



Financial Management Review Report

Shire of Kulin

May 2024



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1.0 Engagement Overview

1.1 Scope of Services

The Shire of Kulin (Shire) engaged Moore Australia to undertake an examination of financial management systems to highlight the appropriateness and effectiveness of these systems and procedures, as required by *Local Government (Financial Management) Regulations 1996* Regulation 5(2)(c).

A risk based assessment of financial management systems was undertaken by examination of the following three key areas of financial management systems:

- Financial management framework;
- Implementation of financial management framework; and
- Evaluation of financial management

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

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 Kulin is highly reliant on a small team of senior decision makers to govern its operations whilst trying to ensure sound financial management through internal controls.

2.0 Review Summary

2.1 Financial Management System

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 the *Local Government (Financial Management) Regulations 1996* Regulation 5(1).

Internal controls relating to financial management systems are of critical importance to operations and should provide a risk-based approach to financial management. Controls include but are not limited to appropriate segregation of duties, engagement of experienced and qualified staff, documented procedures and effective monitoring for adherence to documented procedures. Inherent limitations will always be present in internal control frameworks and routine review and regular updates may assist to ensure control environments are suitable.

2.1.1 Appropriateness

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

Some weaknesses were identified with current controls and procedures, these are explained within Section 5.0 of this report.

2.1.2 Effectiveness

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

Whilst generally considered effective, some weaknesses were identified where financial management controls are not considered effective. These are explained within Section 5.0 of this report.

2.1.3 Improvements

Details of recommended improvements to the current financial management, procedures and systems for the Shire are set out at Section 5.0 of this report.

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

3.0 Methodology and Framework

3.1 Review Methodology – Financial Management Review

In performing this consulting service, we examined documented policies / procedures, undertook walkthroughs of key systems and procedures and performed limited risk based 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*.

Our procedures for the Financial Management Review encompassed the following areas 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.

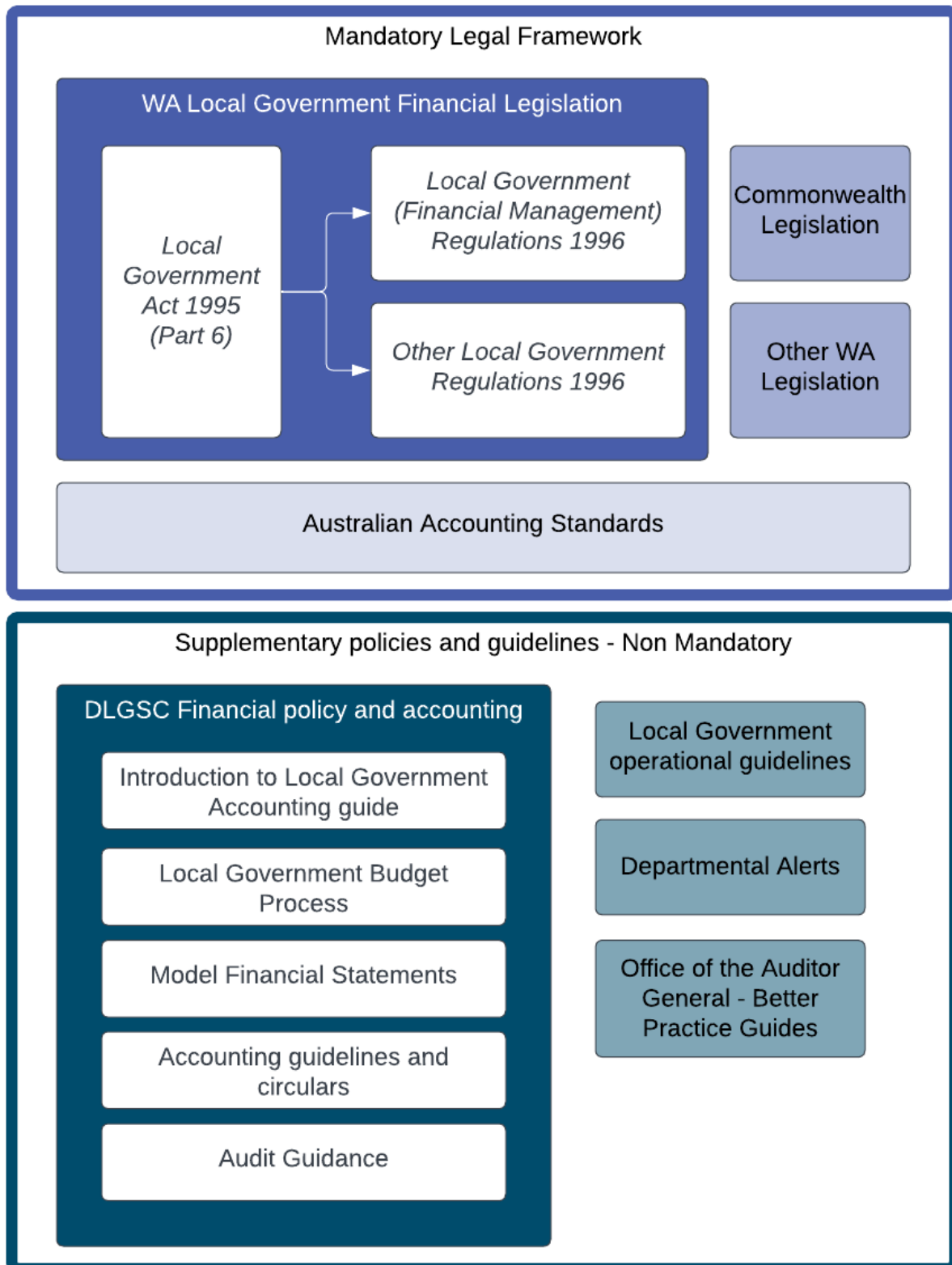
The consulting services to assist the CEO to undertake the financial management review does not examine systems and procedures which are non-financial in nature and did not specifically test for legislative breaches, fraud or error.

Matters examined in respect of financial management systems review are detailed in Section 5.3, and where opportunities for improvement were identified, these are also reported within this section of the report.

4.0 Framework Design

4.1 Financial Management Framework

The Financial Management Framework within which the financial management of WA local governments occur, is reflected in the diagram below.



5.0 Review Result

5.1 Review Context - Shire of Kulin

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.
Mitigating bush fire threat.	
Global economic instability.	

5.2 Local Government Internal Financial Management Framework

In seeking to comply with the financial management framework the Shire has the following plans, policies, processes and procedures.

- Strategic plans;
- Council policies;
- Operational plans;
- Operational procedures;
- Planning and budgeting process;
- Financial reporting process;
- Human resource management; and
- ICT management and controls.

Each of these were examined for their appropriateness and effectiveness in the financial management of the Shire.

5.0 Review Result (continued)

5.3 Financial Management System Review

Each of the systems examined are detailed in the table below with a description of the procedures undertaken.

System	Description	Matters identified
1. Bank reconciliations	Examination of procedures and review of maintenance and management practices undertaken by staff.	No matters noted.
2. Trust funds	Examination of trust funds to determine proper accountability in the Shire's financial management system and compliance with regulatory requirements.	<p>The trust fund currently includes contributions, bonds and other transactions.</p> <p>Improvement:</p> <p>Remove all funds which are not required by law to be held in the Trust Fund, and transfer to the Municipal Fund, in line with the Office of the Auditor General (OAG) position paper on Accounting for Work Bonds, Building Bonds and Hire Bonds released in July 2019.</p>
3. 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.	<p>During limited testing and review of the schedule of fees and charges, we identified a fee which is allowed to be set externally and is not specified or approved by Council at the time of adopting the annual budget. All fees and charges are required by legislation to be set by Council, included within the schedule of fees and charges and adopted by absolute majority.</p> <p>Improvement:</p> <p>Update the schedule of fees and charges to comply with section 6.16 of the <i>Local Government 1995</i>.</p> <p>We observed limited formalised processes to controls in relation to the raising of credit notes for sundry debtors. Where a single individual is responsible for or involved in multiple stages of various processes, there is an increased risk and opportunity for error or misconduct.</p> <p>Improvement:</p> <p>Appropriate segregation of duties relating to processes for sundry debtors credit notes should exist and controls documented. If circumstances prevent the full segregation of duties, then procedures and conditions should exist to demonstrate alternate controls in place to reduce associated risks.</p>

5.0 Review Result (continued)

System	Description	Matters identified
4. 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. 	No matters noted.
5. 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>	<p>Routine preparation and review of month end reconciliation of the detailed payables listing to the general ledger appears to occur however evidence of the timely completion of these processes is not always consistently applied. Documentation should support reconciliations being completed prior to the monthly financial report being prepared.</p> <p>Improvement:</p> <p>Review and update systems and procedures to evidence completion of key reconciliations prior to completion of the monthly financial report.</p>

5.0 Review Result (continued)

System	Description	Matters identified
Purchases, payments and payables (including purchase orders) continued		<p>We noted limited formal documented procedures and identified weaknesses in controls and to change supplier banking details. There is also limited evidence of independent review of changes made. We are aware of many incidents of payment scams / frauds within the local government industry in recent years. As a consequence of this activity, controls around the changes to supplier details within the EFT system are essential.</p> <hr/> <p>Improvement:</p> <p>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. 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>Significant control improvements have been implemented in recent months for changes to electronic bank details. These improvements will be documented and formalised.</p> <hr/> <p>Through our limited testing, we noted one instance where a purchase order did not pre date the invoice to which it related.</p> <hr/> <p>Improvement:</p> <p>All procurement of goods and/or services should be undertaken in accordance with legislative requirements, the adopted purchasing policy and approved procedures. Provide training for procurement officers to help ensure they understand procurement procedures and the importance of following them.</p>

5.0 Review Result (continued)

System	Description	Matters identified
6. Payroll	<p>A sample of employees were randomly selected from different 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; timesheets 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>	<p>Currently no independent review of changes to employee banking details is performed. Formal procedures relating to changes to banking details for employees 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>Improvement:</p> <p>Improve controls to minimise the risk of electronic banking details being fraudulently manipulated. Controls should exist to detect and prevent any unauthorised changes being made. Review and update procedures to ensure the following matters are appropriately considered 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>Significant control improvements have been implemented in recent months for changes to electronic bank details. These improvements will be documented and formalised.</p>
7. Corporate transaction card procedures	<p>A review of the Shire's corporate transaction 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. 	<p>While agreements for credit card holders appear to be maintained as required by Council policy, other transaction card holders are not currently required to sign similar agreements.</p> <p>Improvement:</p> <p>Ensure agreements are signed by all credit and transaction card holders, including all current cardholders who have not previously signed an agreement, setting out cardholder responsibilities and legal obligations when using Shire credit and transaction cards.</p>

5.0 Review Result (continued)

System	Description	Matters identified
8. 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 random sample of assets were judgmentally selected and testing performed to ensure the depreciation rates used are in line with the Shire's key accounting information requirements.</p>	<p>Our limited testing noted two instances where an asset had not been 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>. Advertisements were placed locally to dispose of these plant items. Legislation requires property to be disposed of only through either public auction or by tender, unless exempted by the <i>Local Government (Functions and General) Regulations 1996</i>. Documentation to evidence probity controls and compliance with regulatory tender processes (including maintenance of the tender register) was not available for our review.</p> <hr/> <p>Improvement:</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> <hr/> <p>We noted inconsistencies in key accounting information relating to depreciation and estimated useful life of asset classes within the budget and annual financial report for 2022-23.</p> <hr/> <p>Improvement:</p> <p>Review systems and procedures to ensure asset depreciation details to ensure the Shire's key accounting information requirements are consistent in statutory financial reports.</p>

5.0 Review Result (continued)

System	Description	Matters identified
9. 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.	<p>We note administration overheads are allocated into public works overheads. Whilst this is generally acceptable, the on allocation of the public works overheads to capital projects results in the capitalisation of administration overheads. AASB 116 <i>Property, plant and equipment</i> does not allow for the inclusion of administration costs as part of the cost of property, plant or equipment.</p> <p>Management Comment: Administration costs and allocations are currently being reviewed, intended to be implemented with the 2024-25 annual budget.</p> <hr/> <p>Improvement: Routine reviews of cost reallocations should be undertaken to ensure cost reallocations are appropriate and administrations costs are not being indirectly capitalised as property, plant and equipment.</p>

5.0 Review Result (continued)

System	Description	Matters identified
10. Financial reports controls	The format of the annual report, annual financial report and monthly financial reports were reviewed for compliance with legislative requirements.	<p>The 2022-23 annual report has omitted some information required by legislation. For annual reports beginning on or after 1 July 2022, inclusions were required for:</p> <ul style="list-style-type: none"> • Information relating to fees, expenses or allowances paid during the financial year for each person who is a Council member, mayor or president: <ul style="list-style-type: none"> - detailing the nature of the fee, expense or allowance; and - the total amount / value for each class of fee, expense or allowance. • Information about Capital Grants, Subsidies and Contributions to include the amount of all capital grants, subsidies and contributions, for replacing and renewing assets, received by the local government during: <ul style="list-style-type: none"> - the financial year; and - the preceding two financial years. <hr/> <p>Improvement:</p> <p>Ensure future annual reports include all information required by legislation.</p> <hr/> <p>Amendments to the <i>Local Government Act 1995</i> and <i>Local Government (Financial Management) Regulations 1996</i> came into effect on 1 September 2023, requiring reporting of transactions using credit, debit and other purchasing cards. In our limited testing of minutes, we did observe reports being prepared and included in the list of payments made by delegated authority, however this may not meet compliance required by legislation.</p> <hr/> <p>Improvement:</p> <p>Review systems and procedures to ensure reports are prepared and considered to comply with regulation 13A of the <i>Local Government (Financial Management) Regulations 1996</i>.</p>

5.0 Review Result (continued)

System	Description	Matters identified
11. Budget and budget review	The 2023-24 budget document and documents surrounding budget adoption were reviewed to ensure compliance with regulatory requirements.	No matters noted.
12. Borrowings	Reconciliation of borrowings to the WATC loan schedules were examined.	No matters noted.
13. Inventory	Inventory reconciliations and stock take procedures were examined.	<p>The reconciliation of physical stock items to the general ledger is performed periodically with a risk based approach determining the frequency required in an effort to detect instances where stock may be allocated inappropriately or erroneously. Improvements to these periodic and routine stocktake reconciliations should include documented support and independent review of physical balances to monitor recorded usage.</p> <p>Improvement:</p> <p>Update systems and processes to ensure physical stocktakes and reconciliations for stock on hand are performed in accordance with approved procedures. Timely reconciliation of stock consumption, fuel usage and monitoring of fuel usage per vehicle is an important control to help minimise fuel shrinkage and any issues or potential misuse with various stock allocations in a timely manner. Preventative measures to assist with the review of security and access to stock held is encouraged.</p>
14. General journals	Random selection of general journals to determine whether journals were supported and certified/authorised. The Shire's general journal system was also examined to determine if adequate controls were in place to ensure journals are properly recorded and controlled.	<p>Although we noted some informal controls in place, there are limited documented internal control procedures for general journals. No general audit trail is currently produced to ensure no unauthorised journals have been posted.</p> <p>Improvement:</p> <p>Document internal controls to ensure journal requests initiated are reviewed and approved / authorised prior to posting by an appropriate officer, the practice of independent review is consistently maintained, and evidence of review routinely applied. A monthly journal audit trail report should be produced and independently reviewed and confirmed to previously approved journals, prior to preparation of the monthly statement of financial activity.</p>

5.0 Review Result (continued)

System	Description	Matters identified
15. Investments	A review of cash investments to ensure appropriate controls are in place to monitor, record and manage the Shire investments.	No matters noted.
16. Insurance	An insurance process review is undertaken to ensure appropriate consideration of insurance coverage is undertaken.	No matters noted.
17. Records	Record keeping systems are reviewed to ensure the capture, storage, monitoring and disposal of financial records are appropriate and regularly reviewed.	No matters noted.
18. IT system	Review of IT systems, processes, and procedures to ensure adequate mechanisms to monitor, manage, and test IT systems and controls that are critical to the Shire's financial management are in place.	<p>User access reconciliations or monitoring of ICT accounts (including ERP accounts) does not appear to be routinely monitored.</p> <p>Improvement:</p> <p>Update systems and procedures to ensure regular reviews are undertaken of the ICT accounts and access level to ensure access is only available to current and authorised staff and users.</p> <p>Formal risk treatment plans and evaluation process of the risks associated with the overall security procedures, general ICT and application controls do not appear to be in place.</p> <p>Improvement:</p> <p>Develop evaluation systems and registers to evaluate, monitor and resolve risks related to the Shire's ICT environment. Controls should appropriately manage changes to the ICT system to ensure continuous and uninterrupted functionality of the ICT environment.</p>

5.0 Review Result (continued)

System	Description	Matters identified
19. Statutory Registers	Review of relevant statutory registers which are related to financial management systems and controls. The tender, financial interest and delegations registers for compliance with relevant legislation.	<p>We noted some non compliances with the tender register, including:</p> <ul style="list-style-type: none"> The register has not been updated on each occasion where a tender was called; We noted two invitations to tender were not advertised as required by legislation; and Evidence of compliance with all requirements of <i>the Local Government (Functions and General) Regulations 1996</i> was not available for our review. <hr/> <p>Improvement:</p> <p>Update procedures to ensure the tender register is maintained to record details for each invitation to tender as provided by Regulation 16 & 17 of the <i>Local Government (Functions and General) Regulations 1996</i>. Award of tenders should be compliant with legislation and limits of delegated authority.</p> <p>An up-to-date version of the tender register should also be published on the official local government website as required by legislation.</p> <hr/> <p>In the course of our review, inspection of the financial interest register noted instances where annual returns contained several blank fields / incomplete information within the forms</p> <hr/> <p>Improvement:</p> <p>Establish procedures to ensure all primary and annual returns are properly completed at the time of providing acknowledgement of receipt of the returns.</p>
20. Policy review	Selected Shire financial management policies are reviewed for appropriateness and effectiveness in ensuring compliance with relevant legislation and appropriateness in providing strategic direction.	<p>A27 Investment Policy requires a monthly report be presented to Council to detail the investment portfolio in terms of performance, percentage exposure of total portfolio and maturity date. We did not note a report to support the Monthly Statement of Financial Activity, as required by the policy, being presented to Council each month.</p> <hr/> <p>Improvement:</p> <p>Prepare a monthly report and present to Council as required by A27 Investment Policy. Alternatively, consider reviewing the policy to ensure it reflects the context of the organisation, as well as controls to treat, monitor and evaluate risks associated with investment activities.</p>

5.0 Review Result (continued)

System	Description	Matters identified
Policy Review (continued)		<p>Policy A11 Procurement Purchasing and Tenders 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>The policy sets out procedures for the opening of tenders and in its current form may cause confusion with regulatory requirements. 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> <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, exempt providers or other suppliers.</p> <p>Authorisation for a sole source of supply arrangement considered under the policy is not defined, and system requirements to evidence market testing are not sufficiently detailed in the policy.</p>

5.0 Review Result (continued)

System	Description	Matters identified
Policy Review (continued)		<p data-bbox="914 297 1077 331">Improvement:</p> <p data-bbox="914 331 1439 398">Amend Policy A11 Procurement Purchasing and Tenders to provide the following:</p> <ul data-bbox="962 398 1439 1317" style="list-style-type: none"> <li data-bbox="962 398 1439 678">• Define 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 is over a policy threshold level, due to the variation or extension. <li data-bbox="962 678 1439 869">• 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>; <li data-bbox="962 869 1439 1149">• Amend purchasing requirements for procurement of goods or services to be consistent regardless of where the quotations are being sought from, including those made under the exemptions under <i>Local Government (Functions and General) Regulations 1996</i> Regulation 11(2); and <li data-bbox="962 1149 1439 1317">• Require CEO approval under sole source of supply arrangements, and to reference the risks and control environment where considering these arrangements. <hr/> <p data-bbox="914 1328 1439 1630">Administrative Procedure and Operation Guideline HR21 Salary Packaging provides individual novated lease arrangements may be approved by a formal resolution or signature of the Shire President and CEO. Under the <i>Local Government Act 1995</i> the Shire President has limited individual administrative authority and does not include authority to authorise these agreements.</p> <hr/> <p data-bbox="914 1641 1077 1675">Improvement:</p> <p data-bbox="914 1675 1439 1899">Review Administrative Procedure and Operation Guideline HR21 Salary Packaging and update the approvals and authorisation processes within the procedure to require approvals to be considered either by a Council resolution, or by the CEO.</p>

5.0 Review Result (continued)

System	Description	Matters identified
Policy Review (continued)		<p>A3 Corporate Credit Cards – Use does not provide for controls for purchases made with transaction cards other than credit cards, eg. fuel cards, store cards etc. and does not require user agreements to be established setting out cardholder responsibilities and obligations.</p> <p>While the policy references reporting requirements to Council each month relating to credit card transactions, amendments to the <i>Local Government Act 1995</i> and <i>Local Government (Financial Management) Regulations 1996</i> came into effect on 1 September 2023, requiring reporting of transactions using credit, debit and other purchasing cards.</p> <p>The policy requires documentation to acquit credit card transactions but does not provide minimum requirements for compliance with GST reporting etc or minimum requirements for acquittal where tax invoices are not available to support purchases. Where appropriate and valid tax invoices / receipts to support card transactions are not available, the policy should set out how those purchases are to be substantiated, reported, reviewed and authorised.</p> <hr/> <p>Improvement:</p> <p>Consider review of policy A3 Corporate Credit Cards to:</p> <ul style="list-style-type: none"> • Encompass a broader title and scope for corporate transaction cards (including credit cards, fuel cards, debit cards etc.). Procedures should be in place to support the policy, procurement systems and robust controls prior to payment being deducted for corporate transaction cards; • Update the policy to ensure references relating to requirements of FM Regulation 13A are considered; and • Update the policy to include guidance to support purchases where a valid tax invoice is not available. This should include appropriate consideration to identify the purchase and provide for robust control and review processes prior to payments being deducted through automated bank payments.

6.0 Other Matters

Disclaimer

Since the service provided in terms of this engagement comprise an advisory engagement and is not an assurance engagement, we are not required to verify the reliability, accuracy or completeness of the information provided to us by management in undertaking the consulting engagement. Accordingly, we do not express an audit opinion or a review conclusion to convey assurance for the service/s performed within our report.

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Sole Recourse

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Document control

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Appendix A – Improvements Identified

System	Improvement	Planned / Prioritised Action Required
2. Trust Fund	Remove all funds which are not required by law to be held in the Trust Fund, and transfer to the Municipal Fund, in line with the Office of the Auditor General (OAG) position paper on Accounting for Work Bonds, Building Bonds and Hire Bonds released in July 2019.	Planned
3. Receipts and receivables	Update the schedule of fees and charges to comply with section of the <i>6.16 Local Government 1995</i> .	Prioritised
	Appropriate segregation of duties relating to processes for sundry debtors and credit notes should exist. If circumstances prevent the full segregation of duties, then procedures and conditions should exist to demonstrate alternate controls in place to reduce associated risks.	Prioritised
5. Purchases, payments and payables (including purchase orders)	Review and update systems and procedures to evidence completion of key reconciliations prior to completion of the monthly financial report.	Planned
	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. Review and update procedures to ensure the following matters are appropriately considered, documented and controls are adequate to: <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. 	Prioritised
	All procurement of goods and/or services should be undertaken in accordance with legislative requirements, the adopted purchasing policy and approved procedures. Provide training for procurement officers to help ensure they understand procurement procedures and the importance of following them.	Prioritised
6. Payroll	Improve controls to minimise the risk of electronic banking details being fraudulently manipulated. Controls should exist to detect and prevent any unauthorised changes being made. Review and update procedures to ensure the following matters are appropriately considered and controls are adequate to: <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. 	Prioritised
7. Corporate transaction card procedures	Ensure agreements are signed by all credit and transaction card holders, including all current cardholders who have not previously signed an agreement, setting out cardholder responsibilities and legal obligations when using Shire credit and transaction cards.	Planned
8. Fixed assets (including depreciation, acquisition, and disposal of property)	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> .	Prioritised
	Review systems and procedures to ensure asset depreciation details to ensure the Shire's key accounting information requirements are consistent in statutory financial reports.	Planned

Appendix A – Improvements Identified

System	Improvement	Planned / Prioritised Action Required
9. Cost and administration allocation	Routine reviews of cost reallocations should be undertaken to ensure cost reallocations are appropriate and administrations costs are not being indirectly capitalised as property, plant and equipment.	Planned
10. Financial reports controls	Ensure future annual reports include all information required by legislation.	Planned
	Review systems and procedures to ensure reports are prepared and considered to comply with regulation 13A of the <i>Local Government (Financial Management) Regulations 1996</i> .	Planned
13. Inventory	Update systems and processes to ensure physical stocktakes and reconciliations for stock on hand are performed in accordance with approved procedures. Timely reconciliation of stock consumption, fuel usage and monitoring of fuel usage per vehicle is an important control to help minimise fuel shrinkage and any issues or potential misuse with various stock allocations in a timely manner. Preventative measures to assist with the review of security and access to stock held is encouraged.	Planned
14. General journals	Document internal controls to ensure journal requests initiated are reviewed and approved / authorised prior to posting by an appropriate officer, the practice of independent review is consistently maintained, and evidence of review routinely applied. A monthly journal audit trail report should be produced and independently reviewed and confirmed to previously approved journals, prior to preparation of the monthly statement of financial activity.	Prioritised
18. IT system	Update systems and procedures to ensure regular reviews are undertaken of the ICT accounts and access level to ensure access is only available to current and authorised staff and users.	Planned
	Develop evaluation systems and registers to evaluate, monitor and resolve risks related to the Shire's ICT environment. Controls should appropriately manage changes to the ICT system to ensure continuous and uninterrupted functionality of the ICT environment.	Planned
19. Statutory registers	Update procedures to ensure the tender register is maintained to record details for each invitation to tender as provided by Regulation 16 & 17 of the <i>Local Government (Functions and General) Regulations 1996</i> . Award of tenders should be compliant with legislation and limits of delegated authority. An up-to-date version of the tender register should also be published on the official local government website as required by legislation.	Prioritised
	Establish procedures to ensure all primary and annual returns are properly completed at the time of providing acknowledgement of receipt of the returns.	Planned
20. Policy review	Prepare a monthly report and present to Council as required by A27 Investment Policy. Alternatively, consider reviewing the policy to ensure it reflects the context of the organisation, as well as controls to treat, monitor and evaluate risks associated with investment activities.	Planned

Appendix A – Improvements Identified

System	Improvement	Planned / Prioritised Action Required
Policy Review (continued)	<p>Amend A11 Procurement Purchasing and Tenders to provide the following:</p> <ul style="list-style-type: none"> • Define 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 is over a policy threshold level, due to the variation or extension. • 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>; • Amend purchasing requirements for procurement of goods or services to be consistent regardless of where the quotations are being sought from, including those made under the exemptions under <i>Local Government (Functions and General) Regulations 1996</i> Regulation 11(2); and • Require CEO approval under sole source of supply arrangements, and to reference the risks and control environment where considering these arrangements. 	Planned
	<p>Review Administrative Procedure and Operation Guideline HR21 Salary Packaging and update the approvals and authorisation processes within the procedure to require approvals to be considered either by a Council resolution, or by the CEO.</p>	Planned
	<p>Consider review of policy A3 Corporate Credit Cards to:</p> <ul style="list-style-type: none"> • Encompass a broader title and scope for corporate transaction cards (including credit cards, fuel cards, debit cards etc.). Procedures should be in place to support the policy, procurement systems and robust controls prior to payment being deducted for corporate transaction cards; • Update the policy to ensure references relating to requirements of FM Regulation 13A are considered; and • Update the policy to include guidance to support purchases where a valid tax invoice is not available. This should include appropriate consideration to identify the purchase and provide for robust control and review processes prior to payments being deducted through automated bank payments. 	Planned

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