

SHIRE OF LEONORA



AUDIT AND RISK COMMITTEE MEETING AGENDA

TO BE HELD TUESDAY, 21ST JUNE, 2022 AT 9:00AM

JG EPIS
CHIEF EXECUTIVE OFFICER

SHIRE OF LEONORA
ORDER OF BUSINESS FOR MEETING TO BE HELD
TUESDAY 21ST JUNE, 2022.

1	DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS / FINANCIAL INTEREST DISCLOSURES	
2	RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE	
	2.1 ATTENDANCE	
	2.2 APOLOGIES	
	2.3 LEAVE OF ABSENCE	
	2.4 APPLICATIONS FOR LEAVE OF ABSENCE	
3	CONFIRMATION OF MINUTES FROM PREVIOUS MEETING	
	(Sent out previously)	
	Draft motion: That the Minutes of the Audit and Risk Committee Meeting held on 15 March, 2022 be confirmed as a true and accurate record.	
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4.0 REPORTS**4.1 CHIEF EXECUTIVE OFFICER REPORTS****4.1.(A) REVIEW OF FINANCIAL MANAGEMENT, RISK MANAGEMENT, LEGISLATIVE COMPLIANCE AND INTERNAL CONTROLS**

SUBMISSION TO: Audit and Risk Committee Meeting
Meeting Date: 21st June 2022

AGENDA REFERENCE: 4.1.(A) AUDIT JUN 22

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

LOCATION/ADDRESS: Leonora

NAME OF APPLICANT: N/A

FILE REFERENCE: 1.10 - Audits - Reports and Minutes

AUTHOR, DISCLOSURE OF ANY INTEREST AND DATE OF REPORT

NAME: James Gregory Epis

OFFICER: Chief Executive Officer

INTEREST DISCLOSURE: Nil

DATE: 13th June 2022

SUPPORTING DOCUMENTS: 1. Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls [↓](#)

BACKGROUND

Prior to 30th June 2018, meetings with the Chief Executive Officers (CEO's) for the Shires of Leonora, Laverton, Menzies and Wiluna were held, where opportunities for collaboration and service sharing were discussed. From these meetings, it was considered a viable opportunity to further explore the possibility of engaging the services of a consultancy company to perform the Statutory Compliance Services for the four local governments, given many already engaged consultants to assist with a variety of work.

The Shires of Leonora, Laverton, Menzies and Wiluna supported proceeding to the tender stage for Statutory Compliance Services and subsequently the tender was awarded to Moore Australia for a four year term. One of the services included within the scope of the risk management service was a review of financial management, risk management, legislative compliance and internal controls, which was undertaken in 2018/19. Moore Australia were engaged again to undertake this review in 2021/22, to comply with timing requirements to undertake the review in accordance with legislation.

COMMENT

The attached report includes details of matters noted during the review, as well as improvements to be considered by the Shire and comments from the executive team in response to some findings. A risk assessment working document, summarising the findings and improvements noted within the report has been prepared for internal use by the executive. This risk assessment working document will form future status reports for the Shire of Leonora as improvements are implemented and

completed by responsible officers. This document was circulated during a briefing session to the Audit and Risk committee for information.

STATUTORY ENVIRONMENT

The Chief Executive Officer is required by the *Local Government (Audit) Regulations 1996* Regulation 17 to review the appropriateness and effectiveness of the Shire's risk management, internal controls and legislative compliance systems and procedures every three years. A review of financial management systems to assess the appropriateness and effectiveness of these systems and procedures, is also required by *Local Government (Financial Management) Regulations 1996*, regulation 5(2)(c) every three years.

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

POLICY IMPLICATIONS

The Risk Management Policy outlines the Shire's commitment and approach to managing risks impacting on day-to-day operations and the delivery of strategic objectives. The Legislative Compliance Policy and Internals Control Policy also apply.

FINANCIAL IMPLICATIONS

Provision is included in the 2021/22 Adopted Budget for Moore Australia to undertake the review of financial management, risk management, legislative compliance and internal controls.

STRATEGIC IMPLICATIONS

Strategic references within the Shire of Leonora's Plan for the Future 2022-2032 demonstrate connections between services and the desired outcomes and community vision for the Shire of Leonora, particularly in relation to strategy 4.1.2 Provide strategic leadership and governance.

RISK MANAGEMENT

This item has been evaluated against the Shire of Leonora's Risk Management Strategy, Risk Assessment Matrix. The perceived level of risk is high prior to treatment, receipt of the report by the committee (and subsequently Council) as well as the progression of risk management activities aligned with the Risk Management Strategy will reduce the risk to low.

RECOMMENDATIONS

That the Audit and Risk Committee:

1. Receive the attached report by the Chief Executive Officer detailing the results of the Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls; and
2. Report to the Council the results of the Chief Executive Officer's report by providing a copy of the finalised Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls completed in May 2022.

VOTING REQUIREMENT

Simple Majority

SIGNATURE

Chief Executive Officer



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

Shire of Leonora

May 2022



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1.0 Engagement Overview

1.1 Scope of Services

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

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

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

1.1.1 Procedures – Financial Management Review

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

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

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

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

1.0 Engagement Overview

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

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

- A review of the risk management systems policies, procedures and plans in place at the Shire;
- Evaluate the non-financial/operational internal control systems and procedures at the Shire;
- Assess systems and procedures for maintaining legislative compliance; and
- Prepare a report of matters identified during the review to assist the CEO assess the appropriateness and effectiveness of the relevant systems and procedures in accordance with regulation 17 of the *Local Government (Audit) Regulations 1996*.

To undertake these procedures, we applied the following methodology:

- Conduct interviews with key personnel involved in risk management, financial management and the Shire's adherence to legislative requirements;
- Identify the extent of commitment and mandate to risk management principles, using AS/NZS ISO 31000:2018 as the framework, within the overall risk management framework;
- Review each component of risk management, legislative compliance and internal controls after considering the overall risk environment, governance structure and internal control environment;
- Assess the gaps, if any, between the current processes and the expected risk management, internal controls and legislative compliance systems and procedures and recommend suggested improvements; and
- Report on the appropriateness and the effectiveness of current systems and procedures.

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

2.0 Review Context

2.1 Review Context - Shire of Leonora

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

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

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

3.0 Review Summary

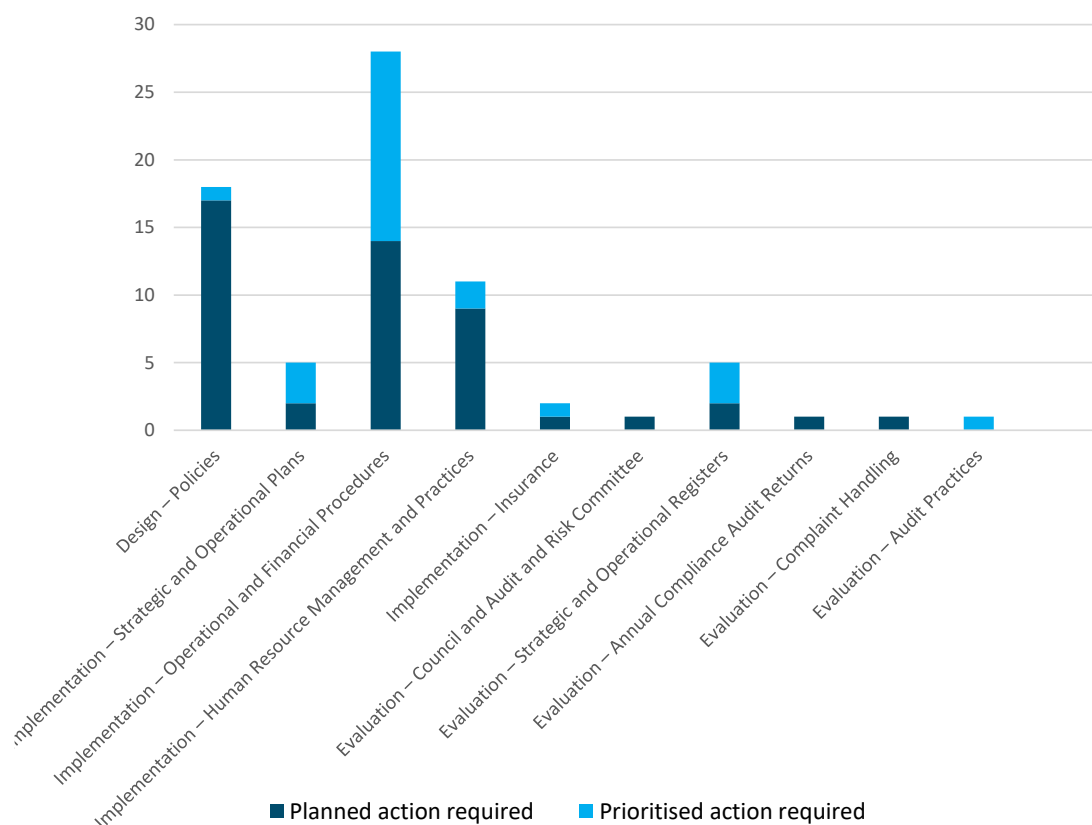
3.1 Overall

Operations of a regional local government are complex and involve a number of people making decisions across a large number of areas of operations. The Shire of Leonora is highly reliant on a small team of senior decision makers to govern its operations whilst trying to ensure sound financial and risk management through internal controls whilst seeking to achieve a high level of compliance.

This review was undertaken by first determining an appropriate framework for the Shire against which current policies, procedures and actions could be assessed this is described further in Section 5.0. A number of areas for improvement were identified during the review. As the Shire has limited resources the areas identified for improvement have been split between those requiring prioritised action and those requiring planned action as actions will require resources and time to address the matters raised.

The chart below reflects the number of improvements identified within each area of the framework examined.

3.1.1.1 No. of improvements identified by framework element



Details of each improvement identified under each framework element are provided in Sections 6.0 through 8.0 of this report. Key improvements are provided under each of the review areas, financial management, risk management, internal control and legislative compliance on the following pages.

A summary of improvements listed by prioritised and planned action is provided at Appendix F.

3.0 Review Summary

3.2 Financial Management

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

3.2.1 Appropriateness

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

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

3.2.2 Effectiveness

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

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

3.2.3 Improvements

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

- IT general controls;
- Security controls;
- Fixed asset controls;
- Cash handling controls;
- Stock controls;
- Revenue controls;
- Change of banking details and creditor master file;
- Procurement controls; and
- Payroll controls.

3.0 Review Summary

3.3 Risk Management

The Shire revised its formal risk management processes with the adoption of an updated Risk Management Policy in December 2018. The policy is supported by a Risk Management Strategy, both of which refer to the Risk Management Standard ISO 31000:2018. These documents form the basis for risk management activities within the Shire.

3.3.1 Appropriateness

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

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

3.3.2 Effectiveness

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

3.3.3 Improvements

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

- Maintain the risk based approach to the further development and maintenance of documented internal controls and procedures. This suggestion is intended to support a continual assessment of appropriate controls throughout the organisation by identifying the need for new controls (based on risk) and ensuring existing outdated and unnecessary controls are discontinued;
- Review contractor insurance to ensure contractors have appropriate insurance;
- Implement recommendations from ICT strategic plan;
- Undertake a comprehensive ICT security review;
- Progress the development and application of risk management activities to existing practices in accordance with a suitable risk management framework; and
- Ensure appropriate management of operational risks for high risk areas.

3.0 Review Summary

3.4 Internal Control

A formal internal control policy is yet to be developed and adopted by the Shire. A policy to guide the Shire may assist to ensure an iterative risk based approach to evaluating the internal controls, systems and procedures, as well as providing a mechanism whereby regular review and updates occur.

3.4.1 Appropriateness

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

3.4.2 Effectiveness

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

3.4.3 Improvements

The knowledge and experience of senior staff has contributed to a number of preventative controls being implemented throughout the Shire. Further enhancement to these controls may be considered through the implementation of detective controls, as noted within Section 7.0 of this report.

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

- Development of a documented internal controls policy, promoting a risk-based approach to the further development and maintenance of documented internal controls and procedures should provide an appropriate internal control framework. Continual risk based assessment of appropriate controls throughout the organisation will assist to identify the need for new controls and identify existing outdated and unnecessary controls to be discontinued;
- Update, testing and maintenance of the IT Disaster Recovery Plan;
- Development and maintenance of a Business Continuity Plan;
- Key internal controls should be documented either as procedures, checklists or workflow diagrams;
- Define procedures to manage changes to internal controls;
- Undertake appropriate training at induction and at regular intervals to ensure staff are fully aware of, and understand, relevant internal controls; and
- Implement financial management control recommendations discussed at Section 3.1 of this report.

3.0 Review Summary

3.5 Legislative Compliance

Currently, no legislative compliance policy exists to communicate expectations of Council in relation to legislative breaches and regulatory compliance. Reliance in this regard is dependent upon the knowledge and experience of senior staff and their individual desire to achieve high levels of legislative and regulatory compliance.

3.5.1 Appropriateness

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

3.5.2 Effectiveness

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

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

3.5.3 Improvements

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

- Development of a legislative compliance policy dealing with legislative compliance;
- Maintain financial interest and tender registers as required by legislation;
- Further development and approval of authorised checklists for functions which require a high level of legislative compliance; and
- Develop and maintain a staff training matrix and coordinate training across the Shire. A risk based training matrix should help ensure staff with the responsibility for preventing, identifying and reporting breaches of legislation, are offered relevant training to ensure their knowledge of legislative requirements is maintained and qualifications are maintained and up to date where required.

4.0 Methodology

4.1 Review Methodology – Financial Management Review

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

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

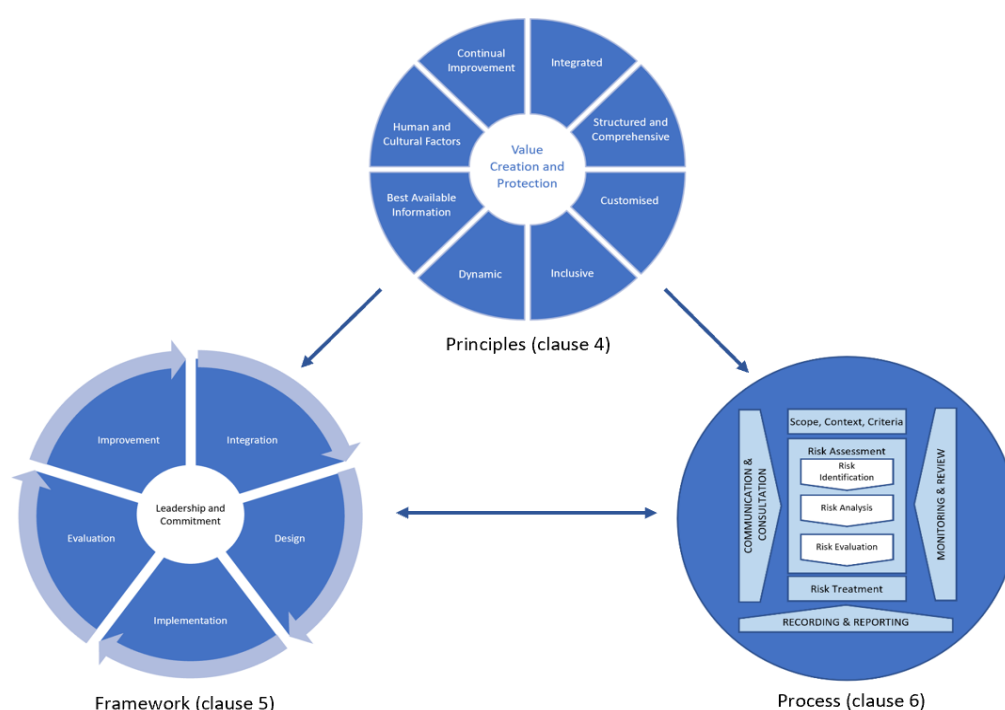
4.2 Review Methodology – Risk Management, Legislative Compliance and Internal Controls

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

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

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

Diagram 1. Risk Management Principles, Framework and Process



Source: Australia/New Zealand Standard ISO 31000:2018

4.0 Methodology

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

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

- Identify the extent of leadership and commitment to the principles;
- Assess the extent of integration of risk management within the Shire;
- Assess the design of the current framework through an understanding of the Shire and the context within which it operates (risk management, legislative compliance and internal controls) after considering the overall context in which the review occurs;
- Assess the implementation of the current framework;
- Assess the extent of evaluation of the current framework and its effectiveness in supporting the Shire's objectives;
- Assess the current framework and improvements to the suitability, adequacy and effectiveness of the framework;
- Review the current process for the Shire's systematic application of policies, procedures and practices to the activities of communicating and consulting, establishing context, assessing, treating, monitoring, reviewing, recording and reporting risk, internal controls and legislative compliance; and
- Report on the appropriateness and effectiveness of current systems and procedures.

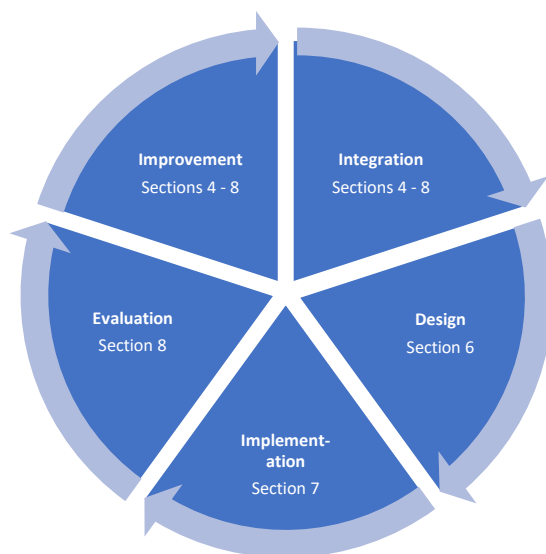
This evaluation is based on interviews with key staff, review of requested documentation listed in the Appendices and reference to any external audit reports or reviews previously conducted.

5.0 Appropriate Framework

5.1 Risk Management, Internal Control and Legislative Compliance

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

Diagram 2. Risk Management, Internal Control and Legislative Compliance Framework



Source: Australia/New Zealand Standard ISO 31000:2018

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

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

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

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

6.0 Framework Design

6.1 Strategic Plans

The Shire has adopted two key strategic documents, the Strategic Community Plan 2017-2027 and the Corporate Business Plan 2020-2024. These plans identify the Council's organisational objectives and key outcomes, as the Shire progress on its stated vision *"That the Shire of Leonora is a proactive, sustainable, safe, friendly and prosperous place to be"*.

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

1. **Social:** An empowered and spirited community;
2. **Economic:** Economic hub and spirited community;
3. **Environment:** Forward thinking management of the built and natural environment; and
4. **Leadership:** Innovative and proactive Shire and Councillors.

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

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

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

6.0 Framework Design

6.2 Council Policies

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

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

Management Comment:

External consultants have been engaged, and have commenced, with assisting to undertake a full review of Council's policy manual (February 2022). Improvements noted for section 6.2 Council Policies are being implemented through this review.

Policy	Purpose / Goal	Matters Identified / Improvements
6.2.1 Meeting of Council - Guest Speakers A.1.6	To define appropriate parameters for guest speakers at Council meetings	<p>The policy authorises the Shire President to approve or disapprove requests for guest speakers to address Council meetings. Under the <i>Local Government Act 1995</i> the Shire President has no administrative authority and as such no authority to approve reimbursement as stated within the policy.</p> <p>Improvement: Review and update the policy to require authorisations to be made as permitted by legislation.</p>
6.2.2 External Complaints Management A.1.9	Policy to provide and efficient, effective and consistent approach to the management of complaints.	<p>A record of complaints received and their status is required to be reported to the CEO on a monthly basis. We did not locate an up to date record of community complaints received in the format a described by the policy, nor any monthly reports to the CEO.</p> <p>Improvement: Establish a complaints register (separate to the register required by section 5.121(1) of the <i>Local Government Act 1995</i>) and procedures to ensure complaints are routinely monitored, managed and dealt with.</p>
6.2.3 Declaration of State of Emergency A.1.12	Policy to guide and allow immediate operational action to prioritise business, family and community service needs and provisions.	<p>Parameters relating to policy activation and time frames are unclear, and do not necessarily provide additional guidance where legislation is silent. Other inclusions within the policy duplicate (and may also conflict) with Purchasing Policy A.2.3 and legislation.</p> <p>Improvement: Review and update the policy to provide necessary guidance where legislation is silent and remove content where potential conflicts to legislation and other Council policies exist. Alternatively consider rescinding the policy and including appropriate references within existing policies to remove duplication.</p>

6.0 Framework Design

Policy	Purpose / Goal	Matters Identified / Improvements
6.2.4 Purchasing Policy A.2.3	<p>Policy providing a best practice approach and procedures for purchasing.</p> <p>Ensure consistency for all purchasing activities that integrates with all operational areas.</p> <p>Requires compliance with the <i>Local Government Act 1995</i> and <i>Local Government (Functions and General) Regulations 1996</i>.</p>	<p>Purchasing requirements for procurement of goods or services in accordance with the exemptions under <i>Local Government (Functions and General) Regulations 1996</i> Regulation 11(2), are not consistent within the policy. The CEO is required to ensure controls exist for all purchases including those made using these exemptions. It is noted the practice of testing the market through sourcing multiple quotations when using the exemptions is often occurring, and the policy should be updated to reflect the expectation and requirement, regardless of whether the quotations are being sought from pre-qualified suppliers, WALGA Preferred Supply Contracts or other suppliers.</p> <p>The policy provides limited direction regarding contract variations and extensions awarded or against a written specification not awarded by tender. Extension of contracts and associated price changes are also not covered by the policy. For contracts awarded by tender, legislation provides minimum requirements for variations.</p> <p>Policy states where using a tender exempt panel of prequalified suppliers, there is no requirement to utilise Shire approved contractual terms and conditions as these have been produced by the Western Australian Local Government Association (WALGA) which ensure the interests of the Shire are fully protected. This is not considered a policy position and has the potential for conflict.</p> <p>A table with officer descriptions / positions and limits of purchasing authority is detailed in the policy. The table did not align with the current register of delegations at the time of our review.</p> <p>Legislated tender exemptions are restated within the policy. To avoid conflict with interpretation, legislative requirements are best removed from policies.</p>

6.0 Framework Design

Policy	Purpose / Goal	Matters Identified / Improvements
6.2.4 Purchasing Policy A.2.3 (Continued)		<p>Improvements:</p> <p>Amend the policy to provide the following:</p> <ul style="list-style-type: none"> Prohibit price variations to existing contracts awarded by tender other than those provided within the original contract, as required by <i>Local Government (Functions and General) Regulations 1996</i> Regulation 11(2) (j) (iv). Require amendments to contracts awarded by tender to be undertaken in accordance with legislative requirements. Remove references negating the requirement to apply standard contractual terms and conditions from the policy. Purchasing requirements for the issuing of contract variations and extensions for contracts not awarded by public tender. Consideration should be given to circumstances where the contract value increase over a policy threshold level, due to the variation or extension. Review and update policy to remove repetitions of legislation to reduce opportunities for conflict due to misinterpretation of compliance requirements.
6.2.5 Insurance A.2.5	Policy to ensure that the Shire's assets are adequately protected	<p>The policy requires annual reviews to be carried out by early July, as well as for insurers to be notified of purchases in excess of \$500,000 as they occur. This level of policy detail may result in conflicts with insurance renewals (policies expire 30 June annually) and non compliance with insurance requirements should disclosure parameters change periodically.</p> <p>Improvement:</p> <p>Review and update the policy to require annual reviews and disclosures to be made and reported to insurers in accordance within advised timeframes and parameters.</p>
6.2.6 Assets Accounting A.2.8	To set out thresholds under which the Shire will capitalise and depreciate assets.	<p>Formalisation of depreciation rates and frequency of revaluations in a Council Policy may result in a conflict with the depreciation rates applied in preparing Annual Financial Statements, due to the accounting standard requirement to annually assess depreciation rates and residual values of assets, as well as periodic revaluation of assets. The current policy reference to capitalisation of fixed assets conflict with the capitalisation thresholds defined by legislation.</p> <p>Improvement:</p> <p>Rescind the policy or alternatively review and amend the policy requiring depreciation rates and residual values to be assessed annually. Remove policy references restating legislative requirements or conflicting with Accounting Standards. Develop documented procedures for the application of capitalisation thresholds and annual review of remaining useful life and residual value.</p>

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Policy	Purpose / Goal	Matters Identified / Improvements
6.2.7 Covid-19 Financial Hardship A.2.17	Policy to provide fair, equitable, consistent and dignified support to ratepayers suffering hardship arising from the COVID 19 pandemic.	<p>The policy scope applies only to the 2020/21 financial year and only references financial hardship as a result of the COVID 19 pandemic.</p> <p>Improvement: Consider reviewing the policy to apply to financial hardship circumstances other than the COVID 19 pandemic and with no time limit if the intent of the policy is to consider more general circumstances of financial hardship.</p>
6.2.8 Temporary Employment or Appointment of a Chief Executive Officer A.3.6	Policy to provide for the appointment of a suitably qualified Acting Chief Executive Officer during limited absences of the Chief Executive Officer, in accordance with the <i>Local Government Act 1995</i> .	<p>The amount of remuneration to be paid to an Acting Chief Executive Officer is not referenced within this policy. This presents a risk of legislative non-compliance should a payment to an acting CEO not align with the bands set by the Salaries and Allowances Tribunal (SAT).</p> <p>Improvement: Review the policy to consider parameters for the remuneration to be paid to an officer acting in the role of Chief Executive Officer.</p>
6.2.9 Harassment, Bullying and Discrimination A.3.7	Policy to provide guidance to the Shire's approach to managing complaints and grievances.	<p>A procedure for management and resolution of workplace grievances and complaints is referenced within the policy, however a copy of the procedure was not available for our review. Restricted access to such a procedure limits its effectiveness for its intended purpose.</p> <p>Improvement: Ensure procedures are easily accessible and available to facilitate a structured approach, management and timely response to complaints and grievances as provided by the policy.</p>
6.2.10 Conferences - Members Travel and Accommodation Expenses M.5.2	To determine the travel and accommodation expenses payable in respect of members of the Council travelling on official Shire business (e.g. conferences, seminars, study tours, conventions).	<p>Travel and accommodation standards are provided by the policy which approves for the CEO to vary/amend in certain circumstances. The most recent determination published by the Salaries and Allowances Tribunal (SAT) sets out rates and allowances for elected member reimbursements which cannot be limited or proscribed by a local government.</p> <p>Improvement: Review and amend the policy to correctly reflect allowances and reimbursements for elected members permitted under the current SAT determination. Review and amend the policy to correctly reflect allowances and reimbursements for elected members permitted under the current SAT determination.</p>

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Policy	Purpose / Goal	Matters Identified / Improvements
6.2.11 Public Question Time M.5.3	To provide a process which will address questions by the public in a timely manner	<p>Steps within the policy do not align with all requirements of the Shire's Local Law No. 1 Standing Orders, in that a member of the public who raises a question during question time is required to state their name and address.</p> <p>Improvement: Update the policy to align with the Shire's Local Law No. 1 Standing Orders.</p>
6.2.12 Elected Member Mandatory and Ongoing Professional Development M.5.4	Policy to provide transparency about the attendance at events of Council Members and the CEO	<p>The policy was originally adopted by Council on 18 February 2020 and at the time of our review had not been further considered by Council. Section 5.128(5) of the <i>Local Government Act 1995</i> requires the policy to be reviewed after each local government ordinary election (most recent ordinary election was in October 2021).</p> <p>Improvement: Upon review and consideration of policy updates, ensure the policy is adopted by an absolute majority to comply with section 5.128 of the <i>Local Government Act 1995</i>. Review systems and processes to ensure reviews are undertaken as required by legislation.</p>
6.2.13 Legislative Compliance Policy	A policy to evidence Council's commitment to legislative compliance and its importance to the organisation.	<p>Currently, no policy on internal legislative compliance has been adopted by Council.</p> <p>Improvement: Development and adoption of a legislative compliance policy may help formalise Council's commitment and approach to legislative compliance.</p>
6.2.14 Internal Control Policy	A policy to evidence Council's commitment to Internal Controls and their importance to the organisation.	<p>Currently, no policy on internal controls has been adopted by Council.</p> <p>Improvement: We suggest an internal control policy be formulated and adopted to formalise Council's commitment and approach to internal controls, based on a risk management process.</p>

6.0 Framework Design

Policy	Purpose / Goal	Matters Identified / Improvements
6.2.15 Policy Review	Routine review of Policies to help ensure they remain current.	<p>Policies are reviewed periodically by Council to help ensure they remain current. The document control history in some policies (adoption / review) to indicate where policies have been reviewed and amended has not been updated in all instances. We noted instances where policies had been updated, however the review history did not capture the change.</p> <p>Improvement:</p> <p>Following review of policies by Council, update the latest document control history on the policy to provide evidence and an accurate record of when the policy was reviewed, amended and adopted. Review systems and processes to prevent future breakdown of controls from occurring.</p>
6.2.16 General Policy Actions	To set out parameters for the implementation of policies.	<p>We noted some council policies which may be operational in nature, or contain detailed instructions which may be operational in nature. Council policies are not necessarily intended to provide direction on how different operational functions are to be executed as these are the responsibility of the CEO. Some policies where this may occur includes:</p> <ul style="list-style-type: none"> • Agenda Items A.1.1; • External Complaints Management A.1.9; • Insurance A.2.5; • Conferences - Staff Attendance and Representation A.3.2; • Conferences - Staff Travel and Accommodation Expenses A.3.3; • Protection from the Sun for Outdoor Work A.3.9; • Staff Training A.3.11; • Smoke Free Environment A.3.12; • Salaries and Wage - Mode of Payment A.3.15; • Payroll Deduction of Union Subscriptions A.3.16; • Working From Home A.3.21; • Recruitment and Selection A.3.22; • Gwalia Collection Policy C.4.5; • Operation of Shire Plant T.6.3; • Building Control Free Standing Garden Sheds, Patios and Pergolas T.6.6; • Building Control Buildings Set out by Licensed Surveyor T.6.8; and • Building Licences T.6.10; <p>Policies are not necessarily intended to provide direction on how different functions are to be executed, except where legislation requires it.</p> <p>Improvement:</p> <p>Review and update this policy to consider the appropriate separation of the roles of the council and the CEO. Consider review and update of policies to articulate the strategic direction of Council, particularly where legislation does not provide such direction.</p>

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Policy	Purpose / Goal	Matters Identified / Improvements
6.2.17 Policy Reference to Legislation and External Information	To support the link between Council policy, legislation and other information sources.	<p>We noted some policies contain specific detail relating to legislation and other external references, including:</p> <ul style="list-style-type: none"> • Declaration of State of Emergency A.1.12; • Purchasing A.2.3; • Rates Recovery A.2.4; and • Public Interest Disclosure A.3.19. <p>This practice may result in conflict between the policy and legislation or guidance in the instance of a change in legislation, guidance, Australian Standards, Australian Accounting Standards or other external references.</p> <hr/> <p>Improvement: Update policies to remove specific and / or detailed references to legislation and other external references to assist with appropriate alignment and consistency in Council policies is maintained.</p>

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7.1 Strategic and Operational Plans

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

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

Plan	Purpose / Goal	Matters Identified / Improvements
7.1.1 ICT Disaster Recovery Plan	Plan to address the handling of ICT disaster recovery.	<p>An ICT Disaster Recovery Plan was prepared in 2019. At the time of this review, the plan had not yet been tested. References were also noted in the plan to another local government and it is unclear if the information at these sections is relevant to the Shire of Leonora.</p> <p>Improvement: Review the plan to update references and ensure relevance to the Shire of Leonora. Test the ICT Disaster Recovery Plan to ensure validity. Identify and document key ICT risks, along with the treatments to reduce the risk to an acceptable level.</p> <p>Management Comment: Proposals have been sought to assist with implementation of improvement, to be included for consideration in 2022/23 draft budget.</p>
7.1.2 Business Continuity Disaster Recovery Plan	Plan to facilitate organised decision-making in the event of a major incident impacting the Shire's ability to continue normal operations.	<p>A Business Continuity Plan was not available for our review.</p> <p>Improvement: Develop a Business Continuity Plan and test it to ensure its validity, including currency of any documented key business continuity risks along with the treatments. Ensure risk treatments are consolidated with overarching risk management activities.</p>

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Plan	Purpose / Goal	Matters Identified / Improvements
7.1.3 ICT Strategic Plan	Plan to guide the future development and delivery of ICT services and address the handling of ICT disaster recovery.	<p>An ICT Strategic Plan was developed for the Shire in 2021, however treatments for identified risks have not yet been implemented.</p> <p>Presently a single consultant is engaged to provide IT support services and advice regarding security etc. A high level of risk exists by engaging a single entity to provide all IT services.</p> <p>Improvements:</p> <p>Implement the ICT Strategic Plan considering key ICT risks and treatments to reduce identified risks to an acceptable level. Consider independent review of identified ICT risks.</p> <p>Consider implementation of routine review and verification of skills, competencies, qualifications and experience for IT service providers.</p> <p>Utilise the strategy to assist in considering the risks of utilising a single IT provider, and to assist in developing a scope to articulate service level agreements for a range of IT services to be potentially issued to different providers.</p> <p>Management Comment:</p> <p>Proposals have been sought to assist with implementation of improvement, to be included for consideration in 2022/23 draft budget.</p>
7.1.4 Corporate Business Plan	A plan to guide the internal operations of the Shire in delivering services to the community.	<p>The Corporate Business Plan was last reviewed in July 2020 and has not been reviewed annually as required by section 6.2(2) of the <i>Local Government Act 1995</i> and <i>Local Government (Administration) Regulations 1996</i> 19DA (4).</p> <p>Improvement:</p> <p>Ensure the Corporate Business Plan is reviewed annually prior to the adoption of the annual budget, in accordance with the requirements of section 6.2(2) of the <i>Local Government Act 1995</i> and <i>Local Government (Administration) Regulations 1996</i> 19DA (4).</p> <p>Management Comment:</p> <p>Plan for the Future (incorporating the CBP) was adopted by Council in February 2022, for compliance prior to consideration of 2022/23 draft budget.</p>

Plan	Purpose / Goal	Matters Identified / Improvements
7.1.5 Code of Conduct	<p>To provide guidance to:</p> <ul style="list-style-type: none"> • Council members, committee members and candidates; and • employees, volunteers and contractors of enforceable rules and requirements as prescribed in relevant legislation. 	<p>Those bound by the Code of Conduct are not required to sign the Code of Conduct acknowledging they have read and understand the requirements within.</p> <hr/> <p>Improvement: Update the Code of Conduct as well as induction procedures to ensure all persons subject to the Code of Conduct sign and acknowledge they understand the content.</p> <p>Management Comment: Code of conduct is signed to acknowledge having read and understood requirements. Systems are being updated to ensure consistent recording of information is maintained.</p> <hr/>

7.0 Framework Implementation

7.2 Operational and Financial Procedures

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

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

Component	Purpose / Goal	Matters Identified / Improvements
7.2.1 Operational Procedures, Checklists, Workflow Diagrams	To provide direction to staff in the delivery of day-to-day operational tasks, as well as guidance for expected processes, systems, and controls to be maintained.	<p>Procedures are not formalised for some key operational functions throughout the Shire. Workflow process diagrams, checklists and documented procedures may assist to create a visual representation of a process, clearly identifying key points of control and responsibility to be evidenced and independently reviewed.</p> <p>Improvement: Undertake a review of existing operational procedures, and where required develop and implement additional procedures, to provide operational guidance aligned with adopted Council policies and legislation. Procedures should provide for activities not necessarily covered by legislation to communicate expected standards to staff from the CEO, in the course of implementing strategic direction and decisions of Council. Development of documented procedures and checklists, and / or workflow process diagrams may assist in clearly identifying controls and processes to be followed.</p> <p>Management Comment: Some workflow diagrams and procedures have been drafted for management review. Additional procedures to be developed through future risk management activities.</p>
7.2.2 Procedure Changes	Process to control and manage change to procedures.	<p>Process for amending or changing procedures are not formalised. This creates opportunities for unilateral unauthorised changes to procedures and a breakdown in key controls.</p> <p>Improvement: Establish a process for the development, review, amendment and authorisation of procedures, checklists and other internal control documentation, throughout the Shire to assist with managing changes to procedures.</p>

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Component	Purpose / Goal	Matters Identified / Improvements
7.2.3 Operational Procedures at Shire Facilities	Procedures to set out guidance for expected processes, systems and controls to be maintained at Shire Facilities.	<p>Controls in relation to the use of some Shire facilities are considered inadequate. Documented procedures and controls are required to ensure appropriate controls and reconciliations are applied to minimise risks of misuse and breakdowns in key controls occurring.</p> <p>Improvement: Update systems and controls to ensure staff at Shire facilities are aware of and understand the control environment required to be adhered to.</p>
7.2.4 Risk Management Procedures	Procedures and practices to set out a uniform approach to the identification, assessment, management, reporting and monitoring of risks.	<p>Risk management activities currently undertaken within individual departments are sometimes performed independently and are not always communicated to executive management. Some of these activities may not align with the Shire's Risk Management Strategy, and may not align with ISO 31000:2018.</p> <p>Improvement: Communicate throughout the Shire current risk management procedures and processes to assist with routine and consistent applications in accordance with Council policy.</p> <p>Management Comment: Risk management workshop for staff as well as formalised risk management activities have been included for consideration in 2022/23 draft budget.</p>
7.2.5 Overhead & Administration Allocations	To allocate indirect costs in a practical and efficient manner.	<p>No formal process is currently in place to determine the allocation of indirect costs. From staff representations, current allocation rates are based on historical estimates and reviewed informally during budget preparations each year. A calculation method to support overhead allocations was not available for our review.</p> <p>Improvement: Undertake a review of activity based costings to support calculation of overhead and administration allocations.</p>
7.2.6 Access to Shire Facilities	Ensure access to Shire facilities is restricted only to personnel who are authorised.	<p>We noted limited physical access security measures to some Shire facilities to prevent unauthorised access.</p> <p>Improvement: Ensure adequate physical access security measures to prevent unauthorised individuals from accessing facilities are appropriately documented. Risks and their treatment plans should be recorded in a risk register to communicate the risk aligned to the Shire of Leonora's adopted risk management policy and framework.</p>

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Component	Purpose / Goal	Matters Identified / Improvements
7.2.7 Rates	Rates are correctly imposed and rate system is properly maintained.	<p>Routine reviews of rate exempt properties as defined by section 6.26(2)(g) of the <i>Local Government Act 1995</i> appear to be undertaken informally during the annual rates run, however no formal controls exist to guide and evidence the review process.</p> <p>Improvement: Develop and maintain systems and processes whereby routine reviews are undertaken of rate exempt properties within the Shire, confirming these properties are used exclusively for rate exempt purpose.</p> <p>Management Comment: Matter to be addressed through policy review engagement (procedures will be developed to align with policy direction).</p>
7.2.8 Security Controls for Cash Handling	Procedures and systems for the handling of cash at Shire facilities.	<p>Security controls for cash held at various facilities are considered inadequate. Controls are not consistently documented to ensure appropriate collection, review and authorisation processes occur in relation to the management and handling of cash for all facilities.</p> <p>Improvement: Ensure access to any cash held is restricted only to authorised personnel through secure storage. Implement appropriate documented procedures and controls for cash maintained by staff and / or third parties (such as contractors). Processes should also include reference to insured amounts relating to cash, to ensure adequate insurance levels are maintained relating to cash.</p> <p>Management Comment: Development of additional operating procedures currently being undertaken. Priority to individual procedure development is being allocated through a risk based approach.</p>
7.2.9 ICT Security	Procedures and practices to ensure the security of IT information, systems and data.	<p>We noted limited controls in relation to the access to IT systems including physical access to hardware. Some levels of permissions have been established to network access to software and data, however this is largely undocumented.</p> <p>Improvement: Undertake a comprehensive IT general security review, articulate current practices and implement findings of the review.</p> <p>Management Comment: Proposals have been sought to assist with implementation of improvement, to be included for consideration in 2022/23 draft budget.</p>

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Component	Purpose / Goal	Matters Identified / Improvements
7.2.10 Annual Budget	Controls to ensure operations correctly align with the adopted budget.	<p>Limited workpapers, detail and supporting documentation against various work programs to the 2021/22 adopted annual budget were available for our review. We noted numerous amendments to the adopted budget were proposed to correct the expenditure commitments and income estimates for the reporting period.</p> <hr/> <p>Improvement:</p> <p>Reviews systems, processes and workpapers used to support the annual budget, to sufficiently articulate the level of detail required to accurately account for income and expenditure requirements and to execute various work programs.</p> <p>Management Comment:</p> <p>Significant work undertaken during 2021/22 mid year budget review to develop workpapers to support budget calculations and to correct line item allocations where required. Workpapers intended to be maintained through development of 2021/22 draft budget.</p>
7.2.11 General Journal Entries	Journals are only posted after independently review and approval.	<p>Although we noted some informal controls in place, there are limited documented internal control procedures for general journals. No general journal audit trail is currently produced to ensure no unauthorised journals have been posted.</p> <hr/> <p>Improvement:</p> <p>Document internal controls to ensure journals requests initiated are reviewed and approved/authorised prior to posting by an appropriate officer, the current practice of independent review is maintained, and evidence of review is consistently applied. A monthly journal audit trail report should be produced and independently reviewed prior to preparation of the monthly statement of financial activity. IT permissions should also be considered when developing controls.</p>

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Component	Purpose / Goal	Matters Identified / Improvements
7.2.12 Procurement Assessment	Procedures to provide probity for the assessment of procurement options received.	<p>We noted some documented formal requirements when undertaking assessments of responses to requests for quotations, however these processes are not always applied by staff responsible for undertaking procurement activities.</p> <hr/> <p>Documented procedures are not in place to require declarations of interest and confidentiality to be signed prior to assessments being undertaken for high value purchases.</p> <hr/> <p>Improvements:</p> <p>To help ensure probity and fairness when assessing high value procurement, at least three persons should assess the procurement responses independently of each other. Documented processes should require a higher level of probity and due diligence, for higher value or higher risk purchases.</p> <hr/> <p>Persons assessing any significant procurement should be required to declare any matters which may impact or be perceived to impact on their independence. Procedures for the declaration of interests prior to procurement assessments being undertaken should also be documented for high value purchases and tenders.</p>

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Component	Purpose / Goal	Matters Identified / Improvements
7.2.13 Procurement	Procedures for the procurement of goods or services.	<p>Non-compliance between procurement thresholds and purchasing requirements in accordance with Council policy were noted during our review. The required number of quotations were not always sought, or appropriate documentation maintained to support the absence of quotations as required.</p> <p>Through limited testing of payments, we noted an instance where a purchase order did not pre-date the invoice. This related to capital works projects being advanced as a response to Covid-19 and added to works being carried out by a contractor engaged through an existing tender. The additional works added to the scope of the tender may have breached the limitations provided by <i>Local Government (Functions and General) Regulations 1996</i>.</p> <p>Improvements:</p> <p>Examine systems, processes and training to ensure those with delegated purchasing authority comply with the provisions of the purchasing policy and with legislation. Where repeated instances may occur, enforce individual accountability with documented procurement policies and procedures. We noted some controls are being updated in relation to evidencing quotations prior to purchase orders being approved, and strongly encourage these improvements and review continue.</p> <p>Where purchasing activities have not complied with the purchasing policy, such as where a purchase pre-dates a purchase order, these instances should be documented, reviewed and authorised to demonstrate controls have been developed to comply and ensure the purchasing policy has been adhered to. Where additional works are to be performed by a contractor engaged through an awarded tender, the procurement activity should remain separate from the tender and follow the provisions of the purchasing policy.</p>

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Component	Purpose / Goal	Matters Identified / Improvements
7.2.14 Credit Cards	Systems and processes to control use of Corporate Credit Cards held	<p>Our review noted a credit card transaction in August 2020 where insufficient support documentation was included with the credit card statement. Systems appear to be in place since this occurrence requiring appropriately detailed documentation to support credit card transactions.</p> <p>We noted an instance through our testing where a credit card reconciliation was not reviewed by an independent more senior member of staff.</p> <p>Improvements:</p> <p>Maintain updated systems and processes relating to credit cards, to ensure adequate controls exist relating to compliance with adopted policy and approved procedure requirements. These should also provide for robust control and review processes prior to payments being deducted through automated bank payments.</p> <p>Update procedures to require cardholders to review and certify expenses incurred on their credit cards each month, which are subsequently reviewed by an independent more senior member of staff.</p> <p>Management Comment:</p> <p>Systems have been updated since the noted occurrence which has noted an improvement in internal processes for credit card transactions.</p>
7.2.15 Contract Management	To provide clear documentation of key contract / agreement information entered into with third parties by the Shire.	<p>Our testing identified a contractor providing services to the Shire on an ongoing basis, however no executed contract detailing agreed service levels is in place. This severely limits controls relating to cost or performance management, as well as minimum service levels for works and/or services performed.</p> <p>Improvement:</p> <p>Review and update systems and processes to provide for higher level controls and oversight of contracts entered into with third parties by the Shire. Agreements should be dually executed to ensure contract obligations are met by both parties.</p> <p>Management Comment:</p> <p>Contract management practices are currently being reviewed.</p>

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Component	Purpose / Goal	Matters Identified / Improvements
7.2.16 Contracts / Leases / Agreements	To provide clear documentation of key contract / agreement information entered into with third parties by the Shire.	<p>Our testing noted no formal contract / lease agreement was in place relating to an accommodation arrangement to sufficiently address terms, responsibilities and obligations etc. of both parties.</p> <p>Improvement:</p> <p>Review systems and procedures for arrangements with third parties currently in place to ensure appropriate contracts / leases / agreements have been dually executed to assist in ensuring responsibility and obligations are met by both parties.</p>
7.2.17 Changes to Banking Details	Controls to validate banking change requests.	<p>Currently an independent review of changes to employee banking details is performed, however there are limitations within the ERP to support the controls intended. Formal procedures relating to changes to banking details for employees and creditors should be developed to ensure sufficient controls exist in both substantiating the change request and the changes performed within the Shire's ERP system.</p> <p>Improvements:</p> <p>Review and update procedures to ensure the following matters are appropriately considered, documented and controls are adequate to:</p> <ul style="list-style-type: none"> • Validate the change request and its origin; • Authority exists for the change request; and • Validate and control the changes once completed. <p>Management Comment:</p> <p>Contract management practices are currently being reviewed.</p>
7.2.18 Creditors Audit Trails	Procedure to allow for appropriate review and approval of changes made within the creditors system.	<p>Audit trail reports are not routinely produced, however independent reviews appear to be routinely undertaken with each creditor payment run to ensure bank account details have not been altered or manipulated without prior verification and authorisation. The existing controls are not considered adequate.</p> <p>Improvement:</p> <p>Formalised procedures to minimise risk of unauthorised changes to creditor details should be implemented. Independent regular reviews of software audit trails is one form of control and should be undertaken as a minimum.</p>

7.0 Framework Implementation

Component	Purpose / Goal	Matters Identified / Improvements
7.2.19 Outstanding Purchase Orders	Process to ensure invoices are being processed in a timely manner and in accordance with the purchasing policy.	<p>We did not observe any formal procedures relating to the routine monitoring of and clearance of outstanding purchase orders.</p> <hr/> <p>Improvement: Establish procedures to include review of the status of outstanding purchase orders as part of end of month processes. Ensure any controls developed are routinely and consistently applied.</p> <p>Management Comment: Review commenced shortly after 2021/22 budget review, and more formalised procedures are being developed for future monthly controls.</p>
7.2.20 Fees and Charges	Procedures to ensure fees and charges are raised in accordance with adopted schedule of rates.	<p>Our limited testing noted:</p> <ul style="list-style-type: none"> • invoices had been raised which did not agree to amounts included in the adopted schedule of fees and charges. Information to support the discounts and variations noted were not available, and whether they were authorised by an officer with the correct level of authority; and • an invoice raised at an incorrect rate, resulting in the customer being overcharged. <hr/> <p>Improvement: Review systems and procedures to ensure all fees and charges are raised at the rates adopted, and discounts are only applied as permitted by legislation.</p>
7.2.21 Debtors Invoicing	Process to ensure segregation of duties exist for accurate recovery of revenue.	<p>No independent review of invoice batches is undertaken once raised to check for accuracy. We noted limited controls to ensure appropriate segregation of duties or the timely processing of debtor invoices.</p> <hr/> <p>Improvement: Review and update systems, procedures and controls relating to debtors processes to ensure appropriate review, authorisation and control mechanisms exist for compliance with legislation and general good governance principles.</p> <p>Management Comment: Procedures and controls are being reviewed to better document independent review and authorisation processes of debtor invoice batches.</p>

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Component	Purpose / Goal	Matters Identified / Improvements
7.2.22 Asset Disposal	Procedures for the disposition of property in accordance with the requirements of section 3.58 of the <i>Local Government Act 1995</i> and regulation 30 of the <i>Local Government (Functions and General) Regulations 1996</i> .	<p>Our testing noted an instance where an asset was not disposed of in accordance with section 3.58 of the <i>Local Government Act 1995</i> and the <i>Local Government (Functions and General) Regulations 1996</i>. This was noted to be the result of a plant item being traded at the same time of purchasing a new plant item. Although the purchasing policy and legislative requirements allowed for the new plant item to be purchased without going to tender, the disposition of the traded plant item is not captured by these same exclusions.</p> <p>A non compliant disposal of plant in June 2021 which did not go to tender or public auction was identified which did not comply with section 3.58 of the <i>Local Government Act 1995</i> and the <i>Local Government (Functions and General) Regulations 1996</i>.</p> <p>Improvements:</p> <p>Ensure future asset disposals are in accordance with the requirements of section 3.58 of the <i>Local Government Act 1995</i> and the <i>Local Government (Functions and General) Regulations 1996</i>.</p> <p>Ensure future asset disposals are in accordance with the requirements of section 3.58 of the <i>Local Government Act 1995</i> and the <i>Local Government (Functions and General) Regulations 1996</i>.</p>
7.2.23 Fixed Asset Additions	Procedures for the identification and recording of fixed assets to comply with the Australian Accounting Standards (AAS).	<p>Our testing noted a number of purchases which may be defined as fixed asset acquisitions by the AAS, which were not recorded in the fixed assets register. Delayed recording of assets acquisitions may lead to non compliance with the AAS and Local Government (Financial Management) Regulations 1996, inaccuracy of depreciation calculations and the misreporting of the Shire's financial position within the monthly statement of financial activity. Erroneous treatment of asset purchases as operating expenditure may result in unauthorised expenditure being incurred.</p> <p>Improvement:</p> <p>Undertake a review of asset acquisition procedures to ensure timely recording and capture of fixed assets within the fixed asset register. Systems and processes should ensure those with delegated purchasing authority understand and are aware of their responsibility to comply with the provisions of the AAS and with legislation. Where repeated instances may occur, enforce individual accountability with documented procurement policies and procedures.</p>

7.0 Framework Implementation

Component	Purpose / Goal	Matters Identified / Improvements
7.2.24 Portable and Attractive Items Register	Register to maintain listing of portable / desirable assets as required by <i>Local Government (Financial Management) Regulations 1996</i> .	<p>The Shire's listing of portable and attractive items as required by the <i>Local Government (Financial Management) Regulations 1996</i> was not available for review.</p> <hr/> <p>Improvement:</p> <p>Develop a portable and attractive item listing for all non-consumable assets susceptible to theft or loss. Consider implementing controls to update the portable and attractive asset register when items are purchased and increasing the frequency of stocktakes to be in line with the Shire's risk appetite.</p>
7.2.25 Grants Management	Controls for the effective management of grants, compliance with conditions imposed by funding bodies and compliance with AASB standards.	<p>Limited formal procedures exist to support processes and controls in respect to:</p> <ul style="list-style-type: none"> • application of grants; • acquittal of grants; • compliance with grant conditions; • routine calculation and recording of grant or contract liabilities; and • governance and administration arrangements. <p>Where grants are not effectively managed, there is a risk funds may be returned due to poor performance or missed opportunities in the future.</p> <hr/> <p>Improvements:</p> <p>Document and implement procedures to consider the need for grant programs, if objectives are clearly defined, whether relevant factors and risks are thoroughly analysed and assessed (needs analysis, cost/benefit, risk analysis etc) and appropriate options for delivery are considered prior to applying for grants. Systems should include controls for the monitoring of grants with funding conditions, acquittal processes and recording of liabilities in line with the AASB standards. Incomplete consideration of these factors may result in non-compliance with accounting standards and effective delivery of the Shire's grant programs.</p> <hr/> <p>Maintain a register of grants to evidence the routine review of status, compliance and performance of grants being managed by the Shire.</p>

7.0 Framework Implementation

Component	Purpose / Goal	Matters Identified / Improvements
7.2.26 Stock Controls	Process to ensure stock is correctly allocated, as well as to reduce the potential for theft or misappropriation.	<p>Limited controls are in place to monitor potential erroneous allocations or misuse of stock. Fuel dips are not independently reviewed for accuracy at periodic intervals, nor mechanisms to detect where excess stock (including fuels, oils, materials etc) may be allocated inappropriately or erroneously.</p> <p>Stocktakes are not undertaken routinely at some Shire facilities. Annual stocktakes for some items are performed but not reconciled for all facilities. Where reconciliations do occur, they appear to be performed annually which is considered too infrequent for some facilities.</p> <p>Improvements:</p> <p>Review and implement processes to undertake regular fuel stock reconciliations and allocations. Ensure appropriate controls and segregation of duties exist to evidence independent review of data as required.</p> <p>Conduct regular stocktakes of items within the Shire facilities and integrate these stocktakes with a reconciliation process to monitor usage. A risk based approach should apply to determine the frequency of required stocktakes and reconciliations.</p>
7.2.27 Records	Procedures and practices to ensure the appropriate maintenance and recording keeping of physical and digital records	<p>Based on our inquiries with staff, electronic records are stored in various locations such as shared drives, rather than the Shire's electronic document and records management system (EDRMS). Where compliance with required record keeping controls is low, information may become compromised where deletions, loss and compromised security or confidentiality of records may occur.</p> <p>Improvement:</p> <p>Review, update and communicate procedures for the record keeping practices and enforce individual accountability for compliance with established procedures.</p>
7.2.28 Report on Elected Member Training	Report detailing training completed by elected members each financial year as required by <i>Local Government Act 1995</i> .	<p>The Shire's report on training completed by elected members during the 2020/21 financial year was prepared and published on the Shire's website after the period specified by legislation, in this instance, after 31 July 2021.</p> <p>Improvement:</p> <p>Prepare and publish future reports on the official local government website annually as required by section 5.127 of the <i>Local Government Act 1995</i>. We noted systems have been implemented to maintain future compliance and these are strongly encouraged to continue.</p>

7.0 Framework Implementation

7.3 Human Resource Management and Practices

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

Management Comment:

Internal management review currently in progress for human resources practices, reporting and recording to address matters noted at section 7.3 Human Resources Management and Practices.

Component	Purpose / Goal	Matters Identified / Improvements
7.3.1 Employee Appointment Procedures	Procedures to ensure appointment of staff are appropriately authorised, and onboarding processes are consistently and routinely applied.	<p>Staff inductions are inconsistently applied throughout the Shire, and induction processes do not consistently communicate to staff required expectations and requirements when performing local government functions.</p> <hr/> <p>Improvement:</p> <p>Develop and implement procedures to ensure all new staff are appropriately inducted and aware of the parameters of their employment responsibilities and obligations including:</p> <ul style="list-style-type: none"> • WH&S; • Duties and responsibilities; • Security; • Code of Conduct; • HR Policies and Procedures; • Legislative Compliance; • Risk Management; and • Other relevant and required topics.
7.3.2 Employee Termination Procedures	Procedures to ensure physical and IT access by former staff is removed and Shire assets returned at the time of departure.	<p>No formal process or procedure is currently in place to ensure the appropriate termination of employees. Departmental managers have the responsibility of ensuring Shire assets are recovered, however there is no formal policy, procedure or practice in place to ensure IT permissions are restricted, or for Shire property (phones, vehicles, keys) to be returned prior to the employee finishing with the Shire.</p> <hr/> <p>Improvement:</p> <p>Establish policies, procedures or checklists to manage and document the termination of employees, ensuring access to IT systems, etc. is appropriately restricted and all allocated Shire assets are recovered.</p>

7.0 Framework Implementation

Component	Purpose / Goal	Matters Identified / Improvements
7.3.3 Employee Identity and Credentials	Systems and controls for screening and monitoring existing employees for changes in their circumstances which may impact their employment.	<p>Practices and procedures for verifying and maintaining staff credentials are considered inadequate. During our testing we noted:</p> <ul style="list-style-type: none"> • Instances whereby credentials were not available in the employee's file; • Inconsistent application of procedures to verify employee identity, right to work in Australia, employment history and qualifications; • Credentials were located across multiple locations; and • There were inadequate procedures in place to monitor and record employee's credentials. <p>Improvement: Develop, implement and maintain appropriate procedures to reduce the risk of unqualified or unsuitable staff being employed by the Shire, in line with the Western Australian Auditor General's Report in June 2019 relating to Verifying Employee Identity and Credentials.</p>
7.3.4 Staff Training	To ensure staff have access to ongoing and appropriate training.	<p>Planned and required staff training needs for employees are not currently identified and recorded in a central training matrix for all operational areas/departments. Further value from current practices can be added through refining the current matrix toward a more formal required staff training structure, applied throughout the organisation.</p> <p>Improvement: Refine the current staff training matrix to identify staff training needs relevant to their role, ensuring it is co-ordinated across the organisation and monitors currency of required licences and qualifications.</p>
7.3.5 Performance Reviews	Framework to provide effective communication between an employee and employer to measure performance, identify training needs and improve effectiveness and efficiency in the workplace.	<p>Our testing noted inconsistent practices for employee performance reviews, with limited evidence to support periodic reviews occurring for all employees.</p> <p>Improvement: Implement processes and procedures to facilitate routine and regular reviews for performance of all employees, with appropriate evidence of these reviews consistently recorded.</p>

7.0 Framework Implementation

Component	Purpose / Goal	Matters Identified / Improvements
7.3.6 Staff Contracts & Employee Files	To provide a documented record of the terms and conditions of each employee's contract of employment.	<p>Different forms of contract exist, with some employees having a signed conditional offer of employment. Some employees have no position descriptions recorded on file. Our testing also highlighted instances where some incumbents have not signed their offer of employment. Where regulated award increases are applied, employees are not notified of the change to their agreed remuneration entitlements and this information is not recorded on individual employee files.</p> <p>Through our limited testing, we noted an instance where correspondence on an employee files to support their start date did not agree to the ERP/payroll system. This may impact the accuracy of calculation of leave liabilities, and uncertainty of entitlements owing to staff.</p> <p>Improvement:</p> <p>Ensure contracts of employment, defining roles, responsibilities and remuneration, are signed by both parties prior to employment commencing for all staff. Undertake a review of all personnel and establish position descriptions for employees who do not have one, documenting their roles and responsibilities. Undertake a review of all personnel files to validate start dates and reconcile to the ERP/payroll Masterfile. Where a change to employee conditions takes effect, such as award increases, consider a mechanism to communicate the change to employees.</p>
7.3.7 Staff Contracts Amendments	To provide a documented record of the terms and conditions during any amendment to an employee's contract of employment.	<p>Our limited testing noted:</p> <ul style="list-style-type: none"> an instance where evidence of correspondence on an employee file to support the current rate of pay applied through the payroll was not available; an additional instance where a signed employment contract was not available to test the calculation of an employee's final / termination pay; and amendments to conditions of employee for two employees had not been signed/acknowledged by the employees. <p>Improvement:</p> <p>Undertake a review of all personnel files to reconcile documentation relating to conditions of employment, remuneration, roles and responsibilities. The practice of updating employment agreements where a change in roles and responsibilities (signed by both parties) should also be routinely applied.</p>

7.0 Framework Implementation

Component	Purpose / Goal	Matters Identified / Improvements
7.3.8 Payroll Processing, Exception Reporting, Authorisation and Employee Masterfile Setup	Systems and controls to allow for appropriate review of fortnightly payroll and approval of changes to employee details.	<p>Fortnightly payroll samples selected for testing noted a breakdown in controls where casual loading entitlements setup within the ERP employee masterfile and subsequently through the fortnightly payroll did not agree to the signed contract of employment. Staff representations indicated the rate of casual loading included within the employee's initial contract were not correct to their award, however evidence of a correction to the employee's contract was not available to support the changes processed.</p> <p>Improvement:</p> <p>Update, review and implement procedures and controls for currency and correctness of employment contracts to support the accurate processing, and authorisation, of payroll each fortnight. Details for each employee should be reviewed against individual employment contracts to capture allowances, deductions, entitlements etc, into a master list, with appropriate review and authorisation for changes. All required reports should be presented for review and authorization each fortnight to minimize the risk of fraud, errors and omissions not being detected.</p>
7.3.9 Time Records	To provide a record of hours worked by staff.	<p>Time records completed by an employee sampled through our review was not routinely authorised by a senior officer.</p> <p>Improvement:</p> <p>Time records should be authorised by a more senior officer, and maintained with payroll reports for future reference where required.</p>
7.3.10 Payroll Audit Trails	Procedure to allow for appropriate review and approval of changes made within the payroll system.	<p>Audit trail reports are not produced, however independent reviews appear to be routinely undertaken with each payroll to ensure bank account details have not been altered or manipulated without prior verification and authorisation.</p> <p>Improvement:</p> <p>Control procedures to minimise the risk of erroneous or unauthorised changes to employee details should be implemented. Regular reviews of software audit trails is one form of control and should be undertaken as a minimum. Where possible, segregation of duties should exist where those responsible for processing payroll transactions are unable to make changes to employee master file. Payroll exception reporting and review of audit trails should be undertaken to capture anomalies or unauthorised changes. If the Shire's ERP is unable to produce audit trails, urgent consideration should be given to alternative programs or controls to provide an appropriate level of review to detect fraud, errors or omissions.</p>

7.0 Framework Implementation

7.4 Insurance

At present, the Deputy Chief Executive Officer annually reviews the completeness of insurance, which is presented to the Chief Executive Officer for final review and authorisation. Discussions are also held with the Shire's insurers annually and adjustments to policies and insurance levels made as considered appropriate. The insurance values of buildings, plant and equipment are based on periodic valuations undertaken by registered valuers.

Component	Purpose / Goal	Matters Noted / Improvements
7.4.1 Events Insurance	Insurance cover maintained by community groups for when holding events on Shire property.	<p>Community groups' insurances are not always assessed prior to events being held on Shire property. Reliance is placed on event organisers to ensure copies of insurances are provided.</p> <hr/> <p>Improvement:</p> <p>To help ensure all events held on Shire property have relevant and adequate insurance cover, procedures should be developed, and records maintained to ensure current insurances are in place.</p>
7.4.2 Contractor Insurance	Insurance cover maintained by contractors for damage caused when undertaking works for the Shire.	<p>Contractors' insurances are not always assessed prior to award of contracts in all cases. Reliance is placed on contract managers to ensure copies of insurances are provided.</p> <hr/> <p>Improvement:</p> <p>To help ensure all contractors have the relevant licences and have adequate insurance cover for the works they undertake for the Shire, procedures should be developed, and records maintained to ensure copies of contractor's insurances are obtained and held on file prior to award of contracts.</p>

8.0 Framework Evaluation

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

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

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

8.1 Council and Audit and Risk Committee

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

Component	Purpose / Goal	Matters Noted / Improvements
8.1.1 Council and Committee Minutes	Official record of proceedings and decisions.	<p>In our limited testing and review of minutes of Council meetings, we noted the following:</p> <ul style="list-style-type: none"> Confirmation of minutes of a meeting recorded an incorrect meeting date (minutes for ordinary meeting of Council in September 2020); Monthly Statement of Financial Activity relating to October 2020 and considered at the ordinary meeting of Council held in November 2020 were not recorded in the minutes as required by regulation 34(4)(b) of the <i>Local Government (Financial Management) Regulations 1996</i>; and Minutes of a meeting which did not detail a Council decision which was confidential in nature and held behind closed doors. Regulation 11 (d) of the <i>Local Government (Administration) Regulations 1996</i> requires details of each decision made at Council and committee meetings to be recorded in the minutes. <p>Improvement: Review procedures for recording of official minutes to ensure all detail, decisions and proceedings required to be recorded by legislation are captured.</p> <p>Management Comment: Procedures updated to minimise risk of future occurrences, as well as training with staff responsible for assisting with preparation of and compilation of minutes.</p>

8.0 Framework Evaluation

8.2 Strategic and Operational Registers

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

Register	Purpose / Goal	Matters Identified / Improvements
8.2.1 Contracts Register	Provide a record of contracts entered into by the Shire.	<p>A contracts register was not available for our inspection detailing the status of contracts held by the Shire.</p> <p>Improvement: Maintain a register to record details of all contracts (current and expired) and their status in a form to assist with ensuring contracts are monitored and actioned as required and reflecting the value of the contracts.</p> <p>Management Comment: Implementation of improvement has commenced and is progressing through record keeping systems upgrades.</p>
8.2.2 Development Applications and Building Permits Register	Provide a record of the receipt and status of applications received.	<p>A register to record and track applications for building permits and development applications is maintained, however reliance for compliance with statutory processing timeframes of applications received remains with only one officer, with limited oversight, monitoring or reporting being undertaken.</p> <p>Improvement: Update systems and the existing register to record the details and status of applications for building permits and development, to assist with ensuring applications are processed within mandated timeframes and reliance on these tasks is shared by more than one officer.</p> <p>Management Comment: Implementation of improvement has commenced through formalising existing recording practices.</p>
8.2.3 Risk Register	Provide a record of risk breaches and remedial action taken.	<p>A risk register was available for our inspection to reflect identified risks, and if they have been adequately treated, however supporting documents noted as controls within the risk register had not been maintained or were not available for our review.</p> <p>Improvement: Maintaining risk registers for all identified key risks is important to help ensure appropriate identification, recording and communication of high rated risks, along with providing a record to enable the verification of whether treatment plans have appropriately mitigated to within accepted risk appetite. Routine (at least quarterly) review of the risk register is required for sound risk management. Risk management should be embedded and coordinated throughout the organisation.</p> <p>Management Comment: Being addressed through formal/ongoing risk management activities. An updated / consolidated risk register being prepared for review by the Audit and Risk Committee in September 2022.</p>

8.0 Framework Evaluation

Register	Purpose / Goal	Matters Identified / Improvements
8.2.4 Register of Hazardous Materials	Provide a record of properties under the Shire's control containing hazardous materials.	<p>A register of hazardous materials was not available for our inspection, to reflect properties under the control of the shire which may contain hazardous materials such as asbestos, and if associated risks have been adequately treated.</p> <hr/> <p>Improvement: Develop and maintain a register to record properties under the control of the Shire which may contain hazardous materials such as asbestos, and if associated risks have been adequately treated. A review of all properties should be undertaken at least annually.</p> <p>Management Comment: An asbestos register is maintained. Accessibility has been improved through central recording in upgraded records management systems.</p>

8.0 Framework Evaluation

8.3 Annual Compliance Audit Returns (CAR)

Returns have been completed on a self-assessment basis and approved by Council each year. The CAR was completed by independent consultants for the 2018, 2019 and 2020 return periods. Where matters of non compliance were noted in the returns, these matters were reported to the Audit Committee and to Council, with improvements noted within the agenda report attachment to address matters identified. Improvements are noted in the table below relating to the CAR processes.

Component	Purpose / Goal	Matters Noted / Improvements
8.3.1 Compliance Audit Return	Checklist concentrating on areas of compliance considered "high risk" of a local government's compliance with the requirements of the Act and its Regulations.	<p>The CAR for 2020 was not reviewed by the Audit Committee prior to adoption by Council by 31 March 2021, as required by legislation.</p> <p>Improvement:</p> <p>Ensure future CARs are reviewed and adopted as required by regulation 14 of the <i>Local Government (Audit) Regulations 1996</i>.</p>

8.4 Complaint Handling

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

Component	Purpose / Goal	Matters Noted / Improvements
8.4.1 Community Complaints Procedures	Procedures for the recording handling and resolution of community complaints.	<p>A monthly report required by Policy A.1.9 External Complaints Management was not available for our review. No procedures exist and no customer complaints register maintained to follow up and ensure all community complaints are adequately addressed. Currently, customer complaints are entered and managed through the records management system. A complaints register is only maintained where required under section 5.121(1) of the <i>Local Government Act 1995</i>.</p> <p>Improvement:</p> <p>To help ensure all complaints are adequately monitored, reported and resolved, a register of customer complaints received should be maintained and systems and processes should ensure staff are aware of their obligations in accordance with adopted policies.</p> <p>Management Comment:</p> <p>Matter to be addressed through policy review engagement (procedures will be developed to align with policy direction).</p>

8.0 Framework Evaluation

8.5 Audit Practices

The 2018-19 reporting period was audited by an independent external auditor, with the 2019-20 & 2020-21 periods audited by the Office of the Auditor General (OAG). The 2018-19 audit report noted the operating surplus and asset sustainability ratio had been below the benchmark set by the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for three years and indicated a significant adverse trend to the financial position of the Shire. The same significant adverse trends were also noted in 2019-20 & 2020-21 for the operating surplus and asset sustainability ratio. These adverse trends were actioned as required by legislation (although 2018-19 actions were outside of timeframes provided by legislation, the 2019-20 & 2020-21 periods were compliant).

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

Component	Purpose / Goal	Matters Noted / Improvements
8.5.1 Workplace Health and Safety (WHS) Audit	Review of WHS practices to ensure they are consistently performed and applied.	<p>Evidence of a recent WHS audit was not available for our review.</p> <p>Improvement: Undertake a WHS audit, ensuring subsequent actions and matters identified through the audit are adequately addressed.</p> <p>Management Comment: A WHS audit was undertaken in early December 2021, and finalised in February 2022. Improvements noted from the audit are being prioritised for implementation.</p>
8.5.2 Internal Audit	Internal audit monitors the level of compliance with internal procedures and process along with assessing the appropriateness of these procedures.	<p>Currently, no internal auditors have been appointed, and limited internal audit functions have been undertaken.</p> <p>Improvement: We suggest as the level of documented procedures increases, an expanded internal audit function to confirm adherence to documented policies and procedures may be required as recommended by the OAG in their report to Parliament on the Audit Results Report – Annual 2017-18 Financial Audits of Local Government Entities.</p> <p>Management Comment: To be considered for implementation through formal risk management activities and processes.</p>

8.0 Framework Evaluation

8.6 Review required to be undertaken by the CEO

The CEO is required to undertake reviews of systems and procedures of the local government. The table below presents matters noted in relation to these reviews. A review of the appropriateness and effectiveness of the Financial Management systems and procedures of the local government required to be undertaken every three years by Regulation 5(2) of *Local Government (Financial Management) Regulations 1996*, as well as the CEO's review of the appropriateness and effectiveness of systems and procedures for Risk Management, Internal Controls and Legislative Compliance in accordance with Regulation 17 of *Local Government (Audit) Regulations 1996* was last undertaken in 2019. These combined reviews were considered by the Audit Committee in February 2020 and also by Council in February 2020. The onsite component for this current review / engagement was undertaken in December 2021.

9.0 Other Matters

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Document Date

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Appendix A – Financial Management Systems Review

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

System	Description
Bank reconciliation and petty cash management	Examination of procedures and review of maintenance and management practices undertaken by staff
Trust funds	Examination of trust funds to determine proper accountability in the Shire's financial management system and compliance with regulatory requirements
Receipts and receivables	Examination of end of day banking procedures to determine if they were adequate in ensuring cash collection is being recorded and allocated properly to the general ledger. The receivables system including raising of invoices was also reviewed with limited testing in respect to allocation/posting
Rates	<p>The Shire's rating procedures were examined to determine if they were adequate in ensuring rates were being imposed or raised correctly. This also included inspection of the rate record, rate notices, instalment notices, valuation reconciliations and general ledger. We randomly selected and tested rate notices which included:</p> <ul style="list-style-type: none"> • sighting the notices; • re-performing the calculations; • ascertaining whether the valuations applied agree to Landgate's valuation roll/report and rates per dollar imposed are as per adopted budget; • ensuring the rate system is properly updated; and • checking proper posting to the general ledger
Purchases, payments and payables (including purchase orders)	<p>Random selection of payment transactions to determine whether purchases were authorised/budgeted and payments were supported, certified/authorised and correctly allocated. The Shire's purchases, payments and payables system was also examined to determine if adequate controls were in place in ensuring liabilities are properly recorded and payments are properly controlled.</p> <p>We are aware of many incidents of payment scams/frauds within the local government industry during recent years. As a consequence of this activity, we have had a specific focus on the controls around the changes to supplier details within the EFT payment system</p>
Payroll	<p>A sample of eight employees were randomly selected from four pay runs and detailed testing of each employee's pay was performed to help ensure:</p> <ul style="list-style-type: none"> • the employee existed; • the correct rate of pay was used; • non-statutory deduction authorities are on hand; • time sheets were properly completed and authorised; • hours worked were properly authorised; and • allocations were reasonable and correctly posted <p>The Shire's payroll system was also reviewed to determine if adequate controls were in place to help ensure wages and salaries are properly processed and payments are properly controlled</p>
Credit card procedures	<p>A review of the Shire's credit card procedures was performed to determine if adequate controls were in place. We randomly selected and tested credit card transactions to determine whether they are legitimate and usual in the context of the Shire's operations. This included:</p> <ul style="list-style-type: none"> • sighting tax invoices; • ascertaining whether the transaction is for bona fide Shire business; and • determining whether transactions are in line with the Shire's policy.

Appendix A – Financial Management Systems Review

System	Description
Fixed assets (including depreciation, acquisition and disposal of property)	<p>The fixed assets system including controls over acquisition and disposal of assets, updating of the fixed assets register, depreciation of fixed assets and reconciliation of the fixed assets register to the general ledger was examined. A sample of asset additions and disposals were judgmentally selected, and testing performed to ensure:</p> <ul style="list-style-type: none"> the tax invoices existed; correct posting to the general ledger; fixed assets register was promptly updated; and classification of assets was correct. <p>In addition, a sample of four assets were judgmentally selected and testing performed to ensure the depreciation rates used are in line with the Shire's policy</p>
Cost and administration allocation	The Shire's cost and administration allocation system was examined to determine if indirect costs have been properly reallocated to various jobs/programs. This included review of the allocation basis and rates used to ensure they are appropriate and regularly reviewed
Financial reports controls	The format of the annual report, annual financial report and monthly financial reports were reviewed for compliance with legislative requirements
Budget and budget review	The 2021-22 budget document and documents surrounding budget adoption were reviewed to ensure compliance with regulatory requirements
Borrowings	Reconciliation of borrowings to the WATC loan schedules (where applicable) were examined
Inventory	Inventory reconciliations and stocktake procedures were examined

Appendix B – Council Policies Examined

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

Policy Topic (as at May 2021)

Administration	
General Administration	
A.1.1 Agenda Items	A.1.7 Public Relations – Press Releases
A.1.2 Chambers	A.1.8 Execution of Documents
A.1.3 Legal Representation	A.1.9 External Complaints Management
A.1.4 Disclaimer	A.1.10 Citizenship Ceremony
A.1.5 Well Wishes from Council	A.1.11 Recordkeeping Policy
A.1.6 Meetings of Council – Guest Speakers	A.1.12 Declaration of State of Emergency
Finance	
A.2.1 Investments	A.2.11 The Application of Gross Rental Valuation to Mining Petroleum and Resource Interests
A.2.2 Corporate Credit Cards	A.2.12 Valuation of Land - Mining
A.2.3 Purchasing Policy	A.2.13 Risk Management Policy
A.2.4 Rates Recovery	A.2.14 Regional Price Preference/Buy Local Policy
A.2.5 Insurance	A.2.15 Panels of Pre-Qualified Suppliers
A.2.6 Budget Management – Capital Acquisitions	A.2.16 Creditor Management
A.2.7 Taxation Exemptions	A.2.17 COVID-19 Financial Hardship
A.2.8 Assets Accounting	
A.2.9 Loans – Self Supporting	
A.2.10 Asset Management Policy	
Human Resources	
A.3.1 Gratuity Payments	A.3.12 Smoke Free Environment
A.3.2 Conferences – Staff Attendance and Representation	A.3.13 Staff – Senior Employees
A.3.3 Conferences – Staff Travel and Accommodation Expenses	A.3.14 Staff – Presentations on Termination
A.3.4 Information and Communication Technology Usage	A.3.15 Salaries and Wages – Mode of Payment
A.3.5 Occupational Health and Safety	A.3.16 Payroll Deduction of Union Subscriptions
A.3.6 Temporary Employment or Appointment of a Chief Executive Officer	A.3.17 Staff Incentive – Sick Leave Bonus
A.3.7 Harassment, Bullying and Discrimination	A.3.18 Fitness for Work (Including Alcohol, Drugs and Illegal Substance use in the Workplace)
A.3.8 Superannuation	A.3.19 Public Interest Disclosure
A.3.9 Protection from the Sun for Outdoor Work	A.3.20 Social Media
A.3.10 Equal Opportunity	A.3.21 Working From Home
A.3.11 Staff Training	A.3.22 Recruitment and Selection

Appendix B – Council Policies Examined

Policy Topic (as at May 2021) Continued

Community Services	
C.4.1 Environment – Council Recognition	C.4.4 Use of Community Bus and/or Other Vehicles
C.4.2 Library Charges	C.4.5 Gwalia Collection Policy
C.4.3 Unruly Behaviour in Council Facilities	
Members	
M.5.1 Events – Council Members and Chief Executive Officer Attendance and Representation	M.5.3 Public Question Time
M.5.2 Conferences – Members Travel and Accommodation Expenses	M.5.4 Elected Member Mandatory and Ongoing Professional Development
Technical Services	
T.6.1 Plant and Vehicle Replacement Program	T.6.7 Building Control – Duration
T.6.2 Shires Plant and Equipment – After Hours Use	T.6.8 Building Control – Buildings Set Out by Licensed Surveyor
T.6.3 Operation of Shire Plant	T.6.9 Building Control – Relocated Dwellings
T.6.4 Refuse Collection Charges	T.6.10 Building Licences
T.6.5 Vendor/Trading Licence	T.6.11 Conditions for Surface Clearing and Drilling Activities within the Leonora Townsite
T.6.6 Building Control – Free Standing Garden Sheds, Patios and Pergolas	

Appendix C – Plans Examined

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

Plan	Status
Strategic Community Plan	2017-2027
Corporate Business Plan	2020-2024
Strategic Resource Plan	2016-2031
Strategic IT Plan	2020-2023
IT Disaster Recovery Plan	2019
Risk Management Strategy	2018
Local Laws	(under review)
Workforce Plan	2018-2022
Code of Conduct – Council Members, Committee Members and Candidates	2021
Code of Conduct – Employees	2021
Record Keeping Plan	Approved by State Records Office 7 December 2018
Local Emergency Management Arrangements	2021
Annual Report	2018-19, 2019-20 & 2020-21

Appendix D – Strategic and Operational Registers Examined

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

Register
Gifts Registers
Delegation Register
Financial Interests Register
Official Complaints Register
Cemeteries Register
Tender Register
Councillor Remuneration Register
Elected Member Training Register
Building Approvals Register
Swimming Pool Inspections Register
Lodging Houses Register
Regulatory Inspections Register
Easements Register

Appendix E – Operational Guidelines

Risk Management

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

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

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

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

- *potential non-compliance with legislation, regulations and standards and local government's policies*
- *important accounting judgements or estimates prove to be wrong*
- *litigation and claims*
- *misconduct, fraud and theft*
- *significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the local government*

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

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

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

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

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

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

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

Legislative Compliance

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

- a) *Monitoring compliance with legislation and regulations*
- b) *Reviewing the annual Compliance Audit Return and reporting to Council the results of that review*

Appendix E – Operational Guidelines

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

Legislative Compliance (continued)

- d) *Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints*
- e) *Obtaining assurance that adverse trends are identified and review management's Plans to deal with these*
- f) *Reviewing management disclosures in financial reports of the effect of significant compliance issues*
- g) *Reviewing whether the internal and / or external auditors have regard to compliance and ethics risks in the development of their Audit Plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee*
- h) *Considering the internal auditor's role in assessing compliance and ethics risks in their Plan;*
- i) *Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements*
- j) *Complying with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest*

Internal Controls

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

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

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

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

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

- a) *integrity and ethics;*
- b) *policies and delegated authority;*
- c) *levels of responsibilities and authorities;*
- d) *audit practices;*
- e) *information system access and security;*
- f) *management operating style; and*
- g) *human resource management and practices.*

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

Appendix E – Operational Guidelines

Internal Controls (continued)

Aspects of an effective control framework will include:

- a) delegation of authority;*
- b) documented policies and procedures;*
- c) trained and qualified employees;*
- d) system controls;*
- e) effective Policy and process review;*
- f) regular internal audits*
- g) documentation of risk identification and assessment; and*
- h) regular liaison with auditor and legal advisors.*

The following are examples of controls that are typically reviewed:

- a) separation of roles and functions, processing and authorisation;*
- b) control of approval of documents, letters and financial records;*
- c) comparison of internal data with other or external sources of information;*
- d) limit of direct physical access to assets and records;*
- e) control of computer applications and information system standards;*
- f) limit access to make changes in data files and systems;*
- g) regular maintenance and review of financial control accounts and trial balances;*
- h) comparison and analysis of financial results with budgeted amounts;*
- i) the arithmetical accuracy and content of records;*
- j) report, review and approval of financial payments and reconciliations; and*
- k) comparison of the result of physical cash and inventory counts with accounting records.*

Appendix F – Improvements Identified

Risk Area	Prioritised Action Required
Design – Policies	Purchasing Policy A.2.3
Implementation – Strategic and Operational Plans	ICT Disaster Recovery Plan ICT Strategic Plan Code of Conduct
Implementation – Operational and Financial Procedures	Procedure Changes Risk Management Procedures Access to Shire Facilities Security Controls for Cash Handling ICT Security Annual Budget General Journal Entries Procurement Assessment Credit Cards Contract Management Contracts / Leases / Agreements Changes to Banking Details Fees and Charges Fixed Asset Additions
Implementation – Human Resource Management and Practices	Employee Identity and Credentials Staff Contracts & Employee Files
Implementation – Insurance	Contractor Insurance
Evaluation – Council and Audit and Risk Committee	N/A
Evaluation – Strategic and Operational Registers	Development Applications and Building Permits Register Register of Hazardous Materials Risk Register
Evaluation – Compliance Audit Returns (CAR)	N/A
Evaluation – Complaint Handling	N/A
Evaluation – Audit Practices	Workplace Health and Safety (WHS) Audit
Evaluation – CEO Reviews	N/A

Appendix F – Improvements Identified

Risk Area	Planned Action Required
Design – Policies	Meeting of Council - Guest Speakers A.1.6 External Complaints Management A.1.9 Declaration of State of Emergency A.1.12 Purchasing Policy A.2.3 Insurance A.2.5 Assets Accounting A.2.8 Covid-19 Financial Hardship A.2.17 Temporary Employment or Appointment of a Chief Executive Officer A.3.6 Harassment, Bullying and Discrimination A.3.7 Conferences - Members Travel and Accommodation Expenses M.5.2 Public Question Time M.5.3 Elected Member Mandatory and Ongoing Professional Development M.5.4 Legislative Compliance Policy Internal Control Policy Policy Review General Policy Actions Policy Reference to Legislation and External Information
Implementation – Strategic and Operational Plans	Business Continuity Disaster Recovery Plan Corporate Business Plan
Implementation – Operational and Financial Procedures	Operational Procedures, Checklists, Workflow Diagrams Operational Procedures at Shire Facilities Overhead & Administration Allocations Rates Procurement Creditors Audit Trails Outstanding Purchase Orders Debtors Invoicing Asset Disposal Portable and Attractive Items Register Grants Management Stock Controls Records Report on Elected Member Training
Implementation – Human Resource Management and Practices	Employee Appointment Procedures Employee Termination Procedures Staff Training Performance Reviews Staff Contracts Amendments Payroll Processing, Exception Reporting, Authorisation and Employee Masterfile Setup Time Records Payroll Audit Trails

Appendix F – Improvements Identified

Risk Area	Planned Action Required
Implementation – Insurance	Events Insurance
Evaluation – Council and Audit and Risk Committee	Council and Committee Minutes
Evaluation – Strategic and Operational Registers	Contracts Register Development Applications and Building Permits Register
Evaluation – Compliance Audit Returns (CAR)	Compliance Audit Return
Evaluation – Complaint Handling	Community Complaints Procedures
Evaluation – Audit Practices	Internal Audit
Evaluation – CEO Reviews	N/A

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MOORE

4.0 REPORTS**4.2 DEPUTY CHIEF EXECUTIVE OFFICER REPORTS****4.2.(A) RELATED PARTY TRANSACTIONS AND DISCLOSURES**

SUBMISSION TO: Audit and Risk Committee Meeting
Meeting Date: 21st June 2022

AGENDA REFERENCE: 4.2.(A) JUN 22

SUBJECT: Related Party Transactions and Disclosures

LOCATION/ADDRESS: Leonora

NAME OF APPLICANT: N/A

FILE REFERENCE: 1.8

AUTHOR, DISCLOSURE OF ANY INTEREST AND DATE OF REPORT

NAME: Lee-Anne Trevenen

OFFICER: Deputy Chief Executive Officer

INTEREST DISCLOSURE: Nil

DATE: 14th June 2022

SUPPORTING DOCUMENTS: Nil

BACKGROUND

In accordance with AASB 124 *Related Party Disclosures*, local governments must disclose in the annual financial statements related party relationships, transactions and outstanding balances (including commitments) from 1 July 2016. Related parties include Key Management Personnel (KMP), which in the Shire of Leonora's case will include all elected members and executive staff, their close family members and any entities that they control or jointly control. The disclosure requires any transactions with these parties, whether monetary or not, to be identified and assessed whether disclosure is required or not. A disclosure may be in aggregate and will only occur where a transaction has occurred.

Regarding the disclosures, the following approach was developed in a workshop held at the June 2017 Audit and Risk Committee Meeting to ensure that management can properly address the requirements of the accounting standard:

- A procedure / guide for related party disclosures to be established, which includes the updating of returns quarterly through the Audit and Risk Committee Meetings
- Establishment of a system to identify and record related parties of KMPs
- Establishment of a system to identify and record related party relationships of KMPs
- Establishment of a system to identify and record related party transactions
- Identify 'Ordinary Citizen Transactions' (OCTs) that will not be disclosed by Council
- Create declaration forms to be completed by KMPs
- Set a materiality threshold for management to apply when assessing transactions for inclusion in the financial statements
- Identified the need for a separate workshop to be scheduled for newly elected members and
- For the Audit and Risk Committee to recommend any changes required to the above processes

STATUTORY ENVIRONMENT

Disclosures were required from Local Government entities from 1 July 2016 in accordance with AASB 124 *Related Party Disclosures*, with the first disclosures made in the Financial Statements for the year ended 30 June 2017.

POLICY IMPLICATIONS

There are no policy implications resulting from the recommendation of this report.

FINANCIAL IMPLICATIONS

There are no financial implications resulting from the recommendation of this report that will have any detrimental effect on the Shire's finances.

STRATEGIC IMPLICATIONS

Strategic References within the Shire of Leonora Strategic Community Plan 2017-2027 demonstrate connections between services and the desired outcomes and community vision for the Shire of Leonora, particularly in relation to Governance services in this instance such as 4.1 Efficient service offerings to the community, 4.2 Effective and open engagement with all sections of the community, 4.5 Strong leadership and planning.

RECOMMENDATIONS

That the Audit and Risk Committee note the approach taken and the systems established by management with regard to addressing the requirements of *AASB 124 Related Party Disclosures*.

VOTING REQUIREMENT

Simple Majority

SIGNATURE

Deputy Chief Executive Officer

5.0 NEXT MEETING

Tuesday 20th September 2022

6.0 CLOSURE OF MEETING