Regulation 17 Review

December 2017

10 April 2018

Mr G Pollock
Chief Executive Officer
Shire of Pingelly
17 Queen Street
PINGELLY WA 6308

Dear Gavin

2017 REGULATION 17 REVIEW

We are pleased to present the findings and recommendations resulting from the Shire of Pingelly ("the Shire") 2017 Regulation 17 Review.

This report relates only to procedures and items specified within the Local Government (Audit) Regulation 17 Review for the period ended 31 December 2017.

We would like to thank Stuart and the staff of the Shire for their co-operation and assistance whilst conducting our review.

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

Yours sincerely
AMD Chartered Accountants

MARIA CAVALLO CA
Director

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1. Executive Summary

1.1. Background and Objectives

To undertake a review of the appropriateness and effectiveness of risk management, internal controls and legislative compliance of the Shire in according with the Local Government (Audit) Regulations 1996, Regulation 17 for the period ended 31 December 2017 (the 'review').

In addition, provide the Chief Executive Officer (CEO) a clear understanding as to the appropriateness and effectiveness of the Shire's current systems and processes and articulate any areas of improvement.

Our findings included within this report are based on the site work completed by us on the 20th to 23rd of November 2017. Findings are based on information provided and available to us during this site visit.

1.2. Summary of Findings

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

- Section 2 – Risk management;
- Section 3 – Internal controls; and
- Section 4 – Legislative compliance.

Following the completion of our review and subject to the recommendations outlined within sections 2 to 4, we are pleased to report that in context of the Shire's overall internal control environment, policies, procedures and processes in place are appropriate, and have been operating effectively at the time of the review.

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

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

	Compliance Breach	Significant Risk	Moderate Risk	Minor Risk
Number of new issues reported	2	1	3	12

For details on the review rating criteria, please refer to Section 5.

Ref	Issue	Risk Rating
Risk management		
2.2.1	**Tender Register** Tender register does not include all information required by Regulation 17 of the Local Government (Functions and General) Regulations.	Compliance Breach
2.2.2	**Risk Management Framework** Currently no adopted and implemented organisational-wide risk register in place which identifies risks, assesses the impact of the risks and controls to mitigate risk.	Significant
2.2.3	**Business Continuity Plan** Business Continuity Plan is in draft. No testing has been completed to ensure the draft Business Continuity Plan operates effectively in the case of an emergency.	Moderate
2.2.4	**Projects and Procurement** Suggestions for further enhancement to project procurement risk management procedures, post project / tender review procedures.	Moderate
2.2.5	**Events Management Risk Assessment** No risk assessment is currently being completed for events held within the Shire.	Minor
2.2.6	**Contractor Induction Process** No formal induction process for contractors at the Shire.	Minor
2.2.7	**Insurance Claims Register** The insurance claims register contains limited detail and is currently not up to date.	Minor
2.2.8	**Bushfire Management Plan** Business Management Plan currently in draft.	Minor
2.2.9	**Risk Management Policies and Procedures** We noted that the Shire does not currently have a fraud/misconduct policy in place.	Minor
Internal controls		
3.2.1	**FBT Procedures** No written policy / procedures in respect to FBT.	Minor
3.2.2	**Signature Specimen** The Shire does not have a signature specimen in place.	Minor
3.2.3	**Purchase Orders** Instances of purchase orders dated after the invoice identified.	Minor
3.2.4	**Fuel Cards** Forms are not being signed by holders of fuel cards acknowledging terms and use.	Minor
3.2.5	**Information Technology Planning, Policies and Procedures** IT policies drafted however not formally approved and implemented. No formal IT strategic plan in place. No policy relating to "Personally Owned Devices".	Minor
3.2.6	**Information Technology Access** IT training and induction not a formal part of a new employee induction process. Suggestions for enhancements and improvement to IT security.	Minor
Legislative compliance		
4.2.1	**Non Compliance** The 2016/2017 Budget was not lodged with the Department within 30 days after Council adoption. The Compliance Return for 2017 was not lodged with the Department by 31 March 2017. Regulation 17 review not completed in accordance with legislative timeframe requirements.	Compliance Breach
4.2.2	**Asset Management Plan** The Shire's Asset Management Plan currently only includes projections for eight years to 2024/25.	Moderate
4.2.43	**Internal Audit Function** Currently no formal internal audit function in place.	Minor

2. Risk management

2.1. Scope and approach

In accordance with the scope set out in our Local Government (Audit) Regulation 17 Review proposal, our review focused on the following:

- Whether the Shire has an effective risk management system and that material operating risks to the Shire are appropriately considered;
- Whether the Shire has a current and effective business continuity plan (including disaster recovery) which is tested from time to time;
- The internal processes for determining and managing material operating risks in accordance with the Shire's identified tolerance for risk, particularly in the following areas:
  - Potential non-compliance with legislation, regulations and standards and local government's policies;
  - Important accounting judgements or estimates that prove to be wrong;
  - Litigation and claims;
  - Misconduct, fraud and theft; and
  - Significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational heal and safety, and how they are managed by the local government;
- Regular risk reports presented to the Audit Committee/Council, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported;
- Adequacy of Shire processes to manage insurable risks and ensured the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Effectiveness of the Shire's internal control system with management and the internal and external auditors;
- Whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;
- The Shire's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied;
- Audit Committee meeting practices ensuring periodically meeting with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment;
- Ascertained whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented communicated, monitored and there is regular reporting and ongoing management of fraud and misconduct risks;
- The effectiveness of monitoring, reporting and communication surrounding risk management;
- The effectiveness of the Shire's internal control system; and
- The procedures relating to the enhancement of community accountability and transparency through an annual budget based in IPR.

2.2. Detailed findings and recommendations

2.2.1   Tender Register
Finding Rating: Compliance Breach

Our review of the tender register and a sample of tender register forms identified the following (tenders tested included RFT01 – 201617 and RFT02 201617):

- The name of the successful tenderer was not noted on the tender register or tender register form;
- The consideration amount for each tender was not noted on the tender register or tender register form;
- The two employees present to open the tenders did not sign the tender register as required; and
- One instance whereby the advertisement of the tender was not placed on the tender register.

Implications / Risks
Risk of non-compliance with Local Government (Functions and General) Regulations 1996 Regulation 17 (2)(f) and (3).

Recommendation
To ensure compliance with the Local Government (Functions and General) Regulations, we recommend the following be included within the tender register:

- The name of any successful tenderer;
- For each invitation to tender the amount of the consideration or a summary of the amount of the consideration sought in the tender accepted by the local government;
- The two employees present to open tenders sign the register in the space provided; and
- Ensure a copy of the advertisement is placed on the tender register for all tenders.

Management Comment
Tender 01/2016/17 Architectural Services name of successful tenderer now entered and amount of successful tenderer also updated along with Council minute number.

EOI 01/2016-17 Building Services Pingelly Recreation and Cultural Centre missing officer signature Project Manager (PM) and Admin Officer Technical (AOT). AOT now signed. PM not available to sign. Missing name of successful tenderer and amount of successful tender. Tender Register has now been updated both items.

Tender 02/2016/17 Construction of Pingelly Age Appropriate Accommodation (PAAA) missing copy of the advert. Tender file now updated with copy of the advert.

Internal procedures for tenders to be followed and in house training/education to be provided to ensure compliance with Local Government Act 1995 and Associated Regs.

Responsible Officer: Director Corporate & Community Services   **Completion Date** June 2018

2.2.2 Risk Management Framework
Finding Rating: Significant

The Shire has drafted a Risk Management Framework, however this Framework has not been adopted by Council and implemented within Council operations.

The Shire has not identified tolerable risks or developed an organisational-wide risk register which identifies risks, assesses the impact of the risk and identifies controls to mitigate risk.
We would expect the organisational risk register to encompass each business unit incorporating the following categories for each business unit:

- Operational;
- Strategic;
- Finance;
- Technological; and
- Compliance risks.

On this basis, the Shire is currently not equipped to prepare and present a risk report to the Audit Committee and/or Council highlighting the Shire's key risks and processes in place to mitigate these risks.

Implications / Risks
Lack of documentation in place to evidence risks have been identified and mitigated accordingly.

Recommendation
We recommend the Shire formalise the draft Risk Management Framework, including development of an organisational risk register. This should include conducting a comprehensive risk identification process to identify potential Shire risks within each business unit and incorporates the following categories:

- Operational;
- Strategic;
- Finance;
- Technological; and
- Compliance risks.

The risk register should identify the risk, analyse the risk by determining the likelihood, consequence and current controls in respect to each identified risk; evaluate the risk by deciding whether the risk is to be treated/controlled, reassessed or accepted and determine the action to be taken to treat or control each risk.

The risk register should also be monitored and reviewed on a regular basis to ensure up to date.

Furthermore, once the organisational risk register is developed, we recommend this register is tabled at the Audit Committee meeting and subsequent Council meetings on a periodic basis.

Management Comment
The Shire of Pingelly has Risk Management Policy 2.7
Shire of Pingelly Risk Management Framework, Risk Management Procedure and Risk Register to be developed and then presented to Council.

Responsible Officer: Director Corporate & Community Services   **Completion Date:** June 2018

2.2.3   Business Continuity Plan
Finding Rating: Moderate

The Shire has developed a draft Incident Management and Business Continuity Plan, however our inquiries indicate the Plan is not yet finalised. As a result, the Plan has not been tested to ensure in the event of a disaster, appropriate action can be taken.

Implications / Risks
Risk of significant delays and business interruption in the event of unforeseen circumstances in respect to Shire operations.

Recommendation
We recommend the Shire finalise their incident management and business continuity plan ensuring approved and implemented accordingly.

In addition, we recommend the Incident Management and Business Continuity Plan is tested on a regular basis to ensure that in the event of a disaster, appropriate action(s) can be taken.

Management Comment
The Shire of Pingelly Draft Incident Management and Business Continuity Plan is currently being prepared by the Administration staff and once presented to and adopted by Council will be tested.

Responsible Officer: Director Corporate & Community Services /Director Technical Services

Completion Date: June 2018

2.2.4 Projects and Procurement
Finding Rating: Moderate

Our testing and inquiries in respect to project procurement identified the following:
- There is no formal documented project risk assessment and reporting process in place. We understand for larger projects and tenders the agenda presented to Council includes a risk assessment component however, there is no formal documentation or templates / checklists which must be completed for projects over a certain risk, monetary threshold or nature. Please note the Shire does consider mitigating some risks at the tender phase by requesting Certificate of Insurances and requiring Occupational, Safety and Health (OHS) compliance sign-off, however no further comprehensive risk assessment is conducted; and
- Post project / tender or quotation reviews are ad-hoc and are generally only completed for larger projects where there is a practical completion sign off element.

Implications / Risks
- Risk that all project / tender risks are not identified, assessed and appropriately managed throughout the project / tender.
- Risk that findings and results from a tender / quotation (both positive and negative) is not used to improve future tender / quotation processes followed by the Shire.

Recommendation
We suggest the Shire further enhance the already robust procurement process by developing and implementing the following:
- Documented comprehensive project / tender risk assessment and reporting process for all major projects and tenders. Determine instances/thresholds where a risk assessment is to be conducted for those tenders / projects that are deemed high risk to the Shire (i.e. monetary value, reputational impact, culturally sensitive etc.); and
- Formal post project tender / quotation review process, identifying both positive and negative findings with a view of continuous improvement of the tender / quotation process the Shire has in place.

Management Comment
Pingelly Aged Appropriate Accommodation (PAAA) and Pingelly Recreation and Cultural Centre (PRACC) major projects both had extensive risk assessment plans completed.

The Shire of Pingelly to develop and implement the following:

- Documented comprehensive project / tender risk assessment and reporting process for all major projects and tenders. Determine instances/thresholds where a risk assessment is to be conducted for those tenders / projects that are deemed high risk to the Shire (i.e. monetary value, reputational impact, culturally sensitive etc.); and
- Undertake formal 'post' project tender / quotation review processes, identifying both positive and negative findings with a view of continuous improvement of the tender / quotation process the Shire has in place.

Responsible Officer: Chief Executive Officer   **Completion Date:** December 2018

2.2.5 Events Management Risk Assessment
Finding Rating: Minor

Our inquiries indicated there is no formal assessment completed in relation to events held on Shire premises.

A form has been developed however is currently not being completed. For example the food market stalls was selected for testing with no events management risk assessment being completed.

Implications / Risks
Inappropriate management of potential risks associated with events held on Shire premises.

Recommendation
We recommend events held on Shire premises are managed including completing a risk assessment. This could be through completing the current events risk form.

Management Comment
Implementation of the current risk assessment form for events on Shire premises has commenced.

Responsible Officer: Director Corporate & Community Services   **Completion Date:** June 2018

2.2.6 Contractor Induction
Finding Rating: Minor

Our inquiries indicated there is no formal induction process for Contractors of the Shire.

Implication / Risks
Risk of contractors not being made aware of Shires policies and procedures in place.

Recommendation
We recommend an induction is completed for all Shire Contractors to ensure compliance with Shire policies and procedures.

The Contractor Induction could focus on the organisational background, culture, work ethics, complaints handling process, OHS etc. The level of induction the Contractor be required to complete should be determined based on the risks associated with the service or product provided.

Management Comment
Regional Risk Coordinator with the Director of Technical Services are currently developing Contractor induction and ongoing Contractor induction processes to ensure Shire Contractors are aware of Shire Policies and procedures.

Responsible Officer: Director Technical Services/Local Government Insurance Services Regional Risk Coordinator

Completion Date: June 2018

2.2.7 Insurance Claims Register
Finding Rating: Minor

We noted the Shire has an Insurance Claims Register which includes details relating to claim start date, property, type of damage/loss and claim number, however at the date of our onsite review, the register was not up to date.

Implications / Risks
Untimely recovery of costs associated with insurance related events.

Recommendation
We recommend the current Insurance Claims Register be kept up to date. We also suggest the register could be enhanced to include additional details such as the date of the incident, details of other parties involved, personnel responsible for the claim, status of claim, follow-up action / correspondence received, actions required etc.

Management Comment
Director Corporate & Community Services has updated the electronic Insurance claims register as recommended.

Responsible Officer: Director Corporate & Community Services **Completion Date:** Completed

2.2.8 Bushfire Management Plan
Finding Rating: Minor

The Shire has developed a draft Bushfire Management Plan, however the Plan has not yet been finalised and adopted.

Implications / Risks
Risk of bushfire management plan not implemented, communicated and tested.

Recommendation
We recommend the Shire finalise and adopt the Bushfire Management Plan including implementation and communication with employees and relevant stakeholders.

Management Comment
Director Technical Services to finalise the Shire of Pingelly Bushfire Management Plan and present to Council for adoption. Once adopted the plan be implemented and communicated to employees and relevant stakeholders.

Responsible Officer: Director Technical Services **Completion Date:** September 2018

2.2.9 Risk Management Policies and Procedures
Finding Rating: Minor

We noted the Shire does not currently have a fraud/misconduct policy.

Implications / Risks
Lack of policies and/or procedures evidencing specific risks to the Shire.

Recommendation
We recommend a fraud/misconduct policy be prepared and adopted by the Shire.

Management Comment
Shire of Pingelly is currently developing a Draft Risk Management Plan to be finalised and implemented. The Risk Management Plan contains processes to assist the Shire in addressing risk of fraud. Currently a Misconduct Policy does not exist. The Chief Executive Officer considers the operation has acceptable controls and processes in place that works more effectively than having a documented policy.

Responsible Officer: Chief Executive Officer   **Completion Date:** June 2018

3. Internal controls

3.1. Scope and approach
In accordance with the scope set out in our Local Government (Audit) Regulation 17 Review proposal, our review focused on the following:

- Segregation of roles and functions, processing and authorisation controls;
- Delegations of authority (completeness and adherence);
- Documented policies and procedures;
- The effectiveness of policy and process reviews;
- Approval of documents, letters and financial records;
- Management internal reviews undertaken in respect to comparison of internal data with external sources of information;
- The adequacy of internal controls;
- Security controls in respect to physical access to assets and records;
- Security controls in respect to computer applications and information systems (general and application IT controls);
- Access limits placed on data files and systems;
- Whether the maintenance and review of financial control accounts and trial balances is regular and appropriate;
- Key management internal reviews undertaken in respect to comparison and analysis of financial results with budgeted amounts;
- Key management internal reviews undertaken in respect to the arithmetical accuracy and content of records;
- Controls in respect to purchasing and payment of accounts;
- Effectiveness of the training and development plan for staff and elected members; and
- Reporting, review and approval of financial payment and reconciliations; and
- Physical cash and inventory count records when compared to accounting records.

3.2. Detailed findings and recommendations

3.2.1   FBT Procedures
Finding Rating: Minor

Our inquiries indicated there are no written FBT policies and procedures in place.

Implications / Risks
- Risk employees are not aware of expenditure that constitutes FBT liability for the Shire and expenditure that constitutes reportable benefits for employees.
- Lack of backup / relief and succession planning in respect to key personnel relating to FBT.

Recommendation
We recommend management develop and implement FBT policies and procedures including comprehensive FBT return preparation and lodgement details.

Management Comment
Director Corporate & Community Services procedures manual contains written FBT procedures to collect data and prepare the annual FBT. Draft FBT policy has been prepared for Council consideration of adoption. Item raised regarding Lack of backup / relief and succession planning in respect to key personnel relating to FBT. Pingelly is a small Shire and would use a Consultant or local CPA to prepare FBT return if no in house expertise was available to collect data and prepare annual FBT Return.

Responsible Officer: Director Corporate & Community Services   **Completion Date:** June 2018

3.2.2   Signature Specimen
Finding Rating: Minor

Our discussions with the Director of Corporate and Community Services identified there in no signature specimen in place outlining all payment/purchase order authorities and the corresponding signature for that employee ensuring sign off is being complete on appropriate levels of expenditure by the correct employees.

Implications / Risks
Lack of documentation in regards to authority over payments.

Recommendation
As best practice, we recommend a specimen signature is maintained listing all authorities and their signature to ensure up to date.

Management Comment
Shire can collect specimen signatures for finance department to use-NB small shire not practical or appropriate. This is seen as very minor risk as no payment is made without sign off and it can be checked against Purchase Order signature to Invoice as both are affected

Responsible Officer: Chief Executive Officer   **Completion Date:** June 2018

3.2.3   Purchase Orders
Finding Rating: Minor

We identified instances whereby Purchase orders were dated after the invoice.

Implications / Risks
Risk of unauthorised purchases.

Recommendation
We recommend purchase orders are raised for all purchases prior to the purchase taking place.

Management Comment
Shire staff are to be informed of incidents where PO have been identified as raised after the order or receipt of goods or services has occurred. This will be an ongoing education and monitoring process where possible disciplinary action may be taken for repeat offenders. It should also be noted that if works are required on weekends, after hours or during emergency events a Purchase Order will be raised after the fact as a matter of practicality in the event it should not be seen as non-compliance.

Responsible Officer: Chief Executive Officer/ Director Corporate & Community Services
Completion Date: June2018

3.2.4   Fuel Cards
Finding Rating: Minor

We noted an acknowledgement form attached to the draft Fuel card policy which is not being signed by employees who hold fuel cards acknowledging usage terms and acceptance.

Implications / Risks
Increased risk of fraud or error.

Recommendation
We recommend the acknowledgment form be signed and retained on the employee files.

Management Comment
Draft Shire of Pingelly Fuel Card – Correct usage of Council Fuel Cards policy developed and to be presented to Council and once adopted by Council, implemented with Officers issued a Fuel card to sign 'Acknowledgment and Acceptance of conditions of use of Council Fuel Card' form, which is to be placed onto their HR files.

Responsible Officer: Chief Executive Officer/Director Corporate & Community Services /Director
                            Technical Services

Completion Date: June 2018

3.2.5   Information Technology Planning, Policies and Procedures
Finding Rating: Minor

Our inquiries indicated the Shire has not developed or implemented an IT Strategic Plan or formal IT action plan to identify current and future development IT needs.

We also noted numerous draft IT policies which are yet to be approved, implemented and communicated to staff. Furthermore we noted the Shire does not have a documented policy or procedure in respect to "Personally owned devices."

Implications / Risks
- Risk of strategic objectives not being identified to meet Council's current IT and communication requirements.
- Risk that existing procedures and practices in respect to personally owned devices are not formally documented.
- Risk that draft policies are not enforced.

Recommendation
We recommend the following:
- An IT Strategic Plan, including IT action plan be developed and implemented to identify and manage current and future IT needs. This plan should be linked to expenditure projected within current budgets and Long Term Financial Plan.
- In accordance with the Department of Local Government IT Framework (best practice guidelines), we recommend policies and procedures outlining terms and conditions in respect to the use of personally owned devices and access/use of social media sites be documented , approved, implemented and monitored on a ongoing basis.

Management Comment
- Shire of Pingelly IT Strategic Plan, including IT action plan to be developed and implemented to identify and manage current and future IT needs. This plan to be linked to expenditure projected within current budgets and Long Term Financial Plan.

- The Shire of Pingelly Code of Conduct covers these items and see this risk as minor not moderate. New Firewall recently installed with limited restrictions to website access.

Responsible Officer: Director Corporate & Community Services   **Completion Date:** December 2018

3.2.6   Information Technology Access
Finding Rating: Minor

During review and discussions in respect to IT systems access at the Shire, we noted the following:
- User terminals do not log off users after a period of inactivity;
- There is no restriction to Internet usage / website access restrictions;
- There is currently no limit on how many times you can attempt to log in with incorrect details;
- Access to computer hardware and server is not restricted;
- Remote access and computer access is not terminated for employees on extended leave; and
- IT training and induction does not form part of the induction process of new employees.

Implications / Risks
- Increased risk over IT system.
- Risk of unauthorised personnel gaining access to Shire information.

Recommendation
We recommend:
- All computer terminals are set up to log off after a period of inactivity, for example three minutes;
- A restriction on internet usage / specific website access restrictions be considered to prevent misuse;
- An automatic lock out period be implemented if an employee tries to log in with the wrong details continually (for example after three attempts);
- The server cage be locked to prevent unauthorised access;
- Remote access and computer access be terminated while employees are on extended leave; and
- An IT induction be performed for new employees.

Management Comment
- The issue of auto lock of computers has been raised with the Chief Executive Officer and deemed not necessary.

- The matter of restrictions to the use of the internet and restricted specific website access part of the Wallis Computers setup. A new recently installed firewall further restricting internet access. Notwithstanding the above matter raised to be considered as part of an IT Usage Policy to discourage and prevent misuse of the internet. Officer access to the internet a day to day requirement for operations and research etc. Internet usage levels are currently monitored by emails received showing 50%, 75% and 100% levels reached for each month. The introduction of web site blocking protocols to be further investigated with the Shire IT contractor.

- The matter of the incorrect login attempts has been raised Wallis computers have now implemented global changes where upon 3 attempts with the incorrect Login details you are locked out for 1 hour before you can retry to login.

- In regard to this matter of 'Access to computer hardware and server is not restricted' all officers issued a dedicated workstation or laptop upon commencement and they are required to use a secure logon and password to access their PC or laptop and data on the Shire central server.

Certain files on the shared T drive are set up with permission restrictions so only certain authorised staff can see and access the data e.g. aba files for payroll and creditors processing.

There are also audit trails switched on in SynergySoft software to track changes made by staff. The issue being raised here is more on the risk of a staff member may delete/move certain files on the shared T drive either by accident or through deliberate malice.

- In regards to the matter of Remote access and computer access is not terminated for employees on extended leave, has been a decision of the Chief Executive Officer, as the Shire is considered too small to warrant this. With the invention of smart phones/laptops/tablets etc, which collect emails from the shire server this is seen as a low risk and onerous requirement on a small organisation.

- When staff are employed they are put through an induction programme which does not currently include a formal IT training component. The Shire does however provide IT training 'on the job' usually provided by a supervisor or peer. MS Office skills are part of a position description and assessed during probationary employment. The level of competency is also reviewed as part of the employee probation and annual performance review and training requirements. External IT training providers sourced where deemed appropriate.

Training is also offered for SynergySoft by webinars, usually onsite at the shire using a PC or offsite at in person training session held at IT Vision in Applecross.

Responsible Officer: Director Corporate & Community Services   **Completion Date:** June 2018

4. Legislative compliance

4.1. Scope and approach

In accordance with the scope set out in our Local Government (Audit) Regulation 17 Review proposal, our review focused on the following:

- Internal monitoring of compliance with legislation and regulations;
- The Shire's ability to stay informed regarding legislative changes;
- The Shire's completion of the annual Compliance Audit Return and reporting the results of that review to the Audit Committee and Council;
- The monitoring of the Shire's structured guidelines that detail the Shire's processes for meeting statutory obligations (compliance frameworks);
- Communications between key management and the Audit Committee to ensure the Audit Committee is informed in respect to the effectiveness of the Shire's compliance and recommendations for changes as required;
- The Shire's procedures in respect to receiving, retaining and handling complaints, including confidential and anonymous employee complaints;
- Key managements internal review processes in respect to the identification of adverse trends and management plans to address these;
- Management disclosures in financial reports of the effect of significant compliance issues (if any);
- The internal and / or external audit contracts include an assessment of compliance and ethics risks in the development of the audit plan and in the conduct of audit projects, and report compliance and ethical issues to the Audit Committee; and
- The Audit Committee's processes and procedures in respect to compliance with legislative and regulatory compliance ensuring no misuse of position through adequate disclosure of conflicts of interest.

4.2. Detailed findings and recommendations

4.2.1. Non Compliance
Finding Rating: Compliance Breach

We identified the following instances of non-compliance with the Local Government (Financial Management) Regulations 1996:

- The 30 June 2017 budget was not submitted to the Department of Local Government within 30 days after adoption as required by Regulation 33 of the Local Government (Financial Management) Regulations 1996 (adopted by Council on 17 August 2017 and submitted to the Department of Local Government on 28 September 2017);
- The 2017 Annual Compliance Return was not submitted to the Department of Local Government by 31 March 2017 as required by Regulation 15 of the Local Government (Audit) Regulations 1996 (submitted 4 April 2017).;
- The risk review required by Regulation 17 of the Local Government (Audit) Regulations 1996 was not completed by the legislative timeframe of 31 December 2016.

Implications / Risks
Risk of non-compliance with reporting requirements

Recommendation

We recommend:

- The budget be submitted and lodged with the Department within 30 days of Council adoption as required by Regulation 33 of the Local Government (Financial Management) Regulations 1996;
- The Annual Compliance return is submitted with the Department by 31 March as required by Regulation 15 of the Local Government (Audit) Regulations 1996 ; and
- The risk review is completed every two years as required by Regulation 17 of the Local Government (Audit) Regulations 1996.

Management Comment

In regards to the 30 June 2017 Annual Budget not being submitted to the DLG within the 30 days has been attributed the changeover on the Director of Corporate & Community Services (DCCS) position. The new DCCS commencing on the 5 September 2016 and after discovering the Annual Budget had not been submitted to the DLGC yet submitted the document with the Department of Local Government on the 28 September 2016, missing the 16 September deadline by 12 days. NB: The 30 June 2018 Annual Budget adopted by Council at a Special Council Meeting on the 23 August 2017 and submitted by the DCCS by email to the DLGC on the 24th August 2017 i.e. within the 30 days legislative deadline.

In regards to the 2016 Annual Compliance Return being submitted 4 days late to the DLGC can be put down to the introduction of the new DLGC Portal issues. The DCCS has documented emails with the DLGC IT department and the Shire IT consultants regarding logon issues and download and upload of files issues preventing the CAR being lodged by the 31 March 2017 even though the document was endorsed by Council and ready to send before the deadline. The DLGC Portal logon issues are now resolved.

In regards to the matter of the Regulation 17 Risk review being overdue. The Regulation 17 review was conducted by AMD Chartered Accountants conducted the Regulation 17 Review in December 2017 with a full report to the Shire of Pingelly Audit Committee in the near future once the final report available.

Responsible Officer: Chief Executive Officer/ Director Corporate & Community Services
Completion Date: June 2018

4.2.2. Asset Management Plan
Finding *Rating: Moderate*

We noted the Shire's Asset Management Plan currently only includes projections for eight years to 2024/25 and therefore does not include data for the ten year projection of required renewal/ replacement expenditure used to calculate the asset renewal funding ratio. The asset renewal funding ratio has been calculated using an average of the available data.

Implication
Risk of material misstatement or omission within accounting records.

Recommendation
We recommend the Asset Management Plan is updated annually.

Management Comment

The Shire of Pingelly is currently undertaking a full IPR review and update with Localise consultants, including updates to the Shire of Pingelly Asset Management Plan.

Responsible Officer: Chief Executive Officer/ Director Corporate & Community Services /Director Technical Services

Completion Date: June 2018

4.2.3. Internal Audit Function
Finding Rating: Minor

Our inquires indicated the Shire of Pingelly does not currently have a formalised internal audit function in place as recommended by the Department of Local Government Sport And Cultural Industries operational guidelines.

Implications / Risks
Risk of non-compliance with Local Government best practice operational guidelines.

Recommendation
In accordance with Department of Local Government Sport And Cultural Industries best practice operational guidelines, we recommend an internal audit function be established incorporating an internal audit program which is re-assessed annually.

Should Shire of Pingelly consider an internal audit function not be required, we suggest the Audit Committee formally document they have considered the best practice guideline and the reasons they feel it is not necessary.

Management Comment
The Shire of Pingelly Audit Committee on the 13 December 2017 endorsed a new Audit Committee Terms of Reference including an Internal Audit Function.

Responsible Officer: Chief Executive Officer/ Director Corporate & Community Services

Completion Date: Completed

5. Guidance on Risk Assessment

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

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

Our guidance to risk classification in accordance with Risk Management- Principles and Guidelines Standard AS/NZS 31000-2018 is as follows:

Risk is the probability that an event or action may adversely affect the organisation. Risk is assessed based on the relationship between consequence and likelihood.

• Likelihood is the chance that the event may occur given knowledge of the organisation and its environment.

• Consequence is the severity of the impact that would result if the event were to occur.

Our risk rating for each finding was based on the following table:

		CONSEQUENCES		
		Insignificant	Significant	Highly Significant
LIKELIHOOD	Low	Minor	Moderate	Moderate
	Medium	Minor	Moderate	Significant
	High	Minor	Significant	Significant

Any compliance breaches identified have been communicated within our report.