



Tatiara

the good country

AGENDA

Tatiara District Council Audit Committee Meeting

Friday, 13 September 2019

**I hereby give notice that a Tatiara District Council Audit Committee
Meeting will be held on:**

Date: Friday, 13 September 2019

Time: 12.00 pm

**Location: Council Chambers
43 Woolshed Street, Bordertown**

**Anne Champness
Chief Executive Officer**

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1 APOLOGIES

2 DISCLOSURE OF INTERESTS

Any Councillor or staff member with a potential conflict of interest is asked to declare it at the start of the meeting and complete a Conflict of Interest Disclosure Form.

Material – where any of a defined list of persons (list as per LGA Conflict of Interest Guidelines February 2018) would gain a benefit, or suffer a loss (whether directly or indirectly, personal or pecuniary) depending on the outcome of the consideration of the matter at the meeting.

Actual – where a Member has a Conflict of Interest (not being a material conflict of Interest) between their own interests and the public interest that might lead to a decision that is contrary to the public interest.

Perceived – where from the perspective of an impartial, fair-minded person it could reasonably be perceived that a Member has a Conflict of Interest in a matter.

3 CONFIRMATION OF MINUTES

Tatiara District Council Audit Committee Meeting - 3 June 2019

4 BUSINESS ARISING

5 CORRESPONDENCE

5.1 2018-19 FINANCIAL CONTROLS REVIEW - INTERIM MANAGEMENT LETTER

File Number: 7/8/1

Author: Finance Manager

Authoriser: Director Corporate & Community Services

DISCUSSION

In the Auditors' overall review of Council's internal controls, Galpins notes that overall:

"Council demonstrated a high level of compliance with the implementation of an internal control framework consistent with the principles within the Better Practice Model." During our interim visit we noted that most of the key internal controls reviewed were in place and were operating effectively (76 out of 78 core controls reviewed)."

Compared to the Interim Audit of 2017-18, those findings attributed to medium risk have reduced from 3 to 1, and one low risk in synergy - general ledger access.

The report is summarised below:

- **Medium Risk:**

Fixed Assets

2.1.1 Revaluations for several major asset classes are yet to occur due to staffing limitations, resulting in an "Immaterial impact".

- **Low Risk:**

Review of Synergy Access

2.2.1 Access to general ledger maintenance is restricted to authorised personnel. It was found 2 staff had access to all areas which included those areas not required in their council role. Staff has since removed access to the general ledger for both staff member.

ATTACHMENTS

1.	2018-19	Financial	Controls	Review	Interim	Managment	Letter
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Financial Controls Review

**Tatiara District Council
2018-19**

Interim Management Letter



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1. EXECUTIVE SUMMARY

1.1 Background

During our interim audit we perform procedures to gain an understanding of the internal controls in place relevant to the financial statements and perform tests of design and effectiveness for these controls. Based on the results of the control testing, we then assess the audit risks to define the extent and nature of our substantive procedures (eg. inspection of documents, recalculation, reconciliation, etc) for our final visit.

Amendments to s129 of the Local Government Act 1999 require auditors to provide an opinion regarding internal controls of councils. This applies to prescribed (metropolitan) councils from 2013-14 onwards, and to non-prescribed (regional) councils from 2015-16 onwards. This opinion focuses on councils' obligations under s125 of the Local Government Act 1999:

"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 audit opinion is restricted per s129 of the Act to the application of s125 as it relates to financial internal controls, specifically the controls exercised by the council during the relevant financial year in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

In order to assist the Council in addressing the requirements of s129, we have reviewed a prioritised list of controls from the better practice model based on our initial audit risk assessment. Further details about our scope can be found in item 1.2 of this report.

1.2 Objectives and scope

The objectives of our interim audit were to:

- understand Council's business, business cycles and processes relevant to the financial statements
- understand the internal controls in place for the areas we consider critical for the audit of the financial statements
- design internal controls tests for the internal controls identified
- perform the internal controls tests to determine the final risks of material misstatements in the financial statements to be addressed in our final audit
- review a prioritised list of internal financial controls we consider critical for the purpose of issuing a controls opinion.

The scope of our audit included a review of internal controls we consider key controls to be in place for the purpose of addressing the requirements of s129.



Tatiara District Council

These key internal controls consist of a prioritised list of controls from the better practice model. This list was defined based on our risk assessment to determine the key business cycles, and key risks within these business cycles, that we understand should be the focus of the Council's control self-assessment.

The identification of key core controls and key business risks included the following risk assessment procedures:

Risk review – A review of Council's inherent risk assessment for internal financial controls.

Financial statement review – A high level financial statement review performed to identify key accounts and transaction streams.

Internal / external audit results review – The findings and recommendations of internal / external financial audits are reviewed to identify known areas of weakness, and areas known to be attracting audit attention.

The key core controls for the following key business cycles have been identified as critical for the purpose of issuing a controls opinion this financial year:

- IT Entity Level Controls
- Purchasing and Procurement
- Contracting
- Fixed Assets
- General Ledger
- Accounts Payable
- Rates / Rates Rebates
- Payroll
- Banking
- Debtors
- Grants
- Receipting

We have included a list of key controls identified by the audit for these business cycles as an appendix to this report (see Appendix 1). This list does not represent a complete population of internal controls that the Council should have in place. There is an expectation that controls not in this list will still exist and be operating effectively within Council.

The list of controls is only intended to be a guide for Council to prioritise its resourcing in readiness for the audit opinion, and for the ongoing monitoring of internal controls i.e. it is a risk based listing of controls which may be desirable for Council to include in its ongoing monitoring program for internal financial controls.

The list should not be considered a minimum standard – rather, it is a starting reference point for Council to consider. It is expected that Council will have performed a risk assessment of financial risks, and given consideration to the need to monitor controls that address High / Extreme risks that may not be included in this listing.



1.3 Category of findings

In order to assist the Council in establishing the overall level of control effectiveness and prioritising areas for attention, we have provided an overall assessment of the business cycles for which we have identified performance improvements opportunities (this report is prepared on an exception basis).

We assessed each business cycle using our risk assessment which was focused on the risk of finding material weaknesses which could lead to a modified controls opinion in the 2018/19 financial year. An overall assessment of the risk of a potential modified audit opinion per business cycle is provided in item 1.5 of this report.

Detailed findings including the controls tested as per the Better Practice Model, findings and recommendations are provided in section 2 of this report. The individual findings are also rated to assist the Council in prioritising corrective actions.

The overall assessment of the risk of non-compliance with s125 of the Local Government Act 1999 and the related findings and recommendations were rated as follows:

Category	Description
Potential Material Weaknesses	The issue described could lead to a material weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
Moderate Weaknesses	The issue described does not represent a material weakness due to the existence of compensating controls. However, the failure of the compensating controls or the existence of any other moderate weakness within the same business cycle may lead to a material weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
Low Risk Weaknesses	The issue described is a low risk weakness due to the existence of compensating controls and/or the failure or absence of the internal controls does not impact significantly on the council's financial statements. However, multiple low level risk weakness within the same business cycle may lead to a material weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
Better Practice Weaknesses	The issue described has been included in this report as an opportunity for better practice.

The Council should also perform its own assessment of priority based not only on audit risks, but also other risks management considers relevant such as non-compliance with pertinent legislations and regulations, and reputational risks.



Tatiara District Council

1.4 Overall review of the council's internal controls

Overall the Council demonstrated a high level of compliance with the implementation of an internal control framework consistent with the principles within the Better Practice Model.

During our interim visit we noted that most of the key internal controls reviewed were in place and were operating effectively (76 out of 78 core controls reviewed). The principles underpinning the model were used by the Council in the identification of its business cycles, the establishment of its internal controls and the implementation of its financial risk management processes.

Whilst the total number of effective controls remains consistent with the prior year, there has been a good level of progress made towards addressing the identified control gaps since the prior period. Details of this progress can be found within the detailed findings in section 2 of this report.

A summary of the results of our review is provided in the table below:

Business cycles	Controls Reviewed	Operating Effectively			2019 Findings			
		2019	2018	2017	H	M	L	BP
Purchasing & Procurement/Contracting	7	7	6	6	-	-	-	-
Fixed Assets	13	12	10	10	-	1	-	-
General Ledger	9	8	9	9	-	-	1	-
Accounts Payable	11	11	10	10	-	-	-	-
Rates / Rates Rebates	9	9	9	9	-	-	-	-
Payroll	15	15	14	14	-	-	-	-
Banking	6	6	5	5	-	-	-	-
Debtors	6	6	6	6	-	-	-	-
Receipting	2	2	2	2	-	-	-	-
Total	78	76	72	71	-	1	1	-

We recommend that Council addresses high risk findings as a matter of priority as they represent potential material weaknesses that could result in non-compliance with s125 of the Local Government Act.

We also recommend that Council prioritises the moderate risk findings, as failure in compensating controls addressing the same risk or existence of any other moderate weakness within the same business cycle may lead to a material weakness and non-compliance with s125 of the Local Government Act.

We noted that Council has established mechanisms to ensure ongoing monitoring of effectiveness of the internal controls such as an internal controls self-assessment and test of effectiveness of internal controls. Some of the findings provided in this report had already been identified by Council during its own self-assessment.



Light Regional Council

1.5. Summary of findings

Business Cycle	Findings	Risk
Fixed Assets	2.1.1 Revaluations for several major items yet to occur due to staffing limitations. Immaterial impact.	M
General Ledger	2.2.1 Access to General Ledger maintenance is restricted to appropriately authorised personnel.	L
Banking	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A
Purchasing & Procurement / Contracting	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A
Accounts Payable	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A
Rates	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A
Payroll	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A
Debtors	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A
Receipting	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A
Grants	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A

2. DETAILED AUDIT FINDINGS

2.1 Fixed Assets

2.1.1 Fixed Asset Register Master Files		Medium
Control	Regular verification of fixed assets are conducted and reconciled to the FAR.	
Risk	Fixed are not valued correctly initially or on subsequent revaluation.	
Finding	Recommendations	Management Response
<p>Due to insufficient internal resources as a result of staff movements, revaluations for several major asset categories are yet to be completed.</p> <p>Audit notes that Council completed their condition assessments of Stormwater, pipes and pit assets, however the revaluations are still to be performed. These revaluations are expected to be completed prior to 30 June 2019.</p> <p>The impact of this is likely to be immaterial.</p>	<p>Council ensures that these revaluations are to be completed by end of financial year.</p>	

2.2 General Ledger

2.2.1 Review of Synergy access			Low
Control	Access to General Ledger maintenance is restricted to appropriately authorised personnel.		
Risk	Unauthorised staff have the ability to access, modify or transfer Synergy master files		
Finding	Recommendations	Management Response	
<p>Audit reviewed staff access to the Synergy reporting system and noted that two staff members had access to all areas including those not required by their council roll.</p> <p>Audit notes that this was being followed up and investigated at the completion of the interim site visit.</p>	<p>Council to review access to Synergy Masterfile and remove staff access to unrequired areas.</p>		



City of Playford

APPENDIX 1 – CRITICAL INTERNAL FINANCIAL CONTROLS

FIXED ASSETS

Risks

R1	Fixed asset acquisitions, disposals and write-offs are fictitious, inaccurately recorded or not recorded at all.
R2	Fixed assets are inadequately safeguarded.
R3	Fixed Assets are not valued correctly
R4	Depreciation charges are either invalid not recorded at all or are inaccurately recorded.
R5	Fixed Asset maintenance and/or renewals are inadequately planned.

RISKS	Control	Control Type	CSA Importance	Weighting
R1	Regular verification of fixed assets are conducted and reconciled to the FAR.	Core		4
R1	Recorded changes to the FAR and/or masterfile are approved by management, compared to authorised source documents and General Ledger to ensure accurate input.	Core		5
R1	All fixed asset acquisitions and disposals are approved in accordance with Delegation of Authority and relevant Procurement and Fixed Asset Policies.	Core		5
R1	Access and on-going maintenance of the fixed asset register is performed by authorised officers only.	Core		4
R1	Council has an asset accounting policy which details thresholds for recognition of fixed assets which is monitored to ensure adherence.	Core		5
R1	Reconciliation of fixed assets to the General Ledger is performed regularly.	Core		4
R1	Asset maintenance schedules are prepared, updated, and monitored by management and activity per the asset maintenance schedule. Changes to the asset maintenance history register are compared to source documents to ensure that they were input accurately.	Core		4
R3	Management 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 valuations.	Core		5
R3	Management reviews depreciation rates and methodology (at least annually) to ensure that methods used to value fixed assets are still appropriate.	Core		5
R3	Asset revaluations and depreciation reviews are performed in accordance with Australian Accounting Standards.	Core		5
R3	The annual review of assets includes reviewing the appropriateness of categories of assets and impairment testing.	Core		4
R4	Depreciation charges are calculated in accordance with the accounting policy, including the useful life, depreciation method and calculation formulas.	Core		5
R5	Asset Management Plans exist for all major asset classes and all changes to the asset management plan must be approved by Council.	Core		5

Financial Controls Review – Tatiara District Council
Interim management letter 2019

PURCHASING AND PROCUREMENT

Risks

- | | |
|----|--|
| R1 | Council does not obtain value for money in its purchasing & procurement. |
| R2 | Purchases of goods and services are made from non-preferred suppliers. |
| R3 | Purchase orders are either recorded inaccurately or not recorded at all. |
| R4 | Purchase orders are placed for unapproved goods and services. |

RISKS	Control	Control Type	CSA Importance Weighting
R1	Council has a comprehensive Contract and Procurement Policy that is reviewed regularly.	Core	5
R1, R2, R4	Employees must ensure all purchase orders are approved in accordance with the Delegations of Authority and relevant policies.	Core	5
R3	Purchase orders are issued in accordance with the Council's Purchasing and Procurement Policy.	Core	5

CONTRACTING

Risks

- | | |
|----|--|
| R1 | Council is not able to demonstrate that all probity issues have been addressed in the Contracting process. |
| R2 | Council does not obtain value for money in relation to its Contracting. |

RISKS	Control	Control Type	CSA Importance Weighting
R1,R2	Robust and transparent selection processes to ensure effective and qualified suppliers / contractors are selected by Council, including compliance with Code of Conduct, Conflict of Interest and procurement Policies.	Core	5
R1	Council to maintain a contract register.	Core	4
R1	The Contracts, Tenders and Procurement Policy and Procedures should be reviewed regularly.	Core	4
R2	Council does not release milestone payments to suppliers / contractors until they meet all their associated objectives.	Core	5

RATES / RATES REBATES

Risks

R1	Council does not raise the correct level of rate income.
R2	Rates and rate rebates are either inaccurately recorded or not recorded at all.
R3	The Property master file data does not remain pertinent
R4	Pensioner concessions and self-funded retirees are either inaccurately recorded or not recorded at all.

RISKS	Control	Control Type	CSA Importance Weighting
R1, R2	Rates are automatically generated by the rate system, including the calculation of rate rebates, if applicable.	Core	4
R1, R2	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
R1	All software changes to rate modelling functionality fully tested and reviewed by qualified personnel.	Core	5
R2	Regular review of exempt properties to ensure still valid, interest flag switched off and rate rebates.	Core	5
R2	Council approves rate rebates to rate payers in accordance with Delegations of Authority and as per the legislation.	Core	4
R2	Regular independent review of the rates aged receivables reports and independent check of rates payable by rates staff.	Core	4
R3	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	4
R3	Access to the Property master file is restricted to appropriately designated personnel, with significant changes to the Property master file approved by management.	Core	5
R4	Authorised officers verify all pensioner concession entitlement information provided annually by government departments.	Core	4

RECEIPTING

Risks

R1	Receipts are either inaccurately recorded or not recorded at all.
R2	Receipts are not deposited at the bank on a timely basis.

RISKS	Control	Control Type	CSA Importance Weighting
R1,R2	Cash is stored securely at all times including the duration of the cash management process.	Core	5
R1	Officers who create debtors invoices do not have access to receipting payments and/or reversing receipt transactions.	Core	5

PAYROLL

Risks

- R1 Payroll expense is inaccurately calculated.
- R2 Payroll disbursements are made to incorrect or fictitious employees
- R3 Time and/or attendance data is either invalid, inaccurately recorded or not recorded at all.
- R4 Payroll master file does not remain pertinent and/or unauthorised changes are made to the payroll master file.
- R5 Voluntary and statutory payroll deductions are inaccurately processed
- R6 Salary sacrifice transactions are inaccurately processed.
- R7 Employees are terminated in breach of statutory and enterprise agreements.

RISKS	Control	Control Type	CSA Importance Weighting
R1	Standard programmed formulae perform payroll calculations.	Core	5
R1, R3	Overtime hours worked and payments for such overtime are authorised by management for all eligible employees.	Core	5
R2	The transfer of the bank file should be restricted to authorised officers who are not be involved in the preparation of the pay run.	Core	5
R2	Payroll system generates exception reports detailing all payroll changes that are regularly reviewed by management who investigate & approve variances.	Core	5
R2	Employee records to include employment details and/or contract terms and conditions, authorisations for payroll deductions and leave entitlements.	Core	5
R2	Officers responsible for originating/preparing payroll disbursements are precluded from authorising transfer of same.	Core	5
R2	Employees made inactive in 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	5
R2	All employee deductions must be substantiated with documented approval provided by employee.	Core	5
R3	Total of payment summaries for the year is reconciled to general ledger and payroll.	Core	4
R3	Relevant staff are required to complete timesheets and/or leave forms, authorise them and have approved by the supervisor/manager.	Core	5
R4	Significant changes (supported by adequate audit trail) to the payroll master files approved by management.	Core	4
R4	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.	Core	4
R5	Access to the payroll deduction listing is restricted to authorised officers.	Core	5
R6	All original salary sacrifice transactions must be approved by the relevant employee. Payroll staff must ensure that such approval has been obtained prior to processing transactions into the payroll system.	Core	5
R7	Establish employee termination policies and procedures, including statutory regulation and union requirements. Regularly review and update these policies and procedures.	Core	4

Financial Controls Review – Tatiara District Council
Interim management letter 2019

GENERAL LEDGER

Risks

- | | |
|----|--|
| R1 | General Ledger does not contain accurate financial information |
| R2 | Data contained within the General Ledger is permanently lost. |

RISKS	Control	Control Type	CSA Importance Weighting
R1, R2	All updates and changes to General Ledger programmes are authorised, tested and documented.	Core	5
R1, R2	Access to General Ledger maintenance is restricted to authorised personnel.	Core	5
R1	General Ledger reconciliations (including control and clearing accounts) are prepared on a regular basis; all reconciliations independently reviewed.	Core	4
R1	Manual journal entries recorded in the register are authorised by the officer preparing the journal and an independent reviewer.	Core	5
R1, R2	Off-site backup of data, program and documentation.	Core	4
R1	System does not allow posting of unbalanced journals.	Core	5
R1	Amendments to the structure of the General Ledger framework are approved by an authorised officer.	Core	5
R1, R2	General Ledger policies and procedures are appropriately created, updated & communicated to relevant personnel in the finance department.	Core	5
R2	Formal disaster recovery plan adopted by Council or Senior Executive.	Core	5

ACCOUNTS PAYABLE

Risks

- | | |
|----|---|
| R1 | Accounts payable amounts and disbursements are either inaccurately recorded or not recorded at all |
| R2 | Credit notes and other adjustments to accounts payable are either inaccurately recorded or not recorded at all |
| R3 | Disbursements are not authorised properly. |
| R4 | Accounts are not paid on a timely basis |
| R5 | Supplier master file data does not remain pertinent and/or unauthorised changes are made to the supplier master file. |

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2, R4	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable subledger regularly and differences are investigated.	Core		4
R1	Invoices received are authorised and accompanied by appropriate supporting documentation.	Core		5
R1	Payments (Cheques and EFT's) are endorsed by authorised officers separate to the preparer who ensure that they are paid to the specified payee.	Core		5
R2	Access to the supplier master file is restricted to authorised officers.	Core		5
R2, R5	Separation of Accounts Payable and Procurement duties.	Core		5
R3	All disbursements must be approved by an authorised officer in accordance with relevant policies and/or Delegations of Authority.	Core		5
R3	Purchase Orders must be raised for the purchase of goods and services in line with the Council's Procurement policy or over a predetermined amount where applicable.	Core		5
R3	Individuals who authorise payment of suppliers are authorised officers who are independent of the processing of invoices.	Core		5
R4	Authorised officer to review aged payables listing on a predetermined basis and investigate where appropriate.	Core		5
R5	Recorded changes to the supplier master file are compared to authorised source documents to ensure that they were input accurately.	Core		5
R5	The accounts payable system and or supplier master file prevents users from making unauthorised adjustments to supplier accounts.	Core		5

DEBTORS

Risks

- | | |
|----|---|
| R1 | Debtors are either inaccurately recorded or not recorded at all. |
| R2 | Rebates and credit notes to debtors are either inaccurately recorded or not recorded at all |
| R3 | An appropriate provision for doubtful debts is not recorded |
| R4 | Debtors are either not collected on a timely basis or not collected at all |
| R5 | The Debtors master file data does not remain pertinent. |

RISKS	Control	Control Type	CSA Importance Weighting
R1, R4	Debtor's reconciliation performed on a regular basis to the General Ledger and reviewed by an independent person.	Core	4
R1	Council maintains a Debt Collection Policy.	Core	5
R2, R3, R4	Management and/or Council review and approve all rebates, credit notes, bad debt write-offs and movements in the provision for doubtful debts, in accordance with delegations of authority and Local Government Act.	Core	5
R3, R4	Management reviews debtors ageing profile on a regular basis and investigates any outstanding items.	Core	4
R5	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	5
R5	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	4

BANKING

Risks

R1	Banking transactions are either inaccurately recorded or not recorded at all.
R2	Fraud.

RISKS	Control	Control Type	CSA Importance	Weighting
R1, R2	Blank cheques and/or cheque-signing machine are adequately safeguarded.	Core		5
R1, R2	Access to EFT Banking system restricted to appropriately designated personnel.	Core		5
R1, R2	Bank reconciliations are performed on a predetermined basis and are reviewed by an authorised officer. Any identified discrepancies are investigated immediately.	Core		5
R1, R2	All cash held securely in safe/registers with access restricted to appropriately designated personnel.	Core		5
R2	Cash transfers between bank accounts and investment bodies are approved by authorised officer.	Core		5
R2	Procedures are in place to ensure that all cash collected is banked and properly recorded.	Core		5

6 REPORTS

6.1 INTERNAL CONTROL POLICIES

File Number: 2/63/1

Author: Finance Manager

Authoriser: Director Corporate & Community Services

INTRODUCTION

The Council is responsible for approval of the *Financial Internal Control Policy*, and the Chief Executive Officer is responsible for developing and maintaining a financial internal control framework, which ensures Council objectives are achieved efficiently, accountably and effectively. Updates on changes to the framework will be presented to the Audit Committee.

DISCUSSION

The following policies are presented to the Audit Committee for comment.

- 5.1 Rates Rebates:
 - Removal of date of Rating Policy, to ensure the current Rating Policy will always apply.
 - Deletion of Pensioner Concession requirements as Council does no longer keep any data relating to the provision of Pensioner Concessions
- 5.2 Grants:
 - No changes
- 5.3 User Pay Income – Fees for Service:
 - No changes
- 5.4 Investment/Interest Income:
 - Inclusion of audit of investment income by external auditors and accountant
- 5.5 Receipting:
 - No changes
- 5.6 Other Revenue:
 - No changes
- 3.4 Debtors
 - Change of name to Director

OPTIONS

n/a

STRATEGIC PLAN REFERENCE

5 - Governance and Leadership

5.2 - Maintain a clear and effective short, medium and long term planning framework

5.2.1 - Council's operations are effective, efficient and customer focused

5.2.1.1 - Pursue the integration and management of information, communication and technology systems

POLICY/LEGAL IMPLICATIONS

Local Government Act 1999

Chapter 8 Administrative & Financial Accountability

Part 3 – Accounts, Financial Statements and Audit

Division 2 – Internal Control and Audit Committee

FINANCIAL IMPLICATIONS

If Internal Control Policies were not reviewed and tested by staff and Council's external auditors, it could give rise to a number of financial implications that may have both short and long term impacts on Council's financial viability and sustainability.








RISK MANAGEMENT IMPLICATIONS

If Council did not regularly review the Financial Internal Control Policies, it could be exposed to a number of risks, including fraudulent and maladministration practices. Therefore, the consequences of this risk are assessed as “*high*”. However, the regular review of these policies and procedures by senior staff, Audit Committee and Council's external auditors, ensures Council's financial practices are monitored, maintained and changed if and when required. This ensures that the likelihood of this risk occurring is assessed as “*low*”.

COMMUNICATION/CONSULTATION/ADVERTISING

n/a

ATTACHMENTS

1. Internal Control Policy - 5.1 Rates Rebates [↓](#) 
2. Internal Control Policy - 5.2 Grants [↓](#) 
3. Internal Control Policy - 5.3 User Pay Income -Fees for Service [↓](#) 
4. Internal Control Policy - 5.4 Investment/Interest Income [↓](#) 
5. Internal Control Policy - 5.5 Receipting [↓](#) 
6. Internal Control Policy - 5.6 Other Revenue [↓](#) 
7. Internal Control Policy - 3.4 Debtors [↓](#) 

RECOMMENDATION

That the following policies have been reviewed by the Audit Committee and are recommended to Council for adoption:

- 5.1 Rates Rebates
- 5.2 Grants
- 5.3 User Pay Income – Fees for Service
- 5.4 Investment/Interest Income
- 5.5 Receipting
- 5.6 Other Revenue
- 3.4 Debtors

5 Revenue

5.1 Rates / Rate Rebates

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.

AASB 118: Revenue also provides guidance for the disclosure of operating revenue, including rates income. For a summary of the recognition, determination and calculation of rates and rate rebates, we refer you to the following documents published 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 ‘Debtors’ business process in Section 3.4 of this Manual.

Key Issues / Risks

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

- Council does not raise the correct level of rate income
- Rates and rate rebates are either inaccurately recorded or not recorded at all
- The Property master file does not remain pertinent

- Pensioner concessions and self-funded retirees 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

Most systems of internal control rely on assigning certain responsibilities of 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, throughout the revenue process, different individuals are typically responsible for:

- Recording rate revenue and rate rebates
- Approving the rate revenue and rate rebates
- Invoicing the ratepayer
- Maintaining debtor records and/or authorising adjustments to debtors
- Processing cash receipts
- Following up on debtors
- Performing independent debtors confirmation and following up on discrepancies
- Making changes to debtors master files
- 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.

Rates Controls

Council does not raise the correct level of rate income. Controls in place to prevent this occurring include the following:

Determination of Rates

Property values are to be downloaded directly from the file provided by the Valuer General's Department onto the Council's system.

Valuations as provided by the VG department are balanced to the Council's financial system.

No valuation changes are permitted during the period of Council adopting the valuation for the Financial Year and the raising of the rates.

Parameters entered (ie rate/\$, minimum rate, concession etc) are to be authorised by the Finance Manager. Any changes to these parameters are to be made only by authorised persons and to be signed off by the Finance Manager.

Rate charges, amounts, minimum values and concessions are to be set by Council.

Rates are generated by the rate system, including the calculation of rate rebates. A summary report with a copy of Council's resolution is to be signed by the responsible officer.

A sample of rates data will be randomly checked prior to raising rates to ensure that:

- Correct rates have been used;
- Concessions have been correctly calculated;
- Discounts are correctly calculated;
- Name, address and rate details are correct.
- A responsible officer is to sign as evidence that this process has been completed

A sample of rates notices will be randomly checked to confirm the above process.

Notice of the declaration of a rate or service charge must be published in the Gazette and in a newspaper circulating in the area within 21 days after the date of the declaration as per Section 170 of the Local Government Act.

All updates received from the Valuer General after the raising of rates are to be promptly processed and capital values re-reconciled.

Employees are not permitted to process payment of their own rates.

Rates Notices/Generation/Rebates

Rate charges, amounts, minimum values and concessions are to be set by Council.

Rates are generated by the rate system, including the calculation of rate rebates. A summary report with a copy of Council's resolution is to be signed by the responsible officer.

A sample of rates data will be randomly checked prior to raising rates to ensure that:

- Correct rates have been used;
- Concessions have been correctly calculated;
- Discounts are correctly calculated;
- Name, address and rate details are correct.
- A responsible officer is to sign as evidence that this process has been completed

A sample of rates notices will be randomly checked to confirm the above process.

A register of exempt, rebateable properties is to be maintained and reviewed on an annual basis. This is to be signed off by a responsible officer at each review.

All rate rebates are to be approved by the Finance Manager in terms of Council's policy.

Employees are not permitted to process payment of their own rates.

Monthly reviews of the rates aged receivables are to be undertaken by rates staff with a signed report used as evidence of this review.

Prior to rates billing in the “live” system a test must be undertaken in a “test environment” to ensure correctness of totals and values. Total value of rates generated must be compared to the value as per the Rates Model. Large variances should be investigated.

The Rates Officer may reverse fines and interest if the fines have been raised in error (Eg. Payment received by direct debit, but not processed). All other requests must be in line with Councils Rating Policy 2014/15.

The Assessment Record file data does not remain pertinent. Controls in place to prevent this occurring include the following:

Property master file data is periodically reviewed at the time of loading the Valuer Generals values on to the system to ensure there are no errors between Council data and Valuer General Data.

Recorded changes to the Property master file data are to be processed only by advice from the Valuer Generals Department, LTO, Conveyancers or Change of Details / Ownership from Ratepayers.

Access to rates modules is to be restricted to nominated users.

Pensioner Concessions are either inaccurately recorded or not recorded at all. Controls in place to prevent this occurring include the following:

~~All pensioner concession entitlement information provided by the various Government departments is to be reviewed on an annual basis.~~

~~Any future changes can only be processed on advice from the Government departments.~~

~~A report is printed monthly of all pensioner concession updates. All updates are reviewed and signed off by the Finance Manager~~

~~A reconciliation of pensioner concession debtors and balancing accounts is to be carried out on a regular basis; management to review the reconciliation and investigate any variances.~~

RECORD OF AMENDMENTS

DATE	REVISION NO	REASON FOR AMENDMENT
25 th March 2015	Rev: 00	Draft copy
7 th July 2015	Rev: 01	Adopted Special Council Res# 370

5 Revenue

5.2 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 purposes
- 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 of, 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.

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

Key Issues/Risks

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

- Council loses recurrent grant funding to provide existing service
- 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 process in Section 5.1 of this Manual for a discussion of the relevant segregation of duties issues that generally relate to revenue.

Grants Controls

Council loses recurrent Grant funding to provide existing service:

Any withdrawal of grant funding will require an assessment of services to determine whether the service is maintained.

Grant funding is not claimed by Council on a timely basis or not claimed at all:

A register is to be developed and maintained by Council to ensure that Grant funding is applied and acquitted in a timely manner and maintained to allow reporting to management on a regular basis.

Grants are either inaccurately recorded or not recorded at all

- Only authorized officers are permitted to apply for Grants in accordance with Council's Grants Policy.
- Copy of application/grant agreement is to be registered into records management system.
- Copy of grant agreement to Finance prior to any invoices being issued.
- Register to be maintained for all grant funding applications.
- To assist with reporting requirements all grants will have job code allocated which will cover income and expenses for each Grant project.

Grants are applied without consideration regarding Budget or SMP

Council resolution is required prior to grant funding being applied for amounts that have a material impact on council's budget or do not align with Councils SMP.

RECORD OF AMENDMENTS

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25 th March 2015	Rev: 00	Draft copy
7 th July 2015	Rev: 01	Adopted Special Council Res# 370

5 Revenue

5.3 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 Process in Section 3.4 of 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 Processes 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:

- The fee charged does not reasonably reflect the value of the services provided
- 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 process in Section 5.1 of this Manual for a discussion of the relevant segregation of duties issues that generally relate to Revenue.

Fee for Service Controls

The fee charged does not reasonably reflect the value of the services provided:

- Fees and charges are reviewed annually and are adopted by Council
- Cost recovery should be considered as part of any review
- Fees and Charges Policy is to be reviewed and made available for public access
- Formal agreements (eg. Licences, leases & permits) are to be in place to cover the use of Council facilities

Council does not apply User Pay principles consistently:

- Fees and charges are reviewed annually and are adopted by Council
- Where fees are discounted/subsidized the full cost of the charges is to be fully recognized via the financial system
- Separate codes to be used per income type (Eg. No sundry codes to apply)

User pay income is either inaccurately recorded or not recorded at all:

- Regular reviews to be undertaken of financial performance of past periods (monthly or quarterly) to ensure income is in line with expectations.
- Variances to be investigated
- Standard charges to be programmed into receipting module
- Paperwork from external sites is returned promptly to Finance for inputting data
- Receipting to be processed by a sequential number system

RECORD OF AMENDMENTS

DATE	REVISION NO	REASON FOR AMENDMENT
26 th March 2015	Rev: 00	Draft copy
7 th July 2015	Rev: 01	Adopted Special Council Res# 370

5 Revenue

5.4 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 process in Section 3.3 of 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:

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

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

- Recording of investment transactions
- Approving new investments
- Following up on reconciliation or confirmation of investments to statements from third parties
- 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)
- Authorised signature of payments with respect to individual transactions.

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

Investment / Interest Income Controls

Investment income is either inaccurately recorded or not recorded at all:

- On receipt of statements from Investment provider, interest is to be checked and receipted promptly.
- Any discrepancies are to be investigated and corrected immediately they are identified.
- Income received is to be compared with budget on a regular basis.
- Investment/Interest income is audited by our external auditors and an external accountant.

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DATE	REVISION NO	REASON FOR AMENDMENT
26 th March 2015	Rev: 00	Draft copy
7 th July 2015	Rev: 01	Adopted Special Council Res# 370

5 Revenue

5.5 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 minimize 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 minimize 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’ in Section 3.1, and the ‘Banking’ Business Process in section 3.2 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 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.

Receipts are either inaccurately recorded or not recorded at all:

- All receipting is processed via financial module provided by software provider.
- Electronic receipts are fully compliant with ATO's statutory requirements.
- Off-site receipts are processed manually with pre-numbered compliant receipt books. Paperwork is returned to Finance on a regular basis for either processing of cash/cheques or invoicing via Sundry Debtors system.
- Random audits are to be conducted at all sites to ensure that all transactions are being receipted or processed.
- Staff to be rotated (where possible) between external sites to ensure compliance with Council's policy and procedures on receipting.
- Bank statements are to be reconciled to general ledger and checked by an independent officer.
- Any surplus cash is to be cleared to a more secure area on a regular basis.
- Credit notes can only be processed once approved by an authorized officer.
- Review daily receipting transaction reports to identify any 'negative' receipts or reversals and identify reason.
- Money collected on behalf of 3rd party organisations is to be receipted and recorded via general ledger accounts.

Receipts are not deposited at the bank on a timely basis:

- Banking is processed on a daily basis
- Banking is to be deposited at the Bank on a daily basis or as soon as practical
- Cash is stored securely at all times
- Bank statements are to be reconciled to general ledger and checked by an independent officer

RECORD OF AMENDMENTS

DATE	REVISION NO	REASON FOR AMENDMENT
26 th March 2015	Rev: 00	Draft copy
7 th July 2015	Rev: 01	Adopted Special Council Res# 370

5 Revenue

5.6 Other Revenue

Introduction

a)

Other Revenue received by Council typically includes:

- Donations
- Expiation Fees
- License Fees
- Permits
- Proceeds from the sale 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 Process in Section 3.4 of this Manual.

Key Issues/Risks

In relation to Other Revenue, the major risk 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 Worksheet.

Segregation of Duties

Please refer to the 'Rates / Rebates' Business process in Section 5.1 of this Manual for a discussion of the relevant segregation of duties issues that generally relate to revenue.

Other Revenue Controls

Other Revenue is either inaccurately recorded or not recorded at all

- For any receipting that occurs on any off-site locations an audit trail summary (sales/banking report) is to accompany receipts
- Ensure a Recipient Created Tax Invoice is received (where possible) for disposal of items such as waste metal, etc.
- Sequentially numbered receipts are to be issued
- Revenue from this source is to be reviewed on a regular basis
- Any permits issued in Council's name to be reviewed regularly to ensure that the correct fees are collected
- All expiation fees are to be received (where possible) by Customer Service staff

RECORD OF AMENDMENTS

DATE	REVISION NO	REASON FOR AMENDMENT
22 nd May 2015	Rev: 00	Draft copy
7 th July 2015	Rev: 01	Adopted Special Council Res# 370

3 Assets

3.4 Debtors

Introduction

Rates represent the major source of revenue for Council and consequently the risks and controls surrounding rates and the associated debtors constitute a significant component of the internal control environment within the Council.

Council needs to ensure that rate-related and other debtors are recovered on a timely basis. If required, there are statutory guidelines for the procedure for writing off any debts. This is under section 143(1) of the Local Government Act.

Key Issues/Risks

The major risks faced by Council in relation to debtors are as follows:

- Debtors are either inaccurately recorded or not recorded at all.
- Rebates and credit notes to 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.
- The debtors master file does not remain pertinent.

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.

In a revenue system, different individuals are typically responsible for:

- recording revenue
- approving revenue
- invoicing the ratepayer
- maintaining accounts receivable records and or authorising adjustments to debtors
- processing cash receipts
- performing independent debtors confirmation and following up on discrepancies
- making changes to debtor master files.

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

Due to the limited ability for segregation of duties the controls put in place will concentrate on there being an independent review of the works carried out.

Debtor Controls

Controls in place to prevent the above key issues/risks include the following:

Debtors

- Rate notices/invoices are system generated using standard programmed formulas, including the calculation of discounts/rebates, if applicable
- Forms/records are maintained detailing all works undertaken which require invoicing. These records should be reviewed regularly to ensure prompt production of invoices, by the Debtors Officer.
- Debtor invoices are to be sequentially numbered (by computer) and issued strictly in order.
- Adequate records of all debtors and the transactions relating thereto shall be kept.
- Account allocations are to be made or authorised by a responsible officer.
- All rate/debtor journals raised shall be reviewed by the authorised officer.
- Reminder notices/Statements of sundry debtor accounts receivable are forwarded to customers on a monthly basis.
- Any water usage billing & debt must be compliant with the Water Industry Act 2012

Reconciliations

Debtor ledgers (rates and others) are to be reconciled monthly to the General Ledger Control Accounts. This reconciliation is to be evidenced as reviewed by an authorised officer. Any discrepancies are to be immediately investigated.

New debtor accounts are not to be opened without authorisation from the Finance Manager.

Aged debtors listings are to be regularly produced and reviewed and long outstanding debts followed up as per bad/doubtful debts.

Any credit notes for sundry debtors or journals for rates debtors are to be signed off by the independent person for both Debtors and Rates.

Debtors Budget

Debtors and revenue are compared to budget and reviewed by management. Any significant variances need to be investigated promptly.

Bad / Doubtful Debts

- The provision for doubtful debts is reviewed on a regular basis.
- Debtors ageing profile is reviewed by the Finance Manager on a regular basis and any outstanding items are investigated.

- Sundry Debtors outstanding for more than 9 months are to be reviewed by MCCS **Director Corporate & Community Services** &/or CEO on a regular basis.
- Private works should not to be carried out where a person has outstanding debts to Council older than 9 months.
- Under Section 143(1) of the Local Government Act Council may write off any debts owed to Council:
 - 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 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.
- The CEO is authorised to write off bad debts under Section 143 of the Local Government Act, to the amount of \$5000 or less without referral to Council (excluding rates).
- Credit notes are to be sequentially pre-numbered and authorised in accordance with delegations.
- A listing of bad debts write offs should be maintained by Council.

Council shall follow their debt recovery process and in the absence of an adopted process use the following;

Debt Recovery (underlining procedure)

Refer to:

1. Outstanding Rates Procedure (abbreviated procedure is also held within the Rating Policy)
2. Outstanding Sundry Debtor Procedure

The Rates Officers and Finance Manager are empowered to institute on Councils behalf legal proceedings against any Debtor (Rates and Sundry Debtors) after following the above steps in the Debt Recovery Procedures.

Master File

- Access to the debtor's master file is restricted to appropriately designated personnel and is reviewed by management for accuracy and on-going pertinence.
- 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.

RECORD OF AMENDMENTS

DATE	REVISION NO	REASON FOR AMENDMENT
28 th July 2015	Rev: 00	Draft copy
11 th August 2015	Rev: 01	Adopted Council Res# 451

6.2 SNAPSHOT OF CASH BALANCES

File Number: 7/1/11

Author: Finance Manager

Authoriser: Director Corporate & Community Services

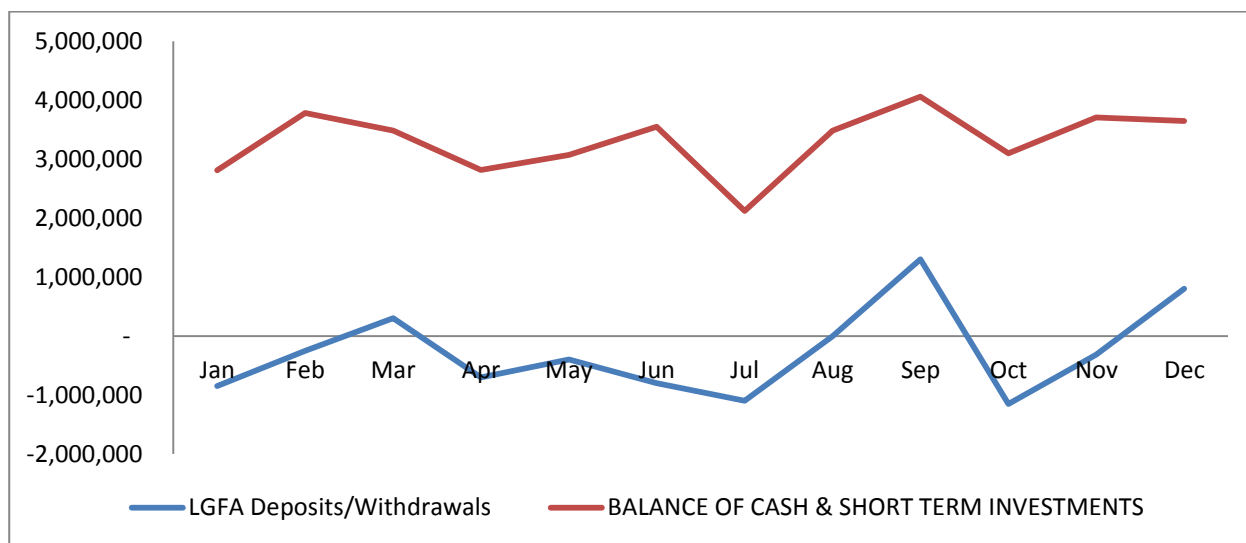
INTRODUCTION

Council is responsible for the periodic review of its investment of funds and maintaining operational cash in accordance with its *Treasury Management Policy* (adopted on 11th December 2018). At the last Audit Committee Meeting in June 2019, a snapshot of Council's cash balances was requested by the Independent Member, Mr Jim Kerr, to determine if more funds could be diverted to higher interest bearing accounts.

DISCUSSION

To determine the correct amount of cash for Council's operations, the cyclic nature of expenses and revenue are monitored on a fortnightly basis. Which are impacted by Council's fortnightly payroll and creditor functions, quarterly rates revenue payment cycles and monthly BAS and PAYG commitments.

In summary, Council's operating requirements for cash varies from as little as \$300,000 to in excess of \$1million per month. The following figure shows for 2018/19, Council's net movements - deposits (rates) less payments (payroll and creditors) – excluding direct deposits from Grant Commission funds and interest from reserves.



To operate Council's financial commitments, as shown above and in the 2018-19 cash & reserves table and graph (attached), a minimum of \$2mill at any point in time is regarded as mandatory. The red line shows the buffer of funds at any point in time. Also documented in the table and graph (attached) are the movements in and out of higher interest bearing accounts.

Currently Council has invested \$6.7mill in 12 month investments, with \$2mill expiring in January 2020 and \$4.7mill expiring in June 2020.

For the 2019/20 financial year, there are 4 reserves which have considerable funds which could be invested into higher interest bearing accounts, in addition to the \$6.7mill of funds already invested.

1. CWMS Reserve current balance \$612k
2. Plant Machinery Reserve current balance \$354k
3. Land Development Reserve current balance \$904k
4. Road Renewal Reserve current balance \$1.8mil

The current 2019/20 budget indicates:

1. CWMS reserve is held for future asset plans, but not budgeted to spend this financial year. Funds available for investing would be \$600k, for at least 12 months.
2. Plant Machinery reserve is held for peaks of expenditure over a 10 year plan, with an expected spike in 2020/21, requiring \$200k to be brought into the 2020/21 budget. Hence, \$300k could be invested for 9-12 months
3. Land Development funds for the Keith Industrial Estate 2nd Stage – only design at this stage unless the design is completed early and infrastructure works can commence, close to the end of the financial year. Our 3 year plan indicates that we may draw on our reserve to fund the 2nd Stage, and most likely in 2020/21.
4. Road Renewal Reserve:
 - \$335,210 – Victoria Parade Bridge, funds held for bridge upgrade which “may” happen in 2019/20
 - \$300,000 – funds brought forward from 2018/19 budget to be spent in 2019/20
 - \$279,655 – funds paid in Advance for Supplementary Roads funding for expenditure in 2019/20
 - \$279,655 – funds paid in advance for Supplementary Roads funding for expenditure in 2020/21

The calculations for this reserve of unallocated funds for 2019/20 are most likely to be \$800,000, which could be invested into a higher interest bearing account.

In calculating the above, an estimation of the unallocated funds of \$2.3million to higher interest bearing amounts would seem prudent – attracting a higher return on our investment strategy.

OPTIONS

There are some options regarding where council deposits surplus operating funds. Currently Council holds funds within the Local Government Finance Authority (LGFA) and Bendigo Bank at Keith.

The LGFA has historically been a safe and well positioned banking commodity for Council, providing consistent interest returns with an annual bonus and competitive borrowing facilities. The criteria and ease for Council's to borrow from the LGFA has been exceptional.

Recently, Council decided to deposit \$2mill with our local community bank, Bendigo Bank in Keith. Whilst the bank offers a very slightly favourable interest rate, the borrowing terms are not as favourable. However, it is important to note that the community bank recently agreed to a \$3,000 sponsorship of the 2020 Tatiara Masters Games.

The current interest rates as of 27th August 2019 are tabled below:

	Principal	Interest Rate	Plus 0.35% for bonus	Term	Interest for term including bonus	Annualised Interest	End of Term	Reserve
LGFA	2,300,000	1.25	0.35	0.75	27,600	36,800	1/05/2020	Various
LGFA	2,300,000	1.25	0.35	0.25	9,200	36,800	1/12/2019	Various
Bendigo	2,300,000	1.60		0.75	27,600	36,800	1/05/2020	Various
Bendigo	2,300,000	1.75		0.25	10,063	40,250	1/12/2019	Various

While Council has no immediate or short term plans to borrow ‘significant’ funds, it seems appropriate to place the surplus funds into higher interest bearing deposits – thus maximising Council's investment strategy.

STRATEGIC PLAN REFERENCE

5 - Governance and Leadership

5.3 - Ensure that Council's plans and budgets are both responsible and sustainable

5.3.2 - Provide leadership and advocacy to improve the financial position of the Tatiara Council

5.3.2.1 - Advocating for legislative change including constitutional recognition for local government and improved funding models to lessen the reliance on rates as an income stream

POLICY/LEGAL IMPLICATIONS

Local Government Act 1999; Chapter 9 Finances, Part 4 – Investment, Section 139 – Investment Powers

Treasury Management Policy Rev 02 - 11/12/19

Internal Control Policy 3.3 - Investments

FINANCIAL IMPLICATIONS

The investment of funds into higher interest bearing accounts for periods of less than 12 months makes good economic sense for council's bottom line. The current economic environment indicates a lowering of interest rates for longer term deposits.

RISK MANAGEMENT IMPLICATIONS

There are three points to highlight:

1. Council's *Treasury Policy* states that funds to be invested for periods greater than 1 year requires a Council resolution.
2. The impact to Council's cash flow to meet its operational expenditure is assessed as "*low*".
3. Council is not maximising its investment strategy by seeking opportunities to gain a better return on its cash deposits.

COMMUNICATION/CONSULTATION/ADVERTISING

n/a

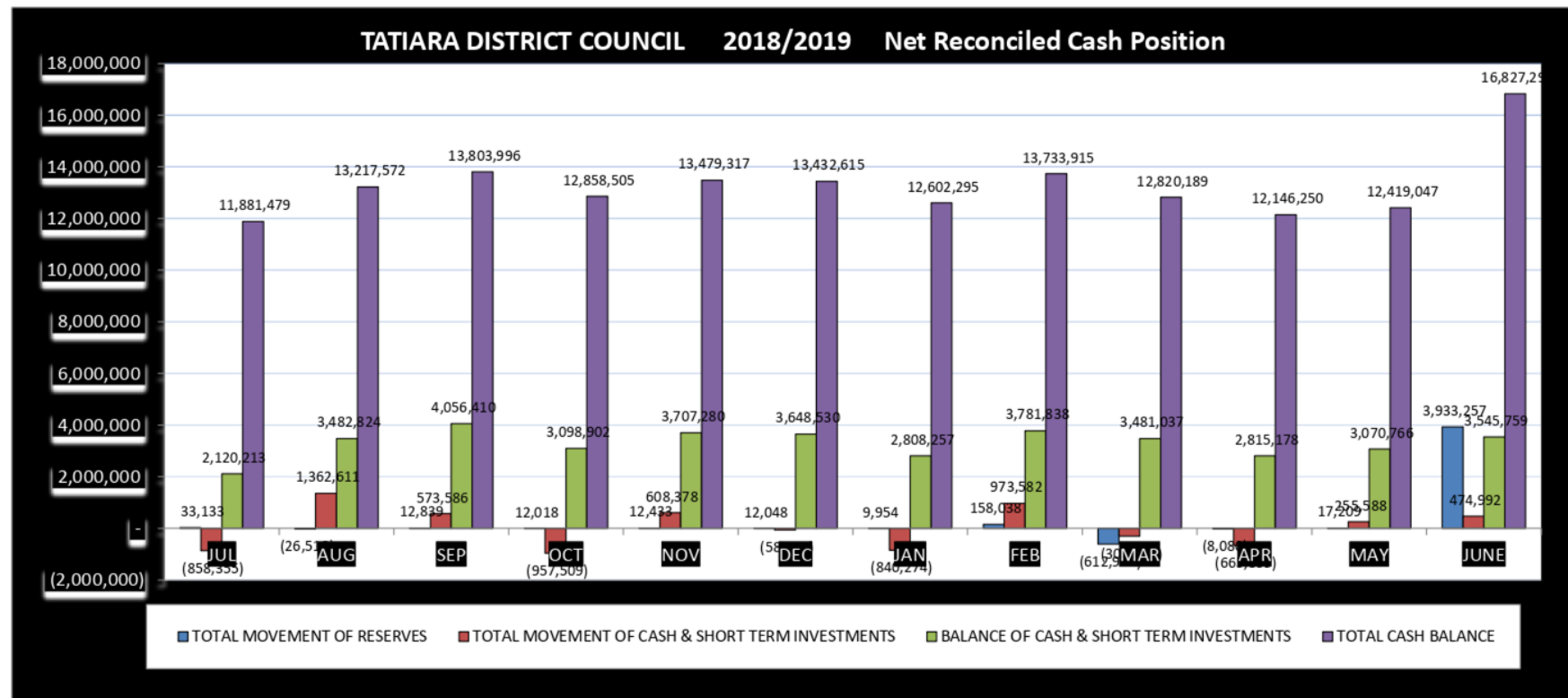
ATTACHMENTS

1. **2018-19 Cash Reserves Graph**  
2. **2018-19 Cash Reserves Table**  

RECOMMENDATION

That the Audit Committee agrees to deposit \$2,300,000 into the following higher interest bearing accounts:

1. LGFA - \$1,100,000 for 9 months; and
2. Bendigo Bank (Keith) - \$1,200,000 for 9 months.



TATIARA DISTRICT COUNCIL : Net Reconciled Cash Position

PRINTED: 27 August 2019

TOTAL RESERVES 2018/2019																	
LGFA/BANK No.	Cash Reserves	Op. Bal. 1/7/18	JUL ACTUAL \$	AUG ACTUAL \$	SEP ACTUAL \$	OCT ACTUAL \$	NOV ACTUAL \$	DEC ACTUAL \$	JAN ACTUAL \$	FEB ACTUAL \$	MAR ACTUAL \$	APR ACTUAL \$	MAY ACTUAL \$	JUNE ACTUAL \$	TOTAL ACTUAL \$	Higher Interest Accounts	At Call
Tatiara 04	Long Svc Leave	349,500	1,307	447	448	434	449	435	450	450	487	(196)	1,640	292	356,141	-	356,141
Tatiara 05	CWMS Reserve	6,680,229	22,631	(30,415)	8,937	8,237	8,522	8,258	(1,993,967)	1,413	18,047	(7,652)	5,975	2,589,294	5,319,511	4,700,000	619,511
Bendigo	CWMS Reserve	-	-	-	-	-	-	-	2,000,000	-	-	-	-	-	2,000,000	2,000,000	-
Tatiara 20	Plant Replacement	406,760	1,521	520	521	505	522	506	523	(59,476)	495	(199)	1,637	290	354,125	-	354,125
Tatiara 22	Clayton Farm Insurance	82,028	382	105	105	102	105	102	106	106	(14,408)	91	85	88	68,996	-	68,996
Tatiara 26	Land Development	731,050	2,373	934	936	907	938	909	940	161,081	(498,996)	182	2,099	200,299	603,652	-	603,652
Tatiara 27	Keith Comm Library	28,248	106	36	36	35	36	35	36	36	33	37	35	37	28,746	-	28,746
Tatiara 28	Tatiara Creek	44,964	168	57	58	56	58	56	58	58	52	58	56	58	45,758	-	45,758
Tatiara 29	Rubble Rehabilitation	306,599	1,147	392	393	380	393	381	395	395	397	72	985	317	312,246	-	312,246
Tatiara 30	Open Space	61,666	52	79	79	76	79	77	79	79	72	79	77	80	62,574	-	62,574
Tatiara 31	Road Renewal	783,456	2,499	1,001	1,003	971	1,005	974	1,008	1,009	(119,527)	(408)	3,235	1,195,059	1,871,285	-	1,871,285
Tatiara 32	Unplanned Maint	253,632	948	324	325	315	326	316	326	327	362	(212)	1,319	195	258,503	-	258,503
Tatiara 34	Tatiara United Football	-	-	-	-	-	-	-	-	52,559	60	67	65	(52,752)	-	-	-
TOTAL MOVEMENT OF RESERVES		9,728,133	33,133	(26,519)	12,839	12,018	12,433	12,048	9,954	158,038	(612,925)	(8,080)	17,209	3,933,257	11,281,537	6,700,000	4,581,537
TOTAL CASH RESERVES & SHORT TERM INVESTMENTS																	
ANZ	Cash At Bank	340,081	233,452	493,258	(1,028,936)	187,882	633,431	(755,526)	5,213	671,874	(578,808)	29,770	104,010	(38,649)	297,053	-	-
LGFA	Short Term Investmts	2,638,487	(1,091,807)	869,353	1,602,522	(1,145,391)	(25,053)	696,777	(845,487)	301,707	278,007	(695,630)	151,579	513,641	3,248,705	-	-
TOTAL MOVEMENT OF CASH & SHORT TERM INVESTMENTS		2,978,567	(858,355)	1,362,611	573,586	(957,509)	608,378	(58,749)	(840,274)	973,582	(300,801)	(665,859)	255,588	474,992	3,545,759	-	-
BALANCE OF CASH & SHORT TERM INVESTMENTS		2,978,567	2,120,213	3,482,824	4,056,410	3,098,902	3,707,280	3,648,530	2,808,257	3,781,838	3,481,037	2,815,178	3,070,766	3,545,759	-	-	-
Total Cash Movement		12,706,701	(825,221)	1,336,093	586,425	(945,491)	620,811	(46,702)	(830,320)	1,131,620	(913,726)	(673,939)	272,797	4,408,249	-	-	-
TOTAL CASH BALANCE		12,706,701	11,881,479	13,217,572	13,803,996	12,858,505	13,479,317	13,432,615	12,602,295	13,733,915	12,820,189	12,146,250	12,419,047	16,827,296	-	-	-

Last updated 30/06/2019

	Principal	Interest Rate	Plus 0.35 % for bonus	Term	Interest pa (annualised)	End of Term	Reserve	
LGFA	2,700,000	2.15	0.35	0.50	67,500	Jun-19	Tat 05	Matured 19/6/19 and reinvested for 12 months
LGFA	2,000,000	1.75	0.35	0.25	42,000	Jun-19	Tat 05	Matured 19/6/19 and reinvested for 12 months
LGFA	300,000	2.15	0.35	0.25	7,500	May-19	Tat 04	Matured 14/5/19
LGFA	300,000	2.15	0.35	0.25	7,500	May-19	Tat 20	Matured 14/5/19
LGFA	400,000	2.15	0.35	0.25	10,000	May-19	Tat 26	Matured 14/5/19
LGFA	150,000	2.15	0.35	0.25	3,750	May-19	Tat29	Matured 14/5/19
LGFA	600,000	2.15	0.35	0.25	15,000	May-19	Tat 31	Matured 14/5/19
LGFA	250,000	2.15	0.35	0.25	6,250	May-19	Tat 32	Matured 14/5/19
Sub Total		6,700,000						
BENDIGO	2,000,000	2.60		1	52,000	Jan-20	Tat 05	
Total		8,700,000		Total	211,500			

7 OTHER BUSINESS

8 NEXT MEETING

9 CLOSE