

Audit Committee Agenda

28 April 2021

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city@busselton.wa.gov.au

CITY OF BUSSELTON

MEETING NOTICE AND AGENDA – 28 APRIL 2021

TO: THE MAYOR AND COUNCILLORS

NOTICE is given that a meeting of the Audit Committee will be held in the Committee Room, Administration Building, Southern Drive, Busselton, on Wednesday, 28 April 2021, commencing at 9.00am.

The attendance of Committee Members is respectfully requested.

DISCLAIMER

Statements or decisions made at Committee meetings should not be relied on (or acted upon) by an applicant or any other person or entity until subsequent written notification has been given by or received from the City of Busselton. Without derogating from the generality of the above, approval of planning applications and building permits and acceptance of tenders and quotations will only become effective once written notice to that effect has been given to relevant parties. The City of Busselton expressly disclaims any liability for any loss arising from any person or body relying on any statement or decision made during a Committee meeting.



MIKE ARCHER

CHIEF EXECUTIVE OFFICER

23 April 2021

CITY OF BUSSELTON

AGENDA FOR THE AUDIT COMMITTEE MEETING TO BE HELD ON 28 APRIL 2021

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1. **DECLARATION OF OPENING, ACKNOWLEDGEMENT OF COUNTRY AND ANNOUNCEMENT OF VISITORS**

2. **ATTENDANCE**

Apologies

3. **PUBLIC QUESTION TIME**

4. **DISCLOSURE OF INTERESTS**

5. **CONFIRMATION OF MINUTES**



5.1 **Minutes of the Audit Committee Meeting held 24 February 2021**

RECOMMENDATION

That the Minutes of the Audit Committee Meeting held 24 February 2021 be confirmed as a true and correct record.

6. REPORTS

6.1 2020 FINANCIAL MANAGEMENT SYSTEM REVIEW

STRATEGIC GOAL	6. LEADERSHIP Visionary, collaborative, accountable
STRATEGIC OBJECTIVE	6.1 Governance systems, process and practices are responsible, ethical and transparent.
SUBJECT INDEX	FINM007
BUSINESS UNIT	Finance and Corporate Services
REPORTING OFFICER	Finance Coordinator - Jeffrey Corker
AUTHORISING OFFICER	Director Finance and Corporate Services - Tony Nottle
NATURE OF DECISION	Executive: Substantial direction setting, including adopting budgets, strategies, plans and policies (excluding local planning policies); funding, donations and sponsorships; reviewing committee recommendations
VOTING REQUIREMENT	Simple Majority
ATTACHMENTS	Attachment A 2020 Financial Management System Review  

OFFICER RECOMMENDATION

That the Council receives the 2020 Financial Management Systems Review and acknowledge the results as presented in Attachment A in accordance with Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.

EXECUTIVE SUMMARY

In accordance with Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* (the Regulations), a local government is to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report the results of those reviews to the local government.

This report provides the findings of the Financial Management System Review (FMSR) as completed by AMD Chartered Accountants (AMD) (the Auditor) in February 2021.

BACKGROUND

As per the Regulations, City officers engaged AMD to undertake an independent review of the City's financial management systems. AMD had previously undertaken the FMSR on the City's behalf in 2016, with the next review scheduled to be undertaken in the second half of 2019. As a result of COVID-19 and other extenuating circumstances, and as agreed with the Office of the Auditor General (OAG), the 2019 FMSR was delayed and undertaken in February 2021. This report presents the findings of that FMSR.

OFFICER COMMENT

The FMSR was comprehensive, with seven key focus areas being considered. A summary of those, and the appropriate scope and approach undertaken, is as follows:

I. Collection of Monies

Site visits were completed for 9 outstations and the City's central Customer Service.

The following procedures were completed (as applicable) at each site:

- Documented internal controls, procedures and reconciliations in relation to all sources of income;
- Tested collection, receipting, invoicing and posting procedures over cash receipts on a sample basis;
- Counted petty cash and float on hand ensuring materially correct;
- Reviewed the fees and charges schedule to ensure adequate internal controls in place over receipting; and
- Reviewed credit control procedures in respect to sundry debtors and rate debtors.

II. Custody and security of money

Site visits were completed for 9 outstations and the City's central Customer Service at the Administration Building. These visits reviewed the security of cash and banking procedures to ensure the appropriate controls and procedures are in place.

III. Maintenance and security of the financial records

Reviewed information technology (IT) systems to assess physical security, access security, data backups, contingency plans, compliance and systems development; and also reviewed registers maintained (including key register, tender register, gifts and travel registers etc.) and the minutes of Council meetings.

IV. Accounting for Municipal or trust transactions

The scope and approach was as follows:

- Reviewed all monthly reconciliations including bank, sundry debtors, sundry creditors, fixed assets, rates debtors and rateable value reconciliations ensuring they are correctly reconciled and reviewed;
- Reviewed and tested in detail most recent municipal and trust bank reconciliations prepared;
- Reviewed processes in respect to BAS, FBT Return and other statutory returns preparation;
- Reviewed use of reserve funds and determined whether changes in reserve purposes have been budgeted or public notice was provided;
- Reviewed trust ledger balances; and
- Reviewed policies and procedures in respect to insurance, recording claims and insuring newly acquired assets.

V. Authorisation for incurring liabilities and making payments

The scope and approach was as follows:

- Reviewed controls and procedures over the authorisation of purchase orders and making of payments;
- Tested sample of payments to ensure compliance with stated procedures;
- Reviewed credit card processes and procedures, testing transactions on a sample basis;
- Reviewed petty cash processes and procedures, testing transactions on a sample basis;
- Completed sample testing of asset additions and asset disposals;
- Reviewed asset capitalisation and depreciation policy and ensure compliance with stated policies; and
- Reviewed new loans received ensuring budgeted for or public notice provided.

VI. Maintenance of payroll, stock control and costing

The scope and approach was as follows:

- Completed site visit to the depot to review security over stocks held and allocation / costings of stocks used (including fuel and inventory stocks);
- Reviewed the allocation of public works overheads, plant operating costs and administration overheads completed;
- Reviewed payroll controls and procedures to ensure effective controls are in place, and complete tests on a sample basis to ensure these controls were operating effectively;
- Reviewed procedures and policies in place in respect of human resource management legislative and compliance requirements, recruitment, performance appraisal, disciplinary and termination procedures and leave entitlements;
- Reviewed listing of leave taken by employees ensuring authorised leave forms completed; and
- Reviewed annual leave balances and identify employees with more than eight weeks annual leave.

VII. Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations

The scope and approach was as follows:

- Reviewed policy and procedure manual;
- Reviewed the procedures for preparation of the monthly financial statements, annual financial statements and annual Budget, including assessment of accounting policy, notes and applicable reporting requirements and efficiency of the process;
- Reviewed monthly financial statements ensuring presented to Council within two months and information contained within monthly financial statements in accordance with Regulation 34 of *Local Government (Financial Management) Regulations 1996*;
- Reviewed the mid-year budget review to ensure compliance with Regulation 33A of the *Local Government (Financial Management) Regulations 1996* and assessment of budgetary expenditure controls in place;
- Ensured prior year audit report and management letter have been presented to the Audit Committee and Council; and

- Reviewed compliance with Part 6 of the *Local Government Act 1995* and *Local Government (Financial Management) Regulations 1996*.

As a result of the above, the Auditor has made a number of recommendations to further improve the City's overall financial management systems. These are listed within the attached report.

As part of the FMSR, the responsible officers provided comment on each of the recommendations. Of the fourteen recommendations, five have a moderate risk rating, with the remainder rated as low.

With respect to the moderate risk items, the following areas have been identified for improvement:

- Testing of IT backup systems
- Business Continuity Plan
- Control and Custody of Keys
- Review of User Profiles
- Post Tender Review Process

No recommendations were made in respect to Focus Area 7 of the report (Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations). The FMSR indicated key underlying policies and processes in relation to the preparation of budgets, budget reviews, accounts and reports required by the Act or Regulations are appropriate, in line with the best practice and are operating effectively.

City officers will implement the amendments and improvements to ensure risks are controlled in accordance with the comments provided within the attached report.

Statutory Environment

Section 6.10 of the *Local Government Act 1995* states that the Regulations may provide for the controls over the financial management of the local government.

Regulation 5 of the *Local Government (Financial Management) Regulations 1996* outlines the areas a CEO is to establish efficient systems and procedures over.

Regulation 5(2)(c) requires that a review of those systems be undertaken regularly and reported to the Local Government.

Relevant Plans and Policies

Various Operational Practices (OP) and other documents are referred to within the FMSR. These include:

- The Business Continuity Plan
- Mobile Phone
- Risk management Framework
- Corporate data management and security
- Operation of Business Customer Account (Store) cards
- Petty Cash
- Performance Improvement and Discipline
- Code of Conduct
- Motor Vehicle Policy

Other documents are in the development stage, including the Information Security Management OP, Asset Policy and the Work from Home OP, which are documents established under the CEO's authority.

Financial Implications

The financial impact of implementing changes to systems or processes contained within the recommendations will be considered in future budget deliberations.

Stakeholder Consultation

No external stakeholder consultation was required or undertaken in relation to this matter.

Risk Assessment

The FMSR contains an assessment of risk with each recommendation given an individual risk rating. Five findings were found to be of moderate risk, with the remaining nine rated as minor.

Options

Council may determine to recommend additional requirements upon officers in response to recommendation contained within the FMSR.

CONCLUSION

In accordance with Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*, this report provides the findings of the Financial Management System Review as completed by AMD Chartered Accountants (AMD) in February 2021.

TIMELINE FOR IMPLEMENTATION OF OFFICER RECOMMENDATION

Responses to the specified individual recommendations of the FMSR will be undertaken in accordance with management comments contained within the document.



2020 Financial Management System Review

City of Busselton

February 2021





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26 March 2021

Mr Mike Archer
Chief Executive Officer
City of Busselton
Locked Bag 1
BUSSELTON WA 6280

Dear Mike

2020 FINANCIAL MANAGEMENT SYSTEMS REVIEW

We are pleased to present the findings and recommendations resulting from the City of Busselton's (the "City") *Local Government (Financial Management) Regulation 1996*, Financial Management System Review.

This report relates only to procedures and items specified within the 2020 Financial Management System Review Services Proposal and does not extend to any financial report of the City.

We would like to thank Paul, Jeffrey, and the Finance team for their co-operation and assistance whilst conducting our review.

Should there be matters outlined in our report requiring clarification or any other matters relating to our review, please do not hesitate to contact our office.

Yours sincerely
AMD Chartered Accountants

A handwritten signature in black ink, appearing to read 'Tim Partridge', with a long horizontal line extending to the right.

TIM PARTRIDGE FCA
Director



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**Inherent limitations**

Due to 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. Further, the internal control structure, within which the control procedures that have been subject to review, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. This review is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are on a sample basis. 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.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, the City of Busselton's management and personnel. We have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted with the report. We are under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form unless specifically agreed with the City of Busselton's. The review findings expressed in this report have been formed on the above basis.

Third party reliance

This report was prepared solely for the purpose set out in this report and for the internal use of the management of City of Busselton. This report is solely for the purpose set out in the 'Scope and Approach' of this report and for City of Busselton's information, and is not to be used for any other purpose or distributed to any other party without AMD's prior written consent. This review report has been prepared at the request of the City of Busselton's Chief Executive Officer or its delegate in connection with our engagement to perform the review as detailed in the 2020 Financial Management System Review Services Proposal. Other than our responsibility to the Council and management of the City of Busselton, neither AMD nor any member or employee of AMD undertakes responsibility arising in any way from reliance placed by a third party, including but not limited to the City of Busselton's external auditor, on this review report. Any reliance placed is that party's sole responsibility.



1. Executive Summary

1.1. Background and Objectives

The primary objective of our Financial Management System Review (FMSR) was to assess the adequacy and effectiveness of systems and controls in place within the City; in accordance with AMD's 2020 Financial Management System Review Services Proposal (the "Review").

The responsibility of determining the adequacy of the procedures undertaken by us is that of the Chief Executive Officer (CEO). The procedures were performed solely to assist the CEO in satisfying his duty under Section 6.10 of the *Local Government Act 1995* and Regulation 5(1) of the *Local Government (Financial Management) Regulations 1996*.

Our findings included within this report are based on the site work completed by us on the 8th to 11th February 2021. Findings are based on information provided and available to us during and subsequent to this site visit.

1.2. Summary of Findings

The procedures performed and our findings on each of the focus areas are detailed in the following sections of the report:

- Section 2 – Collection of money;
- Section 3 - Custody and security of money;
- Section 4 - Maintenance and security of the financial records;
- Section 5 - Accounting for municipal or trust transactions;
- Section 6 - Authorisation for incurring liabilities and making payments;
- Section 7 - Maintenance of payroll, stock control and costing records; and
- Section 8 – Preparation of budget, budget reviews, accounts and reports required by the *Local Government Act 1995* or the *Local Government (Financial Management) Regulations 1996*.

Following the completion of our review and subject to the recommendations outlined within sections 2 to 8, we are pleased to report that in context of the City's overall internal control environment, policies, procedures and processes in place are appropriate, and have been operating effectively at the time of the review.

Findings reported by us are on an exceptions basis, and do not take into account the many focus areas tested during our review where policies, procedures and processes were deemed to be appropriate and in accordance with better practice.

The following tables provide a summary of the findings raised in this report:

	Catastrophic Risk	Major Risk	Moderate Risk	Minor Risk
Number of new issues reported	0	0	5	9

For details on the review rating criteria, please refer to Section 9.



Ref	Issue	Risk Rating
2. Collection of money		
	We have no findings to report in respect to the collection of money.	
3. Custody and security of money		
Security of Cash		
3.2.1	Review and further enhancement recommended in respect to physical cash security measures at the Busselton Airport and Geographe Leisure Centre.	Minor
4. Maintenance and security of financial records		
Testing of IT System Backups		
4.2.1	System backups are not currently tested on a periodic basis.	Moderate
Business Continuity Plan		
4.2.2	The existing Business Continuity Plan has not been tested in respect to the effectiveness of IT.	Moderate
Control and custody of keys		
4.2.3	Review and further enhancement recommended in respect to City property and equipment keys and property.	Moderate
Review of User Profiles		
4.2.4	The City does not review user profiles and appropriateness of access to systems based on position descriptions/requirements.	Moderate
IT Policies and Procedures		
4.2.5	A number of the Shire's IT policies and procedures are not formally documented. Furthermore, there is no sign in/out process for City laptops loaned to employees, and no register maintained.	Minor
Policy and Procedure Review		
4.2.6	Various policies and procedures not reviewed in accordance with stated review date.	Minor
Code of Conduct		
4.2.7	The current Code of Conduct for Elected Members, Committee Members and Employees does not detail the reporting mechanism in the event of a breach.	Minor
5. Accounting for municipal of trust transactions		
Month End Checklist		
5.2.1	No checklist utilised for month end procedures.	Minor
Fuel Card Statement Review		
5.2.2	Fuel card statement not signed off to evidence independent review.	Minor
6. Authorisation for incurring liabilities and making payments		
Post tender review process		
6.2.1	No post tender review process completed.	Moderate
Asset Capitalisation and Asset Useful Life Assessment		
6.2.2	Inconsistencies noted between the 2019/2020 Financial Report and the City's Fixed Asset Register. Currently no Asset Capitalisation Policy in place.	Minor
7. Maintenance of payroll, stock control and costing records		
Property and Stock Security		
7.2.1	Review and enhancement to depot security and security is recommended.	Minor
Excessive Annual Leave Balances		
7.2.2	Employees identified with an excessive annual leave balance.	Minor
8. Preparation of budgets, budget reviews, accounts and reports required by the Act or Regulations		
	We have no findings to report in respect to the preparation of budgets, budget reviews, accounts and reports required by the Act or Regulations.	

**1.3 Limitations**

We draw your attention to the following limitations:

- We were not required to and did not undertake an audit in accordance with Australian Auditing Standards. Consequently, no assurance will be expressed.
- We have not verified the authenticity or validity of the documentation made available to us.
- We have included information that we obtained verbally in this document. We cannot verify that this information is credible or truthful.
- If additional or new documentation or information is brought to our attention subsequent to the date of this report, which would affect the observations detailed below, we reserve the right to amend and qualify our findings accordingly.



Collection of money

2.1. Scope and approach

Site visits were completed for the following locations operated by the Shire:

- Art Geo;
- Busselton Airport;
- Busselton Jetty Tourist Park;
- Busselton Library;
- Busselton Waste Transfer Station;
- Customer Service Centre;
- Dunsborough Waste Facility;
- Geographe Leisure Centre; and
- Naturalist Community Centre.

The following procedures were completed (as applicable) at each site:

- Documented internal controls, procedures and reconciliations in relation to all source of income;
- Tested collection, receipting, invoicing and posting procedures over cash receipts on a sample basis
- Counted petty cash and float on hand ensuring materially correct;
- Reviewed fees and charges schedule and ensure adequate internal controls in place over receipting; and
- Reviewed credit control procedures in respect to sundry debtors and rate debtors.

2.2. Detailed findings and recommendations

Our review indicated key underlying policies and processes in relation to the collection of money by the Local Government are appropriate, in line with the best practice and operating effectively.

Accordingly, we have no recommendations to raise in respect to the collection of money.



3. Custody and security of money

3.1. Scope and approach

- Conducted site visits of cash collection points to review the controls and procedures over the collection, receipting, recording and banking of cash collected offsite;
 - Art Geo;
 - Busselton Airport;
 - Busselton Jetty Tourist Park;
 - Busselton Library;
 - Busselton Waste Transfer Station;
 - Customer Service Centre;
 - Dunsborough Waste Facility;
 - Geographe Leisure Centre; and
 - Naturalist Community Centre;
- Reviewed the security of cash and banking procedures to ensure the appropriate controls and procedures are in place.

3.2. Detailed findings and recommendations

3.2.1. Security of Cash

Finding Rating: Minor

Inquires and observations indicated the following with respect to the physical security of cash:

- Cash is retained in the Geographe Leisure Centre Café till over extended break times (between 12 and 3pm);
- Cash from electronic till and/or parking meters at the Busselton Airport is collected on an ad hoc basis rather than on a scheduled periodic / pre-determined basis; and

Implication / Risk

Lack of appropriate internal controls over security of City funds may result in an increase in the risk of theft.

Recommendation

We recommend cash handling, collection and storage processes and procedures at the Busselton Airport and Geographe Leisure Centre be reviewed with an objective of enhancing controls over City monies.

Management Comment:

With regard to the GLC, the City believes controls are currently sufficient. There is a Covid screen that covers the counter and the cash cannot be accessed without starting the computer or breaking into the cash drawer. This is considered highly unlikely as the café kiosk is directly behind reception which is manned 100% of the time.

With regard to the Airport parking meters the Operational Practice (OP) will be updated to reflect that the cash be reconciled and banked on a monthly basis.

Responsible Officer:

GLC – Dave Goodwin, Manager Community and Recreation Services



Airport – Jenny May, Manager Economic and Business Development Services

Completion Date:

GLC – Not applicable

Airport – 30 April 2021



4. Maintenance and security of the financial records

4.1. Scope and approach

- Reviewed information technology (IT) systems to assess physical security, access security, data backups, contingency plans, compliance and systems development; and
- Reviewed registers maintained (including key register, tender register, gifts and travel registers etc.) and Council minutes.

4.2. Detailed findings and recommendations

4.2.1. Testing of IT System Backups

Finding Rating: Moderate

Our inquiries indicated there is no formal schedule maintained to test system backups to ensure recovery of data is achievable and effective, ensuring no significant interruption to the extent a backup restoration is required.

Implication / Risk

Risk of significant delays in business interruption in the event of unforeseen circumstances.

Recommendation

We recommend a documented system backup recovery testing schedule be implemented with dates of testing recording, details of systems and or services tested and result of the tests, including any remedial action required.

Management Comment:

The City acknowledges and agrees with this finding. The City proposes to extend the existing list of IT Daily Checks to include types, schedule and reporting of backup and associated tests.

Responsible Officer:

Kris Davis, Manager Information Services

Completion Date:

30 September 2021

**4.2.2. Business Continuity Plan*****Finding Rating: Moderate***

Our inquiries indicated Business Continuity Plan testing has not been carried out specific to the City's IT.

Implications/Risks

Risk of delays and business interruption in the event of unforeseen circumstances.

Recommendation

We recommend the City implement a process to test and evaluate the Business Continuity Plan with respect to IT, ensuring it is up to date, adequately designed, and will effectively mitigate disruption in the event of unforeseen circumstances.

Management Comment:

Whilst the City does test the BCP, detailed ICT tests are not performed. It is proposed to add an ICT specific section to the BCP testing schedule. This will be done post the scenario and include the members identified in the BCP. A process of testing for the items outlined in the BCP will be developed, and an ICT Disaster Recovery Plan created.

Responsible Officer:

Kris Davis, Manager Information Services

Completion Date:

31 December 2021



4.2.3. Control and Custody of Keys

Finding Rating: Moderate

Our inquiries and observations during site visits to the City Depot and ArtGeo identified the following:

- There is no documented policy or procedure in place addressing controls for small plant key signing in and out at the depot;
- The small plant key box located within the depot workshop is unlocked each morning, remaining unlocked during the day;
- The light vehicle key lock box located within the depot is not maintained in a secure location and is unlocked each morning, remaining unlocked during the day;
- While an external key register is maintained, the register includes a number of 'short term keys' which were signed out over 12 months ago and have not been returned; and
- The ArtGeo key box is maintained next to an open door and not locked during opening hours.

Implications / Risks

Risk of unauthorised use of City property and equipment.

Recommendation

We recommend a review of property and equipment access control procedures be conducted considering implementing:

- A register of keys held at any time at the depot workshop;
- A sign in/out process for all keys held at the depot;
- A review of the external key register be conducted ensuring up to date and that all keys have been returned as required; and
- Key boxes to be securely locked where practical.

Management Comment:

With regard to the City Depot, a number of the suggested measures are already in place including a sign in/out procedure and registers of keys held. However the need for improvements is acknowledged and accordingly the following is proposed:

- Relocation of multiple key boxes to one central location within the main depot building;
- Review of key register and reissuing of keys where necessary;
- Consider introducing swipe cards to all Operations Services staff to access central key box.

With regard to Art Geo, the key box has been relocated and will be locked; as recommended.

Responsible Officer:

City Depot – Matt Twyman, Manager Operations Services

Art Geo – Maxine Palmer, Manager Events and Cultural Services

Completion Date:

City Depot – 30 June 2021

Art Geo - Complete

**4.2.4. Review of User Profiles*****Finding Rating: Moderate***

We noted there is no periodic review of user profiles with respect to network access to ensure all users have appropriate system access relevant to their current position description / requirements.

Implications/Risks

Risk of unauthorised access to the City's network.

Recommendation

We recommend periodic reviews be completed to ensure all user profiles are up-to-date and in accordance with position description / requirements.

Management Comment:

The City believes that the risk does not match the audit finding, and that there is already a good process for closing accounts of terminated employees and expired contract staff in place. However, it is agreed that core technologies should be checked periodically to ensure user profiles access is correct. Accordingly it is proposed that the City will create a process of testing including a schedule for user profiles within the core ERP environment.

Responsible Officer:

Kris Davis, Manager Information Services

Completion Date:

31 December 2021

**4.2.5. IT Policies and Procedures*****Finding Rating: Minor***

Our inquiries indicated the Shire does not have formal documented policies or procedures relating to the following:

- Cyber security;
- Working from home;
- Bring your own devices ("BYOD"); and
- Issuing of swipe card and the access assigned to cards.

Furthermore, we noted there is no sign in/sign out process with respect to City laptops loaned to employees, nor is a register maintained of employees who have been allocated a City owned Laptop.

Implications / Risks

- Increased risk of unauthorised infiltration of Shire's IT infrastructure and access to confidential information.
- Risk existing procedures and practices in respect of the use of the Shire's IT facilities, cyber security requirements, access controls, personally held devices, personal file sharing accounts and removable devices are not formally documented.

Recommendation

We recommend policies and procedures outlining the terms and conditions in respect to those areas highlighted above be documented, approved, implemented and monitored on an ongoing basis. Furthermore, we recommend a register of City laptops loaned to employees be developed with appropriate sign in / sign out controls implemented accordingly.

Management Comment:

With regard to Cyber security, an "Information Security Management" OP is to be developed.

A 'Working from Home' Operational Practice is in the draft stage and should be finalised by 20 April 2021.

BOYD is included in the City's existing Mobile Phone OP, acknowledging this does need updating. It is also included within individual employee contracts for applicable staff.

Swipe card access is principally covered by the existing "Civil and Administration Access" OP.

The issues involving loaned equipment are acknowledged and better controls are being developed.

Responsible Officer:

Kris Davis, Manager Information Services

Sarah Pierson, Manager Governance and Corporate Services

Completion Date

Copies of existing documentation will be provided ASAP. The Information Security Management OP is to be developed by 30 September 2021, and the laptop tracking register and processes by 31 December 2021.



4.2.6. Policy and Procedure Review

Finding Rating: Minor

Our review of various City frameworks, policies and procedures identified the following:

- The Risk Management Framework which was reviewed by the Audit Committee on the 27 May 2020 refers to former AS/NZS ISO 31000:2009 rather than ISO 31000:2018;
- IS104 (OPP) Corporate Data Management and Security states an annual review frequency however the current version is dated 5 June 2013;
- IS103 (OPP) City Provided Mobile Phone Usage was last reviewed May 2014 (as required review frequency noted);
- FIN105 (OPP) Operation of Business Customer Account (Store) Cards was last reviewed October 2014 (as required review frequency noted);
- FIN100 (OPP) Petty Cash was last reviewed January 2014 (as required review frequency noted); and
- HR406 (OPP) Performance Improvement and Discipline was last reviewed June 2017 (2 yearly review frequency stated therefore review was due June 2019).

Implications / Risks

Risk of policy being out of date and non-compliance with stated policy.

Recommendation

We recommend policies and procedures are reviewed in accordance with stated dates, including updating references to applicable legislation and standards as changes arise.

It may be appropriate for policy reviews to occur annually, however frequency of the review will depend on the nature of the policy, However we suggest all policies, procedures and plans should be reviewed based upon the nature of the matter contained within.

Management Comment

The City has been working through a full review of its Policies and Procedures, with all Council Policies now reviewed. Operational Practices are currently being reviewed, with recent focus being concentrated on Human Resource OP's, however as time permits this will broaden. The capacity to review OP's within the required timeframe has been primarily a resourcing issue. A schedule for the review of the remaining OP's will be developed.

Responsible Officer:

Kris Davis, Manager Information Services
Sarah Pierson, Manager Governance and Corporate Services
Paul Sheridan, Manager Financial Services

Completion Date:

With regard to the OP's specifically listed, it is proposed to have these reviewed by 30 September 2021.

**4.2.7. Code of Conduct*****Finding Rating: Minor***

Our review of the City's Code of Conduct identified the documents do not outline the reporting mechanisms in place which would enable stakeholders to report a potential breach of the Code of Conduct. In addition, the Code of Conduct does not address what would occur in an employee or Councillor was to breach the Code of Conduct.

Implications / Risks

Potential inability to report a breach of the Code of Conduct.

Recommendation

We understand that the Code of Conduct is currently under review due to recent changes to the Local Government Regulations and therefore recommend that the Code of Conduct be updated in line with the Local Government (Model Code of Conduct) Regulations 2021, ensuring that the reporting mechanisms and consequences if an employee or Councillor was to breach the Code of Conduct be included.

We note the new mandatory requirements arising from the Local Government (Model Code of Conduct) Regulations 2021 are not required to be in place until 3 May 2021.

Management Comment

The City has been waiting for the changes to the Local Government Act and Regulations be completed prior to undertaking a review of its Code of Conduct. A draft new employee code has been developed and meets all of the requirements. A draft new Code of Conduct for Councillors has also been developed. These are to be endorsed by Council and the CEO in the near future.

Responsible Officer:

Sarah Pierson, Manager Governance and Corporate Services

Completion Date:

30 April 2021



5. Accounting for municipal or trust transactions

5.1. Scope and approach

- Reviewed all monthly reconciliations including bank, sundry debtors, sundry creditors, fixed assets, rates debtors and rateable value reconciliations ensuring correctly reconciled and reviewed;
- Reviewed and tested in detail most recent municipal and trust bank reconciliations prepared;
- Reviewed processes in respect to BAS, FBT Return and other statutory returns preparation;
- Reviewed use of reserve funds and determined whether changes in reserve purposes have been budgeted or public notice was provided;
- Reviewed trust ledger balances; and
- Reviewed policies and procedures in respect to insurance, recording claims and insuring newly acquired assets.

5.2. Detailed findings and recommendations

5.2.1. Month End Procedures Checklist

Finding Rating: Minor

Our inquiries indicated there is no overarching month end procedures checklist utilised to support completeness of key month end accounting reconciliations.

Implications / Risks

- Risk month end procedures not completed, independently reviewed and signed off prior to month end finalisation.
- Risk that errors and omissions are not detected and corrected in a timely manner.

Recommendation

While our review indicated month end reconciliation processes are adequate, as best practice we recommend an overarching checklist be implemented whereby all key month end procedures are listed with the checklist signed (either manually or electronically) by both the preparer and the independent reviewer.

Management Comment:

A Checklist will be developed.

Responsible Officer:

Paul Sheridan, Manager Financial Services

Completion Date:

30 June 2021

**5.2.2. Fuel Card Statement Review*****Finding Rating: Minor***

Our inquiries indicated Fuel Card usage is reviewed on a regular basis, however there is no evidence to support this review.

Implications / Risks

Risk that fraud, misuse of cards, errors or omissions are not detected and investigated/corrected in a timely manner.

Recommendation

We recommend fuel card statements be signed / marked to evidence independent review.

Management Comment:

Various measures are in place to control and monitor use of fuel cards. Validation check processes are imbedded in the system, daily and monthly limits in place, and alerts built in where limits are approached. Finance staff will establish a process whereby the monthly invoice is reviewed and signed off by Fleet Staff.

Responsible Officer:

Paul Sheridan, Manager Financial Services

Mark Wong, Manager Waste and Fleet Services

Completion Date:

31 April 2021



6. Authorisation for incurring liabilities and making payments

6.1. Scope and approach

- Reviewed controls and procedures over the authorisation of purchase orders and making of payments;
- Tested sample of payments to ensure compliance with stated procedures;
- Reviewed credit card processes and procedures, testing transactions on a sample basis;
- Reviewed petty cash processes and procedures, testing transactions on a sample basis;
- Completed sample testing of asset additions and asset disposals;
- Reviewed asset capitalisation and depreciation policy and ensure compliance with stated policies; and
- Reviewed new loans received ensuring budgeted for or public notice provided.

6.2. Detailed findings and recommendations

6.2.1. Post Tender Review Process

Finding Rating: Moderate

We noted the City of Busselton does not have a formal post tender performance evaluation process on completion of large or critical projects / tenders.

Implications / Risks

Lack of formalised documentation evidencing tender performance assessment.

Recommendation

WALGA best practice guidelines recommend formal performance management assessments be completed at the end of the tender period once goods or services have been tendered.

We recommend a contract performance evaluation procedure be documented, implemented through the communication to all staff and monitored on an ongoing basis to ensure compliance with stated procedures. We suggest it may be useful for the procedure to include standard a contract compliance checklist, in particular for the monitoring of ongoing service contracts.

Management Comment:

AMD's suggested practice appears sensible if it can be implemented without unreasonable administrative burden. The City will review WALGA best practice guidelines with a view to developing an OP for formal contract performance evaluation.

Responsible Officer:

Ben Whitehill, Manager Legal and Property Services

Completion Date:

30 June 2021



6.2.2. Asset Capitalisation and Asset Useful Life Assessment

Finding Rating: Minor

An analysis of the depreciation periods for major asset classes disclosed in the 2019/2020 notes to the financial report compared to major asset class useful lives set up in the Fixed Asset Register identified the following variations:

Asset Class	Depreciation period per Fixed Asset Register	Depreciation period per the 2019/2020 notes to the financial report
Heavy Plant & Equipment	3 – 23 years	3 – 10 years
Light Mobile Plant	7 – 29 years	2 years
Light to Medium Vehicles	3 – 9 years	3 – 5 years
Public Art	0 – 21 years	Not disclosed
Furniture & Fittings	3 – 15 years	3 – 10 years
Footpaths	20 – 50 years	20 – 40 years

In addition, at the time of the review, the City's internal Asset Capitalisation Policy had not been implemented.

Implications / Risks

- Risk assets have not been depreciated in accordance with accounting policies as disclosed within the notes to the financial reports.
- Risk of non-compliance with the Regulation 17(A)(5) of the *Local Government (Financial Management) Regulation 1996* (asset capitalisation threshold of \$5,000)

Recommendation

We recommend that the notes to the financial report be updated to reflect depreciation periods (useful lives) as applied in the Fixed Asset Register.

In addition, we recommend the City's internal Asset Capitalisation Policy is developed, documented and implemented.

Management Comment:

A project is already underway to develop an overarching Assets Policy, as is a review of the effective lives and componentisation of major building and infrastructure assets. A review of Financial Asset Register will be undertaken which will include asset stocktakes; restructure of categories; componentisation of all assets where applicable; review of effective lives and depreciation methods

Responsible Officer:

Paul Sheridan, Manager Financial Services

Completion Date:

31 December 2022



7. Maintenance of payroll, stock control and costing

7.1. Scope and approach

- Completed site visit to the depot to review security over stocks held and allocation / costings of stocks used (including fuel and inventory stocks);
- Reviewed of the allocation of public works overheads, plant operating costs and administration overheads completed;
- Reviewed payroll controls and procedures to ensure effective controls are in place, and complete tests on a sample basis to ensure these controls were operating effectively;
- Reviewed procedures and policies in place in respect of human resource management legislative and compliance requirements, recruitment, performance appraisal, disciplinary and termination procedures and leave entitlements;
- Reviewed listing of leave taken by employees ensuring authorised leave forms completed; and
- Reviewed annual leave balances and identify employees with more than eight weeks annual leave.

7.2. Detailed findings and recommendations

7.2.1. Property and Stock Security

Finding Rating: Minor

Our inquiries and observations during various site visits identified the following:

- The security gate providing access to the Depot is not monitored;
- There are no security cameras monitoring the depot yard, storeroom or facilities; and
- The fuel tanker at the Dunsborough Waste Facility is not locked during the day.

Implications / Risks

- Increased risk of unauthorised access to Council property and facilities.
- Risk of misappropriation of stocks and consumables.

Recommendation

We recommend a review of the security protocols at the City depot and Dunsborough Waste Facility be reviewed and updated considering the matters above.

Management Comment:

The Security of the Busselton Works Depot will be reviewed, including automated vehicle access, CCTV, and Fencing. Any upgrades will be subject to budget availability.

A process will be enacted to ensure the fuel tank and the Dunsborough Waste Facility is locked at all times.

Responsible Officer:

Matt Twyman, Manager Operations Services

Completion Date:

Security upgrades will be subject to Budget availability

**7.2.2. Excessive Annual Leave Balances*****Finding Rating: Minor***

From our review of the annual leave listing as at the date of our review, we noted 27 employees who had accrued in excess of eight weeks annual leave, with some of these employees also having a present long service leave entitlement.

Implications / Risks

The cost to Council is greater if annual leave is not paid out on a regular basis due to the cumulative effect of salary increases over a period of time.

Recommendation

It is a fundamental principle of good internal control for employees to take regular holidays, however not in excess of their leave accrual balance. Therefore we recommend leave balances be reviewed and managed to reduce the number of employees with excess leave.

Management Comment:

As at the end of February there were 29 people with leave balances in excess of 8 weeks, representing only 8% of permanent employees. The average years of service of these staff is 12.99 years. It is largely therefore an issue of historical management that the City is currently working to resolve, within award provisions which require genuine consultation before leave directions can be provided, and cognisant of managing workload. Leave plans are in place for most of the 29 employees, noting that 9 have only just over 8 weeks accrued.

Leave plans will continue to be implemented and managed for employees with annual leave in excess of 8 weeks. The City's Senior Management Group will continue to receive month end excessive leave reports.

Responsible Officer:

Sarah Pierson, Manager Governance and Corporate Services

Completion Date:

Ongoing



8. Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations

8.1. Scope and approach

- Reviewed policy and procedure manual;
- Reviewed the procedures for preparation of the monthly financial statements, annual financial statements and annual Budget, including assessment of accounting policy, notes and applicable reporting requirements and efficiency of the process;
- Reviewed monthly financial statements ensuring presented to Council within two months and information contained within monthly financial statements in accordance with Regulation 34 of *Local Government (Financial Management) Regulations 1996*;
- Reviewed the mid-year budget review to ensure compliance with Regulation 33A of the *Local Government (Financial Management) Regulations 1996* and assessment of budgetary expenditure controls in place;
- Ensured prior year audit report and management letter have been presented to audit committee and Council; and
- Reviewed compliance with Part 6 of the *Local Government Act 1995* and *Local Government (Financial Management) Regulations 1996*.

8.2. Detailed findings and recommendations

Our review indicated key underlying policies and processes in relation to the preparation of budgets, budget reviews, accounts and reports required by the Act or Regulations are appropriate, in line with the best practice and operating effectively.

Accordingly, we have no recommendations to raise in respect to the preparation of budgets, budget reviews, accounts and reports required by the Act or Regulations.



9. Guidance on Risk Assessment

Risk is uncertainty about an outcome. It is the threat that an event, action or non-action could affect an organisation's ability to achieve its business objectives and execute its strategies successfully. Risk is an inherent component of all service activities and includes positive as well as negative impacts. As a result not pursuing an opportunity can also be risky. Risk types take many forms – business, economic, regulatory, investment, market, and social, just to name a few.

Risk management involves the identification, assessment, treatment and ongoing monitoring of the risks and controls impacting the organisation. The purpose of risk management is not to avoid or eliminate all risks. It is about making informed decisions regarding risks and having processes in place to effectively manage and respond to risks in pursuit of an organisation's objectives by maximising opportunities and minimising adverse effects.

The risk guidelines stated within Risk Management – Guidelines Standard AS / NZS ISO 31000-2018 and are based in the City of Busselton's Risk Management Framework.

Our guidance to risk classification in completing our review is as follows:

Measure of Likelihood of Risk

Likelihood is the chance that the event may occur given knowledge of the organisation and its environment. The following table provides broad descriptions to support the likelihood rating:

Rating	Description	Frequency
Rate	May occur but only in exceptional circumstances	1 in 10,000 – 100,000 Less than once in 15 years
Unlikely	Could occur at some time	1 in 1,000 to 10,000 At least once in 15 years
Possible	Should occur at some time in the future	1 in 100 – 1,000 At least once in five years
Likely	Will probably occur in most circumstances	1 in 10 – 100 At least once a year
Almost Certain	Is expected to occur in most circumstances	> 1 in 10 More than once a year

**Above Extracted from the City's Risk Management Framework.*

Measure of Consequence of Risk

Consequence is the severity of the impact that would result if the event were to occur. The following table provides broad descriptions to support the consequence rating:



DESCRIPTOR	Insignificant	Minor	Moderate	Major	Catastrophic
Public Health / OSH	Minor injury or first aid treatment cases	Injury / disease causing medical treatment	Serious injury / disease causing hospitalisation	Death or life threatening injury or multiple serious injuries causing hospitalisation	Multiple deaths or multiple life threatening injuries or severe permanent disabilities
Financial	< \$ 50k	\$ 50k to \$250k	\$250k to \$1m	\$1m to \$5m	> \$5m
Operational	Negligible impact to service delivery	Inconvenient delays with recovery within acceptable timeframe	Significant delays service delivery with unacceptable recovery time or inconvenient delays to major deliverables	Substantial delays to service delivery or Non achievement of major deliverables	Non achievement of key deliverables
Reputational	Minor adverse local community comment or complaint	Minor media interest with low news profile, e.g. local paper	Public embarrassment, moderate news profile (including TV)	High news profile, third party action, Local Member inquiry	Widespread national news profile, formal government inquiry
Environmental	Brief pollution but no environmental harm	Minor / transient environmental harm	Significant environmental harm with mid-term recovery	Significant long term environmental harm	Catastrophic, long term environmental harm

**Above Extracted from the City's Risk Management Framework.*

Risk Analysis Matrix – Level of Risk

Finding Rating for each audit issue was based on the following table:

		CONSEQUENCE				
		Insignificant	Minor	Moderate	Major	Catastrophic
LIKELIHOOD	Almost Certain	M11	H16	E20	E23	E25
	Likely	M7	M12	H17	E21	E24
	Possible	L4	M8	M13	H18	E22
	Unlikely	L2	L5	M9	H14	H19
	Rate	L1	L3	M6	M10	H15

L = Low Risk
M = Medium Risk
H = High Risk
E = Extreme Risk

**Above Extracted from the City's Risk Management Framework.*



7. GENERAL DISCUSSION ITEMS

8. NEXT MEETING DATE

9. CLOSURE