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

## Shire of Northampton

## July 2022

# Table of Contents

**Shire of Northampton**
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 2

# 1.0   Engagement Overview

## 1.1      Scope of Services

The Shire of Northampton (Shire) engaged Moore Australia to undertake a review service with a dual purpose, firstly to provide the basis for a report by the CEO to the Audit Committee on the appropriateness and effectiveness of the Shire's risk management, internal controls and legislative compliance systems and procedures as required by the *Local Government (Audit) Regulations 1996* Regulation 17. Secondly, a review of financial management systems to assess the appropriateness and effectiveness of these systems and procedures, as required by *Local Government (Financial Management) Regulations 1996* Regulation 5(2)(c).

For efficiency, the reviews were undertaken simultaneously, and the results of both reviews are contained in this single report. Financial management systems and procedures are considered a subset of broader overall risk management, legislative compliance and internal controls. The matters examined in respect of financial management systems are detailed in Appendix A and where opportunities for improvement were identified, they are reported within the relevant section of the risk management, legislative compliance and internal controls framework design, implementation and evaluation sections of this report.

The results of the risk management, legislative compliance and internal controls review are to be reported by the CEO to the Audit Committee. The Audit Committee is required to review the CEO's report and on-report to the Council. The report from the Audit Committee to the Council is required to have attached a copy of the CEO's initial report to the Audit Committee.

### 1.1.1      Procedures – Financial Management Review

Our procedures for the Financial Management Review encompassed a review of 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 financial management review does not examine systems and procedures which are non-financial in nature and did not specifically test for legislative breaches.

# 1.0 Engagement Overview

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

Our procedures for the systems and procedures review, as required by regulation 17 of the *Local Government (Audit) Regulations 1996*, on behalf of the CEO encompassed the following services:

- A review of the risk management systems policies, procedures and plans in place at the Shire;

- Evaluate the non-financial/operational internal control systems and procedures at the Shire;

- Assess systems and procedures for maintaining legislative compliance; and

- Prepare a report of matters identified during the review to assist the CEO assess the appropriateness and effectiveness of the relevant systems and procedures in accordance with regulation 17 of the *Local Government (Audit) Regulations 1996*.

To undertake these procedures, we applied the following methodology:

- Conduct interviews with key personnel involved in risk management, financial management and the Shire's adherence to legislative requirements;

- Identify the extent of commitment and mandate to risk management principles, using AS/NZS ISO 31000:2018 as the framework, within the overall risk management framework;

- Review each component of risk management, legislative compliance and internal controls after considering the overall risk environment, governance structure and internal control environment;

- Assess the gaps, if any, between the current processes and the expected risk management, internal controls and legislative compliance systems and procedures and recommend suggested improvements; and

- Report on the appropriateness and the effectiveness of current systems and procedures.

The review was a high-level review given the scale, variety and breadth of non-financial activities and considered, as a minimum, the issues identified by the Department of Local Government, Sport and Cultural Industries to Local Government Operational Guideline Number 09 – Audit in Local Government (listed in Appendix E).

# 2.0  Review Context

## 2.1  Review Context - Shire of Northampton

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. |
| Climate change and subsequent response. | 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. |
| Changing regulatory requirements. | COVID 19 and impact on the internal environment |
| COVID 19 and impact on the external environment | |
| Impacts of Cyclone Seroja | |
| Global economic instability | |

**Shire of Northampton**
**Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022**

I 5

# 3.0  Review Summary

## 3.1    Overall

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 Northampton is highly reliant on a small team of senior decision makers to govern its operations whilst trying to ensure sound financial and risk management through internal controls whilst seeking to achieve a high level of compliance.

This review was undertaken by first determining an appropriate framework for the Shire against which current policies, procedures and actions could be assessed this is described further in Section 5.0. A number of areas for improvement were identified during the review. As the Shire has limited resources the areas identified for improvement have been split between those requiring prioritised action and those requiring planned action as it will require resources and time to address a number of the matters raised.

The chart below reflects the number of improvements identified within each area of the framework examined.

## No of improvements identified by framework element



■ Planned action required    ■ Prioritised action required
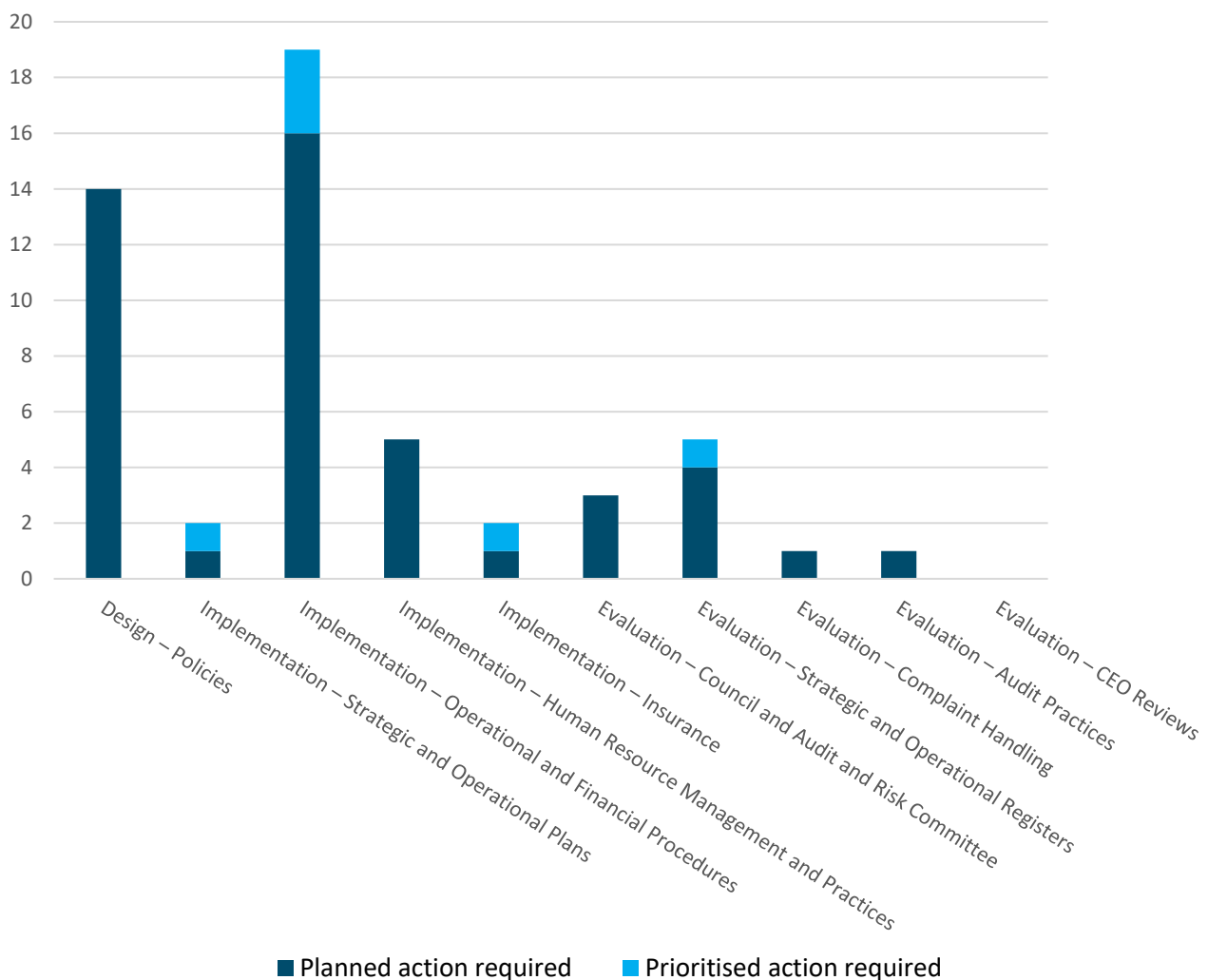
Details of each improvement identified under each framework element are provided in Sections 6.0 through 8.0 of this report. Key improvements are provided under each of the review areas, financial management, risk management, internal control and legislative compliance on the following pages.

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

# 3.0  Review Summary

## 3.2  Financial Management

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 *Financial Management Regulation 5(1).*

### 3.2.1  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 6.0 Framework Design of this report.

### 3.2.2  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 Northampton may be considered generally effective. Our assessment as to effectiveness is subject to the implementation of the improvements highlighted in Section 7.0 Framework Implementation of this report.

Whilst generally considered effective, weaknesses were identified where internal controls are not considered effective. These are explained within Section 7.0 Framework Implementation of this report.

### 3.2.3  Improvements

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

- IT general controls;
- Security controls;
- Rating controls;
- Register of financial interests;
- Change of banking details;
- Procurement controls; and
- Disposal of fixed assets.

**Shire of Northampton**
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 7

# 3.0  Review Summary

## 3.3    Risk Management

The Shire initially developed its formal risk management processes with the adoption of Risk Management Policy, which was subsequently updated in recent years to align to the Risk Management Standard ISO 31000:2018. The policy document is supported by a Risk Management Strategy and forms the basis for risk management activities within the Shire.

### 3.3.1    Appropriateness

Currently, a documented entity wide Risk Management Policy and Strategy is in existence to guide the implementation of risk management throughout the Shire.

Considering the size, resources, operations and the context in which the Shire operates, the current documented risk management policy and procedures aligned to ISO 31000:2018 is considered appropriate as a means of uniformly supporting decision making and documenting the organisation's response to risks.

### 3.3.2    Effectiveness

The current risk management policy and strategy reflects the Shire's commitment to organisation wide risk management principles, systems and processes aimed at optimising the achievement of objectives, embedding controls to mitigate risk, improving corporate governance and planning for continuity of critical operations. Further development and consistent application of risk management systems and processes are required to be implemented throughout the organisation in order for risk management processes and procedures to be considered effective.

### 3.3.3    Improvements

Improvements to risk management practices and policies are detailed within the framework design and implementation sections of this report, with key matters summarised as follows:

- Align risk management activities and practices throughout the organisation and apply consistently in accordance with the Shire's policy and strategy;

- Develop and apply risk management activities to existing practices in accordance with a suitable risk management framework;

- Review contractor insurance to ensure contractors have appropriate insurance;

- Undertake a comprehensive ICT security review; and

- Ensure appropriate management of operational risks for high risk areas.

**Shire of Northampton**
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 8

# 3.0  Review Summary

## 3.4  Internal Control

A formal internal control policy is yet to be developed and adopted by the Shire. A policy to guide the Shire may assist to ensure an iterative risk based approach to evaluating the internal controls, systems and procedures, as well as providing a mechanism whereby regular review and updates occur.

### 3.4.1  Appropriateness

Considering the size, resources, operations and the internal/external context in which the Shire operates, the internal control framework, procedures and systems as described to us are considered appropriate for most areas of operations, subject to the identified improvements being in place. Development of a documented internal controls policy, promoting a risk-based approach to the further development and maintenance of documented internal controls and procedures may enhance with existing internal control framework. Continual risk based assessment of appropriate controls throughout the organisation may assist to identify the need for new controls and identify existing outdated and unnecessary controls to be discontinued.

A number of internal controls were identified where these controls are not considered appropriate, as described with section 7.0 Framework Implementation of this report.

### 3.4.2  Effectiveness

Considering the overall results of monitoring and compliance practices undertaken by the Shire of Northampton, the current internal control framework, procedures and systems (where documented and routinely tested) may be considered effective. Our assessment as to effectiveness is subject to the implementation of the improvements detailed at Section 7.0 Framework Implementation of this report.

### 3.4.3  Improvements

The knowledge and experience of senior staff has contributed to a number of preventative controls being implemented throughout the Shire. Further enhancement to these controls may be considered through the implementation of detective controls, as noted within Section 7.0 of this report.

Recommended improvements to the current internal control framework, procedures and systems are detailed later within the framework design and implementation sections of this report with selected key improvements to internal controls summarised as follows:

- Development of a documented internal controls policy;

- Review and update organisation wide IT security and controls;

- Update, testing and maintenance of the Business Continuity Plan and Disaster Recovery Plan;

- Key internal controls should be documented either as procedures, checklists or workflow diagrams;

- Define procedures to manage changes to internal controls;

- Develop and maintain a number of registers to improve existing internal controls as discussed at Section 8.2 of this report;

- Undertake appropriate training at induction and at regular intervals to ensure staff are fully aware of, and understand, relevant internal controls; and

- Implement financial management control recommendations discussed at Section 3.1 of this report.

**Shire of Northampton**
**Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022**

I 9

# 3.0 Review Summary

## 3.5 Legislative Compliance

A legislative compliance policy has been adopted by Council to communicate expectations of Council in relation to legislative breaches and regulatory compliance. Reliance in delivering the policy objectives is largely dependent upon the knowledge and experience of senior staff and their individual desire to achieve high levels of legislative and regulatory compliance.

### 3.5.1 Appropriateness

Considering local governments generally maintain a low risk appetite for breaches of legislation, a documented legislative compliance policy would be considered appropriate and good governance. Reliance on experienced senior staff for legislative compliance while considered appropriate, carries high risk where the number of experienced senior staff is low.

### 3.5.2 Effectiveness

Maintaining legislative compliance is heavily reliant on the knowledge, experience and commitment of senior staff, to identify and prevent breaches of legislation. As a consequence, staff turnover, competing priorities and variations in workloads may have a significant negative impact on legislative compliance. Therefore, one of the most effective controls in maintaining legislative compliance is a motivated, stable, experienced and knowledgeable senior management group.

Instances of non-compliance with legislative requirements were identified during our review. Apart from the identified breaches of legislation, and in the instances where the effectiveness was able to be assessed, the current legislative compliance framework is considered effective.

### 3.5.3 Improvements

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

- Maintain financial interest and tender registers as required by legislation;

- Adopt Employee Code of Conduct as required by model regulations;

- Adopt policies required by legislation;

- Ensure all items required by legislation to be on the website are maintained on the website with procedures to document when they are uploaded or modified.

- Further development and approval of authorised checklists for functions which require a high level of legislative compliance; and

- Develop and maintain a staff training matrix and coordinate training across the Shire. A risk based training matrix should help ensure staff with the responsibility for preventing, identifying and reporting breaches of legislation, are offered relevant training to ensure their knowledge of legislative requirements is maintained and qualifications are maintained and up to date where required.

**Shire of Northampton**
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 10

# 4.0  Methodology

## 4.1    Review Methodology – Financial Management Review

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

In carrying out our review, we examined documented policies / procedures, undertook walkthroughs of key systems and procedures and performed limited detailed testing procedures to identify weaknesses in the financial management system and report to the CEO on the appropriateness and effectiveness of the control environment within the Shire, as required by regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.
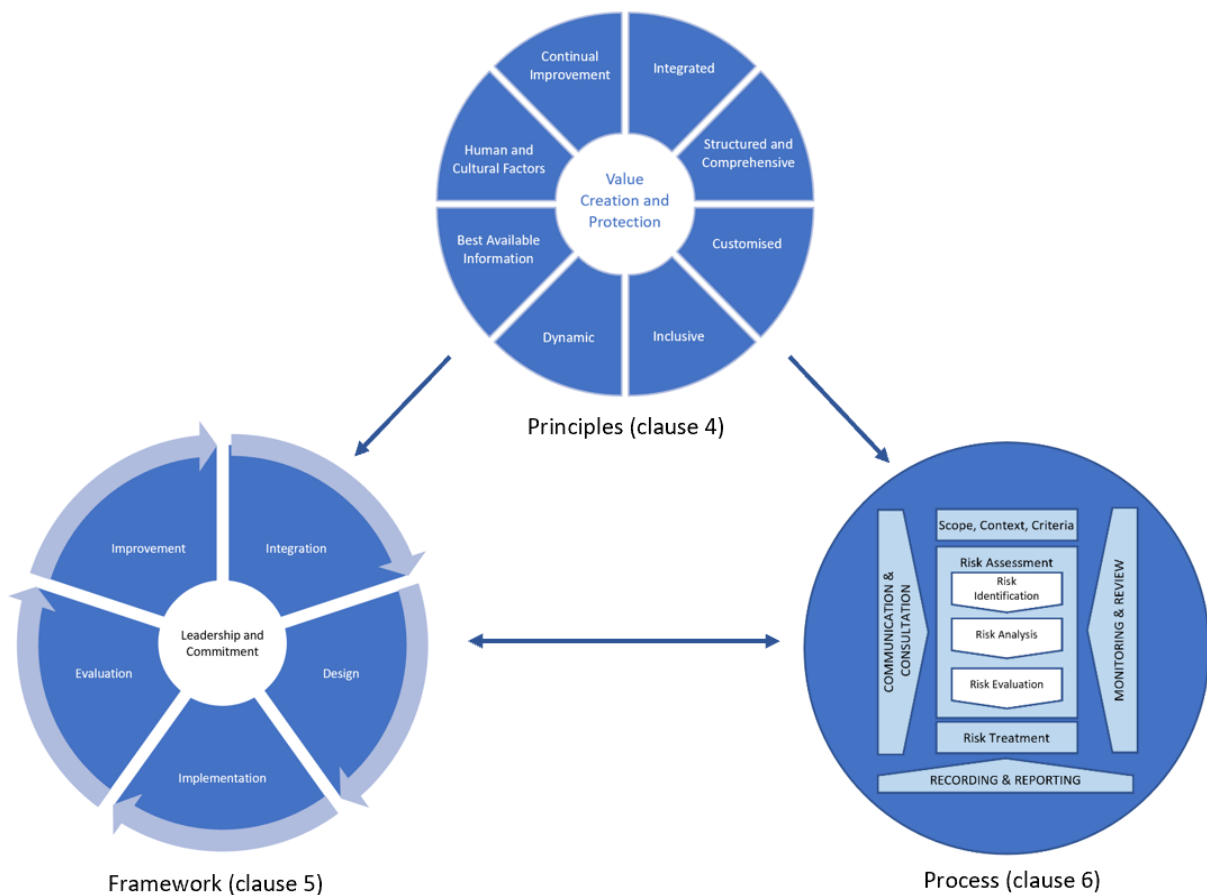
## 4.2    Review Methodology – Risk Management, Legislative Compliance and Internal Controls

The primary goal of this review is to assist the CEO to establish the appropriateness and effectiveness of the Shire systems and procedures in relation to risk management, legislative compliance and internal controls.

Internal controls are designed to treat risks and form part of the risk management process. Non-compliance with legislation is one of the risks that would usually be identified as a consequence of applying a risk management process.

The Australian Standard for Risk Management, ISO 31000:2018(E), identifies three components in the application of risk management, being *Principles, Framework* and *Process,* as set out in Diagram 1 below.

**Diagram 1. Risk Management Principles, Framework and Process**



Source: Australia/New Zealand Standard ISO 31000:2018

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 11

# 4.0   Methodology

## 4.2      Review Methodology – Risk Management, Legislative Compliance and Internal Controls (continued)

In undertaking our review, we have applied the three ISO 31000:2018 framework components, as set out on the previous page, to the review topics (risk management, internal controls and legislative compliance). This involves a process incorporating the five risk management framework components, *Integration, Design, Implementation, Evaluation and Improvement,* into the review of systems and processes:

- Identify the extent of leadership and commitment to the principles;

- Assess the extent of integration of risk management within the Shire;

- Assess the design of the current framework through an understanding of the Shire and the context within which it operates (risk management, legislative compliance and internal controls) after considering the overall context in which the review occurs;

- Assess the implementation of the current framework;

- Assess the extent of evaluation of the current framework and its effectiveness in supporting the Shire's objectives;

- Assess the current framework and improvements to the suitability, adequacy and effectiveness of the framework;

- Review the current process for the Shire's systematic application of policies, procedures and practices to the activities of communicating and consulting, establishing context, assessing, treating, monitoring, reviewing, recording and reporting risk, internal controls and legislative compliance; and

- Report on the appropriateness and effectiveness of current systems and procedures.

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

**Shire of Northampton**
**Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022**

I 12

# 5.0 Appropriate Framework

## 5.1 Risk Management, Internal Control and Legislative Compliance

The following framework was identified as being appropriate for risk management, internal control and legislative compliance for the Shire of Northampton, after consideration of the current internal and external influences, detailed in Section 2.1.

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

A high-level review of risk management systems, internal controls and legislative compliance was
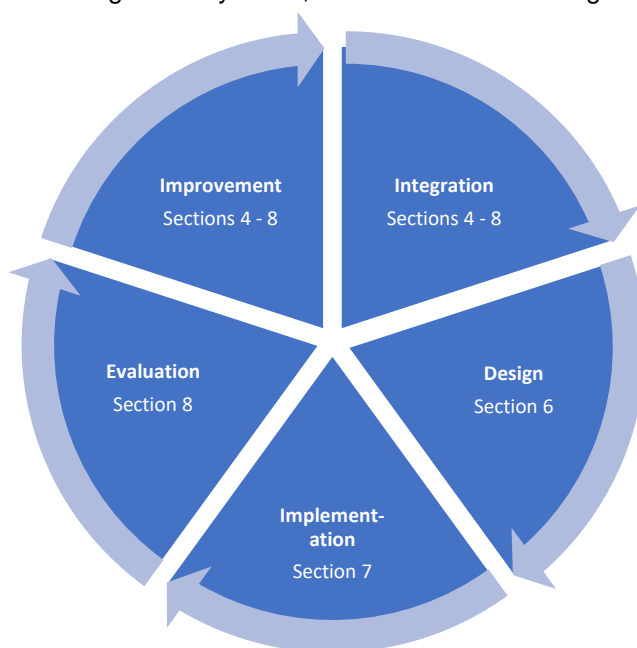


Source: Australia/New Zealand Standard ISO 31000:2018

undertaken which precluded detailed testing in all areas.

The results of our review, as detailed on the following pages, are set out with reference to the structure of the above framework. We assessed the following areas:

| Design | Implementation | Evaluation |
|---|---|---|
| 6.1 Strategic Plans | 7.1 Strategic and Operational Plans | 8.1 Council and Audit and Risk Committee |
| 6.2 Council Policies | 7.2 Operational and Financial Procedures | 8.2 Strategic and Operational Registers |
| | 7.3 Human Resource Management and Practices | 8.3 Annual Compliance Audit Returns |
| | 7.4 Insurance | 8.4 Complaint Handling |
| | | 8.5 Audit Practices |
| | | 8.6 Reviews required by the CEO |

Integration along with Leadership and Commitment were assessed within each of the elements of the framework.

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 13

# 6.0  Framework Design

## 6.1    Strategic Plans

The Shire has adopted two key strategic documents, the Strategic Community Plan 2017-2027 and the Corporate Business Plan 2020-2024. These plans identify the Council's organisational objectives and key outcomes, as the Shire progresses achieving its stated vision *"a proud and unique community recognising the past and creating the future".*

The Strategic Community Plan recognises the community's aspirations and values through the following key focus areas:

1.  **Our Economy:** To maintain or grow our population through land development to attract and support residents, visitors, and business initiatives;

2.  **Our Natural Environment:** To support environmental protection and maintenance within Council jurisdiction, and form positive relationships government agencies, landowners, developers, and business enterprises;

3.  **Our People:** To support our local communities in a place management approach to services, facilities, and lifestyle enhancement;

4.  **Our Built Environment:** To provide quality in built assets, roads, and other infrastructure for continuity of services to the community; and

5.  **Our Leadership:** To be accountable for good governance, strong stewardship and leadership with proactive communication and consultation.

In seeking to achieve its objectives, the Shire of Northampton faces both inherent and business risks. Whilst striving to fulfil expectations, it is also expected to meet compliance with numerous legislative requirements. To manage these risks, the Shire has established various processes, systems and controls.

The Strategic Community Plan does not include a section highlighting key challenges and risks considered during the preparation of the Plan.

This review examines the appropriateness and effectiveness of the organisation's risk management systems, internal controls and legislative compliance in the context of the Shire striving to achieve its stated objectives.

# 6.0  Framework Design

## 6.2     Council Policies

Whilst the operations of the Shire are the responsibility of the CEO, the Council is responsible for setting the framework for operations via adopted Council policies. These policies represent an overarching framework relevant to risk management, internal controls and legislative compliance and have been reviewed for appropriateness and effectiveness.

In general, Council policies are well formulated and provide clear guidance regarding Council's position on certain matters. A list of policies reviewed is provided in Appendix B - Council Policies Examined. The table below details matters identified and associated suggested improvements.

| Policy | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|
| 6.2.1.  Policy Review | Routine review of Policies to help ensure they remain current. | Policies are reviewed biennially by Council, with an annual administrative review, to help ensure they remain current. The 'history' section for each policy is only updated where the policy is adopted or amended. |
|  |  | **Improvement:**<br>Following the Council review of Policies, update the history section within each Policy to provide an accurate record of the Policy review occurring. |
| 6.2.2.  General Policy Actions | To set out parameters for the implementation of policies. | We noted some council policies which may 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. Some policies where this may occur includes:<br>• 1.1 Smoking - Buildings & Working Environment;<br>• 1.4 Schools - Work Experience Program;<br>• 4.2 Staff Training;<br>• 4.3 Staff & Councillors Attendance At Conferences;<br>• 4.4 Staff Telephones In Residences;<br>• 4.5 Staff - Bank Accounts;<br>• 4.10 Staff – Protection from the Sun for Outdoor Work;<br>• 4.11 Severance Pay Policy;<br>• 4.12 Redundancy Policy;<br>• 4.13 Superannuation Contribution;<br>• 4.14 Senior Staff Car Policy;<br>• 5.1 Staff Housing - Appliances;<br>• 5.2 Tenancy Agreements;<br>• 6.1 Vehicle Emblems;<br>• 6.2 Operations of Plant By Staff Only;<br>• 8.3 Infringement Notices – Breaches of Swimming Pool;<br>• 10.2 Side Shows on Council Controlled Land; and<br>• 10.2 Community Bus.<br>Policies are not necessarily intended to provide direction on how different functions are to be executed, except where legislation requires it. |
|  |  | **Improvement:**<br>Review and update these policies to consider the appropriate separation of the roles of the council and the CEO. Consider review and update of policies to articulate the strategic direction of Council, particularly where legislation does not provide such direction. |

# 6.0  Framework Design

| Policy | | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|---|
| 6.2.3. | Policy Reference to Legislation and External Information | To support the link between Council policy, legislation and other information sources. | We noted several policies contain specific detail relating to legislation and other external references, including:<br><br>• 2.4 Regulatory Compliance;<br>• 2.5 Investment of Surplus Funds; and<br>• 8.5 Conditions of Approval of Itinerant Food Vendors.<br><br>This practice may result in conflict between the policy and legislation or guidance in the instance of a change in legislation, guidance, Australian Standards, Australian Accounting Standards or other external references. |
| | | | **Improvement:**<br>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. |
| 6.2.4. | Internal Council Policy | A policy to evidence Council's commitment to internal controls and their importance to the organisation.. | A formal internal control policy is yet to be developed and adopted by Council. |
| | | | **Improvement:**<br>We suggest an internal control policy be formulated and adopted to formalise Council's commitment and approach to internal controls, based on a risk management process. |

**Shire of Northampton**
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 16

# 6.0 Framework Design

| Policy | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|
| 6.2.5. Purchasing and Tender Guide Model Purchasing Policy 2.3 | Policy providing a best practice approach and procedures for purchasing.<br><br>Ensure consistency for all purchasing activities that integrates with all operational areas.<br><br>. | The following matters were noted within purchasing policy 2.3:<br><br>• The policy does not provide direction regarding contract variations and extensions awarded or against a written specification not awarded by tender. Extension of contracts and associated price changes are also not covered by the policy. For contracts awarded by tender, legislation provides minimum requirements for variations;<br><br>• Exemptions to purchasing requirements are not considered in the policy. Although Policy 2.4 Regulatory Compliance deals separately with this, existing inconsistency between the two policies may result in confusion as to compliance obligations.<br><br>**Improvement:**<br>Amend the Policy to provide the following:<br>• Prohibit price variations to existing contracts awarded by tender other than those provided within the original contract, as required by regulation 11(2) (j) (iv) of the *Local Government (Functions and General) Regulations 1996*;<br>• Purchasing requirement for the issuing of contact variations and extensions for contracts not awarded by tender. Consideration should be given circumstances where the contract value increase over a policy threshold level, due to the variation or extension;<br>• Amend the policy to correct tender thresholds for consistency and clarity;<br>• Ensure requirements relating to permitted exemptions are appropriately referenced and current with legislation.<br>• Rename policy to better describe purpose of policy.<br><br>**Management Comment:** Investigations have been initiated for updates to software management systems to assist with implementation of improvements relating to procurement activities. Policy updates are also being developed. |

**Shire of Northampton**
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 17

# 6.0  Framework Design

| Policy | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|
| 6.2.6. Regulatory Compliance Policy 2.4 | Policy to set out compliance requirements relating to procurement activities. | We noted the following matters within regulatory compliance policy 2.4:<br><br>• Purchasing requirements for procurement of goods or services in accordance with the exemptions under *Local Government (Functions and General) Regulations 1996* Regulation 11(2), regardless of the value of expenditure are not included within the policy. The CEO is required to ensure controls exist for all purchases including those made using these exemptions. We noted when an exemption from tender requirements exists, sourcing of multiple quotations occurs in certain cases, and the policy should be updated to reflect the expectation and requirement;<br>• Anti-avoidance requirements only apply to purchases over the tender threshold;<br>• Authorisation requirements for sole source of supply procurement activities are not defined by the policy; and<br>• Tender threshold values are not consistent between this policy and purchasing policy 2.3. These require update to minimise the risk of confusion and error with application of thresholds.<br><br>**Improvement:**<br>Review and update the policy to provide the following:<br>• Insert purchasing / reporting requirements to provide for purchases made in an emergency through exemptions provided for by legislation;<br>• Amend purchasing requirements for procurement of goods or services (except emergencies) to be consistent regardless of where the quotations are being sought from, including those made under the exemptions under *Local Government (Functions and General) Regulations 1996* Regulation 11(2);<br>• Apply the anti-avoidance provisions to all procurement;<br>• Amend policy to require CEO approval to only obtain a single quote under sole source of supply arrangements; and<br>• Amend the policy to correct tender thresholds for consistency and clarity.<br><br>**Management Comment:** Investigations have been initiated for updates to software management systems to assist with implementation of improvements relating to procurement activities. Policy updates are also being developed. |
| 6.2.7. Immateriality Base for Financial Reporting Policy 2.6 | Policy to set out value to assess materiality for financial reporting in accordance with Australian Accounting Standards (AAS) | Policy sets out a value of $5,000 for immateriality base for financial reporting in accordance with Australian Accounting Standards. This is not a policy position as it is a requirement for local governments to comply with AAS.<br><br>**Improvement:**<br>AAS specifically state materiality cannot be defined as a fixed amount as it is dependent on the nature of the item being disclosed. To avoid conflict with the AAS 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. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 18

# 6.0 Framework Design

| Policy | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|
| 6.2.8. Gifts Policy 2.7 | To provide guidance of enforceable rules and requirements as prescribed in relevant legislation. | The policy content relating to gift provisions may not align with legislative requirements. Regulations set minimum requirements for an employee code of conduct and provide a model Code of Conduct for Council members. The Code of Conduct for employees is required to provide for the recording, storing and disclosure of information around gifts for employees other than the CEO. In its current form the disclosure obligations for employees should be reviewed and included in a Code of Conduct as required by legislation. |
| | | Improvement: Update policy requirements and include in a Code of Conduct for employees, volunteers and contractors to align with legislation and include information required by regulation 19AC of *the Local Government (Administration) Regulations 1996* and present to Council. Undertake re-induction of all relevant personnel in relation to the new code of conduct. |
| | | **Management Comment:** Employee Code of Conduct being developed based on the latest template. |
| 6.2.9. Financial Hardship Policy & Procedures Rate Debtors | To provide fair, equitable, consistent and dignified support to ratepayers suffering hardship arising from the COVID 19 pandemic. | The policy scope applies only to the 2020/21 financial year and only references financial hardship as a result of the COVID 19 pandemic. |
| | | Improvement: Consider reviewing the policy to apply to financial hardship circumstances other than the COVID 19 pandemic and with no time limit if the intent of the policy is to consider more general circumstances of financial hardship. Alternatively, rescind the policy. |
| | | **Management Comment:** Policy updated and adopted since initial review. |
| 6.2.10. Councillor Out of Pocket Expenses – Travel Expenses Policy 3.1 | Policy to set out criteria to determine expenses to be met by Council for attendance at conferences and training seminars. | The policy stipulates the committees for which reimbursements for Councillor travel will be met. The most recent determination published by the Salaries and Allowances Tribunal (SAT) sets out:<br>• Travel is to be reimbursed to elected members when attending Council or committee meetings at the same rate as Section 30.6 of the *Local Government Officers' (Western Australia) Award 2021*;<br>• Travel is to be reimbursed when performing other functions under the express authority of the local government, in accordance with the *Public Service Award 1992*; and<br>• Entitlements to allowances and / or reimbursements cannot be proscribed, limited or waived by a local government. |
| | | Improvement: Update the policy to correctly set out all allowances and reimbursements to align with the current SAT determination. |
| | | **Management Comment:** Policy to be reviewed and updated. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 19

# 6.0 Framework Design

| Policy | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|
| 6.2.11. Harassment and Grievance Policy 4.9 | Policy to provide guidance to the Shire's approach to managing complaints and grievances. | A provision within the policy includes for the CEO to make an assessment to destroy a record of remedial action applied by the policy after a period of twelve months. This may not align with record keeping requirements under the *State Records Act 2000*. |
| | | **Improvement:** Review and update the policy to remove the provision permitting destruction of records which are not aligned with legislation requirements. |
| | | **Management Comment:** Policy will be amended. Can be covered as part a full Policy & Procedure Review process. |
| 6.2.12. Superannuation Contribution Policy 4.13 | Policy to set out superannuation contributions by the Shire. | Specific detail is included within the policy in relation to federal superannuation guarantee with a superfluous rate stated. The practice of including specific detail may result in conflict between the policy and legislation or guidance in the instance of a change in legislation, guidance or other external references. |
| | | **Improvement:** Review and update the policy to remove specific and / or detailed references to legislation and other external references to assist with maintaining appropriate alignment and consistency. |
| | | **Management Comment:** Policy will be amended. Can be covered as part a full Policy & Procedure Review process. |
| 6.2.13. Senior Staff Car Policy 4.14 | Policy used to provide Senior Staff with fuel card during periods of annual and long service leave. | The policy provides Senior Staff the option to utilise a Council fuel card for use with their personal vehicles during periods of annual leave and long service leave, where they elect not to use a Council vehicle as provided within their terms of employment. Conditions of employment and remuneration should be provided for through employment contracts rather than a policy of Council. We also noted although the policy states limitations to be considered in the application of this policy, the controls may not be sufficient to prevent misuse of fuel cards. |
| | | **Improvement:** Review the policy to provide better definition to properly account for and consider FBT and other implications. Procedures and controls to support the policy should also be developed. Alternatively, rescind the policy and provide for employee entitlements through employment contracts. |
| | | **Management Comment:** Control measures, which include FBT considerations etc, are considered adequate by management, however, further consideration will be given to improve current control measures through policy update or employment contracts. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 20

# 6.0  Framework Design

| Policy | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|
| 6.2.14. Independent Inspection of Council Owned Assets - Buildings Policy 8.7 | Policy to support the protection of high value building assets. | Engagement of an independent structural engineer to assess and report on the structural integrity of buildings valued at more than $500,000 is required by the policy at various intervals, and to be reported to Council. Evidence to support this practice was not available for our review. |
| | | **Improvement:**<br>Perform assessments as required by the policy, or alternatively consider whether such practices are better determined through alternative mechanisms such as asset management improvement planning.<br><br>**Management Comment:** Policy is being reviewed to implement the improvement noted. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 21

# 7.0  Framework Implementation

## 7.1  Strategic and Operational Plans

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

A list of plans reviewed is provided in Appendix C - Plans Examined. The table below details areas for possible improvement in relation to the plans examined.

| Plan | | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|---|
| 7.1.1. | Business Continuity & Disaster Recovery Plan | Plan to facilitate organised decision-making in the event of a major incident impacting the Shire's ability to continue normal operations. | A Business Continuity Plan & Disaster Recovery Plan was prepared in 2016 and reviewed in 2020. We noted the plan was tested in 2019, however subsequent annual testing (as required by the plan) to ensure its validity has not occurred since that time. |
| | | | **Improvement:** Review and update the Business Continuity Plan and test it to ensure its validity, including validity of any documented key business continuity & disaster recovery risks along with the treatments.  Ensure risk treatments are consolidated with overarching risk management activities. |
| | | | **Management Comment:** Updates to plan resulting from testing (as well as some activation of the plan) are to be implemented. Hard copies also to be available in administration office. |
| 7.1.2. | Code of Conduct for Employees and Contractors | To provide guidance to contractors and employees of enforceable rules and requirements as prescribed in relevant legislation. | Current regulations require for an employee and contractors code of conduct and provide a model code of conduct for council members. The Code of Conduct for employees was not developed by 3 May 2021 as required, with the existing Code of Conduct still being utilised for employees. |
| | | | **Improvement:** Develop a new code of conduct for employees and contractors as required by legislation and undertake a re-induction with all employees. Ensure updated Code of Conduct is published on the official local government website. |
| | | | **Management Comment:** Employee Code of Conduct being developed based on the latest template. |
| 7.1.3. | ICT Strategic Plan | Plan to guide the future development and delivery of ICT services and address the handling of ICT disaster recovery. | An ICT Strategic Plan was not available for our review. |
| | | | **Improvement:** Develop an ICT Strategic Plan identifying and documenting key ICT risks along with the treatments to reduce the risk to an acceptable level. Consider independent review of identified ICT risks. |
| | | | **Management Comment:** Current systems are considered adequate. Some investigation will be undertaken for consideration in future budget. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 22

# 7.0 Framework Implementation

## 7.2 Operational and Financial Procedures

In seeking to achieve its stated vision, the Shire delivers a number of services to the community. Meetings were undertaken with key staff in each of the areas of service responsibility, as well as examination of documented processes, to determine the practices applied to issues of risk management, internal controls and legislative compliance. A summary of the reviews undertaken to evaluate the controls is included at Appendix C.

We observed a number of practices and procedures in place, however their application was not always consistent. Considering the number of services provided and current staff resourcing, a risk based approach to the prioritisation of the review and development of new procedures is recommended. The table below details areas of suggested improvement in relation to policies and procedures examined.

| Component | | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|---|
| 7.2.1. | Trust Fund | Controls to ensure that no errors exist in the transactions for the Trust Fund account | The Trust Fund currently includes bonds which are required to be held in the Municipal Fund. It is understood from staff representations, the Trust Fund has been undergoing examination to correctly allocate bonds. |
| | | | **Improvement:** Remove all funds which are not required by law to be held in the Trust Fund, and transfer to the Municipal Fund, in line with the Office of the Auditor General (OAG) position paper on Accounting for Work Bonds, Building Bonds and Hire Bonds released in July 2019. |
| | | | **Management Comment:** Improvement has been implemented. |
| 7.2.2. | Petty Cash | Systems and processes to ensure controls are maintained around petty cash. | Our testing of petty cash noted a breakdown within the systems and controls described to us. Evidence of independent review and recording of petty cash being issued was not available for all receipts tested. |
| | | | **Improvement:** Undertake a review of systems and processes relating to petty cash, to ensure adequate controls exist relating to security of cash held, as well as maintaining and processing of petty cash transactions. |
| | | | **Management Comment:** Considering the amount of cash involved, risk levels are considered low, current controls are considered adequate. |
| 7.2.3. | Risk Management | Procedures and practices to set out a uniform approach to the identification, assessment, management, reporting and monitoring of risks. | Risk management activities currently undertaken within individual departments are sometimes performed independently and high risks are not always communicated to executive management. Some of these activities may not align with the Shire's Risk Management Strategy, and may not align with ISO 31000:2018. |
| | | | **Improvement:** Communicate high risks throughout the Shire current risk management procedures and processes to assist with routine and consistent applications in accordance with Council policy. |
| | | | **Management Comment:** Will aim to improve communication and education throughout the Shire relating to risk management requirements. This will form part of the WHS Coordinators role. |

# 7.0 Framework Implementation

| Component | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|
| 7.2.4. Checklists & Workflow Diagrams | Checklists document the completion of multiple steps within an overall process, while workflow process diagrams create a visual representation of a process, clearly identifying key points of control and responsibility. | Checklists of key functions and workflow diagrams are maintained for selected functions. Checklists were not maintained and evidenced for all standard routine functions such as end of month reconciliations and reporting across the organisation. It was noted some staff have commenced with the creation of workflow diagrams, checklists and procedures. |
| | | **Improvement:**<br>Creation and maintenance of standard checklists may assist in evidencing key points of control. Checklists assist in ensuring compliance with repetitive legislative compliance tasks. Staff are encouraged to continue with the development of checklists and procedures for routine functions, including evidencing independent review. In conjunction with, or as an alternative to, the development of documented procedures and checklists, development of additional workflow process diagrams may assist in clearly identifying controls and processes to be followed. |
| | | **Management Comment:** Checklists are maintained for routine critical functions by staff. Where further checklists are required they will be developed. |
| 7.2.5. Access to Shire Facilities | Ensure access to Shire is restricted only to personnel who are authorised. | We noted limited physical access security measures to some Shire facilities. The risk associated with this is not documented, measured or recorded appropriately to verify whether treatment plans have reduced the perceived level of risk to the Shire. |
| | | **Improvement:**<br>Ensure adequate physical access security measures to prevent unauthorised individuals from accessing facilities are appropriately documented. Risks and their treatment plans should be recorded in a risk register to communicate the risk. |
| | | **Management Comment:** Future budget considerations will be prepared to consider implementation of improvement. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 24

# 7.0 Framework Implementation

| Component | Purpose / Goal | Matters Identified / Improvements |
|-----------|----------------|-----------------------------------|
| 7.2.6. Risk Management Procedures | Procedures and practices to set out a uniform approach to the identification, assessment, management, reporting and monitoring of risks. | We noted some documented risk management activities are being undertaken in some areas, but not consistently reported to the Audit and Risk Committee. Some of these activities may not align with the Shire's Risk Management Policy and Framework. |
| | | **Improvements:** A key function of the Audit and Risk Committee should be to review updates to risk reports, as well as to monitor and evaluate high risks, particularly where changes occur. Risk reports and updates should be routinely reported and reviewed by the Audit and Risk Committee. |
| | | Implement and maintain documented risk management procedures and processes throughout the Shire, aligned to adopted risk management policy and supporting procedures. |
| | | **Management Comment:** Will aim to improve communication and education throughout the Shire of risk management requirements. This will part of the WHS Coordinators role. |
| 7.2.7. Security Controls for Cash Handling | Procedure to allow for appropriate and secure handling of cash across all facilities. | Although we acknowledge the levels of cash being handled were generally low for the periods reviewed during our testing, weaknesses in cash handling controls between certain facilities and administration were identified. Documented controls to ensure appropriate review and authorisation process were not available for review for all facilities. |
| | | **Improvement:** Ensure access to any cash held is restricted only to authorised personnel through secure storage. Implement appropriate documented procedures and controls for cash maintained by staff including processing of cash receipting. Processes should also include reference to insured amounts relating to cash, to ensure adequate insurance levels are maintained relating to cash. |
| | | **Management Comment:** Considering the amount of cash involved, risk levels are considered low, current controls are considered adequate. Non cash considerations will be implemented where risk warrants it. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 25

# 7.0  Framework Implementation

| Component | | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|---|
| 7.2.8. | Procurement | Procedures for the procurement of goods or services. | Through limited testing of payments, we noted:<br><br>• instances where purchase orders did not pre-date invoices or where purchase orders had not been issued; and<br><br>• instances where insufficient evidence of quotes being sourced to comply with the purchasing policy existed.<br><br>**Improvement:**<br>Examine systems, processes and training to ensure those with delegated purchasing authority comply with the provisions of the purchasing policy and legislation. Ensure staff are aware of purchasing policy obligations and enforce individual accountability for non compliance where required.<br><br>**Management Comment:** Investigations have been initiated for updates to software management systems to assist with implementation of improvements relating to procurement activities. |
| 7.2.9. | Procurement Assessment | Procedures to provide probity for the assessment of procurement options received. | Documented procedures are not in place to require declarations of interest and confidentiality to be signed prior to assessments being undertaken for high value purchases.<br><br>**Improvement:**<br>Persons assessing any significant procurement should be required to declare any matters which may impact or be perceived to impact on their independence. Procedures for the declaration of interests prior to procurement assessments being undertaken should also be documented for high value purchases and tenders.<br><br>**Management Comment:** Systems to be updated to include declarations within procurement evaluation sheets. |
| 7.2.10. | Changes to Banking Details | Controls to validate banking change requests. | We identified weaknesses in the formal procedure to change employee and supplier banking details.<br><br>**Improvement:**<br>Formal procedures relating to changes to banking details for employees and creditors should be updated to ensure sufficient controls exist in both substantiating the change request and the changes performed within the Shire's ERP system. Review and update procedures to ensure the following matters are appropriately considered, documented and controls are adequate to:<br><br>• Validate the change request and its origin;<br><br>• Authority exists for the change request; and<br><br>• Validate and control the changes once completed.<br><br>**Management Comment:** Procedure to be reviewed and updated as required, to ensure future controls are robust and are being consistently applied. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 26

# 7.0 Framework Implementation

| Component | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|
| 7.2.11. Outstanding Purchase Orders | Process to ensure invoices are being processed in a timely manner and in accordance with the purchasing policy. | We did not observe any formal procedures relating to the routine monitoring of and clearance of outstanding purchase orders. |
| | | **Improvement:** Regular review of outstanding purchase orders should be undertaken to assist with monitoring the value of and status of associated liabilities. Establish procedures to include routine review of the status of outstanding purchase orders. Ensure any controls developed are routinely and consistently applied. |
| | | **Management Comment:** Investigations have been initiated for updates to software management systems to assist with implementation of improvements relating to procurement activities. |
| 7.2.12. Rates | Rates are correctly imposed and rate system is properly maintained. | Evidence of routine reviews of rate exempt properties as defined by section 6.26(2)(g) of *the Local Government Act 1995* was not available for our inspection. |
| | | **Improvement:** Develop and maintain systems and processes whereby routine reviews are undertaken of rate exempt properties within the Shire, confirming these properties are used exclusively for rate exempt purpose. |
| | | **Management Comment:** Formalisation of process to be considered. |
| 7.2.13. Asset Disposals | Procedures for the disposition of property in accordance with the requirements of section 3.58 of the *Local Government Act 1995* and regulation 30 of the *Local Government (Functions and General) Regulations 1996.* | Our limited testing noted instances where assets had not been disposed of in accordance with section 3.58 of the *Local Government Act 1995* and the *Local Government (Functions and General) Regulations 1996*. This appeared to be the result of plant items being traded at the same time of purchasing new plant items. Although the purchasing policy and legislative requirements allowed for new plant items to be purchased without going to tender in some instances, the disposition of the traded plant item is not captured by these same exclusions. |
| | | **Improvement:** Ensure future asset disposals are in accordance with the requirements of section 3.58 of the *Local Government Act 1995* and the *Local Government (Functions and General) Regulations 1996*. |
| | | **Management Comment:** Processes will be updated to assist with future regulatory compliance (LG F&G regulation 31), including communication to relevant staff. |

**Shire of Northampton**
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 27

# 7.0 Framework Implementation

| Component | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|
| 7.2.14. Information Required to be Published on Official Local Government Website | Ensure information is published for public information as required by legislation. | At the time of our review, we noted the following information (in addition to other matters noted throughout this report) has not been published on the Shire's official website as required by legislation:<br><br>• Code of Conduct;<br>• Name of each council member who lodged a primary return or annual return for the financial year beginning on or after 1 July 2020;<br>• Position of each employee who lodged a primary or annual return for the financial year beginning on or after 1 July 2020;<br>• The type, amount or value of any fees, expenses or allowances paid to each elected member during the financial year beginning on or after 1 July 2020; and<br>• Adopted model standards relating to CEO recruitment, performance review and termination. |
| | | **Improvement:**<br>Ensure information is published on the Shire's official website as required by section 5.96A of the *Local Government Act 1995* and any other relevant section of the Act.<br><br>**Management Comment:** Information on website will be published to comply with legislation. |
| 7.2.15. Report on Elected Member Training | Report detailing training completed by elected members each financial year as required by *Local Government Act 1995*. | The Shire's report on training completed by elected members during the 2020/21 financial year was not available for our review. This report is required to be completed and published on the official local government website by 31 July each year. |
| | | **Improvement:**<br>Complete the report on training completed by elected members and publish on the official local government website. Review and update systems and processes to ensure the report is completed annually as required by section 5.127 of the *Local Government Act 1995*.<br><br>**Management Comment:** Future reports to be prepared and published as required. |
| 7.2.16. ICT Service Level Agreement | Procedures and practices to ensure the security of IT information, systems and data. | Current ICT service agreements have poorly defined service levels. |
| | | **Improvement:**<br>To help minimise ICT risks and to clearly define responsibilities, ICT service contracts should always clearly define service levels to be provided.<br><br>**Management Comment:** Improved service levels to be defined. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 28

# 7.0  Framework Implementation

| Component | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|
| 7.2.17.  Procedure Changes | Process to control and manage change to procedures. | Process for amending or changing procedures relating to internal controls are not formalised. This creates opportunities for unilateral unauthorised changes to procedures and a breakdown in key controls. |
| | | **Improvement:** Establish a process for the development, review, amendment and authorisation of procedures, checklists and other internal control documentation, throughout the Shire to assist with managing changes to procedures. |
| | | **Management Comment:** May be considered through future policy and procedure review. |
| 7.2.18.  Operations at Shire facilities | Systems and procedures to set out guidance for expected processes, systems, and controls to be maintained at Shire facilities. | Limited documented procedures are in place to ensure appropriate controls are applied in the operation of some Shire facilities, resulting in unilateral unauthorised changes to procedures and a breakdown in key controls. We noted a number of breakdowns in controls relating to WHS management and payroll controls (including validation of appropriate qualifications) at one facility. Although this facility is subject to a MOU arrangement limiting the Shire to management of financial matters only, the Shire still assumes a high level of risk through employment of staff and management of funds under the current arrangement. |
| | | **Improvement:** While we understand since our site visit the Shire no longer has operational involvement or management of the facility in question, systems and controls should be maintained to ensure staff at all Shire facilities are aware of and understand the control environment required to be adhered to. This may assist with legislative compliance etc. and alignment to adopted risk management policy and procedures. Consider alternative arrangements for facilities where limitations to controls may exist and impede on the Shire in managing these risks. |
| | | **Management Comment:** Facility noted within the report is no longer under the control or management of the Shire, and risk has been closed in this respect. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 29

# 7.0 Framework Implementation

| Component | | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|---|
| 7.2.19. | Accounts Payable | Procedures for the payment of goods or services. | Our testing noted instances where: |

Our testing noted instances where:

- a payment had been made by the Shire, however the accompanying tax invoice was issued to a third party, and not to the Shire; and

- evidence to support goods having been received prior to invoices being presented for authorisation for payment was not always routinely or consistently applied.

Improvement:
Ensure procedures are implemented where payments are only made against valid tax invoices issued in the name of the Shire. Review and update procedures to ensure invoices are not paid prior to evidencing receipt of goods and/or services requested by the Shire.

**Management Comment:** Investigations have been initiated for updates to software management systems to assist with implementation of improvements relating to accounts payable functions. Systems and processes to be updated for all payments to be made only against valid tax invoices in the Shire's name.

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 30

# 7.0 Framework Implementation

## 7.3 Human Resource Management and Practices

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

| Component | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|
| 7.3.1. Payroll Exception Reporting | Procedures to assist with accurate processing of employee entitlements. | The officers responsible for processing and reviewing payroll are tasked with review and capture of employee entitlements, allowances, deductions, etc. Staff have advised more formal documentation / checklists have been created to assist with payroll processing, review and authorisation and are being implemented. |
| | | **Improvement:** Review procedures and controls for the accurate processing of payroll each fortnight. Details for each employee should be reviewed against individual employment contracts to capture allowances, deductions, entitlements etc, into a master list, with appropriate review and authorisation for changes. Payroll exception reporting and review of audit trails should be undertaken to capture anomalies or unauthorised changes. |
| | | **Management Comment:** Procedures to be reviewed. |
| 7.3.2. Time Records | To provide a record of hours worked by staff. | Through review of payroll processes, we identified instances where timesheets had not been signed by the employee and also noted an instance where there was no evidence of review and authorisation of a timesheet by an authorising officer. |
| | | **Improvement:** Ensure all timesheets are properly completed, and authorised, when forwarding to staff for processing through fortnightly payroll to ensure employees receive correct entitlements. |
| | | **Management Comment:** To be monitored, only rare occasions when this occurs. |
| 7.3.3. Employee Appointment Procedures | Procedures to ensure appointment of staff are appropriately authorised and onboarding processes are consistently and routinely applied | Based upon staff representations during our review and samples of employee files, there appear to be instances where employees have commenced with the Shire prior to required onboarding processes having been completed and reviewed. |
| | | **Improvement:** Establish policies, procedures or checklists to manage and document the appointment of employees and consider appropriate controls to minimise opportunities to circumvent procedures. |
| | | **Management Comment:** Processes and systems are being reviewed with staff. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 31

# 7.0  Framework Implementation

| Component | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|
| 7.3.4. Employee Identity and Credentials | Systems and controls for screening and monitoring existing employees for changes in their circumstances which may impact their employment. | Practices and procedures for verifying employee identity, right to work in Australia, verification of employment history and qualifications are managed internally by individual departments. Formalised procedures are not yet in place to ensure these checks have been performed prior to employee commencement. |
| | | **Improvement:**<br>Develop, implement and maintain appropriate policies and procedures to reduce the risk of unqualified or unsuitable staff being employed by the Shire, in line with the Western Australian Auditor General's Report in June 2019 relating to Verifying Employee Identity and Credentials.<br><br>**Management Comment:** Processes and systems are being reviewed with staff. |
| 7.3.5. Staff Training | To ensure staff have access to ongoing and appropriate training | Planned and required staff training needs for employees are currently identified and recorded in a central training matrix for some operational areas/departments. Further value from this initiative can be added through refining the current matrix toward a more formal required staff training structure, applied throughout the organisation. |
| | | **Improvement:**<br>Create a current organisation wide staff training matrix to identify staff training needs relevant to their role, ensuring it is co-ordinated across the organisation and monitors currency of required licences and qualifications.<br><br>**Management Comment:** Existing training matrix can be managed by the WHS Coordinator under SkyTrust software and updated as part of the annual staff performance appraisals. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 32

# 7.0  Framework Implementation

## 7.4  Insurance

At present, the Deputy CEO annually reviews the completeness of insurance, which is presented to the Chief Executive Officer for final review. Discussions are also held with the insurers annually and adjustments to policies and insurance levels made as considered appropriate. The insurance values of buildings, plant and equipment are based on the three to five yearly valuations of building assets undertaken by registered valuers. Increased involvement of senior staff has occurred with most recent insurance reviews following infrastructure loss/damage and multiple insurance claims resulting from Cyclone Seroja in April 2021.

| Component | | Purpose / Goal | Matters Noted / Improvements |
|---|---|---|---|
| 7.4.1. | Contractor Insurance | Insurance cover maintained by contractors for damage caused when undertaking works for the Shire. | Contractors' insurances are not always assessed prior to award of contracts in all cases. Reliance is placed on contract managers to ensure copies of insurances are provided. We noted updates to systems to record this information has commenced, prioritised by the value of contracts issued. |
| | | | **Improvement:** To help ensure all contractors have the relevant licences and have adequate insurance cover for the works they undertake for the Shire, progress the development of procedures and maintenance of records to ensure copies of contractor's insurances are obtained and held on file prior to award of contracts and they remain current. |
| | | | **Management Comment:** Improvement is being implemented through WHS Coordinator and SkyTrust contractor induction process. |
| 7.4.2. | Events Insurance | Insurance cover maintained by community groups for when holding events on Shire property. | Community groups' insurances are not always assessed prior to events being held on Shire property. Reliance is placed on event organisers to ensure copies of insurances are provided. |
| | | | **Improvement:** To help ensure all events held on Shire property have relevant and adequate insurance cover, procedures should be developed, and records maintained to ensure current insurances are in place. |
| | | | **Management Comment:** Current events application systems and processes to reviewed to consider this. Minimal instances would occur where events insurance would be required, therefore risk is considered low. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 33

# 7.0  Framework Implementation

| Component | | Purpose / Goal | Matters Noted / Improvements |
|---|---|---|---|
| 7.4.3. | Insurance Claims | Systems and processes to ensure controls are maintained prior to lodging insurance claims. | We noted some insurance claims are being signed by an officer who may not have the requisite level of authority for final processing and submission of claims. This may result in claims being referred to insurers without appropriate review and authorisation by a senior officer. |
| | | | **Improvement:**<br>Review systems and processes relating to insurance claims to ensure they are appropriately reviewed and authorised prior to being lodged with insurers for processing.<br><br>**Management Comment:** Improvement has been implemented. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 34

# 8.0 Framework Evaluation

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

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

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

## 8.1    Council and Audit and Risk Committee

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

| Component | Purpose / Goal | Matters Noted / Improvements |
|---|---|---|
| 8.1.1. Council and Committee Minutes | Official record of proceedings and decisions. | Not all attachments (monthly statement of financial activity, accounts for payment list) are published in the minutes on the official local government website. We noted official minutes of Council and Committees as supplied to us do not include the full officer report or attachments to support the decisions made, including where the decision refers to the officer report or an attachment. |
| | | **Improvements:**<br>Ensure all documents supporting Council / Committee decisions are included in the official minutes, and all minutes are also published on the official local government website as required by legislation. |
| | | Review procedures for recording of official minutes to ensure all detail, decisions and proceedings required to be recorded by legislation are captured. |
| | | **Management Comment:** Improvement is currently being implemented. |
| 8.1.2. Council and Committees | Monitoring and consideration of risks when making strategic decisions. | Identified risks are not consistently included within agenda items for elected member consideration for recording in the risk register. |
| | | **Improvement:**<br>Identified risks relating to a Council decision should be consistently communicated within the agenda item, to enable elected members to be fully informed of the identified risks when making decisions. Risks should also be appropriately recorded in a risk register. |
| | | **Management Comment:** Although most items being considered are assessed generally as low risk, the improvement will be considered for implementation. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 35

# 8.0  Framework Evaluation

| Component | Purpose / Goal | Matters Noted / Improvements |
|---|---|---|
| 8.1.3.  Audit Committee | To provide oversight in monitoring compliance with legislation, performance, risk and internal controls, internal audit, liaising with external auditors and reporting to Council. | Minutes of all Audit Committee meetings were not published on the official local government website at the time of our review. |
| | | **Improvement:** Ensure all Committee minutes are published on the official local government website as required by legislation. |
| | | **Management Comment:** Improvement has been implemented. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 36

# 8.0  Framework Evaluation

## 8.2      Strategic and Operational Registers

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

| Register | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|
| 8.2.1.  Tender Register | Statutory register of tenders called. | Inspection of the register noted the inclusion of several procurements which were not tenders, but rather purchases made under exemptions allowed by regulation 11(2) of the *Local Government (Functions and General) Regulations 1996* or requests for quotations called. Procurement processes which are not tenders should be maintained separate to the tender register. |
| | | We noted whilst no tenders have been called since 2020, some samples selected within the tender register omitted information required to be recorded, such as a copy of the tender advertisement to evidence advertising having occurred as per statutory requirements. |
| | | The tender register does not consistently maintain a record of officers who were present when tenders were opened. There were instances where we were unable to verify tenders having been opened in accordance with legislation. |
| | | At the time of our review, the tender register had not been published on the official local government website as required by regulation 17 of the *Local Government (Functions and General) Regulations 1996*. |
| | | Improvements: |
| | | Ensure the tender register contains only the information required to comply with Regulation 16 & 17 of the *Local Government (Functions and General) Regulations 1996* for future tenders called. |
| | | Review and update controls relating to maintenance of the tender register, ensuring it contains information required to evidence compliance with regulation 16 & 17 of the *Local Government (Functions and General) Regulations 1996*. |
| | | Publish the tender register on the official local government website as required by legislation. |
| | | **Management Comment:** Improvements are being implemented. |
| 8.2.2.  Financial Interest Register | Records details required under the Act relating to financial circumstances of relevant persons. | A primary return for a relevant person was not available for inspection upon examination of the Financial Interest Register. |
| | | Improvement: |
| | | Undertake a thorough examination of records to locate the primary return and file within the register as required within the provisions of section 5.88 of the *Local Government Act 1995*, or take action to rectify and report this matter as required. |
| | | **Management Comment:** Matter being investigated for further action. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 37

# 8.0  Framework Evaluation

| Register | | Purpose / Goal | Matters Identified / Improvements |
|---|---|---|---|
| 8.2.3. | Contracts Register | Provide a record of contracts entered into by the Shire. | A record of contracts held has been established, however it does not provide information detailing the status of contracts held by the Shire. |
| | | | **Improvement:** <br> Maintain a register to record details of all contracts (current and expired) and their status in a form to assist with ensuring contracts are monitored and actioned as required and reflecting the value of the contracts. |
| | | | **Management Comment:** Risk considered low given number of contracts in place. Register to be investigated. |
| 8.2.4. | Swimming Pool Inspection Register | Register of inspections undertaken. | A register of inspections of private swimming pools within the district is currently maintained, although it was noted some routine inspections are currently overdue. Management representations indicate these required inspections are being actioned now resources are available to perform the task, which had previously been reallocated to respond to the effects of cyclone Seroja. |
| | | | **Improvement:** <br> Update systems and processes to ensure routine monitoring and review of the register occurs for future private swimming pool inspections to be undertaken within required timeframes. |
| | | | **Management Comment:** Improvement being implemented. |
| 8.2.5. | Delegation Register | Statutory register of delegations of authority. | A number of items recorded in the delegations register as delegations to the CEO are responsibilities of the CEO, and not decisions of Council delegated to the CEO. |
| | | | A review/amendment history is not currently recorded within the delegations register. |
| | | | **Improvements:** <br> Review Council delegations to the CEO to ensure they relate to decisions of Council delegated to the CEO and update the register accordingly. |
| | | | **Management Comment:** Delegations to be reviewed to implement improvement. |
| | | | Following review of Delegations by Council, update the latest 'history' date on each delegation to provide an accurate record of when the delegation was reviewed, amended and adopted for clarity and easy reference. |
| | | | **Management Comment:** Current recording of review of delegations register is considered adequate. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 38

# 8.0 Framework Evaluation

## 8.3 Annual Compliance Audit Returns (CAR)

Returns have been completed on a self-assessment basis and approved by Council each year. The CAR was completed in house by staff for the 2019, 2020 and 2021 return periods. No matters of non-compliance were noted in the returns, which were presented to the Audit Committee and to Council for consideration as required by legislation.

## 8.4 Complaint Handling

Community complaints are received by administration staff and allocated to the relevant manager to address. A community complaints register is maintained to record the status of and to review the routine follow up of complaints to ensure they have been adequately addressed.

| Component | Purpose / Goal | Matters Noted / Improvements |
|---|---|---|
| 8.4.1. Official Complaints | A complaint register is required to be maintained in accordance with Section 5.121 of the Local Government Act 1995. | The official complaints register is not published on the Shire's official local government website as required by section 5.121(3) of the Local Government Act 1995. |
| | | **Improvement:** To ensure compliance with the Act, an official up to date complaints register should be maintained and published on the Shire's official local government website. |
| | | **Management Comment:** Official complaints register to be published on website (in addition to the community complaints register currently published). |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 39

# 8.0   Framework Evaluation

## 8.5    Audit Practices

The 2017-18, 2018-19 periods and 2019-20 reporting periods were audited by the Office of the Auditor General (OAG). The 2018-19 audit report noted the operating surplus ratio had been below the benchmark set by the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for three years and indicated a significant adverse trend to the financial position of the Shire. A significant adverse trend was also noted in 2019-20 for the operating surplus ratio, as well as the Asset Sustainability Ratio having been below the benchmark set by DLGSCI for two years.

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

| Component | Purpose / Goal | Matters Noted / Improvements |
| --- | --- | --- |
| 8.5.1.   Internal Audit | Internal audit monitors the level of compliance with internal procedures and process along with assessing the appropriateness of these procedures. | Currently, no internal auditors have been appointed, and limited internal audit functions have been undertaken. |
| | | Improvement: We suggest as the level of documented procedures increases, an expanded internal audit function to confirm adherence to documented policies and procedures may be required as recommended by the OAG in their report to Parliament on the Audit Results Report – Annual 2017-18 Financial Audits of Local Government Entities. |
| | | **Management Comment:** Given the current context of operations and available resourcing, current review systems are considered adequate. This will be reviewed should the context of the Shire's operations change. |

## 8.6    Review required to be undertaken by the CEO

The CEO is required to undertake reviews of systems and procedures of the local government. Prior reviews have been completed within the correct structure and timeframe. We noted not all recommendations from the prior reviews have been fully implemented. These recommendations have been included within this report.

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

| 40

# 9.0  Other Matters

## Disclaimer

Liability limited by a scheme approved under Professional Standards Legislation.

The services provided in terms of this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standard Board and, consequently no opinions or conclusions are intended to convey assurance either expressed or implied.

Moore Australia (WA) Pty Ltd, a Perth based partnership of trusts ("the firm"), carries on business separately and independently from other Moore Global Network Limited member firms worldwide.

Services provided under this engagement are provided by the Firm and not by any other independent Moore Global Network Limited member firm. No other independent Moore Global Network Limited member has any liability for services provided by other members.

Throughout this document, a reference to Moore Australia refers to Moore Australia (WA) Pty Ltd trading as agent ABN 99 433 544 961, an independent member of Moore Global Network Limited – member in principal cities throughout the world. Moore Australia (WA) Pty Ltd is not a partner or agent of any other Moore Global Network Limited firm.

## Copyright

All rights reserved.

Any report, plan, presentation or document prepared and/or spreadsheet supplied is prepared solely for the purpose set out in the proposal scope and is not to be used for any other purpose or distributed to any other party without Moore Australia (WA) prior consent. Any reliance placed by a third party on the report is that party's responsibility.

## Terms and conditions

Unless otherwise agreed in writing, Moore Australia (WA) standard terms concerning billings and fees will apply.

## Confidentiality

The information contained in this document is confidential and cannot be conveyed to any party other than the party to which it is directed.

## Conflicts of interest

The firm currently provides extensive audit and advisory services to local government. Should the possibility of a perceived or actual conflict arise in relation to delivery of our review services, the matter would be raised with the CEO immediately and activities suspended until the issue is resolved to the satisfaction of the CEO.

## Document Date

Version:     4.0
Status:      Final
Date:        28 October 2022

# Appendix A – Financial Management Systems Review

The following reviews were undertaken to evaluate the appropriateness and effectiveness of financial management system controls:

| System | Description |
|---|---|
| Bank reconciliation and petty cash management | Examination of procedures and review of maintenance and management practices undertaken by staff |
| Trust funds | Examination of trust funds to determine proper accountability in the Shire's financial management system and compliance with regulatory requirements |
| Receipts and receivables | Examination of end of day banking procedures to determine if they were adequate in ensuring cash collection is being recorded and allocated properly to the general ledger. The receivables system including raising of invoices was also reviewed with limited testing in respect to allocation/posting |
| Rates | 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:<br><br>• sighting the notices;<br>• re-performing the calculations;<br>• ascertaining whether the valuations applied agree to Landgate's valuation roll/report and rates per dollar imposed are as per adopted budget;<br>• ensuring the rate system is properly updated; and<br>• checking proper posting to the general ledger |
| Purchases, payments and payables (including purchase orders) | 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.<br><br>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 |
| Payroll | A sample of eight employees were randomly selected from four pay runs and detailed testing of each employee's pay was performed to help ensure:<br><br>• the employee existed;<br>• the correct rate of pay was used;<br>• non-statutory deduction authorities are on hand;<br>• time sheets were properly completed and authorised;<br>• hours worked were properly authorised; and<br>• allocations were reasonable and correctly posted<br><br>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 |
| Credit card procedures | A review of the Shire's credit card procedures was performed to determine if adequate controls were in place. We randomly selected and tested credit card transactions to determine whether they are legitimate and usual in the context of the Shire's operations. This included:<br><br>• sighting tax invoices;<br>• ascertaining whether the transaction is for bona fide Shire business; and<br>• determining whether transactions are in line with the Shire's policy. |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 42

# Appendix A – Financial Management Systems Review

| System | Description |
|---|---|
| Fixed assets (including depreciation, acquisition, and disposal of property) | 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: <ul><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> In addition, a sample of four assets were judgmentally selected and testing performed to ensure the depreciation rates used are in line with the Shire's policy |
| 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 |
| Financial reports controls | The format of the annual report, annual financial report and monthly financial reports were reviewed for compliance with legislative requirements |
| Budget and budget review | The 2021-22 budget document and documents surrounding budget adoption were reviewed to ensure compliance with regulatory requirements |
| Borrowings | Reconciliation of borrowings to the WATC loan schedules were examined |
| Inventory | Inventory reconciliations and stocktake procedures were examined |

**Shire of Northampton**
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 43

# Appendix B – Council Policies Examined

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

**Policy Topic (as adopted at 18 June 2021)**

| ADMINISTRATION | FINANCE |
|---|---|
| 1.1 Smoking – Buildings & Working Environment | 2.1 Local Purchase Policy |
| 1.2 Public Relations – Press Releases | 2.2 Tender Procedure |
| 1.3 Review of Policy Manual | 2.3 Purchasing and Tender Guide Model Purchasing Policy |
| 1.4 Schools – Work Experience Programs | 2.4 Regulatory Compliance |
| 1.5 Execution of Documents | 2.5 Investment of Surplus Funds |
| 1.6 Legal Representation – Costs Indemnification | 2.6 Immateriality Base for Financial Reporting |
| 1.7 State Records Act | 2.7 Gifts |
| 1.8 Representation – Northern Zone WA Local Government Association | 2.8 Funding for Ongoing Community Events |
| 1.9 Risk Management Policy | 2.9 Corporate Credit Card Policy |
| 1.10 Legislative Compliance Policy | 2.10 Debt Recovery |
| 1.11 Related Party Disclosures Policy | 2.11 Financial Hardship Policy and Procedures – Rate Debtors |
| 1.12 Community Engagement Policy | **MEMBERS** |
| 1.13 Attendance at Events Policy | 3.1 Councillors Out of Pocket Expenses – Travel Expenses |
| 1.14 Information Technology Use Policy | 3.2 Attendance to WA Local Government Convention |
| 1.15 Appointment of Acting Chief Executive Officer | |
| 1.16 Elected Member Training and Professional Development Policy | |

| STAFF | PROPERTIES |
|---|---|
| 4.1 Senior Staff | 5.1 Staff Housing – Appliances |
| 4.2 Staff Training | 5.2 Tenancy Agreements |
| 4.3 Staff and Councillors Attendance at Conferences, Training Seminars etc | 5.3 Camping for Aboriginal Cultural Purposes |
| 4.4 Staff Telephones in Residences | |
| 4.5 Staff – Bank Accounts | |
| 4.6 Staff – Occupational Safety and Health Policy | |
| 4.7 Fitness for Work – Drug and Alcohol Policy | |
| 4.8 Equal Opportunity | |
| 4.9 Harassment and Complaints/Grievance Procedure | |
| 4.10 Staff – Protection from the Sun for Outdoor Work | |
| 4.11 Severance Pay Policy | |
| 4.12 Redundancy policy | |
| 4.13 Superannuation Contribution | |
| 4.14 Senior Staff Car Policy | |

**Shire of Northampton**
**Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022**

I 44

# Appendix B – Council Policies Examined

| ENGINEERING/WORKS/PLANT | BUSH FIRE |
|---|---|
| 6.1 Vehicle Emblems<br>6.2 Operations of Plant by Staff Only<br>6.3 Private Works<br>6.4 Road Drainage<br>6.5 Gravel Construction of Rural Roads<br>6.6 Crossovers<br>6.7 Rural Road Tree Planting<br>6.8 Advertising Costs for Road Closures<br>6.9 Roadside Vegetation Clearing – Fence Line Clearing<br>6.10 Gravel/Sand Royalties<br>6.11 Roadside Memorials | 7.1 Authority to Burn<br>7.2 Burning on Public Holidays<br>7.3 Bushfire Training Courses<br>7.4 Banning of Campfires<br>7.5 Fire Reports<br>7.6 Aerial Inspection of Firebreaks |
| **BUILDING AND HEALTH CONTROL** | **TOWN PLANNING** |
| 8.1 Building on Kalbarri Foreshore<br>8.2 Trading in Public Places Policy<br>8.3 Infringement Notices – Breaches of Swimming Pool Regulations<br>8.4 Protection of Kerbs/Verges and Pathways<br>8.5 Conditions of Approval of Itinerant Food Vendors<br>8.6 Issuing of Section 23 Certificates Under the Strata Titles Act 1985<br>8.7 Independent Inspection of Council Owned Assets - Buildings | 9.1 Landscaping Bond – Developments<br>9.2 Requirements for Licence Agreements to use Crown Reserves for Commercial, Recreational and Tourism Activities |
| **MISCELLANEOUS** | **TOURISM** |
| 10.1 Parking on Kalbarri Foreshore Reserve<br>10.2 Side Shows on Council Controlled Land<br>10.3 Community Bus<br>10.4 Memorial Seats<br>10.5 Sporting and Non Sporting Achievement Scholarship Program<br>10.6 Petroleum, Gas, Mining and Extractive Industries Policy | 11.1 Tourism Policy |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 45

# Appendix C – Plans Examined

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

| Plan | Status |
|------|--------|
| Strategic Community Plan | 2020-2030 |
| Corporate Business Plan | 2021-2024 |
| Business Continuity and Disaster Recovery Plan | Reviewed 2020 |
| Capital Works Program Plans | 2021-2027 |
| Workforce Plan | 2021 |
| Code of Conduct – Council Members, Committee Members and Candidates | 2021 |
| Record Keeping Plan | Approved by State Records Office 10 August 2018 |
| Local Emergency Management Arrangements | 2015 |
| Annual Report | 2018-19, 2019-20 & 2020-21 |

**Shire of Northampton**
**Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022**

I 46

# Appendix D – Strategic and Operational Registers Examined

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

| Register |
| --- |
| Gifts Register |
| Delegation Register (adopted 18 June 2021) |
| Financial Interests Register |
| Official Complaints Register |
| Community Complaints Register |
| Swimming Pool Inspection Register |
| Cemeteries Register |
| Easements & Management Orders Register |
| Development Applications and Building Register |
| Tender Register |
| Hazardous Materials Register |
| Leases and Contracts Register |

**Shire of Northampton**
**Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022**

I 47

# Appendix E – Operational Guidelines

## Risk Management

*The internal control and risk management systems and programs are a key expression of a local government's attitude to effective controls. Good audit committee practices in monitoring internal control and risk management programs typically include:*

*Reviewing whether the local government has an effective risk management system and material operating risks to the local government are appropriately considered;*

*Reviewing whether the local government has a current and effective Business Continuity Plan (including disaster recovery) which is tested from time to time;*

*Assessing the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas:*

- *potential non-compliance with legislation, regulations and standards and local government's policies*

- *important accounting judgements or estimates prove to be wrong*

- *litigation and claims*

- *misconduct, fraud and theft*

- *significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the local government*

*Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure identified risks are monitored and new risks are identified, mitigated and reported;*

*Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;*

*Reviewing the effectiveness of the local government's internal control system with management and the internal and external auditors;*

*Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;*

*Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied;*

*Should the need arise, meeting periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment; and*

*Ascertaining whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated, monitored and there is regular reporting and ongoing management of fraud and misconduct risks.*

## Legislative Compliance

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

a) *Monitoring compliance with legislation and regulations*

b) *Reviewing the annual Compliance Audit Return and reporting to Council the results of that review*

c) *Staying informed about how management is monitoring the effectiveness of its compliance and making recommendations for change as necessary*

# Appendix E – Operational Guidelines

## Legislative Compliance (continued)

d) *Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints*

e) *Obtaining assurance that adverse trends are identified and review management's Plans to deal with these*

f) *Reviewing management disclosures in financial reports of the effect of significant compliance issues*

g) *Reviewing whether the internal and / or external auditors have regard to compliance and ethics risks in the development of their Audit Plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee*

h) *Considering the internal auditor's role in assessing compliance and ethics risks in their Plan;*

i) *Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements*

j) *Complying with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest*

## Internal Controls

*Internal controls are systems of policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations.*

*These systems not only relate to accounting and reporting but also include communication processes both internally and externally, staff management and error handling.*

*Operational Guidelines prepared by the Department of Local Government and Communities (Audit in Local Government number 09 September 2013) provide the background to Internal Controls in the context of this review as follows:*

*'Internal control is a key component of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Strategies to maintain sound internal controls are based on risk analysis of the internal operations of a local government.*

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

a) *integrity and ethics;*

b) *policies and delegated authority;*

c) *levels of responsibilities and authorities;*

d) *audit practices;*

e) *information system access and security;*

f) *management operating style; and*

g) *human resource management and practices.*

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

# Appendix E – Operational Guidelines

**Internal Controls (continued)**

*Aspects of an effective control framework will include:*

 a) *delegation of authority;*

 b) *documented policies and procedures;*

 c) *trained and qualified employees;*

 d) *system controls;*

 e) *effective Policy and process review;*

 f) *regular internal audits*

 g) *documentation of risk identification and assessment; and*

 h) *regular liaison with auditor and legal advisors.*

*The following are examples of controls that are typically reviewed:*

 a) *separation of roles and functions, processing and authorisation;*

 b) *control of approval of documents, letters and financial records;*

 c) *comparison of internal data with other or external sources of information;*

 d) *limit of direct physical access to assets and records;*

 e) *control of computer applications and information system standards;*

 f) *limit access to make changes in data files and systems;*

 g) *regular maintenance and review of financial control accounts and trial balances;*

 h) *comparison and analysis of financial results with budgeted amounts;*

 i) *the arithmetical accuracy and content of records;*

 j) *report, review and approval of financial payments and reconciliations; and*

 k) *comparison of the result of physical cash and inventory counts with accounting records.*

**Shire of Northampton**
**Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022**

I 50

# Appendix F – Improvements Identified

| Risk Area | Prioritised action required |
|---|---|
| Design – Policies | None |
| Implementation – Strategic and Operational Plans | 7.1.1 Business Continuity & Disaster Recovery Plan |
| Implementation – Operational and Financial Procedures | 7.2.3 Risk Management<br>7.2.5 Access to Shire Facilities<br>7.2.11 Outstanding Purchase Orders |
| Implementation – Human Resource Management and Practices | None |
| Implementation – Insurance | 7.4.3 Insurance Claims |
| Evaluation – Council and Audit and Risk Committee | None |
| Evaluation – Strategic and Operational Registers | 8.2.5 Swimming Pool Inspection Register |
| Evaluation – Complaint Handling | None |
| Evaluation – Audit Practices | None |
| Evaluation – CEO Reviews | None |

**Shire of Northampton**
**Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022**

I 51

# Appendix F – Improvements Identified

| Risk Area | Planned action required |
|---|---|
| Design – Policies | 6.2.1 Policy Review |
| | 6.2.2 General Policy Actions |
| | 6.2.3 Policy Reference to Legislation and External Information |
| | 6.2.4 Internal Council Policy |
| | 6.2.5 Purchasing and Tender Guide Model Purchasing Policy 2.3 |
| | 6.2.6 Regulatory Compliance Policy 2.4 |
| | 6.2.7 Immateriality Base for Financial Reporting Policy 2.6 |
| | 6.2.8 Gifts Policy 2.7 |
| | 6.2.9 Financial Hardship Policy & Procedures Rate Debtors |
| | 6.2.10 Councillor Out of Pocket Expenses - Travel Expenses Policy 3.1 |
| | 6.2.11 Harassment and Grievance Policy 4.9 |
| | 6.2.12 Superannuation Contribution Policy 4.13 |
| | 6.2.13 Senior Staff Car Policy 4.14 |
| | 6.2.14 Independent Inspection of Council Owned Assets - Buildings Policy 8.7 |
| Implementation – Strategic and Operational Plans | 7.1.2 Code of Conduct for Employees and Contractors |
| Implementation – Operational and Financial Procedures | 7.2.1 Trust Fund |
| | 7.2.2 Petty Cash |
| | 7.2.4 Checklists & Workflow Diagrams |
| | 7.2.6 Risk Management Procedures |
| | 7.2.7 Security Controls for Cash Handling |
| | 7.2.8 Procurement |
| | 7.2.9 Procurement Assessment |
| | 7.2.10 Changes to Banking Details |
| | 7.2.12 Rates |
| | 7.2.13 Asset Disposals |
| | 7.2.14 Information Required to be Published on Website |
| | 7.2.15 Report on Elected Member Training |
| | 7.2.16 ICT Service Level Agreement |
| | 7.2.17 Procedure Changes |
| | 7.2.18 Operating Procedures at Shire facilities |
| | 7.2.19 Accounts Payable |
| Implementation – Human Resource Management and Practices | 7.3.1 Payroll Exception Reporting |
| | 7.3.2 Time Records |
| | 7.3.3 Employee Appointment Procedures |
| | 7.3.4 Employee Identity and Credentials |
| | 7.3.5 Staff Training |
| Implementation – Insurance | 7.4.1 Contractor Insurance |
| Evaluation – Council and Audit and Risk Committee | 8.1.1 Council and Committee Minutes |
| | 8.1.2 Council and Committees |
| | 8.1.3 Audit Committee |
| Evaluation – Strategic and Operational Registers | 8.2.1 Tender Register |
| | 8.2.3 Financial Interest Register |
| | 8.2.4 Contracts Register |
| | 8.2.6 Delegation Register |

Shire of Northampton
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 52

# Appendix F – Improvements Identified

| Risk Area | Planned action required |
|---|---|
| Evaluation – Complaint Handling | 8.4.1 Official Complaints |
| Evaluation – Audit Practices | 8.5.1 Internal Audit |
| Evaluation – CEO Reviews | None |

**Shire of Northampton**
Review of Financial Management, Risk Management, Legislative Compliance and Internal Controls - July 2022

I 53