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**Without Prejudice**



# **REGULATION 17 AND SECTION 5 FINAL** **AUDIT REPORT**

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**7 June 2023**

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## Introduction

Regulation 17 of the Local Government (Audit) Regulations 1996 is titled “CEO to review certain systems and procedures” and requires:

- “(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 sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once not less than once in every 3 financial years.
- (3) The CEO is to report to the audit committee the results of that review

Section 5 (2) (c) of the Local Government (Financial Management) Regulations 1996 is titled “CEO’s duties as to financial management” and requires the Chief Executive Officer to “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.”

## Review Objectives

The objective of the Regulation 17 review was to determine the appropriateness and effectiveness of the Shire’s systems and procedures in relation to:

- (a) risk management; and
- (b) internal control; and
- (c) legislative compliance.

The objective of the Section 5 (2) (c) review was to determine the appropriateness and effectiveness of the main financial management systems and procedures of the Shire.

## Audit Scope

My quote, dated 15 January 2023, to undertake a Regulation 17 and a Section 5 (2) (c) Review indicated an examination would be made of the systems and procedures for:

1. Bank Accounts;
2. Credit Cards;
3. Delegations;
4. Financial budgeting;
5. Fixed Assets;
6. Human Resources;
7. Investments;
8. Legislative Compliance;
9. Payments;
10. Payroll;
11. Policies and Procedure Manuals;
12. Procurement;
13. Reconciliations of Bank Accounts, Creditors, Debtors, Fixed Assets and Payroll; and
14. Risk Management.
15. Compliance Audit Returns

and a follow up on the actioning of any recommendations arising from the previous review.

The review predominantly covered the period from 1 July 2022 to the date of this report, as this represented the current state of SOD system and procedures.

## Positive Observations

The following positive observations have been made during the course of my review:

- The Department Local Government, Sport and Cultural Industries has seven Financial “Health Check” Ratios. In 2013/2014 SOD met or exceeded three of these ratios and in 2020/2021, SOD met or exceeded six of these ratios,
- The WA Workplace Health and Safety Act 2020 and accompanying regulations came into effect on 31 March 2022. These new legislative requirements are more onerous compared to the previous Occupational Safety and Health Act 1984. SOD has undertaken training and presented information sessions to both internal and external stakeholders in respect of this important new legislative requirement.

## Audit Approach





The following steps were undertaken in the review, that predominantly covered the period from 1 July 2022 to the date of this report, as this represented the current state of SOD system and procedures.

- a) Discussion with officers (Annexure B refers);
- b) Review of existing documentation and records, and
- c) Performance of some sample testing.

The audit aspects of this review were conducted in accordance with the standards for the professional practice of internal auditing promulgated by the Institute of Internal Auditors (IIA). Reference was also made to their “Three lines of defence in effective risk management and control” document.

## Audit Findings

The following criticality ratings could be potentially assigned to each finding raised during the course of this review:

	Issue of <b>High</b> risk requiring immediate remedial action.
	Issue of <b>Medium</b> risk requiring remedial action as soon as is practicable.
	Issue of <b>Low</b> risk requiring future remedial action.
	<b>Opportunity for improvement</b>

## Audit Findings (continued)

Annexure A contains details of the findings and business improvement opportunities. The review findings comprise:

- Finding 1 - Risk Management – Medium Criticality;
- Finding 2 - Legislative Compliance – Medium Criticality;
- Finding 3 - Approval of Pay Increases – Medium Criticality;
- Finding 4 - Follow up of previous review – Medium Criticality;
- Finding 5 - Reconciliations – Medium Criticality;
- Finding 6 - Low value payments – Low Criticality;
- Finding 7 - Credit Cards – Low Criticality;
- Finding 8 - Policy Review – Low Criticality;
- Finding 9 - Financial Reports to Council – Low Criticality; and
- Finding 10 - General Journals – Low Criticality

## Conclusion

I would like to acknowledge and thank the Accountant and the Assistant Accountant for their assistance provided during this review.

Based on the audit work undertaken, it is considered that while adequate controls exist, the overall report rating is “improvements required”. This is because there were business improvement opportunities identified with Medium criticality.

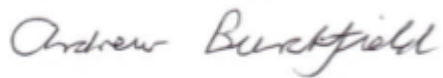
When the business improvement opportunities, identified in Annexure A are actioned, the effectiveness of processes will be enhanced.

## Disclaimer

Due to the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected and that good practice was not observed. An internal audit is not designed to detect all weaknesses in control procedures or all compliance failures as it is not performed continuously throughout the period and the tests performed are on a sample basis. As such, except to the extent of the sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure or its compliance.

Any projection of the evaluation of control and compliance procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate. It was not an objective of this audit to detect fraud.

The internal audit findings expressed in this report have been formed on the above basis and on the 58 hours I spent on the audit.



Andrew Burchfield  
Principal of Andrew Burchfield Consulting  
7 June 2023

## Annexure A – Review Findings


Finding number	Observation 1 – Risk Management	Implication and potential risk	Recommendations	Management comments	Risk rating
1	<p>The SOD has a Risk Management Policy that was last reviewed by Council in 9 September 2014.</p> <p>The Manager Corporate Services advised that SOD has identified further work needs to be done on Risk Management.</p>	<ul style="list-style-type: none"> <li>Risks are not being reasonably managed and decreases the likelihood of some of the Shire's objectives being met.</li> </ul>	<ol style="list-style-type: none"> <li>Review and refine Risk Management Policies and Procedures to ensure they are fit for purpose.</li> <li>Ensure Strategic, Operational and Major Project Risk Plans are complete and accurate.</li> <li>Provide refresher training to key stakeholders on Risk Management.</li> </ol>	<p>Management agrees with the auditor observation and findings.</p> <p>The Risk Management Policy and Framework was externally reviewed in 2019 but not endorsed by Executive for Council review and adoption.</p> <p>It is recommendation that the Shire of Denmark engage a suitably qualified consultant to review and update the Risk Management Policy to ensure that it is appropriate to meet current organisational requirements and is fully compliant with relevant legislation.</p> <p><u>Action Officer:</u> Manager Corporate Services</p> <p><u>Action Date:</u> March 2024</p>	<div style="border: 1px solid black; border-radius: 50%; width: 30px; height: 30px; display: flex; align-items: center; justify-content: center; margin: 0 auto;"> <span style="font-size: 18px; font-weight: bold;">M</span> </div>



Finding number	Observation 2 – Legislative Compliance	Implication and potential risk	Recommendations	Management comments	Risk rating
2	<p><u>Compliance Calendar</u> SOD advised they do not currently have a Legislative Compliance calendar but are in the process of developing one using a WALGA template.</p> <p>This calendar will cover compliance with the Local Government Act and various Regulations however it will not cover SOD compliance with other legislative and regulatory requirements such as the new and more onerous WA Workplace Health and Safety Act 2020.</p> <p>The following legislative/regulatory breaches were identified during the review:</p> <p><u>Frequency of Regulation 17 and Section 5 reviews</u> The previous 2019 report on Regulation 17 and Section 5 mentioned the need to conduct such reviews more frequently as required by the applicable local government regulations.</p> <p>This 2023 review is 4 years after the last review and is contrary to the regulatory requirement for them to be done every three years.</p>	<ul style="list-style-type: none"> <li>• Non-compliance with legislative and regulatory requirements;</li> <li>• Reputational damage; and</li> <li>• Financial loss through the imposition of legislative penalties.</li> </ul>	<ol style="list-style-type: none"> <li>1. A compliance calendar covering local government and other legislative/regulatory requirements be completed.</li> <li>2. Regulation 17 and Section 5 reviews be conducted every 3 years.</li> <li>3. A Tender Register be maintained and be made available for public inspection.</li> <li>4. Staff be reminded of the need to keep SOD records in the Records Management System.</li> </ol>	<p>The Compliance Calendar is a useful tool to ensure legislative requirements are met and has been a work in progress by current management which will now be prioritised for completion.</p> <p>In order to improve transparency it will be considered by Management that the Annual Compliance Audit Return (CAR) is completed by an independent consultant for the 2023 calendar year and beyond.</p> <p>The previous Financial Management Regulation and Audit Regulation 17 reviews were last conducted by a consultant in mid 2019 and the report was finalised in September 2019 and presented to Council via the Audit Committee in February 2020. The report and the</p>	<div style="border: 1px solid black; border-radius: 50%; width: 40px; height: 40px; display: flex; align-items: center; justify-content: center; margin: 0 auto;">M</div>


	<p><u>Tender Register</u> Regulation 17 of the <i>Local Government (Functions and General) Regulations 1996</i> requires:</p> <p>(1)The CEO is responsible for keeping the tenders register and making it available for public inspection.</p> <p>(1A)The CEO must publish the tenders register on the local government's official website.</p> <p>SOD does not currently have such a register however its answer in the 2021 and 2022 Compliance Audit Returns indicated it complied with this requirement.</p>			<p>presentation of its findings to Council both occurred during the 2019/2020 financial year. Both the Local Government (Financial Management) Regulations 1996 and the Local Government (Audit) Regulations 1996 require the review to be carried out not less than once in every 3 financial years.</p> <p>Management is of the view that taking the year of the last review (2019/2020) as year zero then 3 full years from then is the year ended 30 June 2023 and as the review has been undertaken and the findings are intended to be presented to Council prior to 30 June 2023 this matter is therefore not considered to be contrary to the applicable regulations.</p>	
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				<p><u>Tenders Register</u></p> <p>Management acknowledges that the matter identified from the 2019 Reg 17 review regarding the Tender Register and the relating improvement have not been actioned since that date. Management has begun creating a compliant tender register and is in the process of allocating responsibility of maintaining the tender register to the delegated staff.</p> <p><u>Action Officer:</u> Manager Corporate Services</p> <p><u>Action Date:</u> July 2023</p>	
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Finding number	Observation 3 – Approval of pay increases	Implication and potential risk	Recommendations	Management comments	Risk rating
3	<p>I sighted an email from the Human Resources Co-ordinator to the CEO dated 30 August 2022 requesting him to approve pay increases for all staff. it in part says - "Am I able to have a reply email from you authorising payment as per the spreadsheet. Last year we had a form for each employee which you signed off individually which we haven't undertaken this year."</p> <p>Last year's HR practice of having a form for each employee which the CEO signed off individually should have been retained.</p>	<ul style="list-style-type: none"> <li>• Errors made in employee's remuneration</li> </ul>	<ol style="list-style-type: none"> <li>1. The previous practice of, formal advice from the CEO to employees of pay increases, be re-instated. This advice should mention any over award amounts</li> </ol>	<p>Management has considered the observation finding and recommendations on this issue and is of the view that where standard fixed percentage increases are to apply to whole of organisation from a fixed date in term (ie. The first date of a new financial year) then the practice used by HR for 2022 to have a consolidated document and supporting schedule for CEO sign-off is sufficient to protect against the risk referred to. In circumstances where an adjustment to remuneration occurs on a different timeline or is employee specific then individual memos or letters would be generated, appropriately signed to provide evidence of review and authorisation then filed on an employee's personnel file.</p> <p><u>Action Officer:</u> Coordinator Employee Support &amp; Culture</p> <p><u>Action Dates:</u> ongoing</p>	<div style="text-align: center;">  </div>

Finding number	Observation 4 – Follow up of previous review	Implication and potential risk	Recommendation	Management comments	Risk rating
4	<p>The previous Regulation 17 and Section 5 review was reported on in September 2019.</p> <p>The following recommendations for improvements in the 2019 report have not been actioned:</p> <ul style="list-style-type: none"> <li>• Risk Management;</li> <li>• Tender Register;</li> <li>• Audit Practices;</li> <li>• Frequency of Regulation 17 review</li> </ul>	<ul style="list-style-type: none"> <li>• Fraud</li> </ul>	<p>The recommendations for improvement in the 2019 report on Regulation 17 and Section 5 be actioned</p>	<p><u>Risk Management</u></p> <p>As per observation and response # 1.</p> <p><u>Tender Register</u></p> <p>Management acknowledges that the matter identified from the 2019 Reg 17 review regarding the Tender Register and the relating improvement have not been actioned since that date. Management has begun creating a compliant tender register and is in the process of allocating responsibility of maintaining the tender register to the delegated staff.</p> <p><u>Action Officer:</u></p> <p>Manager Corporate Services</p> <p><u>Action Date:</u> July 2023</p>	<p style="text-align: center;">M</p>

				<p><u>Audit Practices</u></p> <p>Management has considered the observation finding and recommendations on this issue and consider appointing external auditors a function not required at this time. The current organisational structure, that includes a strategic accountant, is sufficient to minimise the risk of not adhering to documented policy and procedures as required and would be difficult to allocate financial resource at this time for a Tier 3 LG. A change to the org structure in the future would warrant a review of this finding.</p> <p><u>Frequency of Audit Regulation 17 review</u></p> <p>Response as per observation and response # 2.</p>	
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Finding number	Observation 5 - Reconciliations	Implication and potential risk	Recommendations	Management comments	Risk rating
5	<p>I reviewed reconciliations in the following areas:</p> <ul style="list-style-type: none"> <li>• fixed asset reconciliations;</li> <li>• investment reconciliations;</li> <li>• trust and other bonds reconciliations;</li> <li>• rates reconciliations;</li> <li>• payroll reconciliations;</li> <li>• debtors reconciliations; and</li> <li>• creditors reconciliations</li> </ul> <p>In particular, I checked to see if the reconciliations had been done in a timely manner, been signed and dated as prepared by a subordinate officer and reviewed, signed and dated by their manager.</p> <p>There were many instances where the abovementioned requirements were not met. SOD advised this was in part due to a technological issue.</p>	<ul style="list-style-type: none"> <li>• Data integrity errors;</li> <li>• Financial loss; and</li> <li>• Reputational damage</li> </ul>	<ol style="list-style-type: none"> <li>1. Reconciliations be normally done within a month of the end of the reconciliation period.</li> <li>2. Reconciliations be signed and dated by the subordinate preparing officer and similarly by the reviewing manager.</li> </ol>	<p>Monthly reconciliations are prepared and reviewed in a timely fashion as part of month end reporting preparation. An exception to this is the asset register as it is unwise to close and purge an asset register for a prior financial year until audit validation has been finalised. Due to delays in the 2022 Annual Audit completion the asset register reconciliations for 2022/23 tested during the audit review were completed retrospectively and later than usual.</p> <p>Due to organisation structure limitations the Investment reconciliations were prepared by the Manager Corporate Services and reviewed by the Financial Accountant. This should have occurred the other way round. This sign-off protocol will be rectified for future.</p> <p>As mentioned in the Management Response to a finding of the Annual Audit for 2022 a movement to electronic reconciliations sign off</p>	

				<p>process was used in the latter part of the 2021/2022 financial year which continued into 2022/2023. This led to some reconciliations not being able to demonstrate that the file had been physical signed by a preparer independent of the reviewer. An upgrade to the software functionality has ensured that all reconciliation reviews demonstrate that the review protocols have been followed and that an audit trail is produced to provide all relevant supporting evidence outlined in the audit observation.</p>	
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Finding number	Observation 6 - Low value payments	Implication and potential risk	Recommendation	Management comments	Risk rating														
6	<p>I noted in performing my audit testing of payments there were payments made to suppliers for:</p> <table border="1" data-bbox="342 512 902 738"> <thead> <tr> <th>Creditor Name</th> <th>Payment Amount</th> </tr> </thead> <tbody> <tr> <td>Albany City Motors</td> <td>\$96.25</td> </tr> <tr> <td>Deputy.Com</td> <td>\$68.20</td> </tr> <tr> <td>Jones Lang Lasalle</td> <td>\$9.16</td> </tr> <tr> <td>Mocean Wellness</td> <td>\$60.00</td> </tr> <tr> <td>T &amp; C Supplies</td> <td>\$96.80</td> </tr> <tr> <td>Toll Global Express</td> <td>\$40.48</td> </tr> </tbody> </table> <p>The administrative cost of making these payments, such as raising a purchase order, would exceed the payment amount.</p>	Creditor Name	Payment Amount	Albany City Motors	\$96.25	Deputy.Com	\$68.20	Jones Lang Lasalle	\$9.16	Mocean Wellness	\$60.00	T & C Supplies	\$96.80	Toll Global Express	\$40.48	<ul style="list-style-type: none"> <li>Administrative inefficiency.</li> </ul>	<p>SOD consider adopting a risk based approach to the making of low value payments that may involve the use of corporate credit cards.</p>	<p>Management will conduct further assessment of the recommendation to determine which regular low value payments can be moved to credit card direct debits to achieve improved efficiencies in this area without compromising risk or compliance.</p> <p><u>Action Officer:</u> Manager Corporate Services</p> <p><u>Action Date:</u> October 2023</p>	<p style="text-align: center;">L</p>
Creditor Name	Payment Amount																		
Albany City Motors	\$96.25																		
Deputy.Com	\$68.20																		
Jones Lang Lasalle	\$9.16																		
Mocean Wellness	\$60.00																		
T & C Supplies	\$96.80																		
Toll Global Express	\$40.48																		

Finding number	Observation 7 – Credit Cards	Implication and potential risk	Recommendation	Management comments	Risk rating
7	<p>SOD has a Credit Card Policy that provides some guidance on how cardholders must use their card.</p> <p>It is generally accepted practice, amongst my government clients, that cardholders are required to sign a detailed cardholder agreement which outlines their many obligations as a cardholder. Such agreements are provided by the banks who provide the credit card facility.</p> <p>The CEO’s credit card transactions are approved on a monthly basis by the Director Corporate Services. Normally a subordinate officer should not be placed in a position to approve a Managers expenditure. There is however a compensating control as SOD provides a monthly payments report to Council that details all individual payments including the CEO’s credit card payments.</p> <p>The Office of the Auditor General supported this process on page 8 of its 2018 Credit Cards Report per “CEO credit card transactions were approved by a subordinate . This process could be improved to increase transparency, without introducing additional approval processes, by periodically reporting the CEO’s transactions to the Council, and clearly identifying them for noting.”</p>	<ul style="list-style-type: none"> <li>• Fraud</li> <li>• Financial loss; and</li> <li>• Reputational damage</li> </ul>	<p>SOD Credit Cardholders sign a bank agreement form.</p> <p>Not Applicable</p>	<p>The Shire of Denmark was selected by the Office of the Auditor General (OAG) in 2017 for a random audit relating to controls over corporate credit cards. The audit findings were reported in 2018 which did not identify any significant concerns. The Shire already has a Corporate Credit Card policy which requires a user agreement to be signed which outlines the responsibilities and legal obligations for a staff member relating to being the custodian of a card and its rules of use.</p> <p>Whilst a ‘bank agreement form’ may provide a few more specific requirements on the expected conduct of an officer issued with a corporate credit card an example provided does not differ significantly from the Shire’s existing usage agreement which is considered to be suitable for the organisational requirements.</p>	<p style="text-align: center;">L</p>

				<p>Management recommends no further action be taken on the audit recommendation at this time.</p> <p><u>Action Officer:</u> Not Applicable <u>Action Date:</u> Not Applicable</p>	
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Finding number	Observation 8 - Policy Review	Implication and potential risk	Recommendations	Management comments	Risk rating
8	<p>I sighted twelve finance related policies, in the SOD Policy Manual that indicated:</p> <ul style="list-style-type: none"> <li>• four (33%) had been reviewed in the last three years;</li> <li>• two (17%) had no details of prior review/amendment or when the policy had come into effect; and</li> <li>• six (50%) had not been reviewed in the last three years with the latter having an average duration since the last review of seven years</li> </ul>	<ul style="list-style-type: none"> <li>• Outdated practice leads to financial irregularities or administrative inefficiency</li> </ul>	<p>Financial Policies and related Procedures be reviewed and updated if required. Subsequent reviews be undertaken at least every 3 years.</p>	<p>The auditor has provided the relevant policies and whilst four important policies have been reviewed being:</p> <p>P040220 – Purchasing Policy  P040229 – Investment Policy  P140302 – Workplace Health &amp; Safety Policy and Statement  P030105 – Rating Equity Policy</p> <p>It is agreed that other policies need to be reviewed which in some cases be lead to rescindment. Management will look to conduct a review of the affected policies by March 2024 and put in a clause to review every 3 years thereafter.</p> <p><u>Action Officer:</u> Manager  Corporate Services</p> <p><u>Action Date:</u> 30 June 2023</p>	<p style="text-align: center;">L</p>

Finding number	Observation 9 – Financial Reports to Council	Implication and potential risk	Recommendation	Management comments	Risk rating
9	<p>SOD does not have a Finance Committee and has a single Council meeting per month on the third Tuesday of each month. Council require that agenda papers must be forwarded to them 11 days before each Council meeting. This does not allow the financial reports of the previous month to be tabled and considered in the following month.</p> <p>The agenda item 9.2.1 of the Council meeting of 18 April 2023 has various financial reports that go up to 28 February 2023. This financial information is thus 7 weeks old when Council discusses it.</p>	<ul style="list-style-type: none"> <li>Councillors are unable to reasonably discharge their oversight duties in a timely manner.</li> </ul>	<p>SOD Executive discuss with Council if they are amenable to meeting on the final Tuesday in each month and receiving meeting papers 5 working days before their meeting to increase the likelihood they are getting financial information on a timely basis.</p>	<p>This item is brought to Council's attention to highlight some issues which can occur in relation to the timing of Council meetings and the agenda publication timeline to align with community expectations. Executive will need to workshop this further with Council to determine if any change is considered appropriate.</p> <p><u>Action Officer:</u> tbc</p> <p><u>Action Dates:</u></p>	<p style="text-align: center;">L</p>

Finding number	Observation 10 - General Journals	Implication and potential risk	Recommendation	Management comments	Risk rating
10	<p>I did a sample test on 10 General Journals that indicated 3 (30%) had been prepared and reviewed by the same person. These journals were:</p> <ol style="list-style-type: none"> <li>1. Number LS0702 and dated 31/01/2023;</li> <li>2. Number LS0701 and dated 31/01/2023;</li> <li>3. Journal Number LS0802 and dated 17/02/2023; and</li> </ol> <p>This diminishes the effectiveness of the review of General Journals.</p>	<ul style="list-style-type: none"> <li>• Administrative /data integrity error both intentional and unintentional</li> </ul>	<p>General Journals be prepared and reviewed by different officers. The preparer should be a subordinate officer to the reviewer.</p>	<p>Management accepts the finding but points out the following information:</p> <ol style="list-style-type: none"> <li>1.The finance departments record in journal compliance is historically excellent with no adverse audit findings recorded in this area since the implementation of the Journal Controls policy</li> <li>2. The test sample is a relatively small one in comparison to the number of JNL's processed on an annual basis and some of the test date range unfortunately coincides with the shortened resignation period of the Director of Corporate &amp; Community Services at which point the Manager Corporate Services had commenced a handover into the Acting Director role.</li> <li>3. Normally a Director or person acting in that role would not be preparing JNL's and based on hierarchy and segregation of duties this would require the CEO to sign-off and authorise the JNL which is not really practical in a Shire with</li> </ol>	<p style="text-align: center;">L</p>

				<p>an Organisational Structure such as the Shire of Denmark. (the majority of JNL's are prepared by the Assistant Accountant and reviewed by the Financial Accountant or prepared by the Financial Accountant and reviewed by the Manager Corporate Services)</p> <p>The finding is noted with the circumstances being regarded as something of an unfortunate 'one-off' which Management will be more aware of in future.</p> <p>No further action required.</p> <p><u>Action Officer:</u></p> <p><u>Action Date:</u></p>	
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## Annexure B – Discussions with SOD Officers

My audit involved discussions and communications with the following SOD officers:

- Manager Corporate Services;
- Accountant;
- Assistant Accountant;
- Governance Coordinator;
- Governance and Employee Support Officer;
- Finance Officer Creditors;
- Payroll Officer;
- Senior Records Officer; and
- Records Officer;



Financial Management Review Progress Report March 2024 (FMR Reg 17)

Finding	Observation 1 - Risk Management	Implication and potential risk	Recommendations	Management Comments	Risk Rating	Responsible Officer	Action Required	Date Action to be Completed	Current Status - March 2024
1	The SOD has a Risk Management Policy that was last reviewed by Council in 9 September 2014. The Manager Corporate Services advised that SOD has identified further work needs to be done on Risk Management.	<ul style="list-style-type: none"> <li>Risks are not being reasonably managed and decreases the likelihood of some of the Shire's objectives being met.</li> </ul>	<ol style="list-style-type: none"> <li>Review and refine Risk Management Policies and Procedures to ensure they are fit for purpose.</li> <li>Ensure Strategic, Operational and Major Project Risk Plans are complete and accurate.</li> <li>Provide refresher training to key stakeholders on Risk Management.</li> </ol>	Management agrees with the auditor observation and findings. The Risk Management Policy and Framework was externally reviewed in 2019 but not endorsed by Executive for Council review and adoption. It is recommended that the Shire of Denmark engage a suitably qualified consultant to review and update the Risk Management Policy to ensure that it is appropriate to meet current organisational requirements and is fully compliant with relevant legislation.	M	Executive Manager Corporate Services	Engage a suitably qualified consultant to review and update the Risk Management Policy to ensure that it is appropriate to meet current organisational requirements and is fully compliant with relevant legislation.	March 2024	Proposed 2024/25 Budget - action date deferred until December 2024.
Finding	Observation 2 – Legislative Compliance	Implication and potential risk	Recommendations	Management Comments	Risk Rating	Responsible Officer	Action Required	Date Action to be Completed	Current Status - March 2024
2	<p>Compliance Calendar SOD advised they do not currently have a Legislative Compliance calendar but are in the process of developing one using a WALGA template.</p> <p>This calendar will cover compliance with the Local Government Act and various Regulations however it will not cover SOD compliance with other legislative and regulatory requirements such as the new and more onerous WA Workplace Health and Safety Act 2020.</p> <p>The following legislative/regulatory breaches were identified during the review:</p> <p><u>Frequency of Regulation 17 and Section 5 reviews.</u></p> <p>The previous 2019 report on Regulation 17 and Section 5 mentioned the need to conduct such reviews more frequently as required by the applicable local government regulations.</p> <p>This 2023 review is 4 years after the last review and is contrary to the regulatory requirement for them to be done every three years.</p> <p><u>Tender Register.</u></p> <p>Regulation 17 of the Local Government (Functions and General) Regulations 1996 requires:</p> <p>(1)The CEO is responsible for keeping the tenders register and making it available for public inspection.</p> <p>(1A)The CEO must publish the tenders register on the local government's official website.</p> <p>SOD does not currently have such a register however its answer in the 2021 and 2022 Compliance Audit Returns indicated it complied with this requirement.</p>	<ul style="list-style-type: none"> <li>Non-compliance with legislative and regulatory requirements;</li> <li>Reputational damage; and</li> <li>Financial loss through the imposition of legislative penalties.</li> </ul>	<ol style="list-style-type: none"> <li>A compliance calendar covering local government and other legislative/regulatory requirements be completed.</li> <li>Regulation 17 and Section 5 reviews be conducted every 3 years.</li> <li>A Tender Register be maintained and be made available for public inspection.</li> <li>Staff be reminded of the need to keep SOD records in the Records Management System.</li> </ol>	The Compliance Calendar is a useful tool to ensure legislative requirements are met and has been a work in progress by current management which will now be prioritised for completion. In order to improve transparency it will be considered by Management that the Annual Compliance Audit Return (CAR) is completed by an independent consultant for the 2023 calendar year and beyond. The previous Financial Management Regulation and Audit Regulation 17 reviews were last conducted by a consultant in mid 2019 and the report was finalised in September 2019 and presented to Council via the Audit Committee in February 2020. The report and the presentation of its findings to Council both occurred during the 2019/2020 financial year. Both the Local Government (Financial Management) Regulations 1996 and the Local Government (Audit) Regulations 1996 require the review to be carried out not less than once in every 3 financial years. Management is of the view that taking the year of the last review (2019/2020) as year zero then 3 full years from then is the year ended 30 June 2023 and as the review has been undertaken and the findings are intended to be presented to Council prior to 30 June 2023 this matter is therefore not considered to be contrary to the applicable regulations.	M	Executive Manager Corporate Services	<ol style="list-style-type: none"> <li>Compliance Calendar using WALGA template.</li> <li>FMR Reg 17 review conducted every 3 years.</li> <li>Tender Register be maintained and be available for public inspection.</li> <li>Records Management System reminder to staff.</li> </ol>	July 2023	<ol style="list-style-type: none"> <li>Ongoing - action date deferred until December 2024.</li> <li>Ongoing - to be added to compliance calendar.</li> <li>Completed - Tender Register 2023/2024 published on Shire Website.</li> <li>Completed.</li> </ol>
Finding	Observation 3 – Approval of pay increases	Implication and potential risk	Recommendations	Management Comments	Risk Rating	Responsible Officer	Action Required	Date Action to be Completed	Current Status - March 2024
3	I sighted an email from the Human Resources Coordinator to the CEO dated 30 August 2022 requesting him to approve pay increases for all staff. It in part says - "Am I able to have a reply email from you authorising payment as per the spreadsheet. Last year we had a form for each employee which you signed off individually which we haven't undertaken this year." Last year's HR practice of having a form for each employee which the CEO signed off individually should have been retained.	<ul style="list-style-type: none"> <li>Errors made in employee's remuneration</li> </ul>	<ol style="list-style-type: none"> <li>The previous practice of, formal advice from the CEO to employees of pay increases, be re-instated. This advice should mention any over award amounts</li> </ol>	Management has considered the observation finding and recommendations on this issue and is of the view that where standard fixed percentage increases are to apply to whole of organisation from a fixed date in term (ie. The first date of a new financial year) then the practice used by HR for 2022 to have a consolidated document and supporting schedule for CEO sign-off is sufficient to protect against the risk referred to. In circumstances where an adjustment to remuneration occurs on a different timeline or is employee specific then individual memos or letters would be generated, appropriately signed to provide evidence of review and authorisation then filed on an employee's personnel file.	M	Coordinator Employee Support & Culture	The previous practice of, formal advice from the CEO to employees of pay increases, be re-instated. This advice should mention any over award amounts	Ongoing	Ongoing - Memo signed by CEO for individual changes to employees remuneration. Consolidated Documents signed by CEO for whole of organisation increases.

Finding	Observation 4 – Follow up of previous review	Implication and potential risk	Recommendations	Management Comments	Risk Rating	Responsible Officer	Action Required	Date Action to be Completed	Current Status - March 2024
4	The previous Regulation 17 and Section 5 review was reported on in September 2019. The following recommendations for improvements in the 2019 report have not been actioned: <ul style="list-style-type: none"> <li>Risk Management;</li> <li>Tender Register;</li> <li>Audit Practices;</li> <li>Frequency of Regulation 17 review</li> </ul>	• Fraud	The recommendations for improvement in the 2019 report on Regulation 17 and Section 5 be actioned	<p><u>Risk Management</u> As per observation and response # 1.</p> <p><u>Tender Register</u> Management acknowledges that the matter identified from the 2019 Reg 17 review regarding the Tender Register and the relating improvement have not been actioned since that date. Management has begun creating a compliant tender register and is in the process of allocating responsibility of maintaining the tender register to the delegated staff.</p> <p><u>Audit Practices</u> Management has considered the observation finding and recommendations on this issue and consider appointing external auditors a function not required at this time. The current organisational structure, that includes a strategic accountant, is sufficient to minimise the risk of not adhering to documented policy and procedures as required and would be difficult to allocate financial resource at this time for a Tier 3 LG. A change to the org structure in the future would warrant a review of this finding.</p> <p><u>Frequency of Audit Regulation 17 review</u> Response as per observation and response # 2</p>	M	Executive Manager Corporate Services	1. Review Risk Management Policy and F framework. 2. Tender Register 3. Audit Practices - internal auditors 4. Frequency of FMR Reg 17 review	July 2023	1. Proposed 2024/25 Budget - action date deferred until December 2024. 2. Completed - Tender Register 2023/2024 published on Shire Website. 3. Audit Practices - no further action. 4. Ongoing - to be added to compliance calendar.
Finding	Observation 5 - Reconciliations	Implication and potential risk	Recommendations	Management Comments	Risk Rating	Responsible Officer	Action Required	Date Action to be Completed	Current Status - March 2024
5	I reviewed reconciliations in the following areas: <ul style="list-style-type: none"> <li>fixed asset reconciliations;</li> <li>investment reconciliations;</li> <li>trust and other bonds reconciliations;</li> <li>rates reconciliations;</li> <li>payroll reconciliations;</li> <li>debtors reconciliations; and</li> <li>creditors reconciliations</li> </ul> <p>In particular, I checked to see if the reconciliations had been done in a timely manner, been signed and dated as prepared by a subordinate officer and reviewed, signed and dated by their manager. There were many instances where the abovementioned requirements were not met. SOD advised this was in part due to a technological issue.</p>	<ul style="list-style-type: none"> <li>Data integrity errors;</li> <li>Financial loss; and</li> <li>Reputational damage</li> </ul>	<ol style="list-style-type: none"> <li>Reconciliations be normally done within a month of the end of the reconciliation period.</li> <li>Reconciliations be signed and dated by the subordinate preparing officer and similarly by the reviewing manager.</li> </ol>	<p>Monthly reconciliations are prepared and reviewed in a timely fashion as part of month end reporting preparation. An exception to this is the asset register as it is unwise to close and purge an asset register for a prior financial year until audit validation has been finalised. Due to delays in the 2022 Annual Audit completion the asset register reconciliations for 2022/23 tested during the audit review were completed retrospectively and later than usual.</p> <p>Due to organisation structure limitations the Investment reconciliations were prepared by the Manager Corporate Services and reviewed by the Financial Accountant. This should have occurred the other way round. This sign-off protocol will be rectified for future.</p> <p>As mentioned in the Management Response to a finding of the Annual Audit for 2022 a movement to electronic reconciliations sign off process was used in the latter part of the 2021/2022 financial year which continued into 2022/2023.</p> <p>This led to some reconciliations not being able to demonstrate that the file had been physical signed by a preparer independent of the reviewer. An upgrade to the software functionality has ensured that all reconciliation reviews demonstrate that the review protocols have been followed and that an audit trail is produced to provide all relevant supporting evidence outlined in the audit observation.</p>	M	Executive Manager Corporate Services	No further Action	Not Applicable	No further Action
Finding	Observation 6 - Low value payments	Implication and potential risk	Recommendations	Management Comments	Risk Rating	Responsible Officer	Action Required	Date Action to be Completed	Current Status - March 2024
6	I noted in performing my audit testing of payments there were payments made to suppliers for: Creditor Name Payment Amount Albany City Motors \$96.25 Deputy.Com \$68.20 Jones Lang Lasalle \$9.16 Mocean Wellness \$60.00 T & C Supplies \$96.80 Toll Global Express \$40.48 The administrative cost of making these payments, such as raising a purchase order, would exceed the payment amount.	• Administrative inefficiency	SOD consider adopting a risk based approach to the making of low value payments that may involve the use of corporate credit cards.	Management will conduct further assessment of the recommendation to determine which regular low value payments can be moved to credit card direct debits to achieve improved efficiencies in this area without compromising risk or compliance.	L	Executive Manager Corporate Services	Consider low value payments on corporate credit card	October 2023	Ongoing - Management considering expense management systems to implement efficiencies.

Finding	Observation 7 – Credit Cards	Implication and potential risk	Recommendations	Management Comments	Risk Rating	Responsible Officer	Action Required	Date Action to be Completed	Current Status - March 2024
7	SOD has a Credit Card Policy that provides some guidance on how cardholders must use their card. It is generally accepted practice, amongst my government clients, that cardholders are required to sign a detailed cardholder agreement which outlines their many obligations as a cardholder. Such agreements are provided by the banks who provide the credit card facility. The CEO's credit card transactions are approved on a monthly basis by the Director Corporate Services. Normally a subordinate officer should not be placed in a position to approve a Managers expenditure. There is however a compensating control as SOD provides a monthly payments report to Council that details all individual payments including the CEO's credit card payments. The Office of the Auditor General supported this process on page 8 of its 2018 Credit Cards Report per "CEO credit card transactions were approved by a subordinate . This process could be improved to increase transparency, without introducing additional approval processes, by periodically reporting the CEO's transactions to the Council, and clearly identifying them for noting."	<ul style="list-style-type: none"> <li>• Fraud</li> <li>• Financial loss; and</li> <li>• Reputational damage</li> </ul>	SOD Credit Cardholders sign a bank agreement form.  Not Applicable	The Shire of Denmark was selected by the Office of the Auditor General (OAG) in 2017 for a random audit relating to controls over corporate credit cards. The audit findings were reported in 2018 which did not identify any significant concerns. The Shire already has a Corporate Credit Card policy which requires a user agreement to be signed which outlines the responsibilities and legal obligations for a staff member relating to being the custodian of a card and its rules of use. Whilst a 'bank agreement form' may provide a few more specific requirements on the expected conduct of an officer issued with a corporate credit card an example provided does not differ significantly from the Shire's existing usage agreement which is considered to be suitable for the organisational requirements. Management recommends no further action be taken on the audit recommendation at this time.	L	Executive Manager Corporate Services	No further Action	Not Applicable	No further Action
Finding	Observation 8 - Policy Review	Implication and potential risk	Recommendations	Management Comments	Risk Rating	Responsible Officer	Action Required	Date Action to be Completed	Current Status - March 2024
8	I sighted twelve finance related policies, in the SOD Policy Manual that indicated: <ul style="list-style-type: none"> <li>• four (33%) had been reviewed in the last three years;</li> <li>• two (17%) had no details of prior review/amendment or when the policy had come into effect; and</li> <li>• six (50%) had not been reviewed in the last three years with the latter having an average duration since the last review of seven years</li> </ul>	<ul style="list-style-type: none"> <li>• Outdated practice leads to financial irregularities or administrative inefficiency</li> </ul>	Financial Policies and related Procedures be reviewed and updated if required. Subsequent reviews be undertaken at least every 3 years.	The auditor has provided the relevant policies and whilst four important policies have been reviewed being: P040220 – Purchasing Policy P040229 – Investment Policy P140302 – Workplace Health & Safety Policy and Statement P030105 – Rating Equity Policy It is agreed that other policies need to be reviewed which in some cases be lead to rescindment. Management will look to conduct a review of the affected policies by March 2024 and put in a clause to review every 3 years thereafter.	L	Executive Manager Corporate Services	1. Financial Policies and related Procedures be reviewed and updated if required. 2. Subsequent reviews be undertaken at least every 3 years.	June 2023	1. Completed 2. Ongoing
Finding	Observation 9 – Financial Reports to Council	Implication and potential risk	Recommendations	Management Comments	Risk Rating	Responsible Officer	Action Required	Date Action to be Completed	Current Status - March 2024
9	SOD does not have a Finance Committee and has a single Council meeting per month on the third Tuesday of each month. Council require that agenda papers must be forwarded to them 11 days before each Council meeting. This does not allow the financial reports of the previous month to be tabled and considered in the following month. The agenda item 9.2.1 of the Council meeting of 18 April 2023 has various financial reports that go up to 28 February 2023. This financial information is thus 7 weeks old when Council discusses it.	<ul style="list-style-type: none"> <li>• Councilors are unable to reasonably discharge their oversight duties in a timely manner.</li> </ul>	SOD Executive discuss with Council if they are amenable to meeting on the final Tuesday in each month and receiving meeting papers 5 working days before their meeting to increase the likelihood they are getting financial information on a timely basis.	This item is brought to Council's attention to highlight some issues which can occur in relation to the timing of Council meetings and the agenda publication timeline to align with community expectations. Executive will need to workshop this further with Council to determine if any change is considered appropriate.	L	Chief Executive Officer	Council to considered the timing of Council meetings.	December 2023	Completed - Resolution 101223 OCM 12 December 2023

Finding	Observation 10 - General Journals	Implication and potential risk	Recommendations	Management Comments	Risk Rating	Responsible Officer	Action Required	Date Action to be Completed	Current Status - March 2024
10	I did a sample test on 10 General Journals that indicated 3 (30%) had been prepared and reviewed by the same person. These journals were: 1. Number LS0702 and dated 31/01/2023; 2. Number LS0701 and dated 31/01/2023; 3. Journal Number LS0802 and dated 17/02/2023; and This diminishes the effectiveness of the review of General Journals.	• Administrative /data integrity error both intentional and unintentional	General Journals be prepared and reviewed by different officers. The preparer should be a sub ordinate officer to the reviewer.	Management accepts the finding but points out the following information: 1. The finance departments record in journal compliance is historically excellent with no adverse audit findings recorded in this area since the implementation of the Journal Controls policy 2. The test sample is a relatively small one in comparison to the number of JNL's processed on an annual basis and some of the test date range unfortunately coincides with the shortened resignation period of the Director of Corporate & Community Services at which point the Manager Corporate Services had commenced a handover into the Acting Director role. 3. Normally a Director or person acting in that role would not be preparing JNL's and based on hierarchy and segregation of duties this would require the CEO to sign off and authorise the JNL which is not really practical in a Shire with an Organisational Structure such as the Shire of Denmark. (the majority of JNL's are prepared by the Assistant Accountant and reviewed by the Financial Accountant or prepared by the Financial Accountant and reviewed by the Manager Corporate Services). The finding is noted with the circumstances being regarded as something of an unfortunate 'one off' which Management will be more aware of in future. No further action required.	L	Executive Manager Coporate Services	No further Action	Not Applicable	No further Action