

17 April 2014

Bill Parker
Chief Executive Officer
Shire of Jerramungup
PO Box 92
JERRAMUNGUP WA 6337

Dear Bill

Re: Financial Management Review

We enclose for your attention, our Financial Management Review, prepared in accordance with the requirements of Local Government (Financial Management) Regulation 5 (2) (c).

We would like to acknowledge the valuable assistance provided by Brent and Tamara during the course of our review.

If you have any questions you are welcome to contact either Paul Gilbert or myself.

Yours faithfully



Russell Harrison
PARTNER

Encl.

SHIRE OF JERRAMUNGUP

FINANCIAL MANAGEMENT REVIEW

**AS REQUIRED BY:
LOCAL GOVERNMENT (FINANCIAL MANAGEMENT)
REGULATION 5(2) (c)**

**PREPARED BY:
LINCOLNS: APRIL 2014**

Lincolns
BEYOND NUMB3RS

SHIRE OF JERRAMUNGUP FINANCIAL MANAGEMENT REVIEW

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SHIRE OF JERRAMUNGUP
FINANCIAL MANAGEMENT REVIEW

1.0 INDEPENDENT REVIEW REPORT
TO THE CHIEF EXECUTIVE OFFICER (CEO) OF THE SHIRE OF JERRAMUNGUP

At the request of the CEO, Lincolns was engaged to conduct a limited assurance review of the appropriateness and effectiveness of the Shire of Jerramungup's financial management systems and procedures. The objective of the review is to assist the CEO discharge his responsibilities in respect to Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 (as amended). The review was conducted for the period 1 July 2011 to 31 March 2014.

**CEO'S responsibility for:
Maintaining and reviewing financial management systems and procedures.**

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

Our responsibility

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

Limitations of use

This report is made solely to the CEO of the Shire of Jerramungup for the purpose of him reporting under Local Government (Financial Management) Regulation 5(2)(c). We disclaim any assumption of responsibility for any reliance on this report to any person other than the CEO of the Shire of Jerramungup, or for any purpose other than that for which it was prepared.

Inherent limitations

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

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

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

Independence

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

Conclusion

Based on our work described in this report, nothing has come to our attention to indicate the Shire of Jerramungup has not established and maintained appropriate and effective financial management systems and procedures during the period 1 July 2011 to 31 March 2014.

For those aspects of the Shire of Jerramungup's Financial Management systems and procedures which were assessed as having opportunities for improvement, our Summary of Recommendations are noted at Part 2.0, page 5 of this report and Summary Review Findings are noted at Part 4.0, pages 11 to 14 of this report.

Lincolns Accountants



Russell Harrison
Partner

Dated this 17th day of April 2014

SHIRE OF JERRAMUNGUP
FINANCIAL MANAGEMENT REVIEW

2.0 SUMMARY OF RECOMMENDATIONS

Area of Financial Management	Recommendation
Trust Fund	<p>The Trust Fund includes:</p> <ul style="list-style-type: none">- Housing Bonds for people who have vacated.- BBYC Camp Bonds over 5 years old.- Subdivision bonds over 10 years old. <p>We recommend that, these Funds be cleared as soon as possible and that if the payer of this money cannot be identified, then the amounts be forwarded to the Registrar of Unclaimed Money.</p>
Register of Complaints	<p>Although we acknowledge there is unlikely to have been any complaints made against Council members, we were unable to sight a Register of Complaints as required by s 5.121 of the Local Government Act, 1995. This section requires that the complaints officer for each local government is required to maintain a register of complaints which records all complaints against council members that result in action. We recommend that a Register of Complaints be established.</p>
Items raised and addressed in the Interim Audit Management Letter	
General Journal Entries	<p>In order to establish industry best practice we recommend that a hard copy journal of general ledger entries be maintained and that journal sheets include the signature of originating responsible person, and another and another as evidence of review.</p>
Credit Card Procedures	<p>In the present political environment and to establish industry best practice we recommend that credit card holders be required sign a declaration acknowledging their responsibilities under the credit card policy.</p>

SHIRE OF JERRAMUNGUP
FINANCIAL MANAGEMENT REVIEW

3.0 INTRODUCTION

Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 requires that the Chief Executive Officer is to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every four financial years) and report to the local government the results of those reviews.

Internal Control Policy & Procedures

Regulation 5(1) of the Local Government (Financial Management) Regulations 1996 requires that the Chief Executive Officer establish efficient systems and procedures:

- (a) for the proper collection of all money owing to the local government;
- (b) for the safe custody and security of all money collected or held by the local government;
- (c) for the proper maintenance and security of the financial records of the local government (whether maintained in written form or by electronic or other means or process);
- (d) to ensure proper accounting for municipal or trust:
 - (i) income received or receivable;
 - (ii) expenses paid or payable; and
 - (iii) assets and liabilities;
- (e) to ensure proper authorisation for the incurring of liabilities and the making of payments;
- (f) for the maintenance of payroll, stock control and costing records; and
- (g) to assist in the preparation of budgets, accounts and reports required by the Act or these regulations.

Internal control is the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the organisation in an efficient and orderly manner.

32.0 INTRODUCTION (Continued)

There are three components of an effective management control system:

- **Responsibility and Accountability:** An individual manager must be given responsibility for achieving certain control objectives and held accountable in some fashion for the operation of the control system.
- **Control Procedures:** Specific control procedures (manual or automated) must be designed and implemented. These can be classified as either user control procedures or program control procedures.
- **Monitoring:** The manager must monitor the operating effectiveness of the control procedures and deal promptly with the errors detected. Monitoring procedures include reporting, checking and exception (error) reports sourced from external sources, e.g. ratepayers.

Cost Management

Regulation 5(2)(a) of the Local Government (Financial Management) Regulations 1996 requires that the Chief Executive Officer is to ensure that the resources of the local government are effectively and efficiently managed.

Cost management extends to all operations of a council. Each responsible manager and executive should ensure costs are minimised whilst the quality and level of service are maximised.

Cost management involves three key principles:

- assigning responsibility for controlling costs,
- understanding the true nature and cause of cost, and
- taking decisive action to actively manage cost.

A council's preparedness to tolerate costly activities within a function must be determined by weighing up the cost against the contribution of those activities to the object and the resulting social benefit.

Assigning responsibility for cost control requires definite lines the authority and responsibility within council programs, sub-programs and activities. The council's organisation chart and budget documentation should enable the assignment of cost control to specific individuals.

It is important for accountability that these individuals also participate in the budgetary process in determining the planned or budgeted costs, which will be under their control.

SHIRE OF JERRAMUNGUP
FINANCIAL MANAGEMENT REVIEW

32.0 INTRODUCTION (Continued)

Asset Management

Regulation 5(1)(d)(iii) of the Local Government (Financial Management) Regulations 1996 requires the Chief Executive Officer to ensure efficient systems and procedures be established to ensure proper accounting for municipal assets and liabilities.

Council controls a variety of assets on behalf of the community. Effective management of those assets requires that all assets be:

- classified and recorded in appropriate registers; and
- valued in accordance with the various accounting standards and requirements;
- reviewed regularly and a plan established to upgrade and replace as required.

Asset classification is necessary because of the range and nature of assets held by councils. These include:

- current assets such as cash and debtors; and
- non-current assets such as land, building and equipment.

Asset valuation is necessary because assets have substantially different "life cycles" ranging from a period of days or weeks easily converted to cash to 50-100 years for infrastructure such as drains.

Integrated Strategic Planning

Section 5.56 of the Local Government Act 1995 requires Council to plan for the future of the district in accordance with regulations.

Local Government (Administration) Regulation 19C requires that a local government prepare a strategic community plan for the district, encompassing at least 10 years, establishing community goals and identifying strategic performance indicators. The strategic community plan requires review at least once every 4 years.

Local Government (Administration) Regulation 19D requires that a local government prepare a corporate business plan, covering at least 4 Years, consistent with priorities of the strategic plan and establishes organizational capacity by adopting a) an asset management plan, b) a workforce plan, and c) a long term financial plan. The corporate business plan is required to be reviewed each year and adopted by an absolute majority of Council.

The processes of corporate planning and budgeting should be discrete. Budgeting and performance indicators should ultimately be driven by a council's specified corporate goals and objectives, established as part of the corporate planning process.

SHIRE OF JERRAMUNGUP FINANCIAL MANAGEMENT REVIEW

32.0 INTRODUCTION (Continued)

There is an inherent link between corporate objectives, budgeting and performance indicators. Sound corporate management in a council requires each objective to be addressed within the context of all three tools and other less formal processes and management information systems.

Budgeting

Section 6.2 of the Local Government Act 1995 requires Council to prepare and adopt a budget not later than 31 August each year. Part 3 of the Local Government (Financial Management) Regulations 1996 sets out the general form and disclosures required in the budget.

The key objectives of budgeting in local government are:

- to provide a fiscal management tool for the carrying out of the Council's programs in the ensuing year;
- to provide the means by which the Council is accountable to the community for the rates to be levied; and
- to provide the basis for the setting of the rates.

The annual budget is a short-term reflection of the Council's corporate plan and operational intent, and represents, financially, the actions expected to be taken by the Council in achieving its objectives.

In addition to its planning aspects, the budget can and should be used by management as a benchmark against which actual performance can be measured. This can be achieved by reporting actual results against budget to provide management and the Council with information on progress against plan usage of resources and accountability for performance.

SHIRE OF JERRAMUNGUP
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43.0 SCOPE OF OUR REVIEW

As agreed our examination covered the period July 2011 to February 2014. To this end we examined the following financial systems and procedures of Council:

- Financial Reports
- Plan for the Future – Long Term Financial Plan
- Budget
- Minutes and Meetings
- Audit Committee
- Delegations
- Registers (Including Annual and Primary Return)
- Bank Reconciliations
- Trust Fund
- Fixed Assets (Including acquisition and disposal of property)
- Receipts and Receivables
- Rates
- Fees and Charges
- Purchases, Payments and Payables (Including Purchase Orders)
- Credit Card Procedures
- Wages and Salaries
- Costs Allocations
- Administration Allocations
- Insurance
- Storage of Documents/Record Keeping
- Other Matters and General Compliance issues

We did not specifically examine compliance with provisions of the Local Government Act or Regulations. We reviewed financial management systems and procedures, some of which are governed by the Act and Regulations.

SHIRE OF JERRAMUNGUP
FINANCIAL MANAGEMENT REVIEW

54.0 SUMMARY OF REVIEW FINDINGS

The following is a summary of the results of our review:

Area of Financial Management	Summary Review Findings
Financial Reports	Annual and monthly financial reports are prepared in a timely manner from the general ledger record.
Long Term Financial Plan	Long Term Financial Plan has been adopted by Council and reviewed by the Department of Local Government. With noted improving trends of debt service ratio, own source revenue coverage, current ratio and operating surplus ratios.
Budget	The annual budget has been prepared and adopted in accordance with the Act.
Minutes and Meetings	The minutes and records of meetings are being maintained in accordance with requirements.
Audit Committee	The Audit Committee meets regularly and reviews the, Compliance Return, Audit Report and management letter as issued by the external auditors. The external auditors also perform some internal audit functions, reviewing systems and procedures as directed by senior management.
Delegations	A record and register of Delegations made is being maintained in accordance with requirements
Registers	<p>The records for the Registers of Gifts, Tenders, Financial, Financial Interests and Delegations, required to be kept are being maintained.</p> <p>We were unable to sight a Register of Complaints as required by s 5.121 of the Local Government Act, 1995. This section requires that the complaints officer for each local government is required to maintain a register of complaints which records all complaints against council members that result in action.</p>
Bank Reconciliations	Our review indicates that municipal and reserve bank reconciliations are being prepared on a monthly basis and reviewed by a responsible officer.

SHIRE OF JERRAMUNGUP
FINANCIAL MANAGEMENT REVIEW

54.0 SUMMARY OF REVIEW FINDINGS (Continued)

Area of Financial Management	Summary Review Findings
Trust Fund	<p>Our review indicates that trust bank reconciliations are being prepared on a monthly basis and reviewed by a responsible officer.</p> <p>The Trust Fund includes:</p> <ul style="list-style-type: none">- Housing Bonds for people who have vacated.- BBYC Camp Bonds over 5 years old.- Subdivision bonds over 10 years old. <p>We recommend that, these Funds be cleared as soon as possible and that if the payer of this money cannot be identified, then the amounts be forwarded to the Registrar of Unclaimed Money.</p>
Fixed Assets	<p>Fixed assets have been recorded in an asset register, which reconciles to the general ledger. Plant and Equipment, including furniture and equipment has been recorded at fair value. Land & Buildings is scheduled to be revalued to fair value during the year ended 30 June 2014, and infrastructure will be revalued during the year ended 30 June 2015.</p>
Receipts and Receivables	<p>We were pleased to note that Council has adopted a debt collection procedures policy.</p>
Rates	<p>Rates have been raised in accordance with budget and resolution of Council.</p> <p>We were pleased to note that Council has an adopted Policy which outlines rates debt collection steps and procedures.</p>
Fees and Charges	<p>The fees and charges applied by Council have been adequately disclosed in the budget, and the procedures to raise invoices are appropriate.</p>
Purchases, Payments and Payables	<p>The system to incur expenses by raising purchase orders, authorisation, and creditors processing is considered appropriate.</p>

SHIRE OF JERRAMUNGUP
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54.0 SUMMARY OF REVIEW FINDINGS (Continued)

Area of Financial Management	Summary Review Findings
Credit Card Procedures	We were pleased to note that Council has a Credit Card Procedures Policy. We recommend that the policy be improved by cardholders providing written acknowledgement of their responsibilities under the policy upon receipt of their card.
Wages and Salaries:	The system to record salaries and wages expenditure in the general ledger is appropriate. We note that general ledger account 11475 has fully allocated salaries and wages cost.
Costs Allocations:	Plant Operating Costs was slightly under allocated as at 31 March 2014. Plant depreciation costs are posted annually. The system of allocating costs is considered appropriate.
Administration Allocations:	Public Works Overheads were slightly under allocated as at 31 March 2014. The system of allocating administration costs is considered appropriate.
Insurance:	Insurance cover has been reviewed and insurance policies held in accordance with the annual renewal schedule.
Storage of Documents/Record Keeping:	Our review did not reveal any circumstances of document storage or record keeping which was not in accordance with requirements. The system of record storage is considered appropriate.

SHIRE OF JERRAMUNGUP
FINANCIAL MANAGEMENT REVIEW

54.0 SUMMARY OF REVIEW FINDINGS (Continued)

Area of Financial Management	Summary Review Findings
Other Matters and General Compliance issues:	<p data-bbox="772 472 1417 611"><u>Business Activity Statements (BAS):</u> BAS are prepared and lodged on a monthly basis and balances reconciled to the general ledger clearing accounts.</p> <p data-bbox="772 656 1417 795"><u>Fringe Benefits Tax Return</u> Council prepares and lodges the return annually as required, with vehicles comprising the main form of benefit.</p> <p data-bbox="772 840 1417 936"><u>Investment Policy:</u> Council has adopted an appropriate Investment Policy.</p> <p data-bbox="772 981 1417 1048"><u>Code of Conduct about Gifts:</u> Council has the appropriate Code in place.</p> <p data-bbox="772 1093 1417 1189"><u>Code of Conduct about Impartiality and Disclosure of Interests:</u> Council has the appropriate Code in place.</p> <p data-bbox="772 1234 1417 1518"><u>General Journal Entries</u> We noted that general journal entries are prepared and filed electronically. In order to establish industry best practice we recommend that a hard copy journal of general ledger entries be maintained and that journal sheets include the signature of originating responsible person, and another and another as evidence of review.</p> <p data-bbox="772 1563 1417 1693"><u>Compliance Annual Return</u> Council as recommended by the Audit Committee adopted the annual return and it was lodged as required.</p>