

Berri Barmera Council

Internal Financial Controls Assessment

November 2011



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1 Introduction

1.1 Background

The Local Government Financial Management Group, Coyle Consulting Services and Deloitte have previously worked together on key internal control projects for the South Australian Local Government. Various discussions had taken place with the Local Government Association (LGA), FMG and Deloitte to identify strategies to encourage these councils to comprehensively review their controls. This was as a result of a large number of councils that have not addressed their internal controls even though legislation has been passed which will require this to occur.

Representatives of the LGA, FMG, Deloitte and Coyle Consulting Services met earlier in the year and agreed to consider a strategy which grouped three councils in an internal control project to assess and document their internal financial controls. This project has covered three regional South Australian councils which do not have formal internal financial controls at a standard which will enable compliance with legislative requirements. Berri Barmera Council was chosen as one of the councils to be included in the project.

1.2 Objectives and approach

The key objectives of this project were to conduct a series of workshops to define and document the internal financial controls for Berri Barmera Council. Each workshop comprised of approximately five key business processes with an additional three to four smaller related processes. Initially, the internal controls in the 'Best Practice Model - Internal Financial Controls - 2002' were refined, followed by the identification of relevant business processes to be evaluated for each workshop. The engagement comprised of the following key activities:

- Obtain and assess relevant background information from the council including relevant policies, procedures and audit reports
- Assess and prepare control libraries required for each of the workshops conducted with councils
- Meet with Council to undertake process of refining control library to determine relevant control activities for each of the relevant business activities
- Prepare a report of documented control activities for each business process which includes the identification of responsible officer's, frequency of control assessment and any action / improvement plans identified for specific control activities.

The documented internal financial controls have been structured in such a way that it will enable a straight forward implementation into the Deloitte Control Self Assessment (CSA) system should that be decided by the Council. Other deliverables include an updated 'Better Practice Manual – Internal Financial Controls - 2011'.

1.3 Findings

The findings from the internal control assessment have been presented in line with the risk categories outlined in the Better Practice Manual – Internal Financial Controls. This is to enable Berri Barmera Council to use this as supporting documentation for their risk and control assessment process. This document can be used as a basis for conducting further reviews of internal financial controls and may assist the external auditors conduct their audit procedures in order to provide the opinion on internal controls.

1.4 Overview of Internal Controls

Internal control is one of the foundations of a robust corporate governance framework. The contemporary approach to internal control is based on a pro-active, risk aware culture that reviews and identifies the key business risks that Council's face in today's environment. By implementing a framework based on these foundations, an organisation is able to demonstrate both a practical commitment to governance processes and transparency in its delivery.

This approach to internal controls acknowledges that the risks faced by Councils can and do change, and consequently the framework of internal controls must include the provision for regular and effective review. Adopting this risk approach will assist Councils meet the statutory obligations under Section 125 of the Local Government Act 1999 ("Local Government Act") which states that:

"a council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council's assets, and to secure (as far as possible) the accuracy and reliability of council records".

The benefits of a coordinated, systematic approach to risk management include:

- The Senior management having a clear view of the key risks facing the Council
- Agreement across the Senior management on the priorities to manage the key risks
- Controls operating effectively to reduce risks to an acceptable level
- Cost-savings through an efficient controls environment.

This Manual sets out the framework within which Councils can conduct "better practice" internal financial control management. It presents internal controls as one essential component of the corporate governance framework with the purpose of providing all Councils with a guide to applying risk management techniques to:

- Identify the financial risks faced by all Councils within South Australia
- Assess each of the identified financial risks
- Assess Council's existing internal financial controls

- Develop and implement effective internal financial controls to address the identified risks
- Perform regular review of the effectiveness of Council's internal financial controls.

Whilst this Manual provides a framework for internal financial controls, the Manual's approach and framework can be applied to internal non-financial controls. An effective internal control environment will provide the means by which a Council can successfully address and mitigate all risks, not only those of a financial basis. This manual, however, focuses on risks that are specifically of a financial nature.

1.5 Internal Control Environment

A Council's internal control environment includes the following components:

- Structure of the organisation
- Culture of the organisation
- Knowledge, skills and experience of employees
- Processes employed by the organisation to conduct business.

As it is the internal control environment that ultimately sets the operational tone of the organisation, it is recommended that the Chief Executive Officer play an important role in the establishment and development of the internal control environment.

An effective and transparent internal control environment would focus on the following key areas:

- Integrity and ethical values
- Management's philosophy and operating style
- Organisation structure
- Performance measures
- Policies and procedures
- Human resources policy
- Internal Audit function
- The Audit Committee.

1.6 Financial accounting assertions

The underlying financial accounting assertions and resultant objectives that contribute to an effective internal control environment are as follows:

Assertion	Definition
<i>Account Balances</i>	
<ul style="list-style-type: none"> • Existence/Validity • Rights & Obligations • Valuation 	<ul style="list-style-type: none"> • Assets and liabilities of the entity exist at a given date. • Assets are rights of the entity and liabilities are the obligations of the entity at a specified date. • Assets or liabilities are recorded at the appropriate carrying values.
<i>Transactions</i>	
<ul style="list-style-type: none"> • Occurrence • Authorisation • Segregation of Duties 	<ul style="list-style-type: none"> • Recorded transactions or other events occurred during the relevant period. • Control is established at source and only properly authorised transactions are processed. • Responsibility for executing a transaction, recording the transaction and maintaining custody of the assets and/or liabilities resulting from a transaction should be assigned to different individuals or departments • Systems controls associated with ensuring appropriate segregation of duties may be enforced in a variety of ways, e.g. <ul style="list-style-type: none"> ▪ manually, largely based on assignment of job responsibilities or ▪ By the use of automated controls, typically based around access restrictions, exception reporting etc.
<i>Balances and Transactions</i>	
<ul style="list-style-type: none"> • Completeness 	<ul style="list-style-type: none"> • There are no unrecorded assets, liabilities, transactions or other events or undisclosed items.
<ul style="list-style-type: none"> • Measurement/Recording 	<ul style="list-style-type: none"> • A transaction or event is recorded at the proper amount and revenue or expense is allocated to the proper period (facilitated by the use of IT data integrity).

Assertion	Definition
<ul style="list-style-type: none"> Disclosures 	<ul style="list-style-type: none"> Particular components of the financial report are properly disclosed, classified and disclosed.

1.7 System of Internal Financial Controls

The essential elements of an effective system of internal financial controls may be summarised as follows:

- Delegations of authority: to enable the authority of expenditure and capital outlays in accordance with Council's documented policies and procedures
- Documented policies and procedures: comprehensive guidance to staff in the implementation of an effective internal control environment
- Trained and properly qualified staff: to enable the effective application and implementation of Council's documented policies and procedures.
- Information Technology Controls: to support effective and efficient information processing in accordance with Council's policies, procedures and accepted business practices.
- Process of review: comprising both Quality Assurance and Internal Audit.
- Regular liaison with statutory auditors and legal advisors: ensuring that Council keeps abreast of all changes in its statutory reporting obligations.
- Regular attestations from the Senior management: providing assurance that the Senior management has complied with Council's existing internal control policies and procedures.
- Documented risk identification and assessment (for example, as detailed in this Manual).

1.8 Application to Smaller Councils

We see the internal control structure as comprising three elements: the information system; control procedures; and the control environment. All these elements are applicable to Councils of all sizes.

However, the degree of formality and the specifics of how the components are implemented may vary considerably for practical and sound reasons.

It is acknowledged that smaller councils face specific internal control challenges (i.e. segregation of duties). Developing a culture that emphasises integrity, ethical values and competence can mitigate the problems that arise from these challenges.

Staffing levels in some Council's may mean that the effectiveness of the internal control environment is weakened by the lack of segregation of duties. For those Councils with low staffing levels, and as noted in section one of this Manual, it is recommended that the senior management focuses on the implementation of automated IT internal financial controls (i.e. system security). These automated internal financial controls can overcome the weaknesses normally associated with lack of segregation of duties, thereby enhancing the effectiveness of the internal control environment. In addition to the implementation of automated IT controls, regular independent review of reconciliations, masterfile changes, payroll reports and other financial processes by appropriate staff may also overcome the inherent weaknesses from the lack of segregation of duties.

It is also recognised that implementation of internal financial controls may represent a significant cost to Council. With this in mind, it is important that the senior management takes a risk management approach to identifying and assessing risks, and a cost/benefit analysis to the implementation of those internal financial controls that can address those risks.

It is recommended that smaller Councils consider shared services for internal audit or other overview functions in order to provide assurance that controls are operating effectively. Alternatively, existing staff within a Council could certify controls in other areas of the organisation.

1.9 Internal control and risk management

The need for internal controls in the governance framework is to ensure that the business objectives of the council are being achieved and the key risks are being identified and appropriately managed. A broad definition of risk is any threat that can potentially prevent an organisation from meeting its objectives and/or any opportunity that is not being maximised by an organisation in meeting its objectives.

It is the responsibility of senior management to design and implement a suite of cost effective controls to manage risk and achieve the Council's business objectives rather than adopt a blinkered "checklist" approach. The challenge is to ensure controls facilitate service delivery, ensure the Council's business objectives are being achieved whilst protecting the Council's assets and staff.

An organisation's objective will not necessarily be the elimination of all risk, but to ensure that risk is maintained at an acceptable level in a cost effective manner. The illustration below is provided to demonstrate the links between business objectives and the internal control activities.



This manual focuses on the risks specifically of a financial nature with control assessment worksheets provided to further assist in the application of the risk management methodology. The key financial risks identified have been grouped under relevant risk categories and business

processes. These risks are a guide only, with the identification of the actual risks relevant for each Council being a fundamental component of the risk management practices.

An example control assessment worksheet has been included below with further detail provided on the key aspects of the worksheets. The example provided is strategic financial planning and budgets with the risk also being provided accompanied by a detailed description. For each risk, a list of possible controls is provided and the control type – either ‘core’ or ‘additional’.

The ‘core’ controls are those which have been assessed as the more important controls and those that external auditors may place the greatest significance on when conducting audit procedures as required by section 125 of the Local Government Act. The ‘additional’ controls are the controls that may be of lesser significance for audit procedures.

It should be emphasized that the ‘core’ controls are not intended to depict a ‘minimum list of controls required’, but rather a suitable starting point. Ultimately Councils should aim to implement all relevant control activities which are required to mitigate the identified financial risks and to achieve a robust internal control framework.

As part of the completion of the control assessment worksheets, Councils will be required to indicate if the control has been implemented. Where a control has not been implemented, an action plan should be recorded to implement the control or a strong rationale provided to justify its omission. In addition, each control needs to be assigned to a responsible officer and checking officer. Typically the responsible officer is the person performing the task or function (Financial Accountant) and the checking officer the person reviewing completion of the task or function (Manager, Financial Services).

It is envisaged that Councils use this manual to document their responsible officers and complete risk control assessments and maintain as supporting documentation should the Deloitte CSA system not be implemented.

Control Assessment Worksheet						
Risk Category – Strategic Financial Planning						
Business Process – Budgets						
Risk No. 3 – Budgets are inaccurately reported						
Description: If Budgets are inaccurately reported (i.e. processing errors occur when inputting the Budget into the financial system), this will result in actual performance not being measured as accurately as required.						
Possible Controls		Control Type	CSA Importance Weighting	Action Plan ¹ (if control not currently in place)	Responsible Officer – Title & Rating	Checking Officer – Title & Rating
1	Original Budget compared to Budget entered into the financial system for accuracy by appropriate level of management or an independent person with identified variances investigated.	Additional	4			
2	Access to Budget information and master file is restricted / limited to appropriately authorised personnel.	Core	5			
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale to omission of a control activity

1.10 Risk and control assessment process

Given all Councils have limited resources, it is important to focus on the key risks. The risk management methodology outlined below has been adapted from the Australia / New Zealand standard on risk management (AS/NZS ISO 31000:2009) to provide a structured approach for Councils. This methodology will assist in the Councils risk management processes with particular emphasis on the following:

- Identifying the key risks facing the organisation
- Assessing whether the associated internal controls are effective
- Identifying where further controls may be required.

Step 1: Identify risks

The first step is to identify the key risks facing the Council. The aim of the risk identification process is to consider all financial events which might affect the achievement of the Council's objectives and operations. Comprehensive identification of risks is important because a potential risk not identified at this stage may not be included in further analysis.

Step 2: Analyse risks

Once all risks have been identified they are analysed in terms of how likely the risk event is to occur (**likelihood**) and the possible magnitude (**consequence**) of the risk event. From this analysis the level of inherent risk can be determined. The inherent risk represents the level of risk associated with the particular issue without considering any controls that might already be in place. The residual risk represents the level of risk remaining after controls have been successfully implemented and assessed for their effectiveness.

Consequence \ Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	E	Moderate	High	High	Extreme	Extreme
Likely	D	Low	Moderate	High	Extreme	Extreme
Possible	C	Low	Low	Moderate	High	Extreme
Unlikely	B	Low	Low	Low	Moderate	High
Rare	A	Low	Low	Low	Moderate	High

The suggested parameters for quantification of likelihood and consequence as provided in the Standard are included in the risk matrix provided. For further detail of parameters for likelihood and consequence, please refer to Appendix A. Councils may wish to consider tailoring the parameters provided for their individual circumstances, or use their existing likelihood and consequence parameters.

Step 3: Evaluate control activities

The next step is to identify the control activities in place and evaluate the effectiveness of these controls on a scale from 1 – 5. A suggested control effectiveness rating scale has been provided. An effectiveness rating should be provided by both the responsible officer and the checking officer.

Where a control activity has been given an effectiveness rating of 3 or below by the responsible officer, some level of explanation should be provided for the deficiency in the control activity. In addition, where a control activity has been given an effectiveness rating of 3 or below by the checking officer, an action plan should be recorded. Further to this, where a control has not been implemented, an action plan should be recorded to implement the control, or a strong rationale provided to justify its omission.

Once the control activities have been evaluated, an accurate assessment of the actual residual risk level can be determined.

Definitions of control effectiveness ratings

1 - Ineffective

During the period, the control has not been implemented as described. Urgent management action is required to implement the described control processes.

2 - Requires significant improvement

During the period, the control has been implemented as described, but with significant deficiencies in the consistency or effectiveness of implementation. Significant management action required to implement processes to improve the effectiveness of the control.

3 - Partially effective

During the period, the control has been implemented as described, but with some deficiencies in the consistency and/or effectiveness in which it has been applied.

4 - Majority effective

During the period, the control has been implemented as described and in the majority of cases has been consistently and/or effectively applied. There is potential to enhance the effectiveness of the control, but only with minor adjustments.

5 - Effective

During the period, the control as described has been fully implemented and has in all cases has been consistently and/or effectively applied.

Step 4: Treat risks and control activities

The final step is to treat the risks and control activities with the implementation of any action plans to correct control deficiencies. It is also appropriate to identify the further controls that should be implemented to ensure that the risks are being managed at an acceptable level. Consistent with the accountability principles of a robust corporate governance environment, each additional control to be implemented should be assigned to a nominated responsible officer.

1.11 Listing of risk categories & associated business processes

The remainder of the Manual has been separated into a number of risk categories and business processes based largely on standard Statement of Financial Position and Statement of Financial Performance account classifications and/or key business functions. Each of these sections includes an explanatory introduction and also identifies the relevant principles, recommended practices, key issues and options for different size councils.

It is envisaged that Council staff will be able to apply the internal financial controls listed within each section through risk management practices in order to develop an effective system of internal financial controls that specifically addresses their own particular requirements.

Risk Category	Business Process	Page Reference
Strategic Financial Planning	<ul style="list-style-type: none"> • Budgets • General Ledger • Statutory Reporting • Management Reporting 	
Assets	<ul style="list-style-type: none"> • Cash Floats & Petty Cash • Banking • Investments • Debtors • Inventory • Prepayments • Fixed Assets • Project Costing 	

	<ul style="list-style-type: none"> Loans/Grants to Clubs/Community Groups 	
Liabilities	<ul style="list-style-type: none"> Accounts Payable Accrued Expenses Borrowings Employee Provisions Taxation 	
Revenue	<ul style="list-style-type: none"> Rates/Rate Rebates Grants User Pay Income – Fee for Services Investment / Interest Income Receipting Other Revenue 	
Expenses	<ul style="list-style-type: none"> Purchasing & Procurement Payroll Elected Members' Expenses Credit Cards Employee Reimbursements Other Expenses 	
External Services	<ul style="list-style-type: none"> Contracting 	

2 Strategic Financial Planning

2.1 Budgets

Introduction

Under section 123 of the Local Government Act:

(1) *A council must have, for each financial year –*

- a) An annual business plan; and*
- b) A budget.*

(7) *Each budget of a council must:*

- a) Be considered in conjunction with the council's annual business plan (and must be consistent with that plan, as adopted); and*
- b) Be adopted by the council after the council has adopted its annual business plan.*

(8) *An annual business plan and a budget must be adopted by a council after 31 May for the ensuing financial year and, except in a case involving extraordinary administrative difficulty, before 31 August for the financial year.*

Under section 123 (13), *“a council must, as required by the regulations, and may at any time, reconsider its annual business plan or its budget during the course of a financial year and, if necessary or appropriate, make any revisions”.*

Councils may choose to adopt a number of budgets with varying periods (i.e. annual or longer-term) and varying bases (i.e. cashflow). Budgets must be structured in a way that assists Council in meeting their “strategic management plan” (required under section 122 (1) of the Local Government Act). Effectively the budget process represents a key element of Council’s strategic financial plan which in turn constitutes a fundamental element of the overall strategic management plan. The Budget represents an important way of monitoring the achievement of Council’s strategic objectives. For an analysis of the issues associated with the strategic financial plan and budgets, please refer to the following documents published by the Local Government Association of South Australia, “Strategic Financial Planning” in “A Framework for Local Government Financial Management”; and “Budget” in “A Framework for Local Government Financial Management”.

Key Issues/Risks

In relation to Budgets, the major risks faced by Councils may be summarised as follows:

- Budgets do not reflect strategic objectives
- Unrealistic budgets.

These risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Within the Budget process, it is recommended that the following tasks be adequately segregated:

- Recording of both the original budget and adjustments to the original budget
- Approving both the original budget and all adjustments to the original budget.

Control Assessment Worksheet						
Risk Category – Strategic Financial Planning						
Business Process – Budgets						
Risk No. 1 - Budgets do not reflect strategic objectives						
Description: If Budgets are not linked to the objectives contained within the Strategic Plan, there is an increased risk that the initiatives and outcomes of the Strategic Plan will not be achieved.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Robust and rigorous process to establish budget and ensure that it is consistent with the initiatives/objectives of the strategic plan.	Core	Annually	Budget process begins in February of each year and is developed in conjunction with Elected Members. Strategic and Corporate Plan now developed to incorporate links with annual budget. Also refer Annual Budget Policy	MCS	CEO
2	On-going review of actual performance against budget by management. Management perform on-going review of consistency of Budget in relation to initiatives/objectives of Strategic Plan.	Core	Monthly/ Quarterly	Monthly reviews are performed by Dept. Managers. Report provided to Elected Members at activity/function level each month. Quarterly budget reviews provided to Council. Refer Annual Budget Policy	MCS, Dept Managers	CEO
3	Budget managers are both instructed and responsible to provide changes for the budgets and conduct budget reviews for their areas.	Additional	Quarterly	Dept managers monitor actual versus budget allocations and provide information to MCS to report in budget review on quarterly basis to Council. Refer Annual Budget Policy	MCS, Dept Managers	CEO
4	Establishment of clear links and relationship between budgets and Strategic Plan.	Additional	Annually	Links to past strategic plan corporate objectives were identified. Development of new Strategic/Corporate Plan in progress.	Dept Managers	CEO

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

Control Assessment Worksheet						
Risk Category – Strategic Financial Planning						
Business Process – Budgets						
Risk No. 2 – Unrealistic Budgets						
Description: Unrealistic budgets will lead to significant variances and the associated inefficiency in analysing and addressing variance analysis. If budgets are too aggressive, than this can have a detrimental effect on employees' morale. On the other hand, if budgets are set at easily attainable levels, this will result in Council not maximising performance.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan¹	Responsible Officer - Title	Checking Officer - Title
1	Budgets based on realistic and achievable assumptions and validated by facts.	Additional	Annually	Projects costed by relevant dept managers and presented to council for decision during budget deliberations.	Dept Managers	CEO
2	Budgets approved by appropriate level of management and by Council, and in accordance with Local Government Act.	Core	Annually	Council approves all budget allocations in accordance with legislation.	Dept Managers	CEO
3	Budgets regularly reviewed by management for pertinence and accuracy.	Additional	Ongoing	Monthly reviews are performed by Dept. Managers. Report provided to Elected Members at activity/function level each month. Quarterly budget reviews provided to Council. Refer Annual Budget Policy	Dept Managers	CEO
4	Budgets amended to take into account significant changes in operations, amendments must be made in accordance with the Local Government Act.	Additional	Ongoing	Current practices as per Annual Budget Policy	Dept Managers	CEO
5	All amendments to Budgets must be approved by Council with changes to operating budgets reviewed as they occur.	Core	Quarterly	Quarterly budget review process per Annual Budget Policy.	Dept Managers	CEO
6	End of year actuals compared to original budget; significant variances explained.	Additional	Annually	A report is prepared detailing actual performance against annual budget and provided to council once end of year accounts are finalised.	MCS	CEO

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

7	Regular meetings held between Finance staff and Team Managers and Group Managers.	Additional	Weekly/ Ongoing	Senior management meetings held weekly. Department meetings conducted regularly.	SMT	CEO
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Strategic Financial Planning						
Business Process – Budgets						
Risk No. 3 – Budgets are inaccurately reported						
Description: If Budgets are inaccurately reported (i.e. processing errors occur when inputting the Budget into the financial system), this will result in actual performance not being measured as accurately as required.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Original Budget compared to Budget entered into the financial system for accuracy by appropriate level of management or an independent person with identified variances investigated.	Additional	Monthly	MCS provides monthly reports to Dept. Managers. Budget not uploaded to financial system; rather actuals are downloaded to excel spreadsheets for budget analysis. Budget worksheets are pass-worded for security.	MCS	
2	Access to Budget information and master file is restricted / limited to appropriately authorised personnel.	Core	Monthly	As above, access to GL system for enquiry only and analysis is allowed by all Dept managers.	MCS	
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

2.2 General Ledger

Introduction

Given that the financial information contained within the General Ledger is the basis of the annual financial statements and management reports, it is imperative that Councils ensure that the internal financial controls surrounding the General Ledger are operating effectively. The development and implementation of effective internal financial controls in relation to the General Ledger is one important way that Councils can fulfil their statutory obligations under section 124 (1) of the Local Government Act that states:

(1) *A council must:*

- a) Keep such accounting records as correctly and adequately record and explain the revenues, expenses, assets and liabilities of the council*
- b) Keep its accounting records in such manner as will enable –*
 - (i) The preparation and provision of statements that present fairly financial and other information; and*
 - (ii) The financial statements of the council to be conveniently and properly audited.*

When reviewing the internal financial controls surrounding the General Ledger, Councils should consider the following issues:

- Processing of accurate journals and effective review of such journals
- Performance of effective and regular Balance Sheet reconciliation process involving independent review
- Adequate data security measures, including access controls and a formal disaster recovery plan.

Key Issues/Risks

In relation to the General Ledger, the major risks faced by Councils may be summarised as follows:

- General Ledger does not contain accurate financial information
- Data contained within the General Ledger is permanently lost.

These risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Within the General Ledger, it is imperative that the following tasks be segregated:

- Preparation of journals and Balance Sheet reconciliations
- Review and approval of journals and Balance Sheet reconciliations.

Control Assessment Worksheet						
Risk Category – Strategic Financial Planning						
Business Process – General Ledger						
Risk No. 1 – General Ledger does not contain accurate financial information.						
Description: If processing errors (i.e. inaccurate journals) occur in the General Ledger, this may result in the General Ledger, as well as the financial statements and management reports being misstated.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan¹	Responsible Officer - Title	Checking Officer - Title
1	The chart of accounts is regularly updated to ensure account allocations are correct.	Additional	Annually	Chart of accounts is reviewed annually. New job numbers are created at start of financial year. Completed jobs are closed to ensure no further postings are allocated.	MCS	n/a
2	All updates and changes to General Ledger programmes are authorised, tested and documented.	Core	Continually	Synergy-soft software is thoroughly tested by IT Vision (software providers).	MCS	n/a
3	Access to General Ledger is restricted to authorised personnel.	Core	Ongoing	Yes, otherwise general Ledger is 'locked' down so general enquiries only can be made by select personnel.	MCS	n/a
4	General Ledger reconciliations (including control and clearing accounts) are prepared on a regular basis; all reconciliations independently reviewed.	Core	Monthly	Monthly reconciliations are undertaken and sub ledgers are reconciled with general ledger. No independent review occurs since change of external auditor.	MCS	n/a
5	All journals are independently reviewed (including check to ensure correct account allocation).	Additional	Ongoing	Journals raised by rates officer is independently reviewed by MCS. Need to Implement a process where independent checking of journals processed by MCS can be undertaken.	Rates Officer, MCS	MCS, CEO
6	Manual journal entries recorded in the register must be signed off by the officer preparing the journal. All journals, including manual entries, marked as posted accompanied by date, reason and set	Additional	Continual	Officer preparing the journal signs the entry in the journal book.	Rates Officer, Creditors Officer, MCS	MCS, CEO

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

	number.					
7	Off-site backup of data, program and documentation.	Core	Daily	Backups of data are sited at alternative site (Berri Library). IT support company also perform backups.	IT support	IT/Tech Officer
8	System does not allow single-entry.	Core	Ongoing	This is correct.	MCS	n/a
9	Amendments to General Ledger framework are approved by an authorised officer.	Core	Ongoing	All amendments to general ledger are authorised by MCS.	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Strategic Financial Planning						
Business Process – General Ledger						
Risk No. 2 – Data contained within the General Ledger is permanently lost.						
Description: If adequate back-up procedures are not employed by Council, data within the General Ledger may be permanently lost resulting in significant operational inefficiencies.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Formal disaster recovery plan adopted by Council or Senior Executive.	Core	Ongoing	Refer to Business Continuity Plan.	HR Risk Manager	CEO
2	Off-site backup of data, program and documentation.	Core	Daily	Backups of data are sited at alternative site (Berri Library). IT support company also perform backups (refer GL1.7).	IT support	IT/Tech Officer
3	All updates and changes to General Ledger programmes are authorised, tested and documented.	Core	Continually	Synergy-soft software is thoroughly tested by IT Vision (software providers) (refer GL1.2).	MCS	n/a
4	Access to General Ledger is restricted to authorised personnel.	Core	Ongoing	Yes, otherwise general Ledger is 'locked' down so general enquiries only can be made by select personnel (refer GL1.3).	MCS	n/a
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

2.3 Statutory Reporting

Introduction

The fundamental purpose of Reporting is to provide timely and accurate financial and non-financial information to both the Elected Body and the Senior management within Council and the external users of financial statements. Timely and accurate reporting provides the appropriate stakeholders with reliable information that can assist in the effective management and monitoring of the performance of Council operations. Various sections of the Local Government Act deal specifically with the Statutory Reporting requirements for Councils. For example: Under section 127 (1),

(1) *'A council must prepare for the financial year:*

- a) Financial statements and notes in accordance with standards prescribed by the regulations; and*
- b) Other statements or documentation relating to the financial affairs of the council required by the regulations'.*

Under section 131 (1),

'A council must, on or before 30 November in each year, prepare and adopt an annual report relating to the operations of the council for the financial year ending on the preceding 30 June'.

When preparing the annual report, reference must be made to relevant Accounting Standards including:

- AASB 118: Revenue
- AASB 1049: Whole of Government and General Government Sector Financial Reporting
- AASB 1026: Statement of Cash Flows.

Councils should also refer to the relevant AASB's as they provide further detail and guidance on the relevant reporting or accounting issue. The Statutory Reporting process must also include for consideration the following issues:

- Appointment and role of the Audit Committee (refer section 126 of the Local Government Act)
- Appointment and role of the statutory auditor (refer section 128 of the Local Government Act)
- Responsibilities of the CEO in relation to the auditor (refer section 130 of the Local Government Act)
- Accuracy of the data produced by the financial and accounting system and used for reporting purposes.

It is also recognised that all Councils have a number of specified Prudential Reporting requirements under section 48 of the Local Government Act, when engaging in a commercial project:

- 1) Where the expected recurrent or capital expenditure of the project exceeds: either 20 per cent of the Council's average annual operating expenses over the previous five financial years or
- 2) Where the expected capital cost of the project over the ensuing five years is likely to exceed \$4,000,000.

For further analysis of the issues associated with Statutory Reporting, please refer to the chapter "Financial and Management Reporting" in "A Framework for Local Government Financial Management", prepared by the Local Government Association of South Australia. For an analysis of the risks and controls associated with Management Reporting, please refer to the Management Reporting Business Activity in this Manual.

This is a project of the South Australian Local Government Financial Management Group Inc. which has been assisted by the Local Government Research & Development Scheme.

Key Issues/Risks

In relation to Statutory Reporting, the major risks faced by Councils may be summarised as follows:

- Council does not comply with statutory reporting requirements
- Council does not meet statutory reporting deadlines
- Council's statutory reports provide inaccurate financial information.

These risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Within the Statutory Reporting cycle, it is imperative that the following tasks be segregated:

- Preparation of statutory financial reports
- Review and approval of statutory financial reports.

Control Assessment Worksheet						
Risk Category – Strategic Financial Planning						
Business Process – Statutory Reporting						
Risk No. 1 – Council does not comply with statutory reporting requirements.						
Description: If Council does not comply with statutory reporting requirements, this may result in Council being liable to pay statutory breaching penalties.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Financial reports prepared by suitably qualified staff; reviewed by senior management or Audit Committee.	Core	Ongoing	Yes.	MCS	Audit Committee, External Auditors
2	Relevant personnel responsible for preparing statutory reports are provided regular training to keep abreast of changes to reporting requirements.	Additional	Ongoing	Yes.	CEO	
3	Regular liaison with external auditors, legal and tax advisors to ensure timely completion and lodgement of statutory documents.	Additional	Ongoing	Yes.	CEO	
4	Council has a Reporting Schedule Register detailing statutory reporting deadlines. Designated person is responsible for planning statutory reporting process, monitors compliance with reporting deadlines and ensures that Register data is pertinent.	Core	Ongoing	Reporting schedule to be developed. MCS responsible for statutory reporting requirements relating to financial matters.	MCS	CEO
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Control Assessment Worksheet						
Risk Category – Strategic Financial Planning						
Business Process – Statutory Reporting						
Risk No. 2 – Council does not meet statutory reporting deadlines.						
Description: If Council does not meet its statutory reporting deadlines (i.e. annual statements, BAS's, FBT Return etc), this will result in Council being liable to pay late lodgement penalties.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Council has a Reporting Schedule Register detailing statutory reporting deadlines. Designated person is responsible for planning statutory reporting process, monitors compliance with reporting deadlines and ensures that Register data is pertinent.	Core	Ongoing	Reporting schedule to be developed. MCS responsible for statutory reporting requirements relating to financial matters (refer SR1.5).		
2	Regular liaison with external auditors, legal and tax advisors to ensure timely completion and lodgement of statutory documents.	Additional	Ongoing	Yes (refer SR1.3).		
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Control Assessment Worksheet						
Risk Category – Strategic Financial Planning						
Business Process – Statutory Reporting						
Risk No. 3 – Council’s statutory reports provide inaccurate financial information.						
Description: If inaccurate financial information is contained within statutory reports (i.e. annual statements), then Council faces the risk of not fulfilling its statutory obligations. This may result in legal and financial penalties.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Regular liaison with external auditors, legal and tax advisors to ensure that statutory reports include accurate information and are in accordance with statutory reporting requirements.	Additional	Ongoing	Yes (refer SR1.3).	CEO	
2	Actual results compared to budget regularly; management reviews and investigates significant variances.	Core	Ongoing	Budget reviews conducted regularly. Refer Annual Budget Policy	Dept Managers	CEO
3	Financial reports prepared by suitably qualified staff; reviewed by senior management or Audit Committee.	Core	Ongoing	Yes (refer SR1.1).	MCS	Audit Committee, External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

2.4 Management Reporting

Introduction

The fundamental purpose of reporting is to provide timely and accurate financial and non-financial information to both the Elected Body and the Senior management within Council and external users of financial statements. Timely and accurate reporting provides the appropriate stakeholders with reliable information that can assist in the effective management and monitoring of the performance of Council operations. Council's operations can be reported internally, largely through the preparation of monthly management reports comparing actuals to budgets. Management reports need to provide sufficient detail to enable the identification of significant variances and need to be prepared by suitably qualified and experienced staff.

Although largely relating to statutory reporting requirements, guidance as to the structure of the management reports may be provided by referring to AASB 1049: Whole of Government and General Government Sector Financial Reporting. It is important to note that management reports should focus on comparing actuals to budgets, explaining significant variances to budget and report on significant operational matters. When reviewing the internal control environment surrounding the Management Reporting process, Councils should consider the following issues:

- Regular timing of reviews
- Appropriate delegations of authority
- Adequately qualified and trained management
- Nature of the financial information being reviewed
- Timely investigation of variances and/or unusual trends identified from the review.

For an analysis of the risks and controls associated with Statutory Reporting, please refer to the Statutory Reporting Business Activity in this Manual.

Key Issues/Risks

In relation to Management Reporting, the major risks faced by Councils may be summarised as follows:

- KPIs are not consistent with corporate objectives
- Significant budget variances are either not investigated on a timely basis or not investigated at all.

These risks along with other suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Within the Management Reporting cycle, it is imperative that the following tasks be segregated:

- Preparation of management reports
- Review and approval of management reports.

Control Assessment Worksheet						
Risk Category – Strategic Financial Planning Business Process – Management Reporting						
Risk No. 1 – KPIs are not consistent with Corporate Objectives						
Description: If KPIs are not linked to the Corporate Objectives, then the Senior management will be striving towards measures that ultimately will not lead to the achievement of the desired corporate objectives.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Robust and rigorous process to establish KPIs and ensure that they are consistent with the Corporate Objectives.	Core	Ongoing	Yes. Recent updates to the Strategic and Corporate Plan have KPI's that are now to be used as measures.	CEO	Council
2	On-going review and reporting of actual performance against budget by management; management perform on-going review of consistency of KPIs in relation to Corporate Objectives.	Core	Quarterly	As above. Reports to Council's Strategic Management Committee against performance measures indicated in Strategic & Corporate Plan will be carried out regularly	CEO	Council
3	Accounting Policies and Procedures are appropriately created, updated & communicated to appropriate personnel in the financial reporting department. Knowledgeable personnel monitor changes in guidance & regulations that affect the entity & make the appropriate changes to the entity's corporate accounting policies & procedures on a timely basis.	Core	Ongoing	Accounting policies and procedures are formulated by MCS and provided to Audit Committee as required. Policies are reviewed annually or more frequently if required.	MCS	Audit Committee, External Auditors
4	The long term financial plan to be reviewed regularly.	Additional	Annually	LTFP is reviewed and updated at the same time as the Annual Business Plan is prepared each year.	MCS	Audit Committee
Prepared by:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
Date:		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Control Assessment Worksheet						
Risk Category – Strategic Financial Planning						
Business Process – Management Reporting						
Risk No. 2 – Council’s financial operations are not reviewed and responded to appropriately.						
Description: If the Senior management does not review financial performance effectively, informed decisions as to the performance of Council and plans effectively for the future may not be achieved.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Management clearly informed of their duties and responsibilities in relation to reporting.	Additional	Ongoing	Responsible Officer as defined within Corporate Plan. Budget reports broken into Departments and allocated to appropriate Managers.	CEO	
2	Ensure that roles and responsibilities are documented and within Delegations of Authority register and is maintained and updated.	Core	Ongoing	Documentation is only to delegated authority only. Need to include policy delegations and position delegations within Delegations Register.	EACEO	CEO
3	Reporting & Review Schedule maintained detailing Reporting timetable. This Schedule is given to all personnel involved in the management reporting process.	Additional	Ongoing	Develop a timetable of legislated reporting requirements e.g. Annual Budget Plan preparation, Annual Financial Statements, Grants Commission Return.	MCS	
4	Designated person reviews the Reporting & Review Schedule to ensure that management reviews the appropriate information on a regular and timely basis.	Additional	Annually	Designated person - MCS	MCS	
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Strategic Financial Planning						
Business Process – Statutory Reporting						
Risk No. 3 – Council’s management reports provide inaccurate financial information.						
Description: If management reports are inaccurate due to IT processing errors or unreliable data, the Elected Body and the Senior management will not be able to monitor the performance of Council effectively.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Ensure that roles and responsibilities are documented and within Delegations of Authority register and is maintained and updated.	Core	Ongoing	Updated regularly.	EA CEO	CEO
2	Regular reviews of data accuracy & completeness are performed concurrently with the reporting process through on-going integrity checks of the Trial Balance, and the known budget position. Variances and omissions (if any) are dealt with immediately.	Core	Ongoing	End of month processes undertaken to reconcile sub ledgers with general ledger. Any variances are investigated and amended where necessary. Ongoing budget vs. actual reviews are undertaken by Dept. Managers	Dept Managers	
3	Management reports are produced on a regular basis; senior management review these management reports and investigate any significant variances/unusual trends.	Additional	Monthly	Reports are provided on a monthly basis or more regularly if required. Ongoing access to all systems is provided.	MCS	
4	Management to confirm the accuracy of the information contained within their respective report.	Core	Ongoing	Dept managers liaise with MCS regularly regarding actual general ledger activity.	MCS	
5	Automated exception reports generated on a regular basis that automatically identify variances; significant variances may be identified using a standard threshold (either percentage or dollar value).	Additional	Monthly	Variances are reported on a monthly basis.	MCS	

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6	Regular IT audits to be performed focusing on data accuracy and security. Results of these IT Audits reviewed by management and action plan promptly implemented.	Additional	Ongoing	IT audit has not been performed, however passwords and security levels are utilised in some areas to ensure confidentiality and/or security of files.	IT Support	
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Strategic Financial Planning Business Process – Management Reporting						
Risk No. 4 – Significant budget variances are either not investigated on a timely basis or not investigated at all.						
Description: Significant budget variances may indicate a major operational issue that requires immediate attention. If these variances are either not addressed by management on a timely basis or not at all, then this may have a major impact upon the operational efficiency of Council.						
This risk assumes that Councils already perform comparisons of actual performance against budget. It should be noted that if actual performance is not compared against budget, the Senior management will not be notified of any variances/unusual trends that may indicate significant operational issues that require immediate attention. Also without budget comparisons, the Senior management is unable to measure the performance of Council.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Management regularly reports on actual performance against budget.	Core	Monthly	Yes.	Dept Managers	CEO
2	Management reviews exception reports on a regular basis and investigates all significant variances; evidence of review demonstrated by signing & dating report.	Core	Monthly	Management review significant variances on a regular basis. Management report to Council as soon as practicable any significant budget variances with recommendations to remedy situation. Elected members are then to approve any budget variations. Other variations are reported to council on a quarterly basis.	Dept Managers	CEO
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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3 Assets

3.1 Cash Floats and Petty Cash

Introduction

Given the potential for misappropriation, the receipting, handling and recording of Cash Floats & Petty Cash is a high risk activity. Accordingly, Councils must develop and implement ways in which this high risk can be minimised. When reviewing the internal control environment surrounding Cash Floats & Petty Cash, Councils should consider the following issues:

- Designating the appropriate levels of Cash Floats & Petty Cash
- Storage of Cash Floats & Petty Cash in secured locations both within and outside regular office hours
- Designated personnel responsible for the managing and monitoring of Cash Floats & Petty Cash
- Regular and independent counts of Cash Floats & Petty Cash.

For an analysis of the risks and controls associated with Banking, please refer to the Banking Business Activity in this Manual.

Key Issues/Risks

In relation to Cash Floats & Petty Cash, the major risk faced by Councils may be summarised as follows:

- Cash Floats and Petty Cash are inadequately safeguarded.

This risk along with another suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Given the high risk of misappropriation surrounding Cash, it is imperative that Councils focus strongly on ensuring that where possible any segregation of duties or addressed and that opportunities for staff collusion are minimised. A suggested way to minimise these risks is through the regular counts of cash floats and petty cash by personnel independent from the recording of these assets.

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Cash Floats & Petty Cash						
Risk No. 1 – Cash Floats & Petty Cash are inadequately safeguarded.						
Description: If access to Cash Floats & Petty Cash is not restricted by storing these assets in secure locations (i.e. safe), then these assets are more likely to be misappropriated.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan¹	Responsible Officer - Title	Checking Officer - Title
1	Cash floats and petty cash are stored in secured facilities (e.g. safes, registers) when not in use.	Core	Ongoing	Cash floats and petty cash are kept in locked drawers and tins during the day while in use. They are stored in safe overnight and when not in use.	Creditors Officer CSTL	MCS
2	Access (i.e. passwords or keys) to the cash floats and petty cash safes/registers is limited to appropriately designated staff.	Core	Ongoing	Key to petty cash tin is accessible to authorised officers only. Combination to safe is only known to select staff required to access safe.	Creditors Officer CSTL	MCS
3	A register for cash floats and petty cash and custodians is maintained by appropriately designated staff to record all movements.	Core	Ongoing	A register of cash floats and petty cash is to be developed.	MCS	External Auditors
4	Cash floats and petty cash are reconciled on a regular basis (i.e. daily) and these reconciliations are reviewed by an independent person.	Additional	Ongoing	Cash floats are reconciled daily at end of day once banking is reconciled. Cash float is counted by independent staff member at start of day. Cash Float is counted at least once during the day. Petty Cash is reconciled on a regular basis.	CSTL Creditors Officer	MCS
5	I.O.U.'s are prohibited.	Additional	Ongoing	Yes	MCS	External Auditors
6	Surprise Float and Petty Cash counts conducted periodically at Council Office and remote sites.	Additional	Ongoing	No surprise float count is carried out.	MCS	External Auditors
7	All monies received should be paid direct to council.	Additional	Ongoing	All monies received are processed through to cash receipting general ledger system of Council.	MCS	External Auditors

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8	Petty Cash amounts paid out should be under a predetermined amount and payments cannot be split over more than one voucher to come under the predetermined amount.	Additional	Ongoing	A limit of \$50 for any petty cash expenditure. Any amount over \$50 but under \$100 must be authorised by a senior officer.	Creditors Officer	MCS
9	Incoming cash to be signed for and counted by two staff members upon arrival.	Additional	As required	Incoming cash is counted and signed by 2 staff members.	Creditors Officer/ Customer Service Staff	CSO team Leader
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Cash Floats & Petty Cash						
Risk No. 2 – Cash Floats and Petty Cash transactions are either invalid, inaccurately recorded or not recorded at all.						
Description: Invalid transactions can result if disbursements or reimbursements are for fictitious expenses. Inaccurately recorded transactions can result from both unintentional and intentional processing errors. All disbursements and reimbursements must be recorded in the cash float and petty cash registers to avoid the cash balances in the management reports and financial statements from being misstated.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	A register for cash floats and petty cash and custodians is maintained by appropriately designated staff to record all movements.	Core	Ongoing	A register of cash floats and petty cash is to be developed (refer PC1.3).	MCS	External Auditors
2	All petty cash disbursements must be independently approved and supported by receipts.	Core	Ongoing	Supporting receipts or dockets are supplied for all petty cash disbursements. Amounts above \$50 are to be approved by authorised senior officer.	Creditors Officer	MCS
3	Cash float, cash handling and petty cash policy and procedures available to all staff. This details the maximum dollar purchase and guidelines as determined by an authorised officer regarding cash handling and the use of cash floats and petty cash.	Additional	Ongoing	Policy is required to be developed.	MCS	Audit Committee
4	Cash floats and petty cash are reconciled on a regular basis (i.e. daily) and these reconciliations are reviewed by an independent person.	Additional	Ongoing	Cash floats are reconciled daily at end of day once banking is reconciled. Cash float is counted by independent staff member at start of day. Cash Float is counted at least once during the day. Petty Cash is reconciled on a regular basis (refer PC1.4).	CSTL Creditors Officer	MCS
5	Petty Cash amounts between predetermined thresholds to be authorised by CEO. Petty Cash amounts under a capped amount to be approved by Department Manager.	Core	Ongoing	A limit of \$50 for any petty cash expenditure. Any amount over \$50 but under \$100 must be authorised by a senior officer (refer PC1.4).	Creditors Officer	MCS

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Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

3.2 Banking

Introduction

When reviewing the internal control environment surrounding Banking, Councils should consider the following issues:

- Number of cheque-signatories
- Appropriate personnel to be designated cheque-signatories
- Number of bank accounts to be held by Council
- Timely reconciliation of bank accounts
- EFT controls/passwords/access and
- Custody of blank cheques and cheque-signing machines.

For an analysis of the risks and controls associated with cash handling, please refer to the Cash Floats & Petty Cash Business Activity in this Manual.

Key Issues/Risks

In relation to Banking, the major risks faced by Councils may be summarised as follows:

- Banking transactions are either inaccurately recorded or not recorded at all
- Fraud (i.e. misappropriation of funds).

These risks along with another suggested risk are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Given the high risk of misappropriation surrounding Cash and Banking, it is imperative that Councils focus strongly on ensuring that where possible segregation of duties is achieved. For example, the following activities should be performed by separate personnel:

- Opening mail containing cheque payments
- Recording all cheque payments in the mail
- Receipting all cash payments from ratepayers/customers
- Recording all cash receipts
- Banking all cash receipts and cheques
- Bank reconciliation

Also, the opportunity for the misappropriation of funds through collusion should be minimised by the regular independent review of Bank reconciliations.

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Banking						
Risk No. 1 – Banking transactions are either inaccurately recorded or not recorded at all.						
Description: If cash is inaccurately recorded/receipted prior to being banked, this will result in banking either being inaccurately recorded or not recorded at all. As a result the cash balance will be misstated in both the management reports and the financial statements.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan¹	Responsible Officer - Title	Checking Officer - Title
1	Banking is performed on a predetermined basis by an appropriately designated and independent person.	Additional	Daily	Banking is undertaken on a daily basis. As a security measure there is a need to implement changes to the timing of banking being transported to the bank.	CSTL	MCS
2	Blank cheques and/or cheque-signing machine are adequately safeguarded.	Core	Ongoing	Stock of blank cheques is stored in safe.	Creditors Officer	MCS
3	Access to EFT Banking system restricted to appropriately designated personnel.	Core	Ongoing	All EFT transactions are to be authorised by 2 people.	MCS Payroll Officer Accounts Payable Officer	External Auditors
4	Bank reconciliations are performed on a predetermined basis and are reviewed by an authorised officer. Any identified discrepancies are investigated immediately.	Core	Ongoing	Bank reconciliation carried out regularly and all discrepancies investigated. Need to implement review process by an independent officer.	MCS	External Auditors
5	All cash held securely in safe/registers with access restricted to appropriately designated personnel.	Core	Ongoing	Cash is locked in cash drawer during the day and while in use. Cash is stored in safe overnight. Petty cash is stored in safe overnight otherwise kept in locked tin during the day and while in use.	CSTL Creditors Officer	MCS
6	Security over customer service areas to be reviewed annually.	Additional	Ongoing	Adequate security in place such as panic buttons, cameras, policy of more than one employee working at remote offices.	MCS	CEO
7	All incoming mail is received and recorded by Records staff at the main Council Office.	Additional	Daily	Yes. Incoming mail received over counter is recorded in register before	CSTL Records	MCS

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

				passing onto records staff for logging into system. Incoming mail received via postal system is recorded in records system for distribution to appropriate staff.	Officer	
8	A cash flow forecasting tool is maintained with the objective of holding the balance to the minimum amount required to cover disbursements.	Additional	Daily	Bank account balance is monitored on daily basis with advice given to MCS by other Department Managers of any major expenditure requirements.	MCS	CEO
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Assets Business Process – Banking						
Risk No. 2 – Fraud Description: If cash is misappropriated prior to being banked, this will result in banking either being inaccurately recorded or not recorded at all. As a result the cash balance will be misstated in both the management reports and the financial statements.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Banking is performed on a predetermined basis by an appropriately designated and independent person.	Additional	Daily	Banking is undertaken on a daily basis. As a security measure there is a need to implement changes to the timing of banking being transported to the bank (refer BAN1.1).	CSTL	MCS
2	Blank cheques and/or cheque-signing machine are adequately safeguarded.	Core	Ongoing	Stock of blank cheques are stored in safe (refer BAN1.2).	Creditors Officer	MCS
3	All cash held securely in safe/registers with access restricted to appropriately designated personnel.	Core	Ongoing	Cash is locked in cash drawer during the day and while in use. Cash is stored in safe overnight. Petty cash is stored in safe overnight otherwise kept in locked tin during the day and while in use (refer BAN1.5).	CSTL Creditors Officer	MCS
4	Management reviews journal transactions to the bank account.	Additional	As required	Rate journals are reviewed by MCS. A process for review of other journal transactions is required.	MCS	CEO
5	Bank reconciliations are performed on a predetermined basis and are reviewed by an authorised officer. Any identified discrepancies are investigated immediately.	Core	Ongoing	Bank reconciliation carried out regularly and all discrepancies investigated. Need to implement review process by an independent officer (refer BAN1.4).	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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3.3 Investments

Introduction

All Councils have the statutory power to invest money under its control, under section 139 (1) of the Local Government Act. With this statutory power to invest, comes a whole range of associated risks, some of which are of a financial nature. In order to minimise Council's exposure to financial loss, it is imperative that all councils implement an appropriate level of internal financial controls. Council's power to invest money is limited by the statutory requirements of Section 139 (2) of the Local Government Act which states that a council must, in exercising its power of investment:

- a) Exercise the care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons; and*
- b) Avoid investments that are speculative or hazardous in nature.*

Furthermore, under section 139 (3), "a council must, so far as may be appropriate in the circumstances, have regard to:

- a) The purposes of the investment*
- b) The desirability of diversifying council investments*
- c) The nature of and risk associated with existing council investments*
- d) The desirability of maintaining the real value of the capital and income of the investment*
- e) The risk of capital or income loss or depreciation*
- f) The potential for capital appreciation*
- g) The likely income return and the timing of income return*
- h) The length of the term of a proposed investment*
- i) The period for which the investment is likely to be required*
- j) The liquidity and marketability of a proposed investment during, and on the determination of, the term of the investment*
- k) The aggregate value of the assets of the council*
- l) The likelihood of inflation affecting the value of a proposed investment*
- m) The costs of making a proposed investment*
- n) The results of any review of existing council investments.*

Under section 139 (5), "a council may obtain and consider independent and impartial advice about the investment of funds or the management of its investments from a person whom the council reasonably believes to be competent to give the advice".

Council's also have a statutory obligation under section 140, to review the performance (individually and as a whole) of its investments, at least once in each year.

Key Issues/Risks

In relation to Investments, the major risks faced by Councils may be summarised as follows:

- Council makes poor investment decisions
- Investment transactions are either not recorded or are recorded inaccurately
- Investment income is inaccurately calculated or recorded in the appropriate period.
- Conflict of interest impacts negatively upon the investment decision.

These risks along with other suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Most systems of internal control rely on assigning certain responsibilities to different individuals, or “segregating” incompatible functions. The following segregation of duties should exist within the investment cycle. Such segregation of duties is intended to prevent one person from having both:

- 1) Access to assets; and
- 2) Responsibility for maintaining the accountability for such assets.

For instance, in the investment cycle, different individuals are typically responsible for

- 1) Recording of investment transactions;
- 2) Approving new investments;
- 3) Following up on reconciliation or confirmation of investments to statements from third parties;
4. Review and analysis of recorded investments transactions by means of summary reports of activities (e.g. describing liquidity, interest rate gap, dealing positions, exposure to counterparties)
- 5) Authorised signature of payments with respect to investment transactions.

If one individual has responsibility for more than one of these functions, that individual could misappropriate assets and conceal the misappropriation.

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Investments						
Risk No. 1 – Council makes poor investment decisions						
Description: If Council decides to invest in high-risk or controversial projects, this can result in negative publicity and the potential loss of the original investment.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan¹	Responsible Officer - Title	Checking Officer - Title
1	Council has a clear and comprehensive investment policy to assist when making any decisions to invest funds.	Core	Continual	Treasury management policy is in place.	MCS	Audit Committee
2	Delegations are in place for approving and making investment decisions.	Core	Continual	Delegations are in place. Within position description of MCS to manage investments.	MCS	CEO
3	All conflicts of interest to be disclosed as part of investment decision process.	Additional	Continual	Refer Code of Conduct – Council Employees A pecuniary interest declaration to be completed by senior management.	CEO	
4	Council reviews investment performance at least annually.	Additional	Annually	LG Act requires Council to review annually the performance of its investments (Section 140). A report to be provided at end of financial year to Council listing investments.	MCS	CEO
5	Management to monitor cash & anticipated future cash flows. Surplus funds invested in accordance with Council policy. Investment & transfer of funds approved by any two authorised officers.	Additional	Weekly	Cash is monitored on a weekly basis. Investments of surplus funds per Treasury Management Policy. Need to ensure journal recording transfer of funds is authorised by two officers.	MCS	CEO
6	All investments are to be held in the name of the Council in accordance with the source of funds.	Additional	Ongoing	All investments are in the name of Berri Barmera Council.	MCS	CEO
7	Regular comparisons are required on the	Additional	Ongoing	Comparison is sometime made with	MCS	CEO

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

rate of returns available.			major banks and LGFA per Treasury Management Policy.		
Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Investments						
Risk No. 2 – Investment transactions are either not recorded or are recorded inaccurately.						
Description: Unrecorded investment transactions may result in financial loss if funds are disbursed, but title to the investment is never received, or if investments mature or are sold, but the proceeds are neither received nor reinvested. If investment transactions are recorded inaccurately, investments may be misstated in the balance sheet.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan¹	Responsible Officer - Title	Checking Officer - Title
1	Investment transactions are reconciled / compared to third-party statements documents and discrepancies are investigated.	Core	Monthly	Reconciliations are undertaken on a monthly basis.	MCS	CEO
2	Investment transactions at the end of an accounting period are scrutinised and/or reconciled to ensure complete and consistent recording.	Core	Annually	End of year processes ensures reconciliation takes place. External auditors also undertake checks.	MCS	External auditors
3	Journals are processed monthly for all investments. All journals are double checked.	Additional	Ongoing	Journals are processed on a 'as needs' basis. Authorisation by second officer is required.	MCS	CEO
4	Register of investments is kept detailing amounts and maturity dates.	Additional	Ongoing	Development of a formal investment register is required.	MCS	
5	Actual investment income compared to budget on a regular basis; variances are investigated.	Additional	Ongoing	Undertaken within budget reviews.	MCS	
6	Council reviews investment performance on a regular basis.	Additional	Annually	LG Act requires Council to review annually the performance of its investments (Section 140). A report to be provided at end of financial year to Council listing investments (refer INV1.4).	MCS	CEO

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Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

Control Assessment Worksheet						
Risk Category – Assets Business Process – Investments						
Risk No. 3 – Investment income is inaccurately calculated or not recorded in the appropriate period.						
Description: Inaccurately recorded investment income, unrecorded investment income, or investment income recorded in the incorrect period may result in financial misstatement. Such errors often result from inaccurate data entry of interest rates and/or inaccurate calculation of interest or dividend income.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Investment transactions are reconciled / compared to third-party statements documents and discrepancies are investigated.	Core	Ongoing	Interest statements from third party statements and documents is usually correct, however any discrepancies found are investigated.	MCS	
2	Interest income is calculated by an automated system.	Additional	Ongoing	As above (Inv 3.1)	MCS	
3	Actual investment income compared to budget on a regular basis; variances are investigated.	Additional	Ongoing	Undertaken within budget reviews (refer INV2.5).	MCS	
4	Journals are processed monthly for all investments. All journals are double checked.	Additional	Ongoing	Journals are processed on a 'as needs' basis. Authorisation by second officer is required.	MCS	
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Investments						
Risk No. 4 – Conflicts of interest impacts negatively upon the investment decision.						
Description: If a decision to invest funds is made based solely on a personal relationship with a third-party, an inappropriate investment decision may result. Negative publicity and a potential loss of investment income and devaluation in the investment may result from such an investment decision.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Council has clear and comprehensive Conflict of Interest policy and Code of Conduct (disseminated to employees).	Additional	Ongoing	Conflict of Interest and Code of Conduct policies are in place.	EACEO	CEO
2	Council has a clear and comprehensive investment policy to assist when making any decisions to invest funds.	Core	Ongoing	Treasury management Policy is in place.	MCS	Audit Committee
3	All investment decisions are approved in accordance with investment policy, Conflict of Interest Policy and Code of Conduct, prior to release of funds.	Additional	Ongoing	All investment decisions are in accordance with policies.	MCS	CEO
4	Process for management to either declare conflicts of interest or indicate that there are no conflicts of interests prior to approving any investment decision.	Additional	Ongoing	Senior management complete a 'declaration of interest' return. Implement document detailing investment action and background information also declaring any conflict of interest and signed by manager.	MCS	
5	Compliance with Conflict of Interests and Code of Conduct regularly monitored either by management, internal auditors or statutory auditors.	Additional	Ongoing	Process required to be implemented.	CEO	
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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3.4 Debtors

Introduction

Councils have a statutory right to raise revenue through a form of taxation – rates. Rates represent the major source of revenue for Councils and consequently the risks and controls surrounding rates and the associated debtors constitute a significant component of the internal control environment within Council. Please refer to the Rates / Rate Rebates Business Activity in this Manual for an analysis of the risks and controls that specifically relate to the revenue processes in respect to rates. Along with this statutory right to raise revenue, section 144 of the Local Government Act provides councils with the statutory right to recover fees, charges, expenses or other amounts from a person, by action in a court of competent jurisdiction.

Councils need to ensure that rate-related and other debtors are recovered on a timely basis. Should it be required, there are statutory guidelines as to the procedure for writing-off any debts. Specifically under section 143 (1) of the Local Government Act, a council may write-off any debts owed to the council under the following circumstances:

- a) If the council has no reasonable prospect of recovering the debts or*
- b) If the costs of recovery are likely to equal or exceed the amount to be recovered.*

Furthermore, under section 143 (2), a council must not write off a debt under section 143 (1) unless the chief executive officer has certified:

- a) That reasonable attempts have been made to recover the debt or*
- b) That the costs of recovery are likely to equal or exceed the amount to be recovered.*

Finally, under section 143 (3), if a council delegates the power to write off debts under this section, the council must set an amount above which the delegation will not apply.

Key Issues/Risks

In relation to Debtors, the major risks faced by Councils may be summarised as follows:

- Debtors are either inaccurately recorded or not recorded at all
- An appropriate provision for doubtful debts is not recorded
- Debtors are either not collected on a timely basis or not collected at all.

These risks along with other suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Most systems of internal control rely on assigning certain responsibilities to different individuals or “segregating” incompatible functions. Such segregation of duties is intended to prevent one person from having both:

- Access to assets and
- Responsibility for maintaining the accountability for such assets.

For instance, in a revenue system, different individuals are typically responsible for:

- 1) Recording revenue

- 2) Approving revenue
- 3) Invoicing the ratepayer;
- 4) Maintaining accounts receivable records and/or authorising adjustments to debtors;
- 5) Processing cash receipts;
- 6) Performing independent debtors' confirmation and following up on discrepancies;
- 7) Making changes to debtor master files and if one individual has responsibility for more than one of these functions, that individual could misappropriate assets and conceal the misappropriation.

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Debtors						
Risk No. 1 – Debtors are either inaccurately recorded or not recorded at all.						
Description: Errors in invoices can lead to a misstatement of debtors and revenue, uncollectible accounts, and customer dissatisfaction. If invoices are issued but not recorded, revenue and accounts receivable in the financial statements may be understated. Furthermore, the related cash receipts may also not be recorded and may be misappropriated. Alternatively, the Council is unlikely to notice or follow up on delinquent payments if the invoice has not been recorded.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Rate notices/invoices are automatically calculated using standard programmed formulas, including the calculation of discounts, if applicable.	Core	Annually	Yes. Rates are raised according to rate model as approved by Elected Members.	Rates Officer	MCS
2	Statements of non-rate accounts receivable are mailed to customers.	Additional	Monthly	Yes.	Debtors Officer	MCS
3	Debtors and revenue are compared to budget regularly; management reviews and investigates significant variances.	Additional	Monthly	Regular budget reviews are carried out comparing actual to budget.	Dept Managers	MCS
4	Debtor's reconciliation performed on a regular basis to the GL and reviewed by an independent person.	Core	Monthly	Reconciliation is carried out between debtor's ledger and general ledger.	MCS	External Auditors
5	Council maintains a Debt Collection Policy.	Additional	Annually	Council maintains a Debt Recovery Policy	MCS	Audit Committee
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet							
Risk Category – Assets							
Business Process – Debtors							
Risk No. 2 – Rebates and credit notes to debtors are either inaccurately recorded or not recorded at all.							
Description: Inaccurately recorded rate rebates and credit notes can lead to a misstatement of debtors and revenue, and may result in uncollectible accounts and/or customer dissatisfaction.							
Rate rebates and credit notes issued but not recorded result in misstated accounts receivable and revenue and may result in customer dissatisfaction. They may have a negative impact on cash flows because customers may refuse to pay notices/invoices for which they are awaiting credits even if the credits are only for a small portion of the notices/invoices.							
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title		
1	Management and/or Council approve all bad debt write-offs and movements in the provision for doubtful debts, in accordance with delegations of authority and Local Government Act.	Core	As required	CEO has delegated authority to write off sundry debtors up to \$5,000. Above this limit Council must authorise any write offs. Rate rebates are set according to rate rebate policy and legislation regarding mandatory and/or discretionary rebates	MCS	CEO	
2	Invoice and credit note input data is balanced; out-of-balance batches are corrected promptly.	Additional	As required	Yes.	Debtors Officer	MCS	
3	Credit notes are sequentially pre-numbered; the sequence of credit notes is accounted for.	Core	As required	Yes. System produced.	Debtors Officer	MCS	
4	Statements of non-rate accounts receivable are mailed to customers.	Additional	Monthly	Yes	Debtors Officer	MCS	
5	Debtor batch listing is checked by an authorised officer prior to invoice generation, for accuracy and credit note verification.	Additional	As required	Invoices are raised on a monthly basis. A checking process is required to verify invoices raised within system.	Debtors Officer	MCS	

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Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

Control Assessment Worksheet						
Risk Category – Assets Business Process – Debtors						
Risk No. 3 – An appropriate provision for doubtful debts is not recorded.						
Description: If the provision for doubtful debts is not correctly stated, debtors will be misstated in both the management reports and the financial statements.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Management reviews provision for doubtful debts on a regular basis.	Additional	Annually	Provision for doubtful debts is reviewed during end of financial year processes.	MCS	External Auditors
2	Management reviews debtors ageing profile on a regular basis and investigates any outstanding items.	Core	Ongoing	A review of aging profile is carried out regularly. Investigations are carried out when required.	MCS	External Auditors
3	Debtors and revenue are compared to budget regularly; management reviews and investigates significant variances.	Additional	Monthly	Regular budget reviews are carried out comparing actual to budget (refer DEB1.3).	Dept Managers	MCS
4	Management and/or Council approve all bad debt write-offs and movements in the provision for doubtful debts, in accordance with delegations of authority and Local Government Act.	Core	As required	CEO has delegated authority to write off sundry debtors up to \$5,000. Above this limit Council must authorise any write offs. Rate rebates are set according to rate rebate policy and legislation regarding mandatory and/or discretionary rebates (refer DEB2.1).	MCS	CEO
5	A file should be maintained of bad debt write-offs.	Additional	Ongoing	Details of any bad debts written off are maintained on file as well as logged into records system.	Debtors Officer	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Debtors						
Risk No. 4 – Debtors are either not collected on a timely basis or not collected at all.						
Description: If aged debtors are not identified and managed effectively, this may result in debtors not being collected on a timely basis or not collected at all. This will place greater demands on Council's cash flow.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan¹	Responsible Officer - Title	Checking Officer - Title
1	Debtor's reconciliation performed on a regular basis to the GL and reviewed by an independent person.	Core	Monthly	Debtor's ledger is reconciled to the general ledger on a monthly basis.	MCS	External Auditors
2	Management reviews debtors ageing profile on a regular basis and investigates any outstanding items.	Core	Ongoing	A review of aging profile is carried out regularly. Investigations are carried out when required (refer DEB3.2).	MCS	External Auditors
3	Debtors and revenue are compared to budget regularly; management reviews and investigates significant variances.	Additional	Monthly	Regular budget reviews are carried out comparing actual to budget (refer DEB1.3).	Dept Managers	MCS
4	Management and/or Council approve all bad debt write-offs and movements in the provision for doubtful debts, in accordance with delegations of authority and Local Government Act.	Core	As required	CEO has delegated authority to write off sundry debtors up to \$5,000. Above this limit Council must authorise any write offs. Rate rebates are set according to rate rebate policy and legislation regarding mandatory and/or discretionary rebates (refer DEB2.1)	MCS	CEO
5	Debtor Statements are distributed monthly.	Additional	Monthly	Yes, debtor statements are distributed monthly.	Debtors Officer	MCS
6	The aged trial balance is actively monitored, and a monthly status report is provided to an authorised officer detailing Debtors balances > 90 days with explanations as to the anticipated recovery of those debts.	Additional	Ongoing	As above at Debtors 3.2	MCS	External Auditors

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Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Debtors						
Risk No. 5 – The Debtors master file data does not remain pertinent.						
Description: “Pertinent” means that the debtor’s master file reflects current conditions. In this context, the pertinence attribute of quality relates both to master file records and to individual data fields within those records. For example, pertinent debtors master file records include records for current debtors and exclude records for former debtors.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Access to the debtor’s master file is restricted to appropriately designated personnel and is reviewed by management for accuracy and on-going pertinence.	Core	Monthly	Access to debtor’s master file is restricted to select personnel. An audit trail of who has accessed various aspects of the debtor’s master file is reported every month and reviewed by MCS.	MCS	External Auditors
2	Recorded changes to debtor’s master file data are compared to authorised source documents or confirmed with customers/ratepayers to ensure that they were input accurately.	Core	Monthly	As above at Debtors 5.1	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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3.5 Inventory

Introduction

There are no specific provisions relating to inventory in the Local Government Act. It is recognised that for many Councils, inventory levels are normally quite low. However as a minimum, Council, when reviewing the internal control environment surrounding inventory, should consider the following issues:

- Inventory policy: to determine which items are to be treated as inventory and administered
- Physical storage: to ensure that all inventory items are adequately secured
- Issues and returns: to ensure that all inventory issues and returns are adequately recorded
- Stock takes: to ensure that inventory levels are accurately recorded and reported on a timely basis
- Yearend considerations: to ensure that consistent valuation policies are adopted and applied.

Key Issues/Risks

In relation to Inventory, the major risks faced by Councils may be summarised as follows:

- Inventory received is either recorded inaccurately or not recorded at all
- Inventory is not adequately safeguarded
- Inventory is not valued correctly.

These risks along with other suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

For Councils with significant inventory levels, the following segregation of duties should exist within the inventory management cycle:

- Where possible, personnel responsible for purchasing, accounts payable, receiving, inventory, inventory counts, production scheduling, and shipping have responsibility for only one such function and have no system access to functions other than their assigned function
- Individuals who are responsible for transaction processing should ordinarily have no responsibility for master file maintenance or updating the chart of accounts, except through the authorised application menu options
- Personnel responsible for the custody of inventory have 'read-only' access to inventory records, and personnel who are responsible for inventory transaction processing have neither responsibility for inventory management master file maintenance nor update access to the inventory master file.

Most systems of internal control rely on assigning certain responsibilities to different individuals, or "segregating" incompatible functions. Such segregation of duties is intended to prevent one person from having both:

- 1) Access to assets and
- 2) Responsibility for maintaining the accountability for such assets.

Such segregation of duties is especially important in relation to separating the custody or handling of inventory from access to inventory records and master files. In addition, physical counts of inventory should be performed by someone independent of custody of inventory and with no access to inventory records. Discrepancies noted in the comparison of the counts to inventory records should also be followed up by an individual who is independent of the custody and recording of inventory.

It is recognised that a number of Councils do not have significant inventory levels. For these Councils, a cost-benefit analysis may indicate that such levels of segregation of duties are not applicable and/or cost effective.

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Inventory						
Risk No. 1 – Inventory received is either recorded inaccurately or not recorded at all.						
Description: Incomplete and/or inaccurate recording of inventory receipts may result in a misstatement of inventory. Failure to record inventory received may also lead to supplier disputes and/or inventory obsolescence.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Physical inventory is counted periodically by persons independent of day-to-day custody or recording of inventory. Inventory counts are reconciled to inventory records and inventory records are reconciled to the general ledger.	Additional	Ongoing	A store of inventory is kept at one council site – Berri Direct. This inventory is counted on a regular basis by the Manager at this site. A manual system of stock control is maintained at this site.	Manager Berri Direct	CDO
2	Supplier statements are reconciled to goods receipt records/invoices regularly.	Additional	Ongoing	Goods received are reconciled to invoices upon receipt and authorised by appropriate personnel.	Accounts Payable	Dept Managers
3	All inventory write-offs and provisions for obsolescence to be approved by management in accordance with delegations of authority.	Core	Ongoing	Minimum of stock is held for council depot activities. Stock at Berri Direct is monitored to avoid out of date stock being held.	Dept Managers	CEO
4	All Inventory adjustments are compared to authorised source documents to ensure that they were accurately input. Inventory adjustment forms are sequentially pre-numbered and accounted for where relevant.	Additional	Ongoing	A semi-manual inventory system at Berri Direct is currently maintained. This will be reviewed at a later date.	Manager Berri Direct	CDO
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Inventory						
Risk No. 2 – Inventory is inadequately safeguarded.						
Description: If inventory is not securely stored, it may be subject to damage or theft. For example, paper products could be damaged by exposure to water, or other products could be damaged by exposure to temperatures that are too high or too low.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan¹	Responsible Officer - Title	Checking Officer - Title
1	Stock held in properly secured locations with access restricted to authorised personnel.	Core	Ongoing	Minimum of stock is held on site in depot. Stock held at Berri Direct is held throughout floor of shop. Berri Direct Shop is alarmed and monitored by security company after hours.	Dept Managers	CEO
2	Goods are delivered and stored only to designated, physically secure locations with acceptance of goods and access to stores only by authorised personnel.	Additional	Ongoing	Correct. Stock is delivered to appropriate site and signed for when received.	Dept Managers	CEO
3	All stocks insured with adequate cover which is reviewed regularly.	Additional	Ongoing	Adequate insurance is maintained.	Property Officer	MES
4	A Purchase Order must be raised prior to ordering the goods from a supplier.	Core	Ongoing	Yes. All purchases must have a purchase order raised prior to ordering goods from supplier.	Dept Managers	CEO
5	Goods and services are approved for order within the Delegations of Authority.	Core	Ongoing	Yes. Only officers with delegated authority purchase goods and services.	Dept Managers	CEO
6	All stock transfers are approved by the stock manager and the manager receiving the stock.	Additional	n/a	Minimum stock transfers occur, if at all.	n/a	n/a
7	Partial Monthly stock-takes are to be completed ensuring all inventory items are counted at least once per year.	Additional	Monthly	Stock take is carried out monthly at Berri Direct	Manager Berri Direct	CDO

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Inventory						
Risk No. 3 – Inventory held by Council becomes obsolete.						
Description Council may have inventory that has expired or is technically obsolete, and therefore is not usable. The cost of disposing of obsolete inventory can be high. In addition, certain types of inventory have a limited life span. Adequate inventory management adequate storage facilities and ongoing monitoring are central to maintaining the usability of inventory and maximising its life span.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	The usability of inventory is assessed regularly including a review during physical inventory counts.	Additional	Ongoing	Inventory is assessed during stock count; any out of date produce is identified and disposed of.	Manager Berri Direct	CDO
2	Stock held in properly secured locations with access restricted to authorised personnel.	Core	Ongoing	Minimum of stock is held on site in depot. Stock held at Berri Direct is held throughout floor of shop. Berri Direct Shop is alarmed and monitored by security company after hours.	Dept Managers	CEO
3	Rejected inventory is adequately segregated from inventory and returned to suppliers on a timely basis.	Additional	Ongoing	Stock is returned to suppliers immediately if rejected where applicable.	Dept Managers	n/a
4	Management regularly reviews inventory consumption by project/business activity.	Additional	Ongoing	Inventory is not kept on site as goods are ordered as and when required.	Dept Managers	n/a
5	Inventory ageing reports are prepared and analysed regularly.	Additional	Ongoing	A semi manual system of inventory control is maintained at Berri Direct. An appropriate system will be investigated when alterations to location are carried out.	Manager Berri Direct	CDO

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Prepared by:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
Date:	Accept		Accept		

3.6 Prepayments

Introduction

There are no specific sections of the Local Government Act that deal specifically with prepayments. However as a minimum, Council, when reviewing the internal control environment surrounding prepayments, should address the issue of when payments are to be deferred as prepayments and the period over which they should be amortised. It is important that all prepayments are identified and recorded on a timely basis to ensure that expenses are recognised in the appropriate period and that the financial statements are not misstated. The recognition, treatment and recording of Prepayments is normally a process associated with year-end reporting for most Councils.

Please refer to paragraph 57 of AAS27: Financial Reporting by Local Governments, for guidance as to the criteria for recognising expenses.

Key Issues/Risks

In relation to Prepayments, the major risks faced by Councils may be summarised as follows:

- Incorrect recognition of payments as prepayments
- Prepayments are either inaccurately recorded or not recorded at all.

These risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Please refer to “Segregation of Duties” in the Investments Business Activity for an analysis of the segregation of duties issues that relate in general to assets.

Control Assessment Worksheet						
Risk Category – Assets Business Process – Prepayments						
Risk No. 1 –: Incorrect recognition of payments as prepayments.						
Description If payments are incorrectly recognised as prepayments, this will result in an overstatement of prepayments and misstated financial statements.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Actuals compared to budget on a regular basis.	Additional	Continual	Yes.	MCS	
2	Procedures document providing clear and comprehensive guidance as to the recognition, treatment and recording of prepayments.	Core	Annually	No procedures document in place. Payments relating to next financial year are processed to prepayments. Reconciliation and details of prepayments account is provided to external auditors at year end.	MCS	External Auditors
3	Prepayment reconciliations are prepared on a regular basis and are reviewed by an independent person.	Additional	Annually	As above	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Prepayments						
Risk No. 2 – Prepayments are either inaccurately recorded or not recorded at all.						
Description If prepayments are not recorded or inaccurately recorded, both the management reports and the financial statements will be misstated. Examples of when this may occur include:						
<ul style="list-style-type: none"> • Deferring all of an expense when only a portion should be deferred or • Not deferring any part of an expense when at least some portion of the expense should be deferred. 						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Actuals compared to budget on a regular basis.	Additional	Ongoing	Expenditure is incorporated within budget.	MCS	
2	Procedures document providing clear and comprehensive guidance as to the recognition, treatment and recording of prepayments.	Core		As above at PR 1.2		
3	Prepayment reconciliations are prepared on a regular basis and are reviewed by an independent person.	Additional		As above at PR 1.3		
4	Payments are reviewed on a predetermined basis in order to identify expenses that should be treated as prepayments.	Additional	Ongoing	Invoices are monitored, especially at end of financial year, and processed to relative financial year.	Accounts Payable	MCS
5	Prepayments are authorised and accounted for by Authorised Officer only. Periodic checks of prepayments to occur frequently as end-of-year approaches.	Core	Annually	MCS authorises prepayments. Check is made by MCS at end of year processing to ensure correct allocation.	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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3.7 Fixed Assets

Introduction

In this Manual the definition of “Fixed Assets” includes infrastructure assets, such as roads, drains and trees. The risks and controls documented in the following Control Assessment & Design Worksheets address both the specific risks associated with infrastructure assets and those more general risks associated with Fixed Assets as a whole. The key risks associated with infrastructure have been identified as being appropriate identification and valuation. When reviewing the internal control environment surrounding Fixed Assets, Council should consider the following issues:

- Additions and disposals
- Classification and capitalisation policies
- Depreciation policies
- Recording/registers
- Yearend considerations
- Security arrangements, insurance coverage and maintenance plans
- Valuations

The financial impact of fixed assets on the operations of Council and the annual financial statements is significant as evidenced by the following relationships:

- Additions and disposals
- Capital additions may have significant demands on cash flows and may represent a significant capital investment.
- Choice of depreciation policy affects the depreciation charged to the Operating Statement.
- Disposals of fixed assets may result in profit and loss on sale.

Further guidance in relation to the appropriate recognition and valuation of fixed assets is provided by the following:

- AASB 1010: Recoverable Amount of Non-Current Assets
- AASB 1008: Leases

Depreciation

For an analysis of the three most commonly used traditional methodologies for depreciation, refer to the chapter entitled “Depreciation” in the Asset Management Section of “A Framework for Local Government Financial Management”, produced by the Local Government Association. Further guidance in relation to depreciation is provided by AASB 1021: Depreciation.

Key Issues/Risks

In relation to Fixed Assets, the major risks faced by Councils may be summarised as follows:

- Fixed asset acquisitions are fictitious, inaccurately recorded or not recorded at all.
- Fixed assets are inadequately safeguarded.
- Fixed assets are not valued correctly.

- Fixed Assets maintenance and/or renewal is inadequately planned.

These risks along with other suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Most systems of internal control rely on assigning certain responsibilities to different individuals, or “segregating” incompatible functions. Such segregation of duties is intended to prevent one person from having both:

- 1) Access to assets; and
- 2) Responsibility for maintaining the accountability for such assets. The following types of responsibilities should ordinarily be segregated:
 - a) Transaction initiation (acquisitions or disposals)
 - b) Transaction authorisation
 - c) Transaction recording
 - d) Custody of assets
 - e) Reconciliation of physical fixed assets and liabilities to records.

Therefore, personnel responsible for fixed asset acquisition, disposal, recording, and maintenance should have responsibility for only one such function and have no system access to functions other than their assigned function. In addition, personnel who are responsible for fixed asset transaction processing should have neither responsibility for fixed asset masterfile maintenance nor update access to the fixed asset master file.

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Fixed Assets						
Risk No. 1 – Fixed asset acquisitions are fictitious, inaccurately recorded or not recorded at all.						
Description Recorded fixed asset acquisitions that do not represent fixed assets acquired by Council may result in misstatement in the management report and financial statements. Inaccuracies in the input and/or processing of asset acquisition details or amounts may lead to the asset being incorrectly reflected in the general ledger. Asset acquisitions that are not recorded may understate the value of fixed assets and depreciation, and may lead to assets being lost or misappropriated.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan¹	Responsible Officer - Title	Checking Officer - Title
1	Fixed asset register ('FAR") is periodically reviewed by management for accuracy and ongoing pertinence.	Additional	Ongoing	A more thorough review of fixed asset register is required for some class of assets. Asset register data review is currently being undertaken.	Dept Managers	External Auditors
2	Activity recorded in fixed asset register is reviewed by management, including comparison to the capital budget. Financial data associated with Infrastructure Assets is maintained and reviewed.	Additional	Ongoing	Updates to Fixed Asset Registers are carried out as appropriate. Dept Managers carry out comparisons with capital budget. Capital purchases are recorded on the fixed asset registers as applicable.	Dept Managers	External Auditors
3	Periodic counts of fixed assets are performed and reconciled to the FAR.	Core	Ongoing	Some periodic counts of fixed assets are performed and reconciled but a more thorough review of fixed asset registers is required.	Dept Managers	External Auditors
4	Recorded changes to the FAR are compared to authorised source documents to ensure accurate input.	Core	Ongoing	Asset disposal and acquisitions forms are completed on changeover of assets where applicable.	Dept Managers	External Auditors
5	All fixed asset acquisitions are approved in accordance with Delegation of Authority.	Core	Ongoing	Yes.	Dept Managers	External Auditors
6	Fixed assets are identified on acquisition or creation to facilitate accurate identification of assets and recording of details.	Additional	Ongoing	Asset acquisition forms are completed when new assets are acquired. Where possible identification numbers are allocated.	Dept Managers	CEO

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7	Access and on-going maintenance of the fixed asset register is performed by authorised officers only.	Core	Ongoing	Asset Registers are kept by various mediums (i.e. conquest, excel, synergysoft) but are maintained only by authorised officers or dept managers.	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Assets Business Process – Fixed Assets						
Risk No. 2 – Fixed assets are inadequately safeguarded.						
Description: If fixed assets are not securely stored, they may be subject to damage or theft						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Fixed assets are located in an appropriately secured area, where access is restricted to authorised personnel.	Core	Ongoing	Yes. Council offices and depot are locked after hours. Security company monitor all premises.	Property Officer	MES
2	Pre-numbered identification tags are attached to fixed assets on acquisition to facilitate accurate identification of assets and recording of details.	Additional	Ongoing	ID numbers for assets such as office equipment were once in use but have not been maintained.	MCS	CEO
3	Insurance cover of capital items regularly reviewed.	Additional	Ongoing	Yes.	Property Officer	MES
4	Location of keys should be held in Key Registers and spare keys stored securely.	Additional	Ongoing	Key register is maintained and located in secure locked room.	Property Officer	MES
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Fixed Assets						
Risk No. 3 – Fixed Assets are not valued correctly.						
Description If fixed assets are not valued correctly, the management reports and financial statements will be misstated. For example, incorrect carrying values may result from the use of inappropriate depreciation rates.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Mgt regularly reviews valuation of fixed assets - methodology and useful lives, to ensure valuation is appropriate and in accordance with reporting requirements. Where appropriate, Council may engage an expert to perform valuation for unusual assets.	Core	Ongoing	Major fixed assets are valued by independent expert valuer on a rolling basis per Asset Management and Asset Accounting Policies.	MCS	External Auditors
2	Management reviews depreciation rates and methodology (at least annually) to ensure that methods used to value fixed assets are still appropriate.	Core	Annually	Depreciation rates and methodology are set out in Council's Asset Accounting Policy. This policy is reviewed annually.	MCS	Audit Committee
3	Management compare actual fixed asset balance to budget; significant variances are investigated and approved.	Additional	Quarterly	Budget reviews are carried out regularly, any significant variances are investigated and reported to Council.	Dept Managers	Elected Members
4	Asset revaluations and depreciation reviews are performed in accordance with Australian Accounting Standards.	Core	Ongoing	Yes.	MCS	External Auditors
5	The annual review of assets includes reviewing the appropriateness of categories of assets and impairment testing.	Additional	Ongoing	Categories of assets have not altered in the past. Impairment testing is not carried out.	MCS	Audit Committee, External Auditors

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6	Standard programmed formulas perform the calculation of the profit or loss upon disposal of an asset.	Additional	Ongoing	Disposal of asset is carried out through software system and disposal journal (gain or loss) is calculated automatically.	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Fixed Assets						
Risk No. 4 – Depreciation charges are either invalid not recorded at all or are inaccurately recorded.						
Description Invalid depreciation charges can result if depreciation charges are recorded with respect to fictitious assets or assets that have been disposed of. Invalid depreciation charges may also result if depreciation rates and methods of calculation are not properly applied. Depreciation charges should be calculated in accordance with the accounting policy, including the useful life, depreciation method, and calculation formulas.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	The balances in fixed assets and accumulated depreciation are rolled forward from one processing cycle to the next using independently obtained asset acquisition, asset disposal, and depreciation expense data.	Additional	3	General ledger balances are carried forward at year end process. A check is performed to ensure closing balances in one year are equal to opening balances in next year.	MCS	External Auditors
2	Standard programmed formulas perform depreciation calculations.	Additional	4	Various programs are utilised for depreciation calculations for various classes of assets. i.e.- Conquest, Synergyssoft, Excel Spreadsheets	MCS, MIS, MES	External Auditors
3	Depreciation charges and methods are reviewed by management including consideration of the recording of such charges in the appropriate accounting period.	Additional	4	Depreciation rates and methodology are set out in Council's Asset Accounting Policy. This policy is reviewed annually. Depreciation charges are calculated and posted to appropriate general ledger expense accounts on a quarterly basis.	MCS	External Auditors
4	When calculating depreciation reliable figures are available for condition of each asset, unit of measurement, replacement value, residual life and written down replacement value.	Additional	3	More work is required regarding reliability of asset data. This will be carried out with development of IAMP's	Dept Managers	Audit Committee

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment			
	Likelihood		Likelihood			
	Consequence		Consequence			
	Rating		Rating			
	Accept		Accept			

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Fixed Assets						
Risk No. 5 – Fixed Asset disposals are fictitious, inaccurately recorded or not recorded at all.						
Description If recorded fixed asset disposals do not represent actual disposals, the management reports and the financial statements will be misstated. Inaccurate calculation and recording of fixed assets may result in misstatement of fixed assets and profit or loss on asset disposal. Incomplete recording of fixed asset disposals may result in misstatement of the management reports and the financial statements.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan¹	Responsible Officer - Title	Checking Officer - Title
1	Fixed asset register ('FAR") is periodically reviewed by management for accuracy and ongoing pertinence.	Additional	Ongoing	A more thorough review of fixed asset register is required for some class of assets. Asset register data review is currently being undertaken refer IC1.1.	Dept Managers	External Auditors
2	Activity recorded in fixed asset register is reviewed by management, including comparison to the capital budget.	Additional	Ongoing	Updates to Fixed Asset Registers are carried out as appropriate. Dept Managers carry out comparisons with capital budget.	Dept Managers	External Auditors
3	Periodic counts of fixed assets are performed and reconciled to the FAR.	Core	Ongoing	Some periodic counts of fixed assets are performed and reconciled but a more thorough review of fixed asset registers is required refer IC1.4.	Dept Managers	External Auditors
4	Standard programmed formulas perform the calculation of the profit or loss upon disposal of an asset.	Additional	Ongoing	Disposal of asset is carried out through software system and disposal journal (gain or loss) is calculated automatically.	MCS	External Auditors
5	All recorded disposals of fixed assets are approved in accordance with Delegation of Authority.	Core	Ongoing	Yes. Asset disposal forms are completed and passed to appropriate officer. Delegated authority to CEO only. Asset management committee authorise other disposals.	CEO	Elected Members
6	Capitalisation & reconciliation of Fixed Assets to GL is to occur at the end of the financial year, with the exception of major	Core	Ongoing	Yes. Capitalisation and reconciliation of fixed assets occurs at year end. Plant and Equipment etc are updated to	MCS	External Auditors

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	plant & equipment, which is updated each quarter and the fixed asset register is reconciled with the General Ledger.			the fixed asset register when acquired and first in use.		
Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment			
	Likelihood		Likelihood			
	Consequence		Consequence			
	Rating		Rating			
	Accept		Accept			

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Fixed Assets						
Risks No. 6 – Fixed Asset maintenance and/or renewals are inadequately planned.						
Description: If Council does not conduct effective financial planning for the long-term use of their Fixed Assets, this will result in Council not having sufficient funds to reinvest in fixed assets when required.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Asset management plan (including plans to obtain sufficient funding to cover expected capital investment) prepared as part of Strategic Plan. The capital investment plan is reviewed regularly for appropriateness.	Additional	Ongoing	No Asset Management Plans are in place.	Dept Managers	CEO and Audit Committee
2	Management undertakes a regular review of useful lives of Fixed Assets and updates asset management plan to reflect any significant changes (i.e. expected time-frame for replacing significant fixed assets).	Additional	Annually	Useful lives and depreciation methodology are set out in Council's Asset Accounting Policy. This policy is reviewed annually. Further work is required with the development of Asset Management Plans.	Dept Managers	CEO and Audit Committee
3	All changes to the asset management plan must be approved by Council.	Core	Ongoing	Council will approve IAMP's once completed. These plans will be reviewed initially by Audit Committee	Dept Managers	Audit Committee
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Fixed Assets						
Risk No. 7 – Fixed asset register does not remain pertinent.						
Description "Pertinent" means that the fixed asset register reflects current conditions. In this context, the pertinence attribute of quality relates both to fixed asset register records and to individual data fields within the fixed asset register.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Asset maintenance schedules are prepared, updated, and monitored by management and activity per the asset maintenance schedule is reconciled to the asset maintenance history register regularly.	Additional	Ongoing	Due to the absence of IAMPS asset maintenance schedules do not exist. Asset maintenance requirements will be ascertained by works staff with appropriate expertise and reported to Council for consideration within budget deliberations.	Dept Managers	Audit Committee
2	Fixed asset register ("FAR") is periodically reviewed by management for accuracy and ongoing pertinence.	Additional	Ongoing	A more thorough review of fixed asset register is required for some class of assets. Asset register data review is currently being undertaken refer IC1.1.	Dept Managers	External Auditors
3	All changes made to the FAR and/or master file are approved by management.	Core	Ongoing	Asset Registers are kept by various mediums (i.e. conquest, excel, synergysoft) but are maintained only by authorised officers or dept managers.	Dept Managers	MCS
4	Changes to the asset maintenance history register are compared to source documents to ensure that they were input accurately.	Additional	Ongoing	Documents relating to changes to asset registers are held on file for external audit check and correctness during end of year audit.	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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3.8 Project Costing

Introduction

Councils invest heavily in significant capital projects. Given this level of investment, it is imperative that expenditure on capital projects is reported accurately to the Elected Body and the Senior management. Accurate Project Costing is largely based on the use of a costing system that apportions costs to functions, activities, goods or services based on a reliable and consistent basis. The Local Government (Financial Management) Regulations 2011 require Councils to prepare externally reported financial information on a Full Cost Attribution basis.

Full Cost Attribution may be defined as

“a system under which all costs, including indirect and overhead costs, are allocated to a function, activity, good or service on a reliable and consistent basis”.

Full Cost Attribution represents one methodology used to assign costs to projects and contrasts with the more traditional method, referred to as Direct Costing. For a detailed analysis of the issues surrounding costing systems generally and full cost attribution specifically, please refer to the following publications produced by the Local Government Association of South Australia - A Guideline to Implementing Full Cost Attribution.

Key Issues/Risks

In relation to Project Costing, the major risks faced by Councils may be summarised as follows:

- Projects are either inaccurately recorded or not recorded at all
- Over-expenditures on Projects may not be detected.

These risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Please refer to “Segregation of Duties” in the *Investments* Business Activity for an analysis of the risks and controls that relate generally to assets.

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Project Costing						
Risk No. 1 – Projects are either inaccurately recorded or not recorded at all.						
<p>Description If an inappropriate costing method is used to record Project Costs or if there is IT processing errors, this will result in Projects being inaccurately recorded, leading to misstatements in both the management reports and the financial statements. If the costs associated with approved Projects are not recorded due to oversights by personnel, this will result in Project Costs being understated and misstatements in both the management reports and the financial statements.</p>						
Possible Controls	Control Type	Frequency	Current Situation	Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1 Actual project costs are regularly compared to budgets; significant variances are investigated by management.	Core	Monthly	Dept Manager in charge of project compares budget to actuals on a monthly basis if not more regularly. Any significant variances are investigated and if necessary are reported to Council.		Dept Managers	Council
2 Management review costing methodology used for projects to ensure appropriate method of full cost attribution is in place.	Additional	Ongoing	Yes. Refer Full Cost Attribution Policy.		MCS	Audit Committee
3 Overhead rates are reviewed and revised on a regular basis.	Additional	Ongoing	Overhead rates need to be reviewed on a more regular basis.		MCS	External Auditors
4 Management compares information detailed in the Project Register with the information reported in the financial system; any omissions are investigated.	Additional	Ongoing	The Annual Budget is equivalent to Project Register. Variances between budget and actual are monitored as mentioned above at point 1.		Dept Managers	Elected Members
Prepared by:	Inherent Risk Assessment		Residual Risk Assessment			
Date:	Likelihood		Likelihood			
	Consequence		Consequence			
	Rating		Rating			
	Accept		Accept			

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Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Project Costing						
Risk No. 2 – Over-expenditures on Projects may not be detected.						
Description: If over-expenditures are not detected, this will result in Project objectives not being achieved and may restrict Council’s ability to commit to funding future Projects.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan¹	Responsible Officer - Title	Checking Officer - Title
1	Management performs an on-going review of current projects. This review is formally documented through a robust evaluation process and involves monitoring costs to date and estimated costs of completion.	Additional	Ongoing	Yes, management are constantly monitoring projects. Project status reporting is carried out to Council committee every second month. Costs are also monitored closely and reported via the Budget review processes.	Dept Managers	Elected Members
2	Actual project costs are regularly compared to budgets; significant variances are investigated by management.	Core	Monthly	Dept Manager in charge of project compares budget to actuals on a monthly basis if not more regularly. Any significant variances are investigated and if necessary are reported to Council.	Dept Managers	Council
3	Robust and rigorous process for establishing budgets for projects. Project budgets must be approved in accordance with Delegations of Authority.	Core	Annually	Dept Manager responsible for the project performs project costing during the months the budget is prepared. Council approve all projects within the Annual Business Plan.	Dept Managers	Elected Members
4	Exception report generated detailing all variances for project costs over a fixed threshold (i.e. percentage or dollar amount). Exception report reviewed by management and all significant variances are investigated.	Core	Ongoing	A budget vs. actual report which provides variances is provided to Dept Managers to review on a monthly basis. Access to general ledger costings for Dept Managers is also available for more rigorous monitoring if required. Significant variances are reported to Council if necessary.	Dept Managers	Elected Members

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

5	Managers to report any instance of over spending budgets with a detailed explanation to the senior management team.	Additional	Ongoing	Project monitoring is carried out and reported to committee of council every second month. Budget reviews are carried out per annual budget policy.	Dept Managers	Elected Members
6	Where appropriate, projects are charged for service costs.	Additional	Ongoing	Indirect costs are allocated to capital works/projects. Refer Full Cost Attribution Policy	Dept Managers	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

3.9 Loans/Grants to Clubs

Introduction

As a minimum when reviewing the internal control environment surrounding Loans / Grants to Clubs / Community Groups, Councils should consider the following issues:

- Appropriate approval and authorisation of the loan in accordance with the Delegations of Authority
- The negative publicity that Council may receive from lending funds in these circumstances
- Conflicts of interest issues when deciding on the recipient of the funds
- Adequate recovery and collection procedures
- Monitoring those funds have been used for the purpose intended.

For an analysis of further risks and controls in relation to Debtors generally, please refer to the Debtors Business Activity in this Manual.

Key Issues/Risks

In relation to Loans / Grants to Clubs / Community Groups, the major financial risks faced by Councils may be summarised as follows:

- Council issues Loans / Grants inappropriately
- Clubs / Community Groups are not able to repay Loans / Grants to Council.

These risks along with other suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

The following activities should be separated in relation to Loans / Grants to Clubs / Community Groups:

- Approval of loan / grant
- Recording of the loan / grant
- receipting loan / grant repayments
- Recording loan / grant repayments
- Approving write-off of loans / grants.

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Loans / Grants to Clubs						
Risk No. 1 – Council issues Loans/Grants inappropriately.						
Description: If Councils do not have a robust policy for the issuing of funds to organisations, this may result in funds being distributed to inappropriate Clubs/Community Groups. Such groups may not then be in a position to repay the loans/grants to Council, resulting in both increased demands on cash flow for Council along with negative publicity. This will result in an overstatement in the loan balance and a misstatement in the management reports and financial statements.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Council establishes clear policy for issuing funds to Clubs / Community Groups. Policy details appropriate approval of funds issued in accordance with Delegations of Authority and compliance with Conflict of Interest Policy.	Core	Ongoing	Refer Treasury Management Policy regarding Community Loans. Refer Community Grants Policy regarding funds allocated to community groups. Any funds issued to community groups are approved by Council.	MCS CDO	Audit Committee
2	Management monitors compliance with Council policy for issuing funds to Clubs / Community Groups on a regular basis.	Additional	Ongoing	Refer above mentioned policies. All funds issued to community groups either by loan or grant are approved by Council and allocated against budget set aside.	MCS CDO	Elected Members
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Loans / Grants to Clubs						
Risk No. 2 – Loans/Grants to Clubs/Community Groups are inaccurately recorded or not recorded at all.						
Description: Loans/Grants to clubs/community groups may be inaccurately recorded in terms of either the amount of the loans or the details of the actual recipient of the funds. Unintentional or intentional errors can result in the loans not being recorded at all and the management reports and financial statements being misstated.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Statements of loans receivable are regularly mailed to recipient of funds.	Additional	Ongoing	Invoices are raised for loan payments due to Council by community groups.	Accounts Receivable Officer	MCS
2	Actual loan balances compared to budgets on a regular basis.	Additional	Ongoing	Loan balances are reconciled during end of year process. Budget allocations are reviewed throughout the year.	MCS	External Auditors
3	Loan receivable reconciliations are prepared on a regular basis and reviewed by an independent person.	Core	Annually	Loans receivable are reconciled at end of year process.	MCS	External Auditors
4	All loans must be approved by Council in accordance with Delegations of Authority.	Core	Ongoing	Council approves loans made to any outside organisation.	CEO	Elected Members
5	Receivers of grants are required to acquit the funds spent.	Core	Ongoing	Refer process regarding Community Grants as detailed in Community Grants Policy. Community groups receiving grants are required to acquit the funds spent.	CDO	CEO
6	Process to inform stakeholders where services provided under grants may not be continued in future.	Additional	Ongoing	Wherever possible stakeholders are informed if/when services provided from grants are being ceased.	CEO	Elected Members
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Control Assessment Worksheet						
Risk Category – Assets						
Business Process – Loans / Grants to Clubs						
Risk No. 3 – Clubs/Community Groups not able to repay Loans/Grants to Council.						
Description: Councils must monitor the recovery of all Loans/Grants to Clubs/Community Groups on a regular basis to ensure that the amount recorded is the amount that they will receive in full. When a Club/Community Group is not repaying the loan in accordance with the original repayment schedule, the carrying value of the loan must be analysed by Council with a view to assessing whether the full amount is recoverable. If a decision is made that the full amount is not recoverable, this will result in the carrying value of the loan being misstated and negative publicity for Council.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Management approves bad-debt write-offs to loans receivable.	Core	Ongoing	CEO has delegated authority up to \$5,000 to write off any bad debt. Over this amount Council must approve write off of bad debts.	CEO	Elected Members
2	Actual loan balances compared to budgets on a regular basis.	Additional	Ongoing	Loan balances are reconciled during end of year process. Budget allocations are reviewed throughout the year.	MCS	External Auditors
3	Mgt review ageing profile of loan receivables to identify all outstanding receipts not received in accordance with original collection schedule. All outstanding items are immediately investigated to ensure timely recovery of outstanding amounts.	Additional	Annually	Loan reconciliation is carried out during end of year process A tighter review of outstanding loan by community groups is required.	MCS	External Auditors
4	Loan receivable reconciliations are prepared on a regular basis and reviewed by an independent person.	Core	Annually	Loans receivable are reconciled at end of year process.	MCS	External Auditors

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Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

4 Liabilities

4.1 Accounts Payable

Introduction

There are no sections of the Local Government Act that deal specifically with Accounts Payable. However when reviewing the internal control environment surrounding Accounts Payable, Council should consider the following issues:

- Receipt of approved goods and services
- Processing and recording of supplier invoices
- Custody of blank cheques and cheque-signing machines and access to electronic payment facilities
- Maintenance of the supplier master file.

For the purposes of this Manual, the Accounts Payable function has been defined as the process of recording the supplier invoice as a liability and its subsequent disbursement. Accordingly the Accounts Payable function is separate from the preliminary activity of purchasing. For the risks and controls associated with purchasing, please refer to the Purchasing & Procurement Business Activity in this Manual.

Key Issues/Risks

In relation to Accounts Payable, the major risks faced by Councils may be summarised as follows:

- Accounts payable amounts are either inaccurately recorded or not recorded at all
- Disbursements are not authorised properly
- Disbursements are either inaccurately recorded or not recorded at all.

These risks along with other suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

The following segregation of duties should exist within the disbursement cycle:

- Signed cheques, which have been compared to appropriate supporting documentation by the signatory, are delivered to someone independent of both the preparer and the initiator of the cheque for prompt mailing.
- Cheques should not be returned to the preparer or initiator of the cheque subsequent to being signed and should be timely mailed to ensure that opportunity for misappropriation is minimised.
- The return address on the envelopes that are used to mail cheques should be to a person(s) who does not prepare cheques or approve payment requests for payment.
- Cheques once signed should also be timely mailed and processed to accounts payable to ensure that the cash and liability balances are fairly represented in the accounting records. This is especially important at period ends.

In addition the following tasks should be segregated in relation to the Accounts Payable function:

- Approval of supplier invoice

- Recording of liability (supplier invoice)
- Approval of payment (i.e. signing of cheque or approving EFT payment).

Control Assessment Worksheet						
Risk Category – Loans						
Business Process – Accounts Payable						
Risk No. 1 – Accounts payable amounts are either inaccurately recorded or not recorded at all.						
Description: If invoices are not entered accurately (i.e. amounts posted to incorrect creditor), accounts payable will be misstated, as will the relevant expense, inventory, or asset accounts. Also, erroneous payments may be made to vendors.						
If amounts posted to accounts payable do not represent goods or services received (due to invalid delivery address on purchase order), unauthorised payments might be made and the organisation might incur a financial loss. If accounts payable amounts are not recorded at all, accounts payable will be understated, as will the related inventory, expense, or asset accounts. Also, supplier payments will not be made, which may damage supplier relationships.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable subledger regularly and differences are investigated.	Core	Twice a month	Reconciled by accounts payable officer regularly.	Accounts Payable	MCS
2	Actual expenditures are compared to budget regularly; management reviews and approves significant variances.	Additional	Monthly and quarterly budget reviews	Dept Managers receive monthly budget vs. actual reports for review. Dept Managers also monitor actual expenditure on a daily basis by enquiry to general ledger system. Report provided to Council regarding any significant variances on a monthly or quarterly basis.	Dept Managers	n/a
3	Creditor's batch listing and supporting documentation is checked by an authorised officer prior to cheque (or EFT) generation for accuracy and credit note verification.	Additional	Generally twice per month	Prior to payment (EFT) batch is checked and authorised before payment is made.	MCS	External Auditors
4	Invoices for services received are authorised and accompanied by appropriate supporting documentation.	Core	Daily	Each invoice is matched with an authorised purchase order and/or other supporting documents.	Accounts Payable	Dept Manager

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

5	Variations between Purchase Orders and Invoices are suspended and released by the Finance Officer only after verification by the responsible officer.	Additional	Daily	Each department responsible for invoice will check invoice authenticity against supporting documentation e.g. purchase orders. Any variations are investigated by department before releasing to Accounts Payable for processing.	PA MIS, PA MES	Accounts Payable
6	Goods and/or services received are matched on-line or manually with purchase order details and/or invoices.	Additional	Daily	As above AP1.5	PA MIS PA MES	Accounts Payable
7	Bank statements are reconciled to the general ledger regularly.	Additional	Monthly	Checked daily and significant transactions accounted for via journal. Reconciled with general ledger monthly.	MCS	CEO
8	Cheques are endorsed by authorised officers separate to the preparer who ensure that they are paid to the specified payee.	Core	As required	Cheques require 2 authorised signatures. Preparer is not a signatory to account.	CEO, MCS, Exec Sec, Mayor, CDO	n/a
9	Individuals who process electronic funds transfers are authorised by management.	Core	As required	2 electronic signatures to eff's are required.	MCS, Accounts Payable, Payroll Officer	n/a
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Liabilities						
Business Process – Accounts Payable						
Risk No. 2 – Credit notes and other adjustments to accounts payable are either inaccurately recorded or not recorded at all.						
Description: If credit notes and other adjustments are not recorded accurately, accounts payable will be misstated, as will the related expense, inventory, or asset accounts. If adjustments are not recorded at all, accounts payable, related assets, and expenses will be misstated. For example, if goods returned are not reflected by debits in accounts payable, accounts payable will be overstated, as will the underlying expense, inventory, or asset accounts.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable subledger regularly and differences are investigated.	Core	Twice a Month	Reconciled by accounts payable officer regularly (refer AP1.1)	Accounts Payable	MCS
2	Invoices, credit notes, and other adjustments related to accounts payable are batched and batch input data is balanced; out of balance batches are corrected promptly.	Additional	Ongoing	All invoices are batched and balanced. Credit note is allocated to appropriate invoice within the accounts payable software module.	Accounts Payable	MCS
3	The purchases and accounts payable system prevents users from making adjustments to supplier accounts in excess of approved limits or original order amounts.	Additional	Ongoing	Purchase orders are manual paper system. Dept Managers are responsible for final signing and authorising of invoices before payment is processed. An updated delegated authority list should be provided to Accounts Payable for reference when processing invoices.	Dept Managers, Accounts Payable	n/a
4	Goods returned notes are matched to credit notes; differences are investigated promptly.	Additional	As appropriate	Accounts payable checks and notes returns on applicable invoices and notes awaiting credit note.	Accounts Payable	Dept Managers
	Separation of Accounts Payable and Procurement duties.	Core	Ongoing	Accounts payable officer does not have delegated authority to purchase goods above \$500.	MCS	n/a

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

				This authority is limited to stationary purchases only and each dept manager is responsible to authorise these purchases relevant for its dept.		
Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment			
	Likelihood		Likelihood			
	Consequence		Consequence			
	Rating		Rating			
	Accept		Accept			

Control Assessment Worksheet						
Risk Category – Liabilities						
Business Process – Accounts Payable						
Risk No. 3 – Disbursements are not authorised properly.						
Description: Unauthorised disbursements could result in Council making payments to suppliers for goods and services not actually received by the organisation or Council may expend its funds on items of a private or personal nature when reimbursing employee expense claims.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	All disbursements must be approved by management in accordance with Delegations of Authority.	Core	Ongoing	Each dept manager authorises disbursements within their department according to delegated authority. Delegated authority is updated regularly	Dept Managers	CEO
2	Orders must be raised for the purchase of goods and services over a predetermined amount where applicable.	Core	Ongoing	In general, purchase orders or works orders must be raised for all purchases for goods and services. . Exceptions being- Invoices for supply of utilities such as electricity and water, Ongoing contractor payments where term of contract is in place. Purchase amounts must be entered on the purchase/works order to enable appropriate checking of invoice when received.	Dept Managers	External Auditors
3	Creditor's batch listing and supporting documentation is checked by an authorised officer prior to cheque (or EFT) generation for accuracy and credit note verification.	Additional	Generally twice per month	Prior to payment (EFT) batch is checked and authorised before payment is made.	MCS	External Auditors
4	Individuals who process electronic funds transfers are authorised by management.	Core	As required	2 electronic signatures to eft's required (refer AP1.9).	MCS, Accounts Payable, Payroll Officer	n/a

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5	Cheque usage to be reconciled to stock of cheques on a regular basis and blank cheques to be held securely.	Core	Ongoing	Blank Cheques held in council safe. A listing of allocated cheques is kept on file by Accounts Payable officer.	Accounts Payable	External Auditors
6	All delegated officers should undertake regular training for the raising of orders, posting of goods received and the requirements of the creditors process.	Additional	Annually	No formal training provided. An annual refresher training session to be initiated.	MCS	n/a
7	Records should be maintained of all payments with supporting documentation.	Additional	Ongoing	All records are kept and archived where necessary.	Accounts Payable	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Liabilities						
Business Process – Accounts Payable						
Risk No. 4 – Disbursements are either inaccurately recorded or not recorded at all.						
Description: Incorrect disbursements could result in suppliers being paid incorrect amounts, not being paid, being paid before or after due dates, or being paid for goods or services that have not been received. Accurate calculation of disbursements includes accurate calculation of any available discounts. Disbursements that are not recorded can affect cash flow decisions and cause reconciliation difficulties.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable subledger regularly and differences are investigated.	Core	Twice a month	Reconciled by accounts payable officer regularly (refer AP1.1).	Accounts Payable	MCS
2	Actual expenditures are compared to budget regularly; management reviews and approves significant variances.	Additional	Monthly and quarterly budget reviews	Dept Managers receive monthly budget vs actual reports for review. Dept Managers also monitor actual expenditure on a daily basis by enquiry to general ledger system. Report provided to Council regarding any significant variances on a monthly or quarterly basis (refer AP1.2).	Dept Managers	n/a
3	Creditor's batch listing and supporting documentation is checked by an authorised officer prior to cheque (or EFT) generation for accuracy and credit note verification.	Additional	Generally twice per month	Prior to payment (EFT) batch is checked and authorised before payment is made.	MCS	External Auditors
4	Bank statements are reconciled to the general ledger regularly.	Additional	Monthly	Checked daily and significant transactions accounted for via journal. Reconciled with general ledger monthly (refer AP1.7).	MCS	CEO
5	Cheques are endorsed by authorised officers separate to the preparer who ensure that they are paid to the specified payee.	Core	As required	Cheques require 2 authorised signatures. Preparer is not a signatory to account (refer AP1.8).	CEO, MCS, Exec Sec, Mayor, CDO	n/a

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6	Individuals who process electronic funds transfers are authorised by management.	Core	As required	2 electronic signatures to eff's required (refer AP1.9).	MCS, Accounts Payable, Payroll Officer	n/a
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Liabilities						
Business Process – Accounts Payable						
Risk No. 5 – Accounts payable are not paid on a timely basis.						
Description: If supplier invoices are not paid before their due date, then Council may miss out on any available discounts (i.e. early payment). If supplier invoices are paid well before their due date (and prior to any early payment discount) greater demands will be placed on the Council's Cashflow.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable subledger regularly and differences are investigated.	Core	Twice a month	Reconciled by accounts payable officer regularly (refer AP1.1).	Accounts Payable	MCS
2	Actual expenditures are compared to budget regularly; management reviews and approves significant variances.	Additional	Monthly and quarterly budget reviews	Dept Managers receive monthly budget vs actual reports for review. Dept Managers also monitor actual expenditure on a daily basis by enquiry to general ledger system. Report provided to Council regarding any significant variances on a monthly or quarterly basis (refer AP1.2).	Dept Managers	n/a
3	System automatically generates a report (based on the due date of the suppliers invoice) detailing all supplier invoices due for payment at any one time.	Additional	Ongoing	Accounts payable system generates reports detailing invoices to be paid. Options are available to withhold payments if necessary.	Accounts Payable	MCS
4	Authorised officer to review aged payables listing on a predetermined basis and investigate where appropriate.	Additional	Monthly	Accounts payable aged trial balance is extracted during end of month process and reviewed at this time.	MCS	n/a

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

Control Assessment Worksheet						
Risk Category – Liabilities Business Process – Accounts Payable						
Risk No. 6 – Supplier master file data does not remain pertinent.						
Description: To be considered “pertinent,” the master file must reflect current conditions. In this context, pertinence relates both to master file records and to individual data fields within those records. For example, if supplier data is not up-to-date, payments could be made to the wrong bank account.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Supplier master file data is periodically reviewed by management for accuracy and ongoing pertinence.	Additional	monthly	During end of month process an audit trail report is printed to check access by staff to creditor supplier maintenance. Supplier bank details are checked only when an EFT payment is returned due to incorrect bank details being recorded.	MCS Accounts Payable	MCS
2	Recorded changes to the supplier master file are compared to authorised source documents to ensure that they were input accurately.	Core	ongoing	As above AP6.1	Accounts Payable	MCS
3	Suppliers that have not been used for a significant period of time are reviewed and marked for deletion by the application, if appropriate.	Additional	ongoing	A review of unused or obsolete suppliers required and either subsequent clearing from system to be done or supplier ‘flagged’ in system as non-current.	Accounts Payable	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

4.2 Accrued Expenses

Introduction

There are no specific sections of the Local Government Act that deal specifically with accrued expenses. However as a minimum, Council, when reviewing the internal control environment surrounding accrued expenses, should address the issue of when accrued expenses should be recognised as a liability. It is important that all Accrued Expenses are identified and recorded on a timely basis to ensure that expenses are recognised in the appropriate period and that the financial statements are not misstated.

The recognition, treatment and recording of Accrued Expenses is normally a process associated with year-end reporting for most Councils.

Key Issues/Risks

In relation to Accrued Expenses, the major risk faced by Councils may be summarised as follows:

- Accrued Expenses are either inaccurately recorded or not recorded at all.

This risk along is addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Please refer to “Segregation of Duties” in the *Accounts Payable* Business Activity for an analysis of the segregation of duties issues that relate generally to liabilities.

Control Assessment Worksheet						
Risk Category – Liabilities Business Process – Accrued Expenses						
Risk No. 1 – Accrued Expenses are either inaccurately recorded or not recorded at all.						
Description: If accrued expenses are either inaccurately recorded (i.e. inaccurate estimation of accrual) or unrecorded (i.e. no invoice received and normal review of expenses did not identify need to accrue for expenses), the management reports and financial statements will be misstated.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Actuals are compared to budget on a regular basis.	Additional	Ongoing	Expenditure incorporated into normal budget allocations. Monthly check by dept managers.	Dept Managers	n/a
2	Accrued expenses reconciliations are prepared on a regular basis and are reviewed by an independent person.	Core	Annually	Reconciliation is undertaken as part of end of year processes. External Auditor reviews at yearend audit.	MCS	n/a
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

4.3 Borrowings

Introduction

All Councils have the statutory power to raise funds through the borrowing of money or by obtaining other forms of financial accommodation, under section 133 of the Local Government Act. For an analysis of the advantages and disadvantages of raising money through borrowings, refer to the Chapter entitled “Treasury Operations” of the publication “A Framework for Local Government Financial Management”, produced by the Local Government Association.

Council’s power to borrow money and obtain other forms of financial accommodation is however limited by the statutory requirements of Section 134 of the Local Government Act which states that

“A council must not enter into a financial arrangement ... unless or until:

- a) The council has obtained and considered independent and impartial advice about the proposed financial arrangements and the appropriate risk-management policies, controls and systems that should be in place from a person whom the council reasonably believes to be competent to give the advice*
- b) The council has adopted risk-management policies, controls and systems by a resolution passed by at least a two-thirds majority of the members of the council”.*

With this statutory power to borrow, comes a whole range of associated risks, some of which are of a financial nature. In order to minimise Council’s exposure to financial loss, it is imperative that all councils implement a comprehensive suite of internal financial controls.

Key Issues/Risks

In relation to Borrowings, the major risks faced by Councils may be summarised as follows:

- Borrowings are either not recorded or are recorded inaccurately as to amounts and terms.
- Loans are not repaid in accordance with the agreed terms.
- Council runs out of cash reserves.
- Interest expense is inaccurately calculated or recorded in the wrong period.

It should be understood that the accumulated effect of these risks is far wider than purely financial consequences. For example, the financial loss to Council that could result from inappropriate borrowings result may lead to widespread negative perceptions of Council throughout the community.

These risks along with other suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Most systems of internal control rely on assigning certain responsibilities to different individuals, or “segregating” incompatible functions. Such segregation of duties is intended to prevent one person from having both:

- 1) Access to assets
- 2) Responsibility for maintaining the accountability for such assets.

For instance, in a borrowings system, different individuals are typically responsible for:

- 1) Recording of borrowing transactions
- 2) Approving new borrowings
- 3) Following up on reconciliation or confirmation of borrowing to statements from third parties
- 4) Review and analysis of recorded borrowing transactions by means of summary reports of activities (e.g. describing liquidity, interest rate gap, dealing positions, exposure to counterparties)
- 5) Authorised signature of payments with respect to borrowing transactions.

If one individual has responsibility for more than one of these functions, that individual could misappropriate assets and conceal the misappropriation.

Control Assessment Worksheet						
Risk Category – Liabilities						
Business Process – Borrowings						
Risk No. 1 – Borrowings are either not recorded or are recorded inaccurately as to amounts and terms.						
Description: Financing may be obtained but either inaccurately recorded or not recorded at all in the general ledger or loan register, resulting in misstatement of liabilities.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1 A loan register is maintained containing a copy of Council resolution approving the loan and a schedule of the loan liability and the loan repayment from the lender. This also includes details of any Cash Advanced Debenture.	Core	Ongoing	Loan register is maintained. Copy of Council resolution to be retrieved and included in register with appropriate loan details.	Records Officer	MCS	
2 The loan register and loan approvals is subject to management and/or internal audit review.	Additional	Annually	Review to be conducted at end of financial year.	Records Officer	MCS	
3 All loan journals are independently authorised.	Additional	Ongoing	System to be introduced whereby loan journals are independently authorised.	MCS	CEO	
4 Loan balances regularly compared to budget; management reviews and as appropriate approves significant variances.	Additional	Ongoing	Loan principal and interest payments compared during regular budget reviews. Council approval required before new loans negotiated. Budget variations reported to Council prior to approval.	MCS	CEO	
5 All new loan repayment schedules and conditions are checked prior to accepting each loan.	Additional	Ongoing	Loan module within synergy-soft provides loan repayment schedule and mirrors that of LGFA loan repayment schedule.	MCS	n/a	
6 Debt repayment transactions at, before, and after the end of an accounting period are scrutinised and/or reconciled to ensure complete and consistent recording in the appropriate accounting period.	Core	Annually	End of year balancing occurs and external audit check undertaken.	MCS	External Auditors	

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

Control Assessment Worksheet						
Risk Category – Liabilities						
Business Process – Borrowings						
Risk No. 2 – Loans are taken out without appropriate approval.						
Description: Should appropriate delegations/approvals not be obtained when taking out loans, the Council may be exposed to undue financial risk and/or not obtain the most appropriate loan terms and conditions.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	All loans are approved by Council resolution.	Core	As required	Yes.	MCS	CEO
2	All loans are approved by Council resolution with copy of the Council resolution held in the loan register.	Core	As required	Formal loan register to be expanded to include all relevant documentation (refer BO1.1).	Records Officer	MCS
3	The loan register and loan approvals is subject to management and/or internal audit review.	Additional	Annually	Review to be conducted at end of financial year (refer BO1.2).	MCS	
4	Council obtains alternative quotations.	Additional	Ongoing	Do not obtain alternative quotes as LGFA have proven to be competitive. Also refer Treasury Management Policy. Initiate mechanism to obtain alternative quote from time to time to ensure competitive rates are being negotiated.	MCS	Audit Committee
Prepared by:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
Date:		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Liabilities						
Business Process – Borrowings						
Risk No. 3 – Loans are not repaid in accordance with the agreed terms or they are recorded inaccurately.						
Description: If repayments required by the loan agreement are missed, made late, or made in the wrong amount, the lender may have the right to impose penalties or call the loan.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1 Statements received from lenders are reconciled to the loan register and differences are acted upon by personnel independent from the process of recording the loan.	Core	Annually	Statements received from LGFA at end of year and reconciled.	MCS	External Auditors	
2 The loan repayment and covenant schedule, including dates and amounts to be paid is established when loan is setup. Management reviews this to ensure that all payments are made and recorded accurately and timely. Repayment details on Cash Advanced Debentures is recorded and checked as known.	Additional	Ongoing	Loan repayment schedule is provided at time of loan setup and recorded accurately. Loan input into software module that calculates repayment schedule and mirrors LGFA details. Invoices are received from LGFA for repayments of all loans. These are processed via Accounts Payable and linked to loans set up on system.	MCS	External Auditors	
3 Loan balances regularly compared to budget; management reviews and as appropriate approves significant variances.	Additional	4	Loan balances are reconciled at end of financial year.	MCS	External Auditors	
4 Loan repayments are made via automated direct debit and approved appropriately.	Additional	4	Loan repayments are made by EFTPOS via Accounts Payable system.	Accounts Payable	MCS	

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5	Compliance with debt covenants is monitored by management and compared to current budget.	Additional	4	Yes.	MCS	
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Liabilities						
Business Process – Borrowings						
Risk No. 4 – Council's cash reserves run out.						
Description: Borrowings may take many forms (i.e. loans, cash advance debentures), If these borrowing are not managed effectively, Council may run out of cash, thereby reducing the operational efficiency of the organisation.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1 Management reviews cash position of Council on an on-going basis, involving comparison to budgets; significant variances investigated by management.	Additional	Ongoing	Cash flow statements are provided at time of budget deliberations. Funding of projects are considered at time of setting budget i.e. rates, loans or cash reserves. Reference is made to Treasury Management Policy.	MCS	CEO	
2 Cashflow budgets prepared by suitably qualified personnel on a regular basis.	Additional	Ongoing	Statement of Cash flows is prepared for budget and each quarterly budget review. Cash flow is monitored on a weekly basis and actions taken as various needs dictate. Dept managers are required to advise MCS of any major outlays of cash e.g. major contract payments etc.	MCS	CEO	
3 Loan balances regularly compared to budget; management reviews and as appropriate approves significant variances.	Additional	Ongoing	Loans reconciled at end of financial year. Repayments are reviewed against budget during quarterly reviews.	MCS		
4 All loans are approved by Council resolution with copy of the Council resolution held in the loan register.	Core	Ongoing	Yes.	MCS	CEO	
5 Details of cash requirements, particularly with capital works, are documented and discussed by authorised officers. Investments and borrowings are scheduled	Additional	Ongoing	Dept Managers advise MCS of cash requirements in advance in order to ensure cash is available when required.	Dept Managers	MCS	

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	accordingly.					
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Liabilities Business Process – Borrowings						
Risk No. 5 – Interest expense is inaccurately calculated or recorded in the wrong period. Description: If interest is inaccurately calculated or recorded in the incorrect period, the related expense will be misstated.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Statements received from lenders are reconciled to the loan register and differences are acted upon by personnel independent from the process of recording the loan.	Core	Annually	Statements received from LGFA at end of year and reconciled (refer BO3.1).	MCS	External Auditors
2	Interest on loans is predetermined and journals are checked. Interest on Cash Advanced Debentures is checked where applicable.	Additional	Ongoing	Yes. Interest payment journals are processed via linked Accounts Payable/Loan module from set repayment schedule.	MCS	
3	Loan balances regularly compared to budget; management reviews and as appropriate approves significant variances.	Additional	Annually	Loan balances are reconciled at end of financial year (refer BO3.3).	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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4.4 Employee Provisions

Introduction

Staff entitlements represent a significant component of a Council's operating expenditure. In addition to the payroll expense are the provisions for employee entitlements that largely comprise:

- Provision for Annual Leave
- Provision for Long Service Leave

"Employee entitlements" may be defined as

"benefit entitlements which employees accumulate as a result of rendering services to the employer up to the reporting date".

Although there are no sections of the Local Government Act that deal specifically with Employee Provisions, a number of accounting standards provide Councils with guidance when considering the appropriate recording of these provisions. These are as follows:

- AASB 119 Employee Benefits

This standard provides prescriptive guidance in terms of the methodology to be used when calculating and recognising the Employee Provisions. For a summary of the reporting requirements of • AASB 119 Employee Benefits and a list of examples of employee benefits, refer to Chapter 5 "Accounting Policies and Disclosure" in the "South Australian Local Government Accounting Manual", prepared by the SA Local Government Accounting Committee.

For the risks and controls associated with payroll, please refer to the Payroll Business Activity in this Manual.

Key Issues/Risks

In relation to Employee Provisions, the major risk faced by Councils may be summarised as follows:

- Employee Provisions are either inaccurately recorded or not recorded at all.
- Payroll master file does not remain pertinent.

These risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

To minimise any weaknesses associated with segregation of duties issues in relation to Employee Entitlements, it is imperative that the recording and processing of leave entitlements is separated from the initial approval of leave and that access to the payroll master file is restricted to appropriately designated and qualified staff.

Control Assessment Worksheet						
Risk Category – Liabilities						
Business Process – Employee Provisions						
Risk No. 1 –: Employee provisions are either inaccurately recorded or not recorded at all.						
Description: If employees take leave but this leave is recorded against the incorrect employee or not recorded at all, staff entitlements will be inaccurate and the employee provisions will be misstated.						
If accruals are not calculated correctly or not at all, staff entitlements will be inaccurate and the employee provisions will be misstated.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Management must approve all staff requests for leave and leave taken is recorded by somebody independent from the approval.	Additional	As required	All leave applications are authorised by employee's supervisor.	Appropriate Manager/ Supervisor	Payroll Officer
2	Standard programmed formulas perform employee provision calculations with management to review to ensure consistency with statutory reporting requirements.	Core	Annually	Annual provisions calculated using specialised spreadsheet at time of preparing end of year financial statements.	MCS	External Auditors
3	Reconciliation of employee provisions performed on a regular basis and these are independently reviewed.	Additional	Fortnightly	Payroll officer checks and reconciles leave accruals on a fortnightly basis.	Payroll Officer	MCS
4	Actual balances compared to budget on a regular basis and significant variances are investigated.	Additional	Monthly	Budgets to actual are reviewed on a monthly basis.	Dept Managers	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Liabilities						
Business Process – Employee Provisions						
Risk No. 2 –: Payroll master file does not remain pertinent.						
Description: To be deemed pertinent, the master files must reflect current conditions. In this context, pertinence relates both to master file records and to individual data fields within those records.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Departmental managers periodically review listings of current employees within their departments and notify the personnel department of necessary changes.	Additional	4	All changes regarding personnel are notified via HR dept. Current employee listing is reviewed annually during end of year processes.	HR Manager MCS	External Auditors
2	Recorded changes to the payroll master files are compared to authorised source documents to ensure accurate input.	Additional	4	All changes to payroll master files are sourced in writing and authorised by appropriate Managers. Written authorisation is then held on personnel files.	Payroll Officer	MCS
3	Access to payroll/provision master file is restricted to authorised officers only and is periodically reviewed for accuracy and ongoing pertinence.	Core	Ongoing	Access to all payroll data is restricted to authorised officers only.	MCS	External Auditors
4	Significant changes to the payroll master files are approved by management.	Core	5	As above at Employee Provisions 2.2	Payroll Officer	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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4.5 Taxation

Introduction

Normally, Councils are exempt from Income Tax and Payroll Tax. Accordingly, the main areas of taxation that impact upon Council's operations are as follows:

- Fringe Benefits Tax
- Goods and Services Tax
- Pay As You Go ("PAYG")

Accordingly, Council should refer to the following legislation and accounting guidance releases for assistance with understanding, calculating and recognising their statutory liabilities in relation to tax:

- The Fringe Benefits Act 1986
- The Fringe Benefits Tax Assessment Act 1986
- A New Tax System (Goods and Services Tax Act) 1999
- Income Tax Assessment Act 1997
- AAG6: Accounting for the Fringe Benefits Tax

When reviewing the internal control environment surrounding Taxation, Council should consider the following issues:

- Accurate reporting of taxation liabilities in accordance with statutory requirements
- Timely reporting of Returns/Statements to avoid payment of late lodgement penalty fees
- Regular training of appropriately qualified staff

Given the complexity surrounding the calculation and reporting of taxation liabilities, it is imperative that Council has appropriately qualified and trained staff to perform this task or access to expert advice.

Key Issues/Risks

In relation to Taxation, the major risks faced by Councils may be summarised as follows:

- Tax liabilities are either inaccurately recorded or not recorded at all
- Council does not meet statutory reporting / lodgement deadlines.

These risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

To minimise any weaknesses associated with segregation of duties in relation to Taxation, it is imperative that the following tasks are separated:

- Calculation, recording and processing of tax liabilities
- Review of tax lodgement documentation
- Payment of tax liabilities
- Approval of payment of tax liabilities
- Receipt of tax refunds
- Recording of tax refunds.

Control Assessment Worksheet						
Risk Category – Liabilities						
Business Process – Taxation						
Risk No. 1 – Tax liabilities are either inaccurately recorded or not recorded at all.						
Description: If taxation staff are not provided with adequate training to keep them up to date with all relevant changes in taxation or if Council does not obtain tax advice from external tax advisors, then there is the risk that either tax liabilities will be inaccurately recorded or not recorded at all. As a result, the taxation liabilities will be misstated in both the management reports and the financial statements and Council may be liable for late lodgement penalty fees and avoidance fees.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Taxation staff members are provided with regular training in order to keep up to date with all relevant changes in tax legislation and reporting requirements or Council obtains tax advice from external tax advisors.	Additional	Ongoing	Training is provided to staff where necessary.	MCS	CEO
2	All lodgement statements and returns are reviewed and approved by authorised officer prior to being released.	Core	Ongoing	Taxation returns are reviewed and authorised prior to lodgement.	Accounts Payable Officer, MCS	MCS,CEO
3	Management periodically reviews a selection of transactions to ensure appropriate tax treatment.	Additional	Ongoing	BAS statement and transactions are reviewed frequently. FBT is reviewed every year when return is being completed.	MCS	External Auditors
4	All balance sheet reconciliations for tax liabilities are performed regularly; reconciliations are reviewed by an independent person.	Additional	Monthly	Reconciliations are carried out regularly.	MCS	External Auditors
5	Council has a working relationship with an external tax advisor and contacts them for advice when required.	Additional	As required	Yes. Australian Tax College.	MCS	n/a
6	Accounting policies and procedures specify correct treatment for preparing the fringe benefit tax and goods & services taxation	Core	Ongoing	There are no written procedures in place regarding preparation of FBT return.	MCS	Audit Committee

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

	returns within any given financial year.			Procedures for preparation of BAS are detailed and thorough.		
Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment			
	Likelihood		Likelihood			
	Consequence		Consequence			
	Rating		Rating			
	Accept		Accept			

Control Assessment Worksheet						
Risk Category – Liabilities						
Business Process – Taxation						
Risk No. 2 – Council does not meet statutory reporting / lodgement deadlines.						
Description: It is important that Council recognises and records statutory reporting/lodgement deadlines in order to avoid any late lodgement penalty fees. One way of doing this is by way of a Tax Compliance Register that is kept up to date.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Tax Compliance Register (detailing lodgement timetable) is maintained.	Additional	Ongoing	There is no tax compliance register in place. Tax returns are completed as and when required.	MCS	Audit Committee
2	Taxation staff are provided with regular training in order to keep up to date with all relevant changes in tax legislation and reporting requirements or Council obtains tax advice from external tax advisors.	Additional	Ongoing	Training is provided to staff where necessary.	MCS	CEO
3	All lodgement statements and returns are reviewed and approved by authorised officer prior to being released.	Core	Ongoing	Taxation returns are reviewed and authorised prior to lodgement.	Accounts Payable Officer, MCS	MCS,CEO
4	Management reviews reporting and lodgement of Statements>Returns on a regular basis to ensure compliance with statutory deadlines.	Additional	Ongoing	Taxation returns are reviewed and authorised prior to lodgement.	Accounts Payable Officer, MCS	MCS,CEO
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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5 Revenue

Introduction

Under section 146 of the Local Government Act, a council may impose rates and charges of the following kinds on land within its area:

- General rates
- Separate rates
- Service rates
- Service charges

Rates generally represent the most significant source of revenue for Councils and accordingly it is imperative that Councils consider the following statutory requirements under the Local Government Act:

- Division 2 – Basis of Rating
- Division 3 – Specific characteristics of rates and charges
- Division 4 – Differential Rating and special adjustments
- Division 5 – Rebates of rates
- Division 6 – Valuation of land for the purpose of rating
- Division 7 – Issues associated with the declaration of rates
- Division 8 – The Assessment Record
- Division 9 - Imposition and Recovery of Rates and Charges.

AAS15: Disclosure of Operating Revenue also provides guidance for the disclosure of operating revenue, including rates income (also refer to AASB1004: Revenue). For a summary of the recognition, determination and calculation of rates and rating, we refer you to the following prepared by the Local Government Association:

- “Rates and Rating” in “A Framework for Local Government Financial Management”;
- Model Rates Policy & Guidelines
- Model Rate Rebate Policy & Guidelines

For an analysis of the risks and controls specifically relating to the issues surrounding the associated debtors with respect to rates, please refer to the *Debtors Business Activity* in this Manual.

Key Issues/Risks

In relation to Rates / Rate Rebates, the major risks faced by Councils may be summarised as follows:

- Council does not raise the correct level of rate income.
- The Property master file does not remain pertinent.

These risks along with other suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Most systems of internal control rely on assigning certain responsibilities to different individuals, or “segregating” incompatible functions. Such segregation of duties is intended to prevent one person from having both:

- Access to assets
- Responsibility for maintaining the accountability for such assets.

For instance, in a revenue system, different individuals are typically responsible for:

- 1) Recording rate revenue and rate rebates
- 2) Approving the rate revenue and rate rebates
- 3) Invoicing the ratepayer
- 4) Maintaining debtor records and/or authorising adjustments to debtors
- 5) Processing cash receipts
- 6) Following up on debtors
- 7) Performing independent debtors confirmation and following up on discrepancies
- 8) Making changes to debtors master files
- 9) Rate payer service calls, and/or complaints.

If one individual has responsibility for more than one of these functions, that individual could misappropriate assets and conceal the misappropriation.

Control Assessment Worksheet						
Risk Category – Revenue						
Business Process – Rates / Rate Rebates						
Risk No. 1 –: Council does not raise the correct level of rate income.						
Description: If Council does not raise the correct level of rate income (due to inappropriate rating methodology or inaccurate data held in rate software), then this will result in increased cash flow demands and possible negative publicity.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Rates are automatically generated by the rate system, including the calculation of rate rebates, if applicable.	Core	Annually	Yes. System driven.	Rates Officer	MCS
2	Management regularly reviews the calculation methodology within the rate application system and for a sample of ratepayers to ensure correct calculation and methodology has been used.	Core	Annually	Yes. Rate modelling is carried out annually at time of preparation of annual budget. Rates Officer carries out check of properties to ensure calculations of rate in dollar to capital value is correct. Rate capping is checked. Rebates are checked. Any discrepancies are also checked and corrected where necessary.	Rates Officer	MCS
3	All software changes to rate modelling functionality fully tested and reviewed by qualified personnel.	Core	Ongoing	Yes. Software providers (IT Vision) fully test software changes prior to release.	n/a	MCS
4	Robust policy providing clear guidance to relevant employees as to the correct method for calculating rate income and the collections protocol.	Additional	Ongoing	Yes. Rate policy in place to give guidance regarding rating matters.	Rates Officer	MCS
5	Employees responsible for processing rate notices cannot process payment of their own rates.	Core	Ongoing	Employee requests customer service staff to process own rates payment.	Rates Officer	MCS
6	Actual rate revenue and rate rebates are compared to budget regularly; management reviews and investigates significant variances.	Additional	Quarterly	Budget is set based on rate modelling prior to adoption of rates. Budget reviews are carried out quarterly.	MCS	Elected Members

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7	GL Ledger reconciliations are completed.	Additional	Monthly	Yes on a monthly basis	Rates Officer	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Revenue						
Business Process – Rates / Rate Rebates						
Risk No. 2 –: Rates are either inaccurately recorded or not recorded at all.						
Description: Errors in rates (i.e. incorrect calculations) can lead to ratepayer dissatisfaction. Revenue and debtors in the financial statements will be understated. Furthermore, the related cash receipts may not be recorded and may be misappropriated.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Rates are automatically generated by the rate system, including the calculation of rate rebates, if applicable.	Core	4	Yes. System driven.	Rates Officer	MCS
2	Management regularly reviews the calculation methodology within the rate application system and for a sample of ratepayers to ensure correct calculation and methodology has been used.	Core	4	Yes. Rate modelling is carried out annually at time of preparation of annual budget. Rates Officer carries out check of properties to ensure calculations of rate in dollar to capital value is correct. Rate capping is checked. Rebates are checked. Any discrepancies are also checked and corrected where necessary.	Rates Officer	MCS
3	Annual valuation update is balanced prior to the generation of rates; all mismatches resolved prior to going live.	Additional	4	Valuations are balanced every week on receipt of reports received from Valuer general. Major annual valuation update is balanced prior to rates generation with all anomalies accounted for.	Rates Officer	MCS
4	Rates are generated using test data prior to the rates billing run.	Additional	4	Rate Modelling carried out over the weeks during budget process. Rate model first tested on 'Play' account to ensure smooth processing.	Rates Officer	MCS
5	Rate model outcomes reconciled to billing run outcomes prior to generation of rates.	Additional	4	Rate model is compared to actual rates raised.	Rates Officer	MCS
6	Rate debtor's reconciliation performed on a regular basis; reviewed by management.	Additional	4	Rates debtors reconciled on a monthly basis.	Rates Officer	MCS

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				Comparison to previous years is carried out.		
7	Actual rate revenue and rate rebates are compared to budget regularly; management reviews and investigates significant variances.	Additional	4	Budget is set based on rate modelling prior to adoption of rates. Budget reviews are carried out quarterly.	MCS	Elected Members
8	Regular review of exempt properties, interest flag switched off and rate rebates.	Additional	4	Register is kept of exempt properties with details regarding basis for exemption. Report of fines exemption is also extracted from system.	Rates Officer	External Auditor
9	Reconciliation of rates notices produced and rates to rates posted / distributed.	Additional	4	This would be extremely difficult due to schedules being produced as opposed to rate notices. However total number of rates notices printed are tallied as a indicator that all notices have been printed.	Rates Officer	MCS
10	Council approves rate rebates to rate payers.	Core	4	All rebated rates are approved by Council.	Rates Officer	MCS
11	Employees responsible for processing rate notices cannot process payment of their own rates.	Core	4	Employee requests customer service staff to process own rates payment.	Rates Officer	MCS
12	Fine write-offs approved by authorised officer.	Additional	4	Yes. Refer Rates Fines Policy.	Rates Officer	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Revenue						
Business Process – Rates / Rate Rebates						
Risk No. 3 – Rate rebates are either inaccurately recorded or not recorded at all.						
Description: Inaccurately recorded rate rebates can lead to a misstatement of debtors and revenue, and may result in uncollectible accounts and/or ratepayer dissatisfaction.						
Rate rebates issued but not recorded result in misstated debtors and revenue and may result in ratepayer dissatisfaction. This may have a negative impact upon cash flows because ratepayers may refuse to pay rate notices until the rate rebates have been recorded correctly.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹		Responsible Officer - Title	Checking Officer - Title
1	Rates are automatically generated by the rate system, including the calculation of rate rebates, if applicable.	Core	Annually	Yes. System driven.	Rates Officer	MCS
2	Management regularly reviews the calculation methodology within the rate application system and for a sample of ratepayers to ensure correct calculation and methodology has been used.	Core	Annually	Yes. Rate modelling is carried out annually at time of preparation of annual budget. Rates Officer carries out check of properties to ensure calculations of rate in dollar to capital value is correct. Rate capping is checked. Rebates are checked. Any discrepancies are also checked and corrected where necessary.	Rates Officer	MCS
3	Actual rate revenue and rate rebates are compared to budget regularly; management reviews and investigates significant variances.	Additional	Quarterly	Budget is set based on rate modelling prior to adoption of rates. Budget reviews are carried out quarterly.	MCS	Elected Members
4	Management approves rate rebates to rate payers.	Core	Annually	All rebated rates are approved by Council.	Rates Officer	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Revenue Business Process – Rates / Rate Rebates						
Risk No. 4 –: The Property master file data does not remain pertinent. Description: “Pertinent” means that the Property master file reflects current conditions. In this context, the pertinence attribute of quality relates both to master file records and to individual data fields within those records. For example, pertinent Property master file records include records for current ratepayers and exclude records for former ratepayers. Inaccurate data may result in rate notices being issued to the incorrect ratepayer and may lead to public dissatisfaction.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Property master file data is periodically reviewed by management for accuracy and on-going pertinence.	Additional	Monthly	A monthly check via an audit report is carried out as to who is accessing property master file and what changes are being made.	MCS	External Auditors
2	Recorded changes to property master file data are compared to authorised source documents or confirmed with ratepayers to ensure that they were input accurately. An audit trail is maintained for all changes.	Core	Monthly	As above at point 1.		
4	Access to the Property master file is restricted to appropriately designated personnel, with significant changes to the Property master file approved by management.	Core	Ongoing	Only authorised officers have access to property master file.	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood				
		Consequence		Ongoing		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Revenue						
Business Process – Rates / Rate Rebates						
Risk No. 5 – Pensioner concessions and self-funded retirees are either inaccurately recorded or not recorded at all.						
Description: If pensioner concessions and self-funded retirees are not recorded in the property master file and the rate modelling software, then this may result in rate revenue and debtors being misstated.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Management to approve all pensioner concession entitlement information provided annually by government departments.	Core	Ongoing	Government department authorises concession entitlements for pensioners. This information is provided to Council for processing against rate data.	Rates Officer	MCS
2	Maintain an audit trail of all weekly updates of pensioner concession information. All updates approved by management and independently matched to the property master file.	Additional	Ongoing	A register is maintained of all weekly updates to pensioner concession information, however a monthly independent check to be carried out during month end process to ensure accuracy and consistency.	Rates Officer	MCS
3	Reconcile all pensioner concession debtors and balancing accounts on a monthly basis; management to review reconciliation and investigate any unusual items.	Additional	Weekly	Yes. Carried out weekly.	Rates Officer	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

5.1 Grants

Introduction

As part of the normal operations, Councils may receive revenue in the form of grants from various organisations. The nature of the grant affects the accounting treatment and recognition of the amount received by Council. One issue for Council to consider is whether a grant is:

- Restricted – the grant money can only be used for specific programs or purposes
- Unrestricted – the grant money can be used for any operational purpose
- Refundable – if Council does not comply with the terms of the grant then all monies are to be refunded by Council
- Non-refundable – Council is not liable for any funds refund.

If Council does not comply with the terms of any “restricted” and/or “refundable” grant, then the monies might have to be refunded to the original provider. Accordingly, it is extremely important that Councils comply with the terms of the Grant when utilising the funds provided. Also, if Councils are unable to secure re-current grant funding, community expectations may be established for the related service but not able to be met in future periods. For further guidance on the treatment, recognition, and disclosure of grant income, please refer to the following:

- AASB 118: Revenue
- AASB 1049: Whole of Government and General Government Sector Financial Reporting
- AAG14: Recognition of Contributions of Local Governments.

Key Issues/Risks

In relation to Grants, the major risks faced by Councils may be summarised as follows:

- Council lose existing Grant funding
- Grant funding is not claimed by Council on a timely basis or not claimed at all
- Grants are either inaccurately recorded or not recorded at all.

These risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Please refer to the *Rates / Rate Rebates* Business Activity in this Manual for a discussion of the relevant segregation of duties issues in relation to revenue generally.

Control Assessment Worksheet						
Risk Category – Revenue Business Process – Grants						
Risk No. 1 – Council loses existing Grant funding. Description: If Councils are unable to secure recurrent grant funding, community expectations may be established for the related service but not able to be met in future periods.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Council has a clear policy on Grant funding detailing assessment process, recognition, claim/collection, and disclosure of any conflicts of interest.	Additional	Ongoing	A grant policy detailing all processes relating to grants is required.	CEO	Audit Committee
2	Management performs regular review of all grant income and to monitor compliance with both the terms of grants and Council's Grant policy (including claiming and collecting funds on a timely basis).	Additional	Ongoing	Milestone reports and grant acquittals are carried out as necessary. A register of grants is required to be implemented and maintained in order to acquit grants adequately.	CEO	Audit Committee
3	Separate cost ledgers are maintained for all grants.	Additional	Ongoing	General ledger accounts are created as required for all projects related to grants.	MCS	External Auditors
	Management approves all grants (prior to funds being received by Council) to ensure that Council will be able to meet the terms of the grant and that the grant does not over-commit Council.	Core	Ongoing	Grants must be applicable to KPI's and corporate outcomes of Strategic/Corporate Plan as well as Long Term Financial Plan and Infrastructure Asset Management Plans.	CEO	Elected Members
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Control Assessment Worksheet						
Risk Category – Revenue						
Business Process – Grant Funding						
Risk No. 2 – Grant funding is not claimed by Council on a timely basis or not claimed at all.						
Description: If Council does not claim and collect grant funding (due to missing the deadline for claims or not submitting the relevant documentation), Council will be placed under greater cash flow demands.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Council has a clear policy on Grant funding detailing assessment process, recognition, claim/collection, and disclosure of any conflicts of interest.	Core	Ongoing	A grant policy detailing all processes relating to grants is required (refer GF1.1).	CEO	Audit Committee
2	Management performs regular review of all grant income and to monitor compliance with both the terms of grants and Council's Grant policy (including claiming and collecting funds on a timely basis).	Additional	Ongoing	Milestone reports and grant acquittals are carried out as necessary. A register of grants is required to be implemented and maintained in order to acquit grants adequately (refer GF1.2).	CEO	Audit Committee
3	Separate cost ledgers are maintained for all grants.	Additional	Ongoing	General ledger accounts are created as required for all projects related to grants (refer GF1.3).	MCS	External Auditors
	Cash actuals are compared to budget; management reviews and investigates significant variances.	Additional	Monthly	Budget reviews are carried out regularly.	Dept Managers	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Control Assessment Worksheet						
Risk Category – Revenue						
Business Process – Grant Funding						
Risk No. 3 – Grants are either inaccurately recorded or not recorded at all.						
Description: If Council does not comply with the terms of the grant, repayment may be required. If Council does not provide receipts to all providers of grants and then reconcile these receipts to bank statements, grants will not be recorded at all, leading to misstatements in both the management reports and the financial statements.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Grant income compared to budget regularly; management reviews and investigates significant variances.	Additional	Monthly	Budget reviews are carried out regularly with major variances reported to Elected Members.	Dept. Managers	MCS
2	Management approves all grants (prior to funds being received by Council) to ensure that Council will be able to meet the terms of the grant and that the grant does not over-commit Council.	Core	Ongoing	Grants must be applicable to KPI's and corporate outcomes of Strategic/Corporate Plan as well as Long Term Financial Plan and Infrastructure Asset Management Plans (refer GF1.4).	CEO	Elected Members
3	Management performs regular review of all grant income and to monitor compliance with both the terms of grants and Council's Grant policy (including claiming and collecting funds on a timely basis).	Additional	Ongoing	Milestone reports and grant acquittals are carried out as necessary. A register of grants is required to be implemented and maintained in order to acquit grants adequately (refer GF1.2).	CEO	Audit Committee
4	Separate cost ledgers are maintained for all grants.	Additional	Ongoing	General ledger accounts are created as required for all projects related to grants (refer GF1.3).	MCS	External Auditors
5	Grant providers are given a sequentially pre-numbered form acknowledging receipt of any cash payments and cash receipt forms are balanced to cash deposited to the bank.	Core	As required	No receipt is provided but would be if grant providers requested one. Receipt would be produced from general ledger cash receipting system and therefore sequentially numbered.	MCS	CEO

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Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

5.2 User Pay Income – Fees for Service

Introduction

Councils may generate User Pay Income – Fee for Services through the provision of services to the community. Typical examples of these services may be sporting and recreational facilities. When reviewing the internal control environment surrounding User Pay Income, Council should consider the following issues:

- Designating the appropriate fee to be charged to ensure that the user receives and perceives value for money in the service provided
- Appropriate controls surrounding the recording of the revenue
- Adequate access and security controls surrounding cash handling, receipting and banking.

For guidance as to the disclosure requirements in relation to User Pay Income, we refer you to AASB 118: Revenue. For an analysis of the risks and controls in relation to Debtors (i.e. the collection and recovery of user pay policies), please refer to the Debtors Business Activity in this Manual. Given that a portion of User Pay Income is represented by cash receipts, please refer to the Receipting, Cash Floats & Petty Cash, and Banking Business Activities in this Manual that deal with the specific risks and controls relating to these activities.

Key Issues/Risks

In relation to User Pay Income, the major risks faced by Councils may be summarised as follows:

- Members of the Community do not receive value for money when paying for user services.
- Council does not apply User Pay principles consistently.
- User Pay Income is either inaccurately recorded or not recorded at all.

These risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Please refer to the *Rates / Rate Rebates* Business Activity in this Manual for a discussion of the relevant segregation of duties issues in relation to Revenue generally.

Control Assessment Worksheet						
Risk Category – Revenue						
Business Process – Fees for Service						
Risk No. 1 –: Members of the Community do not receive value for money when paying for user services						
Description: If members of the community who pay to utilise a service provided by Council and believe that the fee charged does not reasonably reflect the value of the service provided, this could result in negative publicity, public dissatisfaction and loss of revenue.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Management to review fees charged for services on a regular basis in order to provide both a value for money service in the light of operational costs and ensure consistency in the application of User Pay policies.	Additional	Annually	Schedule of fees and charges are reviewed annually and approved by Council. Council do not have a User Pay Policy but a Fees and Charges Policy and Schedule is maintained.	MCS	CEO
2	Comprehensive and robust complaints management policy and opportunities for public to provide regular feedback (i.e. surveys).	Additional	Ongoing	Public are able to provide feedback or make requests via Council's customer request system. Customer requests are completed and logged to records management before being distributed to appropriate officer.	MCS	CEO
3	Senior Management to recommend all changes in service fees which are endorsed by Council.	Additional	Annually	Prior to submission to council the schedule of fees and charges are reviewed by Senior management. However, most fees are regulated by legislation.	SMT	MCS
4	Formal leases, agreements or contracts are required to cover use of Council facilities, sporting grounds, etc. Regularly review conducted to ensure conditions are being met and payments made on time.	Core	Ongoing	Formal leases and agreements are in place where able. Carryover of old practices has made management of leases etc difficult and will be tidied in time. Regular review of leases and licences and agreements occur on an ad-hoc basis.	Property Officer	MES

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5	User pay income compared to budget regularly; management reviews and investigates significant variances.	Additional	Monthly	Actual to budget reviews are carried out regularly during budget review process.	Dept. Managers	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Revenue						
Business Process – Fees for Service						
Risk No. 2 –: Council does not apply User Pay principles consistently.						
Description: If Council does not apply User Pay principles consistently (i.e. by charging different rates for the same service), this could result in negative publicity, public dissatisfaction and loss of revenue.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Management to review fees charged for services on a regular basis in order to provide both a value for money service in the light of operational costs and ensure consistency in the application of User Pay policies.	Additional	Annually	Schedule of fees and charges are reviewed annually and approved by Council. Council do not have a User Pay Policy but a Fees and Charges Policy and Schedule is maintained (refer FS1.1).	MCS	CEO
2	Comprehensive and robust complaints management policy and opportunities for public to provide regular feedback (i.e. surveys).	Additional	Ongoing	Public are able to provide feedback or make requests via Council's customer request system. Customer requests are completed and logged to records management before being distributed to appropriate officer (refer FS1.2).	MCS	CEO
3	Senior Management to recommend all changes in service fees charged by Council.	Core	Annually	Prior to submission to council the schedule of fees and charges are reviewed by Senior management. However, most fees are regulated by legislation (refer FS1.3).	SMT	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Revenue						
Business Process – Fees for Service						
Risk No. 3 – User pay income is either inaccurately recorded or not recorded at all.						
Description: If cash receipts from users are inaccurately recorded or not recorded at all by the Council, due to intentional or unintentional errors, this will result in cash and revenue being misstated.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	User pay income compared to budget regularly; management reviews and investigates significant variances.	Additional	Monthly	Actual to budget reviews are carried out regularly during budget review process (refer FS1.6).	Dept. Managers	MCS
2	Users are provided with a sequentially pre-numbered form acknowledging receipt of any cash payments and cash receipts forms are balanced to cash deposited to the bank. The numerical sequence of these forms is accounted for.	Core	Ongoing	All cash receipts are processed through the general ledger cash receipting system which allocates receipt numbers. Cash receipts are reconciled during daily banking processes.	MCS	External Auditors
3	Receipt transactions are batched and batch input data is balanced; out-of-balance batches are corrected promptly.	Additional	Ongoing	Cash receipts are batched and balanced daily.	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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5.3 Investment / Interest Income

Introduction

All Councils have the statutory power to invest money under its control, under section 139 (1) of the Local Government Act 1999. Investment income largely takes the form of dividends and interest. For an analysis of the risks and controls associated with Investments, please refer to the Investments Business Activity in this Manual.

Key Issues/Risks

In relation to Investment / Interest Income, the major risk faced by Councils may be summarised as follows:

- Investment income is either inaccurately recorded or not recorded at all.

This risk is addressed in the following Control Assessment & Design Worksheet.

Segregation of Duties

Most systems of internal control rely on assigning certain responsibilities to different individuals, or “segregating” incompatible functions. Such segregation of duties is intended to prevent one person from having both:

1. Access to assets; and
2. Responsibility for maintaining the accountability for such assets.

For instance, in the investment cycle, different individuals are typically responsible for:

- 1) Recording of investment transactions
- 2) Approving new investments;
- 3) Following up on reconciliation or confirmation of investments to statements from third parties;
- 4) Review and analysis of recorded investments transactions by means of summary reports of activities (e.g. describing liquidity, interest rate gap, dealing positions, exposure to counterparties)
- 5) Authorised signature of payments with respect to investment transactions.

If one individual has responsibility for more than one of these functions, that individual could misappropriate assets and conceal the misappropriation.

Control Assessment Worksheet						
Risk Category – Revenue Business Process – Investment / Interest Income						
Risk No. 1 – Investment income is either inaccurately recorded or not recorded at all.						
Description: Inaccurately recorded investment income, investment income recorded in the incorrect period and investments not recorded at all, will result in misstatements in both the management reports and financial statements. Such errors may result from inaccurate data entry of interest rates and/or inaccurate calculation of interest or dividend income.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Investment income is reconciled to investment assets. Statements received for which no assets are recorded are investigated.	Core	Annually	Reconciliations for investment income is undertaken as part of year end process	MCS	External Auditors
2	Interest income is calculated by an automated system.	Additional	Ongoing	Interest details are received from third party.	MCS	External Auditors
3	Investment income is reconciled to third-party statements regularly and differences are acted upon.	Additional	Ongoing	Interest statements from third party statements and documents are usually correct, however any discrepancies found are investigated and acted upon.	MCS	
4	Actual investment income is compared to budget on a regular basis.	Additional	Ongoing	Undertaken as part of budget review process.	MCS	
5	Investment transactions at, before, or after the end of an accounting period are scrutinised and/or reconciled to ensure complete and consistent recording in the appropriate accounting period.	Core	Annually	Undertaken as part of end of financial year process.	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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5.4 Receipting

Introduction

As a minimum, when reviewing the internal control environment surrounding Receipting, Councils should consider the following issues:

- Timely banking of receipts
- Accurate recording of receipts
- Issuing appropriate documentation to customers.

It is widely understood that “the receipt of cash is a high risk activity. Consideration should be given to ways and means to minimise the risk. For instance, arrangements for the payment of rates might include options for payment of the rates by credit card on-line, telephone or direct to a bank, Australia Post or some other financial institution. Receipt of payments by cheque or EFTPOS might also be encouraged. Such arrangements not only provide convenience for residents, but transfer some of the risk associated with the receipt of cash and act to minimise the risk to staff”.

Another way to minimise the risk associated with cash receipting is to ensure that all cash received is banked on a regular basis. Ideally, this should occur on a daily basis, but staffing levels and level of cash receipts may make this impractical.

Details of further risks and controls associated with cash handling and banking are considered in the Cash Floats & Petty Cash and Banking Business Activities of this Manual.

Key Issues/Risks

In relation to Receipting, the major risks faced by Councils may be summarised as follows:

- Receipts are either inaccurately recorded or not recorded at all
- Receipts are not deposited at the bank on a timely basis.

These risks along with other suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

The following duties should be segregated within the receipting function:

- Receipting all cash payments from ratepayers/customers
- Recording all cash receipts
- Banking of cash receipts and cheques.

Also the opportunity for the misappropriation of funds through collusion should be minimised by the regular performance and independent review of bank reconciliations.

Control Assessment Worksheet						
Risk Category – Revenue						
Business Process – Receipting						
Risk No. 1 – Receipts are either inaccurately recorded or not recorded at all.						
Description: Inaccurately entered receipts can lead to receipts being allocated to the incorrect customer account. In addition, postings in the wrong amount may result in an out-of-balance condition between the general ledger and the bank statement.						
Unrecorded receipts (through either intentional or unintentional errors) may lead to an overstatement of accounts receivable and misappropriation.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
Receipts are recorded. Service users / customers are provided with a copy of the register receipt and total daily receipts (per the register) are balanced to receipts deposited to the bank by an independent person.	Additional	Daily	Receipts are provided upon request. Total daily receipts are reconciled to daily banking summary prepared for banking.	CSTL	MCS	
2 Bank statements are reconciled to the general ledger and banking reports where relevant, on a predetermined basis by an authorised officer.	Core	Monthly	A bank reconciliation is carried out regularly	MCS	External Auditors	
3 Statements of customer accounts receivable are mailed to customers.	Additional	Monthly	Debtors statements are sent to customers.	Debtors Officer	MCS	
4 Receipt transactions are batched and batch input data is balanced; out-of-balance batches are corrected promptly.	Additional	Daily	Receipts transactions are reconciled daily to daily Banking summary.	Customer Service Team Leader	MCS	
5 Receipt forms are sequentially pre-numbered and the sequence of such forms is accounted for.	Core	Ongoing	System initiates receipt numbers sequentially.	CSTL	MCS	
6 Reversals of transactions should be checked by an independent officer.	Additional	As required	Reversals are authorised by Senior Officer (MCS) prior to processing.	MCS	External Auditors	

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				Documentation and receipts are initialled by authorising officer and officer processing the transaction.		
7	Cash is stored securely at all times including the duration of the cash management process.	Core	Ongoing	Cash is locked in cash drawer when in use and stored in locked safe when not in use. Banking is carried out daily or more regularly as required. Petty cash tin is locked.	CSTL	MCS
8	Money collected on behalf of other organisations should be covered by written agreement, which states Council is not responsible for any discrepancies.	Core	As required	Any money collected on behalf of other organisations is receipted and recorded through general ledger system.	MCS	External Auditors
9	Officers who create debtors invoices do not have access to receipting payments and/or reversing receipt transactions.	Core	As required	Debtor officer and rates officer have access to receipting as they back up customer service requirements. Audit trail checks are carried out in the debtors and rates master files of system.	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Revenue Business Process – Receipting						
Risk No. 2 –: Cash receipts data is entered for processing more than once.						
Description: Invalid or duplicated receipts result in an overstatement of cash and understatement of accounts receivable.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Receipts are recorded. Service users / customers are provided with a copy of the register receipt and total daily receipts (per the register) are balanced to receipts deposited to the bank by an independent person.	Additional	Daily	Receipts are provided upon request. Total daily receipts are reconciled to daily banking summary prepared for banking (refer Rec1.1).	CSTL	MCS
2	Bank statements are reconciled to the general ledger and banking reports where relevant, on a predetermined basis by an authorised officer.	Core	Monthly	A bank reconciliation is carried out regularly (refer Rec1.2).	MCS	External Auditors
3	Receipt forms are sequentially pre-numbered and the sequence of such forms is accounted for.	Core	Ongoing	System initiates receipt numbers sequentially (refer Rec1.5).	CSTL	MCS
4	Officers who create debtors invoices do not have access to receipting payments and/or reversing receipt transactions.	Core	As required	Debtor officer and rates officer have access to receipting as they back up customer service requirements. Audit trail checks are carried out in the debtors and rates master files of system (refer Rec1.9).	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Revenue						
Business Process – Receipting						
Risk No. 3 – Receipts are not deposited at the bank on a timely basis.						
Description: If cash receipts are not banked on a timely basis, then there is an increased likelihood that the receipts will be open to misappropriation and a potential loss of interest revenue.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Cash receipts are deposited regularly at the bank by a person independent from the initial recording of the cash receipts.	Additional	Daily	Banking is undertaken on a daily basis by customer service staff. This task is allocated amongst various customer service staff.	CSTL	MCS
2	Bank statements are reconciled to the general ledger and banking reports where relevant, on a predetermined basis by an authorised officer.	Core	Monthly	A bank reconciliation is carried out regularly (refer Rec1.2).	MCS	External Auditors
3	Cash is stored securely at all times including the duration of the cash management process.	Additional	Ongoing	Cash is kept in a locked till. On busy 'rates days' the banking is carried out more than once for those days to ensure cash is not held for longer than necessary.	CSTL	MCS
4	All cheques received in Records are stamped 'Not Negotiable' if not already marked so.	Additional	Ongoing	Yes	MCS	External Auditors
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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5.5 Other Revenue

Introduction

Other Revenue received by Councils typically includes:

- Donations
- Expiation Fees
- License Fees
- Permits
- Proceeds from the disposals of fixed assets.

For guidance as to the disclosure requirements in relation to Other Income, we refer you to AASB 118: Revenue. For an analysis of the risks and controls in relation to Debtors (i.e. the collection and recovery of other income), please refer to the *Debtors* Business Activity in this Manual.

Key Issues/Risks

In relation to Other Revenue, the major risks faced by Councils may be summarised as follows:

- Other Revenue is either inaccurately recorded or not recorded at all.

This risk is addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Please refer to the *Rates / Rate Rebates* Business Activity in this Manual for a discussion of the relevant segregation of duties issues in relation to revenue generally.

Control Assessment Worksheet						
Risk Category – Revenue						
Business Process – Other Revenue						
Risk No. 1 – Other Revenue is either inaccurately recorded or not recorded at all.						
Description: Errors in invoices can lead to a misstatement of debtors and other revenue. If invoices are issued but not recorded or if cash received is not recorded, other revenue, debtors and cash in the financial statements will be misstated.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Other Revenue is compared to budget regularly; management reviews and investigates significant variances.	Additional	Monthly	Budget review is carried out regularly. Major discrepancies/variances are reported to Council as required.	Dept Managers	MCS
2	Customers/Donors are provided with a sequentially pre-numbered form acknowledging receipt of any cash payments and cash receipts forms are balanced to cash deposited to the bank.	Core	Ongoing	Cash receipting system initiates sequential receipt numbers. Cash receipting is reconciled during bank reconciliation.	MCS	External Auditors
3	Receipt transactions are batched and batch input data is balanced; out-of-balance batches are corrected promptly.	Additional	Daily	Receipts transactions are reconciled daily to banking summary. Reconciliation to bank is carried out regularly.	CSTL	MCS
4	Invoices for other income (i.e. expiation fees) are automatically priced by the application system.	Additional	As required	Some applications automatically price invoices such as expiations and dog registrations. Other invoices are raised with varying prices.	Various	External Auditors
5	Any permits issued in Council's name to be reviewed regularly.	Additional	Annually	Permits are reviewed annually.	Property officer, GI, Health	MES
6	Other revenue is reconciled and outstanding accounts are followed up regularly.	Additional	Ongoing	This is carried out as required. Outstanding accounts are followed up regularly via outstanding debts process.	Debtors Officer	MCS
7	Permit processes to provide an audit trail for cash received outside Council receipting areas.	Core	Ongoing	A review is required to ensure processes regarding permits and cash received are reconciled.	Debtors Officer Property Officer	MCS

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Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

6 Expenses

6.1 Purchasing & Procurement

Introduction

The recent development of on-line purchasing and e/procurement present Councils with the opportunity to enhance the operational efficiency of the purchasing, procurement and disbursement environments. However it is important that this drive for operational efficiency does not circumvent the essential controls that should exist within this key facet of Council's operations. When reviewing the internal control environment surrounding purchasing and procurement, Council should consider the following issues:

- Increasing use of On-line purchasing and e/procurement
- Obtaining value for money in purchasing and procurement
- Delegations of Authority
- Credit cards (please refer to the separate Business Activity for *Credit Cards* in this Manual)
- Custody of blank cheques and cheque-signing machines and access to electronic payment facilities.

Please refer to the chapter "Internal Control Framework" of "A Framework for Local Government Financial Management", prepared by the Local Government Association for a more detailed analysis of the importance of delegations in relation to purchasing and procurement. For an analysis of the risks and controls specifically in relation to disbursements, tendering and contracting, please refer to the following Business Activities in this Manual:

- Accounts Payable
- Contracting

Key Issues/Risks

In relation to Purchasing & Procurement, the major risks faced by Councils may be summarised as follows:

- Council does not obtain value for money in its purchasing & procurement
- Purchases of goods and services are made from non-preferred suppliers
- Purchasing and procurements are either inaccurately recorded or not recorded at all
- Purchases orders are placed for unapproved goods and services.

These risks along with another suggested risk are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

The following activities should be segregated within the purchasing and procurement cycle:

- Approval of purchase orders
- Recording of the original purchase and liability.

If staffing levels make this control impractical, then purchase orders should be approved in accordance with the delegations of authority.

Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Purchasing & Procurement						
Risk No. 1 – Council does not obtain value for money in its purchasing & procurement.						
Description: If Council does not have a robust and rigorous selection process for preferred suppliers, this may result in Council not obtaining the best possible price from suppliers and therefore not achieving value for money in its purchasing and procurement.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Council has a comprehensive Contracts & Tender Policy that is reviewed every three years and provides for on-going contract audits by the Governance unit.	Core	Annually	Contracting and Tendering Policy is reviewed annually. The Contracting and Tendering Policy does not provide for on-going contract audits.	MCS	Audit Committee
2	Employees must ensure all purchase orders are approved in accordance with the Delegations of Authority.	Additional	Ongoing	Only employees with delegated authority can issue purchase orders. A checking process needs to be developed to ensure purchase orders are written within delegated authority limits.	CEO	External Auditors
3	Robust selection process of preferred suppliers. Criteria for supplier selection is defined and communicated by management to ensure that goods and services are obtained only from properly authorised suppliers.	Additional	Ongoing	Purchasing options are detailed in the Contracting and Tendering Policy. Emphasis is give to local suppliers however not the only criteria. Staff authorised to purchase supplies are aware of processes when purchasing.	Dept Managers	Audit Committee
4	Periodic re-tender to ensure that Council achieves value for money from suppliers.	Additional	Ongoing	Re-tender processes are in place in accordance with Contracting and Tendering Policy.	Dept Managers	CEO
5	Staff provided clear guidance and instructions on the process for purchasing goods and services, including appropriate approval and obtaining appropriate number of quotes, where applicable.	Additional	Annually	An annual refresher needs to be carried out with appropriate staff to ensure correct procedures are carried out with regards to purchasing goods and services.	MCS	Audit Committee

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

6	Staff provided clear guidance and instructions as to the importance of using preferred suppliers for the purchase of goods and services.	Additional	Annually	As above at point 5.		MCS	Audit Committee
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment			
		Likelihood		Likelihood			
		Consequence		Consequence			
		Rating		Rating			
		Accept		Accept			

Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Purchasing & Procurement						
Risk No. 2 – Purchases of goods and services are made from non-preferred suppliers.						
Description: If purchases of goods and services are made from non-preferred suppliers, this may result in Council not obtaining the best possible price for the goods and services.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Staff provided clear guidance and instructions on the process for purchasing goods and services, including appropriate approval and obtaining appropriate number of quotes, where applicable.	Additional	Annually	An annual refresher needs to be carried out with appropriate staff to ensure correct procedures are carried out with regards to purchasing goods and services refer IC1.5.	MCS	Audit Committee
2	Staff provided clear guidance and instructions as to the importance of using preferred suppliers for the purchase of goods and services.	Additional	Annually	As above at point 1.	MCS	Audit Committee
3	Employees must ensure all purchase orders are approved in accordance with the Delegations of Authority.	Core	Ongoing	Only employees with delegated authority can issue purchase orders. A checking process needs to be developed to ensure purchase orders are written within delegated authority limits.	CEO	External Auditors
4	Review purchasing patterns and purchases made from non-preferred suppliers; management regularly reviews this report and investigates significant/unusual items.	Additional	Ongoing	No report/review is carried out. Purchase orders completed for all purchases and Dept Managers review suppliers being used when authorising purchase.	Dept Managers	Audit Committee
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Purchasing & Procurement						
Risk No. 3 – Purchase orders are either recorded inaccurately or not recorded at all.						
Description: Inaccurate input of purchase orders could lead to financial losses due to incorrect goods or services being purchased. If purchase order entry or processing is incomplete, receipts of goods and/or processing of invoices might be hampered. Stores employees are normally instructed only to accept goods for which purchase orders have been issued, and only up to the quantity specified in each purchase order. In invoice processing, the invoice is normally matched with the purchase order to verify the price and the payment terms.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Manually raised orders are periodically sampled to ensure completeness.	Additional	Ongoing	Accounts payable officer ensures orders raised match goods received as indicated on invoice. Dept Manager signs authorisation of purchase.	Accounts Payable Officer	Dept Managers
2	Purchase orders and invoice data are compared; inaccuracies are investigated.	Additional	Ongoing	All invoices are matched with purchase orders and authorised by Dept Manager for processing. Any inaccuracies are investigated and adjustments if necessary are processed.	Accounts Payable Officer	Dept Managers
3	Invoices received without a valid order is reported regularly and acted upon.	Additional	Ongoing	Invoices received without an appropriate order are followed up with responsible officer to ensure purchase order is completed and authorised. If a number of invoices have been received it is followed up as to who and why purchase orders are not being issued. Instructions are issued that all purchases must be made via a valid authorised purchase order.	Accounts Payable Officer	Dept Managers, External Auditors
4	Unmatched purchase orders are actioned.	Additional	Ongoing	Unmatched purchase orders are followed up by accounts payable officer.	Accounts Payable Officer	Dept Managers
5	Purchase orders are sequentially pre-numbered. Sequence of purchase orders	Core	Ongoing	Purchase orders, even though paper based, are sequentially pre-numbered.	Accounts Payable	Dept Managers

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	processed is accounted for.			Purchase order books are signed for by appropriate personnel. Purchase order books are frequently checked to account for 'blank' or 'missing' orders.	Officer	
6	Review purchasing patterns and purchases made from non-preferred suppliers; management regularly reviews this report and investigates significant/unusual items.	Additional	Ongoing	No report/review is carried out. Purchase orders completed for all purchases and Dept Managers review suppliers being used when authorising purchase.	Dept Managers	Audit Committee
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Purchasing & Procurement						
Risk No. 4 – Purchase orders are placed for unapproved goods and services.						
Description: A purchasing function procures goods and services to fulfil the Council’s requirements, as approved by management. The purchasing function should not acquire goods or services for which purchase orders have not been approved by management. Purchase orders might be paper-based or entered on-line.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Employees must ensure all purchase orders are approved in accordance with the Delegations of Authority.	Core	Ongoing	Only employees with delegated authority can issue purchase orders. A checking process needs to be developed to ensure purchase orders are written within delegated authority limits.	CEO	External Auditors
2	Access to unissued purchase orders and requisitions is restricted to authorised individuals.	Additional	Ongoing	Purchase order book is to be kept secure at all times.	MCS	External Auditors
3	Staff provided clear guidance and instructions on the process for purchasing goods and services, including appropriate approval and obtaining appropriate number of quotes, where applicable.	Additional	Annually	An annual refresher needs to be carried out with appropriate staff to ensure correct procedures are carried out with regards to purchasing goods and services.	MCS	Audit Committee
4	Staff provided clear guidance and instructions as to the importance of using preferred suppliers for the purchase of goods and services.	Additional	Annually	As above at point 3.		
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Purchasing & Procurement						
Risk No. 5 –: Supplier master file data does not remain pertinent.						
Description: To be considered “pertinent,” the master file must reflect current conditions. In this context, pertinence relates both to master file records and to individual data fields within those records. For example, if unapproved suppliers are added to the master file, payments could be made to an unapproved supplier.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Supplier master file data is periodically reviewed by management for accuracy and ongoing pertinence.	Additional	Monthly	During end of month process an audit trail report is printed to check access by staff to creditor supplier master file.	MCS	External Auditor
2	Recorded changes to the supplier master file are compared to authorised source documents to ensure that they were input accurately.	Additional		As above at 1.		
3	Access to the supplier master file is restricted to appropriately designated personnel.	Core	Ongoing	Only appropriate personnel have access to the supplier master file.	MCS	External Auditor
4	Suppliers that have not been used for a significant period of time are reviewed and marked for deletion by the application.	Additional	Ongoing	A review is carried out periodically and old or unused creditor details are deleted from master file, however transactions are kept on the system for 5 years	Accounts Payable	MCS
Prepared by:		Inherent Risk Assessment		Residual Risk Assessment		
Date:		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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6.2 Payroll

Introduction

There are no sections of the Local Government Act that specifically deal with Payroll. However, as a minimum, Council, when reviewing the internal control environment surrounding payroll, should consider the following issues:

- Compliance with statutory obligations (e.g. superannuation)
- Compliance with tax obligations and liabilities (e.g. Group tax)
- Changes in Employee Details
- Time recording
- Leave entitlements
- Payment processes

One operational issue that can have a financial impact for Councils is that of the differential treatment accorded to contractors as compared to employees. When utilising contractors, Councils do not recognise these expenses as payroll related costs and are not liable for the employee benefits normally associated with payroll expenses (i.e. superannuation and leave entitlements).

For most Councils, payroll represents a significant operating expense. Accordingly, the internal financial controls environment needs to address the significant risk associated with this activity.

Key Issues/Risks

In relation to Payroll, the major risks faced by Councils may be summarised as follows:

- Payroll expenses are inaccurately calculated
- Payroll disbursements are made to incorrect or fictitious employees
- Employees are terminated in breach of statutory and enterprise agreements

These risks along with other suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

The following segregation of duties should exist within the payroll and personnel cycle: Inquiries from employees regarding payroll calculations and disbursements may arise for a variety of reasons. Any such queries should be followed up by personnel independent of the payroll preparation and disbursement process to ensure:

- Appropriate segregation of duties exist between preparation, disbursement, and human resources (or personnel management); thus, the potential for concealment of fraud is minimised
- Any errors in calculation and/or disbursement are properly identified and corrected and not concealed
- Confidentiality of employee personnel matters is maintained

Typically, all payroll queries (i.e. requests to change details) ought to be directed to supervisory level staff in the human resource or personnel management department. However it is noted that in some Councils, human resources are not involved in payroll queries and this segregation of

duties issue is not applicable. However if Management regularly reviews the payroll master file and is advised of all significant changes to detail, the weakness associated with this segregation of duties issue may be reduced.

Control Assessment Worksheet						
Risk Category – Expenses Business Process – Payroll						
Risk No. 1 – Payroll expense is inaccurately calculated. Description: Inaccurate calculation of payroll may result in both management report and financial statement errors. It will also lead to underpayments or overpayments to employees (and the associated cash flow implications), giving rise to the potential for industrial disputes.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Salary and hourly payroll reports are reviewed and approved by management.	Additional	Fortnightly	Payroll reports are to be checked by independent person.	Payroll Officer	MCS
2	Standard programmed formulas perform significant payroll calculations.	Core	Ongoing	Payroll software performs all payroll calculations.	Payroll Officer	MCS
3	Overtime hours worked and payments for such overtime are authorised by management for all salaried employees who are paid for overtime.	Core	Fortnightly	Overtime hours are input on timesheet and then authorised by team leader and/or manager prior to being processed in fortnightly pay run.	Payroll Officer	MCS
4	Non-standard pays checked by a person independent from the calculation process.	Additional	As required	MCS checks all non standard pays such as back pay, termination pays, LSL etc.	Payroll Officer	MCS
5	Amounts paid to employees are regularly reconciled to the General Ledger accounts.	Additional	Monthly	General Ledger and payroll accounts are reconciled during end of month processes	MCS	External Auditors
6	Actual payroll expense is compared to budget by management; significant variances are investigated and approved by management.	Additional	Monthly	Actuals to budget are compared on a monthly basis.	Dept Managers	MCS
7	Timesheets are reconciled regularly to the payroll reports to ensure that all time entered manually into the payroll system is accurate.	Additional	Fortnightly	Hours input for each pay are checked against submitted timesheets by each employee. Payroll software will flag if hours input are not equal to employee standard hours.	Payroll Officer	MCS

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Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Payroll						
Risk No. 2 – Payroll disbursements are made to incorrect or fictitious employees.						
Description: When payroll disbursements are posted to either the wrong employee or fictitious employees, this may cause payroll disputes.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Access to the payroll bank transfer tape/file is restricted to authorised personnel.	Core	Fortnightly	Yes, only authorised personnel can access payroll bank transfer file.	Payroll Officer MCS	External Auditors
2	Payroll disbursements must involve a minimum of two people in the approval and transfer process.	Core	Fortnightly	Yes. Payroll cannot be submitted via EFT until second authorisation occurs.	Payroll Officer MCS	External Auditors
3	Managers perform a regular review of report detailing all employees listed on payroll master file; all unusual items are investigated.	Additional	Fortnightly	A check of payroll EFT master report is to be performed to ensure no unusual items.	Payroll officer	MCS
4	Payroll system generates exception report detailing payroll expense on an individual employee basis where payroll expense is greater than budgeted amount by a fixed percentage or dollar amount; regularly reviewed by management who investigate & approve variances.	Core	Fortnightly	Payroll system does not flag any variances in dollar amounts however checks prior to payroll being finalised is carried out to pick up any discrepancies. Actual to Budget reviews are carried out on a monthly basis.	Payroll Officer	Dept Managers
5	Employees should not be added to the payroll records or paid without receipt of the appropriate forms duly authorised by responsible Council Officers.	Core	As required	HR and Management authorise and supply all relevant forms required to add new employees. All adjustments to pay rates or other adjustments are provided in writing to the payroll officer by authorised personnel (senior management).	Payroll Officer	Dept Managers

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6	Payees identified on pay slips by Emp No. and name. All employees paid by EFT (manual cheque when necessary) into authorised a/c. EFT listing must be reconciled to: Net pay total of payroll journal; No. of employees paid; Listing received from Council's bank.	Additional	Fortnightly	All appropriate information is supplied on payslips. EFT listing is checked and reconciled to payroll report for fortnight. No pays are made by cheque.	Payroll Officer	MCS
7	Employee records should include employment details and/or contract terms and conditions, authorisations for payroll deductions, annual, long service and sick leave entitlements, specimen signatures.	Core	As required	Personnel files hold all relevant details of employee's matters.	Payroll Officer	HR Manager
8	Officers responsible for originating/preparing EFT transfers are precluded from authorising transfer of same.	Additional	Fortnightly	Payroll officer prepares EFT transfer file and is the first authoriser of transfer, however the EFT file cannot be submitted and finalised without checks and authorisation by second officer – being MCS	Payroll Officer	MCS
10	Any non-routine payroll queries or queries of a managerial/strategic nature are referred to Human Resources and/or Finance.	Additional	As required	In practicality, the payroll officer will handle such matters if possible. Reference to HR or Finance will occur if necessary.	Payroll Officer	HR Manager MCS
11	Employees removed from payroll records immediately upon termination. Termination report provided as supporting documentation with request for an EFT. Comparison of subsequent current employee listings made by independent person to verify correctness.	Core	As required	System holds previous employees on file until end of year and payment summary is supplied. File of old employee is held in background file for reference only – no transactions can be entered for terminated employee.	Payroll Officer	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Payroll						
Risk No. 3 –: Time and attendance data is either invalid, inaccurately recorded or not recorded at all.						
Description: Recording of time not actually worked can lead to overpayments to employees. This may affect cash flow and council operations. Inaccurate input of time worked may result in payroll errors due to underpayments or overpayments to employees.						
If time worked is not input, there is a risk that employees will not be paid. This can lead to an understatement of the payroll expense and industrial disputes.						
	Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Salary and hourly payroll reports are reviewed and approved by management.	Additional	Fortnightly	Payroll reports are to be checked by independent person (refer Pay1.1).	Payroll Officer	MCS
2	Time recording and attendance exceptions based on expectations established by management are identified, monitored and corrected.	Additional	As required	Timesheets are still submitted and authorised with notes regarding attendance in order for payroll to be processed appropriately. Managers need to initiate a system where they can check absences are correctly input on timesheets.	Payroll Officer	MCS
3	Overtime hours worked and payments for such overtime are authorised by management for all employees who are paid for overtime.	Core	Fortnightly	Overtime hours are input on timesheet and then authorised by team leader and/or manager prior to being processed in fortnightly pay run (refer Pay1.3).	Payroll Officer	MCS
4	Timesheets are reconciled regularly to the payroll reports to ensure that all time entered manually into the payroll system is accurate.	Additional	Fortnightly	Hours input for each pay are checked against submitted timesheets by each employee. Payroll software will flag if hours input are not equal to employee standard hours (refer Pay1.7).	Payroll Officer	MCS
5	An exception report showing all deductions and allowances is to be printed and checked by an authorised officer before pay slips are	Additional	Fortnightly	Payroll officer checks net pays to be submitted, any discrepancies as a result of changes to allowances or	Payroll Officer	MCS

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	processed.			deductions are investigated. Manager checks at end of month all deductions that have been made and forwarded to external bodies such as Local Super, unions etc.		
6	Total of payment summaries for the year is reconciled to general ledger and payroll.	Core	Annually	Yes.	Payroll Officer	MCS
7	Payment summaries that are returned or unclaimed are received and investigated by an authorised officer.	Additional	Annually	In the event payment summaries are returned investigation will be carried out by Payroll Officer. Employees sign to say they have received their payment summary for the year.	Payroll Officer	MCS
8	All time sheets are checked, initialled and stamped by the payroll officer as evidence of processing.	Additional	Fortnightly	Payroll officer stamps each timesheet with "entered" stamp to show it has been input.		
9	Relevant staff members are required to fill out time sheets, sign them and have authorised by the supervisor/manager.	Additional	Fortnightly	All staff are required to fill in timesheets and have them authorised by their supervisor before processing.		
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Payroll						
Risk No. 4 –: Payroll master file does not remain pertinent.						
Description: To be deemed pertinent, the master files must reflect current conditions. In this context, pertinence relates both to master file records and to individual data fields within those records. For example, if employee bank account numbers are not up to date, payments may be deposited in the wrong employee account. Also, if pay rate / conditions change due to promotion or reclassification and these are not reflected in the payroll master file, this will result in incorrect payroll disbursements.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Managers periodically review listings of current employees within their departments and notify the personnel department of necessary changes.	Additional	Fortnightly	A check of payroll EFT master report is to be performed to ensure no unusual items (refer Pay2.3).	Payroll officer	MCS
2	Payroll master file data is reviewed for accuracy and employee validation, identified errors are corrected.	Additional	Fortnightly	Manager checks at end of month all deductions that have been made and forwarded to external bodies such as Local Super, unions etc.	Payroll officer	MCS
3	The ability to view, modify, or transfer information contained in the payroll master files is restricted to authorised personnel.	Additional	Ongoing	The payroll master file is only accessible to personnel responsible for processing of payroll and HR matters.	Payroll officer MCS HR	External Auditors
4	Significant changes (supported by adequate audit trail) to the payroll master files approved by management.	Core	Ongoing	All changes are provided to the Payroll Officer in writing from authorising senior officers or authorised by employees for personal matters such as bank details.	Payroll Officer	HR MCS
5	Any adjustments to employee records are not permitted without written authorisation of the employee.	Additional	Ongoing	All changes are required to be in writing and held on employee's personnel file.	Payroll Officer	MCS
6	All payroll suspense accounts are reconciled and reviewed by management or other supervisory personnel on a timely basis. Transactions recorded in the payroll suspense accounts are proper suspense items; other items are investigated and resolved in a timely manner.	Additional	Monthly	Reconciliation of payroll suspense accounts is carried out regularly. Any discrepancies are investigated and resolved.	Payroll officer	MCS

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Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

Control Assessment Worksheet						
Risk Category – Expenses Business Process – Payroll						
Risk No. 5 – Voluntary and statutory payroll deductions are inaccurately processed.						
Description: Payroll deductions must reflect current conditions. Inaccurate deductions may arise from improper changes to the payroll deduction tables or errors in processing, resulting in incorrect employee deductions relating for tax, superannuation, etc.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	The payroll deduction table data is periodically reviewed by management for accuracy, compliance with statutory requirement and ongoing pertinence with changes compared to authorised source documents to ensure that they were input accurately.	Additional	Ongoing	As above at Payroll 3.5 Manager checks at end of month all deductions that have been made and forwarded to external bodies such as Local Super, unions etc. Whenever changes to tax tables occur a check is made to random employees to ensure correct taxation deductions are being made.	Payroll Officer	MCS
4	All payroll deductions must be approved by the relevant employee.	Additional	As required	Employees authorise in writing any deductions to be made to their pay. This written authorisation is held on personnel file.	Payroll Officer	MCS
5	Access to the payroll deduction tables is restricted to authorised personnel.	Core	Ongoing	Only personnel authorised to access payroll master file have access to deduction tables.	Payroll Officer	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Expenses Business Process – Payroll						
Risk No. 6 –: Salary sacrifice transactions are inaccurately processed.						
Description: If salary sacrifice calculations are processed inaccurately, this will increase the likelihood of both employee disputes and the payment of tax penalties.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	All original salary sacrifice transactions must be approved by the relevant employee. Payroll manager must ensure that such approval has been obtained prior to processing transactions into the payroll system.	Core	As required	All employees must have the appropriate Local Super forms signed them and then forwarded to Local Super once input into system. Copies of authorised forms to be held on personnel files.	Payroll Officer	MCS
2	Management reviews a selection of salary sacrifice calculations for accuracy and compliance with statutory requirements; identified errors are promptly corrected.	Additional	As required	No review is carried out. Random checks to be undertaken to ensure appropriate calculations.	Payroll Officer	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Expenses Business Process – Payroll						
Risk No. 7 –: Employees are terminated in breach of statutory and enterprise agreements.						
Description: Termination of employees outside union agreements or statutory requirements can lead to industrial disputes or litigation.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Establish employee termination policies and procedures, including statutory regulation and union requirements. Regular update of these policies and procedures.	Core	As required	No formal termination policy/procedure is in place. This is to be developed and implemented by HR.	HR	CEO
2	Management provides adequate training in relation to requirements of statutory and enterprise agreements.	Additional	As required	Training is provided as required.	MCS	CEO
3	Regular review by management of compliance with employee termination policies and procedures, including compliance with statutory regulation and union requirements.	Additional	As required	Review will be undertaken once policy/procedure as above at 7.1 is in place.	HR	CEO
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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6.3 Elected Members Expenses

Introduction

Under section 76 (1) of the Local Government Act, “a member of a council is entitled to the allowance determined by the Remuneration Tribunal in relation to the member’s office and indexed in accordance with this section”.

Elected members, under section 77 (1) of the Local Government Act, are “entitled to receive from the council:

- a) Reimbursement of expenses ... incurred in performing or discharging official functions and duties; and
- b) Reimbursement of expenses...approved by the council specifically or under a policy established by the council”.

Under section 79 (1), “the Chief Executive Officer of a council must ensure that a record (the “Register of Allowances and Benefits”) is kept, in which is entered ...in respect of each member of the council:

- a) The annual allowance payable to the member; and
- b) Details of any expenses reimbursed by the council under section 77(1)(b); and
- c) Details of other benefits paid or payable to, or provided for the benefit of, the member by the council.

For a comprehensive analysis of the issues surrounding Elected Members’ Expenses, please refer to the “Model Elected Members’ Allowances and Support Policy”, prepared by the Local Government Association.

Key Issues/Risks

In relation to Elected Members, the major risk faced by Councils may be summarised as follows:

- Council reimburses expenses to Elected Members of a personal nature.

This risk along with other suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Please refer to “Segregation of Duties” in the *Purchasing & Procurement* Business Activity for an analysis of the segregation of duties issues that relate generally to expenses.

Control Assessment Worksheet						
Risk Category – Expenses Business Process – Elected Members Expenses						
Risk No. 1 –: Council reimburses expenses to Elected Members of a personal nature. Description: If Councils reimburse Elected Members for expenses of a personal nature, this will result in negative publicity and public dissatisfaction.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Actuals regularly compared to both budget and the original allowances specified by Council in the first ordinary meeting. For significant or repeat expenses, significant variances are investigated.	Additional	Quarterly	Budget review is undertaken quarterly.	MCS	Elected Members
2	Elected Members must complete and sign a standard expenses reimbursement form when claiming expenses. The signing of the form confirms that the Elected Members are claiming valid expenses and have excluded all items of a personal nature.	Core	Ongoing	Yes. Expenses reimbursement form is completed by Elected Members when claiming expenses.	Accounts Payable	MCS
3	All Elected Members and other committee's allowances are in accordance with the remuneration tribunal with delegations of authority and all claims are agreed to supporting documentary evidence (i.e. receipts).	Core	Ongoing	Yes. Documentary evidence to be attached to expenses reimbursement form when lodged with all allowances appropriately approved.	Accounts Payable	MCS
Prepared by:		Inherent Risk Assessment		Residual Risk Assessment		
Date:		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Elected Members Expenses						
Risk No. 2 –: Elected Members’ allowances and reimbursements are not paid and/or not paid by Council on a timely basis and are inaccurately recorded.						
Description: If Council does not pay allowances (due to unintentional oversight) to the Elected Members, Council will be in breach of its statutory obligations and possibly lose the confidence of the Elected Members.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Actuals regularly compared to both budget and the original allowances specified by Council in the first ordinary meeting, for significant or repeat expenses; significant variances are investigated.	Additional	Quarterly	Budget review is undertaken quarterly.	MCS	Elected Members
2	Register of Allowances and Benefits maintained by designated person. Register details level and nature of expenses reimbursed to Council by Elected Members, and is reviewed by management on a regular basis.	Additional	Ongoing	Elected Member allowances are set by the Remuneration Tribunal Report and Determination. No Register is kept.	Exec Assistant	CEO
3	Exception report detailing all unpaid Elected Members’ allowances generated on a regular basis; all unpaid allowances that are due for payment are investigated and acted upon by management.	Core	Ongoing	No exception report is produced. Elected Members allowances are paid within a scheduled timeframe.	Accounts Payable	MCS
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Elected Members Expenses						
Risk No. 3 – Elected Members’ do not reimburse Council for the private use of assets						
Description: If Elected Members do not reimburse Council for the private use of assets, then Council will be effectively funding expenses of a personal nature which will result in negative publicity and public dissatisfaction.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Elected Members must complete and sign a standard expenses reimbursement form when claiming expenses. The signing of the form confirms that the Elected Members are claiming valid expenses and have excluded all items of a personal nature.	Core	Ongoing	Yes. Expenses reimbursement form is completed by Elected Members when claiming expenses.	Accounts Payable	MCS
2	Register of Allowances and Benefits maintained by designated person. Register details level and nature of expenses reimbursed to Council by Elected Members, and is reviewed by management on a regular basis.	Additional	Six Monthly	No Register is kept. Elected Member allowances are set by the Remuneration Tribunal Report and Determination. Refer IC2.2. Reviews will be conducted of the register when implemented.	Exec Assistant	CEO
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

6.4 Credit Cards

Introduction

The drive for operational efficiency in the purchasing and procurement has led to a number of developments, such as the proliferation of on-line purchasing and e-procurement. Included in these developments is the use of Credit Cards within Council. When reviewing the internal control environment surrounding the use of Credit Cards in the purchasing cycle, Councils should consider the following issues:

- Robust process for issuing cards to appropriately designated employees
- Restricted access to Credit Cards
- Appropriate Credit Card limits
- Regular review of credit card statements focusing on both the level and nature of credit card expenses.

For an analysis of the risks and controls associated with the disbursement and reimbursements processes associated with credit card statements/expenses, please refer to the Purchasing & Procurement and Employee Reimbursement Business Activities in this Manual.

Key Issues/Risks

In relation to Credit Cards, the major risks faced by Councils may be summarised as follows:

- Credit Cards are issued to unauthorised employees.
- Credit Cards are used for purchases of a personal nature.

These risks along with another suggested risk are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Please refer to “Segregation of Duties” in the *Purchasing & Procurement* Business Activity for the risks and controls that relate generally to expenses.

Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Credit Cards						
Risk No. 1 –: Credit Cards are issued to unauthorised employees.						
Description: If Credit Cards are issued to employees without the prior approval of management, this may result in the Credit Cards being used to purchase goods and services that have not been approved by management.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Council, CEO and/or other authorised officer approves all issues of Credit Cards and limits, to employees prior to release.	Core	Ongoing	Yes. CEO has authority.	CEO	External Auditors
2	Credit Card holders provided a copy of the policy and procedures associated with the issue and use of Credit Cards.	Additional	Ongoing	A copy of the Credit Card Policy is to be provided to all credit card holders.	MCS	CEO
3	Employees sign a declaration confirming compliance with Council policy and procedures prior to the Credit Card being released.	Core	Ongoing	A declaration to be signed by each employee issued with a credit card. This declaration can be included with Credit Card Policy.	MCS	CEO
4	Designated person reviews the Credit Card Register for accuracy and on-going pertinence; unusual entries investigated.	Additional	Annually	Register is incorporated in policy which is reviewed annually.	MCS	Audit Committee
5	Exception report from Credit Card providers detailing all breaches of credit card limits on an individual employee basis; management regularly reviews this report and investigates all breaches on a timely basis.	Core	As required	Yes.	MCS	CEO
6	Access to the Credit Card Register and Credit Card documentation is restricted to designated person.	Core	Ongoing	Not applicable as register is incorporated in credit card policy.	MCS	CEO
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

¹ Action Plan Reference – Provide an action plan if control is not in place or where the control is rated 3 or below by checking officer. Provide rationale for omission of a control activity

Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Credit Cards						
Risk No. 2 – Credit Cards are used for purchases of a personal nature.						
Description: If Credit Cards are used for purchases of a personal nature, then there is the risk that these items will be paid by Council, resulting in overstating the operating expenses in management reports and the financial statements as well as adverse publicity.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Council, CEO and/or other authorised officer approves all issues of Credit Cards and limits, to employees prior to release.	Core	Ongoing	Yes. CEO has authority (refer CC1.1).	CEO	External Auditors
2	Credit Card holders provided a copy of the policy and procedures associated with the issue and use of Credit Cards.	Additional	Ongoing	A copy of the Credit Card Policy is to be provided to all credit card holders (refer CC1.2).	MCS	CEO
3	Employees sign a declaration confirming compliance with Council policy and procedures prior to the Credit Card being released.	Core	Ongoing	A declaration to be signed by each employee issued with a credit card. This declaration can be included with Credit Card Policy (refer CC1.3).	MCS	CEO
4	Usage restrictions placed on Credit Card (i.e. only used for predefined purchases from pre-approved businesses).	Additional	Ongoing	Credit card policy determines that credit card usage is for business purposes only. CEO authorises all purchases made with credit card by employees.	CEO	External Auditors
5	All credit card statements sent directly to person independent from the credit card holder, who reviews the nature and amounts of items on the statements; any unusual items are investigated.	Additional	Ongoing	Credit card statements are attached and reconciled to a 'Credit Card Return' along with all relevant receipts and documentation. Within the credit card return explanation of purchases is provided and CEO is final authorisation of such purchases.	CEO	External Auditors

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6	Any personal expenses are investigated and rectified.	Additional	Ongoing	No personal expenses are allowed as per Credit card policy.	CEO	External Auditors
7	Cardholders are advised in the policy and procedures (which they have signed) that improper use of the credit card, such as purchases of a personal nature, will result in termination of employment or other disciplinary action.	Additional	Ongoing	Amendments to Credit Card Policy to incorporate policy regarding improper use of credit card. Partially covered under Code of Conduct for Employees.	CEO	Audit Committee
8	Council staff should check their statement at the first opportunity to ensure all transactions are correct, and contact bank as soon as possible to cancel any invalid transactions.	Additional	Ongoing	Reconciliation of credit card expenses is to be carried out by officer with credit card. Any discrepancies are to be investigated by employee at earliest opportunity.	Credit Card Holders	CEO
Prepared by:		Inherent Risk Assessment		Residual Risk Assessment		
Date:		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet					
Risk Category – Expenses Business Process – Credit Cards					
Risk No. 3 – Credit Card limits are set at inappropriate levels.					
Description: If credit card limits are too high, then this may result in an increase in expenditure and budget overruns. On the other hand, if credit card limits are insufficient, this could reduce the operational effectiveness of the credit card process and result in purchasing delays.					
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1 Council, CEO and/or other authorised officer approves all issues of Credit Cards and limits, to employees prior to release.	Core	Ongoing	Yes. CEO has authority (refer CC1.1).	CEO	External Auditors
2 All credit card limits are set in accordance with Delegations of Authority and reviewed by management for operational efficiency.	Core	Ongoing	Yes.	CEO	External Auditors / CEO
3 Designated person reviews the Credit Card Register for accuracy and on-going pertinence; unusual entries investigated.	Additional	Annually	Register is incorporated in policy which is reviewed annually (refer CC1.4).	MCS	Audit Committee
4 Exception report from Credit Card providers detailing all breaches of credit card limits on an individual employee basis; management regularly reviews this report and investigates all breaches on a timely basis.	Core	As required	Yes (refer CC1.5).	MCS	CEO
Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

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6.5 Employee Reimbursements

Introduction

When reviewing the internal control environment surrounding Employee Reimbursements, Councils should consider the following issues:

- Establishment of policy providing guidance to all employees of the appropriate process for employee reimbursements
- Authorisation of employee reimbursements in accordance with Delegations of Authority
- Submission of supporting documentary evidence (i.e. receipts) with all employee reimbursement claims
- Efficient lodgement and processing of employee reimbursements via on-line approval, where appropriate
- Claiming Employee reimbursements via the use of credit cards provided to employees by Council, where appropriate.

For an analysis of the risks and controls associated with the petty cash disbursements, disbursements generally and reimbursements of Elected Members' Expenses, please refer to the following Business Activities within this Manual:

- Cash Floats & Petty Cash
- Accounts Payable
- Elected Members' Expenses.

Key Issues/Risks

In relation to Employee Reimbursements, the major risks faced by Councils may be summarised as follows:

- Employees are reimbursed for expenses of a personal nature
- Employee reimbursements are either inaccurately recorded or not recorded at all.

These risks are addressed in the following Control Assessment & Design Worksheets.

3. Segregation of Duties

Please refer to "Segregation of Duties" in the Purchasing & Procurement Business Activity for an analysis of the segregation of duties issues that relate generally to expenses.

Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Employee Reimbursements						
Risk No. 1 – Employees are reimbursed for expenses of a personal nature.						
Description: If employees are reimbursed for private or personal expenses, this will result in unnecessary expenditures and misstatements in the management reports and the financial statements, and may result in negative publicity for the Council.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	All claims for Employee Reimbursements are submitted for approval along with supporting documentary evidence (i.e. receipts) and confirmation of valid expenses. This is approved by management in accordance with Delegations of Authority. Management focus on the nature (i.e. type of expense) as well as the amount of the claim.	Core	Ongoing	Employee requesting reimbursement must provide documentation to team leader. Team leader forwards documentation to supervisor and is authorised prior to forwarding to Accounts Payable for reimbursement. All claims are authorised by appropriate manager or supervisor.	Accounts Payable	Dept Managers/ CEO
4	Management monitors level of Employee Reimbursements on a regular basis.	Additional	Ongoing	Receipts and other relevant documents are attached to accounts payable payment form as substantiation of expenditure incurred.	Accounts Payable	Dept Managers
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Employee Reimbursements						
Risk No. 2 – Employee reimbursements are either inaccurately recorded or not recorded at all.						
Description: If employee reimbursements are inaccurately recorded due to processing errors or the raising of fictitious claims, both the management reports and the financial statements will be misstated. If employee reimbursements are not recorded at all, then both the management reports and the financial statements will be misstated.						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
2	Management select a sample of employee reimbursements and check them for mathematical accuracy and ensures that they have been recorded correctly in the ledger.	Core	Ongoing	No check is done. Authorisation considered appropriate check.	Dept Managers	
3	Mgt regularly reviews a report detailing Emp. Reimbursements; Mgt selects unusual/significant items from report & agrees to original approved reimbursement claim along with supporting evidence (i.e. receipts). All errors are investigated.	Additional	6 months	No report provided at present. A report to be initiated providing details of employee reimbursements that have occurred in previous 6 months and to be reviewed by senior management.	Accounts payable	Dept Managers
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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6.6 Other Expenses

Introduction

Other Expenses may typically include the following:

- Office related expenses (i.e. printing and stationery)
- Operational expenses (i.e. utilities).

When reviewing the internal control environment surrounding Other Expenses, Councils should consider the following issues:

- Appropriate approval in accordance with Delegations of Authority
- Timely recording and monitoring against budget.

For an analysis of the risks and controls associated with the recording and disbursement of Other Expenses, please refer to the Accounts Payable Business Activity in this Manual.

Key Issues/Risks

In relation to Other Expenses, the major risks faced by Councils may be summarised as follows:

- Other Expenses are either inaccurately recorded or not recorded at all.

This risk along with another suggested risks are addressed in the following Control Assessment & Design Worksheets.

Segregation of Duties

Please refer to “Segregation of Duties” in the Purchasing & Procurement Business Activity for an analysis of the segregation of duties issues that relate generally to expenses.

Control Assessment Worksheet					
Risk Category – Expenses					
Business Process – Other Expenses					
Risk No. 1 –: Other Expenses are either inaccurately recorded or not recorded at all.					
Description: If processing errors occur, this will result in Other Expenses either being inaccurately recorded or not recorded at all.					
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1 Actuals are regularly compared to budgets; significant variances are investigated by management.	Additional	Monthly, Quarterly	Budget comparisons are carried out monthly by Dept Managers. Formal budget reviews are undertaken quarterly and any variances are investigated and reported to Council	Dept Managers	Elected Members
2 Statements received from suppliers are reconciled to the supplier accounts in the accounts payable subledger regularly and differences are investigated.	Additional	Twice a Month	Reconciled by accounts payable officer regularly	Accounts Payable	MCS
3 Management approves all Other Expenses in accordance with Delegations of Authority. When approving Other Expenses, management reviews both the nature and amount of the expense for reasonableness.	Core	Ongoing	Dept Managers authorise all other expenses according to their own delegations. A review of the expenditure is carried out at this time and any discrepancies investigated.	Dept Managers	External Auditors
Prepared by: Date:	Inherent Risk Assessment		Residual Risk Assessment		
	Likelihood		Likelihood		
	Consequence		Consequence		
	Rating		Rating		
	Accept		Accept		

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Control Assessment Worksheet						
Risk Category – Expenses						
Business Process – Other Expenses						
Risk No. 2 –: Other Expenses do not represent valid expenses of Council.						
Description: If management approves expenses of a personal nature, this will result in invalid expenses being recorded by Council, leading to a misstatement in the management report and the financial statements						
Possible Controls		Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title
1	Actuals are regularly compared to budgets; significant variances are investigated by management.	Additional	4	Budget comparisons are carried out monthly by Dept Managers. Formal budget reviews are undertaken quarterly and any variances are investigated and reported to Council	Dept Managers	Elected Members
2	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable subledger regularly and differences are investigated.	Additional	4	Reconciled by accounts payable officer regularly	Accounts Payable	MCS
3	All employees sign a declaration to certify that they will not make Council liable for expenses of a private or personal nature.	Core	5	Refer code of conduct for employees of which all employees have signed acknowledgement of. Induction processes are in place to ensure awareness of Code of Conduct matters.	Exec Assist	CEO
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

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7 External Services

7.1 Contracting

Introduction

For the purposes of this Manual the Contracting Business Activity considers the risks and controls in relation to contracting and tendering. Under Section 49 (1) of the Local Government Act, *“a council must prepare and adopt policies on contracts and tenders, including policies on the following:*

- a) The contracting out of services and*
- b) Competitive tendering and the use of other measures to ensure that services are delivered cost-effectively*
- c) The use of local goods and services; and*
- d) The sale or disposal of land or other assets.*

Section 49 (2), *“the policies must:*

- a) Identify circumstances where the council will call for tenders for the supply of goods, the provision of services or the carrying out of works, or the sale or disposal of land or other assets and*
- b) Provide a fair and transparent process for calling tenders and entering into contracts in those circumstances; and*
- c) Provide for the recording of reasons for entering into contracts other than those resulting from a tender process”.*

For a further analysis in respect of this issue, please refer to “Competitive Tendering – Service Provision in Local Government Manual”, produced by the Local Government Association of South Australia.

When “in-house bids” are made for tenders or contracts, it is important to ensure that the application and inclusion of overhead costs is accurate. Misstated applied overhead costs can result in an inaccurate tender price being submitted that may expose the internal department to providing a service to Council that is unrealistic and not cost-effective.

Key Issues/Risks

In relation to Contracting, the major risks faced by Councils may be summarised as follows:

- Council is not able to demonstrate that all probity issues have been addressed in the Contracting process
- Council does not obtain value for money in relation to its contracting and tendering.

These risks are addressed in the following Control Assessment & Design Worksheets.

3. Segregation of Duties

Within the contracting and tendering process, the following activities should be segregated or be performed by more than one person:

- Pre-selecting contract and tender applicants for consideration by Selection Panel
- Final selection of successful contractors and tenderers

- Contract and tender management (including management reporting and disbursements to service provider).

Control Assessment Worksheet						
Risk Category – External Services						
Business Process – Contracting						
Risk No. 1 – Council is not able to demonstrate that all probity issues have been addressed in the Contracting process.						
Description: Council does not only need to comply with probity issues throughout the Contract process but also needs to be able to demonstrate compliance. If probity cannot be demonstrated by Council, this will increase the likelihood of negative publicity and public dissatisfaction.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Robust and transparent selection processes to ensure effective and qualified suppliers / contractors are selected by Council, including compliance with Code of Conduct and Conflict of Interest policies.	Core	Ongoing	Contractors are selected from a 'preferred contractors' list who have undergone induction processes regarding risk management and ohs standards and requirements. Also refer OHSW Contractor Management Policy and Procedure	Dept Manager	CEO
2	Suitably qualified/independent personnel to sit on Selection Panel to ensure that informed and objective decision is made when selecting suppliers / contractors.	Core	Ongoing	Yes. Tenders are assessed by qualified personnel. External expertise are utilised where necessary for specialised projects.	Dept Manager	CEO
3	Designated person (i.e. Internal or Probity Auditor) to review Contract process to ensure compliance with Council policy.	Additional	Ongoing	Dept Managers responsible for contract initiate and prepare contract where necessary according to Council Contracting and Tendering Policy.	Dept Manager	CEO
4	Council to maintain a contract register.	Core	Ongoing	A register is maintained with original Contracts numbered and stored in secured filing records system.	Records Officer	CEO
5	Robust evaluations process both during the selection process and throughout the term of the contract to ensure that supplier / contractor meet their objectives.	Additional	Ongoing	Contracts are selected and monitored by responsible Dept Managers throughout the term of the contract.	Dept Manager	CEO

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6	Clear and instructive policy on Contracting process readily available to all relevant employees.	Additional	Ongoing	Refer Contracting and Tendering Policy	MCS	CEO
7	The Contracts and Tenders Policy and Procedures should be reviewed annually.	Core	Annually	The Contracting and Tendering Policy is reviewed annually.	MCS	CEO
8	Commitments are not being made without funding being approved in the budget.	Core	Ongoing	Yes. All expenditure must be approved by Council within budget process.	Dept Managers	Elected Members
9	Contracts Staff follow the Council's procurement principals, guidelines and policy in their contracting activities.	Additional	Ongoing	Yes. Contract management processes are in place.	Dept Managers	CEO
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Control Assessment Worksheet						
Risk Category – External Services						
Business Process – Contracting						
Risk No. 2 – Council does not obtain value for money in relation to its Contracting.						
Description: Poor contract selection and management of ineffective contractors can result in Council not obtaining value for money in relation to its Contractors.						
Possible Controls	Control Type	Frequency	Current Situation Action Plan ¹	Responsible Officer - Title	Checking Officer - Title	
1	Robust and transparent selection processes to ensure effective and qualified suppliers / contractors are selected by Council, including compliance with Code of Conduct and Conflict of Interest policies.	Core	Ongoing	Contractors are selected from a 'preferred contractors' list that have undergone induction processes regarding risk management and ohs standards and requirements. Also refer OHSW Contractor Management Policy and Procedure	Dept Managers	CEO
2	Robust evaluations process both during the selection process and throughout the term of the contract to ensure that supplier / contractor meet their objectives.	Additional	Ongoing	Contracts are selected and monitored by responsible Dept Managers throughout the term of the contract.	Dept Managers	CEO
3	Suitably qualified/independent personnel to sit on Selection Panel to ensure that informed and objective decision is made when selecting suppliers / contractors.	Core	Ongoing	Yes. Tenders are assessed by qualified personnel. External expertise are utilised where necessary for specialised projects.	Dept Managers	CEO
4	On-going contract management process that identifies and manages deliverables, key contract clauses, responsibilities, milestones and includes dispute resolution procedures.	Additional	Ongoing	Contract superintendents are responsible for management of contracts and performance of contractors. Contract management processes are in place, especially with regards to risk management and OH&S requirements.	Dept Managers	CEO
5	Council does not release final payments to suppliers / contractors until they meet all of their objectives.	Core	Ongoing	Certificate of completion is often required before final sign off of major works carried out by contractors.	Dept Managers	CEO

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				Management of contracts is carried out by appropriate Dept Manager of Project Manager.		
6	Contractor retentions and guarantees are required in certain circumstances.	Additional	Ongoing	Yes. Bank guarantees are held by Council to ensure completion of major works is carried out to Council satisfaction.	Dept Managers	CEO
7	Tender Documents are kept locked up when they are not being viewed for evaluation purposes.	Core	Ongoing	Tender documents are held in secure locked box until due date before being opened and viewed for evaluation purposes by minimum of 2 staff.	Customer Service TL	CEO
Prepared by: Date:		Inherent Risk Assessment		Residual Risk Assessment		
		Likelihood		Likelihood		
		Consequence		Consequence		
		Rating		Rating		
		Accept		Accept		

Appendix A

The following tables have been provided as a guide for risk management processes. Councils may wish to consider tailoring the parameters provided for their individual circumstances, or use their existing likelihood and consequence parameters.

Likelihood Rating	Description
E. Almost Certain	Is expected to occur in most circumstances
D. Likely	Will probably occur in most circumstances
C. Possible	Might occur at some time
B. Unlikely	Could occur at some time
A. Rare	May occur only in exceptional circumstances

Impact Scale	Socio-political & Community issues	Business Impact	Public Safety	Environment
1. Insignificant	<ul style="list-style-type: none"> No adverse effect on public image Insignificant level of community concern Negligible adverse impact upon social health and well being of the community which has little or no impact upon established community relationships and links. 	<ul style="list-style-type: none"> Low financial loss – impact of less than \$5k Small delays in undertaking routine needs or tasks for ½ day. 	<ul style="list-style-type: none"> No injuries or no significant injuries Negligible loss or damage to property / infrastructure. 	<ul style="list-style-type: none"> “Nuisance” category under the SA Environment Protection Act (1993) met Contamination – on-site release immediately contained Slight, quickly reversible damage to few species.
2. Minor	<ul style="list-style-type: none"> Minor adverse effect on public image Minor level of community concern 	<ul style="list-style-type: none"> Medium financial loss – impact of between \$5k and \$20k Minor impact in 	<ul style="list-style-type: none"> First aid treatment required Minor loss or infrastructure damage. 	<ul style="list-style-type: none"> “Nuisance” category under SA Environment Protection Act (1993) met Some minor adverse

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	<ul style="list-style-type: none"> Minor adverse impact upon social health & well being of the community that may have a minor impact upon established community relationships & links. 	undertaking routine needs or tasks for 1 day.		effects to few species/ ecosystem parts that are short term and immediately reversible.
3. Moderate	<ul style="list-style-type: none"> Moderate adverse effect on public image Moderate level of community concern Social health and well being of the community affected by moderately reduced opportunities for participation in community life and/or decision making, moderate incidences of increased isolation etc. 	<ul style="list-style-type: none"> High financial loss – impact of between \$20k and \$50k Capability / production impaired, moderate impact on stakeholders & routine needs or tasks for 1 – 3 days. Minor legal issues, non compliances and breaches of regulation. 	<ul style="list-style-type: none"> Medical treatment required Moderate loss/or infrastructure damage. 	<ul style="list-style-type: none"> “Material” category under the SA Environment Protection Act (1993) met Contamination – on-site release contained with outside assistance Temporary, reversible damage, loss of habitat and migration of animal population, plants unable to survive, pollution requires physical removal, land contamination localised and can be quickly remedied.
4. Major	<ul style="list-style-type: none"> Major adverse effect on public image Significant level of community concern Social health and well being of the community seriously affected by major community unrest and/or significant breakdown of established community relationships 	<ul style="list-style-type: none"> Major financial loss - impact of between \$50k and \$100k Loss of capability, disruption to production, major impact on stakeholders & routine needs or tasks for 3 – 5 days. Serious breach of regulation with 	<ul style="list-style-type: none"> Serious & extensive injuries Serious structural damage to infrastructure or serious loss of assets. 	<ul style="list-style-type: none"> “Serious” category under the SA Environment Protection Act (1993) met Contamination – off-site release with no detrimental effects Death of individual animals, large scale injury, loss of keystone species and widespread

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	and links.	investigation or report to authority with prosecution and/or moderate fine possible.		habitat destruction.
5. Catastrophic	<ul style="list-style-type: none"> • Huge effect on public image • Community outrage • Social health & well being of the community hugely affected by major community unrest and/or significant breakdown of established community relationships & links. 	<ul style="list-style-type: none"> • Huge financial loss/exposure – impact greater than \$100k • Loss of production/capability, failure to meet stakeholder’s needs for more than 5 days • Projects & programs failure, inability to meet minimum acceptable standards, most objectives not met • Major breaches of regulation, major litigation. 	<ul style="list-style-type: none"> • Fatalities • Critical loss, irreversible damage property / infrastructure. 	<ul style="list-style-type: none"> • “Serious” category under the SA Environment Protection Act (1993) met • Toxic release off-site with detrimental effect • Death of animals in large numbers, destruction of flora species, air quality requires evacuation, permanent and wide spread land contamination, irreversible soil erosion or severe compaction, widespread introduction of weeds.