



COMMERCIAL IN CONFIDENCE

Financial Management Review Report

Shire of Merredin

December 2023



# Contents

1.0	Engagement Overview .....	1
2.0	Review Summary.....	2
3.0	Methodology and Framework .....	3
4.0	Framework Design.....	4
5.0	Review Result.....	5
6.0	Other Matters .....	21
	Appendix A – Improvements Identified.....	22

# 1.0 Engagement Overview

## 1.1 Scope of Services

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

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

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

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

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

## 2.0 Review Summary

### 2.1 Financial Management System

The Shire has a number of financial management system controls to cover the wide variety of operations undertaken. Council has responsibility for the adoption of the annual budget and annual report, review of the monthly statement of financial activity and review of the monthly list of payments. Responsibility for the financial management of the Shire rests with the CEO, as detailed under the *Local Government (Financial Management) Regulations 1996* Regulation 5(1).

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

#### 2.1.1 Appropriateness

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

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

#### 2.1.2 Effectiveness

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

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

#### 2.1.3 Improvements

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

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

## 3.0 Methodology and Framework

### 3.1 Review Methodology – Financial Management Review

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

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

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

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

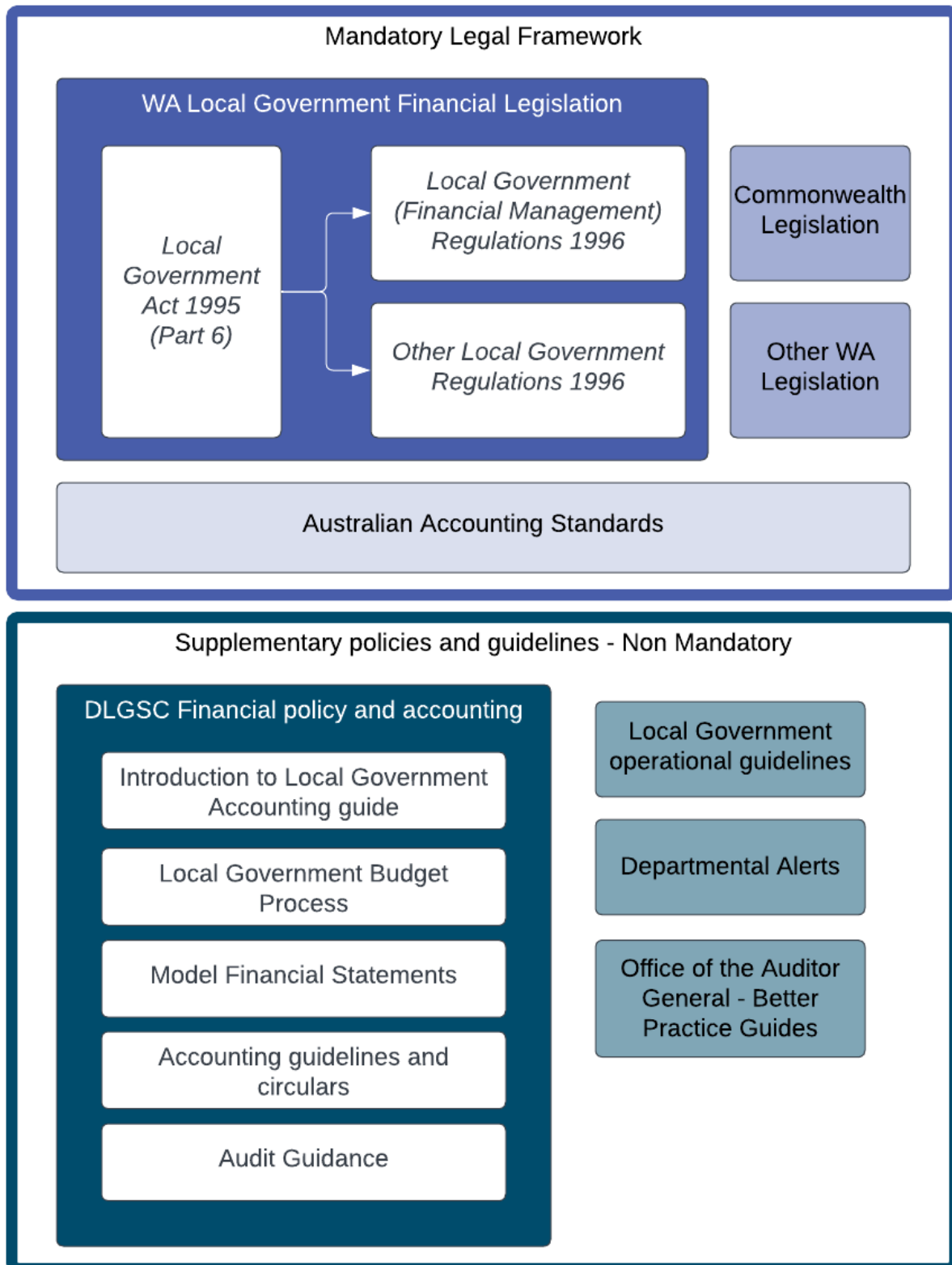
The consulting services to assist the CEO to undertake the financial management review does not examine systems and procedures which are non-financial in nature and did not specifically test for legislative breaches, fraud or error.

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

## 4.0 Framework Design

### 4.1 Financial Management Framework

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



## 5.0 Review Result

### 5.1 Review Context - Shire of Merredin

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

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

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

### 5.2 Local Government Internal Financial Management Framework

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

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

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

## 5.0 Review Result (continued)

### 5.3 Financial Management System Review

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

System	Description	Matters identified
1. Bank reconciliations	Examination of procedures and review of maintenance and management practices undertaken by staff.	<p>Weaknesses were identified with bank reconciliations relating to the municipal account. Whilst bank reconciliations are routinely performed and independently reviewed, municipal account reconciliations are performed through the Enterprise Resource Planning (ERP) system and manual reconciliation systems are utilised for reserve and trust accounts. Our testing noted documentation for manual bank reconciliations include municipal account details which are not updated each month, as reliance is placed on the ERP bank reconciliation for municipal accounts. This results in inaccuracy of the information recorded in the manual reconciliation documents in that they do not agree to the general ledger, but are still signed as being true and correct. Bank reconciliations are a key control and any untimely, inaccurate, or non-reconciled bank accounts are considered a high risk to an organisation.</p> <p><b>Improvement:</b></p> <p>Review systems and processes for the timely and accurate completion and review of bank reconciliations to reflect current practices for each bank account. Maintain current practices evidencing timing, independent preparation and review of bank reconciliations.</p>
2. Trust funds	Examination of trust funds to determine proper accountability in the Shire's financial management system and compliance with regulatory requirements.	No matters noted.
3. Receipts and receivables	Examination of end of day banking procedures to determine if they were adequate in ensuring cash collection is being recorded and allocated properly to the general ledger. The receivables system including raising of invoices was also reviewed with limited testing in respect to allocation/posting.	<p>During limited testing we identified an instance where the debtors reconciliation was not completed and signed prior to completion of the monthly financial report.</p> <p><b>Improvement:</b></p> <p>Develop checklists and procedures to demonstrate appropriate controls and reviews are in place when preparing monthly financial reports to assist with accuracy of information being presented for Council consideration.</p>



## 5.0 Review Result (continued)

System	Description	Matters identified
Receipts and receivables (continued)		<p>We observed limited formalised processes and weaknesses in controls in relation to the raising of credit notes for sundry debtors. Where a single individual is responsible for or involved in multiple stages of various processes, there is an increased risk and opportunity for error or misconduct.</p> <p><b>Improvement:</b></p> <p>Appropriate segregation of duties relating to processes for sundry debtors credit notes should exist. If circumstances prevent the full segregation of duties, then procedures and conditions should exist to demonstrate alternate controls in place to reduce associated risks.</p>
4. Rates	<p>The Shire's rating procedures were examined to determine if they were adequate in ensuring rates were being imposed or raised correctly. This also included inspection of the rate record, rate notices, instalment notices, valuation reconciliations and general ledger. We randomly selected and tested rate notices which included:</p> <ul style="list-style-type: none"> <li>• sighting the notices;</li> <li>• re-performing the calculations;</li> <li>• ascertaining whether the valuations applied agree to Landgate's valuation roll/report and rates per dollar imposed are as per adopted budget;</li> <li>• ensuring the rate system is properly updated; and</li> <li>• checking proper posting to the general ledger.</li> </ul>	<p>The 2022-23 rate notice and the 2022-23 information accompanying the rate notice did not include a brief statement of the objects/reasons for imposing differential rates, differential minimums and service charges as required by the <i>Local Government (Financial Management) Regulations 1996</i>.</p> <p><b>Improvement:</b></p> <p>Ensure future rate notices and accompanying information bulletin contain a statement of the objects and reasons for the imposition of general rates as required by <i>Local Government (Financial Management) Regulations 1996</i> regulation 56.</p>

## 5.0 Review Result (continued)

System	Description	Matters identified
5. Purchases, payments and payables (including purchase orders)	<p>Random selection of payment transactions to determine whether purchases were authorised/budgeted and payments were supported, certified/authorised and correctly allocated. The Shire's purchases, payments and payables system was also examined to determine if adequate controls were in place in ensuring liabilities are properly recorded and payments are properly controlled.</p> <p>We are aware of many incidents of payment scams/frauds within the local government industry during recent years. As a consequence of this activity, we have had a specific focus on the controls around the changes to supplier details within the EFT payment system.</p>	<p>The month end reconciliation of the detailed payables listing to the general ledger was not dated in one instance and in two instances the reconciliation was dated after the monthly financial report had been completed.</p> <hr/> <p><b>Improvement:</b></p> <p>Policies and procedures should require for completion of key reconciliations prior to completion of the monthly financial report.</p> <hr/> <p>Controls relating to the approval of purchase orders may be inadequate, whereby permissions for the authorisation/approval of purchase orders may not be appropriately segregated.</p> <hr/> <p><b>Improvement:</b></p> <p>Appropriate segregation of duties relating to the requisitioning, receipting of goods and services, approval and authorisation of procurement related activities should exist. If circumstances prevent the full segregation of duties, then procedures and conditions within the delegation should exist to demonstrate alternate controls in place to reduce associated risks.</p> <hr/> <p>Two instances were identified during testing of a small sample of payments where the purchase order was not available for our inspection for goods received and paid for.</p> <hr/> <p><b>Improvement:</b></p> <p>All procurement of goods and/or services should be undertaken in accordance with legislative requirements, the adopted purchasing policy and approved procedures. Provide training for procurement officers to help ensure they understand procurement procedures and the importance of following them.</p>

## 5.0 Review Result (continued)

System	Description	Matters identified
6. Payroll	<p>A sample of employees were randomly selected from different pay runs and detailed testing of each employee's pay was performed to help ensure:</p> <ul style="list-style-type: none"> <li>• the employee existed;</li> <li>• the correct rate of pay was used;</li> <li>• non-statutory deduction authorities are on hand;</li> <li>• timesheets were properly completed and authorised;</li> <li>• hours worked were properly authorised; and</li> <li>• allocations were reasonable and correctly posted.</li> </ul> <p>The Shire's payroll system was also reviewed to determine if adequate controls were in place to help ensure wages and salaries are properly processed and payments are properly controlled.</p>	<p>We noted access to the ABA file from the time of generation to the time of upload to the bank is not adequately restricted, with a limited verification process undertaken to ensure the ABA file is unmodified when uploaded to the bank. This presents a risk where fraudulent manipulation of the ABA file may occur.</p> <hr/> <p><b>Improvement:</b></p> <p>Improve controls to minimise the risk of electronic banking details being fraudulently manipulated through secure storage of ABA banking files. Controls should exist to restrict access to these files, and to detect and prevent any unauthorised changes being made.</p> <hr/> <p>Review of monthly payroll reconciliations noted imbalances between the payroll module and salaries and wages control account in August 2022, September 2022 and November 2022.</p> <hr/> <p><b>Improvement:</b></p> <p>Controls were in place to detect these occurrences, which was also reported as soon as the issue was noted. Records were maintained to support the reasons for imbalances and remedial action. These controls and practices are strongly encouraged to continue.</p>

## 5.0 Review Result (continued)

System	Description	Matters identified
7. Corporate transaction card procedures	<p>A review of the Shire's corporate transaction card procedures was performed to determine if adequate controls were in place. We randomly selected and tested credit card transactions to determine whether they are legitimate and usual in the context of the Shire's operations. This included:</p> <ul style="list-style-type: none"> <li>• sighting tax invoices;</li> <li>• ascertaining whether the transaction is for bona fide Shire business; and</li> <li>• determining whether transactions are in line with the Shire's policy.</li> </ul>	<p>Agreements for all credit and transaction card holders were not available for our review. Management representations indicate these are in place for all recent and new card holders but historically have not been required.</p> <hr/> <p><b>Improvement:</b></p> <p>Ensure agreements are signed by all credit and transaction card holders, including all current cardholders who have not previously signed an agreement, setting out cardholder responsibilities and legal obligations when using Shire credit and transaction cards.</p> <hr/> <p>Credit card reconciliations are not required to be completed prior to the monthly direct debit being deducted from the Shire's bank account. This may delay the detection of unauthorised or erroneous transactions by staff responsible for processing transactions.</p> <hr/> <p><b>Improvement:</b></p> <p>Update procedures to require cardholders to review and certify expenses incurred on their credit and / or transactions cards each month, prior to monthly direct debits occurring from the Shire's bank account. These should subsequently be reviewed by an independent, more senior member of staff.</p>

## 5.0 Review Result (continued)

System	Description	Matters identified
8. Fixed assets (including depreciation, acquisition, and disposal of property)	<p>The fixed assets system including controls over acquisition and disposal of assets, updating of the fixed assets register, depreciation of fixed assets and reconciliation of the fixed assets register to the general ledger was examined. A sample of asset additions and disposals were judgmentally selected, and testing performed to ensure:</p> <ul style="list-style-type: none"> <li>• the tax invoices existed;</li> <li>• correct posting to the general ledger;</li> <li>• fixed assets register was promptly updated; and</li> <li>• classification of assets was correct.</li> </ul> <p>In addition, a random sample of assets were judgmentally selected and testing performed to ensure the depreciation rates used are in line with the Shire's key accounting information requirements.</p>	<p>Review of monthly reconciliations between the general ledger and the fixed asset register available for our review highlighted reconciliations relating July 2022 to December 2022 were not undertaken until February 2023. We acknowledge management's position of not rolling over the fixed asset module until completion of and sign off of the 2021-22 annual audit.</p> <hr/> <p><b>Improvement:</b></p> <p>As fixed asset expenditure is one of the largest expenditure items it is important to ensure controls in relation to this expenditure are kept up to date. Where system related issues prevent standard controls being implemented, alternative controls should be developed and implemented. Should transactions such as disposal of assets or charging of depreciation not be undertaken and these have a material impact on the monthly statement of financial activity, we suggest attention be drawn to the issue within the monthly report.</p> <hr/> <p>Our testing noted instances where assets were not being depreciated in accordance with budgeted key accounting information requirements.</p> <hr/> <p><b>Improvement:</b></p> <p>Undertake a review of and update the asset register to ensure asset depreciation details correlate with the Shire's key accounting information requirements. Improve procedures and controls for updating the asset register, including review and authorisation by an independent officer.</p>

## 5.0 Review Result (continued)

System	Description	Matters identified
9. Cost and administration allocation	The Shire's cost and administration allocation system was examined to determine if indirect costs have been properly reallocated to various jobs/programs. This included review of the allocation basis and rates used to ensure they are appropriate and regularly reviewed.	<p>We note administration overheads are allocated into public works overheads. Whilst this is generally acceptable, the on allocation of the public works overheads to capital projects results in the capitalisation of administration overheads. AASB 116 <i>Property, plant and equipment</i> does not allow for the inclusion of administration costs as part of the cost of property, plant or equipment.</p> <hr/> <p><b>Improvement:</b></p> <p>Routine reviews of cost reallocations should be undertaken to ensure cost reallocations are appropriate and administrations costs are not being indirectly capitalised as property, plant and equipment.</p> <hr/> <p>We note administration overheads, plant operating costs and public works overheads were all under-allocated during the period reviewed. These under allocations may result in significant over expenditure on capital projects.</p> <hr/> <p><b>Improvement:</b></p> <p>Undertake a review of activity based costings to support calculation of rates being applied. Implement procedures to routinely review and monitor cost reallocations and document any reasons for under or over allocations.</p>

## 5.0 Review Result (continued)

System	Description	Matters identified
10. Financial reports controls	The format of the annual report, annual financial report and monthly financial reports were reviewed for compliance with legislative requirements.	<p>The 2021-22 annual report has omitted some information required by legislation. The <i>State Records Act 2000</i> requires the annual report to provide information relating to:</p> <ul style="list-style-type: none"> <li>• The efficiency and effectiveness of the organisation's record keeping systems is evaluated not less than once every 5 years;</li> <li>• The organisation conducts a record keeping training program;</li> <li>• The efficiency and effectiveness of the record keeping training program is reviewed from time to time; and</li> <li>• The organisation induction program addresses employee roles and responsibilities in regard to their compliance with the organisation's record keeping plan.</li> </ul> <p>A copy of the auditors report is also required by section 5.53 (2) (h) of the <i>Local Government Act 1995</i> to be included within the annual report.</p> <p>It was also noted the annual report refers to FOI applications received in the reporting period (0) but does not include a statement relating to the process to apply for information under the <i>Freedom of Information Act 1992</i>.</p> <hr/> <p><b>Improvement:</b></p> <p>Ensure future annual reports include all information required by legislation.</p> <hr/> <p>The monthly list of payments paid by delegated authority for January 2023 was presented to Council for consideration, but was not published in the minutes of the meeting as required by legislation.</p> <hr/> <p><b>Improvement:</b></p> <p>Update systems and controls to ensure the list of payments paid by delegated authority, is included the published minutes of Council meetings as required by legislation.</p>

## 5.0 Review Result (continued)

System	Description	Matters identified
11. Budget and budget review	The 2022-23 budget document and documents surrounding budget adoption were reviewed to ensure compliance with regulatory requirements.	No matters noted.
12. Borrowings	Reconciliation of borrowings to the WATC loan schedules were examined.	<p>Procedures for the reconciliation of borrowings are not formalised and are generally only performed annually for end of year financial reporting.</p> <p><b>Improvement:</b></p> <p>Implement procedures to ensure the loan balances are routinely reconciled. This is particularly important in preparation of the Annual Budget, to ensure loan repayments are budgeted for appropriately.</p>
13. Inventory	Inventory reconciliations and stock take procedures were examined.	<p>A manual correction to stock was required during the period under review to allocate a stock imbalance. The reconciliation of physical stock to the general ledger is performed annually, which does not appear to be adequate to detect instances where stock may be allocated inappropriately or erroneously. Periodic and routine stocktakes should be performed along with a reconciliation process to monitor usage.</p> <p><b>Improvement:</b></p> <p>A risk based review should be undertaken to determine the frequency of required stocktakes and reconciliations for stock on hand. Timely reconciliation of stock and fuel usage and monitoring of fuel usage per vehicle is an important control to help minimise fuel shrinkage and any issues or potential misuse with stock allocations in a timely manner. Where system issues impacting controls are identified, alternative controls should be established. Progression of the implementation of preventative measures to assist with the review of security and access to stock held is encouraged.</p>



## 5.0 Review Result (continued)

System	Description	Matters identified
14. General journals	Random selection of general journals to determine whether journals were supported and certified/authorised. The Shire's general journal system was also examined to determine if adequate controls were in place to ensure journals are properly recorded and controlled.	<p>Although we noted some informal controls in place, there are limited documented internal control procedures for general journals. No general audit trail is currently produced to ensure no unauthorised journals have been posted.</p> <p><b>Improvement:</b></p> <p>Document internal controls to ensure journal requests initiated are reviewed and approved / authorised prior to posting by an appropriate officer, the practice of independent review is consistently maintained, and evidence of review routinely applied. A monthly journal audit trail report should be produced and independently reviewed and confirmed to previously approved journals, prior to preparation of the monthly statement of financial activity.</p>
15. Investments	A review of cash investments to ensure appropriate controls are in place to monitor, record and manage the Shire investments.	<p>An investment register was available for our review but does not evidence or support the register being routinely reviewed by a more senior officer independent of preparation of routine updates.</p> <p><b>Improvement:</b></p> <p>Recording the nature and location of all investments and related transactions is required by Regulation 19 (2) of the <i>Local Government (Financial Management) Regulations 1996</i>. Tracing of funds on maturity of investments is essential and record of where funds are transferred and who authorised the transfer should be maintained within the register. Maintaining printed copies of the investment register, reviewed and authorised by a senior manager, independent of the control of the investments, prevents subsequent amendment to the register.</p>
16. Insurance	An insurance process review is undertaken to ensure appropriate consideration of insurance coverage is undertaken.	No matters noted.
17. Records	Record keeping systems are reviewed to ensure the capture, storage, monitoring and disposal of financial records are appropriate and regularly reviewed.	No matters noted.

## 5.0 Review Result (continued)

System	Description	Matters identified
18. IT system	Review of IT systems, processes, and procedures to ensure adequate mechanisms to monitor, manage, and test IT systems and controls that are critical to the Shire's financial management are in place.	<p>An ICT Strategic Plan highlighting and addressing ICT risks and how they are to be addressed was not available for inspection.</p> <hr/> <p><b>Improvement:</b></p> <p>Develop an ICT Strategic Plan, identifying and documenting key ICT risks, along with the treatments to reduce the risk to an acceptable level. Utilise the strategy to assist in considering the risks of utilising external IT providers, and to assist in developing a scope to articulate service level agreements for a range of IT services to be potentially issued to different providers. Consider implementation of routine review and verification of skills, competencies, qualifications and experience for IT service providers.</p> <hr/> <p>A Business Continuity Plan was prepared in 2018 and reviewed in September 2023 however there was no evidence of the plan being tested to ensure its validity. The overall plan requires biennial testing / review, which may not be frequent enough to maintain currency in the application of the plan.</p> <hr/> <p><b>Improvement:</b></p> <p>Test the revised Business Continuity Plan to ensure its validity, including validity of any documented key business continuity risks along with the treatments. Ensure risk treatments are consolidated with overarching risk management activities.</p>

## 5.0 Review Result (continued)

System	Description	Matters identified
19. Statutory Registers	Review of relevant statutory registers which are related to financial management systems and controls. The tender interest, financial interest and delegations registers for compliance with relevant legislation.	<p>Inspection of the tender register noted it was not compliant with some requirements of the <i>Local Government (Functions and General) Regulations 1996</i> as it did not record all detail required by regulation 16 &amp; 17.</p> <hr/> <p><b>Improvement:</b></p> <p>Update procedures to ensure the tender register is maintained to record details for each invitation to tender as provided by Regulation 16 &amp; 17 of the <i>Local Government (Functions and General) Regulations 1996</i>. Where tenders are cancelled or not awarded the tender register should be updated and maintained accordingly.</p> <hr/> <p>At the time of our review, an up to date version of the tender register had not been published on the official local government website as required by regulation 17 of the <i>Local Government (Functions and General) Regulations 1996</i>.</p> <hr/> <p><b>Improvement:</b></p> <p>Publish the tender register on the official local government website as required by legislation.</p> <hr/> <p>In the course of our review, we noted a primary return had not been completed by a relevant person within the period required by legislation. This was identified by management through completion of the annual compliance audit return.</p> <hr/> <p><b>Improvement:</b></p> <p>Ensure systems and procedures are in place to obtain all returns required under the <i>Local Government Act 1995</i> and within required timeframes. Procedures should provide to undertake necessary actions to rectify and report non compliances as required by legislation.</p>
20. Policy review	Selected Shire financial management policies are reviewed for appropriateness and effectiveness in ensuring compliance with relevant legislation and appropriateness in providing strategic direction.	<p>Investment Policy 3.5 requires an annual review on the suitability and compliance of the policy reported to Council. We did not observe evidence of this occurring.</p> <hr/> <p><b>Improvement:</b></p> <p>Ensure processes and systems are in place for the review of policy 3.5 and all policies in line with policy requirements. Alternatively amend the review timeframe to align with organisational requirements.</p>

## 5.0 Review Result (continued)

System	Description	Matters identified
Policy Review (continued)		<p>Purchasing Policy 3.12 includes a supplier order of priority within the policy to be applied when undertaking purchasing activities, which does not adequately consider risks, probity and good governance. These principles should apply when undertaking procurement activities, including consideration toward obtaining competitive quotations through testing the market based on individual circumstances for all purchases.</p> <p>The policy also makes reference to pre-qualified suppliers and instances where prequalified suppliers are to be given priority for purchasing activities which may cause confusion for users of the policy. The Shire do not have a separate policy relating to pre-qualified suppliers, and entering into such an arrangement may not comply with legislation.</p> <p>Purchasing requirements for procurement of goods or services in accordance with the exemptions under <i>Local Government (Functions and General) Regulations 1996</i> Regulation 11(2), are not consistent within the policy. The CEO is required to ensure controls exist for all purchases including those made using these exemptions. It is noted the practice of testing the market through sourcing multiple quotations when using the exemptions is often occurring, and the policy should be updated to reflect the expectation and requirement, regardless of whether the quotations are being sought from pre-qualified suppliers, exempt providers or other suppliers.</p> <p>Authorisation for a sole source of supply arrangement considered under the policy is not defined, and system requirements to evidence market testing are not sufficiently detailed in the policy.</p>

## 5.0 Review Result (continued)

System	Description	Matters identified
Policy Review (continued)		<p data-bbox="914 300 1075 329"><b>Improvement:</b></p> <p data-bbox="914 333 1425 362">Amend Policy 3.12 to provide the following:</p> <ul data-bbox="962 371 1441 1003" style="list-style-type: none"> <li data-bbox="962 371 1441 495">• Update references to panels of pre-qualified suppliers where confusion may result in executing policy requirements;</li> <li data-bbox="962 504 1441 779">• Amend purchasing requirements for procurement of goods or services to be consistent regardless of where the quotations are being sought from, including those made under the exemptions under <i>Local Government (Functions and General) Regulations 1996</i> Regulation 11(2);</li> <li data-bbox="962 788 1441 848">• Remove the supplier order of priority; and</li> <li data-bbox="962 857 1441 1003">• Require CEO approval under sole source of supply arrangements, and to reference the risks and control environment where considering these arrangements.</li> </ul> <hr/> <p data-bbox="914 1021 1441 1234">Credit Card Policy 3.22 does not provide for controls for purchases made with transaction cards other than credit cards, eg. fuel cards, store cards etc. and does not require user agreements to be established setting out cardholder responsibilities and obligations.</p> <hr/> <p data-bbox="914 1252 1075 1281"><b>Improvement:</b></p> <p data-bbox="914 1290 1441 1527">Consider review of policy 3.22 to encompass a broader title and scope for corporate transaction cards (including credit cards, fuel cards, debit cards etc.). Procedures should be in place to support the policy, procurement systems and robust controls prior to payment being deducted for corporate transaction cards.</p>

## 5.0 Review Result (continued)

System	Description	Matters identified
Policy Review (continued)		<p>We noted some policies relating to asset accounting are formalised as Council policies (e.g. Policy 3.20 &amp; 3.31). Formalisation of policies relating to asset accounting may result in a conflict with the Australian Accounting Standards. To avoid conflict with the standards and legislation, the policy should not include legislative and standards requirements and should enhance these requirements or provide a policy decision where an accounting standard allows a policy choice.</p> <hr/> <p><b>Improvement:</b> To avoid conflict with the standards and legislation the policy should not include legislative and standards requirements and should enhance these requirements or provide a policy decision where an accounting standard allows a policy choice. Consider rescinding the policy and adopt accounting policies / key accounting information annually within the Annual Statutory budget.</p> <hr/> <p>Some policies contain specific detail relating to legislation and other external references. This practice may result in conflict between the policy and legislation or guidance in the instance of a change in legislation, guidance, or other external references.</p> <hr/> <p><b>Improvement:</b> Update policies to remove specific and / or detailed references to legislation and other external references to assist with appropriate alignment and consistency in Council policies is maintained.</p> <hr/> <p>We noted some policies which may include detail considered to be operational in nature. Council policies are not necessarily intended to provide direction on how different operational functions are to be executed as these are the responsibility of the CEO.</p> <hr/> <p><b>Improvement:</b> Review and update policies to consider the appropriate separation of the roles of the council and the CEO. Any review and update of policies to articulate the strategic direction of Council, particularly where legislation does not provide such direction.</p>

## 6.0 Other Matters

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### Document control

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## Appendix A – Improvements Identified

System	Improvement	Planned / Prioritised Action Required
1. Bank Reconciliations	Review systems and processes for the timely and accurate completion and review of bank reconciliations to reflect current practices for each bank account. Maintain current practices evidencing timing, independent preparation and review of bank reconciliations.	Prioritised
3. Receipts and receivables	Develop checklists and procedures to demonstrate appropriate controls and reviews are in place when preparing monthly financial reports to assist with accuracy of information being presented for Council consideration.	Planned
	Appropriate segregation of duties relating to processes for sundry debtors credit notes should exist. If circumstances prevent the full segregation of duties, then procedures and conditions should exist to demonstrate alternate controls in place to reduce associated risks.	Prioritised
4. Rates	Develop checklists and procedures to demonstrate appropriate controls and reviews are in place when preparing monthly financial reports to assist with accuracy of information being presented for Council consideration.	Planned
5. Purchases, payments and payables (including purchase orders)	Policies and procedures should require for completion of key reconciliations prior to completion of the monthly financial report.	Planned
	Appropriate segregation of duties relating to the requisitioning, receipting of goods and services, approval and authorisation of procurement related activities should exist. If circumstances prevent the full segregation of duties, then procedures and conditions within the delegation should exist to demonstrate alternate controls in place to reduce associated risks.	Prioritised
	All procurement of goods and/or services should be undertaken in accordance with legislative requirements, the adopted purchasing policy and approved procedures. Provide training for procurement officers to help ensure they understand procurement procedures and the importance of following them.	Prioritised
6. Payroll	Improve controls to minimise the risk of electronic banking details being fraudulently manipulated through secure storage of ABA banking files. Controls should exist to restrict access to these files, and to detect and prevent any unauthorised changes being made.	Prioritised
	Controls were in place to detect these occurrences, which was also reported as soon as the issue was noted. Records were maintained to support the reasons for imbalances and remedial action. These controls and practices are strongly encouraged to continue.	Planned
7. Corporate transaction card procedures	Ensure agreements are signed by all credit and transaction card holders, including all current cardholders who have not previously signed an agreement, setting out cardholder responsibilities and legal obligations when using Shire credit and transaction cards.	Planned
	Update procedures to require cardholders to review and certify expenses incurred on their credit and / or transactions cards each month, prior to monthly direct debits occurring from the Shire's bank account. These should subsequently be reviewed by an independent, more senior member of staff.	Planned



## Appendix A – Improvements Identified

System	Improvement	Planned / Prioritised Action Required
8. Fixed assets (including depreciation, acquisition, and disposal of property)	As fixed asset expenditure is one of the largest expenditure items it is important to ensure controls in relation to this expenditure are kept up to date. Where system related issues prevent standard controls being implemented, alternative controls should be developed and implemented. Should transactions such as disposal of assets or charging of depreciation not be undertaken and these have a material impact on the monthly statement of financial activity, we suggest attention be drawn to the issue within the monthly report.	Planned
	Undertake a review of and update the asset register to ensure asset depreciation details correlate with the Shire's key accounting information requirements. Improve procedures and controls for updating the asset register, including review and authorisation by an independent officer.	Prioritised
9. Cost and administration allocation	Routine reviews of cost reallocations should be undertaken to ensure cost reallocations are appropriate and administrations costs are not being indirectly capitalised as property, plant and equipment.	Planned
	Undertake a review of activity based costings to support calculation of rates being applied. Implement procedures to routinely review and monitor cost reallocations and document any reasons for under or over allocations.	Prioritised
10. Financial reports controls	Ensure future annual reports include all information required by legislation.	Planned
	Update systems and controls to ensure the list of payments paid by delegated authority, is included the published minutes of Council meetings as required by legislation.	Planned
12. Borrowings	Implement procedures to ensure the loan balances are routinely reconciled. This is particularly important in preparation of the Annual Budget, to ensure loan repayments are budgeted for appropriately.	Planned
13. Inventory	A risk based review should be undertaken to determine the frequency of required stocktakes and reconciliations for stock on hand. Timely reconciliation of stock and fuel usage and monitoring of fuel usage per vehicle is an important control to help minimise fuel shrinkage and any issues or potential misuse with stock allocations in a timely manner. Where system issues impacting controls are identified, alternative controls should be established. Progression of the implementation of preventative measures to assist with the review of security and access to stock held is encouraged.	Prioritised
14. General journals	Document internal controls to ensure journal requests initiated are reviewed and approved / authorised prior to posting by an appropriate officer, the practice of independent review is consistently maintained, and evidence of review routinely applied. A monthly journal audit trail report should be produced and independently reviewed and confirmed to previously approved journals, prior to preparation of the monthly statement of financial activity.	Prioritised

## Appendix A – Improvements Identified

System	Improvement	Planned / Prioritised Action Required
15. Investments	Recording the nature and location of all investments and related transactions is required by Regulation 19 (2) of the <i>Local Government (Financial Management) Regulations 1996</i> . Tracing of funds on maturity of investments is essential and record of where funds are transferred and who authorised the transfer should be maintained within the register. Maintaining printed copies of the investment register, reviewed and authorised by a senior manager, independent of the control of the investments, prevents subsequent amendment to the register.	Planned
18. IT system	Develop an ICT Strategic Plan, identifying and documenting key ICT risks, along with the treatments to reduce the risk to an acceptable level. Utilise the strategy to assist in considering the risks of utilising external IT providers, and to assist in developing a scope to articulate service level agreements for a range of IT services to be potentially issued to different providers. Consider implementation of routine review and verification of skills, competencies, qualifications and experience for IT service providers.	Planned
	Test the revised Business Continuity Plan to ensure its validity, including validity of any documented key business continuity risks along with the treatments. Ensure risk treatments are consolidated with overarching risk management activities.	Planned
19. Statutory registers	Update procedures to ensure the tender register is maintained to record details for each invitation to tender as provided by Regulation 16 & 17 of the <i>Local Government (Functions and General) Regulations 1996</i> . Where tenders are cancelled or not awarded the tender register should be updated and maintained accordingly.	Planned
	Publish the tender register on the official local government website as required by legislation.	Planned
	Ensure systems and procedures are in place to obtain all returns required under the <i>Local Government Act 1995</i> and within required timeframes. Procedures should provide to undertake necessary actions to rectify and report non compliances as required by legislation.	Planned
20. Policy review	Ensure processes and systems are in place for the review of policy 3.5 and all policies in line with policy requirements. Alternatively amend the review timeframe to align with organisational requirements.	Planned
	Amend Policy 3.12 to provide the following: <ul style="list-style-type: none"> <li>• Update references to panels of pre-qualified suppliers where confusion may result in executing policy requirements;</li> <li>• Amend purchasing requirements for procurement of goods or services to be consistent regardless of where the quotations are being sought from, including those made under the exemptions under <i>Local Government (Functions and General) Regulations 1996</i> Regulation 11(2);</li> <li>• Remove the supplier order of priority; and</li> </ul> Require CEO approval under sole source of supply arrangements, and to reference the risks and control environment where considering these arrangements.	Prioritised

## Appendix A – Improvements Identified

System	Improvement	Planned / Prioritised Action Required
20. Policy review (continued)	Consider review of policy 3.22 to encompass a broader title and scope for corporate transaction cards (including credit cards, fuel cards, debit cards etc.). Procedures should be in place to support the policy, procurement systems and robust controls prior to payment being deducted for corporate transaction cards.	Planned
	To avoid conflict with the standards and legislation the policy should not include legislative and standards requirements and should enhance these requirements or provide a policy decision where an accounting standard allows a policy choice. Consider rescinding the policy and adopt accounting policies / key accounting information annually within the Annual Statutory budget.	Planned
	Update policies to remove specific and / or detailed references to legislation and other external references to assist with appropriate alignment and consistency in Council policies is maintained.	Planned
	Review and update policies to consider the appropriate separation of the roles of the council and the CEO. Any review and update of policies to articulate the strategic direction of Council, particularly where legislation does not provide such direction.	Planned

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