

PAXON

SHIRE OF SERPENTINE JARRAHDAL

Regulation 5 Internal Audit Review

Final | 12 February 2024

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1. INTRODUCTION

1.1 Background & Objective

Paxon were engaged by the Shire of Serpentine Jarrahdale (Shire) to perform the Financial Management Review on the CEO's behalf. Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 states:

"The CEO is to –

undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews."

1.2 Risk and Scope

The Regulation 5 Review focussed on the risk that the Shire's systems and procedures relating to financial management are not appropriate and effective. The following specific areas were reviewed:

Proper collection of all money owing to the local government

- Receipts
- Rate revenue raising
- Fees and charges establishment and imposition
- Debt collection

Safe custody and security of all money collected or held by the local government

- Bank reconciliations
- Petty cash
- Money collected from external sites
- Investments

Maintenance and security of the financial records of the local government (whether maintained in written form or by electronic or other means or process)

- Information technology, specifically user access
- Record keeping, specifically storage of financial records

Ensure proper accounting for all income, expenditure, assets, liabilities of the municipal or trust funds

- Relevant accounting policies and procedures
- Receivables
- Payables
- Trust fund
- Fixed assets including acquisition, disposal and depreciation
- Delegations

Ensure proper authorisation for the incurring of liabilities and the making of payments

- Purchasing policy
- Purchasing orders
- Payments
- Corporate credit cards

Maintenance of payroll, stock control and costing records

- Payroll review and approval of payment, including exception reporting
- Fortnightly payment processes
- Stock reconciliations
- Adjusting journals

Preparation of budgets, budget reviews, accounts and reports required by the Act or these regulations

- Annual budget
- Budget review

- Monthly financial reporting
- Annual financial report
- Long term financial plan

This included review of processes and key controls within these areas.

The period of review covered the period from 1 January 2024 to 31 October 2024, with information received from the Shire between November 2024 and January 2025.

2. EXECUTIVE SUMMARY

Based upon the work performed by Paxon during this review, the Shire appears to have well designed and operational processes and controls in place across financial management.

Two low-rated findings have been identified relating to the system-based financial delegations not reviewed and ensuring that policies and procedures are up to date to guide financial processes. While the recommendations proposed would improve the controls framework within the Shire these findings do not significantly impact the internal control environment for financial processes.

Paxon have identified the following areas of strength during the review:

- All previous audit findings raised in the Regulation 5 review performed in 2021 and reported to the Audit, Risk & Governance Committee have been effectively resolved. We performed sample testing for these areas related to purchasing processes and evidence review of payroll reports in our current review and did not identify any exceptions
- The Shire has a task calendar in place that is used to set responsible for the Finance team and these are used effectively to manage timeframes and deadlines for financial processes
- Financial risk assessments are performed
- Policy and internal guidance documents are in place, including operating procedures. The Shire performed a review in 2024 of all Council policies to check for changes and updates required. The actions to update these documents were prioritised based on a risk rating assigned to each document.
- Processes are in place for the collection of debt, referral to debt collection where required and writing off bad debt
- Appropriate processes are in place for the handling and banking of money received by the Shire
- Segregation of duties were in place, systems access and independent oversight of processes are in place and appear appropriate
- Processes are in place to appropriately manage investments in line with requirements
- Procurement processes and controls are increasingly system based and largely operational
- Payroll processes are appropriately designed and operating effectively including timesheets and preparing and approving pay runs. There are processes to identify changes to employee data through variance reports.
- Fuel stocks are appropriately controlled
- Budgeting and cost control processes are in place

Findings are summarised below and documented in detail within section 5 of this report.

Risk Area	Finding	Risk Rating
Financial Delegations/ Authorisations	Review of financial delegations	Low Risk
Policies and Procedures	Update of documents	Low Risk

We would like to thank all officers that assisted with the performance of this review.

3. METHODOLOGY

Our methodology for this review comprised of the following steps:

- Conduct an initial meeting with management to obtain an understanding of processes and potential issues
- Develop overview documentation of the processes including key controls by discussion with staff and review of the processes
- Evaluate the effectiveness of the design of controls to cover the identified risk and test the operation of the key controls
- Develop appropriate recommendations for improvement for discussion with management
- Draft a report of findings and recommendations and obtain formal responses from management
- Finalise the report and issue it to management for distribution to the Audit Committee and relevant management.

Rating	Definition
High	Major contravention of policies, procedures or laws, unacceptable internal controls, high risk for fraud, waste or abuse, major opportunity to improve effectiveness and efficiency, major risk identified. Immediate corrective action is required. A short-term fix may be needed prior to it being resolved properly.
Medium	Moderate contravention of policies, procedures or laws, poor internal controls, significant opportunity to improve effectiveness and efficiency, significant risk identified. Corrective action is required. Need to be resolved as soon as resources can be made available, but within six months.
Low	Minor contravention of policies and procedures, weak internal controls, opportunity to improve effectiveness and efficiency, moderate risk identified. Corrective action is required. Need to be resolved within twelve months.

4. INHERENT LIMITATIONS

Due to the inherent limitations in any internal control structure, it is possible errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that have been reviewed operate, has not been reviewed in its entirety and therefore no opinion is expressed as to the effectiveness of the greater internal control structure.

It should also be noted our review was not designed to detect all weaknesses in control procedures as it was not performed continuously throughout the period subject to review.

The review conclusion and any opinion expressed in this report have been formed on the above basis.

5. DETAILED AUDIT FINDINGS

5.1 Audit Finding – Review of Financial Delegations

The Shire performs periodic reviews at least annually of its delegations in accordance with the requirements under the Local Government Act 1995 (s5.46). The Shire's Register of Delegations was last reviewed in July 2024.

Paxon noted that the Shire's financial delegations are created and managed through the ICT function and controls are in place to create and change delegations within the system. The line manager is required to raise a service ticket which is then processed and approved by ICT to make the delegation change within the system.

An opportunity was noted for the Shire to include a review of the financial delegations within its finance system when performing its annual review of the Delegation Register including alignment of purchase order and invoice approval delegations.

Paxon tested the alignment of system and documented delegations and no differences were noted.

Risk Rating

Paxon has determined this finding to be of **Low Risk**.

Possible Implication

Inappropriate or incorrect delegations provided to employees.

Recommendation

Review the financial delegations within the finance system when performing the annual review of the Register of Delegations to ensure alignment.

Management Comment:

The financial delegations are established via the Business Operating Procedure – Authorisation to Issue Purchase Requisitions. A review of this was completed in February 2025. Officers agree that incorporating subsequent reviews into the annual Delegation Register review is a sensible approach to ensure the review occurs every year.

Action Owner:

Manager Corporate Performance

Target Completion Date:

June 2026

5.2 Audit Finding – Update of Documents

Our review identified that the following documents have not been recently reviewed by the Shire:

Policy Reference	Title	Last Reviewed/ Endorsed by Council
3.26	Council Policy – Corporate Purchasing Cards	December 2017
3.23	Council Policy – Investments	April 2018
3.24	Council Policy – Purchasing - Procurement of Goods and Services up to \$250,000	July 2020
3.29	Council Policy – Rates Collection and General Debtors	July 2020

The Shire performed an internal review of all Council policies in November 2024. The above policies were captured as part of that process. The first three policies were deemed as moderate risk while the last policy was deemed as minor risk. Clear actions and timelines have been identified for updating the policies identified for review and these are prioritised based on the risk rating assigned.

Risk Rating

Paxon has determined this finding to be of **Low Risk**.

Implication

Council Policies guiding internal requirements do not have continued relevance and applicability or are not up to date.

Recommendation

Review and update the Council policies identified as part of the Shire's internal review exercise. Requirements for subsequent periodic reviews should also be defined.

Management Comment:

The Shire agrees with the findings and recommendation raised. The review of these 4 policies is complete, on track for Council adoption in March 2025 as part of the Council Policy Review underway.

Action Owner:

Manager Corporate Performance

Target Completion Date:

30 March 2025

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