
TOWN OF
EAST FREMANTLE



AGENDA

Audit Committee Meeting

Wednesday, 6 September 2017 at 6.30pm

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NOTICE OF MEETING

Elected Members

A Meeting of the Audit Committee will be held on **Wednesday, 6 September 2017 in the Boardroom (Downstairs) East Fremantle Yacht Club, Petra Street East Fremantle** commencing at 6.30pm and your attendance is requested.



GARY TUFFIN
Chief Executive Officer

AGENDA

1. OFFICIAL OPENING

2. ACKNOWLEDGEMENT OF COUNTRY

"On behalf of the Council I would like to acknowledge the Nyoongar people as the traditional custodians of the land on which this meeting is taking place."

3. RECORD OF ATTENDANCE

- 3.1 Attendance**
- 3.2 Apologies**
- 3.3 Leave of Absence**

4. MEMORANDUM OF OUTSTANDING BUSINESS

None.

5. DISCLOSURES OF INTEREST

- 5.1 Financial**
- 5.2 Proximity**
- 5.3 Impartiality**

6. CONFIRMATION OF MINUTES

6.1 Meeting of Audit Committee (17 March 2017)

6.1 OFFICER RECOMMENDATION

That the minutes of the meeting of the Audit Committee held on Friday, 17 March 2017 be confirmed as a true and correct record of proceedings.

7. ANNOUNCEMENTS BY THE PRESIDING MEMBER

8. REPORTS

8.1 Financial Management Review

File ref	F/AUD1
Prepared by	David Taylor, Executive Manager Corporate & Community Services
Supervised by	Gary Tuffin, Chief Executive Officer
Meeting Date	6 September 2017
Voting requirements	Simple Majority
Documents tabled	Nil
Attachments	1. Financial Management Review Report 2017

Purpose

To present the findings of the Financial Management Review to Council.

Executive Summary

In accordance with the requirements outlined within section 5(2)(c) of Local Government (Financial Management) Regulation 1996, the Chief Executive Officer is to undertake a review of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every two (2) financial years) and report to the local government the results of those reviews.

Background

The Town has utilised the services of Anderson Munro and Wyllie, the Town External Auditors to conduct the review.

The objective of the external engagement was to provide an independent testing of the financial management system of the Town of East Fremantle and receive a report on the appropriateness and effectiveness of the control environment within as required under Financial Management Regulation 5(2)(c).

The review examined the following financial systems and procedures of the Town of East Fremantle:

- Bank Reconciliations
- Petty cash
- Trust funds
- Investments
- Receipts/debtors
- Payments/creditors
- Purchases
- Credit card procedures and use
- Payroll rates
- Fees and charges
- Cost allocations
- Administration allocations
- Job costing
- Minutes and meetings
- Financial reports
- Budgets
- Integrated planning and reporting
- Register of delegations
- General ledger accounts
- Record keeping and storage
- Insurance
- Audit Committee

Consultation

Chief Executive Officer
Anderson Munro and Wyllie (External Auditors)

Statutory Environment

Local Government Act 1995

Local Government (Audit) Regulations 1996 Regulation 17

Local Government (Financial Management) Regulations 1996

Policy Implications

F8.7 Significant Accounting Policies

Financial Implications

Nil

Strategic Implications

Nil

Site Inspection

Not applicable

Comment

The examination was mainly an overview of the above areas, assessing major controls and considering whether the systems and procedures in place are appropriate and effective for the Council's current level of operations and structure. They did not necessarily examine compliance with provisions of the Act or Regulations, which were not financial in nature.

The conclusion was that the overall effectiveness of the financial management systems and procedures of the Town of East Fremantle with respect to areas covered by the review are reasonable and appropriate for the current level of operations and structure. The following recommendations were made;

- a. Bank Reconciliations – to be evidenced as reviewed and have a copy of the bank statement attached.

Officer Comment: These changes have been implemented in July 2017.

- b. Trust fund reconciliations - to be reconciled to the last calendar day of each month.

Officer Comment: These changes have been implemented in July 2017.

- c. Payments / Creditors – the Town review its GST treatment when posting transactions in order to correctly record its GST treatment and correctly submit BAS to the ATO.

Officer Comment: This is currently being reviewed and the necessary system changes will be made.

- d. Credit card procedures and use – recommend that the policy for corporate credit cards be reviewed in order to effectively detect any purchases that include elements which are private use.

Officer Comment: The credit card policy is earmarked for review in conjunction with all other finance related policies and procedures.

- e. Payroll – it is noted that there are a number of staff with large accrued leave balances.

Officer Comment: This had already been identified by the administration and actions are being taken to alleviate these large accrual balances.

- f. Minutes of meetings – that the unsigned minutes be clearly marked as unconfirmed until confirmed and that the website reflects this.

Officer Comment: A watermark will be implemented on the unconfirmed minutes in order to clearly identify as unconfirmed. When confirmed these are replaced by confirmed minutes on the website.

- g. Financial Reports – financial ratios are below basic standard.

Officer Comment: The operating surplus ratio for 2016 was (0.16), which was created by a negative operating surplus at the end of that financial year. This has been created by a significant increase in the depreciation on non-current assets when compared to budget as all other forms of expenditure were below budget for that period. The depreciation charges will be reviewed and updated within 17-18 in order to reflect appropriate depreciation values.

- h. Record keeping and storage of documents and data – that a Disaster Recovery and Business Continuity Plan and necessary policies be developed.

Officer Comment: Disaster Recovery and Business Continuity plan is currently being developed.

- i. Audit Committee – recommend that Audit Committee implement controls in order to manage each risk identified above as having inadequate controls.

Officer Comment: Implement the above comments

OFFICER RECOMMENDATION

That Council:

- 1. receives the Financial Management Review Report 2017.**
- 2. notes the actions to implement the recommendations.**



Anderson Munro & Wyllie

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Private and Confidential

22 August 2017

Mr. Gary Tuffin
Town of East Fremantle
PO Box 1097
FREMANTLE WA 6959

Dear Mr Tuffin

FINANCIAL MANAGEMENT REVIEW

Following our visit between 29 and 31 May, 2017 we have now completed our review of the financial management systems and procedures for your Council.

The objective of our review was solely to assist you in discharging your responsibility to undertake a review of the appropriateness and effectiveness of the financial management systems and procedures of the Town as required by Local Government (Financial Management) Regulation ("FM Reg") 5(2)(c).

The results of this report and any other information that you determine as relevant should be presented to Council to comply with your statutory obligations.

We would like to take this opportunity to express our appreciation to you and all of the staff, for the assistance provided to us during the process of our review.

Should you have any queries on the matters raised in this report or on the review in general, please do not hesitate to contact me.

Yours sincerely

ANDERSON MUNRO & WYLLIE

BILLY-JOE THOMAS
Director



Anderson Munro & Wyllie

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The results of this report and any other information that you determine as relevant should be presented to Council to comply with your statutory obligations.

We would like to take this opportunity to express our appreciation to you and all of the staff, for the assistance provided to us during the process of our review.

Should you have any queries on the matters raised in this report or on the review in general, please do not hesitate to contact me.

Yours sincerely

ANDERSON MUNRO & WYLLIE


BILLY-JOE THOMAS
Director

TOWN OF EAST FREMANTLE

FINANCIAL MANGAGEMENT REVIEW REPORT

30 JUNE 2017



Anderson Munro & Wyllie

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1. INTRODUCTION

Local Government (Financial Management) Regulation ("FM Reg") 5(2)(c) requires the Chief Executive Officer to undertake a review of the appropriateness and effectiveness of the financial management systems and procedures ("a financial management review") at least once every four (4) financial years and report the results to Council.

Our firm was appointed by Council's Chief Executive Officer to perform a Financial Management Review of Council's operation.

During our review we examined the following financial systems and procedures of Council:

- Bank Reconciliations
- Petty Cash
- Trust Fund
- Investments
- Receipts / Debtors
- Payments / Creditors
- Purchases
- Credit Card Procedures and Use
- Payroll
- Rates
- Fees and Charges
- Cost Allocations
- Administration Allocations
- Job Costing
- Minutes and Meetings
- Financial Reports
- Budgets
- Integrated Planning & Reporting
- Registers and Delegations
- General Ledger Accounts
- Record Keeping and Storage
- Insurance
- Audit Committee

We did not necessarily examine compliance with provisions of the Act or Regulations which were not financial in nature. That is, Parts 2, 4 8 and 9 of the Act, some provisions of Parts 3 & 5 as well as most Regulations (apart from the Financial Management Regulations), which did not impact on the areas examined above.

2. CONCLUSIONS

We consider that the effectiveness of the financial management systems and procedures of Council are generally sound. There are a number of areas however, that should be improved. It is important that the necessary resources are devoted to ensure that the appropriate corrective action is taken with respect to the matters raised in this report, and that Council's systems and procedures are maintained correctly thereafter.

3. SUMMARY OF RECOMMENDATIONS

Following is a list of the recommendations made in this report.

Bank Reconciliations

• No Evidence of Bank Reconciliation Review

We recommend that all bank account reconciliations be reviewed by a senior responsible employee and that they sign each reconciliation report as evidence of review to ensure that the reports relied upon are accurate and free from errors.



▪ **Bank Reconciliation Incomplete**

We recommend that the bank reconciliations prepared at month end be complete by including the bank statement, so as to enable it to be accurately reviewed.

Petty Cash

No recommendations.

Trust Fund

• **End of Month Bank Reconciliations Not at End of Month**

We recommend that the end-of-month trust bank account reconciliations be reconciled to the last calendar day of each month.

Investments

No recommendations.

Receipts/Debtors

No recommendations.

Payments/ Creditors

▪ **GST Treatment**

We recommend that GST be correctly treated when posting transactions to accurately record the GST component in the Town's general ledger system and the correctly in the BAS submitted to the ATO.

Purchases

• **Long Outstanding Purchase Orders**

We recommend that you implement procedures to ensure completed orders are cleared from the creditors listing once the creditor has been paid as well as procedures to ensure that upon cancelling an order it is removed from the system.

Credit Card Procedures and Use

• **Treatment of Purchases by Telephone, Facsimile or over the Internet**

We recommend that Council review its policy on use of corporate credit cards to ensure compliance with the operation guidelines from the Department of Local Government and Communities and ensure controls in place are effective in detecting whether any purchases include elements which are private use.



Payroll

- **Staff with Large Accrued Balances in Provisions**

We recommend that staff members are encouraged to take their accrued leave on a regular basis in order to keep the leave liability of the Council at a reasonable level.

Rates

No recommendations.

Fees and Charges

No recommendations.

Cost Allocations

No recommendations.

Administration Allocations

No recommendations.

Job Costing

No recommendations.

Minutes of Meetings

- **Minutes Not Signed**

We recommend that you ensure that the signed as confirmed copy of Council meeting minutes be made available to the public on-line from the Town's website once signed as confirmed.

- **Unconfirmed Minutes Not Clearly Identified As Being Unconfirmed**

We recommend that when Council meeting minutes are initially made available to the public for inspection on the Town's website that they be clearly named and marked as "Unconfirmed" such as with use of a watermark across each page. When the meeting minutes are confirmed at the next meeting, the unconfirmed minutes be removed and replaced with the signed as confirmed version of the minutes.

Financial Reports

- **Financial Ratio Below Basic Standard**

We recommend that Council take the necessary actions to improve its financial performance and continue to closely monitor its results.



Budget

No recommendations.

Integrated Planning and Reporting

No recommendations.

Registers

No recommendations.

General Ledger Chart Of Accounts

No recommendations.

Record Keeping and Storage of Documents and Data

- **Disaster Recovery and Business Continuity Plan**

We recommend that Council consider a policy and plan which aims to provide a mechanism for the development of contingent capacity and plans that will enable management to focus on maintaining and resuming the Town's most critical functions; whilst working in a planned way toward eventual restoration of operations and ensuring unaffected operations are able to continue.

Insurance

No recommendations.

Audit Committee

- **Local Government Audit Regulation 17**

We recommend that in order to fulfil the Audit Committee's governance and oversight responsibilities controls be implemented to manage risk for each risk identified as having inadequately assessed controls.



4. RISK RANKING CRITERIA

The following rankings may be applied to each recommendation to determine the significance of the issue raised:

High Significance

Signifies a serious breakdown in key controls, which has the potential to:

- Impact adversely on the achievement of the Town's objectives, and/or
- Expose the Town to the risk of major financial loss, and/or
- Expose the Town to a substantial risk of external criticism.

Medium Significance

Signifies a breakdown in controls, which has the potential to:

- Impact adversely on the achievement of Program/Activity objectives, and/or
- Expose the Program/Activity to the risk of financial loss, and/or
- Expose the Program/Activity to a risk of external criticism.

Low Significance

Signifies a minor breakdown in controls, which, when addressed, will:

- Improve performance of the Program/Activity, and/or
- Improve controls in line with good management practice, and/or
- Decrease the risks inherent in the Program/Activity.

The risk ranking is indicated below each recommendation.



5. BANK RECONCILIATIONS

A review of the bank reconciliations was performed to ensure that reconciliations are being regularly prepared and reviewed. We noted the following matters.

5.1 No Evidence of Bank Reconciliation Review

Observation

During our review of the end of month bank reconciliations for the 2016/17 financial year, we noted that the bank reconciliations for the municipal, reserve and trust bank accounts had not been signed as evidence of review by a senior member of staff. In addition, we noted that the month end bank reconciliations were not signed by the report preparer in all instances.

Implications

When there is no review of bank account reconciliation reports, there is a risk errors may remain undetected and that the true financial positions of the bank accounts are not accurately presented.

Recommendation

We recommend that the end of month bank account reconciliations be reviewed by a senior responsible employee and that they sign each reconciliation report as evidence of review to ensure that the reports relied upon are accurate and free from errors. In addition, we recommend that the end of month bank reconciliations be signed by the employee preparing the reports.

Risk Ranking: Medium

Management Response

Management accept the above recommendation and will implement the necessary changes.

5.2 Bank Reconciliations and the Bank Statement

Observation

During our review of the bank reconciliations for the 2016/17 financial year, we noted that the bank reconciliations for the municipal, reserve and trust bank accounts were not filed with the bank statement attached with the account balance being reconciled to.

Implications

When bank reconciliations do not have the bank statement attached, it increases the risk that it may be reconciled to an incorrect balance. In addition, the bank statement is a required component of the reconciliation report for the person reviewing the reconciliation to determine whether it is correct and free from errors. Errors are more likely to remain undetected and the true financial position of the bank account is less likely to be accurately presented.

**Recommendation**

We recommend that all bank account reconciliations be complete reconciliations and include the bank statement with the balance being reconciled to. Inclusion of the bank statement should be part of Councils financial procedures for reconciling the bank.

Risk Ranking: Medium

Management Response

Management accept the above recommendation and will implement the necessary changes.

6. PETTY CASH

We examined the petty cash system and procedures and concluded these were being properly controlled and maintained.

7. TRUST FUND

A review of the trust bank account was performed to ensure that trust monies were correctly treated and that trust fund requirements of section 6.9 have been complied with. The only matters noted centred around the reconciliation of the trust bank account as discussed above, and specifically to the trust bank account below.

7.1 End of Month Bank Reconciliations Not at Calendar End**Observation**

During our review of the trust bank account reconciliations for the 2016/17 financial year, we noted that the end of month reconciliations for the months of January, February and March 2017 were not prepared as at the last day of the calendar month.

Implications

The end-of-month bank reconciliation is one of the end-of-month accounting processes undertaken along with the reconciliation of balance sheet accounts such as rates and sundry debtors, trade and other creditors, prepayments and the administration overhead and plant recovery journals before the month is closed. As the final month end figures are reported to Council in the financial activity statements, there is a risk that the financial information presented to Council may not be correct which could have an undesired impact upon the Council's decision making processes.

Recommendation

We recommend that the end-of-month trust bank account reconciliations be reconciled to the last calendar day of each month.

Risk Ranking: Low



Management Response

Management accept the above recommendation and will implement the necessary changes.

8. INVESTMENTS

A review of Council's investments and the operation of the investments register was performed to ensure that Council's surplus funds were being invested in accordance with Council's policy.

The overall testing was completed satisfactorily. The controls and procedures are considered to be operating effectively and are appropriate for Council's current scope of operations.

9. RECEIPTS and RECEIVABLES/DEBTORS

Detailed testing of a number of receipts, judgementally selected, was performed. This included tracing to individual receipt detail, bank deposits and the general ledger to ensure they were correctly allocated.

The debtors system, including raising of invoices, was reviewed and limited testing with respect to allocation and posting was performed.

The overall testing was completed satisfactorily. The controls and procedures are considered to be operating effectively and are appropriate for Council's current scope of operations.

10. PAYMENTS and PAYABLES/CREDITORS

A number of payments were judgementally selected and testing performed to determine whether purchases were authorised/budgeted and payments were supported, certified, authorised and correctly allocated.

The overall testing was completed satisfactorily. The controls and procedures are considered to be operating effectively and are appropriate for Council's current scope of operations with the following exceptions.

10.1 GST Treatment

Observation

We observed that the GST treatment when posting transactions was not correct in all instances. We noted an instance where GST had been incorrectly included in a payment for Strategic and Business Planning and the GST credit had not been claimed through the BAS.

**Implications**

Incorrectly recording the GST in payment transactions could impact the amount of GST input tax credits the Town is entitled to claim back from the Australian Taxation Office, (ATO).

Recommendation

We recommend that GST be correctly treated when posting transactions to accurately record the GST component in the Town's general ledger system and the correct amount be reported in the BAS to the ATO.

Risk Rating: Low

Management Response

Management accept the above recommendation and will implement the necessary changes.

11. PURCHASING

As part of our review we have looked at the adequacy of Council's purchasing policies and procedures and adherence to those policies and procedures. We noted the following exception in our review of purchases made by the Town.

11.1 Long Outstanding Purchase Orders**Observation**

We reviewed the listing of open purchase orders and made a selection of twenty to test. The selections made concentrated on purchase orders where the amount of the order currently outstanding did not agree to the amount outstanding per the creditor's invoice, or the orders that were raised over twelve months ago. The results of our enquiries revealed that nine orders that were cancelled as no longer required were still on the list of open purchase order and a further three of the orders were complete and had not been closed in the system. The remaining eight purchase orders were either standing orders or ongoing.

Implications

The risk is in the effectiveness of the purchase order system in achieving Council's purchasing and procurement objectives. The number of purchase orders which were cancelled but remained open in the system and the number of completed orders not cleared from the creditor listing after the creditor had been paid was excessive.

Recommendation

We recommend that you implement procedures to ensure completed orders are cleared from the creditors listing once the creditor has been paid and procedures to ensure that upon cancelling an order, it is removed from the system.

Risk Rating: Low

Management Response

Management accept the above recommendation and will implement the necessary changes.



12. CREDIT CARD PROCEDURES AND USE

As part of our review we have looked at the adequacy of Council's credit card policies and usage procedures and concluded these were being properly controlled and maintained with the following exception.

12.1 Treatment of Purchases by Telephone, Facsimile or over the Internet

Observation

The use of a corporate credit card to make purchases provides many benefits to Council when used correctly. To ensure that credit cards are used correctly Councils adopt a policy for their designated usage and implement controls to ensure adherence to that policy. The Department of Local Government and Communities provides operational Guidelines on the use of credit cards to ensure compliance with the provisions of the Local Government Act and Regulations. One of the policies and procedures governing the use of credit cards in the operational guidelines prescribes how purchases over the internet, telephone or facsimile are to be dealt with. During our review, and testing of adherence to Council's policy on Credit Card Usage we noted that credit cards were not to be used for any personal use, however the policy did not address how purchases made over the telephone, by fax or over the internet should be dealt with.

Implications

The requirements regarding a local government policy on the use of corporate credit cards may not be fully satisfied in the Town's current policy. This may make it more difficult to determine if any purchases made included any components of personal use.

Recommendation

We recommend that Council review its policy on use of corporate credit cards to ensure compliance with the operation guidelines from the Department of Local Government and Communities and ensure controls in place are effective in detecting whether any purchases include elements which are private use.

Risk Rating: Medium

Management Response

Management accept the above recommendation and will implement the necessary changes.

13. PAYROLL

13.1 Pay-run Review

A number of individual employees were selected and testing performed to ensure:

- Employee existed;
- Correct rate of pay per award or contract;
- Deduction authorities on hand;
- Valid Salary Sacrifice agreements maintained;
- Hours worked authorised;
- Allocation reasonable and correctly posted;
- Tax instalment deductions appeared reasonable; and



- Superannuation calculated and paid correctly.

The system described to us and its supporting controls were found to be operating effectively and are appropriate for Council's current scope of operations. However, we noted the following matter.

13.2 Staff with Large Accrued Balances in Provisions

Observation

During our review we noted that several members of staff have accumulated a large amount of entitlements in the provisions for annual and long service leave.

Implications

These entitlements require liabilities to be maintained on the balance sheet of Council which are excessive. This could have an impact on the cash flows of Council if the employees with high levels of accrued leave decide to take a large amount of their entitlement, or terminate their employment. Key personnel missing for large or important periods of time is an issue too.

Recommendation

We recommend that staff members are encouraged to take their accrued leave on a regular basis in order to keep the leave liability of the Council at a reasonable level and reduce the potential for an increase in business risk caused by having key personnel away for long periods or at crucial times.

Risk Rating: Low

Management Response

Management accept the above recommendation and will implement the necessary changes.

14. RATES

The Council's rating procedures were reviewed to ensure they were in compliance with requirements and that rates were being imposed correctly. This also included a review of the rate records, rate notices and valuation reconciliations. The controls and procedures are considered to be operating effectively and are appropriate for council's current scope of operations.

15. FEES and CHARGES

Council's handling of Fees and Charges were reviewed to ensure they were in compliance with requirements and that they were being imposed correctly.

Fees and Charges imposed at the time of the 2016/17 Annual Budget adoption were found to be imposed in accordance with legislative requirements.



16. COST ALLOCATIONS

As part of the review we assessed the adequacy of Cost Allocations through the general ledger. This involved detailed testing of a number of accounts within the general ledger, judgements selected, to ensure that the postings present in the accounts were valid and complete.

The overall testing was completed satisfactorily with costs being correctly allocated on a consistent basis throughout the year. The controls and procedures are considered to be operating effectively and are appropriate for Council's current scope of operations.

17. ADMINISTRATION ALLOCATIONS

Council is required to allocate costs associated with the administration of Council's operations across the various functions and activities of Council. The basis of this allocation and timeliness is included as part of this review. No issues were noted with administration allocations.

18. JOB COSTING

As part of our review we have assessed the adequacy of Council's job costing system. In particular we considered the following aspects:

- The structure of the job cost system and its suitability in meeting the needs of Council;
- Available expertise within Council in the use and maintenance of the job costing system;
- Reporting performed on the job cost system for management and Council;

The overall structure of Council's job costing system appears to be adequate and appears to cover the majority of Council's operations.

19. MINUTES and MEETINGS

Council meeting minutes and minutes of Committees established by Council were reviewed to ensure compliance with procedures and protocols.

Procedures and protocols surrounding meetings and the quality of minutes were found to be of a satisfactory standard and in accordance with legislative requirements with the following exceptions in regards to minutes published on the Town's website.

19.1 Minutes Not Signed on the Town's Website

Observation

During our review of Council meeting minutes relating to the 2015/16 and 2016/17 financial years it was noted that the minutes published on the Town's website were not copies signed by the person who presided over the meeting.

**Implications**

It is a legislative requirement that meeting minutes be signed as confirmed at the next meeting under section 5.22(3). The risk is non-compliance with the legislative requirements of the Local Government Act and Regulations and that a draft version of the minutes may be acted upon by the Council's ratepayers.

Recommendation

We recommend that you ensure minutes are signed as confirmed by the person presiding over the meeting at which the minutes were confirmed as evidence of confirmation and that the signed minutes be made available to the public for inspection, whether on-line from the Town's website or at Council chambers.

Risk Rating: Low

Management Response

Management accept the above recommendation and will implement the necessary changes.

19.2 Unconfirmed Minutes Not Clearly Identified As Being Unconfirmed**Observation**

During our review of Council meeting minutes relating to the 2015/16 and 2016/17 financial years it was noted that the minutes published on the Town's website at the conclusion of a meeting were not clearly identified as being confirmed or unconfirmed.

Implications

The risk is that a draft version of the minutes may be acted upon by the Council's ratepayers where the information or decisions made by Council could change before being confirmed at the subsequent meeting held.

Recommendation

We recommend that when Council meeting minutes are initially made available to the public for inspection on the Town's website that they be clearly named and marked as "Unconfirmed" such as with use of a watermark across each page. When the meeting minutes are confirmed at the next meeting, the unconfirmed minutes should be removed and replaced with the signed as confirmed version of the minutes.

Risk Rating: Low

Management Response

Management accept the above recommendation and will implement the necessary changes.



20. FINANCIAL REPORTS

The following reports were reviewed for compliance with legislative requirements:

- Annual Report;
- Annual Financial Report;
- Monthly Financial Activity Statements, and
- Specific financial reports required under other legislation.

These reports were found to be in compliance with legislative requirements and no matters were noted which we wish to bring to Councils attention. We would like to bring to Council's attention the following trends or issues identified.

20.1 Financial Ratios Below Basic Standard

Observation

We noted that for the financial ratio "Operating Surplus Ratio", as reported in Note 19 of the Town of East Fremantle annual financial report for the year ended 30 June 2016, Council failed to achieve the basic standard as set by the Department of Local Government. The ratio was noted as being negative for the financial year.

We noted that for the financial ratio "Asset Sustainability Ratio", as reported in Note 19 of the Town of East Fremantle annual financial report for the year ended 30 June 2016, Council failed to achieve the basic standard as set by the Department of Local Government.

Implications

The negative "Operating Surplus Ratio" indicates that the Town has recorded a deficit Net Result for the 2016 financial year. This implies that the ability of Council to cover its operating costs and have revenues available for capital funding or other purposes has been reduced. A sustained period of operating deficits will erode the Council's ability to maintain both its operational service level and asset base. The asset sustainability ratio being below the basic standard indicates that Council is not replacing or renewing existing non-financial assets at the same rate at which these assets are reaching the end of their useful lives and are wearing out.

Recommendation

We recommend that Council take the necessary actions to improve its financial performance and continue to closely monitor its results.

Risk Ranking: Low

Management Response

Management accept the above recommendation and will implement the necessary changes.



21. BUDGETS

We inspected the budget documentation for the year ending 30 June 2017 to ensure adoption and submission to the Department was in accordance with the requirements of the Local Government (Financial Management) Regulations. We also evaluated whether the surplus/deficit was within the limits set by section 6.34 of the Local Government Act 1995.

We confirm that adoption and submission to the Department was in accordance with the Regulations.

Overall, the 2016/17 Annual Budget met the minimum reporting requirements as per the legislation.

22. INTEGRATED PLANNING and REPORTING (Plan For The Future)

The following strategic and integrated planning documents were reviewed to ensure the Council satisfied the requirements of section 5.56 of the Local Government Act 1995 and Local Government (Administration) Regulations 19C and 19D:

- Strategic Community Plan;
- Corporate Business Plan;
- Long Term Financial Plan;
- Asset Management Plan; and
- Forward Capital Works Plan;

These documents appear to satisfy the requirements of the Regulations and meet the requirements of the Integrated Planning and Reporting Advisory Standard. No matters were noted which we wish to bring to Council's attention.

23. REGISTERS and DELEGATIONS

We reviewed the following registers:

- Register of Financial Interests;
- Annual and Primary Returns;
- Loan / Debenture Register;
- Delegations Register;
- Tenders Register;
- Gifts Register; and
- Complaints Register.

Overall, these registers were found to be well maintained and meeting legislative requirements with no exceptions.



24. GENERAL LEDGER CHART of ACCOUNTS

As part of our review we have considered the adequacy of Council's General Ledger Chart of Accounts (CA). In particular we have assessed the classification of the accounts within the balance sheet section of the CA. We have closely reviewed the use and application of 'Codes', "IE" numbers and "Job" codes within the income section of the CA for its ability to generate relevant and accurate reports to meet the requirements of the Town.

The overall structure of Council's CA would appear to be adequate and would appear to cover the majority of Council's operations as would be expected.

25. RECORDS KEEPING and STORAGE of DOCUMENTS and DATA

As part of our review we have assessed the adequacy of Council's records keeping and storage of documents and data. This included Council's record keeping policy. In particular we have considered the procedures and controls in place to protect the integrity and security of Council's information technology and important records and documentation, including the adequacy of Council's data backup system, both internal on-site and external off-site back-up and storage. We have assessed the on-line accounting data back-up and storage through the operating system provider and external provider of information technology data file and system management services.

The locked strong room was considered adequate and appropriate for the secure storage of Council's high priority records and important documents, however due to the renovations of the Town's offices being undertaken during our review, we noted that the strong room was not a fire proof room as is typically the case for storage of such documents. Personnel records are maintained in locked cabinets accessible by Human Resources staff only. The information technology environment and controls and procedures are considered to be operating effectively and are appropriate for Council's current scope of operations.

The overall records keeping and storage of Council's documents and data would appear to be adequate for Council's current scope of operations however we have the following matter which we wish to bring to Council's attention.

25.1 Disaster Recovery and Business Continuity Plan

Observation

While we noted that adequate systems were in place for the recovery of the Town's accounting and data if lost, there did not appear to be a formal documented plan in place to follow if a catastrophic event were to occur resulting in disruption to normal business operations to maintain essential services through the disaster recovery period and re-establish services and operations as quickly as possible to minimise the effect on the community, staff and Council.

Implications

Council would not be able to manage a disaster in an effective and systematic way to ensure recovery is achieved in the shortest possible time. Council may be unable to maintain essential services through the disaster recovery periods and re-establish operations as quickly and efficiently as possible. The effects of the disaster on the community, staff,



contractors, volunteers and Council may not be minimised. Council may not be adequately managing business disruption risk as part of its risk management.

Recommendation

We recommend that Council consider a policy and plan which aims to provide a mechanism for the development of contingent capacity and plans that will enable management to focus on maintaining and resuming the Town's most critical functions; whilst working in a planned way toward eventual restoration of operations and ensuring unaffected operations are able to continue.

Risk Ranking: High

Management Response

Management accept the above recommendation and will implement the necessary changes.

26. INSURANCE

As part of our review we have considered the adequacy of Council's insurance cover and whether it is exposed to unprotected risks. From our review of the Council's schedule of insurance policies and the level of protection insured for, we are satisfied the cover is adequate for the assets of the Council and its exposure to risk. No matters were noted which we wish to bring to Council's attention.

The above review of the adequacy of Council's insurance to protect it from known elements of risk is just an opinion in regards to the financial management of Council's operations. It is not to be considered the provision of financial advice or insurance advice.

27. AUDIT COMMITTEE

We have reviewed the appointment, functions and responsibilities of the Town's Audit Committee to ensure the requirements of the Local Government Act and Regulations have been complied with and Department of Local Government operational guidelines have been followed.

All legislative requirements with regard to audit committee membership, its operations and its role in supporting Council in fulfilling its governance and oversight responsibilities in financial management were found to have been satisfied. We would like to bring to Council's attention the following issue identified.

27.1 Local Government Audit Regulation 17

Observation

The reports provided to the Audit Committee included the results of the review by the CEO under Local Government (Audit) Regulation 17(3) of the appropriateness and effectiveness of the Town's systems and procedures in relation to risk management, internal control, legislative compliance and, reports from the Town's insurers, LGIS, on risk management governance framework and risk assessment. The review found that the Town did not have an effective risk management system in place. A draft Risk Management Policy and Risk Management Procedures was provided by LGIS. The LGIS risk profile and assessment



identified the following areas where the existing overall controls were inadequate in managing the risks identified:

- a) Asset sustainability practices;
- b) Business and community disruption;
- c) Management of facilities, venues and events;
- d) Document management processes;
- e) Employment practices; and
- f) Safety and security practices.

In addition, specific controls were identified as being inadequate within risk areas where overall controls were considered to be adequate.

Implications

By not considering and possibly acting on the issues identified, the Audit Committee may not adequately monitor and review Council's financial management of the Town's resources and provide oversight of the risk and control environment to enable effective decision making. This could impact the achievement of the Town's goals and objectives, its resilience and achievement of effective corporate governance.

Recommendation

We recommend that in order to fulfil the Audit Committee's governance and oversight responsibilities controls be implemented to effectively manage the risk for each of the six risk areas identified in the LGIS risk assessment report.

Risk Ranking: High

Management Response

Management accept the above recommendation and will implement the necessary changes.

- 9. MATTERS BEHIND CLOSED DOORS**
- 10. CLOSURE OF MEETING**