

An aerial photograph of a coastal town and harbor. The town is densely packed with houses and buildings, extending to the water's edge. The harbor is a large body of water with a sandy beach and a pier. The sky is clear and blue.

Financial Management Review

City of Melville

July 2019

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Disclaimer

The objective of this review as outlined in greater detail in Part 2.0 of this report as presented, is to assist the Chief Executive Officer of the City of Melville discharge responsibilities in respect to Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 (as amended).

It has been prepared by Moore Stephens (WA) Pty Ltd for this sole purpose.

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1.0 Objective, Overview of Findings and Scope

Objective

The objective of our engagement as outlined in our engagement letter dated 21 March 2019 is as follows:

To provide a report designed to enhance the confidence of the intended user (in this instance the CEO) in the performance of the control environment of the financial management system of the City of Melville (administered by City staff being the Responsible Party) for which the intended user (CEO) is ultimately responsible in accordance with the Act and Regulations.

It includes the performance of procedures designed to test the financial management systems and procedures and report to the CEO on the appropriateness and effectiveness of the control environment within, as required by Financial Management Regulation 5(2)(c).

We trust this report will assist in the ongoing review and improvement of the City's financial management systems and procedures.

Overview of Findings

A summary of our findings and detailed observations may be found in Parts 2.0 and 3.0 on the following pages.

Addressing the issues highlighted will help to ensure the controls and procedures established are not compromised in the future and the integrity of the financial management system is maintained.

Scope

As agreed our examination covered the period 1 July 2018 to 28 February 2019. To this end we examined the following financial systems and procedures of Council:

- Purchases, Payments and Payables (including Purchase Orders)
- Receipts/Receivables
- Payroll
- Rates
- Bank Reconciliations
- Trust Fund
- Fees and Charges
- Cost Allocations
- Administration Allocation
- Minutes and Meetings
- Financial Reports
- Budgets
- Plan for the Future
- Fixed Assets (including Acquisition and Disposal of Property)
- Registers (including Annual and Primary Returns)
- Delegations
- Audit Committee
- Insurance
- Storage of Documents/Record Keeping
- Credit Card Procedures
- General Compliance and Other Matters

We did not necessarily examine compliance with provisions of the Act or Regulations, which were not financial in nature. That is, Parts 2, 4, 8 and 9 of the Act, some provisions of Parts 3 and 5 as well as most regulations (apart from the Financial Management Regulations), which did not impact on the areas examined above.

2.0 Summary of Findings

2.1 Summary of Compliant Areas

The following is a brief summary of areas included in our review where nothing came to our attention to indicate appropriate and effective financial management systems and procedures had not been established and maintained.

AREAS REVIEWED	REF	PAGE	NATURE	RATING
RATES Rates correctly imposed, and rates system properly maintained.	3.4	8	S	Compliant
FEES AND CHARGES Internal control over fees and charges is operating effectively.	3.5	9	S	Compliant
PAYROLL Payroll is properly accounted and recorded.	3.7	9	S	Compliant
COST AND ADMINISTRATION ALLOCATIONS Overhead costs are being allocated appropriately.	3.10	11	S	Compliant
INVENTORY Inventory is properly accounted and recorded.	3.11	11	S	Compliant
MINUTES AND MEETINGS Minutes are kept properly.	3.12	11	S	Compliant
AUDIT COMMITTEE Audit committee satisfactory established and met with Council's auditor as required.	3.13	11	C	Compliant
FINANCIAL REPORTS The financial reports are of a statutory standard and in compliance with legislative requirements.	3.14	11	C	Compliant
BUDGET Budget procedures are in place.	3.15	11	S	Compliant
LONG TERM FINANCIAL PLAN Long Term Financial Plans are all up to date and met statutory requirements.	3.16	11	C	Compliant
REGISTERS (INCLUDING Annual and Primary Returns) Registers are kept properly.	3.17	12	C	Compliant
DELEGATIONS Annual review has been performed.	3.18	12	C	Compliant
INSURANCE Insurance is up to date and reviewed annually.	3.19	12	S	Compliant
STORAGE OF DOCUMENTS/RECORD KEEPING Records management systems are operating effectively.	3.20	12	S	Compliant
INVESTMENTS Investments are properly accounted and recorded.	3.21	12	S	Compliant
GENERAL JOURNALS Internal controls over general journal entries are maintained properly.	3.21	12	S	Compliant

2.0 Summary of Findings (continued)

2.2 Summary of Key Matters Noted for Improvement

The following is a brief summary of the key matters noted for improvement together with our rating assessment in relation to each item:

FINDINGS	REF	PAGE	NATURE	RATING
BANK RECONCILIATIONS AND PETTY CASH MANAGEMENT	3.1	7		
No documented procedures for Stale Cheques.			S	Minor
No agreement between the City and the Citizen Relief Funds board for the management of funds.			S	Minor
TRUST FUNDS	3.2	7		
Interest received on trust fund balances not fully allocated.			S	Minor
RECEIPTS AND RECEIVABLES	3.3	8		
No centralised debtors' ledger.			S	Minor
PURCHASES, PAYMENTS AND PAYABLES (Including Purchase Orders)	3.6	9		
Purchase orders are not always sent to suppliers			S	Moderate
CREDIT CARD PROCEDURES	3.8	10		
Delay in getting credit card transactions report approved.			S	Moderate
Individual credit card payments are not included in the list of payments reported to Council.			C	Moderate
FIXED ASSETS	3.9	10		
No evidence of review on the fixed assets reconciliations.			S	Moderate
IT GENERAL ENVIRONMENT	3.21	12		
No formal training on IT security and risks is regularly provided.			S	Moderate
LEISUREFIT	3.21	12		
Findings in the Leisurefit Centres financial processes review have not all been addressed.			S	Moderate

Please Note: The rating assessment as detailed above is our assessment based on the circumstances surrounding the procedures performed. They are intended to be read in the context of our rating assessment to the organisation as a whole. They are provided solely to assist you understand the nature of the matters raised and to prioritise any remedial action.

Key:

Nature:

S	Systems and Procedures
C	Compliance Matter

Rating Assessment:

Non-Compliant	Issue represents a non-compliance with the relevant requirements.
Significant	Issue represents a weakness which will/may have an adverse effect on the ability to achieve business objectives. Requires immediate management action.
Moderate	Issue represents a weakness which may become more serious if not addressed. Requires management action within a reasonable time period.
Minor	Issue represents an opportunity for improvement. Management should consider cost benefit analysis within a reasonable time period.

3.0 Areas Examined with Detailed Observations and Comments

3.1 Bank Reconciliations and Petty Cash Management

Bank Reconciliations

An examination of bank reconciliations and procedures related thereto for the period under review noted they are up to date as well as being prepared regularly and promptly for all bank accounts. Notwithstanding this, we note the following items for your consideration: -

Stale Cheques

- We noted several low dollar value stale cheques on the Municipal Bank reconciliation.

Comment: To help ensure stale cheques are appropriately dealt with, the procedure for dealing with stale cheques should be documented.

Management Comment: A procedure for the management of stale cheques will be developed and implemented. (Senior Accountant by 31 October 2019)

Citizen Relief Fund

- The City manages the bank account of the Citizen Relief Fund. We noted no formal agreement between the City and the Citizen Relief Fund for the management of this bank account.

Comment: To help ensure no disputes arise over the City's management of funds for the Citizen Relief Fund, an agreement should be signed between the City and the Citizen Relief Fund's board.

Management Comment: A simple agreement between the City and the Citizens Relief Fund's board will be developed. (Manager Financial Services by 31 October 2019)

Petty Cash Management

We also examined the petty cash system and procedures and concluded these were being properly controlled and maintained.

3.2 Trust Funds

Trust funds held by the City were examined to determine proper accountability in the City's financial management system and compliance with regulatory requirements.

Our observation and testing of a sample of receipts and refunds confirmed trust funds are adequately controlled and all statutory requirements were satisfactorily met except for the following: -

- We noted the City holds all trust funds in an interest-bearing account. The interest received is allocated using a fixed interest rate with no reconciliation to ensure all interest received has been allocated to the trust creditors.

Comment: To help ensure all interest received is properly allocated procedures should be adopted to ensure all interest received has been allocated to the relevant trust creditors accounts.

Management Comment: A policy and procedure will be created to ensure the appropriate allocation of interest to Trust Creditors. (Senior Accountant by 31 October 2019)

3.0 Areas Examined with Detailed Observations and Comments (continued)

3.3 Receipts and Receivables

The City's end of day banking procedures were examined to determine if they are adequate in ensuring cash collection is being recorded and allocated properly to the general ledger. Detailed testing of a sample of receipts was performed. This included tracing to individual receipt detail, bank deposits, general ledger and bank statements to ensure banking was correctly performed.

Controls and procedures appear to be operating effectively. Notwithstanding this, we note the following matter for your consideration: -

- The City does not have a centralised debtors ledger which can summarise all balances owed for the same debtor. We noted separate debtor's ledgers in the following areas:
 - Rates;
 - Refuse;
 - FESA;
 - Underground power (UGP);
 - Security;
 - Admin;
 - Hire charges;
 - Leisure and recreational centres;
 - Library;
 - Building services;
 - Traffic management plan;
 - Utility charges; and
 - Rental charges.

Comment: To help ensure control over the management of debtors:

- An upgrade to the debtors' system ledger should be considered whereby a summary report of all balances owed for the same debtor could be produced; and
- A credit limit should be set for each debtor.

Management Comment:

- *The City will investigate whether it is possible to produce a summary report by debtor across the various Pathway modules; (Revenue Coordinator -completed) and*
- *The management of debtors as a process is being appropriately managed. The City actively manages debts on a day by day basis. The month end process includes a review of the City's debtors and appropriate follow up action. (No action required)*

3.0 Areas Examined with Detailed Observations and Comments (continued)

3.4 Rates

The City's rating procedures were examined to determine if they were adequate in ensuring rates were being imposed or raised correctly. This also included inspection of the rate records, rate notices, instalment notices, valuation reconciliations and general ledger.

We selected and tested the City's annual rate notice, instalment rate notice and interim rate notice for the period under review. This included:

- sighting the notices;
- re-performing the calculations;
- ascertaining whether the valuations applied agree to Landgate's valuation roll/report and rates per dollar imposed are as per adopted budget;
- ensuring the rates system is properly updated; and
- checking proper posting to the general ledger.

From testing, we concluded the rates system and records are being properly maintained, rates are correctly imposed as well as accurately posted to general ledger.

3.5 Fees and Charges

Fees and Charges imposed at the time of budget adoption were found to be in accordance with legislative requirements.

Detailed testing of a sample of fees and charges invoices was performed. This included tracing to receipts, the adopted fees and charges schedule and the general ledger to ensure they were correctly charged, and their allocation/posting was correctly performed.

Overall testing was completed satisfactorily. Controls and procedures are operating effectively and are considered appropriate for the City's current scope of operations.

3.6 Purchases, Payments and Payables (Including Purchase Orders)

A sample of payment transactions was selected and tested to determine whether purchases were authorised/budgeted, and payments were supported, certified/authorised and correctly allocated. The City's purchases, payments and payables system was also examined to determine if adequate controls were in place in ensuring liabilities are properly recorded and payments are properly controlled.

In general, controls and procedures over purchases, payments and payables appear to be operating effectively and are appropriate for the City's current scope of operations except for the following item which was assessed as having opportunity for improvement:

- Purchase orders are not always sent to suppliers when goods or services are ordered.

Comment: To help ensure the purchase of goods or services is in accordance with Council's purchasing policy and are appropriately authorised, purchase orders should be sent to all suppliers. This also assists with the authorisation of payments when invoices are received.

Management Comment: The City's process for the creation of a new supplier includes a requirement for an email address so that purchase orders can be sent directly to the supplier by procurement. Approved requisitioning officers are also provided with the purchase order which they also provide to the supplier. The payment process does also require a valid purchase order to be quoted. (Procurement Coordinator by 31 October 2019)

3.0 Areas Examined with Detailed Observations and Comments (continued)

3.7 Payroll

Detailed testing of a sample of individual employees was selected from one pay run and for each employee's pay the following tests were performed to help ensure:

- the employee existed;
- the correct rate of pay was used;
- non-statutory deduction authorities are on hand;
- time sheets were properly completed and authorised;
- hours worked were properly authorised; and
- allocations were reasonable and correctly posted.

We also tested the first pay of one new employee and the last pay of one terminated employee judgmentally selected. The City's payroll system was also reviewed to determine if adequate controls were in place to help ensure wages and salaries are properly processed and payments are properly controlled.

The system described to us and its supporting controls were found to be operating effectively.

3.8 Credit Card Procedures

A review of the City's credit card procedures was performed to determine if adequate controls are in place.

Thirty-seven credit cards are currently in use. We selected a sample of credit card transactions from 1 July 2018 to 28 February 2019 across all credit cards to determine whether they are legitimate and usual in the context of the City's operations. This included:

- Sighting tax invoices;
- Ascertaining whether the transactions are for bona fide City business, and
- Determining whether transactions are in line with the credit card policy.

The system described to us and its supporting controls were found to be operating satisfactory except for the following areas:

- We noted one instance where there was a two-month delay in getting the credit card transactions report authorised by the credit cardholder.

Comment: To help ensure credit card payments are processed and approved by a senior staff member on a timely basis, credit card holders are reminded to review and sign the credit card transactions report as soon as is practicable.

Management Comment: Process review is currently being undertaken which includes processing statements on a timely manner and submitting for approval electronically in Finance One. This is to ensure no statements get lost in the approval process and reminders are generated by Finance One when actions have not been taken within the set time frame. (Senior Accountant by 31 October 2019)

3.0 Areas Examined with Detailed Observations and Comments (continued)

3.8 Credit Card Procedures (continued)

- Detailed listings of all payments made via credit cards are not presented to Council as required by Financial Management Regulation 13.

Comment: To help identify unusual credit card expenses, detailed listings of credit card transactions should be reported in the list of payments presented to Council each month.

Management Comment: Credit card transactions are reviewed by the relevant Supervisor, Director and the Director Corporate Services on a monthly basis to ensure that the purchases are bona fide and for business use. The City acknowledges section 13(1) of the Local Government (Financial Management) Regulations and the current report to Council meets the requirements. (No action required)

3.9 Fixed Assets (Including Depreciation, Acquisition and Disposal of Property)

The fixed assets system including controls over acquisition and disposal of assets, updating of the fixed assets register and reconciliation of the fixed assets register to the general ledger was examined.

A sample of asset additions and disposals were selected and testing performed to ensure:

- the tax invoices existed;
- correct posting to the general ledger; and
- fixed assets register was promptly updated.

The City's controls and procedures over fixed assets appeared reasonable except for the following:

- No evidence of review on the month end fixed assets' reconciliations between the fixed asset register and the general ledger fixed asset accounts by a senior staff member independent of preparation.

Comment: To help ensure the fixed asset reconciliations are accurate, as well as prepared regularly and promptly, the review of the reconciliations should be signed and dated by the senior staff member as evidence of review.

Management Comment: This is part of the monthly process and will be completed each month. (Senior Accountant - completed)

3.10 Cost and Administration Allocations

The City's cost and administration allocation system was examined to determine if indirect costs have been properly reallocated to various jobs/programs. This included review of the allocation basis and rates used to ensure they are appropriate and regularly reviewed.

Our review noted the system is being correctly maintained.

3.11 Inventory

The City's procedures were examined to determine if stock has been properly managed and recorded. This includes controls over receipts and issues of stock and updating the stock ledger were examined.

Our review of the controls and procedures over the stock system appeared to be reasonable.

3.0 Areas Examined with Detailed Observations and Comments (continued)

3.12 Minutes and Meetings

Council and Committee meeting minutes were reviewed to ensure compliance with procedures and protocols.

The procedures and protocols surrounding meetings and the quality of minutes were found to be of a satisfactory standard and in accordance with legislative requirements.

3.13 Audit Committee

The City's establishment of its audit committee and the constituted membership was examined by us and considered satisfactory.

3.14 Financial Reports

The following reports were reviewed for compliance with legislative requirements:

- Annual Report;
- Annual Financial Report; and
- Monthly Financial Reports.

All were found to be of satisfactory standard and in compliance with legislative requirements.

3.15 Budget

The 2018/19 budget and budget review process were reviewed to ensure procedures are in place. Our review noted that the procedures appeared to be reasonable.

3.16 Long-term Financial Plan

The Strategic Community Plan and Corporate Business Plan together comprise the Plan for the Future. From examination, they appeared to meet all statutory requirements.

3.17 Registers (Including Annual & Primary Returns)

Financial Interest Register

The register was examined to ensure compliance with regulatory requirements.

Our review noted the register was deemed to be satisfactorily maintained and appropriate for the City's needs.

Tender Register

The tender register was reviewed for completeness and compliance and appeared to be satisfactorily maintained and appropriate for the City's needs.

3.18 Delegations

The delegations register was reviewed for completeness and compliance and appeared to be satisfactorily maintained and appropriate for the City's needs.

3.19 Insurance

Discussions with staff and review of policy documents revealed policies are current. Evidence also exists to suggest an annual review of insurance risks occurs.

3.0 Areas Examined with Detailed Observations and Comments (continued)

3.20 Storage of Documents / Record Keeping

A detailed and fully indexed register and filing system is in place and appears to be complete and operating effectively.

3.21 General Compliance and Other Matters

Investments

Internal control procedures and restrictions over investments are properly maintained and complied with the Local Government (Financial Management) Regulation 19C.

General Journals

The City's journal procedures were examined to determine if they were sufficiently reviewed at every staff level before processing. Internal control procedures over general journals are supported for the level of operations.

IT General Environment

Whilst reviewing the adequacy of the City's IT general environment, we noted general controls such as authorisation of access to the computer system and regular data back-up are being properly performed. Notwithstanding this, the following opportunity for improvement was noted:

- There is no formal training in relation to IT security and risks for all IT users.

Comment: To help ensure all IT Users are updated about the security and risks of the IT environment, appropriate training should be provided at least on an annual basis.

Management Comment: The City is currently working on updating its learning management systems and processes. This will recognise the need for a variety of refresher training on a regular basis. Currently, planned timeframe is mid 2020. (Manger Information Technology by June 2020)

Leisurefit Centres – Financial Processes Review

The City conducted a financial processes review for the Leisurefit Centres in January 2018. We note not all of the findings have been addressed.

Management Comment: The Finance team are working with the LeisureFit team to resolve the outstanding issues. The City is in the process of purchasing a new system called Envibe and is scheduled to go live in Mar 2020. This will assist with addressing some of the issues.

(Health Melville Coordinator by June 2020)

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