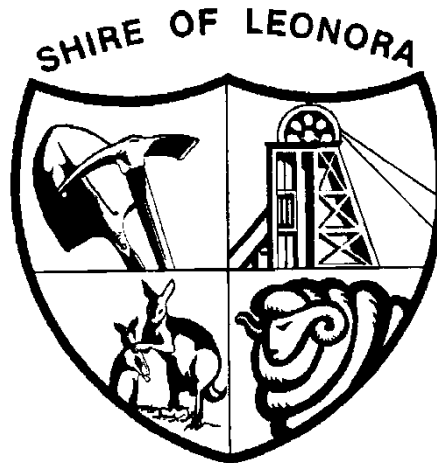


SHIRE OF LEONORA

NOTICE OF A SPECIAL COUNCIL MEETING



**MINUTES OF SPECIAL MEETING OF THE
AUDIT AND RISK COMMITTEE HELD IN
SHIRE CHAMBERS, LEONORA ON
TUESDAY 17TH FEBRUARY, 2020
COMMENCING AT 9:06 AM**

1.0 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS / FINANCIAL INTEREST DISCLOSURE

1.1 Shire President Peter Craig declared the meeting open at 9:06am.

1.2 Visitors or members of the public in attendance.
Nil

1.3 Financial Interests Disclosure
Nil

2.0 DISCLAIMER NOTICE

3.0 RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE

3.1 Present	
President	PJ Craig
Deputy President	RA Norrie
Councillors	RM Cotterill
	AE Taylor
	LR Petersen
	AM Moore
	F Harris
Chief Executive Officer	JG Epis
Deputy Chief Executive Officer	L Gray

3.2 Apologies
Nil

3.3 Leave of Absence
Nil

4.0 REPORTS OF OFFICERS

4.1 CHIEF EXECUTIVE OFFICER

4.1.1 SIGNIFICANT AUDIT MATTER – OPERATING SURPLUS RATIO

SUBMISSION TO: Meeting of Audit Committee
Meeting Date: 18th February, 2020

AGENDA REFERENCE: 4.1.1 AUDIT FEB 20

SUBJECT: Significant Audit Matter – Operating Surplus Ratios

LOCATION / ADDRESS: Leonora

NAME OF APPLICANT: N/A

FILE REFERENCE: Audits – Reports & Minutes 1.10

AUTHOR, DISCLOSURE OF ANY INTEREST AND DATE OF REPORT

NAME: James Gregory Epis

OFFICER: Chief Executive Officer

INTEREST DISCLOSURE: Nil

DATE: 6th February, 2020

BACKGROUND

At the Ordinary Meeting of Council held 19th November, 2019 Council was presented with the Annual Report for the year ended 30th June, 2019. The 2018-19 Audit Report from Butler Settineri (Audit) Pty Ltd identified a significant adverse trend for the operating surplus ratio that did not meet the Department's benchmark.

In line with section 7.12A(4) of the *Local Government Act 1995*, a local government is required to prepare a report stating what action has been taken or is intended to be taken in respect to matters raised within the audit report and give a copy of that report to the Minister within 3 months after that audit report is received by the local government.

In accordance with section 7.12A(5) of the *Local Government Act 1995*, the CEO must publish a copy of the report on the local government's official website within 14 days of the report being provided to the Minister under subsection (4)(b).

To comply with the requirements of section 7.12A(4) & (5) of the *Local Government Act 1995*, an action report has been prepared (attached) which is presented for the audit committee's consideration. The action report, once received by the audit and risk committee, will require endorsement by the Council, prior to being submitted to the Minister and published on the Shire of Leonora's website.

STATUTORY ENVIRONMENT

Section 7.12A(4) of the *Local Government Act 1995* requires a local government to prepare a report stating what action has been taken or is intended to be taken in respect to matters raised within the audit report, and to forward a copy of the report to the Minister within three months of receiving the audit report.

Section 7.12A(5) of the *Local Government Act 1995* requires a local government to publish on its official website the report prepared under section 7.12A(4) within 14 days of supplying the report to the minister.

POLICY IMPLICATIONS

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

FINANCIAL IMPLICATIONS

Provision is included in the 2019/20 adopted budget for consultants and there are no extraordinary budget implications resulting from this report or recommendations.

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 outcome 4.5 Strong Leadership and Planning, with strategy 4.5.3 'Continue to Develop Strategic Plans and Ensure Legislative Compliance' applies.

RISK MANAGEMENT

This item has been evaluated against the Shire of Leonora's Risk Management Strategy and Risk Assessment Matrix. The perceived level of risk is high prior to treatment, the receipt of this report by the Audit and Risk Committee, and subsequent consideration for endorsement by Council will reduce the risk to medium.

RECOMMENDATIONS

That the Audit and Risk Committee:

1. Receive the attached 'Action Report – 2018-19 Significant Adverse Trend – Operating Surplus Ratio';
2. Recommend the endorsement of the attached 'Action Report – 2018-19 Significant Adverse Trend – Operating Surplus Ratio' by Council; and
3. Following endorsement of the 'Action Report – 2018-19 Significant Adverse Trend – Operating Surplus Ratio' by Council, authorise the CEO to forward a copy of the report to the Minister and to publish the report on the Shire of Leonora's official website.

VOTING REQUIREMENT

Simple Majority

COUNCIL DECISION

Moved Cr RA Norrie, Seconded Cr LR Petersen that the Audit and Risk Committee:

1. Receive the attached 'Action Report – 2018-19 Significant Adverse Trend – Operating Surplus Ratio';
2. Recommend the endorsement of the attached 'Action Report – 2018-19 Significant Adverse Trend – Operating Surplus Ratio' by Council; and
3. Following endorsement of the 'Action Report – 2018-19 Significant Adverse Trend – Operating Surplus Ratio' by Council, authorise the CEO to forward a copy of the report to the Minister and to publish the report on the Shire of Leonora's official website.

CARRIED (7 VOTES TO 0)



ACTION REPORT – 2018-19 Significant Adverse Trend – Operating Surplus Ratio

Section 7.12A (4) of the *Local Government Act 1995* requires a local government to prepare a report stating what action has been taken or is intended to be taken in respect to matters raised within the audit report. The Shire of Leonora's 2018-19 Audit Report from Butler Settineri (Audit) Pty Ltd noted a significant adverse trend for the operating surplus ratio.

Shire of Leonora – Operating Surplus Ratio 2016/17, 2017/18 & 2018/19

The operating surplus ratio demonstrates the extent to which operating revenues cover operating expenses (including depreciation), with a positive operating surplus ratio considered by the Department an indicator of long-term financial sustainability. The Shire's operating surplus ratio has experienced movement over the previous three years in relation to the 2018-19 audit report as below:

2017	2018	2019
(0.03)	(0.11)	(0.04)

The basic benchmark set by the Department of Local Government, Sport and Cultural Industries (the Department) for the operating surplus ratio is 0.01 – 0.15. Ratios higher than 0.15 are considered to be in the desirable benchmark range set by the Department. The Shire of Leonora experienced a downward trend with its operating surplus ratio in 2017/18 due in part to the late recoup of the WANDRRA funding. In 2018/19 this trend was reversed showing an improvement which, however, did not meet the benchmark set by the Department, resulting in the 'significant adverse trend' finding on the Shire's audit report.

Explanation for Operating Surplus Ratio Not Meeting Benchmarks

A number of factors contribute to the fluctuation of this ratio, including reimbursement of WANDRRA funds in 2017/18, which resulted in delays of reimbursement of large recoups. These funding claims cannot be recognised as revenue until it is virtually certain to be received (i.e. once the claim is approved). As the processes to receive WANDRRA funds are onerous with significant periods of time being required to receive approval, the operating surplus ratio can be somewhat manipulated given the timing of revenue and expenses relating to WANDRRA works (AASB 116 provides direction in relation to the treatment of revenue of expenses).

The Shire has also considered within its Long Term Financial Plan (LTFP) the impact of ongoing capital road funds such as Roads to Recovery (R2R) and Regional Road Group (RRG) – neither of which are included in the calculation of the operating surplus ratio. Depreciation expense, which is included within the calculation of the operating surplus ratio, is rarely funded in full by rural local governments such as the Shire of Leonora, with grant funds such as the R2R and RRG contributing to asset renewals and compensating for operating losses. Depreciation will be closely monitored in 2019/2020.

Actions Proposed to Address the Operating Surplus Ratio

To ensure the operating surplus ratio would meet the benchmark set by the Department, the Shire could consider increasing rates, however this would effectively result in over rating the community when also considering the ongoing road grants received by the Shire. As a result, the Shire considers the benchmark for the operating surplus ratio to be flawed for a Shire receiving non-operating grants for the renewal of assets, and it does not intend to take action to increase revenue above a level which will result in the community being overrated when considering expected and ongoing non-operating grants for asset renewals.

The operating surplus ratio and the financial performance of the Shire of Leonora will continue to be reviewed through ongoing monitoring of depreciation expense and financial reports which are reported to Council, including required budget reviews and monthly statements of financial activity. Close attention will be paid to revaluations that may have a negative impact on the ratio in 2019/20.

The Council will continue to expand its operations in order to find other alternative revenue sources in line with the Shire of Leonora's Strategic Community Plan 2017 – 2027.

Disclaimer

This Report has been prepared for the exclusive use by the Shire of Leonora.

This report contains quantitative and qualitative statements, including projections, estimates, opinions and forecasts concerning the anticipated future performance of the Shire of Leonora, based on a large number of assumptions, and will be, subject to significant uncertainties and contingencies many, if not all, of which are outside the control of the Shire of Leonora.

This report is supplied in good faith for public information purposes and the Shire accepts no responsibility for any loss occasioned by any person acting or refraining from action as a result of reliance on the Plan.

Document Management

Version	2018-19 Adverse Trend
Status	Final
Date of Adoption	18 th February 2020

4.0 REPORTS OF OFFICERS

4.1 CHIEF EXECUTIVE OFFICER

4.1.2 AUDIT REGULATION 17 – PROGRESS UPDATE

SUBMISSION TO: Meeting of Audit Committee
Meeting Date: 18th February, 2020

AGENDA REFERENCE: 4.1.2 AUDIT FEB 20

SUBJECT: *Local Government (Audit) Regulations 1996* – Audit Regulation 17 Report

LOCATION / ADDRESS: Leonora

NAME OF APPLICANT: N/A

FILE REFERENCE: 1.10

AUTHOR, DISCLOSURE OF ANY INTEREST AND DATE OF REPORT

NAME: James Gregory Epis

OFFICER: Chief Executive Officer

INTEREST DISCLOSURE: Nil

DATE: 7th February, 2020

BACKGROUND

On 8th February 2013, amendments to the *Local Government (Audit) Regulations 1996* extended the functions of Local Government Audit Committees. These functions (Regulation 17) require the CEO to review the appropriateness and effectiveness of the Shire's systems and procedures in relation to risk management, internal control and legislative compliance every three calendar years, and report the results to the Audit Committee.

At the Audit and Risk Committee held 18th June, 2019 the Audit and Risk Committee received Moore Stephens's Draft Audit Regulation 17 report titled 'Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls' in response to the Regulation 17 and Financial Management Regulations Audit conducted in early April, 2019.

The Local Government Operational Guidelines provide a comprehensive list of issues to be included in any review of risk management, internal control and legislative compliance, and the Shire's current practices, outlining the appropriateness and effectiveness of those practices, and presented recommendations for improvement.

The information provided in the report from Moore Stephens delivered an assessment of the Shire's current practices, outlining the appropriateness and effectiveness of those practices, and presented recommendations for improvement.

Under Regulation 16(c), 16(f)(iii) & 16(f)(iv) of the *Local Government (Audit) Regulations 1996*, the Audit and Risk Committee is required to review this report, and then report the results of this review and a copy of the CEO's report to the Council. They must also oversee the implementation of any action that the local government has accepted should be taken following receipt of a report of a review conducted under regulation 17(1) as well as a review conducted under the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c).

STATUTORY ENVIRONMENT

This report relates to Regulation 16(c), 16(f)(iii), 16(f)(iv) and 17 of the *Local Government (Audit) Regulations 1996*, as well as Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* which read as follows;

Local Government (Audit) Regulations 1996

16. Functions of audit committee

An audit committee has the following functions —

- (a) to guide and assist the local government in carrying out —
 - (i) its functions under Part 6 of the Act; and
 - (ii) its functions relating to other audits and other matters related to financial management;
- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;
- (c) to review a report given to it by the CEO under regulation 17(3) (the **CEO's report**) and is to —
 - (i) report to the council the results of that review; and
 - (ii) give a copy of the CEO's report to the council;
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
 - (i) regulation 17(1); and
 - (ii) the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;
- (f) to oversee the implementation of any action that the local government —
 - (i) is required to take by section 7.12A(3); and
 - (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and
 - (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and
 - (iv) has accepted should be taken following receipt of a report of a review conducted under the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);
- (g) to perform any other function conferred on the audit committee by these regulations or another written law.

17. CEO to review certain systems and procedures

- (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —
 - (a) risk management; and
 - (b) internal control; and
 - (c) legislative compliance.
- (2) The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.
- (3) The CEO is to report to the audit committee the results of that review.

Local Government (Financial Management) Regulations 1996

5. CEO's duties as to financial management

- (1) Efficient systems and procedures are to be established by the CEO of a local government —
 - (a) for the proper collection of all money owing to the local government; and
 - (b) for the safe custody and security of all money collected or held by the local government; and
 - (c) for the proper maintenance and security of the financial records of the local government (whether maintained in written form or by electronic or other means or process); and
 - (d) to ensure proper accounting for municipal or trust —
 - (i) revenue received or receivable; and
 - (ii) expenses paid or payable; and
 - (iii) assets and liabilities;and
 - (e) to ensure proper authorisation for the incurring of liabilities and the making of payments; and
 - (f) for the maintenance of payroll, stock control and costing records; and
 - (g) to assist in the preparation of budgets, budget reviews, accounts and reports required by the Act or these regulations.

- (2) The CEO is to —
- (a) ensure that the resources of the local government are effectively and efficiently managed; and
 - (b) assist the council to undertake reviews of fees and charges regularly (and not less than once in every financial year); and
 - (c) undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews.

POLICY IMPLICATIONS

Development and adoption of new policies as well as adjustments to current policies have been recommended as improvements within this report and will need to be considered in recommending 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 4.5 Strong leadership and planning.

RECOMMENDATIONS

That the Audit and Risk Committee;

- a) Review the attached 'Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls'; and
- b) Recommend the endorsement of the attached 'Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls' by Council.

VOTING REQUIREMENT

Simple Majority

COUNCIL DECISION

Moved Cr RA Norrie, Seconded Cr RM Cotterill that the Audit and Risk Committee;

- a) Review the attached 'Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls'; and
- b) Recommend the endorsement of the attached 'Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls' by Council.

CARRIED (7 VOTES TO 0)

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

Shire of Leonora

June 2019

Contents

1.0	Engagement Overview	3
2.0	Review Context	5
3.0	Review Summary	6
4.0	Methodology.....	10
5.0	Appropriate Framework.....	13
6.0	Framework Design.....	14
7.0	Framework Implementation	18
8.0	Framework Evaluation	25
9.0	Other Matters	30
	Appendix A – Financial Management Systems Review	31
	Appendix B – Council Policies Examined	33
	Appendix C – Plans Examined	34
	Appendix D – Strategic and Operational Registers Examined.....	35
	Appendix E – Operational Guidelines.....	36

1.0 Engagement Overview

1.1 Scope of Services

The Shire of Leonora engaged Moore Stephens 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 Regulation 5(2)(c)*.

For efficiency, the reviews were undertaken simultaneously resulting in a single report being issued. 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 Audit Regulation 17 framework design, framework implementation and framework evaluation sections of the report.

The results of the Audit Regulation 17 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 all of the Shire's financial systems including, but not necessarily limited to:

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

Our procedures and approach have been developed over a number of years taking into account our extensive local government background and seeks to examine both 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 (continued)

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

Our procedures for the systems and procedures review (as required by Audit Regulation 17) 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 to assess the appropriateness and effectiveness of the relevant systems and procedures in accordance with Local Government Audit Regulation 17.

To undertake these procedures, we applied the following methodology:

- Conduct onsite interviews with key personnel involved in risk management, financial management and ensuring Shire adherence to legislative compliance;
- 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 (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 of Leonora 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 Council's current Strategic Community Plan.
Rapid changes in information technology changing the service delivery environment.	The timing and actions contained in the Council's Corporate Business Plan.
Increased compliance requirements due to Government Policy and Legislation.	The current organisational size, structure, activities and location.
Cost shifting by the Federal and State Governments.	The current human resourcing levels and turnover rate.
Reducing external funding for infrastructure and operations.	The current financial capacity of the Shire.
Resource development and the associated social impacts.	The maintenance of corporate records.
Increasing community expectations and regulations in relation to waste management.	Allocation of resources to achieve strategic outcomes.
Government responses in relation to social services (including itinerants).	Current organisational systems and processes.
Native title processes and determinations.	The current organisational strategy and culture.
Aboriginal Heritage.	
Delivery of services to remote communities.	
Climate change and subsequent response.	

3.0 Review Summary

3.1 Financial Management

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

3.1.1 Appropriateness

Considering the size, resources, variety of operations and the context in which the Shire of Leonora operates, documented internal control procedures relating to financial management systems are considered appropriate as a means of maintaining a high level of control over the financial management of the Shire, provided they are routinely and consistently applied. Some weaknesses were identified within current controls and procedures which are further explained within the framework implementation section of this report.

3.1.2 Effectiveness

Several elements of the financial management systems and processes are open to improvement, with key areas highlighted in the improvements section below.

Development and application of financial management systems and processes, as well as refinement to existing practices, are required to be implemented throughout the organisation in order for financial management processes and procedures to be considered effective.

3.1.3 Improvements

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

- IT controls;
- Revenue controls at the Leonora Child Care Facility;
- Lease and contract management;
- Procurement; and
- Stock control.

3.0 Review Summary (continued)

3.2 Risk Management

The Shire of Leonora initially developed its formal risk management processes with the adoption of a Risk Management Policy and Strategy (Item 10.1(A), Ordinary Meeting of Council 18 December 2018). The Policy refers to the Risk Management Standard ISO 31000:2018 and is supported by the Risk Management Strategy, which documents the Shire's approach to risk management.

3.2.1 Appropriateness

Currently, a documented entity wide Risk Management Policy is in existence to guide the implementation of risk management throughout the organisation. Considering the size, resources, operations and the context in which the Shire of Leonora operates, a documented risk management policy and procedures is considered appropriate as a means of uniformly supporting decision making and documenting the organisation's response to risks.

3.2.2 Effectiveness

The current risk management policy reflects the Shire's commitment toward an integrated, effective and organisation wide approach to risk management within the Shire of Leonora, facilitating value creation and protection. Elements of risk management processes, such as updating and review of risk registers and documented risk assessments, are being developed or are not consistently applied. Continued development and application of risk management systems and processes is required to be implemented throughout the organisation in order for risk management processes and procedures to be considered effective.

3.2.3 Improvements

Improvement to risk management practices and policies is detailed later within this report, with key matters summarised as follows:

- Develop and apply risk management practices to management practices in accordance with adopted risk management strategy; and
- Ensure appropriate management of operational risks for high risk areas.

3.0 Review Summary (continued)

3.3 Internal Control

No formal internal control policy has been adopted by the Shire of Leonora. A policy to guide the Shire would assist to ensure an iterative approach to evaluating the internal controls, systems and procedures, as well as providing a mechanism whereby regular review and updates occur.

3.3.1 Appropriateness

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

3.3.2 Effectiveness

Weaknesses were identified where internal controls are not considered effective, specifically in circumstances where trust is placed in senior employees with limited review and verification of transactions.

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 in the framework implementation section of this report.

3.3.3 Improvements

Recommended improvements to the current internal control framework, procedures and systems are set out in detail later within this report with selected key improvements to internal controls summarised as follows:

- Development and testing of Business Continuity and Disaster Recovery Plans;
- The development of a documented internal control policy, promoting a risk-based approach to the development and maintenance of documented internal controls and procedures. This suggestion is intended to support a continual assessment of appropriate controls throughout the organisation by identifying the need for new controls (based on risk) and ensuring existing outdated and unnecessary controls are discontinued;
- Key internal controls should be documented either as procedures, checklists or workflow diagrams;
- Procedures should be defined to improve the management of issues surrounding changes to internal controls; and
- Measures should be taken to ensure staff are fully aware of, and understand, relevant internal controls.

3.0 Review Summary (continued)

3.4 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 desire to achieve high levels of legislative and regulatory compliance.

3.4.1 Appropriateness

Considering local governments generally maintain a low risk appetite for breaches of legislation, a documented legislative compliance policy is considered appropriate to reflect Council's low risk appetite in relation to legislative breaches. The Shire is yet to establish a legislative compliance policy to address legislative compliance.

3.4.2 Effectiveness

Maintaining legislative compliance is heavily reliant on the knowledge, experience and commitment of senior staff, to identify and prevent breaches of legislation. As a consequence, staff turnover, competing priorities and variations in workloads can 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 noted breaches of legislation, and in the instances where the effectiveness was able to be assessed, the current legislative compliance control procedures and systems, were considered effective.

3.4.3 Improvements

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

- Development of a legislative compliance policy dealing with internal legislative compliance;
- Further development and approval of authorised checklists for functions which require a high level of legislative compliance; and
- The development of a risk based training matrix to 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.

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 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 Financial Management Regulation 5(2)(c).

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

- Bank Reconciliations and Petty Cash Management;
- Trust Fund;
- Receipts/Receivables;
- Rates;
- Fees and Charges;
- Purchases, Payments and Payables (including Purchase Orders);
- Payroll;
- Credit Card Procedures;
- Fixed Assets (including acquisitions, disposal and depreciation);
- Cost Allocations;
- Administration Allocations;
- Financial Reports; and
- Budget.

4.0 Methodology (continued)

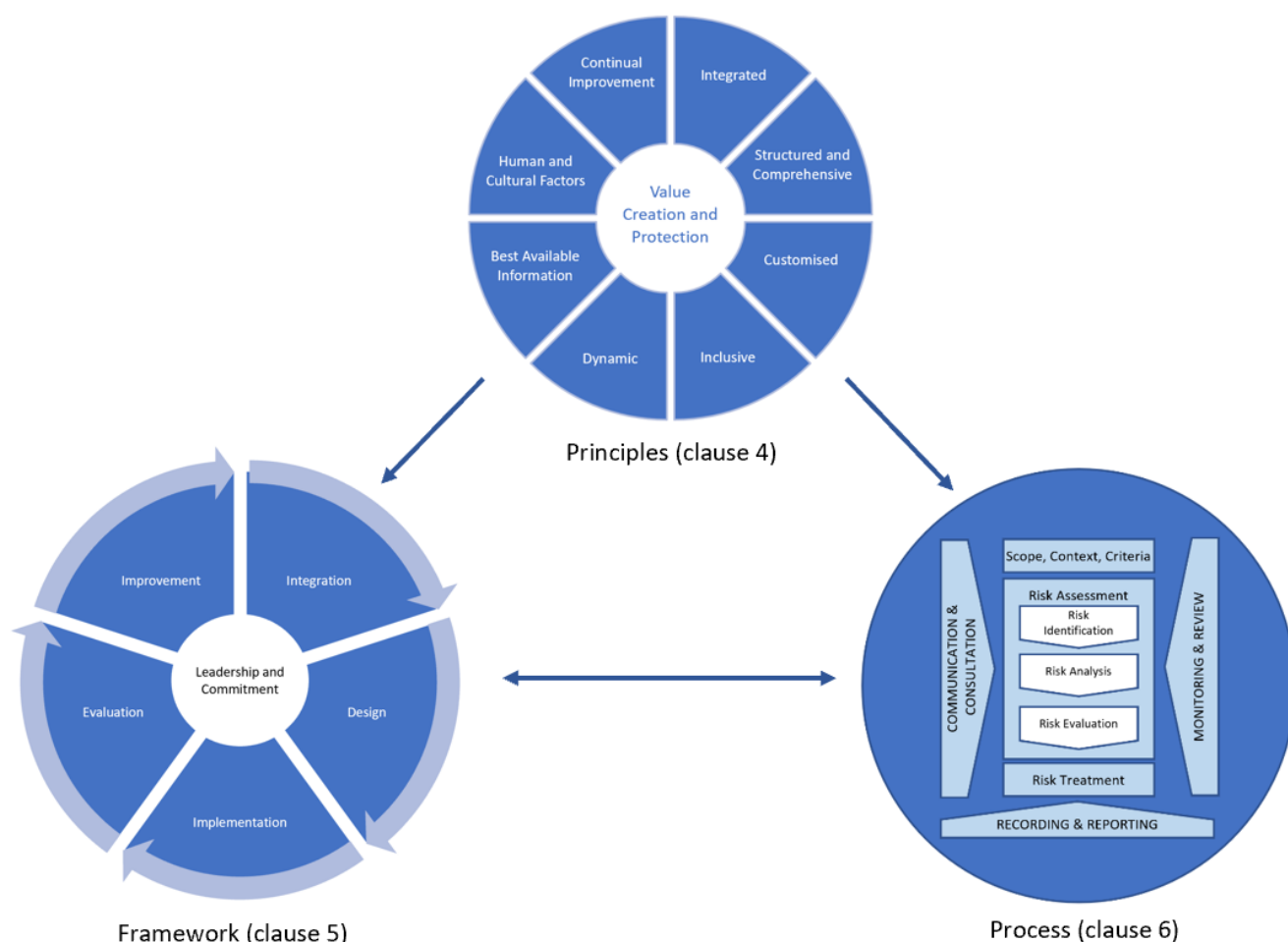
4.2 Review Methodology – Risk Management, Legislative Compliance and Internal Controls

The primary goal of this review is to assist the CEO of the Shire of Leonora to establish the appropriateness and effectiveness of the Shire of Leonora's 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 (continued)

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 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.

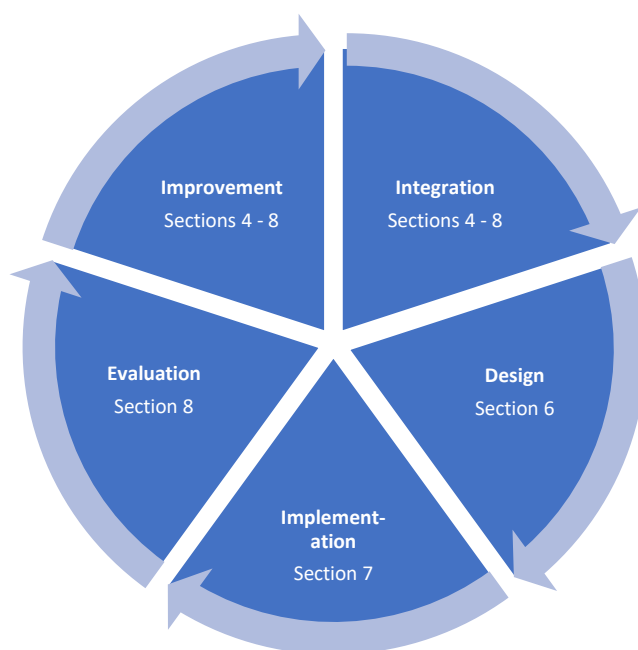
This evaluation is based on interviews with key staff, review of requested documentation listed in the Appendix and reference to any external audit reports or reviews previously conducted.

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.

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



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

The results of our review, as detailed on the following pages, are set out with reference to the structure of the above framework. With assessment of 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 of Leonora has adopted two key strategic documents, the Strategic Community Plan 2017-2027 and the Corporate Business Plan 2017-21. 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 of the northern goldfields;
- 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 includes a section highlighting key challenges and risks considered during the preparation of 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 (Continued)

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 areas for suggested improvement.

Policy	Purpose / Goal	Matters Identified / Improvements
Complaints / Grievance Policy	Policy to provide guidance to the Shire's approach to managing complaints.	<p>Currently, no Complaints / Grievance Policy has been adopted by Council.</p> <p>Improvement:</p> <p>Development and adoption of a Complaints / Grievance Policy will assist to provide clear structure and direction for the management of complaints. Any policy adopted should include a mechanism to deal with complaints in instances where the complaint is against the CEO.</p>
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:</p> <p>Development and adoption of an Internal Control Policy will help formalise Council's commitment to internal controls, based on risk management principles.</p>
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:</p> <p>Development and adoption of an internal legislative compliance policy will help formalise Council's commitment to legislative compliance.</p>
A.2.8 Assets Accounting	A policy to guide the approach to capitalise, depreciate and value the Shire's assets	<p>The reference to valuation of assets within the Policy is outdated following regulatory changes to timing of revaluation cycles for assets.</p> <p>Improvement:</p> <p>Review and update the policy to align with the requirements of regulation 17A(4), <i>Local Government (Financial Management) Regulations 1996</i>.</p>

6.0 Framework Design (Continued)

Policy	Purpose / Goal	Matters Identified / Improvements
A.2.2 Purchasing Policy	<p>Provide a best practice approach and procedures for purchasing.</p> <p>Provide for compliance with the <i>Local Government Act 1995</i> and <i>Functions and General Regulations 1996</i>.</p> <p>Ensure consistency for all purchasing activities that integrates within all the Shire of Leonora operational areas.</p>	<p>The Policy provides no direction in relation to contract extensions for contracts awarded or against a written specification (i.e. those not issued 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.</p> <hr/> <p>The Policy provides 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), however these requirements are optional. Although the policy allows this, the CEO is required to have systems and procedures to ensure controls exist for purchases made using these exemptions.</p> <hr/> <p>The Policy sets out procedures for the opening of tenders. The <i>Local Government (Functions and General) Regulations 1996</i> requires at least two employees of a local government to be present when opening tenders, or one employee and at least one person authorised by the CEO to open tenders.</p> <hr/> <p>Improvements:</p> <p>Amend the Policy to provide the following:</p> <ul style="list-style-type: none"> Prohibit 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). Procedures should also be developed for the authorisation of variations allowed for by the regulations. 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. Amend quotation requirements to remove the option to source fewer quotes for procurement of goods or services made under the exemptions under <i>Local Government (Functions and General) Regulations 1996</i> Regulation 11(2), and specify the number of quotations required in each instance. Update the Policy to ensure references relating to opening of tenders complies with Regulation 16(3)(a) of the <i>Local Government (Functions and General) Regulations 1996</i>.

6.0 Framework Design (Continued)

Policy	Purpose / Goal	Matters Identified / Improvements
M.5.2 Conferences – Members’ Travel And Accommodation Expenses	Policy to guide the reimbursement of expenses to elected members relating to travel and accommodation.	<p>The current Policy sets out travel and accommodation standards to apply, including daily allowance for meals and incidentals for elected members. The most recent determination published by the Salaries and Allowances Tribunal (SAT) sets out the entitlements available to elected members (fees, allowances and reimbursement of expenses), and further stipulates a local government cannot proscribe or limit entitlements contained within the determination.</p> <p>Improvement: Rescind the Policy, or alternatively update the Policy to reference that entitlements will be as prescribed within the most recently published determination of the SAT.</p>

7.0 Framework Implementation

7.1 Strategic and Operational Plans

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

The Shire of Leonora has entered into a four year contract for the provision of shared statutory compliance services with the Shires of Wiluna, Leonora and Laverton. This includes development and updates of existing integrated planning and reporting (IPR) documents. The Shire is presently in the first year of this agreement.

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
Business Continuity Plan	Plan to facilitate organised decision-making in the event of a major incident impacting the Shire's ability to continue normal operations.	<p>A Business Continuity Plan is yet to be developed and tested.</p> <p>Improvement:</p> <p>Develop a Business Continuity Plan and test to ensure validity. Identify and document key business continuity risks along with the treatments, to reduce the risk to an acceptable level.</p>
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 Plan highlighting and addressing ICT risks and how they are to be addressed was not available for inspection.</p> <p>Presently IT support services and advice regarding security etc is received from a number of contractors. Agreements are in place with most consultants, with the exception of one where no formal agreement exists.</p> <p>Improvement:</p> <p>Develop an ICT Strategic Plan identifying and documenting key ICT risks along with the treatments to reduce the risk to an acceptable level. (It is noted this is scheduled to occur through the shared statutory compliance group).</p> <p>Development of a strategy will assist in developing a scope to articulate service level agreements for a range of IT services to be potentially issued to different providers.</p>
Corporate Business Plan	A plan to guide the internal operations of the Shire in delivering services to the community.	<p>The Corporate Business Plan has not been reviewed annually as required by <i>Local Government (Administration) Regulations 1996 19DA (4)</i>.</p> <p>Improvement: To help ensure compliance and provide sound planning direction to the organisation, the Corporate Business Plan should be reviewed annually. (It is noted this is scheduled to occur through the shared statutory compliance group).</p>

7.0 Framework Implementation (Continued)

7.2 Operational and Financial Procedures

In seeking to achieve its stated vision, the Shire of Leonora 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.

The Shire of Leonora has entered into a four year contract for the provision of shared statutory compliance in collaboration with the Shires of Wiluna, Menzies and Laverton. This includes delivery of a 'risk management support package' to comply with Regulation 17 of the *Local Government (Audit) Regulations 1996*. The Shire is presently in the first year of this agreement.

Considering the number of services provided and the 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
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 are largely undocumented. A Risk Management Strategy has been developed and recently adopted, however not yet fully implemented.</p> <hr/> <p>Improvement:</p> <p>Risk management procedures and process to be developed in accordance with the latest risk management standard (ISO 31000:2018). (It is noted this is scheduled to occur through the shared statutory compliance group).</p> <hr/> <p>Implement risk management procedures and processes throughout the organisation.</p>
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 undocumented changes to procedures and a breakdown in key controls.</p> <hr/> <p>Improvement:</p> <p>Establish a process for the development, review, amendment and authorisation of procedures, checklists and other internal control documentation, to assist with managing changes to procedures.</p>

7.0 Framework Implementation (Continued)

Component	Purpose / Goal	Matters Identified / Improvements
Procurement Assessment	Procedures to provide probity for the assessment of procurement options received.	<p>In certain cases, a panel is utilised to assess responses to requests for quotations. We did not observe any documented formal requirements when undertaking these assessments.</p> <p>Improvements:</p> <p>To help support probity and fairness when assessing responses to requests for quotation, the process undertaken should be documented. The process to be followed should require a higher level of probity and due diligence, the higher the value or risk associated with the purchase.</p>
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, both physical access to hardware and network access to software and data.</p> <p>Improvement:</p> <p>Undertake a comprehensive IT security review, articulate current practices and implement findings of the review.</p>
Checklists	Checklists document the completion of multiple steps within an overall process.	<p>Checklists of key functions are maintained for selected functions. Checklists were not maintained and evidenced for all standard routine functions such as end of month reconciliations and reporting across the organisation. It is understood staff are currently articulating procedures for core functions to ensure key controls are consistently performed.</p> <p>Improvement:</p> <p>Creation and maintenance of standard checklists may assist in evidencing key points of control and serve as a reminder. Checklists are of assistance in ensuring compliance with repetitive legislative compliance tasks.</p>
Procurement	Procedures for the procurement of goods and services.	<p>Through limited testing of payments, a non-compliant procurement was identified where the required number of quotations was not obtained for the value of the service.</p> <p>Improvement:</p> <p>All procurement of goods or services should be undertaken in accordance with the Purchasing Policy and legislative requirements, regardless of the type of service or goods.</p>

7.0 Framework Implementation (Continued)

Component	Purpose / Goal	Matters Identified / Improvements
Workflow Diagrams	Workflow process diagrams create a visual representation of a process, clearly identifying key points of control and responsibility.	<p>Workflow diagrams have not been compiled for undocumented procedures.</p> <p>Improvement: In conjunction with, or as an alternative to, the development of documented procedures and checklists, update and development of workflow process diagrams may assist in clearly identifying controls and processes to be followed.</p>
Documented Procedures	Documented procedures by officers helps establish a standard methodology and identifies key controls for processes undertaken by officers.	<p>Limited documented procedures currently exist. We noted from staff representations, a number of procedures have recently been developed by staff or intentions are to develop procedures.</p> <p>Improvement: Opportunities exist to improve standard operating procedures and ensure they are documented with key controls clearly identified. Once these procedures are developed and implemented, they require constant monitoring for adherence and to ensure effectiveness.</p>
End of Month Processes	Processes for the completion of tasks and evidencing key points of control	<p>End of month processes appear to exist in finance related roles and from staff representations are routinely performed, however there was limited evidence of review by an authorised officer independent of preparing/collating documentation.</p> <p>Improvement: Review of reports prepared each month is a useful mechanism to detect and rectify errors or anomalies which may exist. It also provides an opportunity to ensure staff are performing and reporting duties as required. Management are strongly encouraged to continue with the development of documented checklists and procedures throughout the organisation to demonstrate appropriate controls and reviews are in place with monthly reporting and procedures.</p>
General Journal Entries	Journals are processed which are independently reviewed and approved.	<p>Internal control procedures over general journals are maintained for the level of operations. However the manual journal file noted some journals prepared are not signed by the authoriser to indicate independent review.</p> <p>Improvement: To help ensure that the journals entered are free from error or manipulation, it is suggested an appropriately authorised independent person review proposed journals, and all journals in the manual journal file should be signed by the authoriser as evidence of review.</p>

7.0 Framework Implementation (Continued)

Component	Purpose / Goal	Matters Identified / Improvements
Stock Control	Process to ensure fuel stock is correctly allocated, as well as to reduce the potential for theft or misappropriation.	<p>Fuel stock at the depot is metered and reconciled each month through processing of fuel sheets. It was observed that staff will sometimes adjust allocations to account for imbalances, so fuel stock can be balanced and fully allocated each month.</p> <p>Improvement:</p> <p>Allowing the practice of adjusting fuel allocations each month will hinder the detection of potential misuse. Fuel allocation records should be reviewed and authorised by an appropriate officer independent of preparation to ensure fuel allocations are correct and any adjustments are investigated.</p>
Childcare Centre Revenue	Procedures and systems for the handling of revenue at the Childcare Centre.	<p>From staff representations, processes in relation to the recognition and control of revenue requires improvement.</p> <p>Improvement:</p> <p>Formalise reconciliation procedures to ensure Childcare Centre debts are followed up in a timely manner, and are regularly reviewed and authorised by an appropriate officer. The practice of accepting cash at the Childcare Centre should also cease, through promotion of the use of EFTPOS, with any cash payments being required to be made at the Shire administration office.</p>
Code of Conduct	To provide guidance to Council members, committee members, contractors and employees of enforceable rules and requirements as prescribed in relevant legislation.	<p>The current Code of Conduct does not reflect all disclosure requirements under sections 5.82, 5.83 of the Local Government Act 1995 and Regulation 34(B) of the Local Government (Administration) Regulations 1996. In its current form, the policy could confuse elected members and employees as to their obligations.</p> <p>Improvement:</p> <p>Review the Code of Conduct guidance relating to gifts to align with disclosure requirements as required by legislation.</p>

7.0 Framework Implementation (Continued)

7.3 Human Resource Management and Practices

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

Component	Purpose / Goal	Matters Identified / Improvements
Staff Training	To ensure staff have access to ongoing and appropriate training.	<p>Staff training needs are currently identified on an ad-hoc basis. We understand management wishes to establish a more formal staff training structure.</p> <p>Improvement: Develop a staff training matrix to identify staff training needs relevant to their role is important to ensuring it is co-ordinated across the organisation.</p>
Payroll Exception Reporting & Audit Trails	Procedure to allow for appropriate review and approval of changes made within the payroll system.	<p>The officers responsible for processing and reviewing payroll are tasked with review and capture of employee entitlements, allowances, deductions, etc. Reliance is placed on these officers to remember individual details and identify any errors when reviewing payroll reports for authorisation for payment.</p> <p>Improvement: Implement documented procedures to ensure payroll exception reporting and review of audit trails are undertaken to capture anomalies or unauthorised changes.</p>
Employee Inductions – Code of Conduct	To ensure staff are aware of and understand conditions to be followed within the Code of Conduct.	<p>Employees are issued induction packages, including the code of conduct, which is required to be signed and returned to be retained on file, as acknowledgement they have read and understand the document.</p> <p>Improvement: An induction procedure should be implemented to ensure the code of conduct has been read and understood by new employees, where appropriate staff read through the document with new employees, similar to other induction procedures already in place. Regular refresher training should be undertaken with existing staff to reiterate the content of the document.</p>

7.0 Framework Implementation (Continued)

7.4 Insurance

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

Component	Purpose / Goal	Matters Noted / Improvements
Contractor Insurance	Insurance cover maintained by contractors for damage caused when undertaking works for the Shire.	<p>Contractors' insurances are not 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 held on file.</p>

8.0 Framework Evaluation

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

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

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

8.1 Council and Audit and Risk Committee

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

Component	Purpose / Goal	Matters Noted / Improvements
Council and Audit Risk Committee	Official record of proceedings and decisions.	Identified risks and assessments are included within agenda items for elected member consideration, but not recorded in an appropriate risk register. Improvement: Identified risks relating to a Council decision communicated within the agenda item to be appropriately recorded in a risk register.

8.0 Framework Evaluation (Continued)

8.2 Strategic and Operational Registers

The Shire of Leonora has entered into a four year contract for the provision of shared statutory compliance services with the Shires of Wiluna, Leonora and Laverton. This includes delivery of a 'registers and records service' to comply with various legislative and regulatory requirements. The Shire is presently in the first year of this agreement.

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

Register	Purpose / Goal	Matters Identified / Improvements
Contracts Register	To enable regular review and monitoring of the status of contracts.	<p>A contracts register was not available for inspection.</p> <p>Improvement:</p> <p>Create and maintain a register of contracts to assist with monitoring the requirements of each contract, as well as ensuring review and renewal processes are undertaken in a timely manner.</p>
Leases Register	Provide a record of leases and agreements held.	<p>A register of leases held is not currently maintained.</p> <p>Improvement:</p> <p>Create and maintain a register of leases to assist with monitoring the requirements of each lease, ensuring review and renewal processes are undertaken in a timely manner, and that necessary compliance checks are carried out as required.</p>
Delegation Register	Statutory register of delegations of authority.	<p>Several delegations within the register include a sub delegation by the CEO to the Environmental Health Officer / Building Surveyor. The individual currently performing these duties is a contractor, and not an employee of Council, therefore cannot be delegated authority under the <i>Building Act 2011</i>.</p> <p>Improvement:</p> <p>Review and amend delegations relating to the Building Act 2011 to remove sub delegation to contract Environmental Health Officer / Building Surveyor, ensuring delegation remains with appropriately authorised officer of Council.</p>

8.0 Framework Evaluation (Continued)

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 in house by staff in 2017. For the 2018 period, the return was prepared and completed by an independent consultant (Moore Stephens) engaged by the Shire of Leonora.

No areas of non-compliance were noted in 2017. One area of non-compliance was noted in relation to the Annual Compliance Audit Return 2018, relating to the incorrect appointment of the Audit and Risk Committee. The Audit and Risk Committee has since been correctly appointed by an absolute majority of Council.

8.4 Complaint Handling

Community complaints are recorded within the records management system and allocated to the relevant manager to address. Complaints are routinely followed up to ensure they have been adequately addressed.

Further, an official Complaints Register as required under section 5.121 of the *Local Government Act 1995* (i.e. breaches of conduct by Councillors) is appropriately maintained.

Component	Purpose / Goal	Matters Noted / Improvements
Customer Complaints Procedures	Procedures for the recording handling and resolution of customer complaints.	<p>No procedures exist, or a customer complaints register maintained to follow up and ensure all complaints are adequately addressed. Currently, customer complaints are received and allocated to the appropriate manager for action. A complaints register is only maintained where required under section 5.121(1) of the <i>Local Government Act 1995</i>.</p> <p>Improvement: To help ensure all complaints are adequately resolved, a register of customer complaints received should be maintained.</p>

8.0 Framework Evaluation (Continued)

8.5 Audit Practices

Council had appointed external financial auditors to the Shire of Leonora for the 2016-17 and 2017-18 years. No items were raised during the 2016-17 or 2017-18 years by the external auditors requiring improvement in relation to audit processes.

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

Component	Purpose / Goal	Matters Noted / Improvements
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> <hr/> <p>Improvement:</p> <p>We suggest that 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 to the industry in their report to parliament on the Audit of Local Government.</p>

8.0 Framework Evaluation (Continued)

8.6 Review required to be undertaken by the CEO

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

Component	Purpose / Goal	Matters Noted / Improvements
Audit Regulation 17 Review	CEO's review of the appropriateness and effectiveness of systems and procedures for Risk Management, Internal Controls and Legislative Compliance in accordance with Regulation 17 of <i>Local Government (Audit) Regulations 1996</i> .	No evidence of a previous review was made available. Improvements: Ensure the next review is undertaken within the next three years as required by legislation.
Financial Management Review	Review of the appropriateness and effectiveness of the Financial Management systems and procedures of the local government required to be undertaken every three years by Regulation 5(2) of <i>Local Government (Financial Management) Regulations 1996</i> .	No evidence of a previous review was available for review. Improvement: Ensure the next review is undertaken within the next three years as required by legislation.

9.0 Other Matters

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Moore Stephens

Level 15 Exchange Tower
2 The Esplanade
PERTH WA 6000
Phone +61 (0)8 9225 5355
Email rjbarnes@moorestephens.com.au
ABN 99 433 544 961

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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>

Appendix A – Financial Management Systems Review (Continued)

System	Description
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
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	<p>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</p>
Financial reports	<p>The annual report, annual financial report and monthly financial reports were reviewed for compliance with legislative requirements</p>
Budget	<p>The 2018-19 budget document and documents surrounding budget adoption were reviewed to ensure compliance with regulatory requirements</p>

Appendix B – Council Policies Examined

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

Policy Topic	Policy Topic
(A) ADMINISTRATION	3. Human Resources (cont'd)
1. General Administration	A.3.10 Equal Opportunity
A.1.1 Agenda Items	A.3.11 Staff Training
A.1.2 Chambers	A.3.12 Smoke Free Environment
A.1.3 Legal Representation	A.3.13 Staff – Senior Employees
A.1.4 Disclaimer	A.3.14 Staff – Presentations On Termination
A.1.5 Well Wishes From Council	A.3.15 Salaries And Wages – Mode Of Payment
A.1.6 Meetings Of Council – Guest Speakers	A.3.16 Payroll Deduction Of Union Subscriptions
A.1.7 Public Relations – Press Releases	A.3.17 Staff Incentive – Sick Leave Bonus
A.1.8 Execution Of Documents	A.3.18 Fitness For Work (Including Alcohol, Drugs And Illegal Substance Use In The Workplace)
2. Finance	A.3.19 Public Interest Disclosure
A.2.1 Investments	A.3.20 Social Media
A.2.2 Corporate Credit Cards	(C) COMMUNITY SERVICES
A.2.3 Purchasing Policy	C.4.1 Environment - Council Recognition
A.2.4 Rates Recovery	C.4.2 Library Charges
A.2.5 Insurance	C.4.3 Unruly Behaviour In Council Facilities
A.2.6 Budget Management – Capital Acquisitions	C.4.4 Use Of Community Bus And/Or Other Vehicles
A.2.7 Taxation Exemptions	C.4.5 Gwalia Collection Policy
A.2.8 Assets Accounting	(M) MEMBERS
A.2.9 Loans – Self Supporting	M.5.1 Conferences – Members' Attendance And Representation
A.2.10 Asset Management Policy	M.5.2 Conferences – Members' Travel And Accommodation Expenses
A.2.11 The Application Of Gross Rental Valuation To Mining Petroleum And Resource Interests	M.5.3 Public Question Time
A.2.12 Valuation Of Land - Mining	(T) TECHNICAL SERVICES
A.2.13 Risk Management Policy	T.6.1 Plant And Vehicle Replacement Programme
A.2.14 Regional Price Preference/Buy Local Policy	T.6.2 Shire's Plant And Equipment – After-Hour's Use
3. Human Resources	T.6.3 Operation Of Shire Plant
A.3.1 Gratuity Payments	T.6.4 Refuse Collection Charges
A.3.2 Conferences – Staff Attendance And Representation	T.6.5 Vendor / Trading Licence
A.3.3 Conferences – Staff Travel And Accommodation Expenses	T.6.6 Building Control – Free Standing Garden Sheds, Patios and Pergolas
A.3.4 Internet And Email Usage	T.6.7 Building Control - Duration
A.3.5 Occupational Health And Safety	T.6.8 Building Control – Buildings Set Out By Licensed Surveyor
A.3.6 Acting Chief Executive Officer	T.6.9 Building Control - Relocated Dwellings
A.3.7 Harassment, Bullying And Discrimination	T.6.10 Building Licences
A.3.8 Superannuation	T.6.11 Conditions For Surface Clearing And Drilling Activities Within The Leonora Townsite
A.3.9 Protection From The Sun For Outdoor Work	

Shire of Leonora

Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls | June 2019

Moore Stephens (WA) Pty Ltd | 33

Appendix C – Plans Examined

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

Plan	Status
Strategic Community Plan	2017 - 2027 (adopted 20 June 2017)
Corporate Business Plan	2017 - 2021
Strategic Resource Plan	2016 – 2031 (adopted 20 September 2016)
Workforce Plan	2018-2022 (adopted 19 June 2018)
Local Emergency Management Arrangements	2018 (adopted 20 February 2018)
Code of Conduct	2018-19

Appendix D – Strategic and Operational Registers Examined

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

Register

Declarations of Interest Register

Financial Interest Register

Tender Register 2018-19

Gifts and Travel Register

Notifiable Gifts Register

Complaints Register (*s5.121 Local Government Act 1995*)

Delegation Register (reviewed 15 May 2018)

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 that 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 that 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 that 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.

Appendix E – Operational Guidelines (Continued)

Legislative Compliance

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

- a) Monitoring compliance with legislation and regulations*
- b) Reviewing the annual Compliance Audit Return and reporting to Council the results of that review*
- c) Staying informed about how management is monitoring the effectiveness of its compliance and making recommendations for change as necessary*
- d) Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints*
- e) Obtaining assurance that adverse trends are identified and review management’s Plans to deal with these*
- 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.

Appendix E – Operational Guidelines (Continued)

Internal Controls (continued)

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

- k) integrity and ethics;*
- l) policies and delegated authority;*
- m) levels of responsibilities and authorities;*
- n) audit practices;*
- o) information system access and security;*
- p) management operating style; and*
- q) human resource management and practices.*

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

Aspects of an effective control framework will include:

- 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.*

MOORE STEPHENS

Level 15, 2 The Esplanade
Perth WA 6000

T +61 (0)8 9225 5355

F +61 (0)8 9225 6181

rjbarnes@moorestephens.com.au

5.0 NEXT MEETING

Tuesday 17th March, 2020, following the conclusion of the Ordinary Meeting of Council commencing at 9:30am.

6.0 CLOSURE OF SPECIAL MEETING

There being no further business, Shire President Cr PJ Craig declared the meeting closed at **09:23 am**.