered Accountants (“AMD”)	6
3.3	Conflicts of Interest	6
4.	Our Audit Approach	7
4.1	Audit Approach Steps	7
4.2	Audit Approach and Methodology	7
4.3	Australian Auditing Standards	9
4.4	Materiality	9
4.5	Fraud Risk	9
4.6	Meetings	10
4.6.1	Entrance Meeting	10
4.6.2	Interim Audit Findings	10
4.6.3	Final audit close out meeting	10
4.6.4	Exit meeting	10
5.	Significant Risks and Other Audit Issues	11
6.	Audit Emphasis and Significant Account Balances	12
7.	Management Representation Letter	18
8.	Related Entities	18
9.	Reporting Protocols	18
9.1	AMD Reporting Requirements	18
9.2	Management Letter	19
9.3	OAG Contract Reporting Requirements	19
10.	Proposed Audit Schedule	20
11.	Audit Evidence – Specific Audit Requirements	21
12.	Your Audit Team	22

1. Purpose of the Audit Planning Summary

The purpose of this Audit Planning Summary is to provide the Shire of Wandering Audit Committee and Executive Management our proposed approach to the audit of the financial report of the Shire of Wandering for the year ending 30 June 2022.

This Audit Planning Summary will be discussed during the meeting scheduled for 6 May 2022 and ensures our responsibility to communicate with those charged with governance are satisfied.

Specifically, this Audit Planning Summary includes:

- Introduction
- Terms of Engagement and Appointment
- Our Audit Approach
- Significant Risks and Other Audit Issues
- Audit Emphasis and Significant Account Balances
- Management Representation Letter
- Related Entities
- Reporting Protocols
- Proposed Audit Schedule
- Audit Evidence - Specific Audit Requirements
- Your Audit Team

If there are any matters in the Summary that you would like clarified, please do not hesitate to contact us.

There may be areas where you would like us to increase the audit focus. We would be pleased to discuss these to determine the most efficient and effective approach to performing the Shire of Wandering's audit requirements.

2. Introduction

2.1 Background and General Information

The town of Wandering is located 120km to the south east of Perth 27km off Albany Hwy. The Shire of Wandering has an area of 1,955km sq. of which some 900km sq. is State Forest. The population of the Shire, as of the 2010 census was 439.

Major agricultural activities include cereal crops (oats, wheat, barley) pulse crops (lupins, chickpeas, faba beans) oil seed (canola), sheep (wool & meat), cattle (meat), pigs and vineyards. Other commercial industries include wineries, timber milling and hay exporting. A range of local commercial services exist.

Individual Councillors, including the President, cannot make decisions as individuals. The Council itself does not have any delivery or executive functions, but rather relies on the decisions of the majority of the group which provide direction for the Chief Executive Officer to implement.

The Local Government Act defines the roles of Council and the Councilor's as follows:

Role of Council

1. direct and control the Local Government's affairs and functions;
2. oversee the allocation of the Local Government's finances and resources;
3. determine the Local Government's policies; and
4. ensure that there is an appropriate structure for administering the Local Government.

2.2 Shire Council and Executive Management

The Shire of Wandering Council consists of:

President	Ian Turton
Deputy President	Paul Treasure
Councillor	Graeme Parsons
Councillor	Gilian Hansen
Councillor	Max Watts
Councillor	Gary Curtis
Councillor	Sheryl Little

The Shire Executive Management consists of:

Acting Chief Executive Office ("CEO")	Ian Fitzgerald
Executive Manager of Technical Services	Barry Gibbs
Works Manager	Brad Hunt
Finance Officer	Sophie Marinoni

2.3 Governance and Roles and Responsibilities

As one of Australia's three spheres of government (Federal, State, Local), Local Government is the sphere that most closely affects the daily lives of members of the local community.

The roles and responsibilities of Local Government generally include:

- infrastructure and property services, including local roads, bridges, footpaths, drainage, waste collection and management;
- provision of recreation facilities, such as parks, sports fields and stadiums, golf courses, swimming pools, sport centres, halls, camping grounds and caravan parks;
- health services such as water and food inspection, toilet facilities, noise control and meat inspection and animal control;
- community services, such as child-care, aged care and accommodation, community care and welfare services;
- building services, including inspections, licensing, certification and enforcement;
- planning and development approval;
- administration of facilities, such as airports and aerodromes, ports and marinas, cemeteries, parking facilities and street parking;
- cultural facilities and services, such as libraries, art galleries and museums; and
- water and sewerage services in some states.

Local Government revenue comes from three main sources:

- rates;
- fees and charges; and
- grants from Federal and State/Territory Governments.

The Shire of Wandering is governed by an independent Council. Councillors are elected by the ratepayers.

The Shire of Wandering Council appoints a CEO to ensure resources are effectively and efficiently managed. Council may delegate to the CEO the exercise of any of its powers or the discharge of any of its duties under the Local Government Act 1995.

2.4 Financial Report and Regulation

The Shire of Wandering's annual financial report is general purpose financial statements prepared in accordance with the Act and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

Applicable financial reporting regulations the Shire of Wandering must comply with includes:

- Local Government Act 1995 ("the Act");
- Local Government (Financial Management) Regulations 1996 ("the Regulations"); and
- Local Government (Audit) Regulations 1996.

The Auditor General's audit report will be prepared in accordance with the Act, Regulations and Australian Auditing Standards and include the audit opinion on the annual financial report. The Auditor General's audit report will also report:

- Any significant adverse trends in the financial position of the Shire of Wandering;
- Any instances of non-compliance with the Act, the regulations or applicable financial controls of any other written law identified during the course of the audit;
- Whether all required information and explanations are obtained during the audit;

- Whether all audit procedures are satisfactorily completed; and
- Whether, in the Auditor General's opinion, the asset consumption ratio and asset renewal funding ratio included in the annual financial report are supported by verifiable information and reasonable assumptions.

The Shire of Wandering is required to publish the auditor's report with the annual financial report on its website. If the Auditor General reports other significant matters to the Shire of Wandering, then the Shire will be required to report to the Minister action taken with respect to those matters.

3. Terms of Engagement and Appointment

3.1 Auditor General

Following proclamation of the Local Government Amendment (Auditing) Act 2017, the Auditor General becomes responsible for the annual financial report audit of Western Australian Local Governments.

The annual financial statement audit of the Shire of Wandering was completed by the Auditor General for the first time for the year ended 30 June 2021.

3.2 Contractor Appointment – AMD Chartered Accountants ("AMD")

AMD has been contracted by the Auditor General to perform the Shire of Wandering financial report audit on the Auditor General's behalf for the year ending 30 June 2022. The OAG and AMD have signed a contractor agreement which outlines the relationships between the OAG, Shire and AMD.

Our audit procedures will be conducted under the direction of the Auditor General, who will retain responsibility for forming the audit opinion and issuing the audit report to the Shire of Wandering. The 30 June 2022 audit approach and methodology is outlined within section 4.0 below.

AMD is required to report any matter to the Auditor General which may affect the Auditor General's responsibilities under the Auditor General Act 2006. AMD's reporting requirements as outlined within the contractor agreement are outlined within section 9 of this Audit Planning Summary, Reporting Protocols.

3.3 Conflicts of Interest

We confirm we have completed our independence evaluation and are satisfied we do not have any actual or perceived conflicts of interest in completing the annual audit of the Shire of Wandering on behalf of the Auditor General.

4. Our Audit Approach

4.1 Audit Approach Steps

Our audit approach comprises five steps:



4.2 Audit Approach and Methodology

Our audit approach is designed to specifically focus audit attention on the key areas of risk faced by the Shire of Wandering in reporting on finances and performance.

As part of our audit approach, we have conducted an initial financial report risk assessment to determine whether any of the risks identified are, in our judgement, high risks. A high risk is an assessed risk of material misstatement in the financial report that in our judgement is a key audit area and therefore requires special audit consideration.

Our assessment of key audit areas is based on:

- Discussions held with the Executive Management team;
- The complexity of transactions within each audit area;
- The degree of subjectivity in the measurement of financial information related to the risk, in particular those requiring significant accounting estimates and assumptions; and
- The degree of susceptibility to fraud risk.

Testing of high risk material balances follows a hierarchy approach commencing with tests of controls, substantive analytical review procedures and finally tests of details. Testing of low risk material balances is coordinated with the auditing of high risk material balances.

Our audit will be separated into two components, the interim audit and the final audit.

The interim audit includes:

- understanding the Shire of Wandering's current business practices;
- assessment and response to engagement risk, entity risk and system risk;
- understanding the control environment and evaluating the design and implementation of key controls and, where appropriate, whether they are operating effectively;
- testing transactions to confirm the accuracy and completeness of processing accounting transactions;
- clarifying significant accounting issues, including accounting estimates and fair value considerations before the annual financial report is prepared for audit;
- review and assess legislative compliance;
- review and assess contingent liabilities;
- review and assess progress with respect to the introduction of applicable new Accounting Standards; and
- follow up prior year management letter comments and recommendations.

The final audit focuses on verifying the annual financial report and associated notes, and includes:

- verifying material account balances using a combination of substantive analytical procedures, tests of details, substantiation to subsidiary records and confirmation with external parties; and
- reviewing the annual financial report and notes for compliance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

It is important to note that:

- The Council and the CEO are responsible for keeping proper accounts and records, maintaining effective internal controls, preparing the annual financial report, and complying with the Local Government Act and Regulations, and other legislative requirements.
- An audit does not guarantee that every amount and disclosure in the annual financial report is free from error. Also, an audit does not examine all evidence and every transaction. However, our audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the annual financial report.
- The Council and CEO are responsible for ensuring the accuracy and fair presentation of all information in its annual report, and that it is consistent with the audited annual financial report. The OAG does not provide assurance over your annual report.
- The Council and the CEO have responsibility for maintaining internal controls that prevent or detect fraud or error and to ensure regulatory compliance. The Audit Committee and AMD/the OAG should be informed by management of any fraud or material errors. During the audit we will make inquiries with management about their process for identifying and responding to the risks of fraud, including management override. It should be noted that our audit is not designed to detect fraud, however should instances of fraud come to our attention, and we will report them to you.

4.3 Australian Auditing Standards

Our audit is conducted in accordance with Australian Auditing Standards. Our aim is to provide reasonable assurance whether the annual financial report is free of material misstatement, whether due to fraud or error. We perform audit procedures to assess whether, in all material respects, the annual financial report is presented fairly in accordance with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

The nature of the audit is influenced by factors such as:

- the use of professional judgement;
- selective testing;
- the inherent limitations of internal controls; and
- the availability of persuasive rather than conclusive evidence.

As a result, an audit cannot guarantee that all material misstatements will be detected. We examine, on a test basis, information to provide evidence supporting the amounts and disclosures in the annual financial report, and assess the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by management.

4.4 Materiality

The scope of our audit also applies materiality. The planning materiality level will be calculated and determined using AMD's audit methodology. The amount of materiality may be adjusted during the audit, depending on the results of our audit procedures.

4.5 Fraud Risk

In accordance with *ISA 240 The Auditor's Responsibility Relating to Fraud in the Audit of a Financial Report*, when planning and performing audit procedures and evaluating the results, the auditor must consider the risk of material misstatement in the financial report as a result of fraud or error.

Council and management of the Shire of Wandering is responsible for the prevention and detection of fraud and error. The Shire is responsible for maintaining accounting records and controls designed to prevent and detect fraud and error, and for the accounting policies and estimates inherent in the financial report.

We will request management complete a self assessment fraud control questionnaire. This allows us to make inquiries of management, to obtain an understanding of the risk of fraud within the Shire and to determine whether management have knowledge of fraud activities. We will review the fraud control questionnaire assessment.

In addition we will review the Shire's fraud prevention control procedures, review significant or unusual transactions, review accounting estimates and key assumptions and review year end accounting adjustments.

4.6 Meetings

4.6.1 Entrance Meeting

The entrance meeting will discuss this Audit Planning Summary and be held with the Audit Committee (or where impractical for the Audit Committee, a representative from Council), Acting CEO, Finance Officer, OAG Director and AMD.

4.6.2 Interim Audit Findings

The interim audit findings will be discussed with management by the audit team at the completion of the interim audit. Draft management letters will be provided to the Shire's CEO for coordination of comments from appropriate members of your management.

4.6.3 Final audit close out meeting

The final audit findings will be discussed with management by the audit team at the completion of the final audit.

4.6.4 Exit meeting

The exit meeting will discuss the financial report, proposed audit report to be issued and the management letter. This meeting will be held with the Audit Committee (or where impractical for the Audit Committee, a representative from Council), CEO, Finance Officer, OAG Director and AMD.

5. Significant Risks and Other Audit Issues

Through discussions with the Executive Management team and based on the 2020/2021 audit, we have identified the following issues and key areas of risk affecting the audit.

Details of Risk / Issue	Audit Approach
Audit findings reported in the previous audit	We will follow-up the issues reported during the 2020/21 audit.
<p>We have identified the following areas that we consider require additional focus during 2021/2022 Local Government Audits:</p> <ul style="list-style-type: none"> Fair value of land, buildings and infrastructure (now revalued on a 5 year cycle unless fair value is materially different from the carrying amount). Plant and equipment recorded at depreciated cost. Revenue recognition including the application of <i>AASB 15 Revenue from Contracts with Customers</i> and <i>AASB 1058 Income of Not-for-profit Entities</i>. Identification and recording of leases in accordance with <i>AASB 16 Leases</i>, including commercial leases recognising ROU asset and corresponding liability and concessionary leases recorded at zero. Ensure vested improvements correctly recorded as ROU asset. Assessment of Long Service Leave for casual employees. General accounting journals. Trust account balances. Financial ratios. Related party disclosures. Contingent Liabilities, including waste facility and contaminated sites. Joint arrangements (joint operations, joint ventures). Purchasing processes and documented evidence relating to obtaining quotations and tenders. Current and approved Long Term Financial Plan and Asset Management Plan, with sufficient data. 	We will review the accounting treatment and disclosure processes during our interim audit.
<p>The following annual financial report items are derived from accounting estimates and hence will receive specific audit attention:</p> <ul style="list-style-type: none"> Provision for annual and long service leave Fair value of assets Impairment of assets 	We will review the method and underlying data that management and where applicable third parties use when determining critical accounting estimates. This will include considering the reasonableness of assumptions and corroborating representations. Audit procedures will address potential management bias in accounting estimates, the assessment of inherent risk factors and applying professional scepticism to estimates included within balances.

Details of Risk / Issue	Audit Approach
COVID-19	<p>We will continue to monitor the ongoing COVID-19 pandemic and associated impact to the audit process. We will work with your management to minimise the risk for your staff and councillors, and our staff and contractors, and to your operations, while completing audits in the best timeframe possible under the applicable circumstances at the time.</p> <p>Should the need arise, this may involve more audit work being performed remotely rather than at your premises, and/or delaying audit work if unforeseen circumstances arise.</p> <p>We will also review your Shire's implementation of any COVID-19 relief measures and ensure they have been implemented appropriately.</p>

6. Audit Emphasis and Significant Account Balances

Our audit approach involves assessing the Shire of Wandering's overall control environment and understanding key business processes/cycles and internal controls relevant to the audit.

We will test key controls for all significant business cycles. The level of testing will be dependent on our assessment of the risk in each business cycle. We plan to address the following cycles:

- Revenue and Receivables cycle;
- Expenditure and Payable cycle;
- Payroll and Employee Entitlements cycle;
- Cash and Financing cycle;
- Inventory cycle; and
- Fixed assets cycle (Property, Plant, Equipment and Infrastructure).

The extent of our reliance on controls, together with the materiality level, determines the nature and extent of our audit procedures to verify individual account balances.

The table below lists those items in the Statement of Financial Position and the Statement of Comprehensive Income that are significant account balances, and our planned audit approach for these balances. When selecting significant account balances, we consider materiality, the nature of the balance, inherent risk and the sensitivity of disclosures.

Significant Account	2021 Audited Balance \$'000	Audit Approach
Statement of Financial Position		
Cash and cash equivalents	841	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Perform walkthroughs of the cash cycle. Review bank reconciliations. Review transfers between bank accounts. Verify large or unusual reconciling items. Verify year end bank balance through bank confirmations. Verify classifications including restricted / unrestricted; trust vs municipal and financial assets. Analytical review.
Financial Assets, including Self Supporting Loans	18	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Perform walkthroughs of the financial assets cycle. Review investment reconciliations. Verify year end investment balances, including Local Government House investment through external confirmations (where applicable). Review internal controls, self-supporting loan debtor invoicing and reconciliations. Analytical review.
Receivables including rates	69	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Perform walkthroughs of the revenue and receivable cycle. Perform cut-off testing and review credit notes. Review subsequent receipts. Review expected credit loss assessment ensuring compliant with AASB9. Analytical review.
Inventories	74	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Perform walkthroughs of the inventory cycle. Review of stock listings. Verification of units costs. Consider obsolete and slow moving inventories.
Property, plant, equipment and infrastructure	58,889	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls, including internal control testing with respect to the Shire's processes for determining inputs into fair value. Perform walkthroughs of the fixed assets cycle. Analyse year end balances for each major class of asset comparing to last year. Perform sample testing on asset additions and disposals. Review management's impairment assessment at year end. Test items posted to construction in progress to assess appropriateness of expenses being capitalised. Review accounting treatment for repairs and maintenance costs to

Significant Account	2021 Audited Balance \$'000	Audit Approach
		determine correct classification. <ul style="list-style-type: none"> • Ensure assets less than \$5,000 are expensed as required. • Assess and perform tests to determine whether carrying amounts approximate fair value. • Where relevant, confirm balances to independent valuation reports and test key assumptions in determining fair value. • Ensure revaluation increments / decrements are correctly applied. • Ensure vested land and restricted use assets recorded in accordance with AASB13 take into account externally imposed restrictions. • Review developer contributions to ensure correctly recorded and disclosed.
Payables	203	<ul style="list-style-type: none"> • Review and assess effectiveness of internal controls. • Perform walkthroughs of the purchasing and payables cycle. • Test for unrecorded liabilities and review subsequent payments post year end. • Test and review material accrual balances. • Verification of accrued expenses. • Perform cut-off testing. • Ensure prepaid rates are correctly classified as a liability in accordance with AASB1058. • Analytical review.
Contract Liabilities	217	<ul style="list-style-type: none"> • Review and assess effectiveness of internal controls. • Verification of contract liability calculation, ensuring requirements of AASB15 are met. • Review of evidence to support when a payment is due or already received before the related performance obligation has been satisfied in accordance with the applicable Contract / Agreement.
Provisions	125	<ul style="list-style-type: none"> • Review internal controls and employee provision reconciliations. • Review the reasonableness of assumptions and calculations. Ensure calculations in accordance with AASB119. • Test a sample of leave balances to ensure correct. • Analytical review.
Equity (Total)	59,346	<ul style="list-style-type: none"> • Review internal controls. • Sample test reserve movements to supporting documentation including cash reserves and asset revaluation reserves. • Analytical review.
Statement of Comprehensive Income		
Operating and non-operating grants, subsidies and contributions	1,969	<ul style="list-style-type: none"> • Review of key processes and controls. • Perform walkthroughs of the revenue cycle relating to grants, subsidies and contributions. • Sample testing of transactions, including grant agreements. • Perform cut-off testing. • Review and test disclosures relating to unspent grants at year end, ensuring treated correctly in accordance with relevant Australian Accounting Standard.

Significant Account	2021 Audited Balance \$'000	Audit Approach
		<ul style="list-style-type: none"> • Sample testing of non-cash contributions. • Analytical review.
Rates	1,101	<ul style="list-style-type: none"> • Review of key processes and controls. • Perform walkthroughs of the revenue cycle relating to rates. • Sample testing of transactions. • Perform cut-off testing. • Analytical review.
Fees and charges	560	<ul style="list-style-type: none"> • Review of key processes and controls. • Perform walkthroughs of the revenue cycle relating to fees and charges. • Sample testing of transactions. • Perform cut-off testing and review credit notes. • Assessment of requirements to conduct site visits to facilities operated where fees and charges are applied. • Analytical review.
Other revenue, including interest earnings	51	<ul style="list-style-type: none"> • Review of key processes/controls. • Perform walkthroughs of the revenue cycle relating to other revenue. • Sample testing of transactions. • Perform cut-off testing. • Review credit notes. • Analytical review.
Employee related expenses	1,226	<ul style="list-style-type: none"> • Review of key processes and controls. • Perform walkthroughs of the payroll cycle. • Sample testing of transactions. • Verify wages reconciliation. • Analytical review.
Materials and contracts Utilities Insurance	1,061	<ul style="list-style-type: none"> • Review of key processes and controls. • Perform walkthroughs of the purchasing and payments cycle. • Sample resting of transactions. • Analytical review.
Depreciation and Amortisation	1,166	<ul style="list-style-type: none"> • Review of management's assessment of the useful lives of assets and assess reasonableness. • Verify depreciation expenses to valuation reports (where applicable). • Perform re-calculation tests. • Analytical review.
Other expenses, including interest expense	142	<ul style="list-style-type: none"> • Review of key processes/controls • Perform walkthroughs of the purchasing and payments cycle. • Sample testing of transactions. • Agree interest expense to WATC confirmation. • Review listing of other expenses to identify large or unusual accounts and test accordingly. • Analytical review.

The table below lists those significant financial statement disclosures or other auditable areas and our planned audit approach for these disclosures. When selecting significant disclosures, we consider materiality, the nature of the item, inherent risk and the sensitivity of disclosures.

Statement, Auditable Area and / or Disclosures	Audit Approach
Statement of Cash Flows and Cash Flow Reconciliation Note	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Review Statement of Cash Flows and reconciliation note calculations. Ensure disclosures comply with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.
Legislative Compliance	<ul style="list-style-type: none"> Ensure Shire of Wandering's financial management policies and procedures are compliant with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and Accounting Standards. Assess Shire of Wandering's compliance with internal policy and procedures throughout the year, identify any instances of non-compliance which also resulted in legislative requirements not being met. Review draft annual financial statements to ensure compliance with Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and Australian Accounting Standards.
Contingent Liabilities	<ul style="list-style-type: none"> Review of internal controls. Enquiries of management. Assess Council's disclosures of obligations under the Contaminated Sites Act 2003. Ensure disclosures comply with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996. Determine if any contingent liabilities relating to waste facilities, contaminated sites or aluminium composite panelling.
Capital and Leasing Commitments	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Enquiries of management. Verify disclosures to supporting calculations and documentation. Ensure disclosures comply with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.
Related Party Transactions, including elected member remuneration, key management personnel compensation and transactions with related parties	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Enquiries of management. Obtain an understanding of the means utilised to identify related parties and record related party transactions. Verify elected members remuneration calculations and test on a sample basis. Analytical review. Verify key management personnel compensation calculations and test on a sample basis. Ensure KMP classifications correct. Assess related party transactions terms and associated fraud risks. Ensure completeness of disclosures. Identify any related parties with dominant influence. Ensure related party disclosures comply with AASB124.
Financial Risk Management	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Review financial risk management note and reconciliation calculations. Ensure disclosures comply with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.

Statement, Auditable Area and / or Disclosures	Audit Approach
Internal Control and Risk Management	<ul style="list-style-type: none"> Assess control environment including segregation of duties and level of independent review / checks in place. Ensure Council have established and maintained a risk management framework that is appropriate. Assess how management place a strong emphasis on the design, implementation and maintenance of internal control to prevent and detect fraud. Assess classes of transactions and account balances which are more susceptible to fraud and test accordingly.
Fraud	<ul style="list-style-type: none"> Assess control environment including segregation of duties and level of independent review / checks in place. Assess how management place a strong emphasis on fraud prevention and deterrence. Review reporting mechanisms to those charged with governance. Assess classes of transactions and account balances which are more susceptible to fraud and test accordingly. Review of unusual transactions, in particular near balance date which may have a significant effect on the result.
IT	<ul style="list-style-type: none"> Obtain an understanding of the IT general control environment. Perform tests to assess the effectiveness of IT general controls over the IT system, including both physical and logical access of the users, change management process and audit trail / transaction log.
Accounting General Journals	<ul style="list-style-type: none"> Assess control environment in respect to accounting general journal entry and level of independent review / checks in place. Sample testing of accounting general journals. Assess classes of transactions and account balances which are more susceptible to fraud and test any large or unusual accounting general journals accordingly. Review of unusual accounting general journals, in particular near balance date which may manipulate the result.
Accounting Estimates	<ul style="list-style-type: none"> Assess control environment in respect to accounting estimates and level of consultation / independent review / checks in place. Sample testing of application accounting estimates, ensuring significant assumptions used in making accounting estimates are reasonable. Assess classes of transactions and account balances which are more susceptible to fraud and test any large or unusual accounting estimates accordingly. Review of unusual accounting estimates, in particular those recorded or changed near balance date which may manipulate the result. Ensure accounting estimates disclosures comply with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and Australian Accounting Standards.
Financial Ratios	<ul style="list-style-type: none"> Determine basis of calculating individual financial ratios and annual reporting requirements. Establish Local Government's internal controls to capture financial ratio source data, including Long Term Financial Plan, Asset Management Plan, valuation reports etc. Ensure Long Term Financial Plan and Asset Management Plan(s) are

Statement, Auditable Area and / or Disclosures	Audit Approach
	<p>current, approved by Council and include ten years of data.</p> <ul style="list-style-type: none"> • Determine ratio's which require adverse trend reporting accordingly. • Ensure financial ratio calculations and disclosures comply with the Local Government Act 1995 and section 50 of the Local Government (Financial Management) Regulations 1996.

7. Management Representation Letter

The above audit procedures assume that management expects to be in a position to sign a management representation letter. The proposed letter for this purpose is attached. This letter should be reviewed and tailored to meet your local government's particular circumstances, and be signed and dated by the CEO and Finance Officer as close as practicable to the date of the proposed auditor's report. Ordinarily, this would be no longer than five working days prior to the issue of the auditor's report.

Please bring to the attention of the President that we will also be relying on the signed Statement by CEO in the annual financial report as evidence that they confirm:

- they have fulfilled their responsibility for the preparation of the annual financial report in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards
- they have provided us with all relevant information necessary or requested for the purpose of the audit
- all transactions have been recorded and are reflected in the annual financial report.

8. Related Entities

Section 7.12AL of the *Local Government Act 1995* applies section 17 of the *Auditor General Act 2006* to a local government. Section 17 requires a local government to advise the Auditor General in writing of details of all related entities that are in existence.

9. Reporting Protocols

9.1 AMD Reporting Requirements

AMD is to provide a report to the Auditor General to enable the Auditor General to:

- form the audit opinion with respect to the Shire of Wandering's annual financial report;
- report any findings, significant control weaknesses and any other relevant matters arising from our audit procedures; and
- report any significant non-compliance with relevant legislation.

AMD will be required to form an opinion and report to the Auditor General whether the Shire of Wandering's financial statements:

- are based on proper accounts and records; and
- fairly represents, in all material respects, the results of the operations of the Shire of Wandering and its financial position for the years covered by the contract in accordance with the Act and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

9.2 Management Letter

Issues identified during the course of our audit procedures will be discussed with relevant staff and management as soon as possible after being identified. Draft management letters will be provided to the CEO (or other nominated representative) for coordination of comments from appropriate members of your management. We request that these be returned promptly, preferably within 5 working days.

At the conclusion of the audit, the abovementioned management letter will accompany the auditor's report and the audited annual financial report forwarded to the President, the CEO and the Minister for Local Government. The management letter is intended to communicate issues arising from the audit that may impact on internal control, compliance, and financial reporting.

Where considered appropriate, and to ensure timely reporting of audit findings and action by management, interim management letters may be issued to the CEO and the President. A copy will also be forwarded to the Minister when we forward our auditor's report on the annual financial report to the Minister on completion of the audit.

Specific matters resulting from issues identified during the audit may be reported in an Auditor General's Report to Parliament. Should this occur, you will be consulted in advance to assure the context and facts of the issue are adequately represented.

9.3 OAG Contract Reporting Requirements

As OAG contractors we are required to report to the OAG as follows:

1. Complete Interim planning audit;
2. Prepare and provide OAG representative with interim audit findings and prepare interim management letter (if required);
3. Complete post 30 June year end audit;
4. Obtain signed Management Representation Letter from Shire of Wandering;
5. Prepare and provide OAG Representative with Signing Review Memo (SRM), Data Collection Sheet, Draft Management Letter, Draft Financial Report and Signed Management Representation Letter; and
6. Provide OAG Representative with access to audit workpapers.

10. Proposed Audit Schedule

	Date
Planning and issue of Interim Audit Checklist by AMD	18 March 2022
Entrance Meeting (Shire, OAG & AMD)	6 May 2022
Onsite Interim Audit by AMD	28 to 29 March 2022
AMD provide OAG clearance for Interim Audit Review including draft Interim Management Letter (week ending)	22 April 2022
OAG complete Interim Audit Review	6 May 2022
Interim Management Letter to be issued by OAG (if required)	13 May 2022
Issue of Year End Audit Checklist by AMD (week ending)	17 June 2022
Final Trial Balance to be provided to AMD by the Shire	30 September 2022
Draft Annual Financial Report to be provided to AMD by the Shire	30 September 2022
Onsite Final Audit by AMD	17 to 18 October 2022
AMD provide OAG clearance for Audit File Review including all applicable Contractor deliverables / reports (week ending)	4 November 2022
OAG complete Final Audit Review	18 November 2022
AMD issue exit meeting agenda and associated reports (Management Representation Letter, draft Management Letter and draft Audit Report)	25 November 2022
Exit Meeting (week ending)	To be scheduled dependent on above
AMD to provide the signed AMD Audit Report, stamped FS, signed SRM, final Management Letter and signed Representation Letter to OAG	Within 2 days of Exit Meeting
OAG to issue signed audit report and Management Letter to the Shire.	Within 5 days of Exit Meeting

The above proposed audit schedule is subject to change depending on individual circumstances.

11. Audit Evidence – Specific Audit Requirements

We will discuss our requirements with your staff to facilitate a timely, efficient and effective audit. We will formally agree our information requirements and timeframes for the final audit with the CEO using our Audit Checklists.

We will issue an Interim Audit Checklist and Year-End Audit Checklist in advance of each audit visit. The checklists are intended to help Shire of Wandering staff to have various documents readily available when we perform our audit.

As the information requests contained within the Audit Checklists will form an important component of our audit working papers, the information must be made available to AMD on the dates specified. This will assist us in delivering an efficient audit and minimising interruptions to Shire staff.

Where information has not been made available to us one week prior to the interim visit or one week prior to our final visit (including draft annual financial report), we anticipate additional audit time may be incurred resulting in additional fees being charged.

12. Your Audit Team

	Name	Contact
Contractor – AMD Chartered Accountants		
Director	Maria Cavallo	(08) 9780 7555 maria.cavallo@amdonline.com.au
Alternate Director	Tim Partridge	(08) 9780 7555 tim.partridge@amdonline.com.au
Audit Manager/Team Leader	Judy Old	(08) 9780 7555 judy.old@amdonline.com.au
Auditor	Rebekkah Jacks	(08) 9780 7555 rebekkah.jacks@amdonline.com.au
Auditor	Linda Denison	(08) 9780 7555 linda.denison@amdonline.com.au
Audit Co-ordinator	Sian Manning	(08) 9780 7555 sian.manning@amdonline.com.au
Office of the Auditor General		
Auditor General	Caroline Spencer	(08) 6557 7500
OAG Representative Director	Jay Teichert	(08) 6557 7742 jay.teichert@audit.wa.gov.au

5.2. FINANCIAL MANAGEMENT REVIEW

Proponent	Shire of Wandering
Owner	
Location/Address	
Author of Report	Ian Fitzgerald, A/CEO
Date of Meeting	18/05/2022
Previous Reports	Nil
Disclosure of any Interest	Nil
File Reference	04.041.04109:CL115
Attachments	Financial Management Review Report - 2022

BRIEF SUMMARY

To receive the Financial Management Report following the recent independent review of processes and procedures.

BACKGROUND

There is a requirement for a financial management review to be undertaken at least once every 3 years. The previous review was conducted in 2016 and a review was therefore well overdue.

STATUTORY/LEGAL IMPLICATIONS

Local Government (Finance) Regulations 1996 – regulation 5(2)(c)

POLICY IMPLICATIONS

Nil

FINANCIAL IMPLICATIONS

The cost of the independent review will be met from the audit expense area of the budget.

STRATEGIC IMPLICATIONS

PROVIDE STRONG LEADERSHIP

Our Goals	Our Strategies	Our Measurement
We plan for the future and are strategically focused	Ensure accountable, ethical and best practice governance Develop and maintain our Strategic Plan, Corporate Business Plan, Asset Management Plan, Workforce Plan and Long Term Financial Plan Service Level Plans detail operational roles, responsibilities and resources Engage with local, regional, state and federal stakeholders to grow mutually beneficial relationships	Audit and Compliance Returns identify no adverse issues We meet the Integrated Planning Standards

CONSULTATION/COMMUNICATION

Staff and consultant

COMMENT

The lack of a current financial management review was noted in the 2020/21 audit report to Council. The ACEO sought quotes from 2 consultants with experience in this area and Avant Edge Consulting were appointed to conduct the required review.

A substantial of work went into providing the consultant with documents for review prior to coming onsite. The consultant visited the office on 12 May to carry out further checks and speak with staff on processes they follow.

A draft report was prepared and the ACEO provided management comments which are noted in the final report presented to the Audit Committee.

VOTING REQUIREMENTS

Absolute Majority

OFFICER'S RECOMMENDATION – ITEM 5.2 – FINANCIAL MANAGEMENT REVIEW

That the Audit Committee note that the financial management review has been conducted and that the report has been presented to the Committee and recommends to Council that it notes the review required by the Finance Regulations 1996 has been completed and it receives the associated report.

AUTHOR'S SIGNATURE:



6. CLOSURE OF MEETING

18 May 2022

Ian Fitzgerald
A/Chief Executive Officer
Shire of Wandering
22 Watts Street
Wandering WA 6038

REG 5(2)(c) – FINANCIAL MANAGEMENT REVIEW

Dear Ian

Please find attached my final financial management review report for the Shire of Wandering which includes your management comments.

Your comments regarding small Shire limitations is supported and was taken into account during my review. The recommendations made in this report will assist in the ongoing management of controls and compliance taking into account these limitations.

I would like to thank you and your staff for the positive cooperation provided to me during my visit and for the information that was provided to me during the conduct of this review.

Yours sincerely



Santo Casilli FCPA MIIA (Aust.)
Director

Avant Edge Consulting

Shire of Wandering

Regulation 5 (2) (c) – Financial Management Review

18 May 2022

Final Review Report

(Review in Confidence)

Avant Edge Consulting
Certified Practising Accountant

Liability limited by a scheme approved under Professional Standards Legislation

Table of Contents

Financial Management Review Summary and Conclusion	4
INTRODUCTION	4
CEO's RESPONSIBILITY FOR THE REVIEW REPORT	4
RESPONSIBILITY FOR THE REVIEW	4
REVIEW LIMITATIONS	4
SCOPE AND METHODOLOGY	5
WORK PROGRAM.....	5
REVIEW CONCLUSION.....	6
Executive Management Detailed Observations	7
Medium Risk Rated Issues	7
Low Risk Rated Issues	12
Appendix A – Risk Criteria	17
Appendix B – Confidentiality and Conflict of Interest Declaration Form	18

Financial Management Review Summary and Conclusion

INTRODUCTION

Avant Edge Consulting was engaged to undertake a financial management review of the Shire of Wandering's (the Shire) financial management systems and procedures as required to be undertaken at least once every 3 years as per the Regulation (5)(2)(c) of the *Local Government (Financial Management) Regulations 1996*.

I conducted my review in accordance with Australian Auditing Standard ASAE 3000 – *Assurance Engagement other than Audits or Reviews of Historical Financial Information* which provides a limited assurance regarding the appropriateness and effectiveness of the Shire's management controls over its financial management systems and processes.

This report outlines the work undertaken as part of my review and also includes my findings and proposed recommendations as identified as a result of the review.

The Shire of Wandering uses Synergy as its accounting system.

CEO's RESPONSIBILITY FOR THE REVIEW REPORT

As per Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*, the Chief Executive Officer (CEO) is required to undertake a financial management review, at least once every 3 financial years.

The final review report with the CEO comments is to be presented at the Audit and Risk Committee.

RESPONSIBILITY FOR THE REVIEW

My responsibility was to conduct the Financial Management Review in accordance with the Australian Auditing Standard ASAE 3000 – *Assurance Engagement other than Audits or Reviews of Historical Financial Information* and to report to the CEO the review findings and proposed recommendations for management control and process improvement.

My review assessed information in relation to the period 1 April 2021 to 31 March 2022.

I wish to confirm that I am fully independent of the Shire of Wandering and of its operations regarding this review.

REVIEW LIMITATIONS

The matters raised in this draft review report are only those which came to my attention during the course of performing the financial management review and may not necessarily be a comprehensive statement of all the possible control weaknesses and / or process improvement options that may be made in relation to the Shire's financial management systems and procedures.

As part of my review, I have not assessed and examined every financial process and procedure and as such have limited my assessment and evaluations only to those areas where I considered may be of higher risk to the Shire regarding its Financial Management process. As such I did not examine every activity and procedure that may exist at the Shire and therefore only provide limited assurance to the Shire.

My review, which was conducted in accordance with Australian Auditing Standard ASAE 3000 – *Assurance Engagement other than Audits or Reviews of Historical Financial Information* was not an audit, and as per ASAE 3000 I can only provide assurance based solely on my assessment of the information which was provided to me by the Shire during the conduct of this review.

This review report is to be used solely for the purpose of reporting to satisfy the requirements of *Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996* and should not be used for any other purpose or be distributed, other than to the Shire of Wandering.

SCOPE AND METHODOLOGY

My review was conducted in accordance with ASAE 3000 – *Assurance Engagement other than Audits or Reviews of Historical Financial Information*.

The review undertook the following approach:

- Information was sought from the Shire and was reviewed prior to my visit from my Perth office.
- Discussions were held with the A/CEO and relevant staff to understand the financial processes and the management controls currently in place.
- I assessed the adequacy of key management controls currently in place over key financial management systems and procedures in line with the following work program provided to the A/CEO and based on information that was provided to me during the review period.
- I discussed any findings and possible recommendations with the A/CEO.
- Issued draft review report for management comment prior to releasing final report.

WORK PROGRAM

My review incorporated the following key financial management areas as required under Regulation 5(1) of the *Local Government (Financial Management) Regulations 1996*:

- Procurement (formal quotations and tender process)
- Contract Management
- Accounts Payable
- Cash Collection and Handling
- Payroll
- General Ledger Application Controls (journal posting, balance sheet reconciliations)
- Council Rates, Fees and Charges, including Debt Management
- Investment Management
- Asset Management (excluding infrastructure assets)
- Budget process
- Information Technology General Systems Controls Environment

No other financial management systems and procedures were subject to review.

REVIEW CONCLUSION

Based on my review (which was not an audit) of the management controls and processes that exist at the Shire, regarding the above key financial management system areas, nothing came to my attention that would indicate any **high risk** management control matters that would require immediate attention by the Shire.

Based on the matters raised in the body of this report under Executive Management Detailed Findings, I can conclude that the financial management systems in place within the Shire, although considered to be satisfactory, can be further improved and several recommendations have been included in this review report for the A/CEO consideration.

The matters raised in this review report were assessed as Medium and Low risk to the Shire. For these identified matters I have recommended that the Shire should consider exploring the recommended process improvement options which have been incorporated within the body of this report.

As part of this report, I have reported the findings under 3 separate sections:

- Medium risk rated issues (immediate action recommended)
- Low risk rated issues (management consideration recommended)
- Observation issues (no management action required but may be considered)

Each finding has a recommended action except for those issues reported as "Observations".

I believe that the Shire's implementation of the suggested and recommended process improvements will strengthen the existing financial management controls that are currently in place and will provide greater overall governance within the Shire's financial operations.

I wish to acknowledge that with any small Shire where there exists small number of staff it may be difficult to ensure proper segregation of duties and therefore greater diligence is needed to ensure such controls are continually monitored by management. I also acknowledge that due to the lack of adequate trade and contractor numbers in small regional areas this may impact on the procurement process especially regarding gaining sufficient quotations and in seeking value for money. Shire management comments included in this report regarding these limitations is supported.

I am of the opinion that the Shire of Wandering management is currently managing these limitations as best as possible in line with its existing Shire policies and procedures. My recommendations were made to compliment and improve the controls and compliance that currently exist taking into consideration these limitations.

Executive Management Detailed Observations

Medium Risk Rated Issues

1. *Procurement (formal quotations and tender process)*

1.1. **Monitoring compliance with RFQ and RFT procurement policy and Regulations.**

My review noted that procurements are being managed by means of ensuring that purchase orders are being raised at the point of appointing service providers and that procurements are being approved as per the Shire's adopted Delegations Register.

We noted the following practices that can be improved:

- Although the Shire is obtaining in most instances written quotations as required as per the Shire's procurement policy, I noted several instances where the required number of written quotations were not obtained or support documentation could not be provided. I was unable to find appropriate number of written quotes for services procured from:
 - Crossman Hot Water & Plumbing.
 - Moore Australia.
 - Quest Payment Systems.
 - Bob Rado Trapping Services.
 - Modular WA.

I recommend that prior to the approval in creating a purchase order, the approving officer ensure that the required number of quotations have been obtained. A purchase order should not be approved unless satisfactory quotation documents have been provided.

- At present, the Shire's procurement process is monitored and controlled via the A/CEO and the EMTS to ensure procurement processes are undertaken in accordance with Shire policy and also more importantly in accordance the Local Government Act and associated Regulations. I believe that all procurement activity should be reviewed on an ongoing basis to ensure continued compliance is being achieved with the Local Government Act and Regulations and also, more importantly, that the Shire continues to obtain best value for money from its procurement activities. I noted several instances where the Shire is using the same supplier on an ongoing basis.

I recommend that the Shire consider obtaining a **"Supplier > \$50,000"** report from Synergy. This report should be reviewed possibly on a quarterly basis and should list all suppliers who have had over \$50,000 paid to them over say the last 12-18 months. These should be investigated to determine whether the payments relate to the same type of work and are continuous in nature and not a once off job. Where the type of work is similar and continuous in nature, the Shire should be considering whether best value for money can be achieved via proceeding to an RFQ or an RFT process for such goods and services. This would assist the Shire to comply with Sections 11 and 12 of the Local Government (Functions and General) Regulations 1996. I understand that due to the remoteness of the Shire, obtaining supplier

services can be difficult. However, this can be taken into consideration when undertaking ongoing monitoring of similar and continuous procurements

- The process for formally documenting the tender evaluations process on contracts awarded above \$250,000 was not evident in the Shire's revised purchasing policy. I understand that the Shire, in most instances, seeks quotations from suppliers that are on the WALGA contract and as such a public tender process is **not** required. However, where formal quotations are sought from more than one supplier on the WALGA contract or any other existing Common Use Arrangements (CUA's) or from a formal public tender process that is sought outside of a Common Use Contract being either through WALGA, Commonwealth or State Government, then all quotations received should at least be formally assessed, preferably via a panel of assessors, to determine best value for money and such decisions are to be formally documented, decisions to award justified and then formally approved. I would suggest that all procurements say over \$150,000 should be assessed via a panel of assessors.

I recommend that the Shire's procurement policy clearly document the process of establishing an evaluation panel to evaluate tender and formal quote submissions including the need for all evaluation panel members to sign a conflict-of-interest declaration form prior to assessing tender submissions. There should be at least 2 evaluation panel members (preferably 3). **Refer Attachment B for a copy of a standard "Conflict of Interest" declaration form.**

The evaluation panel should establish a standard process of measuring value for money (scoring matrix) and assessing suppliers based on qualitative requirements as stated in the RFQ or RFT document. All evaluation panel members should sign off on the recommendation to award services to a particular supplier.

I also recommend that the Shire ensure that all documentation that relates to a public tender or formal quotation is clearly maintained and held in a central filing system for easy access so as to easily identify the process followed for each formal quotation or public tender process from the point approval is given to proceed with a formal quotation or public tender through to final approval to awarding a contract.

I also recommend that the Shire's Procurement Policy be updated to reflect the need for a panel of assessors on all major contracts.

1.2. Service Contracts.

The Shire does not have formal contracts in place for major service contracts. These would include services that are being provided to the Shire on an ongoing basis such as:

- Moore Australia (financial services)
- IT Vision (Rates processing)
- Perfect Computer Solutions PCS (IT Service Provider)
- Rhonie's Wandering Mop & Bucket (cleaning services)
- Volt Air (building maintenance)

In the absence of any formal contracts, it was not clear as to who was responsible for what and how such responsibility was to be initiated for monitoring of works for such

services and also regarding awarding and approving contract extensions and contract over payments.

I recommend that formal service contracts be put in place for all ongoing service type work and that these contracts be monitored on an ongoing basis by a person responsible for contract management.

Further,

- The Shire does not at present have a Contract Management Policy and guidelines which would govern how the Shire should manage its existing procurement service contracts. The policy and guidelines should include at least the following:
 - Processing contract variations for those contracts less than tender threshold and above tender threshold.
 - Contract variation, extension and renewal process and approvals.
 - Monitoring contract overspends and approval process.

I recommend that comprehensive guidelines / protocols be developed for the above processes so that it can be applied consistently by the relevant person responsible over contract management.

I also recommend that the A/CEO establish a process by which all contract management process documentation is maintained and stored in a central location that is easily accessible as evidence that contracts are being managed and signed off by the A/CEO, appointed contract manager or the Works Manager prior to contract ending.

- I also noted that supplier performance assessments may also not be formally undertaken and documented once a procurement contract has ended. The advantage in undertaking supplier performance assessments is to be able to identify any unsatisfactory supplier performances which can be used to assess the supplier when that supplier next submits a quote for works for the Shire. This could avoid ongoing overcharging or under performance which would be impacting on value for money. Formal documentation stating the results of supplier assessments could not be found in the Shire's record system.

I recommend that the Shire ensure that a supplier performance appraisal process is implemented and undertaken at the end of each contract (contracts awarded under an RFQ or RFT only) in order to assess whether the supplier has performed satisfactorily to be used again by the Shire. The assessment should be documented, signed off by the appointed contract manager or the CEO or Works Manager and stored together with the contract management documentation.

Management Comments

The recommendation in relation to procurement and quotes/tenders is supported.

The service contracts comments are noted and supported but it should be noted that in small places like Wandering with a lack of service providers in town it is at times subject to available contractors. In addition, once a contractor has a local knowledge it can lead to time and cost efficiencies.

A signed Declaration of interest form is a good addition to the process.

2. Accounts Payable

2.1. Segregation of Duties.

At present the Finance Officer has access in Synergy to create a new supplier and also amend supplier details without prior approval. As all approval processes in Synergy are manual related (Synergy does not have online approval process feature) and also that Synergy does not have the ability to further restrict user access to lower levels in order to split access to different functions, this creates a potential control weakness issue in which the Finance Officer and possibly administration staff can create fictitious suppliers in synergy, create and input fictitious supplier invoices and also create a purchase order to match the supplier invoice without possible detection.

I recommend that the A/CEO approve all new creditor and all changes to creditor details or give consideration to developing from Synergy a daily exception report which provides a list of all new, amendments or changes that have been made in Synergy regarding a supplier and this exception report is checked on a sample basis and signed off by the A/CEO to ensure supplier amendments are legitimate and are supported with appropriate authorisation from the supplier. Such amendments would include:

- New supplier creations
- Supplier detail changes
- Supplier bank account detail changes

I also recommend in order to strengthen new supplier creations and bank statement amendments that the Shire, also require the creditor, to provide a copy of their latest bank statement which would provide the necessary proof that the creditor's stated bank account details are valid and that the bank account changes are also valid.

2.2. Policies and Procedures.

The Shire does not have formal policies and procedures governing the accounts payable process specifically relating to new supplier creation, changes to creditor details, issuing of purchase orders, matching of purchase orders against supplier invoices and authorisation of major variances between the approved purchase order \$ value and the supplier's invoice \$ value.

I recommend that the Shire develop formal policies and procedures regarding its accounts payable process, including the requirement for proper segregation of duties controls.

Management Comments

In a small Shire with a number of casual employees can prove challenging to have the ideal level of segregation of duties, but this is practised where possible. The need for segregation is supported.

Care has to be taken that not everything has to be signed off by the CEO as this could lead to overload of that role on compliance matters. Perhaps signed off by the CEO or EMTS to split the workload though not that high in our case.

Development of policies and procedures are supported.

Low Risk Rated Issues

3. Asset Management (asset stocktakes)

3.1 Depreciable Assets

I noted that the Shire does not at present undertake a stocktake of all its major plant and equipment (depreciable equipment over \$5,000) to ensure that the plant and equipment still exists and/or that it is not impaired. Where the plant and equipment showing on the asset register no longer exists or is impaired then the asset register should be amended.

Further, the Shire's Policy Manual does not adequately make provision for annual stocktakes of its plant and equipment and also does not clearly state what the Shire's policy is regarding plant and equipment and other infrastructure asset useful lives for depreciation purposes.

I recommend that the A/CEO consider updating the Policy Manual to include the need to undertake at least annual stocktakes of all depreciable plant and equipment assets and to also establish the Shire's depreciation rates for plant and equipment and major infrastructure assets.

3.2 Portable and Attractive Assets

The Financial Management Regulations require the A/CEO to take steps to prevent theft or loss of Shire assets especially regarding the Shires portable and attractive assets.

I was unable to sight any evidence that the Shire has a portable and attractive register listing all plant and equipment including computer equipment that is valued under \$5,000 which is normally expensed. The need to maintain a portable and attractive register is to enable the Shire to maintain control over pieces of equipment that may very easily go missing requiring replacement by the Shire.

I recommend that the ACEO ensure that the Shire identify all minor plant and equipment that has a value of less than \$5,000 which it considers could be classified as portable and attractive and include the items in a portable and attractive register. The Shire should then on a regular basis monitor to ensure these items do not go missing and this can be done via an annual stocktake. I would suggest that the portable and attractive register should detail model and serial numbers if possible and their location including if laptops are issued to staff the name of the staff that have the laptops.

Management Comments

A regular stocktake of major items on the asset register is something that can be added as a function of an existing role noting that there is a small asset register, but it should be noted in a small Shire if something of significance went missing it would be noticed by staff.

The development of a small/attractive items register for items of value less than \$5,000 is supported and will be recommended to incoming CEO.

4. General Ledger Controls

I noted that all adjusting journals that are required to be processed in the Shire's general ledger are not properly authorised by the A/CEO prior to being processed.

Further, month end and year end reconciliations to substantiate the balance sheet reported balances is not being performed, although I did note that monthly creditor/debtor reconciliations are being performed. These would normally be undertaken on all liability and asset accounts and substantiated with support documentation. These would include but not limited to:

- PAYG payable
- Superannuation payable
- GST payable
- Stock on hand
- Leave entitlements
- Bonds
- Investment balance
- Council Rates outstanding
- Debtors
- Creditors

I recommend that the A/CEO ensure that at least year end reconciliations to substantiate the asset and liability reported balances from the general ledger be conducted and that this process should be formalised in the Shire's Policy Manual. All reconciliations including support documentation should be signed off by the A/CEO.

Management Comments

Some of the above functions are reconciled on a monthly basis, but not all. Some are reconciled on an annual basis as part of the annual financial statement's preparation.

With new staff appointed in a finance roll, reconciliation of these areas will be incorporated into monthly reporting.

5. Purchase Orders

Currently Synergy allows a person to both requisition a purchase order and also approve a purchase order. Also, Synergy is not able to prevent a person authorising a purchase order where that person does not have the delegated authority to approve a purchase order up to certain \$ values. I noted one instance where a purchase order (PO 1413) was requisitioned and also approved by the Executive Manager, Technical Services for an amount of \$295,209.75 (inclusive of GST) and according to the Shires Delegated Authority limits, the Executive Manager Technical Services position can only requisition or approve up to \$75,000.

I recommend that formal procedures be developed to ensure that the same person can not both issue a requisition and also approve a requisition and that purchase orders

should only be approved as per the delegation \$ limit. The A/CEO issue these formal instructions to all approving officers.

Management Comments

Agreed. Staff will be instructed on purchasing approval limits. It will be investigated if Synergy can be set up to build in approval limits for designated positions to prevent this occurring in the future.

6. IT General Controls Environment

As part of the Financial Management Review, the Shire's system and security controls were assessed to determine that satisfactory system security is in place over the shire's data. The Shire uses Perfect Computer Solutions (PCS) as its outsourced service provider. I noted the following matters that need attention:

The Shire does not currently have the following in place:

- **Information Technology Strategy Plan.** This allows the Shire to plan on its information technology needs including software and hardware to ensure security over its data and ensuring the Shire maintains up to date technology.
- **Disaster Recovery Plan.** This is essential to ensure that the Shire can still remain operational and provide services to the community should an unforeseen disaster occur.
- **Information Technology Policies and Procedures.** This should outline the Shires IT operations, data backup facilities, user access control and security, internet usage , control and security, user password monitoring, control and security and also the link between the Shire and its outsourced IT service provider in regards to service provision.
- **Software Usage Policy and Software Register (Optional).** This policy would outline what software can be used and is required to ensure future operations of the Shire.

Based on my observations and from discussion with Shire staff the following matters were also noted:

- Uncertain as to whether the system automatically blocks a user after a number of unsuccessful login attempts.
- Uncertain as to whether a user's login is suspended if user passwords are not changed regularly.
- There does not appear to be any automatic screen shutdown where the computer is left unattended over a prolonged period.
- There does not appear to be any monitoring of user's internet access and use to prevent accessing unsociable websites etc.
- It appears that the user password is only alpha/numeric and when the system prompts the user to change their password the same password can be reused.
- An ex-employee, Amy Kippin, still appears to have a login ID and has not been removed from the user login list.
- There appears to be a number of generic logins which have full administration access that need to be investigated and possibly deleted if no longer required.

I recommend that the A/CEO discuss these matters with the Shire's IT providers and implement adequate security measures to address all of the above matters.

Management Comments

Agreed. There is a need for better technology controls and procedures to be implemented as well as development of a disaster recovery plans and overall IT long term plan both for accounting and equipment/software update purposes.

Observations (No Recommendations Made)

1. *Open Purchase Orders*

It was not clear as to whether the Shire has a policy and procedure in place for monitoring open purchase orders to ensure that at financial year end any purchase orders that are still active and have a remaining balance are checked and if no further work is forthcoming under the purchase order that the purchase order is closed.

2. *Whistle blower Policy*

I noted that the Shire does not have in place a Whistle blower policy. Consideration should be given to adopting such a policy.

Management Comments

The Finance Officer sends emails to staff periodically relating to outstanding PO's they have raised but no formal policy or procedure is in place.

In a small Shire the relevance of a whistle blower policy may not be warranted but the concept of reporting without recrimination is fully supported by Council and senior management.

Appendix A – Risk Criteria

The following risk criteria were used to assess level of risk on review findings included in the Review Report.

Risk Assessment Matrix

Likelihood of Risk:

Rating	Description	Frequency
1	Rare – May occur, only in exceptional circumstances	< once in 15 years
2	Unlikely – Could occur at some time	At least once in 10 years
3	Possible – Should occur at some time	At least once in 3 years
4	Likely – Will probably occur in most circumstances	At least once per year
5	Almost Certain – Expected to occur in most circumstances	> once per year

Consequence of Risk:

Description	Health	Financial Loss	Operation	Compliance	Reputation	Project
1. Insignificant	No injuries or illness	<\$50,000	Little Impact	Minor breach of policy, or process requiring approval or variance	Unsubstantiated, low impact, low profile or no news item.	Small variation to cost, timeliness, scope or quality of objectives and required outcomes.
2. Minor	First Aid treatment	\$50,000 to \$250,000	Inconvenient Delays	Breach of policy, process or legislation requiring attention of minimal damage control	Substantiated, low impact, low news profile.	5-10% increase in time or cost or variation to scope objective requiring approval
3. Moderate	Medical treatment required	\$250,000 to \$1 million	Significant delays to major deliverables	Breach requiring internal investigation, treatment or moderate damage control	Substantiated, public embarrassment, moderate impact, moderate news profile.	10-20% increase in time or cost or variation to scope objective requiring Senior Management approval
4. Significant	Death or extensive injuries	\$1 million to \$3 million	Non achievement of major deliverables	Breach resulting in external investigation or third party actions resulting in tangible loss and damage to reputation	Substantiated, public embarrassment, moderate impact, high news profile and 3 rd party actions.	20-50% increase in time or cost or significant variation to scope objective requiring restructure of project and Senior Management or Council approval
5. Severe	Multiple deaths or severe permanent disabilities	>\$3 million	Non achievement of major deliverables	Breach resulting in external investigation or third party actions resulting in significant tangible loss and damage to reputation	Substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile, 3 rd party	>50% increase in time or cost or inability to meet project objectives requiring the project to be abandoned or redeveloped

Risk Exposure:

Risk = Likelihood x Consequence

Score	Level of Risk	Score	Level of Risk	Score	Level of Risk
1 - 8	Low	9 - 19	Medium	20 - 25	High

Appendix B – Confidentiality and Conflict of Interest Declaration Form

DECLARATION OF CONFIDENTIALITY AND INTEREST

All staff responsible for evaluating supplier tender submissions or supplier formal quotations are required to complete the following declaration of confidentiality and interest **PRIOR** to evaluating the quote submissions.

RFT /RFQ NO & Title: _____

I _____ (Print Name) herby declare that:

- I have no pecuniary interest in any of the supplier(s) that have submitted a quote/bid for the above RFT/RFQ.
- I have no actual or perceived conflict of interest or impartiality in the supplier(s) that have provided a quote/bid. Should any of the supplier(s) be personally known to me I shall inform the CEO immediately and will not undertake in the evaluation process until approved to do so by the CEO.
- I agree to keep all information relating to the supplier(s) quote/bid confidential and under no circumstances will I disclose such information to persons outside of the evaluation team members.
- I shall keep the results of the evaluation process confidential. No indication of the likely recommendation will be discussed, disclosed or allowed to be disclosed without written approval from the CEO.

NAME: _____ **DATE:** _____

SIGNATURE: _____