

25 June 2013

Mr P Durtanovich
Chief Executive Officer
Shire of Ravensthorpe
PO Box 43
RAVENSTHORPE WA 6346



Dear Pascoe

FINANCIAL MANAGEMENT REVIEW

We have completed the Financial Management Review for the Shire of Ravensthorpe for the period 1 July 2012 to 31 March 2013.

For your convenience we have provided one bound and one unbound copy.

Should you have any queries, please contact us.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'G. Godwin', is positioned above the printed name.

GREG GODWIN
DIRECTOR
Encl

SHIRE OF RAVENSTHORPE

FINANCIAL MANAGEMENT REVIEW

JUNE 2013



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DISCLAIMER

The objective of this review as outlined in greater detail in Part 2.0 of this report as presented, is to assist the Chief Executive Officer of the Shire of Ravensthorpe discharge his responsibilities in respect to Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 (as amended).

It has been prepared by UHY Haines Norton (WA) Pty Ltd for this sole purpose.

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

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

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1.0 INDEPENDENT REVIEWER'S REPORT TO THE CHIEF EXECUTIVE OFFICER (CEO) OF THE SHIRE OF RAVENSTHORPE

At the request of the CEO, UHY Haines Norton was engaged to conduct a limited assurance review of the appropriateness and effectiveness of the Shire of Ravensthorpe's financial management systems and procedures. The objective of the review is to assist the CEO discharge his responsibilities in respect to Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 (as amended). The review was conducted for the period 1 July 2012 to 31 March 2013.

CEO'S RESPONSIBILITY FOR MAINTAINING AND REVIEWING FINANCIAL MANAGEMENT SYSTEMS AND PROCEDURES

The CEO is responsible for implementing policies, procedures and controls which are designed to ensure the effective and efficient management of the Shire's resources. In accordance with Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 (as amended), the CEO is to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures. At least once in every four financial years the CEO is to report the results of those reviews to Council.

OUR RESPONSIBILITY

Our responsibility is to provide a report expressing limited assurance, designed to enhance the confidence of the CEO to assist him report on the appropriateness and effectiveness of the financial management systems as required by Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 (as amended). We conducted our engagement in accordance with Australian Standard on Assurance Engagements ASAE 3500 Performance Engagements issued by the Australian Auditing and Assurance Standards Board and the Audit Guidelines, in order to state whether, based on the procedures performed, anything has come to our attention that causes us to believe that the Shire's financial management systems have not been operating effectively. Our engagement provides limited assurance as defined in ASAE 3500.

Our procedures were agreed to with the CEO in our engagement letter dated 11 March 2013.

LIMITATIONS OF USE

This report is made solely to the CEO of the Shire of Ravensthorpe for the purpose of him reporting under Local Government (Financial Management) Regulation 5(2)(c). We disclaim any assumption of responsibility for any reliance on this report to any person other than the CEO of the Shire of Ravensthorpe, or for any purpose other than that for which it was prepared. We disclaim all liability to any other party for all costs, loss, damages, and liability that the other party might suffer or incur arising from or relating to or in any way connected with the contents of our report, the provision of our report to the other party, or the reliance on our report by the other party.

1.0 INDEPENDENT REVIEWER'S REPORT TO THE CHIEF EXECUTIVE OFFICER (CEO) OF THE SHIRE OF RAVENSTHORPE (CONTINUED)

INHERENT LIMITATIONS

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with ASAE 3500 and consequently does not allow us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we will not express an opinion providing reasonable assurance.

We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and its responsibility to prevent and detect irregularities, including fraud. Accordingly, readers of our reports should not rely on the report to identify all potential instances of non-compliance which may occur.

Any projection of the evaluation of the level of compliance to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with management procedures may deteriorate.

INDEPENDENCE

In conducting our engagement, we have complied with the independence requirements of the Australian professional accounting bodies.

CONCLUSION

Based on our work described in this report, which is not an audit, nothing has come to our attention to indicate the Shire of Ravensthorpe has not established and maintained, in all material respects, appropriate and effective financial management systems and procedures during the period 1 July 2012 to 31 March 2013.

For those aspects of the Shire of Ravensthorpe's Financial Management systems and procedures which were assessed as having opportunities for improvement, our findings are summarised at Part 3.0 of this report and detailed observations and comments are located at Part 4.0 of this report.

Date: 25 June 2013
Perth, WA


UHY HAINES NORTON (WA) PTY LTD
CHARTERED ACCOUNTANTS


GREG GODWIN
DIRECTOR

2.0 OBJECTIVE, SCOPE AND OVERVIEW OF FINDINGS

OBJECTIVE

The objective of our engagement as outlined in our engagement letter is as follows:

To provide a report expressing limited assurance designed to enhance the confidence of the intended user (in this instance the CEO) in the performance of the control environment of the financial management system of the Shire of Ravensthorpe (administered by Shire staff being the Responsible Party) for which the intended user (CEO) is ultimately responsible in accordance with the Act and Regulations.

It includes the performance of assurance procedures designed to test the financial management system and report to the CEO on the appropriateness and effectiveness of the control environment within, as required by Financial Management Regulation 5(2)(c).

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

SCOPE

As agreed our examination covered the period 1 July 2012 to 31 March 2013. To this end we examined the following financial systems and procedures of Council:-

- Bank Reconciliations and Petty Cash
- Trust Fund
- Receipts and Receivables
- Rates
- Fees and Charges
- Purchases, Payments and Payables (Including Purchase Orders)
- Wages and Salaries
- Fixed Assets (Including acquisition and disposal of property)
- Credit Card Procedures
- Costs and Administration Allocations
- Minutes and Meetings
- Financial Reports
- Budget
- Plan for the Future
- Registers (Including Annual & Primary Return)
- Delegations
- Audit Committee
- Insurance
- Storage of Documents/Record Keeping
- General Compliance and Other Matters

We did not necessarily examine compliance with provisions of the Act or Regulations, which were not financial in nature. That is, Parts 2, 4, 8 and 9 of the Act, some provisions of Parts 3 and 5 as well as most regulations (apart from the Financial Management Regulations), which did not impact on the areas examined above.

OVERVIEW OF FINDINGS

As referred to in Part 1.0 of this report, a summary of our findings and detailed observations may be found in Parts 3.0 and 4.0 on the following pages.

Addressing the issues highlighted will help to ensure the controls and procedures established are not compromised in the future and the integrity of the financial management system is maintained.



3.0 SUMMARY OF FINDINGS

The following is a brief summary of matters noted for improvement together with our assessment of the level of risk in relation to each item:

Key:				
S	Systems and Procedures		H	High Risk
C	Compliance Matter		M	Medium Risk
			L	Low Risk
FINDINGS	REF	PAGE	NATURE	RISK
Rates Manual rolling reconciliations have no evidence of being independently reviewed.	4.4	7	S	L
Wages and Salaries Changes to employees' details by the Payroll Officer were not reviewed	4.7	8	S	M
Employees' personnel files were not up to date with respect to latest pay details.			S	M
Fixed Assets Revaluation of road infrastructure has not been performed on a regular basis.	4.8	9	S	M
The fixed assets register has not been reconciled to the general ledger on a regular basis.			S	L
Financial Reports The brought forward surplus included in the Monthly Statements of Financial Activity did not agree to the prior year carried forward surplus in the 2012 Annual Financial Report.	4.12	10	C	L
Reserve and Trust balances included in the Monthly Statements of Financial Activity did not agree to the balances as per month end bank reconciliations.			C	L
Lists of payments presented to Council were not in numerical sequence.			C	L
Fuel Inventory Month end inventory values have not being calculated and adjusted in the general ledger.	5.2	14	S	L

Please Note: The assessment of risk as detailed above is our assessment based on the circumstances surrounding the procedures performed. An assessment of "Low Risk" is to be read in the context of our assessment of risk to the organisation as a whole. It is not intended to indicate no further action is required.

Our assessments are provided solely to assist you understand the nature of the matters raised and to prioritise any remedial action



4.0 AREAS EXAMINED AND DETAILED OBSERVATIONS COMMENTS

4.1 BANK RECONCILIATIONS AND PETTY CASH

BANK RECONCILIATIONS

An examination of bank reconciliations and procedures for the period under review noted they are up to date as well as being prepared regularly and promptly for all bank accounts. There is also evidence of regular review by a senior officer independent of preparation.

PETTY CASH

We also examined the petty cash system and procedures and concluded these were being properly controlled and maintained.

4.2 TRUST FUNDS

Trust funds held by Council were examined to determine proper accountability in the Shire's financial management system and compliance with regulatory requirements.

Our observation and testing of five receipts and five payments, judgementally selected, confirmed that trust funds are adequately controlled and all statutory requirements were satisfactorily met.

4.3 RECEIPTS AND RECEIVABLES

Detailed testing of twenty-three receipts, randomly selected, was performed. This included tracing to individual receipt detail, bank deposits and the general ledger to ensure allocation/posting was correctly performed.

The receivables system including raising of invoices was also reviewed with limited testing in respect to allocation/posting.

Overall testing was completed satisfactorily. Controls and procedures are considered to be operating effectively and are appropriate for Council's current scope of operations.



4.0 AREAS EXAMINED AND DETAILED OBSERVATIONS AND COMMENTS (CONTINUED)

4.4 RATES

Council's rating procedures were examined to determine if they were adequate in ensuring rates were being imposed or raised correctly. This also included inspection of the rate record, rate notices, instalment notices, valuation reconciliations and general ledger.

We randomly selected and tested ten annual rate notices and five interim notices for the period under review. The objective was to determine whether they have been correctly imposed and raised. This included:

- sighting the notices;
- re-performing the calculations;
- ascertaining whether the valuations applied agree to Landgate's valuation roll/report and rates per dollar imposed are as adopted budget;
- ensuring the rate system is properly updated; and
- proper posting to the general ledger.

From testing, we concluded the rate system and record is being properly maintained, rates are correctly imposed as well as posted to general ledger.

Notwithstanding this, the following matter is brought to your attention:

- Whilst reconciliations between the valuations as per the rates system and valuation rolls received from Landgate were performed as required, they did not have evidence of being reviewed by a senior officer independent of preparation.

Comments: To help ensure the manual rolling reconciliations are correct and prepared regularly, they should be reviewed by a senior staff member independent of preparation. This review should seek to confirm the accuracy of the reconciliations and should be evidenced accordingly.

4.5 FEES AND CHARGES

Fees and Charges imposed at the time of budget adoption were found to be in accordance with legislative requirements.



4.0 AREAS EXAMINED AND DETAILED OBSERVATIONS AND COMMENTS (CONTINUED)

4.6 PURCHASES, PAYMENTS AND PAYABLES (INCLUDING PURCHASE ORDERS)

A sample of twenty seven payment transactions were judgmentally selected and testing performed to determine whether purchases were authorised/ budgeted and payments were supported, certified, authorised and correctly allocated. Council's purchases, payments and payables system was also examined to determine if adequate controls are in place for ensuring liabilities are properly recorded and payments are properly controlled.

In general, controls and procedures over purchases, payments and payables are operating effectively and are appropriate for Council's current scope of operations.

4.7 WAGES AND SALARIES

Four individual employees were randomly selected and testing of five pay runs for each employee was performed to ensure:

- the employee existed;
- the correct rate of pay was used;
- non-statutory deduction authorities are on hand;
- time sheets properly completed and authorised;
- hours worked authorised; and
- allocations reasonable and correctly posted.

We also tested the first pay of one new employee and the last pay of one terminating employee (randomly selected).

Council's payroll system was also reviewed to determine if adequate controls were in place to help ensure wages and salaries are properly processed and payments are properly controlled.

The system described to us and its supporting controls were found to be operating effectively except for the following areas having opportunity for improvement:

- Changes to employees' details by the Payroll Officer were not reviewed by a senior officer.

Comments: To help ensure all changes to employees' details in the system are authorised, a senior staff member independent of processing should review a system generated audit trail report showing all changes made to the system on a monthly basis. The independent review should seek to confirm the integrity of the details in the system and should be evidenced accordingly.

- Employees' personnel files were not up to date with respect to latest pay details.

Comments: To help ensure all personnel files contain a complete record of all agreements with employees, letters reflecting changes in pay rates should be filed in each employee's personnel file.



4.0 AREAS EXAMINED AND DETAILED OBSERVATIONS AND COMMENTS (CONTINUED)

4.8 FIXED ASSETS (INCLUDING ACQUISITION AND DISPOSAL OF PROPERTY)

The fixed assets management system including controls over acquisition and disposal of assets, updating of the fixed assets register, depreciation of fixed assets and reconciliation of the fixed assets register to the general ledger was examined.

Three assets additions and three assets disposals were judgementally selected and testing performed to ensure:

- the tax invoices existed;
- correct posting to the general ledger;
- fixed assets register was promptly updated;
- classification of assets was correct; and
- the depreciation rate used was in line with Council's policy.

We concluded fixed assets are properly accounted for and supporting controls are operating effectively except for the following areas having opportunity for improvement:

- Council has adopted a policy of re-valuing roads with sufficient regularity to ensure the carrying amount of each road asset is fairly stated at reporting date. We note whilst the Council staff are working towards having the road revaluation done as soon as practicable, most likely in the 2014 financial year, the last revaluation was carried out in 2006.

Comments: To help ensure fair values reflect current conditions, revaluations should be carried out at least every 3 to 5 years.

- Whilst no fixed asset reconciliations were performed from November 2012 to March 2013 we have noted significant progress in reconciling the fixed asset register to the general ledger.

Comments: To help ensure fixed assets are completely and correctly posted to the general ledger, the general ledger should be reconciled regularly to the fixed assets register. These reconciliations should be signed and dated by the preparer thereof and should be independently reviewed.

4.9 CREDIT CARD PROCEDURES

A review of Council's credit card procedures was performed to determine if adequate controls were in place.

One credit card is currently in use. We judgementally selected and tested nine month's credit card transactions to determine whether they are legitimate and usual in the context of the Shire's operations. This included:

- sighting tax invoices;
- ascertaining whether the transaction was for bona fide Shire business; and
- whether transactions were in line with the Shire's policy.

Overall testing was completed satisfactorily. Controls and procedures are considered to be operating effectively and are appropriate for Council's current scope of operations.

4.10 COST AND ADMINISTRATION OVERHEAD ALLOCATIONS

The Council's cost and administration allocation system was examined to determine if an appropriate allocation basis or rates are being used and indirect costs have been properly reallocated.

Our review noted the system is being maintained properly.



4.0 AREAS EXAMINED AND DETAILED OBSERVATIONS AND COMMENTS (CONTINUED)

4.11 MINUTES AND MEETINGS

Council meeting and committee meeting minutes were reviewed to ensure compliance with procedures and protocols.

The procedures and protocols surrounding meetings and the quality of minutes were found to be of a satisfactory standard and in accordance with legislative requirements.

4.12 FINANCIAL REPORTS

The following reports were reviewed for compliance with legislative requirements:

- Annual Report;
- Annual Financial Report; and
- Monthly Financial Reports.

All were found to be of a satisfactory standard and in compliance with legislative requirements except:

- Whilst reviewing monthly statements of financial activity we noted the brought forward surplus/deficit in the current month is not always the amount carried forward in the previous year's annual financial report.

To help ensure accurate financial information is presented, the brought forward surplus should be agreed to the prior year's annual financial report as soon as practicable.

- Trust and Reserve balances presented in monthly statements of financial activity were different (usually immaterial amounts) to the final reconciled balances.

Comment: To help ensure accuracy and completeness of the information included in monthly statements of financial activity, reserve and trust balances should be reconciled prior to completing monthly statements of financial activity wherever possible.

- Whilst reviewing the lists of payments presented monthly to Council we noted a number of payments appeared to have been omitted from the list. Upon investigation, it was found the list was merely out of sequence and/or missing payments related to cancelled cheques or EFTs.

Comment: To help ensure the completeness of the list of payments presented to Council the list should be prepared in numerical order and should include cancelled payments.

4.13 BUDGET

The 2012/13 budget document and documents surrounding budget adoption were reviewed to ensure compliance with regulatory requirements.

All statutory requirements were satisfactorily met and the budget was of satisfactory form and content.



4.0 AREAS EXAMINED AND DETAILED OBSERVATIONS AND COMMENTS (CONTINUED)

4.14 PLAN FOR THE FUTURE

The Strategic Community Plan and Corporate Business Plan together comprise the Plan for the Future. They are currently being prepared and/or reviewed with the assistances of external consultants.

From examination they appear to meet all statutory requirements.

4.15 REGISTERS (INCLUDING ANNUAL & PRIMARY RETURNS)

FINANCIAL INTEREST REGISTER

The register was examined to ensure compliance with regulatory requirements.

Our review noted the register was deemed to be satisfactorily maintained and appropriate for Council needs.

TENDER REGISTER

The tender register was reviewed for completeness and compliance and deemed to be satisfactorily maintained and appropriate for Council's needs.

DELEGATIONS REGISTER

The delegations register was reviewed for completeness and compliance and deemed to be satisfactorily maintained and appropriate for Council needs.

4.16 AUDIT COMMITTEE

Council's establishment of its audit committee and the constituted membership was examined by us and found to be in compliance with the requirements of the Act.

4.17 INSURANCE

Discussions with staff and review of policy documents revealed policies are current and the coverage appears to be adequate. Evidence also exists to suggest an annual review of insurance risks occurs.

4.18 STORAGE OF DOCUMENTS/RECORD KEEPING

A detailed and fully indexed register and filing system is in place and appears to be complete and operating effectively.



5.0 GENERAL COMPLIANCE AND OTHER MATTERS

5.1 READINESS TO ADOPT FAIR VALUE ACCOUNTING

As mandated by Financial Management Regulation 17A, a local government in Western Australia must show all of the assets in its financial report at fair value by 30 June 2015.

Implementation is to be phased in over three years from 1 July 2012 and commences with all plant and equipment being reported at fair value for the financial year ending 30 June 2013.

During our interim audit visit, we made observations and held discussions with a view to assessing the Shire's readiness for meeting the requirements and noted the following:

MAJOR TASK REQUIRED	OBJECTIVE	STATUS
Design of an overall strategy and plan.	To ensure resources are available and organised for proper implementation and hence compliance with regulations in respect to fair value reporting. This also helps to ensure external services are scoped properly.	Management indicated the Shire will implement this mandatory requirement over three years starting with valuation of plant and equipment in accordance with Financial Management Regulation 17A(3). Management have considered the process and planned to utilise internal resources for valuation of plant and equipment. For other classes of assets, a mixture of internal resources and external services will be used. The plan is yet to be documented.
Selection of the valuation method (including fair value hierarchy) for different classes or segmentation of assets.	To ensure the most appropriate approach and hierarchy of fair value inputs for valuation techniques are applied.	Management will consider this for valuation of plant and equipment in 2012/2013 and will do so for all other classes of assets in due course.
Consideration and application of Highest and Best Use valuation principles	To help ensure proper disclosure in accordance with paragraph 93 of AASB 13 "Fair Value Measurement" i.e. need to disclose fact and why an asset is being used in a manner different from its highest and best use.	Management will consider this as raised for valuation of plant and equipment in 2012/2013. All other classes of assets will be considered in due course.
Review of accounting policies in respect of fair value reporting and disclosure requirements.	To ensure fair value accounting and relevant disclosure requirements are properly incorporated and adopted for financial reporting purposes.	Management will consider doing this as raised for valuation of plant and equipment in 2012/2013. All other classes of assets will be considered in due course.
Review of Assets Capitalisation Policy for fair value reporting purposes.	To help ensure capitalisation thresholds for different classes of assets are reasonable in term of materiality and practicality.	Management will consider doing this as raised for valuation of plant and equipment in 2012/2013. All other classes of assets will be considered in due course.



5.0 GENERAL COMPLIANCE AND OTHER MATTERS (CONTINUED)

5.1 READINESS TO ADOPT FAIR VALUE ACCOUNTING (CONTINUED)

MAJOR TASK INVOLVED	OBJECTIVE	STATUS
Review of current fixed assets system and records for fair value reporting purposes.	To help ensure the asset system and records are up-to-date and complete with all information required (including asset hierarchy with appropriate segmentation, condition, initial cost, previous revaluation increment and etc), prior to the commencement of the valuation. Also, this helps to ensure detailed information (i.e. initial cost recognised, fair value, annual useful life & residual value, basis and support of valuation etc) for each individual asset is adequately maintained post revaluation.	Management will consider doing this as raised for valuation of plant and equipment in 2012/2013. All other classes of assets will be considered in due course.
Identification and recognition (at fair value) of land operated by the Council either as a golf course, showground, racecourse or any other sporting or recreational facility or regional significance.	To help ensure proper compliance with Financial Management Regulation 16(a) and fair value accounting.	Management will consider doing this as raised for the year ending 30 June 2013.
Identification and recognition (at fair value) of easements within the Shire as intangible assets.	To help ensure proper compliance with AASB 138 "Intangible Assets", Financial Management Regulation 16(b)(ii) and hence proper financial reporting.	Management will consider doing this as raised for the year ending 30 June 2013.

Comments: In summary, management are aware of the mandated requirements and the timing involved in adopting fair value for reporting different classes of assets. At the time of our visit, Management have started considering the process for valuation of plant and equipment and indicated internal resources will be utilised.

To help ensure proper adoption of fair value accounting for the Shire's fixed assets and compliance with Financial Management Regulation 17A, management should consider the tasks as identified above and implement a process to monitor the progress made in respect of each class of assets.



5.0 GENERAL COMPLIANCE AND OTHER MATTERS (CONTINUED)

5.2 FUEL INVENTORY

The procedures in relation to the control of fuel inventory were reviewed. Whilst physical fuel dips are carried out and quantities appear to be reconciled on a regular basis, we noted no adjustments have been made for inventory values in the general ledger from November 2012 to March 2013.

Comment: To help ensure fuel inventory is properly monitored and book balances agree to physical quantities, reconciliations should be performed and values should be adjusted accordingly.

5.3 IT GENERAL ENVIRONMENT

During our review of the Shire's general IT environment, we noted that the general IT controls appear to be operating effectively.

