



Shire of  
**Narrogin**

**MINUTES  
AUDIT ADVISORY COMMITTEE MEETING**

**8 February 2023**

Commencing at 4:00 pm  
Council Chambers  
Shire of Narrogin  
89 Earl Street  
Narrogin WA 6312

The Chief Executive Officer recommends the endorsement of these minutes at the next Audit Advisory Committee Meeting.

Signed:

Date **9 February 2023**

These minutes were confirmed at the Audit Advisory Committee Meeting held on \_\_\_\_\_

Signed: .....

(Presiding Person at the meeting at which minutes were confirmed)

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Please note that meetings may be recorded for minute taking purposes.

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# **AUDIT ADVISORY COMMITTEE MEETING MINUTES**

## **8 FEBRUARY 2023**

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### **1. OFFICIAL OPENING/ANNOUNCEMENT OF VISITORS**

The Presiding Member Mr Leigh Ballard declared the meeting open at 4:11 pm.

### **2. RECORD OF ATTENDANCE/APOLOGIES/APPROVED LEAVE OF ABSENCE**

#### **Committee Members (Voting)**

Mr L Ballard – Shire President  
Cr G Broad – Deputy Shire President  
Cr R McNab  
Cr M Fisher  
Cr B Seale  
Cr J Pomykala  
Cr T Wiese  
Cr T Alexander  
Cr J Early (entered meeting at 4.49pm)

#### **Office of the Auditor General via Electronic Communication**

Mr Kien Neoh (Director Financial Audit)  
Ms Iris Yap (Principal Auditor)

#### **Staff**

Mr D Stewart – Chief Executive Officer  
Mr A Awang – Executive Manager Development & Regulatory Services  
Mr T Evans – Executive Manager Technical & Rural Services  
Mr M Furr – Executive Manager Corporate & Community Services  
Mr Alexander Mulenga - Manager Corporate Services  
Ms V Ward – Executive Assistant

#### **Apologies**

Nil

### **3. DECLARATION OF INTEREST BY ELECTED MEMBERS AND COUNCIL EMPLOYEES IN MATTERS INCLUDED IN THE MEETING AGENDA**

Nil

**4. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS**

**OFFICER'S RECOMMENDATION AND COMMITTEE RESOLUTION**

Moved: Cr Fisher

Seconded: Cr Wiese

That the minutes of the Audit Advisory Committee Meeting held 9 February 2022 be confirmed as an accurate record of the proceedings.

**CARRIED 8/0**

**5. ANNOUNCEMENTS BY THE PERSON PRESIDING WITHOUT DISCUSSION**

Nil

## 6. MATTERS WHICH REQUIRE DECISIONS

### 6.1 ADOPTION OF 2021/22 ANNUAL FINANCIAL REPORT

<b>File Reference</b>	12.2.1, 4.2.6
<b>Disclosure of Interest</b>	Neither the Author nor Authorising Officer have any Impartiality, Financial or Proximity Interests that requires disclosure.
<b>Applicant</b>	Shire of Narrogin
<b>Previous Item Numbers</b>	Nil
<b>Date</b>	19 January 2023
<b>Author</b>	Mark Furr – Executive Manager Corporate and Community Services
<b>Authorising Officer</b>	Dale Stewart – Chief Executive Officer
<b>Attachments</b>	<ol style="list-style-type: none"><li>1. Shire of Narrogin 2021/22 Annual Report – Supplied under separate cover.</li><li>2. Independent Audit Report.</li><li>3. Management Letter – CONFIDENTIAL – Supplied under separate cover.</li></ol>

#### Summary

The Office of the Auditor General (OAG) conducted the Annual Financial Audit for 2021/22 commencing in early October 2022 and concluded in December 2022.

This item discusses the outcomes of that audit.

Note: A representative from the OAG Mr Kien Neoh (Director – Financial Audit) will be participating in this item via teleconference.

#### Background

The Office of Auditor General conducted the Annual Audit with an onsite audit, between 7-25 October 2022, undertaking follow-up work until December 2022. The final report was received on 21 December 2021.

#### Consultation

Consultation occurred with the following officers:

- Dale Stewart – Chief Executive Officer;
- Mark Furr – Executive Manager Corporate and Community Services;
- Alex Mulenga – Manager Corporate Services; and
- Mr Kien Neoh Director – Financial Audit Financial Audit OAG.

## Statutory Environment

The following statutory provisions relate:

- Section 6.4 Local Government Act 1995 - Financial report;
- Section 5.54 Local Government Act 1995 - Acceptance of Annual Reports; and
- Regulation 36 Local Government (Financial Management) Regulations 1996 - Annual Financial Report, content of (Act s.6.4(2)).

## Policy Implications

There are no known relevant policy implications on this matter.

## Financial Implications

The financial implications are detailed in the report under comment about ratios.

## Strategic Implications

Shire of Narrogin Strategic Community Plan 2017-2027		
Objective	4.	Civic Leadership Objective (Continually enhance the Shire's organisational capacity to service the needs of a growing community)
Outcome:	4.1	An efficient and effective organisation
Strategy:	4.1.1	Continually improve operational efficiencies and provide effective services
Strategy:	4.1.2	Continue to enhance communication and transparency

## Comment/Conclusion

### Audit Opinion

The OAG has expressed an unqualified audit opinion for 2021/22 Annual Financial Report.

The opinion stated by the auditor was that the financial report was:

- Based on proper accounts and records;
- Presented fairly, in all material respects, the results of the operations of the Shire for the year ending 30 June 2022 and its financial position at the end of that period; and
- in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

### Management Letter

It was encouraging to note that the audit identified zero (0) significant findings throughout the audit. A total of five (5) findings were presented in the letter, three (3) moderate and two (2) minor.

### Finding 1

Rating: Moderate - From our review of the fixed asset register, we identified the following matters:

- One software addition of \$8.3k incorrectly classified as Furniture & Equipment

- Three portable and attractive assets with total cost and net book value of \$62k incorrectly classified as Furniture & Equipment
- Four purchases that do not meet the definition of an asset with total cost of \$74k and net book value of \$46k were capitalised under Infrastructure – Other

We have also identified fifty (50) assets with no useful life or depreciation rate allocated, including 5 (5) assets capitalised during the financial year where one (1) was subsequently corrected during the audit. Out of the 50 assets, 40 assets were fair valued as of 30 June 2022. The remaining ten (10) assets are furniture, plant and equipment with a carrying amount of \$189k as of 30 June 2022.

#### Management Comment

The classification of most of the assets discussed above was done a few years ago, and these classifications have been confirmed by subsequent audits. However, the Shire has an opportunity this year (2022/23) to review the asset classes at the same time as the physical inspection and re-valuation that will be carried out on land and buildings and Infrastructure assets.

The Shire has already started reviewing the assets previously entered in the asset register with insufficient depreciation data and is making corrections to ensure depreciation is computed correctly on every asset that qualifies.

#### Finding 2

Rating: Minor - We noted two (2) key management personnel who have left during the year have not completed their Related Party declarations.

Per the Shire's Council Policy Manual 1.10 Related Party Disclosures (AASB 124), the disclosure requirement apply to the existence of relationships regardless of whether a transaction has occurred or not. This is to enable Shire to make an informed decision and determine if disclosure if required.

#### Management Comment

The missing related party declarations pertain to two former elected members (Geoff Ballard and Sophie Lushey), who did not seek re-election. Shire staff have followed up with these individuals on numerous occasions, but no responses have been received. When and if responses are received, a review of transactions between the Shire and their related parties will be conducted. Disclosure of the transactions will be made in next Annual Report if significant.

#### Finding 3

Rating: Moderate - The timing of the preparation and review of the following reconciliations could not be ascertained as the dates of their preparation and reviews were not recorded:

- Monthly accounts payable reconciliation;
- Monthly accounts receivable reconciliation;
- Monthly PPE reconciliation; and
- Fortnightly payroll variations report – compare gross pay report and notes for pay report

Where signatures are not dated, there is insufficient evidence that the reports are prepared and reviewed in a timely manner.

### Management Comment

As confirmed by the Shire's documented month-end process and the monthly compliance and governance calendar, no financial reports to Council are finalised before completion of all key reconciliations. The Shire acknowledges that there were a very small number of reconciliations that did not have a date. It should be noted that since 01 July 2022 a Key Control Area and Reconciliation Report has been introduced by the new EMCCS to ensure this requirement, amongst others, is met.

### Finding 4

Rating: Moderate - We tested some long service leave (LSL) balances as of 30 June 2022 and noted for 2 out of 12 samples tested, there were discrepancies in the LSL balances due to manual entry errors. These errors subsequently corrected during audit.

### Management Comment

The Shire acknowledges that the Provision for long service leave (LSL) calculations contained in the year-end workbook provides only an estimate of the Shire's liability on balance date per (AASB119(51)). The Shire carries out, therefore, a more accurate re-calculation of LSL payable to staff when it falls due. This approach has ensured there is minimum or no error in the amounts paid to staff. The Shire has acted in accordance with its management comments in 2020-21 and in reviewing this process further, the Responsible Officer for completion will be the Manager Corporate Services assisted by Senior Finance Officer - Strategic.

### Finding 5

Rating: Minor - Our testing identified 53 unused creditors and 25 creditors that have been inactive since 30 June 2019. The oldest inactive supplier was last used in 2013. The supplier master file is a comprehensive file in the financial system which stores key information about suppliers for processing payments to suppliers. We acknowledge that management has reviewed its supplier masterfile during the year.

### Management Comment

A thorough deletion process for inactive creditors was undertaken during 2021. Due to linkage of some of these creditors to employee superannuation records, the Synergy system could not allow deletion. Similarly, no deletion of such creditors could be allowed by the system during 2022 due to this inhibition. We are yet to receive direction from our Software provider on how to go round this issue. All other inactive creditors have been deleted. Management is of the opinion that there has been a significant improvement from the previous year.

## **Voting Requirements**

Simple Majority

*4.49pm Cr Early entered the meeting.*

## **OFFICER'S RECOMMENDATION AND COMMITTEE RESOLUTION**

Moved: Cr Seale

Seconded: Cr Alexander

That with respect to Annual Financial Report for Financial Year 2021/22 the Audit Advisory Committee:

1. Recommend to Council the acceptance of the Annual Financial Report and Independent Audit Report for the 2021/22 Financial Year noting that is 'unqualified' and there are no matters of significance raised by the Auditors; and
2. Note the items discussed in the Confidential Management Letter and Independent Audit Report and the Administration's responses regarding:
  - a. Fixed Asset Management;
  - b. Related Party Declarations;
  - c. Reconciliations and Reports;
  - d. Employee Long Service Records; and
  - e. Redundant Supplier Records.

**CARRIED 9/0**



## Auditor General

### INDEPENDENT AUDITOR'S REPORT 2022 Shire of Narrogin

To the Councillors of the Shire of Narrogin

#### Opinion

I have audited the financial report of the Shire of Narrogin (Shire) which comprises:

- the Statement of Financial Position at 30 June 2022, the Statement of Comprehensive Income by Nature or Type, Statement of Changes in Equity, and Statement of Cash Flows and Rate Setting Statement for the year then ended
- Notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial report is:

- based on proper accounts and records
- presents fairly, in all material respects, the results of the operations of the Shire for the year ended 30 June 2022 and its financial position at the end of that period
- in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

#### Basis for opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial report section below.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Other information

The Chief Executive Officer (CEO) is responsible for the preparation and the Council for overseeing the other information. The other information is the information in the entity's annual report for the year ended 30 June 2022, but not the financial report and my auditor's report.

My opinion on the financial report does not cover the other information and, accordingly, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I did not receive the other information prior to

the date of this auditor's report. When I do receive it, I will read it and if I conclude that there is a material misstatement in this information, I am required to communicate the matter to the CEO and Council and request them to correct the misstated information. If the misstated information is not corrected, I may need to retract this auditor's report and re-issue an amended report.

## **Responsibilities of the Chief Executive Officer and Council for the financial report**

The Chief Executive Officer of the Shire is responsible for:

- preparation and fair presentation of the financial report in accordance with the requirements of the Act, the Regulations and Australian Accounting Standards
- managing internal control as required by the CEO to ensure the financial report is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the CEO is responsible for:

- assessing the Shire's ability to continue as a going concern
- disclosing, as applicable, matters related to going concern
- using the going concern basis of accounting unless the State Government has made decisions affecting the continued existence of the Shire.

The Council is responsible for overseeing the Shire's financial reporting process.

## **Auditor's responsibilities for the audit of the financial report**

As required by the *Auditor General Act 2006*, my responsibility is to express an opinion on the financial report. The objectives of my audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

A further description of my responsibilities for the audit of the financial report is located on the Auditing and Assurance Standards Board website. This description forms part of my auditor's report and can be found at [https://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf).

## **My independence and quality control relating to the report on the financial report**

I have complied with the independence requirements of the *Auditor General Act 2006* and the relevant ethical requirements relating to assurance engagements. In accordance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, the Office of the Auditor General maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## **Matters relating to the electronic publication of the audited financial report**

This auditor's report relates to the financial report of the Shire of Narrogin for the year ended 30 June 2022 included in the annual report on the Shire's website. The Shire's management is responsible for the integrity of the Shire's website. This audit does not provide assurance on the integrity of the Shire's website. The auditor's report refers only to the financial report. It does not provide an opinion on any other information which may have been hyperlinked to/from the annual report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to contact the Shire to confirm the information contained in the website version.

Mark Ambrose  
Senior Director – Financial Audit  
Delegate of the Auditor General for Western Australia  
Perth, Western Australia  
20 December 2022

## 6.2 FINANCIAL MANAGEMENT AND RISK REVIEW

File Reference	12.8.1
Disclosure of Interest	Neither the Author nor Authorising Officer have any Impartiality, Financial or Proximity Interests that requires disclosure.
Applicant	Shire of Narrogin
Previous Item Numbers	Nil
Date	31 January 2023
Author	Dale Stewart – Chief Executive Officer
Authorising Officer	Dale Stewart – Chief Executive Officer
<b>Attachments</b> 1. Regulation 17 Review Report – Avant Edge Consulting 2. Regulation 5(2)(c) - Financial Management Review – Avant Edge Consulting 3. Risks Register (PDF) (Confidential) (sent under separate Cover)	

### Summary

The CEO is required to undertake a review of and the appropriateness and effectiveness of financial systems and risk management, internal control and legislative compliance at least every three years.

The Chief Executive Officer contracted Avant Edge Consulting, and experienced Audit & Assurance Firm contracting to private industry government and local government, to undertake the reviews. The previous review was undertaken by Moore Australia.

The two separate independent reviews (Financial Manager Review (FMR) and Risk Review) are hereby presented to the Audit Committee for recommendation to Council.

### Background

The independent FMR and Risk reviews were undertaken in September 2022 by Avant Edge Consulting (Avant) (after a procurement process) with the final report received on 15 September 2022.

The last Financial Management Review presented to Council was at its 25 February 2020 Council meeting. Please note the Local Government (Financial Management) Regulations 1996 were amended in June 2018 to alter the review interval from 4 years to 3 years.

### Comment

The Risk Review (Attachment 1) concluded that ‘...there were no matters require reporting as part of the review’.

The FMR (Attachment 2) concluded “...nothing came to my attention that would indicate any high risk or medium risk management control matters that would require immediate attention by the Shire.”

Whilst a few issues were identified only 1 (one) had a Low Risk rating with the other 6 being observations only. The recommended action suggested for the Low Risk Issue (Segregation of Duties Control – invoice payment process) has already been implemented.

Six minor issues were identified only as observations with Management having already addressed all those matters.

The Risk Register (Confidential Attachment 3) divided into 15 thematic areas, is also attached for Elected Members / the Audit Committee review and information. The Shire's Compliance & Governance Calendar (in Smartsheet) lists review of the Risk Register at least annually (by Management) (and the Audit Committee) and Risk is included in every Executive Management Team Agenda (held generally weekly).

The only Risk that is perhaps higher in management's sights at the moment and to draw to the attention of the Audit Committee, is that of *Cyber Risk* under the *External Theft and Fraud* Theme. That risk (and treatment controls) is under review at the moment with external software providers.

The independent Reviews should provide assurance to the Chief Executive Officer and indeed to Elected Members that effective and appropriate financial management and risk controls exist for the organisations size and operating environment as a government entity in a highly regulated environment.

## Consultation

Consultation has occurred with the following:

- Chief Executive Officer;
- Executive Manager Corporate and Community Services;
- Manager of Corporate Services; and
- Governance & Records Officer

## Statutory Environment

The Local Government (Audit) Regulations 1996, Regulation 16 – An audit committee has the following functions –

- (a) To guide and assist the local government in carrying out –
  - (i) Its functions under Part 6 of the Act; and
  - (ii) Its functions relating to other audits and other matters related to financial management;
- (b) To guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;
- (c) To review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to –
  - (i) Report to the council the results of that review; and
  - (ii) Give a copy of the CEO's report to the council.

Regulation 17 of The Local Government (Audit) Regulations 1996 directs the Chief Executive Officer (CEO) to review the appropriateness and effectiveness of a local government's systems and procedures in relation to risk management; internal control and legislative compliance once every 3 financial years and to report the results of the review to the Audit Committee.

Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 directs the CEO 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 to the local government the results of those reviews.

## Policy Implications

A number of Council policies are impacted by the FMR and Risk Reviews, these include:

- 1.1 Code of Conduct;
- 1.13 Legislative Compliance;
- 2.8 Enterprise Risk Management Policy;
- 3.1 Purchasing Framework.

Pleasingly, no Council Policies are required to be reviewed, amended or created as a result of these two reviews.

Operationally, the Tender Register, Tender Declaration of Interest Form, Contractors Procedure and Exempt Rates Register has been reviewed and already updated from the suggestions made by the Consultant.

### Financial Implications

There are no financial considerations proposed other than what may emanate from the Cyber Risk review, and these will either be managed through operational IT Budgets, or a specific request made to the Council, if required, in time.

### Strategic Implications

Shire of Narrogin Strategic Community Plan 2017-2027		
Objective	4.	Civic Leadership Objective (Continually enhance the Shire's organisational capacity to service the needs of a growing community)
Outcome:	4.1	An efficient and effective organisation
Strategy:	4.1.1	Continually improve operational efficiencies and provide effective services
Strategy:	4.1.2	Continue to enhance communication and transparency

### Voting Requirements

Simple Majority

#### OFFICER'S RECOMMENDATION AND COMMITTEE RESOLUTION

Moved: Cr Broad

Seconded: Cr Pomykala

That it be a recommendation to Council that, with respect to Local Government (Financial Management) Regulations 1996, Regulation 5 Review and Local Government (Audit) Regulations 1996, Regulation 17 Review, the Council receives the findings of the two reviews and note the minor improvement actions already undertaken and notes the Management's Risk Register as dated April 2022.

**CARRIED 9/0**

15 September 2022

Dale Stewart  
Chief Executive Officer  
Shire of Narrogin  
89 Earl Street  
Narrogin WA 6312

Dear Dale,

Please find attached my final Regulation 17 review report for the Shire of Narrogin.

I am happy to report that there were no matters that require reporting as part of my review.

In my opinion, the Shire is currently meeting its risk management and legislative compliance and has satisfactory internal controls in place as per Regulation 17.

I would like to thank you and your staff for the positive cooperation provided to me during my visit and for the information that was provided during the conduct of this review.

Yours sincerely



Santo Casilli FCPA MIIA (Aust.)  
Director

**Avant Edge Consulting**

Shire of Narrogin

# Regulation 17 Review

15 September 2022

Final Review Report

(Review in Confidence)

**Avant Edge Consulting**  
**Certified Practising Accountant**

Liability limited by a scheme approved under Professional Standards Legislation

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# Regulation 17 Review Summary and Conclusion

## INTRODUCTION

Avant Edge Consulting was engaged to undertake a review of the Shire of Narrogin's (the Shire) risk management, internal control and legislative compliance as required to be undertaken as per Regulation 17 of the *Local Government (Audit) Regulations 1996*.

As per Regulation 17(1), (2) and (3) of the *Local Government (Audit) Regulations 1996*, the Chief Executive Officer (**CEO**) is required to undertake a review, at least once every 3 financial years, of the following processes:

- Risk Management.
- Internal Control; and
- Legislative Compliance.

The Shire of Narrogin (**the Shire**) uses Synergy as its accounting system.

The Shire previously outsourced their ICT services but more recently have appointed a permanent ICT Supervisor who will be undertaking most of the ICT work and also manage the IT services for the Shire.

## SCOPE AND METHODOLOGY

My review was conducted in accordance with ASAE 3500 – Assurance Engagement Other Than Audits or Reviews of Historical Financial Information.

The review undertook the following approach:

- Information relating to risk management, internal controls and legislative compliance was requested from the Records Management and Governance Officer prior to commencement of the review to assess adequacy of policies, procedures and overall control processes that are currently in place within the Shire.
- During my site visit, discussions were held with the Records Management and Governance Officer, Executive Manager Corporate and Community Services, Manager Corporate Services and other relevant officers regarding financial controls and also with the Executive Manager Development and regulatory Services, Executive Manager Technical and Rural Services and the Manager Operations in regard to the procurement control process to understand the processes and the management controls currently in place. Communications were held with the Records Management and Governance Officer throughout the review process.
- Issued an Information Technology General Controls Questionnaire to the ICT Supervisor to assess the adequacy of information technology controls and security over the Shire's data and staff computer access.
- Discussed with the Records Management and Governance Officer, Executive Manager Corporate and Community Services, Manager Corporate Services and the CEO the process in place for ensuring that the Shire is continually in compliance with Local government Act and Regulation requirements.

The matters raised in this report are only those which came to my attention during performing my review and may not necessarily be a comprehensive statement of all the possible process improvement options that may be made in relation to the Risk Management, Internal Control and Legislative Compliance matters.

My review report is provided to the Shire to enable the Shire to meet their statutory obligations under Regulation 17 and as such I do not encourage this report to be used for any other purpose.

## WORK PROGRAM

My work incorporated the following areas for review as required under Regulation 17:

### 1. RISK MANAGEMENT

#### To establish that:

- a. A Governance Framework is in place and endorsed by the Audit and Risk Committee.
- b. A formal governance unit exists or allocation of responsibility for proper governance compliance.
- c. Risk Management and governance policies are in place and have been endorsed by the Audit Committee/Council.
- d. An Operational and Strategic Risk Register is in place and is constantly reviewed and updated.
- e. Regular development of risk reports and actions to address risks are identified and actioned and such actions are regularly communicated to and endorsed by the Audit Committee.
- f. Fraud Risk Identification and Prevention policies are in place including the establishment of a Whistle Blower policy.
- g. An effective Audit Committee exists, and proper Committee processes are followed.

### 2. INTERNAL CONTROL

#### To establish that:

- a. A Delegation of Authority is in place, up to date and reviewed regularly.
- b. Proper and formal documented policies (guidelines and procedures) are in place and are kept up to date.
- c. Internal assessment of control processes exists e.g., via an internal audit function or by the Shire's Governance area.
- d. Reliance can be placed on the work undertaken by the Shire's external Auditors re the review of the Shire's control environment.
- e. Proper segregation of duties and management controls exist in relation to the following key accounting processes:
  - o Accounts payable.
  - o Cash collection, receipting and reconciliation.
  - o General Ledger reconciliation.
  - o Payroll.
  - o Procurement.

### 3. LEGISLATIVE COMPLIANCE

#### To establish that:

- a. The Compliance Audit Return (CAR) is properly completed each year and any non-compliance matters are investigated promptly and adequate action is taken to ensure similar non-compliance no longer occur.
- b. Legislative compliance regarding all Local Government Act and Regulation requirements are monitored and regularly reviewed to ensure continual compliance.

## REVIEW CONCLUSION

Based on my assessment of the management controls and processes that exist at the Shire regarding the above 3 key areas of the Regulation 17 review, I consider that the Shire's governance policies and procedures are up to date and appropriate for the needs to the Shire and satisfactorily are referenced to relevant legislative requirements.

In my opinion the Shire is currently meeting its risk management and legislative compliance requirements and has satisfactory internal controls in place as required by Regulation 17.

Notwithstanding the above, I would like to suggest that the Shire put in place a process by which the Shire's risk register is assessed/reviewed at least yearly to ensure that any new risks are identified, and action is taken to reduce the risk and that a copy of the risk register with evidence of review is tabled at the Audit Committee for the Audit Committee endorsement.



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15 September 2022

Dale Stewart  
Chief Executive Officer  
Shire of Narrogin  
89 Earl Street  
Narrogin WA 6312

**REG 5(2)(c) – FINANCIAL MANAGEMENT REVIEW**

Dear Dale

Please find attached my final financial management review report for the Shire of Narrogin.

Your management comments as to action to be taken to address issues raised in this report have been received and have been incorporated in this final report.

I would like to thank you and your staff for the positive cooperation provided to me during my visit and for the information that was provided to me during the conduct of this review.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Santo Casilli', is written over a light grey rectangular background.

Santo Casilli FCPA MIIA (Aust.)  
Director

**Avant Edge Consulting**

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# Shire of Narrogin

## Regulation 5 (2) (c) – Financial Management Review

15 September 2022

Final Review Report

(Review in Confidence)

**Avant Edge Consulting**  
**Certified Practising Accountant**

Liability limited by a scheme approved under Professional Standards Legislation

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# Financial Management Review Summary and Conclusion

## INTRODUCTION

Avant Edge Consulting was engaged to undertake a financial management review of the Shire of Narrogin's (the Shire) financial management systems and procedures as required to be undertaken at least once every 3 years as per the Regulation (5)(2)(c) of the *Local Government (Financial Management) Regulations 1996*.

I conducted my review in accordance with Australian Auditing Standard *ASAE 3000 – Assurance Engagement other than Audits or Reviews of Historical Financial Information* which provides a limited assurance regarding the appropriateness and effectiveness of the Shire's management controls over its financial management systems and processes.

This report outlines the work undertaken as part of my review and also includes my findings and proposed recommendations as identified as a result of the review.

The Shire of Narrogin uses Synergy as its accounting system.

## CEO's RESPONSIBILITY FOR THE REVIEW REPORT

As per Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*, the Chief Executive Officer (CEO) is required to undertake a financial management review, at least once every 3 financial years.

The final review report with the CEO comments is to be presented at the Audit Committee.

## RESPONSIBILITY FOR THE REVIEW

My responsibility was to conduct the Financial Management Review in accordance with the Australian Auditing Standard *ASAE 3000 – Assurance Engagement other than Audits or Reviews of Historical Financial Information* and to report to the CEO the review findings and proposed recommendations for management control and process improvement.

My review assessed information in relation to the period 1 July 2021 to 30 June 2022.

I wish to confirm that I am fully independent of the Shire of Narrogin and of its operations regarding this review.

## REVIEW LIMITATIONS

The matters raised in this final review report are only those which came to my attention during the course of performing the financial management review and may not necessarily be a comprehensive statement of all the possible control weaknesses and / or process improvement options that may be made in relation to the Shire's financial management systems and procedures.

As part of my review, I have not assessed and examined every financial process and procedure and as such have limited my assessment and evaluations only to those areas

where I considered may be of higher risk to the Shire regarding its Financial Management process. As such I did not examine every activity and procedure that may exist at the Shire and therefore only provide limited assurance to the Shire.

My review, which was conducted in accordance with Australian Auditing Standard *ASAE 3000 – Assurance Engagement other than Audits or Reviews of Historical Financial Information* was not an audit, and as per ASAE 3000 I can only provide assurance based solely on my assessment of the information which was provided to me by the Shire during the conduct of this review.

This review report is to be used solely for the purpose of reporting to satisfy the requirements of *Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996* and should not be used for any other purpose other than for the Shire of Narrogin.

## SCOPE AND METHODOLOGY

My review was conducted in accordance with *ASAE 3000 – Assurance Engagement other than Audits or Reviews of Historical Financial Information*.

The review undertook the following approach:

- Information was sought from the Records Management and Governance officer and was reviewed prior to my visit from my Perth office.
- Discussions were held with the Executive Manager Corporate and Community Services, Manager Corporate Services and other relevant officers regarding financial operations and also with the Executive Manager Development and regulatory Services, Executive Manager Technical and Rural Services and the Manager Operations in regard to the procurement process during my visit to understand and assess the financial processes and key management controls currently in place.
- key management controls and processes currently in place over key financial management systems and procedures were assessed in line with the following work program provided to the CEO.
- Reviewed various policies and procedures provided to me by the Shire.
- All relevant findings and possible recommendations for control and process improvement as determined from my review were discussed with the CEO and the Executive Management team at the end of the review process.
- Issued draft review report for management comment prior to releasing final report.
- Issued final review report incorporating management comments.

## WORK PROGRAM

My review incorporated the following key financial management areas as required under Regulation 5(1) of the *Local Government (Financial Management) Regulations 1996*:

- Procurement (formal quotations and tender process)
- Contract Management
- Accounts Payable
- Cash Collection and Handling
- Payroll
- General Ledger Application Controls (journal posting, balance sheet reconciliations)
- Council Rates, Fees and Charges, including Debt Management
- Investment Management

- Asset Management (excluding infrastructure assets)
- Budget process
- Information Technology General Systems Controls Environment

No other financial management systems and procedures were subject to review.

## REVIEW CONCLUSION

Based on my review (which was not an audit) of the management controls and processes that exist at the Shire, regarding the above key financial management system areas, nothing came to my attention that would indicate any **high risk** or medium risk management control matters that would require immediate attention by the Shire.

Based on the matters raised in the body of this report under Executive Management Detailed Findings, I can conclude that the financial management systems in place within the Shire, are satisfactory. A number of minor process improvement options were noted and have been included in this review report for CEO consideration.

The matters raised in this review report were assessed as low risk to the Shire. For these identified matters I have recommended that the Shire should consider exploring the recommended process improvement options which have been incorporated within the body of this report.

As part of this report, I have reported the findings under 3 separate sections:

- Low risk rated issues (management consideration recommended)
- Observation issues (no management action required but may be considered)

Each finding has a recommended action except for those issues reported as "Observations".

I believe that the Shire's implementation of the suggested and recommended process improvements will assist in further strengthening the existing financial management controls that are currently in place and will provide greater overall governance within the Shire's financial operations.

## Executive Management Detailed Observations

### Low Risk Rated Issues

#### 1. *Segregation of Duties Control (invoice payment process)*

All invoices prior to being processed for payment are required to be signed by an officer authorising that the invoice can be paid and also by an officer that has received the goods/services provided. The invoice is then matched to the authorised purchase order approved \$ value prior to payment. Proper separation of duties control ensures that the officer who initially approved the purchase order is also not the same officer who either authorised the invoice or received the goods/service. This ensures that at least 2 or more officers are involved in the procurement and payment process.

Ideally there should be 3 officers involved in this process being the purchase order approving officer, the goods/services received officer and the invoice approving officer. Although in smaller Shires with limited staff, this may not be possible. at least 2 officers should be involved.

I noted instances where the same officer who authorised the payment of the invoice was also the officer who signed as receiving the goods/services. I further noted that in some instances the same officer who authorised the invoice and signed the invoice as having received the goods/service was also the officer who approved the purchase order.

I understand that at times the same officer who receives the goods/services or is managing the delivery of goods/services is also the officer with delegated authority to approve purchase orders and also authorise the payment of invoices.

#### **Recommendation**

I recommend that the CEO undertake the following opinions:

- ensure that for every invoice that the officer who signs as having received the goods/services is also not the same officer who authorises the invoice for payment or approves the purchase order for the goods/services. **Or**
- Allocate responsibility to another officer independent of the procurement and invoice processing process to sign off on the invoices attesting that the invoice is valid and that the shire has satisfactorily received the goods/services for which the Shire is being invoiced. Based on our discussions responsibility for this could be provided to the Records Management and Governance Officer.

#### **Management Comments**

The CEO has agreed to action this recommendation.

## Observations (No Recommendations Made)

### 1. *Procurement (Conflict of Interest)*

I was unable to determine as to whether officers undertaking a procurement evaluation process provide a signed conflict of interest declaration prior to undertaking the evaluation. This is important to ensure that the officers undertaking the procurement evaluation are free from bias. Attached as Appendix B to this report is a standard conflict of interest declaration form that can be used by the shire for this purpose.

### 2. *Procurement (Tender Register)*

I noted that the Shire's tender register that is displayed on the Shire's website did not have sufficient information regarding each tender as per what the Local Government Regulations require to be in a tender register. The tender register should as a minimum included:

- The RFT/RFQ number
- Date RFQ/RFT advertised
- Closing date
- Details of conforming tenders and supplier names
- Name of successful tenderer
- Name of unsuccessful tenderers
- Contract \$ value
- Contract period including extension options (this is optional but would assist the Shire in the contract management of the tenders).

### 3. *Procurement (Quotations)*

I noted that in most instances the Shire is seeking the correct number of quotes as per policy and where the required number of quotes is not able to be obtained that proper explanation is documented on the purchase order. However, I did note from my testing of purchase orders that in some instances the explanations were missing or were not clear as to the reason why the required number of quotations were not obtained or where sole supplier status was invoked. The CEO ensure that the required quotations as per policy are obtained and if not then clear explanation should be provided in all instances.

### 4. *Contract Management (Policy Development)*

I understand that the Shire is currently in the process of developing a contract management policy. Can I suggest that the contract management policy should also include the need to undertake a post contract supplier performance assessment and that the results of the assessment should be documented to be used to determine whether value for money was obtained from the contract and also as to whether the supplier's performance warrants the Shire to reuse the supplier for any future procurements. Further the Shire may also want to consider developing a contract management checklist outlining all contract requirements to be met by the supplier (e.g. KPI's etc) which should be signed off by the appointed contract manger at the conclusion of each contract to evidence that all contract obligations were assessed and met by the supplier as per the contract terms and conditions.

### 5. *Payroll (Certification of Employee Changes)*

At present the payroll officer seeks documentary evidence prior to changing an employee's bank account details, superannuation details or any other personal details and these are

checked by the Executive Manager Corporate and Community Services prior to certifying the payroll. However, Synergy currently does not produce a report that would list all changes made in the payroll system so that these can be checked to ensure they are proper authorised changes. The Shire should make enquiries with the Synergy software licence owners as to whether a log report can be produced each pay run to identify all changes that have been made to an employee's details. This may also include pay rate changes. This log report could then be checked and verified by the Payroll officer and certified by the Executive Manager Corporate and Community Services as being valid changes prior to processing each pay run.

#### **6. Council Rates (Rate Exempt Properties)**

I noted from my discussions with the Rates Officer that there is some confusion as to whether current exempted properties were exempted under Regulation 6.26(k) (through the Minister) or were assessed as exempt due to the property meeting other Regulation 6.26 requirements (Charitable purpose status).

As the Rates Officer is required to every 3 years assess the exempt properties status as to whether they continue to meet exempt property status as per Regulation 6.26 then those properties that were exempted by the Minister under Regulation 6.26(k) need to be identified and possibly assessed in a different manner.

A clear procedure should be documented as to the process to follow in assessing all rate exempt properties and make it clearer as to what constitutes an exemption.

## Appendix A – Risk Criteria

The following risk criteria were used to assess level of risk on review findings included in the Review Report.

### *Risk Assessment Matrix*

#### *Likelihood of Risk:*

Rating	Description	Frequency
1	<b>Rare</b> – May occur, only in exceptional circumstances	< once in 15 years
2	<b>Unlikely</b> – Could occur at some time	At least once in 10 years
3	<b>Possible</b> – Should occur at some time	At least once in 3 years
4	<b>Likely</b> – Will probably occur in most circumstances	At least once per year
5	<b>Almost Certain</b> – Expected to occur in most circumstances	> once per year

#### *Consequence of Risk:*

Description	Health	Financial Loss	Operation	Compliance	Reputation	Project
1. Insignificant	No injuries or illness	<\$50,000	Little Impact	Minor breach of policy, or process requiring approval or variance	Unsubstantiated, low impact, low profile or no news item.	Small variation to cost, timeliness, scope or quality of objectives and required outcomes.
2. Minor	First Aid treatment	\$50,000 to \$250,000	Inconvenient Delays	Breach of policy, process or legislation requiring attention of minimal damage control	Substantiated, low impact, low news profile.	5-10% increase in time or cost or variation to scope objective requiring approval
3. Moderate	Medical treatment required	\$250,000 to \$1 million	Significant delays to major deliverables	Breach requiring internal investigation, treatment or moderate damage control	Substantiated, public embarrassment, moderate impact, moderate news profile.	10-20% increase in time or cost or variation to scope objective requiring Senior Management approval
4. Significant	Death or extensive injuries	\$1 million to \$3 million	Non achievement of major deliverables	Breach resulting in external investigation or third party actions resulting in tangible loss and damage to reputation	Substantiated, public embarrassment, moderate impact, high news profile and 3 <sup>rd</sup> party actions.	20-50% increase in time or cost or significant variation to scope objective requiring restructure of project and Senior Management or Council approval
5. Severe	Multiple deaths or sever permanent disabilities	>\$3 million	Non achievement of major deliverables	Breach resulting in external investigation or third party actions resulting in significant tangible loss and damage to reputation	Substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile, 3 <sup>rd</sup> party	>50% increase in time or cost or inability to meet project objectives requiring the project to be abandoned or redeveloped

#### *Risk Exposure:*

Risk = Likelihood x Consequence

Score	Level of Risk	Score	Level of Risk	Score	Level of Risk
1 - 8	<b>Low</b>	9 - 19	<b>Medium</b>	20 - 25	<b>High</b>

# Appendix B – Confidentiality and Conflict of Interest Declaration Form

## **DECLARATION OF CONFIDENTIALITY AND INTEREST**

All staff responsible for evaluating supplier tender submissions or supplier formal quotations are required to complete the following declaration of confidentiality and interest **PRIOR** to evaluating the quote submissions.

**RFT /RFQ NO & Title:** \_\_\_\_\_

I \_\_\_\_\_ (Print Name) herby declare that:

- I have no pecuniary interest in any of the supplier(s) that have submitted a quote/bid for the above RFT/RFQ.
- I have no actual or perceived conflict of interest or impartiality in the supplier(s) that have provided a quote/bid. Should any of the supplier(s) be personally known to me I shall inform the CEO immediately and will not undertake in the evaluation process until approved to do so by the CEO.
- I agree to keep all information relating to the supplier(s) quote/bid confidential and under no circumstances will I disclose such information to persons outside of the evaluation team members.
- I shall keep the results of the evaluation process confidential. No indication of the likely recommendation will be discussed, disclosed or allowed to be disclosed without written approval from the CEO.

**NAME:** \_\_\_\_\_ **DATE:** \_\_\_\_\_

**SIGNATURE:** \_\_\_\_\_

## **7. CLOSURE OF MEETING**

There being no further business to discuss, the Presiding Member declared the meeting closed at 5.00 pm.