

17 April 2019

Mr M Humfrey  
Chief Executive Officer  
Town of Cottesloe  
PO Box 606  
COTTESLOE WA 6911

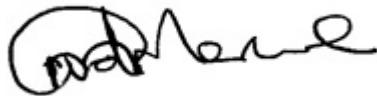
Dear Mat

**TOWN OF COTTESLOE  
AGREED-UPON PROCEDURES ENGAGEMENT  
FINANCIAL MANAGEMENT SYSTEM REVIEW**

Please find enclosed documents that relate to the agreed-upon procedures engagement of the above mentioned Town.

Should you require any other information, please do not hesitate to contact me.

Yours sincerely  
BUTLER SETTINERI (AUDIT) PTY LTD



MARIUS VAN DER MERWE CA  
Director

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**TOWN OF COTTESLOE**

**AGREED-UPON PROCEDURES ENGAGEMENT**

**31 DECEMBER 2018**

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This report is provided in accordance with the Agreed upon procedures engagement letter dated 30 January 2019 and is subject to its terms and conditions.

Our work was limited to that described in this report and was performed in accordance with ASRS 4400 as issued by AUASB. It did not constitute an examination or a review in accordance with generally accepted auditing standards or assurance standards. Accordingly, we provide no opinion or other form of assurance with respect to our work or the information upon which our work was based. We did not audit or otherwise verify the information supplied to us in connection with this review, except to the extent specified in this report.

Our work was based only on the information made available up to the date of the review. Accordingly, changes in circumstances after this date or the availability of other information could affect our findings

This report is intended solely for Town of Cottesloe's internal use and benefit and may not be relied on by any other party. We accept no liability or responsibility to any other party who gains access to this report.

## **1. Executive Summary**

### **1.1 Background**

As outlined in our engagement letter dated 30 January 2019, you engaged us to perform a review of the policies, procedures and practises (“framework”) relating to particular areas of the Town of Cottesloe.

Town of Cottesloe is a local government based in Western Australia. It is governed by seven (7) Councillors and a Town Mayor. Council is responsible for planning and making decisions on policies and developments affecting the area.

At the time of the review, the Town employed approximately forty two (42) staff to implement the Council’s decisions, run its day-to-day operations and provide a range of programs and services for the community.

As required by Regulation 5(2) of the Local Government (Financial Management) Regulations 1996, the Chief Executive Officer (“CEO”) is to review the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly. The CEO is also required to report to the audit committee the results of this review.

During the beginning of the month of December 2018, the CEO outsourced the above review and engaged Butler Settineri (Audit) Pty Ltd to conduct a review of the local government’s system covering key financial management areas in the framework.

### **1.2 Review objectives and scope**

The objective of this review is to compare the internal control policies and procedures adopted by the Town of Cottesloe with the minimum requirements of the Local Government Act 1995 and its associated regulations and to determine the extent to which the stated policies and procedures as adopted by Town of Cottesloe have been implemented by the CEO.

The scope included review of the policies and procedures and the areas and cycles described in Appendix B to this report.

### **1.3 Approach**

The review process was carried out as follows:

We obtained a list of all the policies and procedures as documented by the Town from the Finance Manager, Wayne Richards.

We compared this listing and the relevant areas covered by these policies to the Local Government Act and Regulations, in particular the Local Government (Financial Management) Regulations, as amended from time to time.

We noted areas of concern, in particular where we identified a lack of documented policies and procedures, or where documented policies and procedures deviated from the requirements of the Regulations.

We further performed walkthroughs of all significant transaction cycles. Our decision to perform a walkthrough was based on the significance of a particular cycle in terms of either the dollar value it represented in the annual financial statements (reference year 2017/18) or the strategic importance as noted in the Regulations or discussions from management.

From these walkthroughs we noted areas of concern for discussion with management. Areas of concern include any significant deviation from the documented framework, or where the current framework did not address key risk areas.

From the work performed above, we prepared a draft report to identify specific key risk areas and potential improvement recommendations.

After consulting with management and obtaining their comments on our recommendations, we now issue our final report to the audit committee.

#### **1.4 Key findings**

From the work performed during our review, we note that the financial management framework is generally in good order.

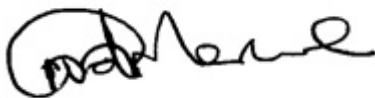
In particular, we found that all major controls in relation to financial controls for the receipting of monies, safeguarding of assets and control over expenditure are in place and functional.

Therefore, all our findings are categorised as medium or low, which indicate a generally good system of internal control and we wish to congratulate Garry, Wayne and the team on maintaining a high level of control with regards to the financial systems of the Town.

We do have several recommendations to make however, and the detailed findings identified during our review can be found in Appendix A of this report. These recommendations have been discussed with management and action plans to address these risks within acceptable timeframes were agreed on.

We would like to take this opportunity to thank all staff involved in this review for their courteous assistance, in particular Garry, Wayne and the accounting team.

BUTLER SETTINERI (AUDIT) PTY LTD



MARIUS VAN DER MERWE CA  
Director

**APPENDIX A: REVIEW OF IMPLEMENTATION OF TOWN OF COTTESLOE POLICIES AND PROCEDURES**

Number	Accounting Cycle	Audit Findings/Comment	Rating	Recommendation	Management comment
1.	Cash & Banking	<p>We noted that the Administration Officer is responsible for receipting and the preparation of the Daily Receipt Listing at the end of each day.</p> <p>We further note that the till at reception is counted by the Front Officer in-charge for the day without a second employee being present.</p>	Medium	We recommend that the daily cash count be performed in the presence of a second employee.	<p>Our staff performs three checks of the float each working day, one at the start of the day, another mid afternoon and the final count at the end of each working day. We don't disagree with the recommendation however current staffing levels do not allow having a second person at each cash count. And also this would not prevent a staff member from taking cash over the counter and not receipting it at all. Please note that this area is monitored by CCTV.</p>

2.	Cash & banking	<p>We noted that the Senior Records Officer is responsible for receiving the Town's mail, including mailed cheques and cash. Mail is opened with the assistance of one of the Administration Officers and both officers sign next to each mail item received.</p> <p>We understand that the Senior Records Officer records all cash and cheques received via the mail in the Mail Register and Cheque Register. All cash and cheques received are handed to the Administration Officer who processes a receipt via Civica Authority which is reflected on the Daily Receipt Listing.</p> <p>Additionally it is noted that no reconciliation is performed comparing the cash and cheques received as recorded in the Mail and Cheque Registers with the Daily Receipt Listing.</p>	Low	<p>We recommend that a daily reconciliation of cash and cheques received as recorded in the Mail and Cheque Registers is performed with the Daily Receipt Listing.</p> <p>We further recommend that the receipt numbers generated from the Civica Authority system for both cash and cheques received be recorded in the Mail and Cheque Registers as a cross check to ensure all cash and cheques received are receipted.</p>	<p>We have been doing this on the very rare occasions that it happens and we actively discourage cash in the mail as a method of payment. I am not aware of the example where this procedure was not followed?</p>
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3.	Cash & banking	<p>We noted that the Assistant Finance Manager is responsible for receipting direct transfers to the Town's account.</p> <p>However, we noted that the Assistant Finance Manager is also responsible for the daily bank reconciliations and as a result, there is limited segregation of duties in place. This is particularly important, given that the bank reconciliation is only reviewed on a monthly basis.</p>	Low - Medium	<p>We recommend that the receipting of direct transfers to the Town's account be processed by the Front Officer and the Daily Receipt Listing continue to be reviewed by the Assistant Finance Manager each day as part of the review of the daily banking procedure.</p>	<p>Agreed and accepted, direct transfers will in future be processed by front counter administration staff and reviewed as a part of the bank reconciliation.</p>
4.	Cash & banking	<p>The Town's daily bank reconciliations are performed by the Assistant Finance Manager.</p> <p>We noted a number of long outstanding cheques dating back to March 2017 which were recorded as outstanding cheque adjustments to the bank reconciliation.</p>	Low	<p>We recommend ensuring all the cheques over six months old are cancelled and reversed in the accounting records with a new cheque being issued should the debt still be valid. In this way all long outstanding cheques are removed from the bank reconciliation.</p>	<p>We accept and agree with this recommendation.</p>
5.	Rates	<p>The Town currently outsources its rates function to an external consultant, Zipform.</p> <p>We were advised that the Assistant Finance Manager had reviewed a sample of the rates notices prior to sending the rates notices to the ratepayers. However, we could not verify the review process as it was not indicated by a signature.</p>	Low	<p>We recommend that the review process undertaken by the Assistant Finance Manager is evidenced by the reviewer's signature.</p>	<p>We accept and agree with this recommendation.</p>



6.	Rates	<p>We understand that the Assistant Finance Manager is solely responsible for importing the interim land valuations from Landgate into Civica Authority.</p> <p>We are also advised that there is a review process in place prior to sending out the interim rates notices to the ratepayers. However, we could not verify the review process as it was not indicated by way of signature on any of the rate notices or reports used.</p>	Medium	<p>We recommend that the review process be evidenced by way of the reviewer's signature on the relevant documents.</p>	<p>We accept and agree with this recommendation.</p>
7.	Rates	<p>We noted that the Rates Policy states that a list of outstanding ratepayers are sent for debt collection 21 days after final notices are sent to the ratepayers.</p> <p>However, we noted that this list was only sent in January 2019, while the final notices were sent in October 2018.</p> <p>Furthermore, we noted that the list of outstanding ratepayers was not signed as evidence of being reviewed and authorised by the Finance Manager prior to being forwarded for debt collection.</p>	Low	<p>We recommend that the rates recovery process is reviewed to ensure compliance with the Town's Rates Policy.</p> <p>We also recommend that the list of outstanding ratepayers is reviewed and authorised by the Finance Manager prior to being forwarded for debt collection.</p>	<p>Whilst the policy mentions 21 days after final notices, this can sometimes fall close to the Christmas period and a management decision was made to hold them until the new year. The team will endeavour to start the process earlier so that this process falls well before Christmas. We also accept that the Finance Manager should review and authorise this list before it is sent to debt recovery.</p>

8.	Rates	<p>We understand that the End of Year Summary of Tasks is performed by the Assistant Finance Manager and Finance Manager with the assistance of an external consultant.</p> <p>However, we noted that there is a risk of breach of confidentiality in that residents' personal details are made available to the external consultant through the rates system.</p>	Medium	<p>We recommend that the End of Year Summary of Tasks be performed entirely by the Town's own staff without the assistance of the external consultant to minimise the risk of breach of confidentiality.</p> <p>Alternatively the Town should conclude a signed confidentiality agreement with the external consultant to mitigate the risk.</p>	<p>The end of year tasks are complex in nature and can have far reaching consequences if not performed appropriately. We take a team approach to these tasks which include both internal staff and an external consultant. It is not practical for this consultant not to have access to the system however we accept that a signed confidentiality agreement should be in place to mitigate the risk.</p>
9.	Grants	<p>We noted that there does not appear to be a Grant Register maintained by the Town.</p>	Low	<p>Although no significant amounts are involved in this area, we recommend that a Grant Register is maintained to record the grants applied for, compliance requirements for each grant, amount received and any amounts outstanding. This minimises the potential for errors in the application, management and accounting for grant revenue and expenditure.</p>	<p>We accept and agree with this recommendation.</p>

10.	Fees and charges – Building & Development Applications	<p>In respect of Private Works Orders relating to Building and Development Applications, we understand that residents complete an Application Form which is submitted to the Secretary of the Planning Department.</p> <p>Residents may choose to pay upfront via cash, cheque or credit card or choose to pay on completion of the works.</p> <p>As fees &amp; charges revenue is only recorded on a receipts basis and no invoices are issued, the income in respect of those instances when residents elect to pay on completion of the works may not be recorded in the period to which the revenue relates.</p>	Medium	<p>We recommend recognising revenue on approval of final works completion reports by issuing invoices via Civica Authority instead of recognising revenue on the receipt of payment in order to ensure the complete and timely recording of Fees &amp; Charges revenue.</p> <p>Further, we recommend that this process be included in the Town policy manual.</p>	<p>Unfortunately BA's and DA's and the fees and bonds payable are not able to be raised via an invoice as payment is required in advance and also trust amounts cannot be raised by invoice.</p>
11.	Fees and charges – Building & Development Applications	<p>We understand that the Statutory Planning Coordinator obtains the completed Building or Development Application Forms submitted by the residents with their credit card details for payment.</p> <p>As the resident supplied their credit card details in the Application Form, the Town's officers have access to these details and there is a risk that these officers use the credit card details fraudulently.</p>	Medium	<p>We recommend that credit card details are not provided by residents as a means of payment but an invoice is issued instead via Civica Authority. The invoice serves as a requirement to settle the final balance of fees and an ageing of customer invoices be reviewed to action the follow up and recovery of fees.</p>	<p>We are endeavouring to put in place processes and procedures to minimise the occasions whereby credit card details are taken manually by officers. However we feel that the risk of an officer using these details to commit a fraud is low.</p>

12.	Fees and charges – Building & Development Applications	<p>We understand that the Application Forms with regards to Building and/or Development Applications, are submitted directly to the Secretary of the Planning Department.</p> <p>The Application Form is checked by the Planning Department Secretary and the Building and/or Development Applications Registers are updated.</p> <p>These Registers are not followed up for any completed works in order to action the recovery of applicable fees.</p>	Medium	<p>We recommend that the Building and/or Development Applications Registers are followed up for any completed works in order to action the recovery of applicable fees.</p> <p>We further recommend that this be performed by issuing invoices via Civica Authority to the applicable residents.</p>	<p>Agree that fees and charges for BA's and DA's are followed up for any outstanding amounts on a regular basis.</p> <p>Unfortunately BA's and DA's and the fees and bonds payable are not able to be raised via an invoice as payment is required in advance and also trust amounts cannot be raised by invoice.</p>
13.	Miscellaneous Contributions Income	<p>We noted that miscellaneous contributions income in relation to "Right of Way" fees is communicated to residents by way of letter only.</p> <p>No Register is maintained of letters submitted and payments received.</p> <p>Unless these letters also relate to either a Building or Development application, there is no mechanism to ensure recovery of the income.</p>	Low	<p>We recommend recognising this type of revenue by issuing invoices via Civica Authority and sending these invoices with the letters to residents in order to ensure the complete and timely recording of Fees &amp; Charges income.</p> <p>We recommend that a Register in respect of letters submitted be maintained.</p> <p>This Register should include details of the date of issue of the letter and receipt of payment. The Register should be reviewed regularly with follow up action</p>	<p>Unfortunately these types of fees/bonds cannot be raised on invoices. However they can be raised as fees/bonds on the BA or DA.</p> <p>We agree that better internal procedures to firstly input the fees would be an improvement. Furthermore controls on the issuing of permits should include a check that all relevant fees and bonds have been paid</p>

				taken with residents in an attempt to recover fees.	should be in place.
14.	Purchases & expenses	<p>We understand that the online banking security is such that any two of the Assistant Finance Manager, Finance Manager, Deputy Chief Executive Officer or Chief Executive Officer can release funds. Despite this there are instances where only the Assistant Finance Manager and Finance Manager release payments.</p> <p>We also noted that payments made are processed and loaded to the online banking site by the Assistant Finance Manager after review and authorisation by the Finance Manager. The Assistant Finance Manager also performs the first release of funds with the Finance Manager usually performing the second release of funds without the approval by the Deputy Chief Executive Officer or Chief Executive Officer.</p>	Medium	We recommend that the Deputy Chief Executive Officer or Chief Executive Officer perform the second release of funds after payments are reviewed and authorised by the Finance Manager.	Agreed and accepted.

15.	Payroll	<p>We understand that there is a time constraint placed on the capture and review of the fortnightly payroll run. The cut-off of processing payroll data is set for Tuesday with the payment deadline set at Wednesday evening.</p> <p>We noted that the Assistant Finance Manager responsible for the payroll processing and Finance Manager responsible for the review of payroll, are required to complete the fortnightly payroll run within a 2.5 hour period in order to meet the payment release deadline. This pressurised timeframe could lead to processing errors and may go undetected.</p>	Low	<p>We recommend that more time be set aside for payroll processing and review before the release of payroll payments.</p> <p>The easiest way to achieve this is to change the cut-off timing. We would suggest Fridays for the cut-off of payroll.</p> <p>We further recommend management consider introducing a Time Clocking System to electronically capture hours worked and automatically update the Civica Authority payroll reporting system. This will reduce the processing time taken by staff and also strengthen the integrity of data.</p>	<p>We agree and are implementing this first part, to extend the time for reviewing and processing payroll. However with staff having a variety of flexible arrangements, having a time clocking system is not practical.</p>
16.	Payroll – Leave	<p>We understand that the Civica Authority system uploads the Leave Granting Report for the purposes of updating the leave accruals balance at month end.</p> <p>We noted that the Leave Granting Report generated by the Civica Authority system is taken as correct without being reviewed by the Finance Manager.</p>	Medium	<p>We recommend that the Leave Granting Report is reviewed by the Finance Manager and is signed off as evidence of the review before updating the leave accruals balance at month end.</p>	<p>Agreed and accepted.</p>

17.	Payroll – Leave	<p>We understand that where an employee has taken annual leave in excess of the annual leave balance available, the leave will be set off against any RDO leave balance available by making a note on the timesheet. If insufficient leave balances are available for this set-off, the employee is asked to take unpaid leave and the leave form is overridden by the Assistant Finance Manager after contacting the employee.</p> <p>We also understand that the Town maintains an online leave system which records leave balances available for each employee. However, it was noted that this is not applied to the depot workers who still prepare and submit their leave forms manually.</p> <p>We noted that when approving the leave application form, leave available balances for depot workers are not considered by the appropriate manager or supervisor and leave may be approved inappropriately.</p>	Low	<p>We recommend that all annual leave application forms for depot workers are approved by the relevant manager or supervisor after considering the available annual leave balances to reduce the risk of inappropriate leave being granted and employees being forced to take unpaid leave.</p> <p>We further recommend management consider introducing measures to ensure depot workers make use of the online leave system to electronically apply for leave to ensure balances available for each worker are accurate and up to date before the granting of requested leave.</p>	<p>We have an online system for leave applications and a paper based system for those who do not have access to the system. Both systems have controls in place for the reviewer to check against leave balances.</p>
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18.	Purchase of Capital Assets – Plant & Machinery	<p>We understand that three (3) quotations are to be obtained for the purchase of plant and machinery.</p> <p>We also understand that the Town completes the Quotation Acceptance Form when reviewing each quotation in order to document the considerations made in the decision making process.</p> <p>For one of our samples examined relating to the purchase of a Mazda CX5, we noted that three (3) quotations were obtained by the Town. However, the details of the quotations were not documented in the Quotation Acceptance Form separately to clearly evidence which quotation was recommended and accepted.</p>	Medium	<p>We recommend that management consider the preparation of the Quotation Acceptance Form in every occasion when reviewing quotations in order to document the considerations made in the decision making process.</p>	<p>There is currently a review of the Town's purchasing policy taking place which will establish new thresholds and rules for record keeping processes.</p>
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## **APPENDIX B: LIST OF POLICIES AND PROCEDURES COVERED BY THIS REVIEW**

### **A. Town Policies**

- Risk Management Policy
- Purchasing & Procurement Policy
- Purchasing Authority Limits Policy
- Rate Recovery Policy
- Delegation Authority Register
- Management of Investments Policy
- Differential Rating Policy
- Corporate Credit Card Policy
- Asset Management Policy
- Sale of Fixed Assets with Realisable Value Policy
- Recruitment and Selection Policy
- Outdoor Concerts and Large Public Events Policy
- Civic Centre Hall Booking Policy

### **B. Town Procedures**

- Internal Control Procedure

### **C. Legislative Compliance**

- Local Government (Audit) Regulations 1996
  - Regulation 7, Regulation 10 and Regulation 17
- Section 7 of the Department of Local Government Accounting Manual
- Local Government (Elections) Regulation 1996
  - Part 5A Disclosure of gifts-30G Register
- Local Government (Administration) Regulation 1996
  - Part 4 Local Government Employees-Regulation 18A to 18G
- Local Government Act 1995
  - Section 6.4
  - Section 5.16 to 5.18A
  - Section 5.36 to 5.37
  - Section 5.45 to 5.46
  - Section 5.67 to 5.68
  - Section 5.73 to 5.77
  - Section 5.88
  - Section 5.103
  - Section 5.120 to 5.121
  - Section 3.57 to 3.58
  - Section 7.1A to 7.1C
  - Section 7.3
  - Section 7.9
  - Section 7.12
- Local Government (Functions and General) Regulations 1996
  - Part 4 Provision of goods and services-Regulation
  - Part 3 Commercial enterprises by local governments
- Local Government (Financial Management) Regulations 1996
  - Regulation 5 to Regulation 13
  - Regulation 34