

Financial Management Review

Town of Victoria Park

June 2020

Contents

Disclaimer	3
1.0 Executive Summary.....	4
2.0 Matters Noted	6
Appendix A – Review Procedures	11
Appendix B – Ratio Table	15

Disclaimer

The objective of this review as outlined in greater detail in Part 1.0 of this report as presented, is to assist the Chief Executive Officer of the Town of Victoria Park 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.

It is not intended to be used by any others individual or organisation.

Confidential – this document and the information contained in it are confidential and should not be used or disclosed in any way without our prior consent.

Moore Stephens (WA) Pty Ltd, an independent member of Moore Global Network Limited, and a Perth based partnership of trusts carries on business separately and independently from other Moore Global Network Limited member firms worldwide.

Services provided under this engagement are provided by Moore Stephens (WA) Pty Ltd and not by any other independent Moore Global Network Limited member firms worldwide. No other independent Moore Global Network Limited member has any liability for services provided.

1.0 Executive Summary

The objective of our review as outlined in our engagement letter dated 29 April 2020 is to provide a report, based on our understanding of the Town and associated risks, to the CEO on the appropriateness and effectiveness of the Town's financial management systems and procedures as required by Financial Management Regulation 5(2)(c).

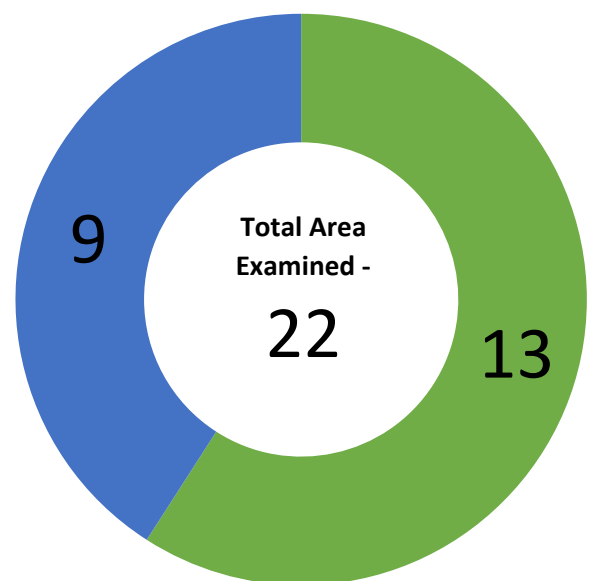
To this end, we examined the following financial systems and processes of the Town covering the period 1 July 2019 to 29 February 2020.

Areas where controls and procedures are effective and are appropriate for the Town's current scope of operations

- Receipts and Receivables
- Fees and Charges
- Cost and Administration Allocations
- Plans for the Future
- Trust Funds
- Borrowings
- Delegations
- Audit Committee
- Insurance
- Credit Card Procedures
- Storage of Documents / Record Keeping
- General Journals
- IT Controls

Areas where matters were noted for improvement

- Purchases, Payments and Payables
- Payroll
- Rates
- Bank Reconciliations
- Minutes and Meetings
- Financial Reports
- Budget
- Fixed Assets
- Registers



Our review included a high-level understanding of the key financial systems that support the financial processes undertaken by the Town and the performance of review procedures designed to evaluate the appropriateness and effectiveness of the control environment of the Town's financial management system. The procedures performed for each area in respect of the review have been included in **Appendix A**.

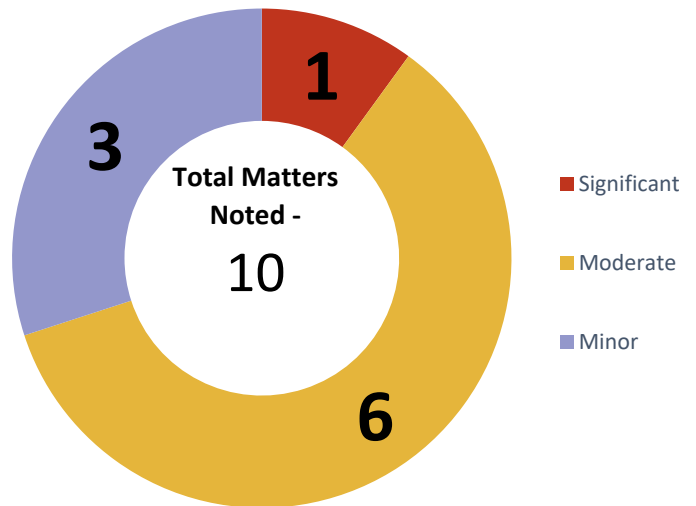
We did not necessarily examine compliance with provisions of the Act or Regulations, which were not financial in nature.

The review constitutes an advisory engagement which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standard Board and, consequently no opinions or conclusions are intended to convey assurance, either expressed or implied.

1.0 Executive Summary (continued)

Matters noted summarised by risk rating

Details of the specific areas with matters noted, together with our risk ratings, recommendations and management comments can be found in part 2 commencing on page 6.






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.



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

2.0 Matters Noted




Please Note: The rating assessment as detailed below 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 for Rating Assessment:




Significant Issue represents a weakness which 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.	

Area	Rating	Matters Identified / Recommendations
Purchases, Payments and Payables		<p>During our testing of purchases we noted one instance, out of 10 tested, where a purchase order was raised after the date on the supplier invoice.</p> <p>Recommendation: To help ensure purchases have been appropriately authorised all authorising officers should be reminded of the requirement to ensure purchase orders are raised prior to the time of authorising work/services or ordering goods. This will also help to ensure budget responsibility.</p> <p>Management Comments: The purchase order identified relates to an annual website subscription. Management will ensure purchase orders for ongoing yearly subscriptions are raised and authorised prior to the end of the renewal period.</p>
Payroll		<p>During our payroll testing we noted an instance where a department's timesheet, which is filled out by all staff members within that department, was not signed and approved by the department supervisor.</p> <p>Recommendation: To help ensure the accuracy and validity of payroll transactions, all timesheets should be independently reviewed and approved prior to processing.</p> <p>Management Comments: Payroll requires timesheets to be completed prior to payment processing date. The instances identified were mainly due to manager / supervisor being unavailable (due to leave) for authorisation. These timesheets have been reviewed by next senior officer, however not signed. Going forward, timesheets not signed will be returned to the next senior officer within the hierarchy for signatures prior to payment being processed.</p>



2.0 Matters Noted (continued)

Area	Rating	Matters Identified / Recommendations
Payroll		<p>Whilst the monthly reconciliations for payroll were performed on a regular basis as required, we noted they were not reviewed by a senior staff member independent of preparation.</p> <hr/> <p>Recommendation: To help ensure the Town's payroll is completely and correctly posted into the general ledger, the reconciliations of the corresponding ledger control accounts should be independently reviewed and documented as such.</p> <hr/> <p>Management Comments: Management notes the observations and will ensure monthly payroll reconciliations are reviewed by a senior HR officer on an ongoing basis.</p>
Rates		<p>From review of the Town's rate notices we noted the valuation of the land and balance payable in the current financial year was not recorded on the instalment reminder notice as required by Local Government (Financial Management) Regulation 57(1)(c) and (e) respectively.</p> <hr/> <p>Recommendation: To help ensure compliance with statutory provisions, this requirement should be correctly addressed in the future.</p> <hr/> <p>Management Comments: Management notes the observations and will ensure that future instalment notices include the land valuation and balance payable in the current financial.</p>
Bank Reconciliations		<p>Whilst the monthly reconciliations for the reserve bank account were performed on a regular basis as required, we noted they were not reviewed by a senior staff member independent of preparation.</p> <hr/> <p>Recommendation: Bank reconciliations are of primary control importance and are the catalyst for many transactions in other ledger accounts. To help ensure the Town's transactions are completely and correctly posted into the general ledger, the reserve bank reconciliations should be independently reviewed and documented as such.</p> <hr/> <p>Management Comments: Management notes the observation stated and confirm that although all bank reconciliations were conducted and reviewed, there were few Reserve bank reconciliations that missed the signed documentation. Management will ensure that all reconciliations are signed and filed.</p>

2.0 Matters Noted (continued)

Area	Rating	Matters Identified / Recommendations
Minutes and Meetings		<p>The Ordinary and Special Council meeting minutes, except for September 2019 and October 2019 were not signed at the meeting at which the minutes were confirmed as required by Local Government Act Section 5.22(3).</p> <p>Recommendation: To help ensure compliance with statutory provisions, this requirement should be correctly addressed in the future.</p> <p>Management Comments: Management notes the observations. Going forward, a hard copy of the minutes will be printed for the presiding member to sign at the meeting in which those minutes are confirmed.</p>
Financial Reports		<p>The monthly statement of financial activity for the month of November 2019 was not presented to the Council within 2 months of the end of the month to which the statement relates as required by Local Government (Financial Management) Regulation 34(3)(a).</p> <p>Recommendation: To help ensure compliance with statutory provisions, this requirement should be correctly addressed in the future.</p> <p>Management Comments: The financial statements for the month of November was presented to the February Ordinary Council Meeting, as the Town did not hold a meeting in January (and have not in previous financial years). Finance, in consultation with Governance will consider options on how compliance could be achieved.</p>
Budget		<p>The Annual Budget did not include an estimate of revenue and expenditure and an estimate of the assets and liabilities associated with major land transactions as required by Local Government (Financial Management) Regulation 27(k).</p> <p>Recommendation: To help ensure compliance with statutory provisions, this requirement should be correctly addressed in the future.</p> <p>Management Comments: Management notes the observations as stated and will ensure details relating to any major land transactions are included within future budgets.</p>

2.0 Matters Noted (continued)

Area	Rating	Matters Identified / Recommendations
Fixed Assets		<p>Whilst a monthly reconciliation of current year asset transactions is performed, we noted the reconciliation between the Town's fixed asset register and the general ledger was not performed on a regular basis.</p> <hr/> <p>Recommendation:</p> <p>To help ensure the Town's fixed assets are completely and correctly posted into the general ledger, a reconciliation between the asset register and the corresponding ledger control accounts should be completed on at least a quarterly basis. This reconciliation should also be independently reviewed and documented as such.</p> <hr/> <p>Management Comments:</p> <p>A reconciliation between asset register and corresponding ledger accounts are completed monthly. However, a final reconciliation of general ledger asset classes against the asset register is only completed at the end of the financial year. This is predominantly due to the asset classification of major projects requiring to be adjusted once the project is completed.</p> <p>Management will review and implement a quarterly reconciliation process as recommended.</p>
Registers		<p>From review of the Town's Financial Interest Register we noted the following in relation to individual returns (the responsibility of which rests with the individual completing them):</p> <ul style="list-style-type: none">i) eight instances where annual/primary returns contained sections which were left blank.ii) the return period (i.e. 1 July 2018 to 30 June 2019) was not specified on the returns. <p>We also noted the returns completed by ex-employees and councillors were not removed from the register as required by Local Government Act Section 5.88(3).</p> <hr/> <p>Recommendation:</p> <p>To help ensure compliance with Departmental Circular 18-2005 and to help ensure returns submitted are not at risk of being amended, all sections should be completed. We note it is acceptable to record N/A, Nil or No Change or to rule a clear line through a N/A section whilst leaving sections blank is not recommended practice. The return period should also be clearly documented on the returns.</p> <p>Returns should also be checked for completeness before receipt of the return acknowledgements are issued. Whilst this is not a requirement, it is considered best practice to at a minimum review the period covered by the return and identify any blank sections in the return.</p> <p>Procedures should be put in place to ensure that returns of ex-employees and councillors are removed from the register as soon as practicable after they cease to be person who is required to lodge a return.</p>

2.0 Matters Noted (continued)

Area	Rating	Matters Identified / Recommendations
		<p>Management Comments: Management notes the observations stated and will ensure the recommendations are implemented to ensure compliance.</p>

Appendix A – Review Procedures

The following reviews were undertaken to evaluate the appropriateness and effectiveness of financial management system controls:

System	Description of Procedures Performed
Purchases, payments and payables (including purchase orders)	<p>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 Town'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.</p> <p>Through using data analytics, customised software capable of analysing entire populations of data, we were able to compare a list of bank account details of creditors and employees for any indicators of similarities including BSB and Account Numbers. Once any consistencies were identified we enquired with the Town as to whether any of the relationships were cause for concern and required further investigation.</p>
Receipts and Receivables	<p>The Town's end of day banking procedures was examined to determine if they were adequate in ensuring cash collections are 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.</p>
Payroll	<p>Detailed testing of a sample of individual employees was selected from different pay runs and for each employee's pay the following tests were performed to help ensure:</p> <ul style="list-style-type: none">- 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. <p>We also tested the first pay of a sample of new employees and the last pay of a sample of terminated employee. The Town'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.</p> <p>Through using data analytics, we were able to compare a list of bank account details of creditors and employees for any indicators of similarities including BSB and Account Numbers. Once any consistencies were identified we enquired with the Town as to whether any of the relationships were cause for concern and required further investigation.</p>

Appendix A – Review Procedures (continued)

System	Description of Procedures Performed
Rates	<p>The Town'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 record, rate notices, instalment notices, valuation reconciliations and general ledger.</p> <p>We selected a sample of rate notices, instalment rate notices and interim rate notices for the period under review. This included:</p> <ul style="list-style-type: none"> - re-performing the calculations on the rate notices; - ascertaining whether the valuations applied agree to Landgate's valuation roll/report and rates per dollar imposed are as per adopted budget; - ensuring the rate system is properly updated; and - checking proper posting to the general ledger.
Bank Reconciliations	<p>An examination of bank reconciliations and procedures for the period under review to ensure they are up to date as well as being prepared regularly and promptly for all bank accounts.</p>
Trust Funds	<p>Trust funds held by the Town were examined through testing a sample of receipts and refunds to determine proper accountability in the Town's financial management system and compliance with regulatory requirements.</p>
Fees and Charges	<p>Fees and Charges imposed at the time of budget adoption were found to be in accordance with legislative requirements.</p> <p>Detailed testing of a sample of fees and charges 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.</p>
Cost and Administration Allocations	<p>The Town's cost and administration allocations system was examined to determine if indirect costs have been properly allocated to various jobs/programs. This included review of the allocation basis and rates used to ensure they are appropriate and regularly reviewed.</p>
Minutes and Meetings	<p>Council meeting minutes were reviewed to ensure compliance with procedures and protocols.</p>
Financial Reports	<p>A review of the Town's systems and procedures over the annual financial report and monthly financial reports was performed to determine if:</p> <ul style="list-style-type: none"> - Structured reporting processes are in place and being properly managed; - Reports are properly constructed based balanced trial balances; - Reports include all relevant and necessary details as required for proper financial/management reporting purposes; and - Monthly reports with variance analysis are presented to Council for adoption in a timely manner. <p>Review the contents of the annual financial report and ensure that it has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and Local Government Act 1995.</p>

Appendix A – Review Procedures (continued)

System	Description of Procedures Performed
Budget	<p>The Town’s budgetary system and procedures was examined to determine if:</p> <ul style="list-style-type: none"> - A structured process is in place and being managed properly; - The Budget is properly constructed and based on reasonable assumptions in line with the Town’s strategic documents; - The Budget includes all relevant and necessary details and was properly adopted; and - The Budget is subject to proper half yearly review and variances are properly dealt with. <p>Ensure that the annual budget and the budget review documents have been lodged to the Department of Local Government, Sport and Cultural Industries within the statutory timeframe.</p>
Plans for the Future	<p>A review of the Strategic Community Plan and Corporate Business Plan which comprise the Long Term Financial Plan are up to date and complied with legislative requirements.</p>
Fixed assets (including depreciation, acquisition, and disposal of property)	<p>The fixed assets system including controls over acquisition and disposal of assets, updating of the fixed assets register, depreciation of fixed assets and reconciliation of the fixed assets register to the general ledger was examined.</p> <p>A sample of asset additions and disposals was selected and testing performed to ensure:</p> <ul style="list-style-type: none"> - tax invoices existed; - correct posting to the general ledger; - fixed assets register was promptly updated; and - classification of assets was correct. <p>In addition, a sample of assets was selected and testing performed to ensure the depreciation rates used are in line with the Town’s accounting policy.</p>
Registers	<p><u>Financial Interest Register</u></p> <p>The register was examined to ensure compliance with regulatory requirements.</p> <p><u>Tender Register</u></p> <p>The Town’s tender process was reviewed to determine if adequate controls were in place to ensure the tendering of goods and services is being managed properly. This included walking through a sample of tenders selected for review from inception through to award of tender against the tender register, minutes and relevant supporting documentation.</p> <p>Through using data analytics, we were able to separate and analysis payment transactions by supplier. This enabled us to enquire as to whether a public tender process had been followed in those situations where it was required.</p>
Delegations	<p>The register was examined to ensure compliance with regulatory requirements.</p>
Audit Committee	<p>The Town’s establishment of its audit committee and the constituted membership was examined by us and considered satisfactory</p>

Appendix A – Review Procedures (continued)

System	Description of Procedures Performed
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.
Storage of Documents / Record keeping and IT Controls	The Town's record keeping / storage system and IT general control environment surrounding its information systems (such as access to the computer system, regular changes to passwords and data backup) were examined to determine if adequate controls and safeguards are in place.
Credit Card Procedures	<p>A review of the Town's credit card procedures was performed to determine if adequate controls are in place.</p> <p>We selected a sample of credit card transactions from 1 July 2019 to 29 February 2020 across all credit cards to determine whether they are legitimate and usual in the context of the Town's operations. This included:</p> <ul style="list-style-type: none"> - Sighting tax invoices; - Ascertaining whether the transactions are for bona fide Town business, and - Determining whether transactions are in line with the credit card policy.
General Journals	The Town's journal procedures were examined to determine if they were sufficiently reviewed / approved at every staff level before processing.

Appendix B – Ratio Table

Ratios provide useful information when compared to industry and internal benchmarks and assist in identifying trends. Whilst not conclusive in themselves, understanding ratios, their trends and how they interact is beneficial for the allocation of scarce resources and planning for the future. Information relating to the statutory ratios disclosed in the financial report is summarised in the table below.

	Target Ratio	The Town's Ratios			The Town's	2019 Average ²	
		2019 ³	2018	2017	3 Year Trend ¹	Regional	State
Current Ratio	≥ 1	1.44	1.30	1.40	↑	1.39	2.93
Asset Sustainability Ratio	≥ 1.1	0.62	0.72	0.61	↓	0.83	0.89
Debt Service Cover Ratio	≥ 5	6.07	4.85	5.34	↑	97.69	33.23
Operating Surplus Ratio	≥ 0.15	0.11	0.10	0.09	↑	0.01	(0.21)
Own Source Revenue Coverage Ratio	≥ 0.9	1.07	1.01	1.00	↑	0.95	0.66
Asset Consumption Ratio	≥ 0.75	0.73	0.75	0.76	↓	0.74	0.76
Asset Renewal Funding Ratio	≥ 1.05	1.01	0.99	1.04	↔	1.10	1.06

¹ The 3-year trend compares the 2019 ratio to the average of the ratios for the last 3 years.

² The average in relation to the Regional and State comparisons is an average of 2019.

³ Red = below the DOLGSC basic target ratio, Orange = above the DOLGSC basic target but below the advanced target and Green = above the DOLGSC advanced target ratio.

Summary

Whilst the majority of the ratios are above the accepted industry benchmark, two of the ratios appear to be trending downwards over the longer term and this should be considered moving forward.

We would like to take this opportunity to stress one off assessments of ratios at a point in time can only provide a snapshot of the financial position and operating situation of the Town. As is the case with all ratios and indicators, their interpretation is much improved if they are calculated as an average over time with the relevant trends being considered.

We suggest it would be prudent for Council and management to continue to monitor the financial position and ratios in future financial years as they strive to manage the scarce resources of the Town.

If the Town requires, we have a report available which can compare your ratios against other Local Governments across the State and by Region. The report is also able to incorporate a selection of your peer Local Governments, whether they be of near neighbours or similar in size. This may be of relevance in your case as you are included in the Metropolitan region when comparison to other, more similar local governments, may be more appropriate.

If you are interested in such an expanded report, please contact us.

MOORE STEPHENS

Level 15, 2 The Esplanade,
Perth WA 6000

T +61 (0)8 9225 5355

F +61 (0)8 9225 6181

perth@moorestephens.com.au