

28<sup>th</sup> June, 2017

## **AUDIT COMMITTEE MEMBERS**

NOTICE is given that the Audit Committee will meet in the Civic Centre, Committee Room, Level 4 on Monday, 3<sup>rd</sup> July, 2017 at 5.30 p.m.

An agenda for the meeting is enclosed herewith.



**Mark McSHANE**  
CHIEF EXECUTIVE OFFICER

## AGENDA INDEX

<b>1.</b>	<b>APOLOGY/IES</b> .....	<b>1</b>
<b>2.</b>	<b>CONFIRMATION OF AUDIT COMMITTEE MINUTES</b> .....	<b>1</b>
<b>3.</b>	<b>QUESTIONS</b> .....	<b>1</b>
	3.1. With Notice .....	1
	3.2. Without Notice .....	1
<b>4.</b>	<b>DEPUTATIONS</b> .....	<b>1</b>
<b>5.</b>	<b>COMMITTEE REPORTS</b> .....	<b>1</b>
	5.1. 2017/2018 Annual Business Plan and Budget Program - Report No. AR17/23584.....	2
	5.2. Audit Work Program 2014 - 2018 - Report No. AR17/23671.....	5
	5.3. Financial Internal Controls – Internal Audit Program - Report No. AR17/23671 .....	8
	5.4. End of Financial Year / Interim Audit Update - Report No. AR17/23673 .....	11
<b>6.</b>	<b>MOTION(S)</b> .....	<b>15</b>
	6.1. With Notice .....	15
	6.2. Without Notice .....	15



## **AGENDA OF AUDIT COMMITTEE MEETING**

Meeting to be held at the Committee Room, Civic Centre, 10 Watson Terrace, Mount Gambier  
on Monday, 3<sup>rd</sup> July 2017 at 5.30 p.m.

<b>PRESENT</b>	Mr Jeroen Zwijnenburg (Presiding Member) Ms Vanessa McDonald Cr Sonya Mezinec Mayor Andrew Lee (Ex Officio)
<b>GUESTS</b>	Mr Tim Muhlhausler - Auditor Galpins (to be confirmed)
<b>COUNCIL OFFICERS</b>	Mr Mark McShane - Chief Executive Officer Mrs Pamela Lee - General Manager Council Business Services Mr Gary Button - Finance Manager Ms Kahli Rolton - Management Accountant

**WE ACKNOWLEDGE THE BOANDIK PEOPLES AS THE TRADITIONAL CUSTODIANS OF THE LAND WHERE WE MEET TODAY. WE RESPECT THEIR SPIRITUAL RELATIONSHIP WITH THE LAND AND RECOGNISE THE DEEP FEELINGS OF ATTACHMENT OUR INDIGENOUS PEOPLES HAVE WITH THIS LAND.**

### **1. APOLOGY/IES**

Apology(ies) received from

That the apology from \_\_\_\_\_ be received.

Moved: \_\_\_\_\_ Seconded:

### **2. CONFIRMATION OF AUDIT COMMITTEE MINUTES**

That the minutes of the Ordinary Audit Committee meeting held on 7 March 2017 be confirmed as an accurate record of the proceedings of that meeting.

Moved: \_\_\_\_\_ Seconded:

### **3. QUESTIONS**

#### **3.1. With Notice**

Nil submitted

#### **3.2. Without Notice**

### **4. DEPUTATIONS**

Nil

### **5. COMMITTEE REPORTS**

Committee reports commence on the following page.



5.1. 2017/2018 Annual Business Plan and Budget Program - Report No. AR17/23584

<b>COMMITTEE</b>	Audit Committee
<b>MEETING DATE:</b>	3 July 2017
<b>REPORT NO.</b>	AR17/23584
<b>RM8 REFERENCE</b>	AF16/863
<b>AUTHOR</b>	Gary Button
<b>SUMMARY</b>	This report is presented to inform the Audit Committee of Council's 2017/2018 Annual Business Plan and Budget Program.
<b>COMMUNITY PLAN REFERENCE</b>	Goal 3: Our Diverse Economy

<b>REPORT RECOMMENDATION</b>
(a) That Audit Committee Report No. AR17/23584 titled ' <i>2017/2018 Annual Business Plan and Budget Program</i> ' as presented to the Audit Committee on 3 July 2017 be noted.

Moved:

Seconded:



## Background

Section 123 of the Local Government Act 1999 (the Act) provides guidelines to Councils on the requirement to prepare an Annual Business Plan and Budget.

Section 123 (3) further states that Council must:

- (a) Prepare a draft annual business plan; and
- (b) Follow the relevant steps set out in its public consultation policy, taking into account the requirements of subsection (4).

## Discussion

In accordance with the Act, Council has adopted a program (including timeline and process) for the 2017/2018 Annual Business Plan and Budget as set out in the following table.

<b>Date 2017</b>	<b>Description</b>	<b>Status</b>
11 April	Members Budget Workshops/Briefing(s).	Complete
16 May	Council Meeting to consider 2017/2018 Draft Annual Business Plan and Budget.	Complete
17 May	2017/2018 Draft Annual Business Plan and Budget released for public comment.	Complete
9 June 5.00pm	Public submissions on 2017/2018 Draft Annual Business Plan and Budget close.	Complete
21 June	Budget Council Meeting to hear public submissions and to discuss the 2017/2018 Draft Annual Business Plan and Budget.	Complete
5 July	Council Meeting to consider the 2017/2018 Annual Business Plan and Budget.	
tbc - Mid July	Last date for finalisation/distribution of the first quarterly rate notice and distribution of the summary 2017/2018 Annual Business Plan.	
8 September	2017/2018 First quarterly rate instalment final payment date.	

## Conclusion

This report provides information to the Audit Committee on Council's 2017/2018 Annual Business Plan and Budget program (including process and timeline). Council is scheduled to meeting on the 5 July 2017 to consider and if it sees fit to adopt Council's 2017/2018 Annual Business Plan and Budget. Following the adoption of the Annual Business Plan and Budget, Council will be able to proceed with declaring its rates, followed by distributing rate notices accompanied by a 2017/2018 Annual Business Plan and Budget Summary.

## Attachments

Nil





**Gary Button**  
FINANCE MANAGER



**Pamela LEE**  
GENERAL MANAGER COUNCIL BUSINESS SERVICES

19 June 2017



**5.2. Audit Work Program 2014 - 2018 - Report No. AR17/23671**

<b>COMMITTEE</b>	Audit Committee
<b>MEETING DATE:</b>	3 July 2017
<b>REPORT NO.</b>	AR17/23671
<b>RM8 REFERENCE</b>	AF11/863
<b>AUTHOR</b>	Gary Button
<b>SUMMARY</b>	Quarterly review of Council's Audit Work program
<b>COMMUNITY PLAN REFERENCE</b>	Goal 3: Our Diverse Economy

<b>REPORT RECOMMENDATION</b>
(a) That Audit Committee Report No. AR17/23671 titled ' <i>Audit Work Program 2014 - 2018</i> ' as presented to the Audit Committee on 3 July 2017 be noted.

Moved:

Seconded:



## Background

Under section 126 of the Local Government Act 1999, the functions of an audit committee include the following:

- (a) *reviewing annual financial statements to ensure that they present fairly the state of affairs of the council; and*
- (ab) *proposing, and providing information relevant to, a review of the council's strategic management plans or annual business plan; and*
- (ac) *proposing, and reviewing, the exercise of powers under section 130A; and*
- (ad) *if the council has exempted a subsidiary from the requirement to have an audit committee, the functions that would, apart from the exemption, have been performed by the subsidiary's audit committee; and*
- (b) *liaising with the council's auditor; and*
- (c) *reviewing the adequacy of the accounting, internal control, reporting and other financial management systems and practices of the council on a regular basis.*

An Audit Work Program provides a programmed approach for audit committees to review the wide ranging functions covered by Council's activities.

## Discussion

The role of the Audit Committee is defined in Section 7 of the *'Terms of Reference of the City of Mount Gambier Audit Committee'*, refer to Attachment 1. To assist the Audit Committee in discharging their duties, an Audit Work Program 2014-2018 is in place to guide the Committee's attention to the various functions and policies of Council.

The Audit Committee reviews the Audit Work Program 2014 - 2018 at its meeting to consider whether any adjustments are required for the financial year's program.

The following activities and timelines, extracted from the Audit Work Program are provided for the Committees reference and review:

January to March (Quarter 1)

- Work Plan
- Treasury Management Reviews
- Asset Reviews/Revaluation Strategy
- Policy reviews incorporating;
  - Internal Controls
  - Fraud and Corruption Framework
  - Whistleblowing
  - Risk Management
  - Budget Performance

April to June (Quarter 2)

- Interim External Audit
- Work Plan
- Business Continuity
- Business Plan and Budget





July to September (Quarter 3)

- Work Plan
- Annual Report to Council including self assessment
- Review of Work Plan
- Review of Terms of Reference

October to December (Quarter 4)

- Work Plan
- Statutory External Audit (Inc. Fin. Int. Controls)
- AFS authorisation by Presiding Member
- Council Annual Report Compliance

## Conclusion

The Audit Committee Work Program 2014 – 2018 continues as scheduled and there are currently no material outstanding items or changes recommended to this program.

## Attachments

Attachment 1 (AR16/24008): Terms of Reference of the City of Mount Gambier Audit Committee.



**Gary Button**  
FINANCE MANAGER



**Pamela LEE**  
GENERAL MANAGER COUNCIL BUSINESS SERVICES

19 June 2017



**5.3. Financial Internal Controls – Internal Audit Program - Report No. AR17/23671**

<b>COMMITTEE</b>	Audit Committee
<b>MEETING DATE:</b>	3 July 2017
<b>REPORT NO.</b>	AR17/23580
<b>RM8 REFERENCE</b>	AF11/863
<b>AUTHOR</b>	Gary Button
<b>SUMMARY</b>	A report to advise the progress of Council's continuous program of periodic reviews of Financial Internal Controls
<b>COMMUNITY PLAN REFERENCE</b>	Goal 3: Our Diverse Economy

<b>REPORT RECOMMENDATION</b>
<p>(a) That the Audit Committee Report No. AR17/23580 titled '<i>Financial Internal Controls – Internal Audit Program</i>' presented to the Audit Committee on 3 July 2017 be noted.</p> <p>(b) That the periodic review of Financial Internal Controls continue to be reported to the Audit Committee;</p> <p>(c) That MET continue to be responsible for the review of Financial Internal Controls;</p> <p>(d) That the review of Council's 'Cumulative Spend' activity be presented to the August 2017 meeting of the Audit Committee.</p>

Moved:

Seconded:



## Background

Internal controls cover areas including strategic management, business development, project management and finance.

The Local Government Act 1999 (the Act) and the Local Government Regulations 2011 (the Regulations) specifies the roles of internal controls for:

- Councils (implementing and maintaining); and
- Audit Committees (reviewing the adequacy); and
- External auditors (considering the adequacy); and
- Chief Executive Officer and Principal Member (certifying the adequacy).

Section 125 of the Act provides:

*“A council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council's assets, and to secure (as far as possible) the accuracy and reliability of council records.”*

To comply with this requirement, a program of review based on the risk rating of each business activity is undertaken on a continuous basis.

Council currently is using a system of review based on the Better Practice Model (BPM) which in 2013 was mandated by the regulations as the criteria by which Local Government auditors must assess the adequacy of internal controls. There are currently over 200 internal financial controls spread over dozens of business activities.

Risk ratings range from extreme, high, moderate and low with the frequency of review adjusted dependent on the degree of risk. Council reviews the extreme and high risks on an annual basis with the remaining risk assessments completed on a three year rolling plan.

## Discussion

Council has commenced a program where periodic reviews of Financial Internal Controls is undertaken and documented.

These reports on Financial Internal Controls are presented to Councils Management Executive Team (MET) for review and for assigning a management response.

A review of Council's 'Cumulative Spend' activity has been undertaken by the Management Accountant which has not yet been considered by Council's MET. The results of this review will be presented at the next Audit Committee meeting scheduled for August 2017.

This review covered the analysis of Council's cumulative spend per creditor for the period 1 July 2016 to 10 March 2017 with the following findings made to the MET:

1. Recognise the importance of further review surrounding cumulative spends per creditor/creditor category and obtaining best value for money.



2. Endorse implementation of option 1: Extend prequalified contractor register to include “preferred suppliers” and ensure adequate staff are assigned to the task of implementing such options.
3. Endorse the Management Accountant and Procurement Officer to continue investigations into Authority’s ability to limit staff to make purchases only with “preferred suppliers” and/or prequalified contractor status and begin implementation.
4. Allocate adequate resources to train staff with any changes implemented to the procurement process and management of creditor spending.

## Conclusion

It is recommended that the Audit Committee Report No. AR17/23580 titled ‘*Financial Internal Controls – Internal Audit Program*’ presented to the Audit Committee on 4 July 2017 be noted.

## Attachments

Attachment 1 (AR17/24218): Financial Sustainability Information Paper 21 ‘**Internal Financial Controls**’ Revised February 2015.



**Gary BUTTON**  
FINANCE MANAGER



**Pamela LEE**  
GENERAL MANAGER COUNCIL BUSINESS SERVICES

19 June 2017  
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**5.4. End of Financial Year / Interim Audit Update - Report No. AR17/23673**

<b>COMMITTEE</b>	Audit Committee
<b>MEETING DATE:</b>	3 July 2017
<b>REPORT NO.</b>	AR17/23673
<b>RM8 REFERENCE</b>	AF11/863
<b>AUTHOR</b>	Gary Button
<b>SUMMARY</b>	A report to the Audit Committee to advise of the end of financial year timeline; and an update on the findings of the interim audit by Council's external auditors Galpins Accountants, Auditors and Business Consultants.
<b>COMMUNITY PLAN REFERENCE</b>	Goal 3: Our Diverse Economy

<b>REPORT RECOMMENDATION</b>
(a) That the Audit Committee Report No. AR17/23673 titled ' <i>End of Financial Year / Interim Audit Update</i> ' as presented to the Audit Committee on 3 July 2017 be noted.
(b) That the draft auditor's management letter dated 30 May 2017 be received.

Moved:

Seconded:



## Background

Each financial year updates are presented to the Audit Committee on the following items:

- End of Financial Year timelines; and
- Interim Audit findings.

The Local Government Act 1999 (the Act) and the Local Government Regulations 2011 (the Regulations) specifies the roles of internal controls for:

- Councils (implementing and maintaining); and
- Audit Committees (reviewing the adequacy); and
- External auditors (considering the adequacy); and
- Chief Executive Officer and Principal Member (certifying the adequacy).

Section 125 of the Act provides:

*“A council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council’s assets, and to secure (as far as possible) the accuracy and reliability of council records.”*

Under section 126 of the Local Government Act 1999, the functions of an audit committee include the following:

- (a) *reviewing annual financial statements to ensure that they present fairly the state of affairs of the council; and*
  - (ab) *proposing, and providing information relevant to, a review of the council’s strategic management plans or annual business plan; and*
  - (ac) *proposing, and reviewing, the exercise of powers under section 130A; and*
  - (ad) *if the council has exempted a subsidiary from the requirement to have an audit committee, the functions that would, apart from the exemption, have been performed by the subsidiary’s audit committee; and*
- (b) *liaising with the council’s auditor; and*
- (c) *reviewing the adequacy of the accounting, internal control, reporting and other financial management systems and practices of the council on a regular basis.*

This report provides the Audit Committee with information on these processes to ensure that the Committee is informed on our reporting timelines and findings from the interim audit. The Audit Work Program 2014-2018 specifies that the results of the interim external audit are reported back to the Audit Committee.



## Discussion

### End of Financial Year

The following dates are provided to ensure that the preparation of Council's Annual Financial Statements (AFS) for 2016/2017 is completed within the legislated reporting timeline.

Date	Task
23 June 2017	Finalise 2017 payroll
30 June 2017	Inventory stocktakes completed
28 July 2017	Creditor invoices for 2017 finalised
11 August 2017	Work in Progress for 2017 finalised
18 August 2017	Draft AFS prepared
23 August 2017	External auditors on-site
15 September 2017	Audit of AFS finalised
26 September 2017	AFS to Audit Committee
17 October 2017	AFS to Council Meeting
30 November 2017	AFS to Grants Commission
30 November 2017	Annual Report to Grants Commission

### Interim Audit update

Council's external auditors have completed their on-site visit during March 2017 and interim audit report together with their follow up work during April and May 2017. There was one item that required a management response as a result of this review, where a moderate risk finding was made for the following key internal control for payroll activities:

- Significant changes (supported by adequate audit trail) to the payroll master files approved by management.

Refer to Attachment 1 'Draft Interim Management Letter' for the full details of the interim audit findings.

Council's formal response as per Attachment 2 'Council's response to Draft Interim Management letter' notes that the failure of this control was due to an issue with Civica's Authority software. Civica were unable to produce an audit trail report between December 2016 and February 2017. This has since been rectified and all changes made to the payroll master file are verified to source documents as per the auditor's recommendations.

The auditors provided the following additional comment as an overall review of Council's Internal Controls:

*"There has been improvement in the council's internal control environment since the 2015/16 financial year, with 61 of 62 tested controls operating effectively in 2016/17 compared with 56 of 62 in the prior year."*

## Conclusion

This report covers:

1. Key dates to assist with the completion of Council's 2016/2017 AFS and subsequent statutory reporting; and
2. Managements response to the interim auditor's management letter for the Audit Committee's information.



**Attachments**

Attachment 1 (AR17/24737): Draft Interim Management letter from Galpins Accountants Auditors and Business Consultants dated 30 May 2017.

Attachment 2 (AR17/24680): Council's response to Draft Interim Management letter.



**Gary Button**  
FINANCE MANAGER



**Pamela LEE**  
GENERAL MANAGER COUNCIL BUSINESS SERVICES

26 June 2017  
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**6. MOTION(S)**

**6.1. With Notice**

Nil Submitted

**6.2. Without Notice**

Meeting closed at ..... pm

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## REPORT ATTACHMENTS

- 5.2** Attachment 1(AR16/24008): Terms of Reference of the City of Mount Gambier Audit Committee.
- 5.3** Attachment 1 (AR17/24218): Financial Sustainability Information Paper 21 '**Internal Financial Controls**' Revised February 2015.
- 5.4** Attachment 1 (AR17/24737): Draft Interim Management letter from Galpins Accountants Auditors and Business Consultants dated 30 May 2017.
- Attachment 2 (AR17/24680): Council's response to Draft Interim Management letter.





## TERMS OF REFERENCE OF THE CITY OF MOUNT GAMBIER AUDIT COMMITTEE

### 1 Membership

- 1.1 Members of the committee are appointed by Council. The committee shall consist of at least one independent member with at least one additional member from the Elected Members of Council – consistent with any Regulations. The size of the committee shall be three (3) members.

[Note that Section 126(2) provides that an audit committee may include persons who are not members of Council.]

- 1.2 Independent member(s) of the committee shall have recent and relevant financial, risk management, internal audit etc. experience. The Mayor is an ex officio member of the committee.

[Note that a person would not be considered independent if he or she was an Elected Member of that Council. Subject to any codes of conduct adopted by Council, this does not preclude an Elected Member or an employee of a Council from being a member of an audit committee of another Council.]

- 1.3 Only members of the committee are entitled to vote in committee meetings. Unless otherwise required by the Act not to vote, each member must vote on every matter that is before the committee for decision. Other individuals such as the Chief Executive Officer, Director – Corporate Services, Director - Operational Services and Finance Manager may attend any meeting as observers and be responsible for preparing papers for the committee. In accordance with the principles of open, transparent and informed decision making, committee meetings must be conducted in a place open to the public. The agenda and minutes of the committee meetings, subject to any items that are discussed in confidence under Section 90 of the Local Government Act 1999 and subsequently retained as confidential under Section 91 of the Act, are also required to be made available to the public.

- 1.4 Council's external auditors are to be invited to attend meetings of the committee.

- 1.5 Appointments to the committee shall be for a period to the end of the term of the Council i.e. November 2014 to November 2018. Appointees may be reappointed by Council.

- 1.6 The Council shall appoint the Presiding Member of the committee.

### 2 Administrative resources

- 2.1 The Chief Executive Officer shall provide sufficient administrative resources to the committee to enable it to adequately carry out its functions.

### 3 Quorum

- 3.1 The quorum necessary for the transaction of business shall be 50% of the number of members of the committee plus one. A duly convened meeting of the committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee.

Terms of Reference for Council's Audit Committee cont'd...

**4 Frequency of meetings**

- 4.1 The committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required.

**5 Notice of meetings**

- 5.1 Ordinary meetings of the committee will be held at times and places as determined by the committee. A special meeting of the committee may be called in accordance with the Act.
- 5.2 Notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the committee and observers, no later than three (3) clear days before the date of the meeting. Supporting papers shall be sent to committee members (and to other attendees as appropriate) at the same time.

**6 Minutes of meetings**

- 6.1 The Chief Executive Officer shall ensure that the proceedings and resolutions of all meetings of the committee, including recording the names of those present and in attendance are minuted and that the minutes otherwise comply with the requirements of the Local Government (Procedure at Meetings) Regulations 2000.
- 6.2 Minutes of committee meetings shall be circulated within five (5) days after a meeting to all members of the committee and to all members of the Council and will (as appropriate) be available to the public.

**7 Role of the committee**

**7.1 Financial reporting**

- 7.1.1 The committee shall monitor the integrity of the financial statements of the Council, including in its annual report, reviewing significant financial reporting issues and judgements which they contain.
- 7.1.2 The committee shall review and challenge where necessary:
- 7.1.2.1 the consistency of, and/or any changes to, accounting policies;
  - 7.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 7.1.2.3 whether the Council has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditors;

Terms of Reference for Council's Audit Committee cont'd...

7.1.2.4 the clarity of disclosure in the Council's financial reports and the context in which statements are made; and

7.1.2.5 all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

## **7.2 Internal controls and risk management systems**

The committee shall:

7.2.1 keep under review the effectiveness of the Council's internal controls and risk management systems; and

7.2.2 review and recommend the approval, where appropriate, of statements to be included in the annual report concerning internal controls and risk management.

Note that it is important that the audit committee understand the business of the Council to appreciate the risks it manages on a daily basis, and to ensure that there are appropriate management plans to manage and mitigate this business risk. This will include insurance matters, financial reporting, legal and regulatory compliance, business continuity, and statutory compliance. This can be facilitated by discussions with the external auditors and by presentations by management on how business risks are identified and managed.

## **7.3 Whistle blowing**

The committee shall review the Council's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure these arrangements allow independent investigation of such matters and appropriate follow-up action.

## **7.4 Internal audit where Council does not have a separate internal audit function**

The committee shall:

7.4.1 monitor and review the effectiveness of the Council's internal audit function in the context of the Council's overall risk management system;

7.4.2 consider and make recommendation on the program of the internal audit function and the adequacy of its resources and access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.

Terms of Reference for Council's Audit Committee cont'd...

Note that this may include the review of the areas that have been identified for review and the frequency of review. The committee should also monitor whether the function of internal audit has adequate standing and is free from management or other restrictions. Whilst internal audit focuses on a Council's systems and procedures, it is important that audit retains its independence and is not subject to any influence from management or Council that impedes its ability to report objectively.

7.4.3 review all reports on the Council's operations from the external auditors;

Note that the reports to the audit committee need not be the detailed reports that are presented to management for their review. Ordinarily a high level review report is all that is required detailing the work undertaken, the findings and management response.

7.4.4 review and monitor management's responsiveness to the findings and recommendations of the external auditors; and

7.4.5 where appropriate, meet the "head" of the external auditors, without management being present, to discuss any issues arising from the internal audits carried out. In addition, the "head" of the external auditors shall be given the right of direct access to the Mayor of the Council and to the Presiding Member of the audit committee.

## 7.5 External audit

The committee shall:

7.5.1 develop and implement a policy on the supply of the statutory audit and non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter;

7.5.2 consider and make recommendations to the Council, in relation to the appointment, re-appointment and removal of the Council's external auditor.

The committee shall oversee the selection process for new external auditors and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required;

7.5.3 oversee Council's relationship with the external auditors including, but not limited to:

7.5.3.1 recommending the approval of the external auditor's remuneration, whether fees for audit or non-audit services, and recommending whether the level of fees is appropriate to enable an adequate audit to be conducted;

7.5.3.2 recommending the approval of the external auditor's terms of engagement, including any engagement letter issued at the commencement of each audit and the scope of the audit;

Terms of Reference for Council's Audit Committee cont'd...

- 7.5.3.3 assessing the external auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the extent of Council's relationship with the external auditors, including the provision of any non-audit services;
  - 7.5.3.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditors and the Council (other than in the ordinary course of business);
  - 7.5.3.5 monitoring the external auditor's compliance with legislative requirements on the rotation of audit partners; and
  - 7.5.3.6 assessing the external auditor's qualifications, expertise and resources and the effectiveness of the audit process (which shall include a report from the external auditors on the audit committee's own internal quality procedures);
- 7.5.4 meet as needed with the external auditors. The committee shall meet the external auditors at least once a year, (without management being present if requested); to discuss the external auditor's report and any issues arising from the audit;
- 7.5.5 review and make recommendations on the annual audit plan, and in particular its consistency with the scope of the external audit engagement;
- 7.5.6 review the findings of the audit with the external auditors. This shall include, but not be limited to, the following;
- 7.5.6.1 a discussion of any major issues which arose during the external audit;
  - 7.5.6.2 any accounting and audit judgements; and
  - 7.5.6.3 levels of errors identified during the external audit.
- The committee shall also review the effectiveness of the external audit.
- 7.5.7 review any representation letter(s) requested by the external auditors before they are signed by management;
- Note that these representation letters are a standard practice of any audit and provide the external auditors confirmation from management, (in particular the Chief Executive Officer) that, amongst other matters, accounting standards have been consistently applied, that all matters that need to be disclosed have been so disclosed and that the valuation of assets has been consistently applied.;
- 7.5.8 review the management letter and management's response to the external auditor's findings and recommendations.

Terms of Reference for Council's Audit Committee cont'd...

**8 Reporting responsibilities**

- 8.1 The committee shall make whatever recommendations to Council it deems appropriate on any area within its terms of reference where in its view action or improvement is needed.

**9 Other matters**

The committee shall:

- 9.1 have access to reasonable resources in order to carry out its duties;

Note that this is subject to any budget allocation being approved by Council;

- 9.2 be provided with appropriate and timely training, both in the form of an induction program for new members and on an ongoing basis for all members;
- 9.3 give due consideration to laws and regulations of the Local Government Act, 1999;
- 9.4 make recommendations on co-ordination of the internal control and external auditors;
- 9.5 oversee any investigation of activities which are within its terms of reference; and
- 9.6 oversee action to follow up on matters raised by the external auditors;
- 9.7 at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend changes it considers necessary to the Council for approval.

**Mark McSHANE**  
CHIEF EXECUTIVE OFFICER

Adopted 16<sup>th</sup> August, 2016





The **Voice**  
of Local  
Government

*Financial Sustainability*  
**Information Paper 21**  
**Internal Financial Controls**

Revised February 2015



## Introduction

This Information Paper is one of a series of Information Papers about Financial Sustainability and Financial Governance in Local Government.

The series of Information Papers was originally published in 2006 to 2011 as part of the Financial Sustainability Program. The history of that program and a complete list of Information Papers and other resources, including a glossary of terms and abbreviations, is provided on the LGA's "Financial Sustainability" web page: [www.lga.sa.gov.au/FSP](http://www.lga.sa.gov.au/FSP).

The entire series of Papers was revised in early 2012, and again in early 2015 to take account of legislative changes and other developments. These Papers are addressed to, and written primarily for the benefit of Council Members and staff, but they are also available as a resource for the general public and students of Local Government.

## Background

Internal controls cover areas including strategic management, business development, project management and finance. This paper is limited to internal **financial** controls, designed to assist the organisation in addressing risk of fraud and error and improving reliability of financial reporting and compliance with laws, regulations and policies. It focuses on Councils' financial processes and functions that deal with budgeting, financial reporting, transaction processing, financial delegations, treasury management, infrastructure management etc.

The purpose of this information paper is to provide a practical approach to assist Councils when they are reviewing and developing their internal financial controls. It presents:

- an implementation methodology;
- an action plan to implement changes to controls;
- a review process for key internal financial controls; and
- a template 'Model Policy on Internal Financial Control'.

This paper should be read in conjunction with other LGA Financial Sustainability Information Papers which highlight the increasing demands on Councils and the importance of efficiently managing the delivery of services. See: [www.lga.sa.gov.au/FSP](http://www.lga.sa.gov.au/FSP).

## What does legislation require?

The [Local Government Act 1999](#) ("the Act") and the [Local Government \(Financial Management\) Regulations 2011](#) ("the Regulations") specify roles for:

- Councils (implementing and maintaining); and
- Audit Committees (reviewing the adequacy); and
- external auditors (considering the adequacy); and the
- chief executive officer and principal Member (certifying the adequacy);

of internal controls.

Section 125 of [the Act](#) provides:

*"A council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council's assets, and to secure (as far as possible) the accuracy and reliability of council records."*

Section 126 (4) (c) of [the Act](#) identifies one of the functions of an Audit Committee as:

*“reviewing the adequacy of the accounting, internal control, reporting and other financial management systems and practices of the council on a regular basis.”*

Section 129 (1) (b) of [the Act](#) requires the auditor to audit:

*“the controls exercised by the council during the relevant financial year in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.”*

Section 129 (3) (b) of [the Act](#) requires the auditor to provide:<sup>1</sup>

*“an audit opinion as to whether the controls audited under subsection (1)(b) are sufficient to provide reasonable assurance that the financial transactions of the council have been conducted properly and in accordance with law.”*

Regulations 14 (e) of [the Regulations](#) requires the chief executive officer and the principal member of the Council and the chair of the board of management of a Council subsidiary or regional subsidiary to sign a statement, certifying that:

*“internal controls implemented by the council, council subsidiary or regional subsidiary (as the case may be) provide a reasonable assurance that its financial records are complete, accurate and reliable and were effective throughout the financial year.”*

Regulation 19 (1) (b) of [the Regulations](#) requires that:

*“an audit of the internal controls of a council referred to in section 129(1)(b) of the Act must be carried out in accordance with the Australian Standards on Assurance Engagements published (and amended from time to time) by the Auditing and Assurance Standards Board established under the Australian Securities and Investment Commission Act 2001 of the Commonwealth.”*

Regulation 19 (3) of [the Regulations](#) provides:

*“in forming an opinion for a council under section 129(3)(b) of the Act, the auditor must assess the internal controls of the council referred to in section 129(1)(b) of the Act based on criteria in the Better Practice Model – Internal Financial Controls.”*

### **What is internal financial control?**

Internal financial control is a risk management framework that manages the risk to the organisation from error or fraud and therefore assists in the achievement of a Council's objectives. Having risks is not a bad thing! Risks are inevitable. A system of internal financial controls will not remove all risk but is a means of managing risk and reducing the likelihood and consequence of adverse events.

Internal financial control will be instrumental in:

- safeguarding Council assets;
- ensuring reliability of both financial and non-financial reporting;
- complying with legislation and Council policies; and
- promoting the effectiveness and operational efficiency of Council.

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<sup>1</sup> Transitional provisions in the [Local Government \(Accountability Framework\) Amendment Act 2009](#) provided a period of grace before auditors had to comply with the requirements to audit, and to provide an opinion on, internal financial controls. For country Councils, the requirement to have an auditor provide an opinion on internal financial controls did not become mandatory until the audit of the 2015-16 financial year.

A sound system of internal financial control is essential for a Council to ensure that its resources are allocated in the most appropriate manner to ensure that operational and financial objectives are being met and to comply with the accountability provisions of the Act. The benefits of a coordinated, systematic approach to risk management<sup>2</sup> include:

- Council Members, the Audit Committee and senior management having a clear view on key risks facing the Council;
- agreement across Council Members, the Audit Committee and senior management on the priorities to manage the key risks;
- controls operating effectively to reduce risks to an acceptable level;
- cost-savings through an efficient controls environment; and
- Council being confident that its administration is operating effectively.

It is important that an internal control system addresses:

- adequate separation of duties in the financial operations;
- independent checks of changes to key master data files;
- regular key reconciliations (e.g. reconciliation of bank account balance to amount showing in general ledger) which are independently reviewed; and
- documentation and distribution of policies and procedures for all major activities.

### **Internal financial control framework**

The [SA Local Government Financial Management Group](#) has worked with private consultants to develop both:

- a database or “framework” of internal financial controls; and
- a web-based system for managing that framework, which provides the ability to assess control activities, develop improvement plans and review, consolidate and analyse results on a real time basis.<sup>3</sup>

The framework was then incorporated into the “*SALGFMG Better Practice Model – Internal Financial Controls*” (“BPM”). It includes both ‘core’ controls and ‘additional’ controls. The ‘core’ controls are the more important controls and it is likely that external auditors will place greater significance on these controls when conducting their audit. However, a Council must also consider the ‘additional’ controls because generally these controls are necessary to reinforce the ‘core’ controls.

In 2013, at the request of the LGA, the [SALGFMG](#) (and with the support of the [SA Local Government Auditors’ Group](#)) the State Government amended [the Regulations](#) so that the BPM is now mandated as the criteria by which Local Government auditors must assess the internal controls exercised by a council, before providing their formal opinion covering the adequacy of a Council’s internal controls. The BPM may be revised from time to time, with the approval of the Minister.

### **Developing/reviewing internal financial controls**

Whether or not a Council is intending to enter its internal controls into a web based system it will need to regularly review and document its current internal controls. The framework within the BPM

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<sup>2</sup> Local Government Financial Sustainability Information Paper 22: ‘*Risk Management Framework*’ at [www.lga.sa.gov.au/FSP](http://www.lga.sa.gov.au/FSP) encourages Councils to use a risk management approach consistent with the international risk management standards. Internal financial controls are an integral part of a Council’s risk management framework.

<sup>3</sup> This system is known as [ControlTrack](#)

has more than 200 internal financial controls spread over dozens of business activities. Reviewing this many controls may seem a daunting task to a Council. However, in practice, most Councils already have the majority of these controls in place, without being documented. The number of controls that would require action at any point in time would be relatively small.

The following sets out a step by step process to assist Councils that may be reviewing (or developing) their internal controls:

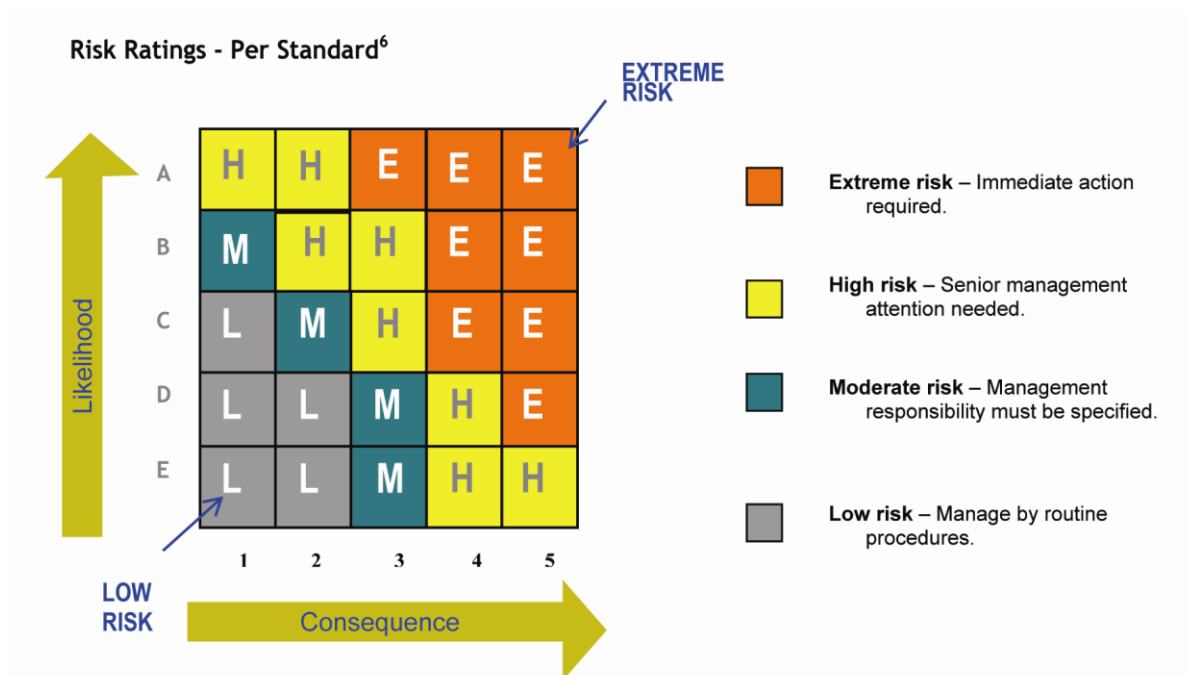
1. Formally adopt (preferably by Council resolution, to remove any doubt) the BPM as the base document by which internal financial controls will be implemented and maintained;
2. Identify problems and risks that have been raised by the external auditor, Audit Committee, Council staff etc and which should be addressed by internal financial controls;
3. Consult with staff and Council Members regarding the objective of the review and provide an outline of the process - ensure that the senior management team is kept informed of progress;
4. Identify officers responsible for each of the business activities identified by the BPM and arrange for them to participate in the review;
5. Undertake an internal financial controls review for each of the business activities to;
  - examine current procedures;
  - identify key risks threatening the achievement of Council's objectives;
  - identify existing internal financial controls;
  - assess current controls for effectiveness;
  - identify any new controls needed as well as existing controls requiring adjustment;
  - identify relevant officers for each internal control.

The review should not be seen as an audit of past transactions. Its objective is to identify, evaluate and document existing internal financial controls and recommend changes and/or new internal controls where necessary;

6. Consistent with the BPM, establish a database of internal controls in accordance with the hierarchy presented at Attachment 2;
7. Consistent with the example in Attachment 1, the following detail should be recorded for each internal financial control:

Number:	Identification number of internal control for each risk
Description of Control:	Description of the internal financial control
Current Situation:	Current situation in regard to each internal control
Target Date:	Target date allocated to the implementation of the control
Responsible Officer:	Responsible officer for each internal control
Checking Officer:	Checking officer and/or if the internal control is included in the 'Spot Check' process (refer below in the Review Process)

8. For each risk identified an assessment of its likelihood and consequence should be undertaken according to the classifications included in Attachment 3 (Note: These measures need to be tailored to meet the needs of an individual Council);
9. The final inherent risk is determined by using the two ratings above and applying these to the table below to identify overall risk as L (low); M (moderate); H (high); or E (extreme).



Attachment 1 sets out an example of a business risk analysed according to the approach outlined above. The assessment process should not be considered to be an exact science however there is value in allocating time to considering the likelihood and consequence of each risk.

The strategy above may be implemented by Councils’ own staff or by external consultants. However, regardless of who undertakes this work, it is important that the risks to Council are kept in mind and necessary internal controls, even if they are unpopular, are recommended. Resources required to implement new internal controls should be considered and an assessment of these costs against the ensuing benefits from the internal control should be made.

**Plan of action**

An outcome of an internal financial controls review will be a list of controls for implementation or refinement. It is likely that all staff will be affected by the internal financial controls, not just finance staff. To ensure these controls are actioned and the Council receives the full benefit of the review it is important that Council’s senior management team drives the process.

In order to implement these controls Council should prepare an action plan (refer Attachment 4 for an extract example of a plan). The plan identifies the internal controls requiring action by each staff member responsible for specific tasks, and includes deadlines for completion of each control. The controls which are most critical should be processed first and all timelines identified in the plan should be achievable.

The action plan should be agreed to by all staff members responsible for specific tasks and should be a regular agenda item to the senior management team and Audit Committee meetings, until all controls have been completed.

Following completion of the internal control review a council may decide to upload its controls into a web-based system such as [ControlTrack](#) or any other similar internal control system. By entering its controls and action plans into such a system the Council would set in motion an electronic review process at intervals of three, six or twelve months with automatic reports provided for senior management and the Audit Committee.

## Review process

A Council will need to factor in a review process. Business risks faced by Council can and do change and a critical element of any comprehensive internal financial control model is regular monitoring and/or review to ensure the internal financial controls remain effective and are functioning properly.

In order to maintain confidence in its internal financial controls, a Council should conduct regular spot checks on key or “core” controls. If spot checks are undertaken regularly the timing for a full review may be extended. Ideally an internal auditor would undertake such checks within an internal audit program but not all Councils have internal auditors. Alternatively a staff member responsible for specific tasks might be required to certify on a regular basis that the internal financial controls relating to his or her position are in place and are being observed.

When a full review is undertaken, the controls that will be subject to a ‘spot check’ should be identified (refer to the last column of the table in Attachment 1). These controls can be removed or new controls added at any time.

If new systems are introduced, or when staff leave the organisation and are replaced, it is essential that any internal financial controls that relate to that position are reviewed within the context of the new system, and/or with new officers.

## What are the issues for Councils?

Elected Councils and Chief Executive Officers have a responsibility to ensure that the Councils’ operations are conducted in compliance with appropriate laws, regulations and standards.

An effective suite of internal controls is a vital tool for Elected Councils and Chief Executive Officers to ensure that they carry out their activities in an efficient, compliant, reliable and transparent manner. Effective internal controls help provide a reasonable assurance that Councils’ financial systems produce reliable information for reporting. Councils’ Audit Committees and external auditors take account of internal control practices when forming their advice and opinions.

Councils should establish and maintain a robust and wide-spread internal control regime throughout their organisation. These internal controls should:

- reflect a co-ordinated and systematic approach to risk management;
- be embraced by management and the responsible officers within the organisation;
- be consistently recorded within a whole-of-organisation framework;
- have an associated plan of action to ensure that the controls are correctly implemented;
- include procedures for reporting immediately any significant control failings or weaknesses that are identified together with details of corrective action being undertaken; and
- be subject to periodic review at a frequency appropriate for each control.

Councils should embrace the BPM to ensure a sound approach to the establishment and maintenance of their internal control framework and strongly consider moving to a web-based system which enhances the manageability of internal controls. The above approach should be embedded in the operations of the Council and form part of its culture.

## Acknowledgements

This paper has benefited from the contributions of Mr Cleve Coyle of [Coyle Consulting Services](#), and funding from the Federal Government’s [Local Government Reform Fund](#) and the [Local Government Research and Development Scheme](#).

## EXAMPLE OF A BUSINESS ACTIVITY RISK - ACCOUNTS PAYABLE

**Risk No. 1: Accounts payable amounts are either inaccurately recorded or not recorded at all.**

- If invoices are not entered accurately (e.g. amounts posted to incorrect creditors), accounts payable will be misstated, as will the relevant expense, inventory, or asset accounts. Also, erroneous payments may be made to vendors.
- If amounts posted to accounts payable do not represent goods or services received (due to invalid delivery address on purchase order), unauthorised payments might be made and the organisation might incur a financial loss.
- If accounts payable amounts are not recorded at all, accounts payable will be understated, as will the related inventory, expense, or asset accounts. Also, supplier payments will not be made, which may damage supplier relationships.

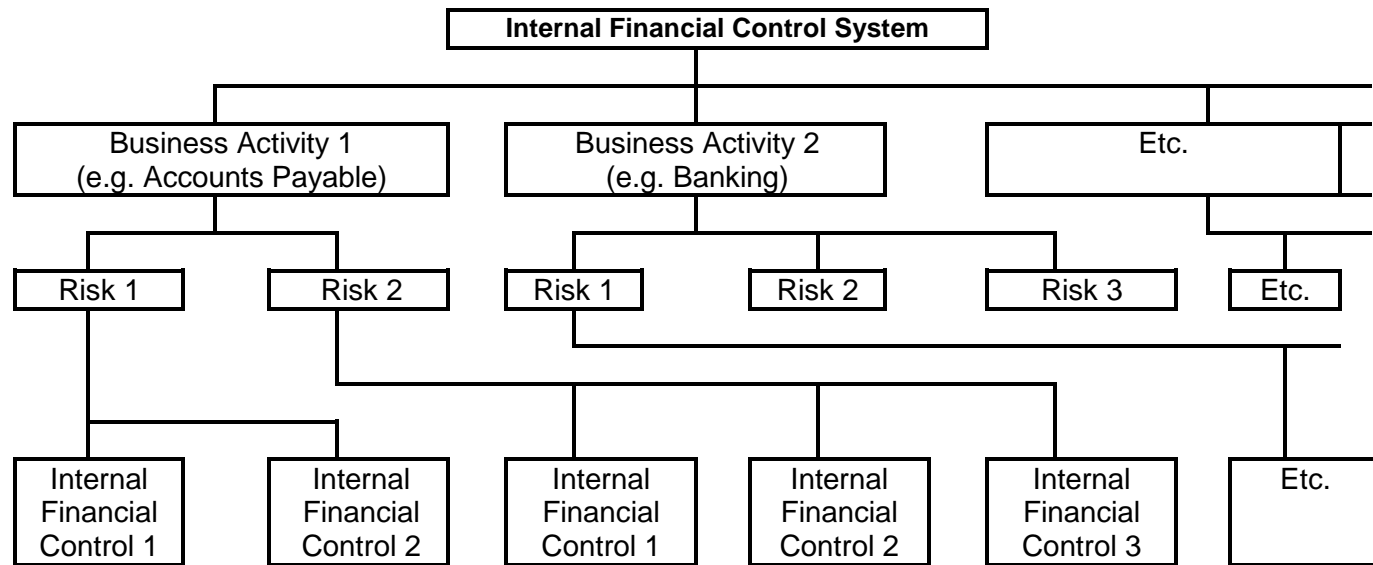
No	Description of Control	Current Situation	Target Date	Responsible Officer	Checking Officer
1	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable sub-ledger regularly and differences are investigated.	Supplier statements are reconciled monthly as are the control accounts in the creditors system.	Monthly	Accounts Officer	
2	Actual expenditures are compared to budget regularly. Management reviews and approves significant variances.	Comparisons are made at the time of budget reviews.	Quarterly	All Managers	
3	Creditors batch listing is checked by independent officer prior to cheque (or EFT) generation for accuracy and credit note verification.	A batch listing report and supporting documentation is available for checking. Checking is required prior to EFT. When a checking officer checks the batch he/she should sign as confirmation that details have been checked.	Continual	Chief Executive Officer, Senior Finance Officer, Finance Officer, Manager Community Services, Manager Infrastructure	Spot Check
4	Invoices for services received are authorised and accompanied by appropriate supporting documentation.	Current practice.	Continual	Officers within Delegations of Authority	Spot Check



5	Where there are variances between Purchase Orders and Invoices, processing is suspended and released by Senior Finance Officer only after verification by the responsible officer.	Invoices are referred back to the relevant Manager for advice prior to processing.	Continual	All Managers	
6	Goods and/or services received are matched on-line or manually with purchase order details and/or invoices.	Goods received are matched manually with purchase orders.	Continual	Accounts Officer	
7	Bank statements are reconciled to the general ledger regularly.	Bank statements are reconciled weekly.	Weekly	Finance Officer	Spot Check
8	Cheques are endorsed by authorised officers separate to the preparer who ensures that they are paid to the specified payee.	Current practice.	Continual	Chief Executive Officer, Senior Finance Officer, Manager Community Services, Manager Infrastructure	
9	Individuals who process electronic funds transfers are authorised by management.	Only certain authorised officers can process electronic funds transfers. The Accounts Officer and Payroll Officer prepare the EFT run and completion is required by a Checking Officer.	Continual	Accounts Officer, Payroll Officer	Chief Executive Officer, Senior Finance Officer, Manager Community Services, Manager Infrastructure

Risk Assessment – With All Controls			
Likelihood	Consequence	Rating	Accept
D	2	L	Y

### Internal Financial Control Database Hierarchy



## Internal Financial Controls

### Likelihood and Consequence Classifications

#### Likelihood

A	Almost certain	Is expected to occur in most circumstances
B	Likely	Will probably occur in most circumstances
C	Possible	Might occur at some time
D	Unlikely	Could occur at some time
E	Rare	May occur only in exceptional circumstances

#### Consequence

1	Insignificant	<ul style="list-style-type: none"> <li>• Impact on operating result of \$X</li> <li>• Loss of business capability/failure to meet customer needs for X days</li> <li>• No adverse public/staff reaction and negative publicity</li> <li>• No breach of legislation</li> <li>• No physical injuries</li> </ul>
2	Minor	<ul style="list-style-type: none"> <li>• Impact on operating result of \$X</li> <li>• Loss of business capability/failure to meet customer needs for X days</li> <li>• Minor adverse public/staff reaction and negative publicity</li> <li>• Minor breach of legislation</li> <li>• First aid treatment</li> </ul>
3	Moderate	<ul style="list-style-type: none"> <li>• Impact on operating result of \$X</li> <li>• Loss of business capability/failure to meet customer needs for X days</li> <li>• Moderate adverse public/staff reaction and negative publicity</li> <li>• Moderate breach of legislation</li> <li>• Medical treatment required</li> </ul>
4	Major	<ul style="list-style-type: none"> <li>• Impact on operating result of \$X</li> <li>• Loss of business capability/failure to meet customer needs for X days</li> <li>• Major adverse public/staff reaction and negative publicity</li> <li>• Major breach of legislation</li> <li>• Extensive injuries</li> </ul>
5	Catastrophic	<ul style="list-style-type: none"> <li>• Impact on operating result of \$X</li> <li>• Loss of business capability/failure to meet customer needs for X days</li> <li>• Extreme adverse public/staff reaction and negative publicity</li> <li>• Extreme breaches of legislation</li> <li>• Death</li> </ul>

## EXAMPLE – EXTRACT FROM ACTION PLAN

## Senior Finance Officer

No.	INTERNAL CONTROL	ISSUES IDENTIFIED / COMMENTS	ACTION REQUIRED
<b>By December 2015</b>			
3	Senior Finance Officer to review aged payables listing quarterly and investigate where appropriate.		Planned for implementation next quarter.
74	Manually raised orders are periodically sampled to ensure completeness.	Training of staff to input clear descriptions of goods and services.	Current practice although the description of goods/services being purchased should be more detailed.
14	Annual Budgets are approved by the appropriate level of management and by Council, and in accordance with the Local Government Act.	This will require a more comprehensive Budget Schedule, which sets deadlines for the development of the Budget, etc and is <b>strongly</b> supported by management and Council.	Management present the annual budget to Council for adoption. The 2011/12 Budget was approved at the beginning of August. The Budget process will be streamlined to enable the 2012/13 Budget to be approved by the end of June 2012.
<b>By March 2016</b>			
4	Supplier master file data is periodically reviewed by management for accuracy and ongoing pertinence.	Reports available from the system may require upgrading.	To be reviewed by the Senior Finance Officer.
32	Management reviews debtors ageing profile on a regular basis and investigates any outstanding items.		The Debtors Ageing profile is reviewed monthly and if greater than 120 days is forwarded to the Collection agency. This should be reviewed with the objective of reducing that time to 60 or 90 days.
<b>By June 2016</b>			
37	Activity recorded in fixed asset register is reviewed by management, including comparison to the capital budget.		Not current practice, but is planned for introduction.
56	<u>Monthly Report</u> Management clearly informed of their duties and responsibilities in relation to reporting.	Managers to have either electronic access to a monthly report or receive a hard copy.	Management reporting is to be upgraded. Managers should receive a monthly report to review their financial situation.

# Internal Financial Control Policy [Template]

**[Council Name]**

<b>POLICY NAME/No.:</b>	<b>Internal Control</b>	<b>No.</b>
<b>APPROVED BY:</b>	[Council] on [Date]	
<b>SUBSEQUENT AMENDMENTS</b> [Date]	[Authorisation]	
<b>REVIEW DATE</b>	[Date of Next Review]	
<b>RESPONSIBLE OFFICER</b>	[Position Responsible for Maintenance of the Policy]	

## 1. INTRODUCTION

Internal control is part of Council's corporate governance framework and covers areas such as strategic management, business development, project management, finance, etc. It comprises procedures to mitigate risks and provide reasonable assurance that operations are efficient and effective, assets are safeguarded, legislation and council policies/rulings are complied with and financial reporting is accurate and reliable.

As a first step towards developing a complete risk management and corporate governance framework the financial component of internal controls will be addressed and these are required to ensure Council resources are used prudently and in an efficient, effective and economical manner. Examples of the types of activities addressed are accounts payable, payroll, budgeting, management reporting, banking and contracting. Financial internal controls are critical to effective risk management of a Council's operations and promote the achievement of its goals and objectives.

Council is committed to maintaining an effective Internal Control environment.

## 2. POLICY OBJECTIVES

Council's objectives of this Policy are:

- a) Risks relating to the stewardship of public resources are adequately managed through effective internal controls.
- b) A framework for an effective internal control system which conveys to managers that they are responsible for ensuring that internal controls are established, documented, maintained and adhered to across the council and to all employees that they are responsible for adhering to those internal controls.
- c) To ensure the propriety of transactions, information integrity, compliance with regulations and achievement of Council objectives through operational efficiency.

### 3. LEGISLATIVE, CORPORATE POLICY AND STANDARDS REQUIREMENTS

*Local Government Act 1999* - Sections 125, 126, 129 & 130

*Local Government (Financial Management) Regulations 2011* r14 (e)

Related Council Policies and Corporate Documents.

Australian/New Zealand Standard AS/NZS ISO 31000:2009

### 4. POLICY STATEMENTS

#### 4.1 Risk Management Approach

Council will maintain an internal control framework, which will be based upon a pro-active risk management culture. The types of risks identified in the framework will be those which may prevent council from meeting its objectives or not maximising its opportunities. The first risk area covered by Council is financial management, for which internal controls will be identified, documented and managed. It is recognised that all risks cannot be eliminated, however the internal controls applied should reduce the likelihood of the risk occurring to within acceptable limits of risk.

Council will develop a culture that emphasises integrity, ethical values and competence

#### 4.2 Roles and Responsibilities

The Council is responsible for approval of the Internal Control Policy and the Chief Executive Officer for developing and maintaining an internal control framework, which ensures Council objectives are achieved efficiently and effectively. Updates on changes to the framework will be presented to the Audit Committee.

The Chief Executive Officer and principal member of Council must also sign the financial statements in regard to internal controls as required by *Local Government (Financial Management) Regulations 2011* r14.

The Senior Management Team must adopt a risk management approach to identifying and assessing risks and apply cost/benefit analysis in the development of internal controls. Council employees must conduct their duties in accordance with internal control policies procedures and practices of Council.

#### 4.3 Elements of an Internal Control Framework

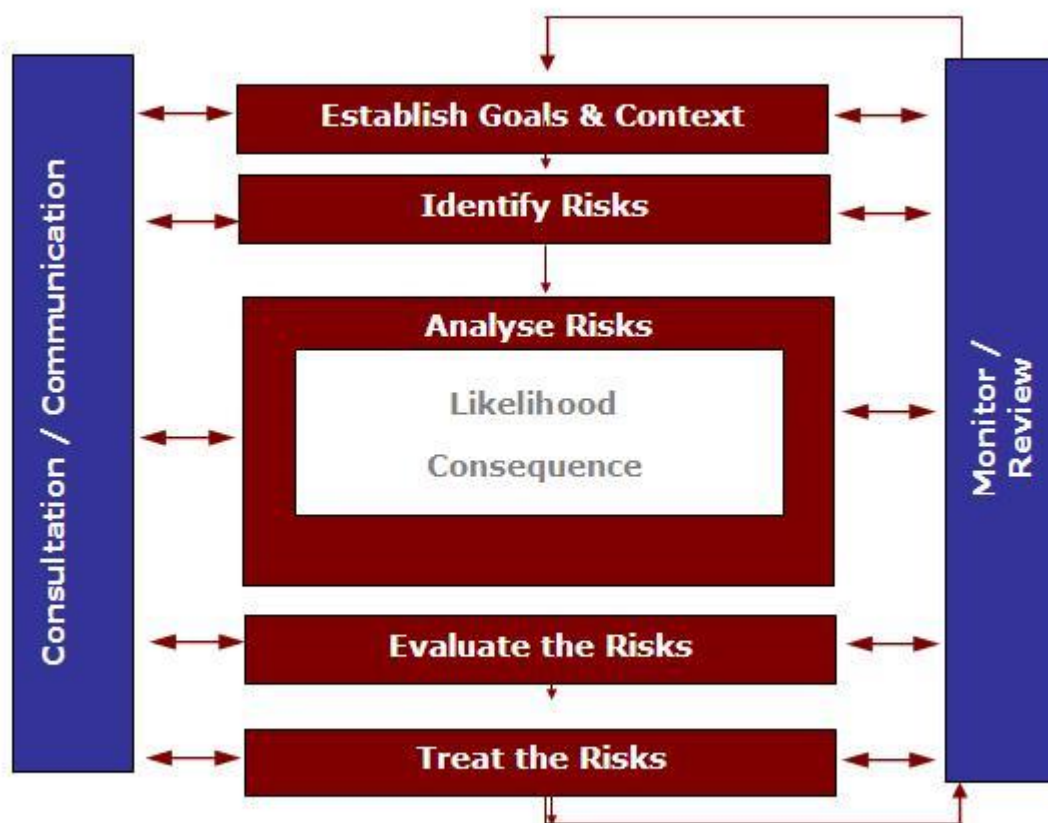
The essential elements of an effective internal control framework are:

- Structure and culture of Council;
- Delegations of Authority;
- Policies and procedures;
- Trained and properly qualified staff;
- Information Technology controls;
- Review process e.g. internal audit;
- Liaison with auditors and legal advisors;
- Senior Management compliance assurance;
- Risk identification and assessment.

#### 4.4 The Risk Management Process

The process followed by Council in developing the framework appears below in diagrammatic form extracted from Australian/New Zealand Standard AS/NZS ISO 31000:2009

### The Risk Management Process



AS/NZS ISO 31000:2009

**Establish Goals & Context** – Effective risk management requires a thorough understanding of the goals and context of Council to assist in establishing the assessment criteria for risk management.

**Identify Risks** – Identify the risks most likely to impact on the achievement of Council's objectives.

**Analyse Risks** – Assess effectiveness of risks in terms of likelihood and consequence to identify the current risk level.

**Evaluate Risks** – Determine whether the risks are acceptable or unacceptable and document findings.

**Treat Risks** – Treat risks by one of the following methods - discontinuing activity that generates it, reducing likelihood of occurrence, reducing consequence of occurrence, transfer the risk or retain the risk.

**Consultation/Communication** – These are important elements to ensure that all stakeholders understand why actions are required. These stakeholders include all staff and elected members.

**Monitor/Review** – Responsible officers must be identified for each internal control and provide feedback to managers on progress with controls. The Managers monitor the effectiveness of risk treatments and report progress to the Senior Management Team and the Audit Committee at regular intervals.

## **5. Review of Policy and Database of Internal Controls**

Council's Internal Control Policy will be reviewed annually. The database of internal financial controls will be reviewed at least every twelve months to ensure all controls are current and appropriate and the Senior Management Team and the Audit Committee will be informed of the outcome of each review and updated regularly on progress with action plans identified during the reviews.

## **6. Support with Development of a Risk Management System**

To assist in the ongoing improvement of a risk management system the Local Government Association's *Better Practice Model – Internal Financial Controls* should be reviewed from time to time, to identify the current recommended risk management database of internal controls and supporting documentation.

## **7. Availability of Policy**

This Policy will be made available on the Council's website, for inspection at Council offices and persons may obtain a copy of this Policy upon payment of a fee fixed by Council.



# Financial Controls Review

## City of Mount Gambier

### Interim Management Letter

30/05/17

***Local Expertise : Real Access***



# **Table of Contents**

1. EXECUTIVE SUMMARY .....	3
1.1 Background .....	3
1.2 Objectives and Scope .....	3
1.3 Category of Findings .....	5
1.4 Overall Review of the Council's Internal Controls .....	6
1.5. Summary of Findings .....	7
2. DETAILED AUDIT FINDINGS .....	8
2.1 Payroll .....	8
APPENDIX 1 – CRITICAL INTERNAL FINANCIAL CONTROLS.....	9

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# 1. EXECUTIVE SUMMARY

## 1.1 Background

During our interim audit we perform procedures to gain an understanding of the internal controls in place relevant to the financial statements. We also perform tests on the design and effectiveness of these controls. Based on the results of the control testing, we then assess the audit risks to define the extent and nature of our substantive procedures (e.g. inspection of documents, recalculation, reconciliation, etc) for our final visit.

Amendments to s129 of the Local Government Act 1999 require auditors to provide an opinion regarding internal controls of councils. This applies to prescribed (metropolitan) councils from 2013-14 onwards, and to non-prescribed (regional) councils from 2015-16 onwards. This opinion focuses on councils' obligations under s125 of the Local Government Act 1999:

*“A council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council's assets, and to secure (as far as possible) the accuracy and reliability of council records.”*

The audit opinion is restricted per s129 of the Act to the application of s125 as it relates to financial internal controls, specifically the controls exercised by the council during the relevant financial year in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

In order to assist the Council in addressing the requirements of s129, we have reviewed a prioritised list of controls from the better practice model based on our initial audit risk assessment. See more details about our scope in item 1.2 of this report.

## 1.2 Objectives and Scope

The objectives of our interim audit were to:

- understand Council's business, business cycles and processes relevant to the financial statements
- understand the internal controls in place for the areas we consider critical for the audit of the financial statements
- design internal controls tests for the internal controls identified
- perform the internal controls tests to determine the final risks of material misstatements in the financial statements to be addressed in our final audit.
- review a prioritised list of internal financial controls we consider critical for the purpose of issuing a controls opinion.

This financial year the scope of our audit was extended to include a review of internal controls we consider key controls to be in place for the purpose of addressing the requirements of s129.

These key internal controls consist of a prioritised list of controls from the better practice model. This list was defined based on our risk assessment to determine the key business cycles, and key risks within these business cycles, that we understand are the most critical in meeting Council's obligations under s125.

The identification of key core controls and key business risks included the following risk assessment procedures:

**Risk Review** – A review of Council's inherent risk assessment for internal financial controls.

**Financial Statement Review** – A high level financial statement review performed to identify key accounts and transaction streams.

**Internal / External Audit Results Review** – The findings and recommendations of internal / external financial audits are reviewed to identify known areas of weakness, and areas known to be attracting audit attention.

The key core controls for the following key business cycles have been identified as critical for the purpose of issuing a controls opinion next financial year:

- Purchasing and Procurement / Contracting
- Fixed Assets
- General ledger
- Accounts Payables
- Rates / Rates Rebates
- Payroll
- Banking
- Receipting.

We have included a list of key controls identified by the audit for these business cycles as an appendix to this report (see Appendix 1). This list does not represent a complete population of internal controls that the Council should have in place. There is an expectation that controls not in this list will still exist and be operating effectively within Council.

The list of controls is only intended to be a guide for Council to prioritise its resourcing in readiness for the new audit opinion, and for the ongoing monitoring of internal controls i.e. it is a risk based listing of controls which may be desirable for Council to include in its ongoing monitoring program for internal financial controls.

The list should not be considered a minimum standard – rather, it is a starting reference point for Council to consider. It is expected that Council will have performed a risk assessment of financial risks, and given consideration to the need to monitor controls that address High / Extreme risks that may not be included in this listing.

The control descriptions are as per the Better Practice Model, and have not been personalised to the Council. Council may have different descriptions of controls that address the same risk provided by the better practice model. Council may consider tailoring the controls description to better describe the actual controls in place.

### 1.3 Category of Findings

In order to assist the Council in establishing its level of priority we have provided an overall assessment of the business cycles for which we have identified performance improvements opportunities (this report is prepared on an exception basis).

We assessed each business cycle using our risk assessment which was focused on the risk of finding material weaknesses which could lead to a modified controls opinion in the 2015/16 FY. An overall assessment of the risk of a potential modified audit opinion per business cycle is provided in item 1.5 of this report.

The detailed findings containing the control tested as per Better Practice Model, findings and recommendations are provided in section 2 of this report. The individual findings are also rated to assist the Council in prioritising corrective actions.

The overall assessment of the risk of non-compliance with s125 of the Local Government Act 1999 and the related findings and recommendations were rated as follows:

Category	Description
<b>High Risk Weakness</b>	The issue described could lead to a material weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
<b>Moderate Weakness</b>	The issue described does not represent a material weakness due to the existence of compensating controls. However, the failure of the compensating controls or the existence of any other moderate weakness within the same business cycle may lead to a material weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
<b>Low Risk Weakness</b>	The issue described is a low risk weakness due to the existence of compensating controls and the failure or absence of the internal controls does not impact significantly on the council's financial statements. However, multiple low level risk weakness within the same business cycle may lead to a material weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
<b>Better Practice Weakness</b>	The issue described has been included in this report as an opportunity for better practice.

The Council should also perform its own assessment of priority based not only on audit risks, but also other risks management considers relevant such as non-compliance with pertinent legislation and regulations, and reputational risks.

## 1.4 Overall Review of the Council's Internal Controls

Overall the Council demonstrated significant progress towards the implementation of an internal control framework consistent with the principles within the Better Practice Model (BPM).

During our interim visit we noted that almost all of the key internal controls reviewed were in place and were operating effectively (61 out of 62 core controls reviewed). The principles underpinning the model were used by the Council in the identification of its business cycles, the establishment of its internal controls and the implementation of its risk management processes.

A summary of the results of our review is provided in the table below:

Business cycles	Controls Reviewed	2015/16 Operating Effectively	2016/17 Operating Effectively	Findings			
				H	M	L	BP
Purchasing & Procurement / Contracting	7	6	7	-	-	-	-
Fixed Assets	10	10	10	-	-	-	-
General Ledger	6	5	6	-	-	-	-
Accounts Payable	11	11	11	-	-	-	-
Rates / Rates Rebates	9	7	9	-	-	-	-
Payroll	10	8	9	-	1	-	-
Banking	5	5	5	-	-	-	-
Receipting	4	4	4	-	-	-	-
<b>Total</b>	<b>62</b>	<b>56</b>	<b>61</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>

As can be seen above, there has been improvement in the council's internal control environment since the 2015/16 financial year, with 61 of 62 tested controls operating effectively in 2016/17 compared with 56 of 62 in the prior year.

## 1.5. Summary of Findings

Business Cycle	Findings	Control	Risk
<b>Purchasing and Procurement / Contracting</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A	N/A
<b>Fixed Assets</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A	N/A
<b>General Ledger</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A	N/A
<b>Accounts Payable</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A	N/A
<b>Rates / Rates Rebates</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A	N/A
<b>Payroll</b>	Whilst the audit trail is prepared on a monthly basis, this is not reviewed against source documents (E.g. employee signed bank details change).	1	<b>M</b>
<b>Banking</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A	N/A
<b>Receipting</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A	N/A

## 2. DETAILED AUDIT FINDINGS

### 2.1 Payroll

Control	Audit Qualification Risk	Findings	Recommendations	Management Response
<p>1. Significant changes (supported by adequate audit trail) to the payroll master files approved by management.</p> <p><b>BPM Risk</b> Payroll master file does not remain pertinent and/or unauthorised changes are made to the payroll master file.</p>	<p><b>Moderate Risk</b></p>	<p>Whilst an audit trail report of master file changes is prepared on a monthly basis, changes are not reviewed against source documents (for example requests for bank detail changes signed by the employee).</p>	<p>To strengthen the review of master file changes, consideration is given to reviewing changes against the source documentation that initiated the change. This could be performed on a 'spot check' sample basis. Importantly, the reviewer should have direct access to all relevant supporting documents.</p>	



**APPENDIX 1 – CRITICAL INTERNAL FINANCIAL CONTROLS**

DRAFT

## FIXED ASSETS

### Risks

R1	Fixed asset acquisitions, disposals and write-offs are fictitious, inaccurately recorded or not recorded at all.
R2	Fixed assets are inadequately safeguarded.
R3	Fixed Assets are not valued correctly
R4	Depreciation charges are either invalid not recorded at all or are inaccurately recorded.
R5	Fixed Asset maintenance and/or renewals are inadequately planned.

RISKS	Control	Control Type	CSA Importance	Weighting
R1	Regular verification of fixed assets are conducted and reconciled to the FAR.	Core		4
R1	Recorded changes to the FAR and/or masterfile are approved by management, compared to authorised source documents and General Ledger to ensure accurate input.	Core		5
R1	All fixed asset acquisitions and disposals are approved in accordance with Delegation of Authority and relevant Procurement and Fixed Asset Policies.	Core		5
R1	Access and on-going maintenance of the fixed asset register is performed by authorised officers only.	Core		4
R1	Council has an asset accounting policy which details thresholds for recognition of fixed assets which is monitored to ensure adherence.	Core		5
R1	Reconciliation of fixed assets to the General Ledger is performed regularly.	Core		4
R1	Asset maintenance schedules are prepared, updated, and monitored by management and activity per the asset maintenance schedule. Changes to the asset maintenance history register are compared to source documents to ensure that they were input accurately.	Core		4
R3	Management regularly reviews valuation of fixed assets - methodology and useful lives, to ensure valuation is appropriate and in accordance with reporting requirements. Where appropriate, Council may engage an expert to perform valuations.	Core		5
R3	Management reviews depreciation rates and methodology (at least annually) to ensure that methods used to value fixed assets are still appropriate.	Core		5
R3	Asset revaluations and depreciation reviews are performed in accordance with Australian Accounting Standards.	Core		5
R3	The annual review of assets includes reviewing the appropriateness of categories of assets and impairment testing.	Core		4
R4	Depreciation charges are calculated in accordance with the accounting policy, including the useful life, depreciation method and calculation formulas.	Core		5
R5	Asset Management Plans exist for all major asset classes and all changes to the asset management plan must be approved by Council.	Core		5

## PURCHASING AND PROCUREMENT

### Risks

R1	Council does not obtain value for money in its purchasing & procurement.
R2	Purchases of goods and services are made from non-preferred suppliers.
R3	Purchase orders are either recorded inaccurately or not recorded at all.
R4	Purchase orders are placed for unapproved goods and services.

RISKS	Control	Control Type	CSA Importance	Weighting
R1	Council has a comprehensive Contract and Procurement Policy that is reviewed regularly.	Core		5
R1, R2, R4	Employees must ensure all purchase orders are approved in accordance with the Delegations of Authority and relevant policies.	Core		5
R3	Purchase orders are issued in accordance with the Council's Purchasing and Procurement Policy.	Core		5

## CONTRACTING

### Risks

R1	Council is not able to demonstrate that all probity issues have been addressed in the Contracting process.
R2	Council does not obtain value for money in relation to its Contracting.

RISKS	Control	Control Type	CSA Importance	Weighting
R1,R2	Robust and transparent selection processes to ensure effective and qualified suppliers / contractors are selected by Council, including compliance with Code of Conduct, Conflict of Interest and procurement Policies.	Core		5
R1	Council to maintain a contract register.	Core		4
R1	The Contracts, Tenders and Procurement Policy and Procedures should be reviewed regularly.	Core		4
R2	Council does not release milestone payments to suppliers / contractors until they meet all their associated objectives.	Core		5

## RATES / RATES REBATES

### Risks

R1	Council does not raise the correct level of rate income.
R2	Rates and rate rebates are either inaccurately recorded or not recorded at all.
R3	The Property master file data does not remain pertinent
R4	Pensioner concessions and self-funded retirees are either inaccurately recorded or not recorded at all.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2	Rates are automatically generated by the rate system, including the calculation of rate rebates, if applicable.	Core		4
R1, R2	Management regularly reviews the calculation methodology within the rate application system and for a sample of ratepayers to ensure correct calculation and methodology has been used.	Core		4
R1	All software changes to rate modelling functionality fully tested and reviewed by qualified personnel.	Core		5
R2	Regular review of exempt properties to ensure still valid, interest flag switched off and rate rebates.	Core		5
R2	Council approves rate rebates to rate payers in accordance with Delegations of Authority and as per the legislation.	Core		4
R2	Regular independent review of the rates aged receivables reports and independent check of rates payable by rates staff.	Core		4
R3	Recorded changes to property master file data are compared to authorised source documents or confirmed with ratepayers to ensure that they were input accurately. An audit trail is maintained for all changes.	Core		4
R3	Access to the Property master file is restricted to appropriately designated personnel, with significant changes to the Property master file approved by management.	Core		5
R4	Authorised officers verify all pensioner concession entitlement information provided annually by government departments.	Core		4

## RECEIPTING

### Risks

R1	Receipts are either inaccurately recorded or not recorded at all.
R2	Receipts are not deposited at the bank on a timely basis.

RISKS	Control	Control Type	CSA Importance	Weighting
R1,R2	Cash is stored securely at all times including the duration of the cash management process.	Core		5
R1	Officers who create debtors invoices do not have access to receipting payments and/or reversing receipt transactions.	Core		5

**PAYROLL**

**Risks**

R1	Payroll expense is inaccurately calculated.
R2	Payroll disbursements are made to incorrect or fictitious employees
R3	Time and/or attendance data is either invalid, inaccurately recorded or not recorded at all.
R4	Payroll master file does not remain pertinent and/or unauthorised changes are made to the payroll master file.
R5	Voluntary and statutory payroll deductions are inaccurately processed
R6	Salary sacrifice transactions are inaccurately processed.
R7	Employees are terminated in breach of statutory and enterprise agreements.

RISKS	Control	Control Type	CSA Importance	Weighting
R1	Standard programmed formulae perform payroll calculations.	Core		5
R1, R3	Overtime hours worked and payments for such overtime are authorised by management for all eligible employees.	Core		5
R2	The transfer of the bank file should be restricted to authorised officers who are not be involved in the preparation of the pay run.	Core		5
R2	Payroll system generates exception reports detailing all payroll changes that are regularly reviewed by management who investigate & approve variances.	Core		5
R2	Employee records to include employment details and/or contract terms and conditions, authorisations for payroll deductions and leave entitlements.	Core		5
R2	Officers responsible for originating/preparing payroll disbursements are precluded from authorising transfer of same.	Core		5
R2	Employees made inactive in payroll records immediately upon termination. Termination report provided as supporting documentation with request for an EFT. Comparison of subsequent current employee listings made by independent person to verify correctness.	Core		5
R2	All employee deductions must be substantiated with documented approval provided by employee.	Core		5
R3	Total of payment summaries for the year is reconciled to general ledger and payroll.	Core		4
R3	Relevant staff are required to complete timesheets and/or leave forms, authorise them and have approved by the supervisor/manager.	Core		5
R4	Significant changes (supported by adequate audit trail) to the payroll master files approved by management.	Core		4
R4	All payroll suspense accounts are reconciled and reviewed by management or other supervisory personnel on a timely basis. Transactions recorded in the payroll suspense accounts are proper suspense items; other items are investigated and resolved in a timely manner.	Core		4
R5	Access to the payroll deduction listing is restricted to authorised officers.	Core		5
R6	All original salary sacrifice transactions must be approved by the relevant employee. Payroll staff must ensure that such approval has been obtained prior to processing transactions into the payroll system.	Core		5
R7	Establish employee termination policies and procedures, including statutory regulation and union requirements. Regularly review and update these policies and procedures.	Core		4

## GENERAL LEDGER

### Risks

R1	General Ledger does not contain accurate financial information
R2	Data contained within the General Ledger is permanently lost.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2	All updates and changes to General Ledger programmes are authorised, tested and documented.	Core		5
R1, R2	Access to General Ledger maintenance is restricted to authorised personnel.	Core		5
R1	General Ledger reconciliations (including control and clearing accounts) are prepared on a regular basis; all reconciliations independently reviewed.	Core		4
R1	Manual journal entries recorded in the register are authorised by the officer preparing the journal and an independent reviewer.	Core		5
R1, R2	Off-site backup of data, program and documentation.	Core		4
R1	System does not allow posting of unbalanced journals.	Core		5
R1	Amendments to the structure of the General Ledger framework are approved by an authorised officer.	Core		5
R1, R2	General Ledger policies and procedures are appropriately created, updated & communicated to relevant personnel in the finance department.	Core		5
R2	Formal disaster recovery plan adopted by Council or Senior Executive.	Core		5

## ACCOUNTS PAYABLE

### Risks

R1	Accounts payable amounts and disbursements are either inaccurately recorded or not recorded at all
R2	Credit notes and other adjustments to accounts payable are either inaccurately recorded or not recorded at all
R3	Disbursements are not authorised properly.
R4	Accounts are not paid on a timely basis
R5	Supplier master file data does not remain pertinent and/or unauthorised changes are made to the supplier master file.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2, R4	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable subledger regularly and differences are investigated.	Core		4
R1	Invoices received are authorised and accompanied by appropriate supporting documentation.	Core		5
R1	Payments (Cheques and EFT's) are endorsed by authorised officers separate to the preparer who ensure that they are paid to the specified payee.	Core		5
R2	Access to the supplier master file is restricted to authorised officers.	Core		5
R2, R5	Separation of Accounts Payable and Procurement duties.	Core		5
R3	All disbursements must be approved by an authorised officer in accordance with relevant policies and/or Delegations of Authority.	Core		5
R3	Purchase Orders must be raised for the purchase of goods and services in line with the Council's Procurement policy or over a predetermined amount where applicable.	Core		5
R3	Individuals who authorise payment of suppliers are authorised officers who are independent of the processing of invoices.	Core		5
R4	Authorised officer to review aged payables listing on a predetermined basis and investigate where appropriate.	Core		5
R5	Recorded changes to the supplier master file are compared to authorised source documents to ensure that they were input accurately.	Core		5
R5	The accounts payable system and or supplier master file prevents users from making unauthorised adjustments to supplier accounts.	Core		5

## DEBTORS

### Risks

R1	Debtors are either inaccurately recorded or not recorded at all.
R2	Rebates and credit notes to debtors are either inaccurately recorded or not recorded at all
R3	An appropriate provision for doubtful debts is not recorded
R4	Debtors are either not collected on a timely basis or not collected at all
R5	The Debtors master file data does not remain pertinent.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R4	Debtor's reconciliation performed on a regular basis to the General Ledger and reviewed by an independent person.	Core		4
R1	Council maintains a Debt Collection Policy.	Core		5
R2, R3, R4	Management and/or Council review and approve all rebates, credit notes, bad debt write-offs and movements in the provision for doubtful debts, in accordance with delegations of authority and Local Government Act.	Core		5
R3, R4	Management reviews debtors ageing profile on a regular basis and investigates any outstanding items.	Core		4
R5	Access to the debtor's master file is restricted to appropriately designated personnel and is reviewed by management for accuracy and on-going pertinence.	Core		5
R5	Recorded changes to debtor's master file data are compared to authorised source documents or confirmed with customers/ratepayers to ensure that they were input accurately.	Core		4

## BANKING

### Risks

R1	Banking transactions are either inaccurately recorded or not recorded at all.
R2	Fraud.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2	Blank cheques and/or cheque-signing machine are adequately safeguarded.	Core		5
R1, R2	Access to EFT Banking system restricted to appropriately designated personnel.	Core		5
R1, R2	Bank reconciliations are performed on a predetermined basis and are reviewed by an authorised officer. Any identified discrepancies are investigated immediately.	Core		5
R1, R2	All cash held securely in safe/registers with access restricted to appropriately designated personnel.	Core		5
R2	Cash transfers between bank accounts and investment bodies are approved by authorised officer.	Core		5
R2	Procedures are in place to ensure that all cash collected is banked and properly recorded.	Core		5





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Reference: AF12/227; AL.GH  
Enquiries to: Ms Pamela Lee

26<sup>th</sup> June, 2017

Tim Muhlhausler  
Galpins Accountants, Auditors & Business Consultants  
P O Box 546  
KENT TOWN DC 5071

Dear Tim,

**RE: INTERIM MANAGEMENT LETTER – FINANCIAL CONTROLS REVIEW 2017**

Reference is made to the Interim Audit Management letter dated 30<sup>th</sup> May, 2017 which resulted in the finding of a moderate risk in the following key internal control:

- Significant changes (supported by adequate audit trail) to the payroll master files approved by management.

Between December 2016 and February 2017 there was an issue with the audit trail reports produced from Civica's Authority software. This did not allow for an independent verification of the changes made to the payroll master file for this period. Once the situation was rectified by Civica, all changes were verified to the master file.

Following a recommendation from last year's interim audit, changes to the payroll master file are reviewed against source documents located in Council's electronic document and records management system (HP Records Manager 8.1.1.7898). This commenced in May 2016 and continues to be our practice with spot checks made on a fortnightly basis for each pay period.

The issue in this instance was due to a failure in our software system to produce a meaningful audit trail report for the specified period above.

Thankyou for the opportunity to respond to the findings of the 'Financial Controls Review' and we note the improvement in the effectiveness of our controls from 2015/16 to 2016/17.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Pamela Lee', followed by a period.

**Pamela LEE**  
GENERAL MANAGER – COUNCIL BUSINESS SERVICES