

12.1 REGULATION 5 REVIEW, REPORT AND RECOMMENDATIONS

Attachments: 1. Regulation 5 Audit Report - Confidential

RECOMMENDATION:

That Council:

1. **RECEIVES** the review pursuant to Regulation 5 of the *Local Government (Financial Management) Regulations 1996* prepared by Paxon, as at Attachment 1;
2. **NOTES** the key findings of the review, as detailed in this report; and
3. **NOTES** that the findings and management actions arising from the review will be added to the City's Audit Log.

PURPOSE OF REPORT:

To receive the review of the City's appropriateness and effectiveness of systems and procedures in relation to financial management.

DELEGATION:

Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* (Reg 5) requires the CEO to review the appropriateness and effectiveness of a local government's systems and procedures in relation to financial management, not less than once in every three financial years and report to Council the results of that review.

BACKGROUND:

In accordance with Regulation 5 the last independent reviews were conducted by Stanton's International in December 2020. All findings from this review have been completed. In accordance with the Regulations the Reg 5 is required to be presented to Council by 30 June 2024.

The City appointed Paxon Business and Financial Services Pty Ltd (Paxon) to undertake the Internal Audit Program 2022/23 – 2024/25 (IAP) in August 2022.

At its 4 May 2023 meeting the Audit and Risk Committee approved amendments to the IAP to incorporate the Reg 5 review requirements.

The objective of the Reg 5 review included the processes and key controls within the following areas:

- Proper collection of all money owing to the local government.
- Safe custody and security of all money collected or held by the local government.
- Maintenance and security of the financial records of the local government (whether maintained in written form of by electronic or other means or process)
- Ensure proper accounting for all income, expenditure, assets, liabilities of the municipal or trust funds.
- Ensure proper authorisation for the incurring of liabilities and the making of payments.
- Maintenance of payroll, stock control and costing records.
- Preparation of budgets, budget reviews, accounts and reports required by the Act or these regulations.

Areas of procurement and payroll were excluded from the scope of this audit as they were reviewed in the IAP year one audits and reported to Council through the Audit & Risk Committee as follows:

Audit 4 – Procurement and Contract Management

Tabled at the 29 June 2023 Audit and Risk Committee meeting. Based upon the work performed during this review the following areas were noted as having appropriate practice in place:

- Policy and Framework documents are in place and content is and aligned with legislation and regulation.
- Procurement team monitoring expenditure by supplier is performed to identify where contracts are required.
- Contract register is in place, appropriately designed and based upon sample testing appears to be complete.
- The Tender register is included on the website and the content is aligned with regulation.

Six findings were identified and incorporated within the Audit Log approved by Council at its 19 September 2023 meeting.

Audit 5 – Human Resources and Payroll Internal Audit Review.

Tabled at the 18 October 2023 Audit and Risk Committee meeting. Based on the work performed as part of this review it was noted that processes and controls are generally designed and operating effectively.

Two findings were identified and incorporated within the Audit Log approved by Council at its 21 November 2023 meeting.

Related findings are being tracked though the Audit Log process.

DETAILS:

The findings of this audit are contained within the audit reports at **Confidential Attachment 1**.

Administration has prepared management responses to each of the findings. These responses have been reviewed and accepted by Paxon and included within the detailed audit findings of each report.

As part of the internal audit process, the auditor undertook a risk assessment of the findings related to the City's processes. To determine the level of risk, the auditor assessed risk based on the City's adopted Risk Management Policy:

Consequence		Low	Minor	Moderate	Major	Catastrophic
Likelihood		1	2	3	4	5
Almost Certain	5	Medium	Medium	High	Extreme	Extreme
Likely	4	Low	Medium	High	Extreme	Extreme
Possible	3	Low	Medium	Medium	High	High
Unlikely	2	Low	Low	Medium	Medium	High
Rare	1	Low	Low	Low	Low	Medium

Risk Classification	Action	Risk management process	Responsibility
LOW	Acceptable	Risk acceptable with adequate controls, managed by routine procedures and subject to ongoing monitoring	Manager
MEDIUM	Monitor	Risk acceptable with adequate controls, managed by specific procedures and subject to ongoing monitoring	Executive Director
HIGH	Urgent Attention Required	Risk acceptable with fully effective controls. Risk treatment requires approval by Audit Committee and Council.	CEO + Council
EXTREME	Unacceptable	Risks will typically be unacceptable. They require fully effective controls, and additional risk treatments required subject to CEO, Audit Committee and Council approvals	CEO + Council

Of the two findings, the Auditor evaluated the following level of risk:

Audit Finding	Risk Rating
5.1 - Cash Receipts	Medium
5.2 - Credit Card	Low

As summarised in the report at **Confidential Attachment 1**, good practice was noted in relation to:

- The performance and review of reconciliations on a timely basis;
- Appropriate segregation of duties in place for processes including purchasing and payables;
- Tasks are clearly assigned and scheduled;
- Stock counts are performed;
- Investments are placed after due consideration for anticipated cash flow and risk of returns;
- Raising and posting of adjusting journals; and
- Budget processes

On Thursday 23 May 2024 the Audit & Risk Committee met with the internal auditor to walk through the remaining findings of the Reg 5 review. Audit findings and associated actions will now be added to the City's audit log and actioned accordingly.

CONSULTATION/ADVERTISING:

Nil.

LEGAL/POLICY:

Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* provides that the CEO is to:

- ensure that the resources of the local government are effectively and efficiently managed; and*
- assist the council to undertake reviews of fees and charges regularly (and not less than once in every financial year); and*
- undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews.*

RISK MANAGEMENT IMPLICATIONS

Low: It is low risk for Council to receive the Regulation 5 review reports and endorse the management comments.

Undertaking regular audits of the City's internal controls is good practice to ensure efficient systems and procedures are established.

Independent audits ensure that there is transparency and integrity in the audit process.

The Regulations require a review of the appropriateness and effectiveness of the financial management systems every three financial years which reduces the risk of there being inappropriate controls and vulnerabilities in the City's systems and processes.

STRATEGIC IMPLICATIONS:

This is in keeping with the City's *Strategic Community Plan 2022-2032*:

Innovative and Accountable

Our decision-making process is consistent and transparent, and decisions are aligned to our strategic direction.

FINANCIAL/BUDGET IMPLICATIONS:

The cost of undertaking this audit is included within the City's operating budget for the internal audit program.