



2019 Financial Management System Review

Bunbury-Harvey Regional Council

June 2019



26 July 2019

Mr Tony Battersby
Chief Executive Officer
Bunbury-Harvey Regional Council
PO Box 111
AUSTRALIND WA 6233

Dear Tony

2019 FINANCIAL MANAGEMENT SYSTEMS REVIEW

We are pleased to present the findings and recommendations resulting from our Bunbury-Harvey Regional Council (the "BHRC") *Local Government (Financial Management) Regulation 1996*, Financial Management System Review.

This report relates only to procedures to meet the requirements of Regulation 5(1) under the *Local Government (Financial Management) Regulation 1996* being the Financial Management System Review and does not extend to any financial report of BHRC.

This report does not include recommendations or comments raised within the 2019 Interim Management letter prepared by AMD and issued by the Office of the Auditor General.

We would like to thank Martinette, Chris and Michelle 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 Melanie Blain or myself.

Yours sincerely
AMD Chartered Accountants



MARIA CAVALLO CA
Director

Table of Contents

1. Executive Summary	4
2. Collection of money.....	6
3. Custody and security of money	7
4. Maintenance and security of the financial records.....	8
5. Accounting for municipal or trust transactions.....	11
6. Authorisation for incurring liabilities and making payments	12
7. Maintenance of payroll, stock control and costing	16
8. Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations ...	20
9. Guidance on Risk Assessment	21

Inherent limitations

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to review, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. This review is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are on a sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Bunbury-Harvey Regional Council management and personnel. We have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted with the report. We are under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form unless specifically agreed with Bunbury-Harvey Regional Council. The review findings expressed in this report have been formed on the above basis.

Third party reliance

This report was prepared solely for the purpose set out in this report and for the internal use by management of Bunbury-Harvey Regional Council. This report is solely for the purpose set out in the 'Scope and Approach' of this report and for Bunbury-Harvey Regional Council's information, and is not to be used for any other purpose or distributed to any other party without AMD's prior written consent. This review report has been prepared at the request of Bunbury-Harvey Regional Council's Chief Executive Officer or its delegate in connection with our engagement to perform the Financial Management System Review as required by Regulation 5(1) of the *Local Government (Financial Management) Regulations 1996*. Other than our responsibility to Council and management of Bunbury-Harvey Regional Council, neither AMD nor any member or employee of AMD undertakes responsibility arising in any way from reliance placed by a third party, including but not limited to the Bunbury-Harvey Regional Council's external auditor, on this review report. Any reliance placed is that party's sole responsibility.

1. Executive Summary

1.1. Background and Objectives

The primary objective of our Financial Management System Review (“FMSR”) was to assess the adequacy and effectiveness of systems and controls in place within BHRC (the “Review”).

The responsibility of determining the adequacy of the procedures undertaken by us is that of the Chief Executive Officer (“CEO”). The procedures were performed solely to assist the CEO in satisfying his duty under Section 6.10 of the *Local Government Act 1995* and Regulation 5(1) of the *Local Government (Financial Management) Regulations 1996*.

Our findings included within this report are based on the site work completed by us on the 30th of May and 31st of May 2019. Findings are based on information provided and available to us during this site visit.

Findings reported by us are on an exception 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 better practice. The review was undertaken in conjunction with the interim visit for the 30 June 2019 Financial Audit. On this basis, BHRC should read this report in conjunction with the Interim Management Report to obtain a holistic view of all relevant FMSR findings.

Please note: this report does not include recommendations or comments raised within the 2019 Interim Management letter prepared by AMD and issued by the Office of Auditor General.

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 – Collection of money;
- Section 3 - Custody and security of money;
- Section 4 - Maintenance and security of the financial records;
- Section 5 - Accounting for municipal or trust transactions;
- Section 6 - Authorisation for incurring liabilities and making payments;
- Section 7 - Maintenance of payroll, stock control and costing records; and
- Section 8 - Preparation of budgets, budget reviews, accounts and reports required by the Act or the regulations.

Following the completion of our review and subject to the recommendations outlined within sections 2 to 8, we are pleased to report that in context of BHRC’s overall internal control environment, policies, procedures and processes in place are appropriate, and have been operating effectively at the time of the review.

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

	Extreme Risk	High Risk	Medium Risk	Low Risk
Number of new issues reported	0	1	4	7

For details on the review rating criteria, please refer to Section 9.

Ref	Issue	Risk Rating
2. Collection of money		
Cash Counts		
2.2.1	Minor discrepancies noted in cash counts conducted at the Stanley Road Waste Management Facility.	Low
3. Custody and security of money		
We have no findings to raise in respect to custody and security of money held by the Local Government.		
4. Maintenance and security of financial records		
Information Technology Support		
4.2.1	High reliance placed on the City of Bunbury IT department by BHRC for IT support, however potential gaps have been identified between the actual support provided compared to the support required by BHRC.	High
4.2.2	Tender Register Overarching tender register not populated for financial year 2018/2019.	Low
4.2.3	Keys Register Instances noted where staff have not signed for the keys issued by BHRC.	Low
4.2.4	Insurance Claim Procedures Currently no documented insurance claims procedure in place.	Low
5. Accounting for municipal of trust transactions		
We have no findings to raise in respect to accounting for municipal or trust transactions by the Local Government.		
6. Authorisation for incurring liabilities and making payments		
6.2.1	Procurement Practices We identified areas of improvement for BHRC's current procurement practices.	Medium
6.2.2	Fuel Usage Analysis Currently no fuel usage procedures in place. In addition, we were unable to sight evidence the fuel usage is analysed by BHRC on a periodic basis.	Medium
6.2.3	Fuel Management Monthly stocktakes and reconciliation to general ledger not conducted at the time of our review.	Medium
7. Maintenance of payroll, stock control and costing records		
7.2.1	Human Resources Processes Currently there is limited/no documented Human Resource processes in place.	Medium
7.2.2	Leave Forms We identified two instances where there was no approved leave form on file, this mainly related to Personal/Carer's Leave.	Low
7.2.3	Excessive Leave Owing Four employees identified that had excessive owing as at 29 May 2019.	Low
7.2.4	OHS Work Procedures / Corporate Guidelines A number of OHS work procedures / Corporate Guidelines are due for review.	Low
8. Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations		
We have no findings to raise in respect to preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations.		

2. Collection of money

2.1. Scope and approach

For the following locations operated by BHRC including:

- Stanley Road Waste Management Facility; and
- Banksia Road Organics Processing Facility.

We:

- Documented internal controls, procedures and reconciliations in relation to all source of income;
- Counted petty cash and float on hand ensuring materially correct;
- Reviewed fees and charges schedule and ensure adequate internal controls in place over receipting;
- Tested collection, receipting, invoicing and posting procedures over cash receipts on a sample basis; and
- Review credit control procedures in respect to sundry debtors and rate debtors.

2.2. Detailed findings and recommendations

2.2.1. Cash Counts

Finding Rating: Low

We completed a count of cash on hand and petty cash at each location we visited and noted the following variances:

Petty Cash

Location	Cash Counted (\$)	Purchase (\$)	Total (\$)	Petty Cash Float (\$)	Variance (\$)
Stanley Road	\$200.00	\$3.50	\$196.50	\$200.00	\$3.50

We understand the variance was due to the CEO not yet being reimbursed for a \$3.50 purchase made.

Till Floats

Location	Cash Counted (\$)	Sales (\$)	Total (\$)	Till Float (\$)	Variance (\$)
Stanley Road	\$202.10	\$0	\$202.10	\$200.00	\$2.10

We understand the variance was due to customers not taking their change after making payment.

Implications / Risks

Risk of misstatement or omission.

Recommendation

We recommend petty cash and till floats are reconciled on a regular basis and any variances identified be investigated and rectified in a timely manner.

Management Comment

Minor oversight with petty cash being over by \$3.50, CEO completed reimbursement forms and was waiting for staff member to be available to issue cash refund. Note - CEO did not want to issue cash to himself.

Till float over due to customers not wanting minor change from cash transaction, insignificant issue.

Responsible Officer: CEO

Completion Date: June 2019 (Corrected)

3. Custody and security of money

3.1. Scope and approach

- Site visits to cash collection points to review the controls and procedures over the collection, receipting, recording and banking of cash collected offsite; and
- Review the security of cash and banking procedures to ensure the appropriate controls and procedures are in place.

3.2. Detailed findings and recommendations

Our review indicated with exception of the findings raised by the Office of the Auditor General as part of the Financial Audit for the year ended 30 June 2019 key underlying policies and processes in relation to the custody and security of money held by the Local Government are appropriate, in line with best practice and operating effectively.

Accordingly, we have no additional recommendations to raise in respect to the custody and security of money held by the Local Government.

4. Maintenance and security of the financial records

4.1. Scope and approach

- Reviewed information technology systems to assess physical security, access security, data backups, contingency plans, compliance and systems development; and
- Reviewed registers maintained (including key register, tender register etc.) and Council minutes.

4.2. Detailed findings and recommendations

4.2.1. Information Technology Support

Finding Rating: High

Our inquiries identified that a high reliance is placed on the City of Bunbury's IT department to provide IT support to BHRC including the back-up and recovery of the Mandalay system. However, perusal of the quasi Service Level Agreement (document that lists the IT services provided by the City of Bunbury) between the City of Bunbury and BHRC noted that only "Software Licences and support" is provided by the City of Bunbury.

Implications / Risks

Risk BHRC key IT systems are not supported by the City of Bunbury's IT department i.e. backed up on a regular basis resulting in the loss of data in the event of a system failure and/or security breach.

Recommendation

We recommend further development of the Service Level Agreement between the City of Bunbury and BHRC which clearly outlines what IT support is provided by the City of Bunbury. Once an agreement has been reached between the two parties, we recommend BHRC undertake a gap analysis between the support provided by the City of Bunbury's IT department and the requirements of BHRC and develop / implement a plan of action to minimize the gaps and risk associated with these identified gaps. Or alternatively, BHRC investigate other IT support options.

Management Comment

Investigation currently being conducted to source options for out sourcing IT services but also being mindful that the BHRC is under agreement with the City of Bunbury to provide accounting services until 30/06/2020 which requires access to Authority on the City's server.

Responsible Officer: CEO

Completion Date: 30/06/2020

4.2.2. Tender Register

Finding Rating: Low

Our inquiries identified that an overarching tender register has been developed by BHRC, however at the time of our review the register had not been populated.

Implications / Risks

No holistic view of all tenders undertaken by BHRC.

Recommendation

We recommend BHRC populate the overarching tender register for all tenders.

Management Comment

Tender procedure implemented in July 2018 but was unfortunately not completed for a brief time by relief staff covering maternity leave. CEO to follow up in the future to insure relief staff are completing task.

Responsible Officer: CEO

Completion Date: July 2019

4.2.3. Keys Register

Finding Rating: Low

Observation of the BHRC key register identified keys are numbered and dates of when the keys are issued / returned are documented, however we noted not all staff have signed for their keys when issued.

Implications / Risks

Risk staff member may deny being issued with keys resulting in potential unlawful access to BHRC property in the event the staff members' employment is terminated.

Recommendation

We recommend all staff issued with a BHRC key signs the register accordingly.

Management Comment

Key register procedure implemented in July 2018 but was unfortunately not completed for a brief time by relief staff covering maternity leave. CEO to follow up in the future to insure relief staff are completing task.

Responsible Officer: CEO

Completion Date: July 2019

4.2.4. Insurance Claim Procedure

Finding Rating: Low

Our inquiries indicate BHRC does not currently have a documented insurance claim procedure in place.

Implications / Risks

Risk current practices followed by BHRC employees are not reflective of those desired by Council.

Recommendation

We recommend consideration be given to developing an insurance claim procedure, this procedure should include the following:

- What an employee is to do in the event of an incident;
- Who to contact in the event of an incident;
- The requirement to take photos etc. of the incident;
- The forms to complete in the event of an incident;
- The process followed to obtain a quote to repair etc.;
- Submission of the claim to the insurer;
- Management of the claims process; and
- Any other insurance claim processes BHRC management wish to include.

Management Comment

Currently being completed.

Responsible Officer: CEO

Completion Date: September 2019

5. Accounting for municipal or trust transactions

5.1. Scope and approach

- Reviewed all monthly reconciliations including bank, sundry debtors, sundry creditors, fixed assets, rates debtors and rateable value reconciliations ensuring correctly reconciled and reviewed;
- Reviewed and tested in detail most recent municipal and trust bank reconciliations prepared;
- Reviewed processes in respect to BAS, FBT Return and other statutory returns preparation;
- Reviewed use of reserve funds and determined whether changes in reserve purposes have been budgeted or public notice was provided; and
- Reviewed trust ledger balances.

5.2. Detailed findings and recommendations

Our review indicated for the year ended 30 June 2019 key underlying policies and processes in relation to the accounting for municipal transaction held by the Local Government are appropriate, in line with best practice and operating effectively.

Accordingly, we have no additional recommendations to raise in respect to accounting for municipal or trust transactions by the Local Government.

6. Authorisation for incurring liabilities and making payments

6.1. Scope and approach

- Reviewed controls and procedures over the authorisation of purchase orders and making of payments;
- Tested sample of payments to ensure compliance with stated procedures;
- Reviewed credit card processes and procedures, and testing transactions on a sample basis;
- Reviewed petty cash processes and procedures, and testing transactions on a sample basis;
- Completed sample testing of asset additions and asset disposals;
- Reviewed asset capitalisation and depreciation policy and ensure compliance with stated policies; and
- Reviewed new loans received ensuring budgeted for or public notice provided.

6.2. Detailed findings and recommendations

6.2.1. Procurement Practices

Finding Rating: Medium

Our tender sample testing identified the following:

- Declaration of Confidentiality and Interest section of the Evaluation Report not signed off by the Evaluation Panel members;
- There is no formal documented tender risk assessment and reporting process in place;
- Successful tenderer verbally informed with a formal letter sent subsequently, however BHRC was unable to locate the letter issued; and
- Post tender / quotation reviews are ad-hoc and are generally completed if there was a problem with the tender / quotation.

Implications / Risks

- Risk an actual or perceived conflict of interest exists; however this is not disclosed and managed accordingly.
- Tender risks may not be identified, assessed and appropriately managed throughout the tender.
- Risk that knowledge and experience (both positive and negative) from a tender / quotation is not used to improve the tender / quotation process.

Recommendation

We recommend BHRC further enhance the procurement process by developing and implementing the following:

- Ensuring that all Evaluation Panel members sign off the Declaration of Confidentiality and Interest section of the Evaluation Report;
- Documented tender risk assessment and reporting process for all major tenders requiring a risk assessment be conducted for those tender that are deemed high risk to BHRC (i.e. monetary value, reputational impact, culturally sensitive etc.);
- Ensuring all communication with the successful and unsuccessful tenderers is retained on file; and
- Formal post tender review process, identifying both positive and negative experiences with a view of continuous improvement of the existing tender / quotation process BHRC has in place.



Management Comment

Will complete a review on procurement procedure and implement changes where necessary. Relief staff also played a part in the undoing of existing procurement procedures.

Responsible Officer: CEO

Completion Date: December 2019

6.2.2. Fuel Usage Analysis

Finding Rating: Medium

Our inquiries indicate BHRC does not have a documented policy and/or procedure pertaining to the use of fuel.

In addition, our analysis of a sample of fuel statements identified that BHRC is currently not analysing fuel usage by asset for inappropriate use. Although we acknowledge BHRC has recently changed fuel suppliers which should allow BHRC to conduct a fuel usage analysis by asset.

Furthermore, the Corporate Guideline – Motor Vehicle is currently out of date (due for review March 2019).

Implications / Risks

- Risk current practices followed by the BHRC employees are not reflective of those desired by Council.
- Risk BHRC employees are using the asset for unapproved personal use and/or purchasing fuel using the BHRC's fuel card for their own personal assets.

Recommendation

We recommend the BHRC development and implement a fuel card policy and/or procedure which should include:

- Process for obtaining and cancelling the fuel card;
- Maintenance of the fuel card register;
- Appropriate use of the fuel card;
- The requirement to document odometer readings each time the fuel card is used;
- BHRC controls in place to ensure the fuel card is appropriately used;
- Monthly invoice review procedures; and
- Any other processes BHRC management wish to include.

In addition, we recommend BHRC analyse fuel usage by asset on at least a monthly basis. This analysis should look at potential inappropriate usage, for example the operator fuelling up over the weekend, late at night and excessive fuel purchased against the expected route the operator is travelling etc.

Furthermore, we recommend management review the Corporate Guideline – Motor Vehicle.

Management Comment

New fuel management system implemented with all transactions electronically recorded including mileage or hours and monthly fuel usage report for each asset. New system requires the use of fuel cards on a very limited use and when fuel card are used it requires operator to record mileage. Fuel cards can only be utilised to purchase fuel only and gives a detailed monthly report.

Responsible Officer: CEO

Completion Date: June 2019

6.2.3. Fuel Management

Finding Rating: Medium

At the time of our review, our inquiries indicate BHRC is not currently reconciling physical fuel stocks to the general ledger on a monthly basis.

Implications / Risks

Risk stock is misappropriated and/or misstated.

Recommendation

We recommend that on a monthly basis the physical quantity (fuel dip) is taken and reconciled to general ledger and any variances are investigated in a timely manner.

Management Comment

A monthly reading of the physical quantity (i.e. fuel dip) will be taken and reconciled to the general ledger. Any variances will be investigated in a timely manner.

Responsible Officer: CEO

Completion Date: June 2019

7. Maintenance of payroll, stock control and costing

7.1. Scope and approach

- Reviewed key registers maintained;
- Site visit to review security over stocks held and allocation / costings of stocks used (including fuel and inventory stocks);
- Detailed review of the allocation of public works overheads, plant operating costs and administration overheads completed;
- Reviewed payroll controls and procedures to ensure effective controls are in place, and complete tests on a sample basis to ensure these controls were operating effectively;
- Reviewed procedures and policies in place in respect of human resource management legislative and compliance requirements, recruitment, performance appraisal, disciplinary and termination procedures and leave entitlements;
- Reviewed listing of leave taken by employees ensuring authorised leave forms completed; and
- Reviewed annual leave balances and identify employees with more than eight weeks annual leave.

7.2. Detailed findings and recommendations

7.2.1. Human Resources Processes

Finding Rating: Medium

Our inquiries indicate BHRC does not currently have its own documented policies and/or procedures pertaining to the following HR processes:

- Staff recruitment;
- Staff performance appraisals;
- Staff training and development;
- Disciplinary procedures and terminations; and
- Managing leave entitlements.

The above lack of documented procedures is apparent from our testing which identified the following:

- A new employee checklist and tax file declaration could not be located for one new employee;
- No evidence on the employee's personnel file nor was a letter sent to the employee informing them that they had passed probation; and
- No staff performance appraisals have been completed since financial year 2016/2017.

Implications / Risks

Risk current practices followed by BHRC employees are not reflective of those desired by Council.

Recommendation

We recommend that management develop and implements policies and/or procedures pertaining to the key HR processes noted above. These policies and/or procedures should include the following (non-exhaustive list):

Staff Recruitment

- Identification of new positions;
- Determining additional staff requirements;
- Setting job descriptions;
- Setting basis of remuneration;

- Advertising the position;
- How panel members are selected;
- Reviewing applicants;
- Interviewing applicants;
- Making selection;
- Offering the job; and
- Probation including period, assessment practices and communication of outcome.

Staff Performance Appraisal and Training and Development

- Avenues to provide feedback on performance;
- Periodic performance review;
- Assessing reviews and salary increases; and
- Career development plans including identification of training needs and approval of training.

Disciplinary Procedures / Termination

- Disciplinary / poor performance warnings;
- Disciplinary actions;
- Use of termination checklists;
- Calculation of termination pay-outs and review of these calculations; and
- Exit interviews for terminated employees.

Managing Leave Entitlements

- Rostering leave;
- Monitoring the roster;
- Use of leave forms;
- Identifying employees with excess leave entitlements; and
- Reducing excess leave entitlements.

In addition, we recommend that all relevant documentation such as new employee checklist, tax file declaration and assessment of the employee's probation (including the issuance of a letter to the employee communicating the outcome) be retained as evidence and appropriately stored on the employees personnel file.

Furthermore, BHRC management should ensure that all staff performance appraisals are finalised in a timely fashion (for example: by 30 September each year).

Management Comment

Recommendations are a complete over kill for an organisation the size of BHRC, will review the current procedures and make changes where required.

Responsible Officer: CEO

Completion Date: September 2019

7.2.2. Leave Forms

Finding Rating: Low

We were unable to agree two employees (two employees tested) leave taken to approved leave forms. The table below summarises the leave taken that did not have an approved leave form on file:

Employee number	Type of leave	Period of leave
9046	Personal/Carer's Leave	2 July 2018
9036	Personal/Carer's Leave	4 September 2018

Implication / Risk

Lack of evidence that employees have requested leave, and that leave taken has been authorised appropriately.

Recommendation

We recommend leave forms completed by employees be signed off by an appropriate level of management as evidence of approval, and retained as evidence of leave taken.

Management Comment

Noted.

Responsible Officer: CEO

Completion Date: July 2019

7.2.3. Excessive Leave Owing

Finding Rating: Low

Our review of leave balances as at 29 May 2019 identified four employees with excessive leave owing (greater than 8 weeks).

Implication / Risk

The cost to BHRC is greater if annual leave is not paid out on a regular basis due to:

- The cumulative effect of salary increases over a period of time;
- Recreational leave enhances employee performance; and
- It is a fundamental principle of good internal control that all employees take regular leave.

Recommendation

We recommend employees take regular leave through ongoing management of leave scheduling and leave liabilities.

Management Comment

BHRC is an essential service provider and due to staff numbers can only allow one staff member to go on extended leave at any one time, currently working on the leave balance to alleviate any excessive amounts.

Responsible Officer: CEO

Completion Date: Ongoing

7.2.4. OHS Work Procedures / Corporate Guidelines

Finding Rating: Low

Our review of internal Occupational Health and Safety framework identified the following work procedures and guidelines are outdated and may require review:

Procedure	Last review date	Due for review
Drug and Alcohol	20 April 2016	20 April 2018
Injury Management and Return to Work	25 February 2016	February 2019
Safety Management System	13 January 2017	13 January 2019
QMS001 Emergency Management	December 2015	December 2017
QMS002 Induction	5 May 2016	May 2018
QMS004 Hazard Risk Management	June 2016	June 2018
QMS005 Incident Investigation	January 2016	January 2018
QMS006 Harassment, Discrimination and Equal Opportunity	February 2016	February 2018
QMS007 Complaints Management	March 2016	March 2018
QMS008 Consultation and Communication	May 2016	May 2018
QMS009 Hazardous Manual Task	July 2016	14 July 2018
QMS010 Near Miss Reporting	July 2016	20 July 2018
QMS011 Non-conformance Reporting	September 2016	5 September 2018
QMS013 Hazardous Substances	20 September 2017	20 September 2018
Occupational Health and Safety Policy	25 February 2016	April 2019

Implication / Risk

Procedures may not reflect current practices or current requirements.

Recommendation

We recommend a review of all OSH procedures and guidelines be completed at least annually.

Management Comment

Noted.

Responsible Officer: CEO

Completion Date: December 2019

8. Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations

8.1. Scope and approach

- Reviewed policy and procedure manual;
- Reviewed the procedures for preparation of the monthly financial statements, annual financial statements and annual Budget, including assessment of accounting policy, notes and applicable reporting requirements and efficiency of the process;
- Reviewed monthly financial statements ensuring presented to Council within two months and information contained within monthly financial statements in accordance with Regulation 34 of Local Government (Financial Management) Regulations 1996;
- Reviewed the mid-year budget review to ensure compliance with Regulation 33A of the Local Government (Financial Management) Regulations 1996 and assessment of budgetary expenditure controls in place;
- Ensured prior year audit report and management letter have been presented to audit committee and Council; and
- Reviewed compliance with Part 6 of the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.

8.2. Detailed findings and recommendations

Our review indicated with exception of the findings raised by the Office of the Auditor General as part of the Financial Audit for the year ended 30 June 2019 key underlying policies and processes in relation to the preparation of budgets, budget reviews, accounts and reports required by the act or the regulations are appropriate, in line with best practice and operating effectively.

Accordingly, we have no recommendations to raise in respect to the preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations.

9. 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.

The risk guidelines stated within Risk Management – Guidelines Standard AS / ISO 31000-2018 and are based in the City of Bunbury's Risk Management Framework (in lieu of BHRC not having a documented one in place at the time of preparing this report).

Our guidance to risk classification in completing our review is as follows:

Measure of Likelihood of Risk

Likelihood is the chance that the event may occur given knowledge of the organisation and its environment. The following table provides broad descriptions to support the likelihood rating:

DESCRIPTOR	TIMEFRAME	HAS IT HAPPENED AT THE CITY IN THE LAST 5 YEARS?	HAS IT HAPPENED AT OTHER ORGANISATIONS IN THE LAST 5 YEARS?
Almost Certain	Expected to occur in most circumstances or occurs regularly – multiple times per year or incident is clearly imminent	Regularly	Regularly or multiple times at other organisations
Likely	Happens fairly regularly, probably occurs once every year	Several times	Once at multiple organisations
Possible	Occurs occasionally or may occur every 5 years	A few times	Multiple times at one other organisation
Unlikely	Occurs infrequently or is not likely to occur – maybe once in five to ten years	Once	Once at one other organisation
Rare	Only occur in exceptional circumstances, once every 10 years or greater	Never	Never

**Above Extracted from the City of Bunbury Risk Management Framework.*

Measure of Consequence of Risk

Consequence is the severity of the impact that would result if the event were to occur. The following table provides broad descriptions to support the consequence rating:

Descriptor	Governance/Legal	Service Delivery/ Interruption	Reputation/ Publicity	Environment	Assets	Financial	People & Safety
Insignificant	Negligible breach of regulation, legislation, policy, or process that are detected early, does not require reporting. Contract – insignificant legal issues or non-compliance, with no effect on contract performance.	Negligible impact on the effectiveness of the City's processes and/or any backlog cleared in <2 hrs.	Minor unsubstantiated publicly or damage to reputation to a small audience, complaint from individual/small group – gossip, limited social media exposure.	Negligible impacts affecting one site; disturbance to individual native plants. Potential breach of state environmental law – negotiated/no management of issue.	Damage where repairs are required however facility/ infrastructure/ network/hardware is still operational.	Less than \$10,000. Project deviation <2% from budget.	Some isolated staff dissatisfaction. Minor injuries, first aid treatment may be needed. Full recovery 1 – 3 days.
Low	Minor regulatory/legislation breaches with potential minor fines which does not require reporting to regulators. Contract – communication between both parties exposing minor concern with supply of good/services, easily rectified.	Brief disruption of important service area, noticeable effect to non-crucial service area and/or backlog cleared in 3 hrs - 1-day.	Minor damage to reputation to small audience, complaint from large group of people – mainstream media, social media seen by local community.	Localised impacts; resolvable; small scale clearing of bushland; small scale discharge or pollutants to waterways (10s to 100s of L). Breach of state environmental law – no litigation, warning issued by state, negotiated management of issue.	Minor loss/damage, repairs required <2% of assets value.	\$10,000-\$50,000. Project deviation 2%-5% from budget.	General staff morale problems and increase in turnover. Reversible injury or disability which requires medical treatment. Full recovery 1 – 3 weeks.
Medium	Regulatory/legislation breaches causing internal investigation/report to authority and prosecution and moderate fines. Contract – ongoing contractual issues which may become a substantial breach.	Major effect to an important service area for a short period, brief impact on multiple areas and/or backlog cleared within 1 day – 2 weeks.	Damage to reputation to a specific audience, may not have significant long-term or community effects – State wide mainstream media, social media item taken up by people outside City.	Localised impacts; generally resolvable; significant discharge or pollutants to waterways (1,000 of L); clearing of 10s of hectares of bushland. Breach of state environmental law – litigation.	Short to medium term loss of key assets, infrastructure and/or IT network/hardware 2%-5% of asset value.	\$50,000-\$1M. Project deviation 5-14% from budget.	Widespread staff morale problems and high turnover including key organisation roles. Serious reversible injury or disability requiring ongoing medical treatment or hospitalisation and/or lost time. Full recovery 1 – 6 months.
High	Breach of regulation or legislation resulting in external investigation or third party actions resulting in litigation. Contract – termination of contract for default by either party.	Complete loss of an important service area for a short period and/or issue resolved with 3 – 4 weeks.	Local publicity of a major and persistent nature, affecting the perception/standing within the community – Australia wide mainstream media, social media item taken up by large number of people outside City.	Widespread and/or acute impacts; may or may not be entirely resolvable; significant impact on listed threatened species; clearing of a large amount of bushland (100s of hectares).	Widespread, short to medium term loss of key assets, infrastructure and/or IT network/hardware 5%-15% of asset value.	\$1M-\$5M. Project deviation 15-20% from budget.	High turnover of experience/key staff, City not perceived as employer of choice. Single fatality and/or multiple irreversible disabilities.
Severe	Regulatory/legislation breaches causing very serious litigation, including major class action. Contract – claim for damages or loss of profit/reputation as a result of termination.	Major loss including several important areas of service and/or for a protracted period > 4 weeks.	Substantial damage to public confidence leading to sustained compromise in the achievement of objectives, public embarrassment, high widespread multiple news profile, likely to lead to the dismissal of Council/Councillors, or staff – World Wide mainstream media, widespread social media item taken by vast numbers of people outside City.	Widespread and/or acute impacts; not resolvable; highly significant impact on listed threatened species. Breach of federal environmental law – litigation with jail time for perpetrator.	Widespread, long term loss of substantial key assets, infrastructure and IT network/hardware >15 % of asset value.	Greater than \$5M. Project deviation >20% from budget.	Key positions unable to be filled. Multiple fatalities and significant irreversible disabilities.

*Above Extracted from the City of Bunbury Risk Management Framework.

Risk Analysis Matrix – Level of Risk

Finding Rating for each audit issue was based on the following table:

		CONSEQUENCE				
		Insignificant	Minor	Moderate	Significant	Severe
LIKELIHOOD	Almost Certain	Medium	High	High	Extreme	Extreme
	Likely	Low	Medium	High	High	Extreme
	Possible	Low	Medium	Medium	High	High
	Unlikely	Low	Low	Medium	Medium	High
	Rate	Low	Low	Low	Low	Medium

*Above Extracted from the City’s Risk Management Framework.

Finding / Risk Acceptance Rating

The table below sets out the definition of the finding / risk acceptance rating:

FINDING / RISK RANK	DEFINITION
Low	<ul style="list-style-type: none"> Attention required in medium term, preferably within 12 months. Isolated cases of procedural non-compliance. Small transactional errors with nil to small financial loss or exposure to the City. Isolated administrative matters.
Medium	<ul style="list-style-type: none"> Attention required in medium term, preferably within 6 months. Absence or breakdowns in controls or procedures that lead to moderate exposures to the City. Isolated breaches of legal requirements and/or regulations with no further action likely to be taken by a regulator. Moderate individual transactional errors or several smaller transactional errors. Administrative matters, which due to their frequency may indicate procedural or training problems.
High	<ul style="list-style-type: none"> Attention required in short term, preferably within 3 months. Absence or breakdowns in controls or procedures that lead to high exposures. A breach of legal requirements and/or regulations resulting in material compensation and/or financial payouts, however no further action is likely to be taken by a regulator. Large individual transactional errors or a larger number of smaller transactional errors. Administrative matters, which due to their frequency may indicate procedural or training problems. Issues arising from inadequate training.
Extreme	<ul style="list-style-type: none"> Urgent and immediate action required. Cases of actual or potential fraud. Absence or breakdowns in critical controls or procedures that lead to very significant exposures to the City (i.e. financial loss impacting capital or significant disruption to business services, loss of life, severe reputation risk). Serious breach of legal requirements and/or regulations resulting in material compensation and/or financial payouts and action likely to be undertaken by regulators. Multiple large transactional errors that could lead to serious legal impact and/or severe adverse effect on the City’s reputation. Issues arising from no or severely inadequate training.