minutes

FINANCE AND AUDIT COMMITTEE

TOWN OF VICTORIA PARK

Please be advised that a **Finance and Audit Committee** Meeting commenced at **5.00pm** on **Monday 14 August 2017** in Meeting Room 1 at the Administration Building, 99 Shepperton Road, Victoria Park.

ANTHONY VULETA
CHIEF EXECUTIVE OFFICER

15 August 2017

(To be confirmed 11 September 2017)

TABLE OF CONTENTS

1 OPENING

Cr Windram opened the meeting at 5.00pm.

2 ATTENDANCE

Members:	
Banksia Ward:	Cr M (Mark) Windram (Presiding Member)
	Cr K (Keith) Hayes
Jarrah Ward:	Cr V (Vince) Maxwell
	Cr J (Jennifer) Ammons Noble
Observers:	Mayor T (Trevor) Vaughan
Jarrah Ward:	Cr B (Brian) Oliver
Director Business Life	Mr N (Nathan) Cain
A/Director Renew Life Program	Mr J (John) Wong
Secretary:	Ms L (Louise) Jarosz
Guests:	
Property Development Officer	Jon Morellini
Manager Customer Service	Matthew Reed
A/Executive Manager Communications	Kellie Todman
Manager Financial Services	Ann Thampoe

2.1 Apologies

Nil

2.2 Approved Leave of Absence

Nil

3 DECLARATIONS OF INTEREST

Declarations of interest are to be made in writing prior to the commencement of the Meeting, (a form to assist Elected Members and Staff is attached at the end of this Agenda).

Declaration of Financial Interests
Nil

Declaration of Proximity Interest
Nil

Declaration of Interest affecting impartiality
Nil

4 TERMS OF REFERENCE

1. NAME

The name of the Committee shall be the Finance and Audit Committee (the Committee).

2. AIMS AND OBJECTIVES

The strategic focus for the Committee is aligned to the Community Strategic Plan. The purpose of the Committee is to contribute to the vibrant lifestyle of the Town.

2.1 Goals

To provide sound financial management and good governance by:

- Providing guidance and assistance to Council as to the carrying out of its functions in relation to audits in compliance with the Local Government Act 1995;
- Developing and reviewing Council policies as per the Committee's Key Focus Areas;
- Developing appropriate strategies that will deliver the most favourable long term outcomes for the Council in the Committee's Key Focus Areas;
- Ensuring Council maintains its financial capacity to deliver programs and services; and
- Providing advice to Council in relation to matters that are within the Committee's area of responsibility.

2.2 Deliverables

The key deliverables of the Committee will include:

- Annual compliance audit;
- Annual risk management audit; and
- Annual review / update of policies, strategies and plans related to the Key Focus Areas.

2.3 Scope and Jurisdiction

The Key Focus Areas of the Committee include:

- Audit;
- Financial planning;
- Revenue diversification;
- Investments;
- Rates;
- Grants;
- Asset management;
- Land asset optimisation;
- Risk Management; and
- Governance.

2.4 Engagement

The Committee may invite individuals and subject matter experts to attend a meeting of the Committee to provide expert advice where required.

3. MEMBERSHIP

The Committee will comprise a maximum of four (4) Elected Members being two (2)

Elected Member representatives from each of the Town's two (2) wards with five (5) Elected Members being appointed in a hierarchical order as alternate deputy members except for the Chief Executive Officer Recruitment and Performance Review Committee whereby five (5) Elected Members are appointed being the Mayor and two (2) Elected members from each of the Town's two (2) Wards with four (4) Elected Members being appointed in a hierarchical order as alternate deputy members.

4. MEETINGS
The Committee shall convene in accordance with its annual adopted meeting schedule.

5. QUORUM
In accordance with section 5.19 of *the Local Government Act 1995* the quorum for a meeting of the Committee is at least 50% of the number of offices (whether vacant or not) of members of the Committee.

6. DELEGATED POWER
The Committee has no delegated power and all recommendations made are to be referred to Council for a decision.

7. GOVERNANCE
The Committee is governed by the provisions of the *Town of Victoria Park Standing Orders Local Law 2011* and the *Local Government Act 1995* and its Regulations.

5 CONFIRMATION OF MINUTES

RESOLVED:

Moved: Cr Hayes **Seconded: Cr Maxwell**

That the Minutes of the Finance and Audit Committee Meeting held on 12 June 2017 be confirmed.

The Motion was Put and **Carried (4:0)**

In favour of the Motion: Cr Maxwell; Cr Hayes; Cr Windram and Cr Ammons Noble

6 METHOD OF DEALING WITH AGENDA BUSINESS

RESOLVED:

Moved: Cr Ammons Noble **Seconded: Cr Windram**

That clause *6.10 Speaking Twice* of the *Town of Victoria Park Standing Orders Local Law 2011* be suspended for the duration of this meeting.

The Motion was Put and **Carried (4:0)**

In favour of the Motion: Cr Maxwell; Cr Hayes; Cr Windram and Cr Ammons Noble

7 PRESENTATIONS

7.1 Deputations

Nil

8 REPORTS

8.1 Customer Service Delivery Policy

File Reference:	COR/13/0001~03
Appendices:	No
Attachments:	Customer Service Delivery Policy

Date:	8 August 2017
Reporting Officer:	M. Reed
Responsible Officer:	N. Cain
Voting Requirement:	Simple Majority

Executive Summary:
Recommendation – The Customer Service Delivery Policy be endorsed.

- The Customer Service Delivery Policy has been developed to guide the Town's approach to providing optimal Customer Service.
- The policy has been designed to give guidelines on how feedback, complaint handling and management of vexatious complainants is conducted.

TABLED ITEMS:
Nil

BACKGROUND:
The biannual community satisfaction survey, for the last three rounds, received the same relatively low result of 66 percent for customer service. The need to address these results, and the Chief Executive Officer's 20/20 vision that prioritised customer focus, helped direct the establishment of a dedicated project team (*You Me Community*). The key objectives of the team were to originally address service delivery and lift satisfaction with the perception of the Town's performance. After consultation and evaluation the *You Me Community* project team identified nine key deliverables. Importance was placed on establishing and clarifying the expectations of staff-to-customer service behaviour. Also, whilst addressing the low service delivery satisfaction, a systems and processes review recognised the need to address the current constraints of little, to no, contextual feedback on performance. Specifically the lack of end to end visibility in the management of customer interaction and communication with the Town and the notion that service delivery standards were vague, or non-existent, and no customer service training beyond the front line staff occurred within the organisation.

Establishing a Customer Service Delivery Policy is one more component to the holistic delivery of service to our community. Having a policy to give guidance and the consistent management practice on how feedback, complaints and vexatious customers are handled is likely to improve public perception of the Town's performance.

The Finance and Audit committee reviewed the policy during the June 2017 workshop. It was requested that the policy be submitted for committee approval in August 2017

DETAILS:
A draft Council Policy has been prepared to provide the framework for the handling of feedback, complaint handling and management of vexatious complainants within the Town of Victoria Park. A supporting Management Practice, with relevant procedures that outline the specific guidelines and processes, has also been drafted.

This policy will apply to all visitors, residents and rate payers that interact with the Town.

Legal Compliance:
The *Ombudsman WA Complaint Handling Guidelines* document has no legislative jurisdiction. However, the document has assisted in identifying the relevant working principles of Customer Focus, Visibility, Accessibility, Responsiveness, Objectivity, Fairness, Confidentiality, Remedy, Review, Accountability and Continuous Improvement. These principles have been included in the Management Practice and Procedures that support the Customer Service Delivery Policy.

There is no legislation that directs the management of complaint handling when outside of the following legislation.

The *Public Interest Disclosure Act 2003* provides guidance to certain types of customer interaction, although these are covered by separate documents within the Town.

Policy Implications:
This item proposes the adoption of a new Council Policy.

Risk Management Considerations:

Risk & Consequence	Consequence + Rating	Likelihood = Rating	Overall Risk Analysis	Mitigation/Actions
Reputational - Policy not endorsed leading to no consistent complaint handling	Minor	Likely	Moderate	Management will review feedback, complaint handling and provide evidence of vexatious complainants
Reputational – Policy not endorsed leading to no consistent complaint handling that leads to outrage on social media	Moderate	Almost Certain	High	Review social media and take required action to maintain the brand of the Town
Financial –	Moderate	Almost	High	Chief Officers will

Policy not endorsed leading to resources expended on vexatious complainants		Certain		assess the evidence and make recommendations to the CEO as required

Strategic Plan Implications:
A strategic objective in the Town's *Strategic Community Plan 2017-2032* is to ensure that "people have positive exchanges with the Town that inspires confidence in the information and the timely service provided." This Policy will assist in realising this objective.

Financial Implications:
Nil

Total Asset Management:
Nil

Sustainability Assessment:
External Economic Implications:
Nil

Social Issues:
Nil

Cultural Issues:
Nil

Environmental Issues:
Nil

COMMENT:
The proposed policy, if adopted, will support and promote the provision of optimal Customer Service, allowing for the inclusion of the Ombudsman WA Complaint handling key principles of Transparency, Accessibility, Fairness, Accountability and Continuous Improvement.

This policy is supported by a Management Practice that is endorsed by Senior Management and assists in establishing a framework that ensures a consistent approach to how customer feedback is captured, information is reported, complaint handling is processed and the appropriate management of vexatious complainants.

CONCLUSION:
Having aligned the policy, practice and procedure to the Ombudsman WA Complaint Handling Guidelines, allows the Town to strive for best practice. Improved customer experience and reducing expense will be an expected outcome.

Customer Service Delivery Policy

Reviewed July 2016

Policy Statement

The Council of the Town of Victoria Park is committed to the excellence in the area of customer service delivery to its residents, visitors and ratepayers.
The delivery aligns with the principles of the Customer Service Charter, relevant industry standards and the WA Ombudsmen's best practice.

Scope

This policy applies to all employees, contractors and Elected Members who work for, or act on behalf of the Town of Victoria Park.

Practice Implications

Practices to demonstrate;

1. Transparency and good governance to residents, visitors and ratepayers when delivering services, actioning requests and receiving feedback;
2. Increased satisfaction in obtaining the right outcome when delivering services and requests; and
3. Consistency and control in how Council investigates and handles complaints;
4. Guidance on treatment of vexatious customers.

References

Local Government Act 1995
State Records Act 2000
Town of Victoria Park – Customer Service Charter
Town of Victoria Park – Code of Conduct
Town of Victoria Park – Record Keeping Plan
International Standardisation Organisation – ISO 26000 – Social Responsibility

Directly Associated Practices

Customer Service Practice

RESOLVED:

Moved: Cr Windram **Seconded: Cr Ammons Noble**

That the Finance and Audit Committee recommends that the Council adopts the Customer Service Delivery Policy as attached to, and forming part of, this report.

The Motion was Put and **Carried (4:0)**

In favour of the Motion: Cr Maxwell; Cr Hayes; Cr Windram and Cr Ammons Noble

Matthew Reed left the meeting at 5.08pm

8.2 Financial Management Review 2016-2017

File Reference:	FIN/11/0001~09
Appendices:	No
Attachments:	Yes
Date:	28 July 2017
Reporting Officer:	A. Thampoe
Responsible Officer:	N. Cain
Voting Requirement:	Simple Majority

Executive Summary:
Recommendation – That Council notes the auditor's report on the review of the Town's financial management systems and procedures and supports the Management Responses to those comments.

- This item presents findings of an independent review of the Town's financial management systems and procedures.

TABLED ITEMS:
Nil

BACKGROUND:
Not less than once every four years, a review of the appropriateness and effectiveness of the financial management systems and procedures of the Town must be undertaken ("Financial Management Review"). Moore Stephens (WA) Pty Ltd (external auditors) was engaged to conduct this review in accordance with Section 5(2)(c) of the *Local Government (Financial Management) Regulations 1996 (as amended).*

DETAILS:
As part of Council's committee structure, the Finance and Audit Committee has been established to review areas of an audit or compliance nature. As such, the Financial Management Review is included as an attachment to this summarised report.

The Financial Management Review has been carried out on the key financial management areas of the Town, namely:

- Bank Reconciliations and Petty Cash
- Trust Funds
- Receipts and Receivables
- Rates
- Fees and Charges
- Purchases, Payments and Payables (Including Purchase Orders)
- Payroll
- Credit Card Procedures
- Fixed Assets (Including Acquisition and Disposal of Property)
- Cost and Administration Overhead Allocations
- Minutes and Meetings

- Financial Reports
- Budget
- Plan for the Future
- Registers (Including Annual & Primary Return)
- Delegations
- Audit Committee
- Insurance
- Storage of Documents / Record Keeping
- General Compliance Issues and Other Matters

Legal Compliance:
Local Government (Financial Management) Regulations 1996 (as amended)
Local Government Act 1995 (as amended)

Policy Implications:
Nil

Risk Management Considerations:
Two risks have been identified as outlined below;

Risk & Consequence	Consequence + Rating	Likelihood = Rating	Overall Risk Analysis	Mitigation/Actions
Compliance: Council not accepting auditor recommendations, which may leave the Town open to fraud, error or non-compliance	Major	Unlikely	Moderate	Provide reasoning and detailed explanations to Council to enable informed decision making.
Financial Impact: Management not implementing auditor recommendations, which may lead to poor financial management and control.	Major	Unlikely	Moderate	Identify the Town's tolerance for risk. Ensure auditor recommendations, which address risks that are above the identified risk tolerance limit, is implemented by management.

Strategic Plan Implications:
Nil

Financial Implications:
Internal Budget:
The budget for all audit services for the Town is $40,000. The costs to perform the Financial Management review is within budget constraints.

Total Asset Management:
Nil
Sustainability Assessment:
External Economic Implications:
Nil

Social Issues:
Nil

Cultural Issues:
Nil

Environmental Issues:
Nil

COMMENT:
Matters raised by the Auditor, and Management's response to each matter, are as follows:

1. BANK RECONCILIATIONS AND PETTY CASH
Bank Reconciliations
An examination of bank reconciliations and procedures for the period under review noted they are up to date as well as being prepared regularly and promptly for all bank accounts.

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

Management Comment
Nil

2. TRUST FUNDS
Trust funds held by the Town were examined to determine proper accountability in the Town's financial management system and compliance with regulatory requirements. Our observation and testing of four receipts and four payments, judgmentally selected, confirmed trust funds are adequately controlled and all statutory requirements were satisfactorily met.

Management Comment
Nil

3. RECEIPTS AND RECEIVABLES
Detailed testing of twenty two receipts, randomly selected, was performed. This included tracing to individual receipt detail, bank deposits and the general ledger, and review of the end-of-day receipting procedures to ensure banking and allocation/posting were correctly performed. The receivables system including raising of invoices was also reviewed with limited testing in respect to allocation / posting.

We also reviewed the receipting and cash handling procedures at the Town's two main leisure centres (i.e. Aqualife and Leisure Life) to determine if adequate controls were in

place.
Overall, testing was completed satisfactorily. Controls and procedures over receipts and receivables are considered to be operating effectively and are appropriate for the Town's current scope of operations except for the following matters:

- *Daily receipting reconciliations at the Town's leisure centres were not always reviewed at the end of the day and evidenced accordingly by an independent staff member.*

Management Comment
Management notes the observations as stated and confirms that procedures have been updated to ensure daily receipting reconciliations at the Town's leisure centres are reviewed, signed and dated at the end of each day by a senior officer.

- *Cancellation of receipts at the Town's leisure centres were not adequately supervised.*

Management Comment
Management notes the observations as stated and confirms that the receipt cancellation process has been reviewed and updated. Whilst the auditors have recommended all receipt cancellations to be reviewed and authorised by a senior officer prior to any cancellations, this would need to be considered in relation to any possible increased employment costs.

The number of Leisure centre customer service officers are ordinarily limited to 1 staff member when the operations fall out of ordinary business hours. This would mean the customer service officer would not have a senior officer to authorise a receipt cancellation at the point of sale.

After evaluating all of the current available options, management has updated its current procedure to ensure that, where possible and practicable, all receipt cancellations are reviewed and authorised by a senior officer independent of the cancellation process and, where a senior officer is not available on-site, a receipt cancellation report is generated, reviewed and authorised by a senior officer the following day**.**

4. RATES
The Town'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 ten annual rate notices and five interim notices for the period under review. This included:
− sighting the notices;
− re-performing the calculations;
− ascertaining whether the valuations applied agree to Landgate's valuation roll / report and rates per dollar imposed are as per adopted budget;
− ensuring the rate system is properly updated; and
− checking proper posting to the general ledger.

From testing, we concluded the rate system and record are being properly maintained, rates are correctly imposed as well as posted to general ledger.

Notwithstanding this, the following matter is brought to your attention:

• *The rate notice, or accompanying information, did not include a brief statement that rebates under the Rates and Charges (Rebates and Deferments) Act 1992 are funded by the Government of Western Australia, as required by Financial Management Regulation 56(4)(ha).*

Management Comment
The current rates notices include details stating that the rebates are paid to eligible rate payers under the *Rates and Charges (rebates and Deferments) Act 1992*. All future rates notices will be amended to also include the rebates are funded by the Government of Western Australia.

5. FEES AND CHARGES
Fees and Charges imposed at the time of budget adoption were found to be in accordance with legislative requirements.

Management Comment
Nil

6. PURCHASES, PAYMENTS AND PAYABLES (INCLUDING PURCHASE ORDERS)
Twenty two payment transactions were randomly selected and tested to determine whether purchases were authorised / budgeted and payments were supported, certified / authorised and correctly allocated. The Town'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.

In general, controls and procedures over purchases, payments and payables are operating effectively and are appropriate for the Shire's current scope of operations except for the following matters:

- *Noted eight instances where the purchase orders did not precede the supplier invoices*

Management Comment
Management notes the observations as stated and confirms that invoices are monitored against purchase orders monthly as part of an internal audit process. Any identified instances where purchase orders did not precede the supplier invoices, are investigated and additional training provided to staff, if required, and escalated to senior management, if necessary.

- *Our review of the processing of payments by Electronic Funds Transfer (EFT) revealed the controls over the processing of EFT payments and changing of supplier banking details are not adequately segregated.*

Management Comment
Management notes the observations as stated and confirms that all changes to supplier details (including bank details) are reported in a system generated audit trail report that is reviewed and monitored weekly by two senior finance officers as part of the pay-run process.

This process has now been updated to ensure that any changes to supplier bank details are updated by an independent staff member (independent of the Accounts payable officer)

within finance and authorised by a senior Finance staff member.

- *Whilst we found the Town's current process of changing supplier banking details to be adequate, there were no formal documented procedures in place.*

Management Comment
Management confirms that the process to verify a request to change supplier details is now documented and made available to the officers responsible.

7. PURCHASES, PAYMENTS AND PAYABLES (INCLUDING PURCHASE ORDERS) (CONTINUED)

- *Whilst the payment batches were independently reviewed, as required, the senior finance officer only checked a random sample of payments processed instead of the entire batch.*

Management Comment
All payments within a payment batch is currently reviewed independently. Management will ensure a senior finance officer is part of this review process and ensure compliance with the observations.

8. PAYROLL
A sample of twenty individual employees were randomly selected from four pay runs and detailed testing of for each employee's pay were performed to help ensure:

- *the employee existed;*
- *the correct rate of pay was used;*
- *non-statutory deduction authorities are on hand;*
- *time sheets were properly completed and authorised;*
- *hours worked were properly authorised; and*
- *allocations were reasonable and correctly posted.*

We also tested the first pay of two new employee's and two terminated employee's (randomly selected).

The Town'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.

During our review of controls and procedures over payroll, the following matters were noted and raised for your consideration:

- *Three instances where the employee timesheets were missing or misplaced.*

Management Comment
Management notes the observations as stated. The completion of timesheets is still conducted manually and this leaves room for human error due to the volume of transactions. The Town is currently looking into implementing an electronic payroll management system which would eliminate errors.

- *Changes to employee payroll details were not always formally requested on the Town's prescribed authorisation form before changes are made. Current procedures accept emails as sufficient written evidence of authorisation.*

Management Comment
Management notes the observations as stated. The Town currently only has one payroll officer, which limits the resources available for the segregation of duties. Based on the auditor recommendation, any changes to employee banking details will be reviewed and authorised by an independent senior officer within the Human resources area.

9 CREDIT CARD PROCEDURES

A review of the Town's credit card procedures was performed to determine if adequate controls were in place.

Only two credit cards are currently in use. We randomly selected and tested four months' credit card transactions for each card, to determine whether these are legitimate and usual in the context of the Town's operations. This included:

- *sighting tax invoices;*
- *ascertaining whether the transaction is for bona fide Town business; and*
- *determining whether transactions are in line with the Town's policy.*

Overall testing was completed satisfactorily. Controls and procedures over credit card transactions are considered to be operating effectively and are appropriate for the Town's current scope of operations except for the following:

- *No independent review of the CEO's monthly credit card statements.*

Management Comment
The CEO's credit card transactions are currently reviewed by the Executive Officer to ensure all relevant invoices are attached to support each transaction. This is then reviewed and processed by Finance. Based on the auditor recommendation, a process will be implemented to have the CEO's monthly credit card statements to be reviewed independently and be authorised by the Mayor and the Chief Financial Officer of the Town.

10. FIXED ASSETS (INCLUDING 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 five asset additions and five asset disposals were judgmentally selected and testing performed to ensure:

- *the tax invoices existed;*
- *correct posting to the general ledger;*
- *fixed assets register was promptly updated; and*
- *classification of assets was correct;*

We concluded fixed assets are properly accounted for and supporting controls are operating effectively.

Management Comment
Nil

11. COSTS AND ADMINISTRATION OVERHEAD ALLOCATION

The Town's cost and administration allocation system was examined to determine if indirect costs have been properly reallocated to various jobs / programs. This included a review of the allocation basis or rates used to ensure they are appropriate and regularly reviewed. Our review noted the system is being maintained properly.

Management Comment
Nil

12. MINUTES AND MEETINGS

Council and Committee meeting minutes were reviewed to ensure compliance with procedures and protocols.

The procedures and protocols surrounding meetings and the quality of minutes were found to be of a satisfactory standard and in accordance with legislative requirements.

Management Comment
Nil

13. FINANCIAL REPORTS

The following reports were reviewed for compliance with legislative requirements:

- *Annual Report;*
- *Annual Financial Report; and*
- *Monthly Financial Reports.*

All were found to be of a satisfactory standard and in compliance with legislative requirements except for the following matter:

Monthly Financial Reports

- *The monthly statement of financial activity for November 2016 was not presented to Council within two months after the month end as required by Local Government (Financial Management) Regulation 34(*4)(a). Instead, it was presented in the Ordinary Council meeting held in February 2017.

Management Comment
The Town does not hold an Ordinary Council meeting during the month of January, therefore this financial report was presented at the next Ordinary Council meeting, which was in February.

14. BUDGET

The 2016 / 2017 budget document and documents surrounding budget adoption were reviewed to ensure compliance with regulatory requirements.

All statutory requirements were satisfactorily met and the adopted budget was of satisfactory form and content.

Management Comment
Nil

15. PLAN FOR THE FUTURE

The Strategic Community Plan and Corporate Business Plan together comprise the Plan for the Future.
The Town's current Strategic Community Plan (2013 - 2028) and Corporate Business Plan (2014 - 2017) were adopted in June 2013. Both plans are due to be reviewed by 30 June 2017.

From our limited review, they appeared to meet all statutory requirements.

Management Comment
Nil

16. FINANCIAL INTEREST REGISTER

The register was examined to ensure compliance with regulatory requirements.

Our review noted the register was deemed to be satisfactorily maintained and appropriate for the Town's needs with the following exceptions:

- *In relation to individual returns (the responsibility of which rests with the individual completing them) we noted the following:*

  i) One councillor did not lodge an annual return by 31 August 2016.
  ii) Annual returns contained sections which were left blank

Management Comment
Management notes the observations as stated and will ensure additional information/ instructions are provided to make sure the individual returns are prepared and lodged in accordance with Section 5.76 of the Local Government Act 1995.

17. TENDER REGISTER

The tender register was reviewed for completeness, compliance and appeared to be satisfactorily maintained and appropriate for the Town's needs.

Management Comment
Nil

18. DELEGATIONS

The delegations register was reviewed for completeness and compliance and no matters were noted.

Management Comment
Nil

19. AUDIT COMMITTEE

The Town's establishment of its audit committee and the constituted membership was examined by us and considered satisfactory.

Management Comment
Nil

20. INSURANCE
Discussions with staff and review of policy documents revealed policies are current. Evidence also exists to suggest an annual review of insurance risks occurs.

Management Comment
Nil

21. STORAGE OF DOCUMENTS / RECORD KEEPING
A detailed and fully indexed register and filing system is in place and appears to be complete and operating effectively.

Management Comment
Nil

General Compliance Issues and Other Matters

1. INVESTMENTS
The Town's investment policy was reviewed to help ensure its adequacy and compliance with legislative requirements.

Internal control procedures and restrictions over investments are properly maintained and adhered to, the investment policy which fully comply with the requirements of Local Government (Financial Management) Regulation 19C.

2. IT GENERAL ENVIRONMENT
Whilst reviewing the adequacy of the Town's IT general environment, we noted general controls such as authorised access to the computer system, and regular data backup are being properly performed, except for the following matters:

- *Regular changes to passwords are not performed.*

Management Comment
Management confirms that controls to change computer / system passwords regularly have been reviewed and the Town is currently in the process of implementing this change.

3. DISASTER RECOVERY PLAN
- *During our review of the Town policies, we noted the Town does not have documented procedures relating to business continuity and recovery in the event of a disaster.*

Management Comment
Management notes the observation as stated and will commence documenting the procedures relating to disaster recovery and business continuity.

4. REVIEW OF RECONCILIATIONS
Whilst it appears a physical stock take had been carried out on a regular basis in relation to the Town's Leisure Life centre café, it did not appear to reconcile to the system report.

Management Comment

Management notes the observations as stated. The value of the stock held at the Leisure Life centre is of minor value, and hence the reconciliation of the stock movement was only done annually. The Leisure Life centre does a monthly stock take of which they keep record of. Based on the auditor response, a full stock take will be conducted on a quarterly basis with an independent internal review of the stock reconciliation.

RESOLVED:

Moved: Cr Windram **Seconded: Cr Ammons Noble**

That Council notes and accepts the comments arising from the Financial Management Review conducted by Moore Stephens (WA) Pty Ltd and supports the Management Responses to those comments as contained within the body of this report.

The Motion was Put and **Carried (4:0)**

In favour of the Motion: Cr Maxwell; Cr Hayes; Cr Windram and Cr Ammons Noble

MOORE STEPHENS

Financial Management Review

Town of Victoria Park

May 2017

Contents

Disclaimer

The objective of this review as outlined in greater detail in Part 2.0 of this report as presented, is to assist the Chief Executive Officer of the Town of Victoria Park discharge responsibilities in respect to Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996 (as amended)*.

It has been prepared by Moore Stephens (WA) Pty Ltd for this sole purpose.

It is not intended to be used by any other individual or organisation.

Confidential – this document and the information contained in it are confidential and should not be used or disclosed in any way without our prior consent.

Moore Stephens (WA) Pty Ltd carries on business separately and independently from other Moore Stephens member firms around Australia and worldwide.

Services provided under this engagement are provided by Moore Stephens (WA) Pty Ltd and not by any other independent Moore Stephens member firm. No other independent Moore Stephens member has any liability for services provided by other members.

MOORE STEPHENS

Level 15, Exchange Tower,
2 The Esplanade, Perth, WA 6000
PO Box 5785, St Georges Terrace,
WA 6831

T +61 (0)8 9225 5355
F +61 (0)8 9225 6181

www.moorestephens.com.au

1.0 Independent Reviewer's Report to the Chief Executive Officer (CEO) of the Town of Victoria Park

At the request of the CEO, Moore Stephens (WA) Pty Ltd was engaged to conduct a limited assurance review of the appropriateness and effectiveness of the Town of Victoria Park's financial management systems and procedures. The objective of the review is to assist the CEO discharge responsibilities in respect to Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996 (as amended)*. The review was conducted for the period 1 July 2016 to 30 April 2017.

CEO's Responsibility for Maintaining and Reviewing Financial Management Systems and Procedures

The CEO is responsible for implementing policies, procedures and controls which are designed to ensure the effective and efficient management of the Town's resources. In accordance with Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996 (as amended)*, the CEO is to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures. At least once in every four financial years the CEO is to report the results of those reviews to Council.

Our Responsibility

Our responsibility is to provide a report expressing limited assurance, designed to enhance the confidence of the CEO to assist reporting on the appropriateness and effectiveness of the financial management systems as required by Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996 (as amended)*. We conducted our engagement in accordance with Australian Standard on Assurance Engagements ASAE 3500 Performance Engagements issued by the Australian Auditing and Assurance Standards Board and the Audit Guidelines, in order to state whether, based on the procedures performed, anything has come to our attention that causes us to believe that the Town's financial management systems have not been operating effectively. Our engagement provides limited assurance as defined in ASAE 3500.

Our procedures were agreed to with the CEO in our engagement letter dated 31 March 2017.

Limitations of Use

This report is made solely to the CEO of the Town of Victoria Park for the purpose of reporting under Local Government (Financial Management) Regulation 5(2)(c). We disclaim any assumption of responsibility for any reliance on this report to any person other than the CEO of the Town of Victoria Park, or for any purpose other than that for which it was prepared. We disclaim all liability to any other party for all costs, loss, damages, and liability that the other party might suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party, or the reliance on our report by the other party.

1.0 Independent Reviewer's Report to the Chief Executive Officer (CEO) of the Town of Victoria Park (continued)

Inherent Limitations

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with ASAE 3500 and consequently does not allow us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we will not express an opinion providing reasonable assurance.

We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and its responsibility to prevent and detect irregularities, including fraud. Accordingly, readers of our reports should not rely on the report to identify all potential instances of non-compliance which may occur.

Any projection of the evaluation of the level of compliance to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with management procedures may deteriorate.

Independence

In conducting our engagement, we have complied with the independence requirements of the Australian professional accounting bodies.

Conclusion

Based on our work described in this report (which is not an audit), nothing has come to our attention to indicate the Town of Victoria Park has not established and maintained, in all material respects, appropriate and effective financial management systems and procedures during the period covered by our review being 1 July 2016 to 30 April 2017.

For those aspects of the Town of Victoria Park's Financial Management systems and procedures which were assessed as having opportunities for improvement, our findings are summarised as Part 3.0 of this report and detailed observations and comments are located at Part 4.0 of this report.

WEN-SHIEN CHAI
DIRECTOR

MOORE STEPHENS (WA) PTY LTD
CHARTERED ACCOUNTANTS

Date: 27 June 2017
Perth, WA

2.0 Objective, Scope and Overview of Findings

Objective

The objective of our engagement as outlined in our engagement letter dated 31 March 2017 was as follows:

To provide a report expressing limited assurance designed to enhance the confidence of the intended user (in this instance the CEO) in the performance of the control environment of the financial management system of the Town of Victoria Park (administered by Town staff being the Responsible Party) for which the intended user (CEO) is ultimately responsible in accordance with the Act and Regulations.

It includes the performance of assurance procedures designed to test the financial management system and report to the CEO on the appropriateness and effectiveness of the control environment within, as required by Financial Management Regulation 5(2)(c).

We trust this report will assist in the ongoing review and improvement of the Town's financial management practices and procedures.

Scope

As agreed our examination covered the period 1 July 2016 to 30 April 2017. To this end we examined the following financial systems and procedures of the Town:

- Bank Reconciliations and Petty Cash
- Trust Funds
- Receipts and Receivables
- Rates
- Fees and Charges
- Purchases, Payments and Payables (Including Purchase Orders)
- Payroll
- Credit Card Procedures
- Fixed Assets (Including Acquisition and Disposal of Property)
- Cost and Administration Overhead Allocations
- Minutes and Meetings
- Financial Reports
- Budget
- Plan for the Future
- Registers (Including Annual & Primary Return)
- Delegations
- Audit Committee
- Insurance
- Storage of Documents/Record Keeping
- General Compliance Issues and Other Matters

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

Overview of Findings

As referred to in Part 1.0 of this report, a summary of our findings and detailed observations may be found in Parts 3.0 and 4.0 on the following pages.

Addressing the issues highlighted will help to ensure the controls and procedures established are not compromised in the future and the integrity of the financial management system is maintained.

3.0 Summary of Findings

The following is a brief summary of the key matters noted for improvement together with our rating assessment in relation to each item:

FINDINGS	REF	PAGE	NATURE	RATING
RECEIPTS AND RECEIVABLES	4.3	9		
No independent review of daily receipting reconciliation at leisure centres			S	Moderate
Cancellation of receipts at the leisure centres were not adequately supervised.			S	Moderate
RATES	4.4	10		
Rate notice or accompanying information did not include a necessary statement regarding the pensioner rebates.			C	Minor
PURCHASES, PAYMENTS AND PAYABLES (INCLUDING PURCHASE ORDERS)	4.6	11		
Noted instances where the purchase order was raised after the supplier invoice.			S	Moderate
Changes to supplier details:				
- not adequately segregated			S	Significant
- not formally documented			S	Significant
PAYROLL	4.7	12		
No timesheet records for pay processed.			S	Moderate
Changes to employee details performed without appropriate documentation.			S	Significant
Changes to employee details not adequately segregated.			S	Significant
CREDIT CARD PROCEDURES	4.8	13		
No independent review of credit card transactions.			S	Moderate
FINANCIAL REPORTS	4.12	14		
The statement of financial activity for November 2016 was not presented to Council within the required timeframe.			C	Minor
REGISTERS (INCLUDING ANNUAL & PRIMARY RETURNS)	4.15	15		
One annual return was not lodged on time.			C	Minor
Annual returns contained blank sections.			C	Minor

Please Note: The rating assessment as detailed above is our assessment based on the circumstances surrounding the procedures performed. They are intended to be read in the context of our rating assessment to the organisation as a whole. They are provided solely to assist you understand the nature of the matters raised and to prioritise any remedial action.

3.0 Summary of Findings (continued)

FINDINGS	REF	PAGE	NATURE	RATING
GENERAL AND COMPLIANCE ISSUES	**4.20**	**16**		
User passwords for the accounting system are not changed on a regular basis.			S	Moderate
No documented business continuity and recovery procedures in place.			S	Minor
No regular reconciliation of physical inventory to perpetual system.			S	Minor

Please Note: The rating assessment as detailed above is our assessment based on the circumstances surrounding the procedures performed. They are intended to be read in the context of our rating assessment to the organisation as a whole. They are provided solely to assist you understand the nature of the matters raised and to prioritise any remedial action.

Key:

Nature:

S	Systems and Procedures
C	Compliance Matter

Rating Assessment:

Significant	Issue represents a weakness which will/may have an adverse affect on the ability to achieve business objectives. Requires immediate management action.
Moderate	Issue represents a weakness which may become more serious if not addressed. Requires management action within a reasonable time period.
Minor	Issue represents an opportunity for improvement. Management should consider cost benefit analysis within a reasonable time period.

4.0 Areas Examined with Detailed Observations and Comments

4.1 Bank Reconciliations and Petty Cash

Bank Reconciliations

An examination of bank reconciliations and procedures for the period under review noted they are up to date as well as being prepared regularly and promptly for all bank accounts.

Petty Cash

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

4.2 Trust Funds

Trust funds held by the Town were examined to determine proper accountability in the Town's financial management system and compliance with regulatory requirements.

Our observation and testing of four receipts and four payments, judgmentally selected, confirmed trust funds are adequately controlled and all statutory requirements were satisfactorily met.

4.3 Receipts and Receivables

Detailed testing of twenty two receipts, randomly selected, was performed. This included tracing to individual receipt detail, bank deposits and the general ledger, and review of the end-of-day receipting procedures to ensure banking and allocation/posting were correctly performed. The receivables system including raising of invoices was also reviewed with limited testing in respect to allocation/posting.

We also reviewed the receipting and cash handling procedures at the Town's two main leisure centers (i.e. Aqualife and Leisurelife) to determine if adequate controls were in place.

Overall, testing was completed satisfactorily. Controls and procedures over receipts and receivables are considered to be operating effectively and are appropriate for the Town's current scope of operations except for the following matters:

- Daily receipting reconciliations at the Town's leisure centres were not always reviewed at the end of the day and evidenced accordingly by an independent staff member.

Comment: To help ensure daily receipts/takings have been completely and correctly processed at the leisure centres, daily receipting reconciliations should be reviewed by a staff member independent of preparation at the end of the day.

The independent reviewer should sign and date the reconciliations as evidence of review.

4.0 Areas Examined with Detailed Observations and Comments (continued)

4.3 Receipts and Receivables (continued)

- Cancellation of receipts at the Town's leisure centres were not adequately supervised.

Comment: To help ensure the integrity of the cancelled receipts and hence refunds are bona fide, all cancellation of receipts at the point of sale of the leisure centres should be authorised by a senior staff member independent of the cancellation process.

The independent reviewer should confirm the cancellations against appropriate documentary evidence, and sign on the cancelled receipts prior to the refunds as evidence of review and authorisation.

4.4 Rates

The Town'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 ten annual rate notices and five interim notices for the period under review. This included:

- sighting the notices;
- re-performing the calculations;
- ascertaining whether the valuations applied agree to Landgate's valuation roll/report and rates per dollar imposed are as per adopted budget;
- ensuring the rate system is properly updated; and
- checking proper posting to the general ledger.

From testing, we concluded the rate system and record are being properly maintained, rates are correctly imposed as well as posted to general ledger.

Notwithstanding this, the following matter is brought to your attention:

- The rate notice or accompanying information did not include a brief statement that rebates under the Rates and Charges (Rebates and Deferments) Act 1992 are funded by the Government of Western Australia as required by Financial Management Regulation 56(4)(ha).

Comment: To help ensure compliance with statutory provisions, this requirement should be correctly addressed in the future.

4.5 Fees and Charges

Fees and Charges imposed at the time of budget adoption were found to be in accordance with legislative requirements.

4.0 Areas Examined with Detailed Observations and Comments (continued)

4.6 Purchases, Payments and Payables (Including Purchase Orders)

Twenty two payment transactions were randomly selected and tested to determine whether purchases were authorised/budgeted and payments were supported, certified/authorised and correctly allocated. The Town'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.

In general, controls and procedures over purchases, payments and payables are operating effectively and are appropriate for the Shire's current scope of operations except for the following matters:

- Noted eight instances where the purchase orders did not precede the supplier invoices.

Comment: All authorised officers should be "reminded" of the need to ensure purchase orders are raised prior to the time of authorising works/services or ordering goods. This will help to ensure goods/services have been appropriately ordered and authorised, and also helps ensure budget responsibility.

- Our review of the processing of payments by Electronic Funds Transfer (EFT) revealed the controls over the processing of EFT payments and changing of supplier banking details are not adequately segregated.
- Whilst we found the Town's current process of changing supplier banking details to be adequate, there were no formal documented procedures in place.

Comment: We are aware of many recent incidents of payment scams/frauds within the local government industry in Western Australia. As a consequence of this activity, we have had a specific focus on the controls around changes to supplier details within the EFT payment system of our local government clients.

An adequate segregation of duties between the payment processing officer and the details change initiator should be implemented. The actual amendment process should also be performed by a system administrator independent of the authorisation process with a second independent authorisation required.

A system generated audit trail report showing all amendments made to the system master file since the last payment run should be reviewed to identify any changes in payment details prior to processing each payment run. This review should be performed by an appropriate senior officer, independent of the amendment process and should seek to confirm the integrity of the details prior to payments being released. The review should also be evidenced accordingly.

Also, a process to assist officers with verifying changes requested should be documented and provided to officers. This should be supported with training/direction to remind staff of the need to be ever vigilant, to exercise a level of scepticism for all requests presented and, most importantly, to raise a concern if there is any doubt about the veracity of a request for change.

4.0 Areas Examined with Detailed Observations and Comments (continued)

4.6 Purchases, Payments and Payables (Including Purchase Orders) (continued)

- Whilst the payment batches were independently reviewed as required, the senior finance officer only checked a random sample of payments processed instead of the entire batch.

Comment: To help ensure all payments are correctly and completely processed before being presented for authorisation of payments by authorised signatories, the senior finance officer (independent of payment processing) should perform a thorough review of all payments processed in a batch.

This independent review seeks to confirm the integrity of the details of all payments as per the batch report against supporting tax invoices and system audit trail and should be evidenced as such.

4.7 Payroll

A sample of twenty individual employees were randomly selected from four pay runs and detailed testing of for each employee's pay were performed to help ensure:

- the employee existed;
- the correct rate of pay was used;
- non-statutory deduction authorities are on hand;
- time sheets were properly completed and authorised;
- hours worked were properly authorised; and
- allocations were reasonable and correctly posted.

We also tested the first pay of two new employee's and two terminated employee's (randomly selected).

The Town'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.

During our review of controls and procedures over payroll, the following matters were noted and raised for your consideration:

- Three instances where the employee timesheets were missing or misplaced.

Comment: To help ensure wages and salaries are correctly processed and bona fide, the authorised employee timesheets should be properly documented for review of the payroll report by a senior staff member independent of processing.

- Changes to employee payroll details were not always formally requested on the Town's prescribed authorisation form before changes are made. Current procedures accept emails as sufficient written evidence of authorisation.

Comment: To help ensure all changes to employee payroll details are properly authorised and hence genuine, employees should be asked to complete their requests to change using the Town's prescribed form before any changes are made.

4.0 Areas Examined with Detailed Observations and Comments (continued)

4.7 Payroll (continued)

- Our review of the processing of payroll by Electronic Funds Transfer (EFT) revealed the controls over the processing of EFT payments and changing of employee banking details are not adequately segregated.

Comment: To maintain the integrity of the EFT payments system as it relates to payroll, proper segregation of duties should be put in place and each step in the process of changing employee bank details should be documented and reviewed by a person independent of preparation.

4.8 Credit Card Procedures

A review of the Town's credit card procedures was performed to determine if adequate controls were in place.

Only two credit cards are currently in use. We randomly selected and tested four months' credit card transactions for each card, to determine whether these are legitimate and usual in the context of the Town's operations. This included:

- sighting tax invoices;
- ascertaining whether the transaction is for bona fide Town business; and
- determining whether transactions are in line with the Town's policy.

Overall testing was completed satisfactorily. Controls and procedures over credit card transactions are considered to be operating effectively and are appropriate for the Town's current scope of operations except for the following:

- No independent review of the CEO's monthly credit card statements.

Comment: To help ensure proper usage of credit cards, enhance accountability and improve good governance, it is suggested the CEO's monthly credit card statements be reviewed and endorsed by the Mayor or the Director Corporate Services.

4.9 Fixed Assets (Including 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 five asset additions and five asset disposals were judgmentally selected and testing performed to ensure:

- the tax invoices existed;
- correct posting to the general ledger;
- fixed assets register was promptly updated; and
- classification of assets was correct;

We concluded fixed assets are properly accounted for and supporting controls are operating effectively.

4.0 Areas Examined with Detailed Observations and Comments (continued)

4.10 Costs and Administration Overhead Allocation

The Town's cost and administration allocation system was examined to determine if indirect costs have been properly reallocated to various jobs/programs. This included a review of the allocation basis or rates used to ensure they are appropriate and regularly reviewed.

Our review noted the system is being maintained properly.

4.11 Minutes and Meetings

Council and Committee meeting minutes were reviewed to ensure compliance with procedures and protocols.

The procedures and protocols surrounding meetings and the quality of minutes were found to be of a satisfactory standard and in accordance with legislative requirements.

4.12 Financial Reports

The following reports were reviewed for compliance with legislative requirements:

- Annual Report;
- Annual Financial Report; and
- Monthly Financial Reports.

All were found to be of a satisfactory standard and in compliance with legislative requirements except for the following matter:

Monthly Financial Reports

- The monthly statement of financial activity for November 2016 was not presented to Council within two months after the month end as required by Local Government (Financial Management) Regulation 34(4)(a). Instead, it was presented in the Ordinary Council meeting held in February 2017.

Comment: To help ensure compliance with statutory provisions, this requirement should be correctly addressed in the future.

4.13 Budget

The 2016/17 budget document and documents surrounding budget adoption were reviewed to ensure compliance with regulatory requirements.

All statutory requirements were satisfactorily met and the adopted budget was of satisfactory form and content.

4.14 Plan for the Future

The Strategic Community Plan and Corporate Business Plan together comprise the Plan for the Future.

The Town's current Strategic Community Plan (2013 - 2028) and Corporate Business Plan (2014 - 2017) were adopted in June 2013. Both plans are due to be reviewed by 30 June 2017.

From our limited review, they appeared to meet all statutory requirements.

4.0 Areas Examined with Detailed Observations and Comments (continued)

4.15 Registers (Including Annual & Primary Returns)

Financial Interest Register

The register was examined to ensure compliance with regulatory requirements.

Our review noted the register was deemed to be satisfactorily maintained and appropriate for the Town's needs with the following exceptions:

- In relation to individual returns (the responsibility of which rests with the individual completing them) we noted the following:
  - i) One councilor did not lodge his annual return by 31 August 2016.
  - ii) Annual returns contained sections which were left blank

Comment:

- **To help ensure compliance with Section 5.76 of the Local Government Act, annual returns should be completed and lodged each year by 31 August of that year.**
- **To help ensure compliance with Departmental Circular 18-2005 and to help ensure returns submitted are not at risk of being amended, all sections should be completed. We note it is acceptable to record N/A, Nil or No Change or to rule a clear line through a N/A section whilst leaving sections blank is not recommended practice.**

Tender Register

The tender register was reviewed for completeness, compliance and appeared to be satisfactorily maintained and appropriate for the Town's needs.

4.16 Delegations

The delegations register was reviewed for completeness and compliance and no matters were noted.

4.17 Audit Committee

The Town's establishment of its audit committee and the constituted membership was examined by us and considered satisfactory.

4.18 Insurance

Discussions with staff and review of policy documents revealed policies are current. Evidence also exists to suggest an annual review of insurance risks occurs.

4.19 Storage of Documents / Record Keeping

A detailed and fully indexed register and filing system is in place and appears to be complete and operating effectively.

4.0 Areas Examined with Detailed Observations and Comments (continued)

4.20 General Compliance Issues and Other Matters

Investments

The Town's investment policy was reviewed to help ensure its adequacy and compliance with legislative requirements.

Internal control procedures and restrictions over investments are properly maintained and adhered to, the investment policy which fully comply with the requirements of Local Government (Financial Management) Regulation 19C.

IT General Environment

Whilst reviewing the adequacy of the Town's IT general environment, we noted general controls such as authorised access to the computer system, and regular data backup are being properly performed, except for the following matters:

- Regular changes to passwords are not performed.

Comment: To help ensure access and security of Town records and information is maintained, we recommend all critical passwords, and software user passwords be updated at least every quarter.

Disaster Recovery Plan

- During our review of the Town policies, we noted the Town does not have documented procedures relating to business continuity and recovery in the event of a disaster.

Comment: To help ensure the Town's operations are restored with minimal disruption during times of disaster, a business continuity and recovery plan should be properly documented.

Review of Reconciliations

- Whilst it appears a physical stock take had been carried out on a regular basis in relation to the Town's Leisurelife centre café, it did not appear to reconcile to the system report.

Comment: Inventory balances form part of the Town's working capital structure.

To help safeguard the Town's resources, a regular physical inventory count should be reconciled with the perpetual record. Any variances should then be investigated and rectified.

The stock system report should also be reconciled regularly to corresponding general ledger control account(s) and documented for review by a senior staff member independent of preparation. The independent review should seek to confirm the accuracy of the reconciliation and should be evidenced accordingly. This will help ensure inventory transactions are completely and correctly posted to the general ledger. Whilst we acknowledge control exists at year end, a more regular process not only makes it much easier to balance inventory it also helps to ensure better inventory control/accountability. At the very least, this reconciliation should occur on a quarterly basis.

8.3 Auditor's Interim Audit Report 2016-2017 Financial Year

File Reference:	FIN/11/0001~09
Appendices:	No
Attachments:	Yes
Date:	20 July 2017
Reporting Officer:	A. Thampoe
Responsible Officer:	N. Cain
Voting Requirement:	Simple Majority
Executive Summary: **Recommendation – That Council notes the Auditor's Interim Audit Report and supports the Management Responses to those comments.** • This item presents the matters raised in the Auditor's Interim Report together with the responses provided by Management to those matters.	

TABLED ITEMS:
Nil

BACKGROUND:
Each year, as part of Council's audit process, an Interim Audit is undertaken to ascertain areas of potential review associated with Council's financial systems / processes. The advice received through the interim audit is then assessed by Management who note the comments and take action as required. The findings of the Interim Audit, together with responses from Management, are now presented for Committee's consideration and recommendation to Council.

DETAILS:
As part of Council's committee structure, the Finance and Audit Committee has been established to review areas of an audit or compliance nature. The Auditor's Interim Audit is summarised in the following report. It is to be noted that the Interim Audit is primarily concerned with a review of internal controls / practices / procedures and management's compliance with those controls. The Interim Audit reports on an exception basis those items that require management's attention and does not seek to point out all the strong internal controls in place.

Legal Compliance:
Local Government Act 1995 (as amended) and associated Regulations
Australian Accounting Standards
International Financial Reporting Standards

Policy Implications:
Nil

Risk Management Considerations:
Risks have been identified as outlined below;

Risk & Consequence	Consequence + Rating	Likelihood = Rating	Overall Risk Analysis	Mitigation/Actions
Compliance: Council not accepting auditor recommendation which may leave the Town open to fraud, error or non-compliance	Major	Unlikely	Moderate	Provide reasoning and detailed explanations to Council to enable informed decision making.
Financial Impact: Management not implementing auditor recommendations which will lead to poor financial management and control.	Major	Unlikely	Moderate	Identify the Town's tolerance for risk. Ensure auditor recommendations which address risks that are above the identified risk tolerance limit is implemented by management.

Strategic Plan Implications:
Nil

Financial Implications:
Internal Budget:
The budget for all audit services for the Town is $40,000. The costs to perform the Interim Audit are within budget constraints.

Total Asset Management:
Nil

Sustainability Assessment:
External Economic Implications:
Nil

Social Issues:
Nil

Cultural Issues:
Nil

Environmental Issues:
Nil

COMMENT:
Matters raised by the Auditor, and Management's response to each matter, are as follows:

1. PURCHASES & PAYMENTS

As part of our audit, we carried out a review of the purchasing and payments system. Our audit procedures have been designed to determine appropriate means for selecting items for testing so as to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures. Our audit procedures have been designed to also determine whether purchases of goods/services were in accordance with Town's Purchase of Goods and Services Policy.

Generally the controls surrounding purchases and payments are appropriate to meet the Town's requirements and are in accordance with Town's Purchase of Goods and Services Policy.

However, the following matter was noted as requiring attention:

(i) *During our testing, we noted that direct purchases were made by the Town from one of its supplier named "The Planning Group (WA) Pty Ltd" without obtaining any quotations from other suppliers as required by the Town's Procurement Policy.*

Failure to adhere to the Town's Procurement Policy could result in goods and services not being obtained at the most competitive prices and weakness in internal controls leading to possible financial loss or fraud.

We recommend that quotations be obtained by the Town in line with the requirements of the Council's Procurement Policy.

Management Comment:

Management notes the observations as stated and confirms that they were aware of the purchases from this supplier. The supplier was initially engaged via a Request for quotation process. Changes to the project scope due to unforeseen circumstances made it necessary to engage the same supplier. Management ascertained that it would not have been cost effective to engage a different supplier to complete the rest of the project. Approval to engage the same supplier was requested from the Chief Executive Officer, who then waived the requirement to obtain 3 quotes in accordance with the Procurement Management Practice.

2. CORPORATE CREDIT CARDS

As part of the audit, we reviewed arrangements in place for the use of credit cards in the City. The audit methodology included an examination of credit card procedures, monitoring and control arrangements. The examination was undertaken by reviewing documentation, discussions with the staff and undertaking audit testing.

The following matter was noted as requiring attention.

The CEO and the Functions Coordinator are the only two officers of the Town issued with corporate credit cards. During our testing of credit card transactions, we noted that there was no evidence of independent review of the monthly corporate credit card statements and related expenditure documentation relating to the CEO's credit card.

To maintain internal control over credit card expenditure, we recommend that the CEO's

credit card statements and related expenditure documentation be reviewed by an independent senior officer.

It is important to note that the Local Government Operational Guideline Number 11 "Use of Corporate Credit Cards" also stipulates that cardholders cannot approve expenditure incurred on their own credit cards.

Management Comment:
Management notes the observations as stated and confirms that the Functions Coordinator's credit card is reviewed and authorised by the Executive Officer. A process will be implemented to have the CEO's monthly credit card statements to be reviewed independently and be authorised by the Mayor and the Chief Financial officer of the Town.

3. RECEIPTING

As part of our review of the receipting function (10 samples tested) for the Leisurelife and Aqualife Centres, we noted that:

- *the "Receipt Listing Prior to Closing" report produced from the system is reconciled to the daily takings reports (cash, EFTPOS, credit cards, etc.) at the end of the day by the cashier; and*
- *"Voided Receipts" reports are produced listing any cancelled receipts processed during the day by the cashier. These reports are also noted to be reviewed and signed by an independent senior officer.*

The following matters were noted and are brought to your attention:

(i) There was no evidence that these reconciliation reports were signed and dated by the preparer and reviewed by an independent senior officer.

We recommend that the "Receipt Listing Prior to Closing" report and the daily taking reports be signed and dated by the preparer. We further recommend that these reports be reviewed and initialled by a senior officer independent of the receipting function to indicate that the receipt reconciliations are correct.

Management Comment:
Management notes the observations as stated and confirms that the end of day process has been updated to ensure the reports stated above are signed and dated by the preparer and reviewed and authorised by an independent senior officer.

(ii) We noted that 'Voided Receipts" reports were not produced, reviewed and signed by an independent senior officer for cancelled receipt numbers 314353 (dated 16/09/2016) and 315763 (dated 28/09/2016).

Accounting for missing receipt numbers is an important internal control function in providing assurance that all collections have been properly accounted for and banked. Cancelled receipts can be used to cover up misappropriation or cash discrepancies.

We recommend that "Voided Receipts" reports be produced, reviewed and signed by an independent senior officer for all cancelled receipts ensuring the reasons for cancelled

receipts have been ascertained.

Management Comment:
Management notes the observations as stated and confirms internal procedures will be updated to ensure voided receipt reports are produced, reviewed and signed by an independent officer.

4. PAYROLL
We examined the Town's payroll system in the following areas:

- *Reviewing the policies and procedures at the Town in relation to the Payroll system*
- *Staff additions and terminations*
- *Changes to employees pay, including variations to pay*
- *Authorisation and monitoring of leave taken by employees*
- *Processing of payroll*
- *Segregation of duties*

The following matter was noted and is brought to your attention:

The Town's "Human Resources Procedure – HRP038 Annual Leave" and Enterprise Agreement 2016 stipulates that employees may accrue a maximum of 10 weeks (380 hours) of annual leave at any time. During our review of the employee annual leave entitlement balances as at 10 April 2017, we noted that 32 employees with accrued annual leave in excess of 380 hours to a maximum of 814 hours (approximately 21 weeks).

Excess annual leave entitlements may have adverse effects on the Town including:

- *key staff not being rotated, a preventive control against fraud;*
- *health and safety concerns with staff members not taking their annual entitlements; and*
- *increase the Town's costs given salary rises and increments over time.*

This matter was raised in our previous interim audit management letter dated 26 August 2016. The management response then provided was as follows:

"Management notes the observations as stated and confirms that leave reduction agreements will be implemented with staff who have excessive leave balances."

We note that management has processes in place to identify and monitor staff that have accrued excess annual leave balances and take appropriate action. We will be pleased to receive feedback on the current status of the balances concerned.

Management Comment:
Management confirms that "Leave Reduction Agreements" are currently in place for most of the staff who have excess leave. Excess leave is monitored regularly by management in order to ensure agreements are in place to reduce any excess leave balance.

5. IT CONTROLS

During our review of the IT general and application controls, we noted that passwords are not changed with sufficient regularity to maintain a secure system.

This matter was raised in our previous interim audit management letter dated 26 August 2016.

We recommend that the passwords be changed at periodic intervals to prevent the possibility of unauthorised access. Further consideration be given to password controls such as complexity, length, history, expiry and lock out as complex passwords provide a stronger control over access to the Town's systems, applications and data.

This matter was raised in our previous interim audit management letter dated 26 August 2016. The management response then provided was as follows:

"Management notes the observations as stated and has commenced reviewing the process to meet the recommendations of the Auditors."

Management Comment:
Management confirms that controls to change computer / system passwords regularly have been reviewed and the Town is currently in the process of implementing this change.

RESOLVED:

Moved: Cr Windram **Seconded: Cr Ammons Noble**

That Council notes and accepts the comments arising from the Auditor's 2016-2017 Interim Audit and supports the Management Responses to those comments as contained within the body of this report.

The Motion was Put and **Carried (4:0)**

In favour of the Motion: Cr Maxwell; Cr Hayes; Cr Windram and Cr Ammons Noble

Ann Thampoe left the meeting at 5.22pm

MACRI PARTNERS

Certified Practising Accountants

PARTNERS
Anthony Macri FCPA
Domenic Macri CPA
Connie De Felice CA

9 August 2017

Chief Executive Officer
Town of Victoria Park
Locked Bag No. 437
VICTORIA PARK WA 6979

Dear Sir

RE: INTERIM AUDIT VISIT FOR THE YEAR ENDED 30 JUNE 2017

We recently carried out an interim audit of the Town of Victoria Park for the year ended 30 June 2017.

Our interim audit covered a review of the accounting and internal control procedures in operation, as well as testing of transactions, in the following areas:

- Bank Reconciliations
- Investment of Surplus Funds
- Purchases
- Payments and Creditors
- Rate Receipts and Rate Debtors
- Receipts and Sundry Debtors
- Payroll
- General Accounting (Journals, etc.)
- IT Controls
- Registers (Tenders Register, etc.)
- Property, Plant & Equipment, and Infrastructure
- Review of Council Minutes

Our review also covered an examination of some compliance matters, which are required under the Local Government Act 1995 (as amended) and Financial Management Regulations 1996.

Suite 2, 137 Burswood Rd, Burswood WA 6100 PO Box 398, Victoria Park WA 6979 P (08) 9470 4848 F (08) 9470 4849 E mail@macripartners.com.au W macripartners.com.au

Please note that our examination of internal controls was carried out for audit purposes designed primarily for the purpose of expressing an opinion on the financial statements of the Town of Victoria Park.

Because of the inherent limitations of any internal control structure, it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

It should be appreciated that the matters noted came to our attention during the course of our normal audit examination and as a result do not necessarily include all those matters which a more extensive or special examination might identify. Accordingly, our comments in this management letter are not intended to cover all aspects of the Town's internal controls and accounting systems and are limited to those matters that arose from our normal audit procedures.

The following matters were noted and are brought to your attention.

PURCHASES & PAYMENTS

As part of our audit, we carried out a review of the purchasing and payments system. Our audit procedures have been designed to determine appropriate means for selecting items for testing so as to gather sufficient appropriate audit evidence to meet the objectives of the audit procedures. Our audit procedures have been designed to also determine whether purchases of goods/services were in accordance with Town's Purchase of Goods and Services Policy.

Generally the controls surrounding purchases and payments are appropriate to meet the Town's requirements and are in accordance with Town's Purchase of Goods and Services Policy.

However, the following matter was noted as requiring attention:

During our testing, we noted that direct purchases were made by the Town from one of its supplier named "The Planning Group (WA) Pty Ltd" without obtaining any quotations from other suppliers as required by the Town's Procurement Policy.

Failure to adhere to the Town's Procurement Policy could result in goods and services not being obtained at the most competitive prices and weakness in internal controls leading to possible financial loss or fraud.

We recommend that quotations be obtained by the Town in line with the requirements of the Council's Procurement Policy.

Management Comment:

Management notes the observations as stated and confirms that they were aware of the purchases from this supplier. The supplier was initially engaged via a Request for quotation process. Changes to the project scope due to unforeseen circumstances made it necessary to engage the same supplier. Management ascertained that it would not have been cost effective to engage a different supplier to complete the rest of the project. Approval to engage the same supplier was requested from the Chief Executive Officer, who then waived the requirement to obtain 3 quotes in accordance with the Procurement Management Practice.

CORPORATE CREDIT CARDS

As part of the audit, we reviewed arrangements in place for the use of credit cards in the City. The audit methodology included an examination of credit card procedures, monitoring and control arrangements. The examination was undertaken by reviewing documentation, discussions with the staff and undertaking audit testing.

The following matter was noted as requiring attention.
The CEO and the Functions Coordinator are the only two officers of the Town issued with corporate credit cards. During our testing of credit card transactions, we noted that there was no evidence of independent review of the monthly corporate credit card statements and related expenditure documentation relating to the CEO's credit card.

To maintain internal control over credit card expenditure, we recommend that the CEO's credit card statements and related expenditure documentation be reviewed by an independent senior officer.

It is important to note that the Local Government Operational Guideline Number 11 "Use of Corporate Credit Cards" also stipulates that cardholders cannot approve expenditure incurred on their own credit cards.

Management Comment:

Management notes the observations as stated and confirms that the Functions Coordinator's credit card is reviewed and authorised by the Executive Officer. A process will be implemented to have the CEO's monthly credit card statements to be reviewed independently and be authorised by a Director of the Town.

RECEIPTING

As part of our review of the receipting function (10 samples tested) for the Leisurelife and Aqualife Out Centres, we noted that:

- the "Receipt Listing Prior to Closing" report produced from the system is reconciled to the daily takings reports (cash, EFTPOS, credit cards, etc.) at the end of the day by the cashier; and
- "Voided Receipts" reports are produced listing any cancelled receipts processed during the day by the cashier. These reports are also noted to be reviewed and signed by an independent senior officer.

The following matters were noted and are brought to your attention:

(i) There was no evidence that these reconciliation reports were signed and dated by the preparer and reviewed by an independent senior officer.

We recommend that the "Receipt Listing Prior to Closing" report and the daily taking reports be signed and dated by the preparer. We further recommend that these reports be reviewed and initialled by a senior officer independent of the receipting function to indicate that the receipt reconciliations are correct.

Management Comment:

Management notes the observations as stated and confirms that the end of day process has been updated to ensure the reports stated above are signed and dated by the preparer and reviewed and authorised by an independent senior officer.

(ii) We noted that 'Voided Receipts" reports were not produced, reviewed and signed by an independent senior officer for cancelled receipt numbers 314353 (dated 16/09/2016) and 315763 (dated 28/09/2016).

Accounting for missing receipt numbers is an important internal control function in providing assurance that all collections have been properly accounted for and banked. Cancelled receipts can be used to cover up misappropriation or cash discrepancies.

We recommend that "Voided Receipts" reports be produced, reviewed and signed by an independent senior officer for all cancelled receipts ensuring the reasons for cancelled receipts have been ascertained.

Management Comment:

Management notes the observations as stated and confirms internal procedures will be updated to ensure voided receipt reports are produced, reviewed and signed by an independent officer.

PAYROLL

We examined the Town's payroll system in the following areas:

- Reviewing the policies and procedures at the Town in relation to the Payroll system
- Staff additions and terminations
- Changes to employees pay, including variations to pay
- Authorisation and monitoring of leave taken by employees
- Processing of payroll
- Segregation of duties

The following matter was noted and is brought to your attention:

The Town's "Human Resources Procedure – HRP038 Annual Leave" and Enterprise Agreement 2016 stipulates that employees may accrue a maximum of 10 weeks (380 hours) of annual leave at any time. During our review of the employee annual leave entitlement balances as at 10 April 2017, we noted that 32 employees with accrued annual leave in excess of 380 hours to a maximum of 814 hours (approximately 21 weeks).

Excess annual leave entitlements may have adverse effects on the Town including:

- key staff not being rotated, a preventive control against fraud;
- health and safety concerns with staff members not taking their annual entitlements; and
- increase the Town's costs given salary rises and increments over time.

This matter was raised in our previous interim audit management letter dated 26 August 2016. The management response then provided was as follows:

"*Management notes the observations as stated and confirms that leave reduction agreements will be implemented with staff who have excessive leave balances.*"

We note that management has processes in place to identify and monitor staff that have accrued excess annual leave balances and take appropriate action. We will be pleased to receive feedback on the current status of the balances concerned.

Management Comment:

Management confirms that leave reduction agreements are currently in place for most of the staff who have excess leave. Excess leave is monitored regularly by management in order to ensure agreements are in place to reduce any excess leave balance.

IT CONTROLS

During our review of the IT general and application controls, we noted that passwords are not changed with sufficient regularity to maintain a secure system.

This matter was raised in our previous interim audit management letter dated 26 August 2016.

We recommend that the passwords be changed at periodic intervals to prevent the possibility of unauthorised access. Further consideration be given to password controls such as complexity, length, history, expiry and lock out as complex passwords provide a stronger control over access to the Town's systems, applications and data.

This matter was raised in our previous interim audit management letter dated 26 August 2016. The management response then provided was as follows:

"Management notes the observations as stated and has commenced reviewing the process to meet the recommendations of the Auditors."

Management Comment:

Management confirms that controls to change computer/system passwords regularly have been reviewed and the Town is currently in the process of implementing this change.

We thank your staff for the assistance given during the course of the audit. Should you have any queries with respect to the above or any other matter, please do not hesitate to contact us.

Yours faithfully

ANTHONY MACRI
AUDIT PARTNER

9 WORKSHOP TOPICS AND PRESENTATIONS

9.1 Annual Report Update.

Acting Executive Manager Communications, Kellie Todman, provided Committee Members with an update on the Annual Report text and timeline.

Kellie Todman left the meeting at 5.29pm.

RESOLVED:

Moved: Cr Windram **Seconded: Cr Hayes**

That for workshop items 9.2, 9.3 and 9.4, the meeting be closed to members of the public in accordance with Clause 5.2 of *the Town of Victoria Park Standing Orders Local law 2011* and section 5.23(2)(c) of the *Local Government Act 1996*.

It is deemed that the discussion around the value of land holdings and potential disposal contracts should be discussed behind closed doors.

The Motion was Put and **Carried (4:0)**

In favour of the Motion: Cr Maxwell; Cr Hayes; Cr Ammons Noble and Cr Windram

9.4 (Confidential item) Land Asset Optimisation Strategy (LAOS) Business Case Discussion – 25 Boundary Road.

Property Development Manager, Jon Morellini, presented a Business Case for discussion for 25 Boundary Road.

9.3 (Confidential item) Land Asset Optimisation Strategy (LAOS) Business Case Discussion – 6 – 8 Planet Street.

Property Development Manager, Jon Morellini, presented a Business Case for discussion for 6-8 Planet Street.

9.2 (Confidential item) Land Asset Optimisation Strategy (LAOS) Business Case Discussion – 12 Lathlain Place.

Property Development Manager, Jon Morellini, presented a Business Case for discussion for 12 Lathlain Place.

Jon Morellini left the meeting at 6.24pm.

RESOLVED:

Moved: Cr Windram **Seconded: Cr Maxwell**

That the meeting be reopened at 6.25pm to members of the public.

The Motion was Put and **Carried (4:0)**

In favour of the Motion: Cr Maxwell; Cr Hayes; Cr Ammons Noble; Cr Windram

10 MOTION FOR WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil

11 NEW BUSINESS OF AN URGENT NATURE

Nil

12 REQUEST FOR REPORTS FOR FUTURE CONSIDERATION

Forthcoming Agenda Items	
Reports	
874 Albany Highway – future land use/development	
Land Asset Optimisation Strategy – Action Plan / finalised document – (Confidential item)	September 2017
Investment Strategy – development	
Revenue Diversification Policy - development	
Agenda Format	September 2017
Workshop Topics/Presentation	
Annual General Electors Meeting	
Fees and Charges – determination and analysis of the level of application	
Investment Strategy – development	
Revenue Diversification Policy - development	
Carbon Offset Program	
Capital Works Progress	

13 CLOSURE

There being no further business, Cr Windram closed the meeting at 6.28pm.

I confirm these Minutes to be a true and accurate record of the proceedings of the Council.

Signed:……....Cr Windram

Dated this:……..Day of……..……..……..2017