

SHIRE OF WYALKATCHEM

PERIOD OF AUDIT: YEAR ENDING 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

| INDEX OF FINDINGS | RATING | | |
|--|-------------|----------|-------|
| | Significant | Moderate | Minor |
| Current year issues | | | |
| 1. Journal entries not independently approved | ✓ | | |
| 2. Changes to Supplier Master Files | ✓ | | |
| 3. Quotations Evaluation form | | ✓ | |
| 4. Monthly bank reconciliations not independently reviewed | | ✓ | |
| 5. Excessive user access to the financial system | | ✓ | |
| 6. Overdue rates debtors | | ✓ | |
| 7. No reconciliations for accounts receivable and payable accounts | | ✓ | |
| 8. Annual financial report | | ✓ | |
| Issues outstanding from prior year | | | |
| 9. Lack of segregation of duties | ✓ | | |
| 10. Investment of surplus funds | | ✓ | |
| 11. Purchase orders dated after invoice dates | | ✓ | |
| 12. Employee termination payments | | ✓ | |
| 13. No Asset Disposal Forms | | ✓ | |

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating may be reported as a matter of non-compliance in the audit report in the current year, or in a subsequent reporting period if not addressed. However, even if the issue is not likely to impact the audit report, it should be addressed promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

SHIRE OF WYALKATCHEM
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1. Journal entries not independently approved

Finding

We noted 5 out of 10 instances of journal entries which were not independently reviewed by a second officer.

Rating: Significant Implication

If journals are not independently reviewed and approved, there is a risk that erroneous or fraudulent journal entries may pass undetected. Accounting journals can represent significant adjustments to previously approved accounting transactions and should therefore be appropriately reviewed and approved.

Recommendation

All general journal entries should be reviewed by an independent senior officer before they are processed and evidence of authorisation is retained.

Management Comment

The staff will ensure that Journals are processed after review. The Shire currently contracts a Consultant (Accwest Pty Ltd) to review same as required.

Responsible Person: Manager Corporate Services / Consultants
Completion Date: In Progress

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2. Changes to Supplier Master File

Finding

From December 2021, there is no evidence retained to demonstrate whether changes to payroll and supplier details, including bank account details, are being authorised by an officer other than the person making the amendment.

We however acknowledge that our testing to validate suppliers' information in the system did not identify any discrepancies.

Rating: Significant Implication

There is an increased risk that unauthorised changes may be made resulting in errors or funds being inappropriately transferred.

Recommendation

Changes to the supplier master file should be independently reviewed.

Management Comment

The Shire will prepare a process for changes to master file data and include a review of all Master File changes as part of its end of month processes.

Responsible Person: Manager Corporate Services
Completion Date: In progress

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3. Quotations Evaluation form

Finding

We noted that the Shire does not have a formal quotation evaluation form to demonstrate the number of quotations received, evaluation process and the basis to recommend a preferred supplier. The Shire's *Purchasing Framework* requires such documentation to be completed to ensure compliance with the evaluation and assessment criteria.

In one out of 30 instances we noted that a supplier with relatively higher quote, compared to other participants, was selected without any justification being documented to do so. We however sought justification from management for such decision and found it valid.

Rating: Moderate Implication

In the absence of a formal quotation evaluation form, there is a risk that sufficient quotations may not be obtained, or quotations may not be evaluated according to the evaluation and assessment criteria. Such practice increases a risk of favouritism of suppliers and the Shire not obtaining value for money.

Recommendation

The Shire should consider implementing a formal quotation evaluation form which should be duly completed and the decision to recommend a preferred supplier be clearly documented. In addition, if instances arise where it is impractical to obtain the requisite number of quotations, the reasons should also be documented in the quotation evaluation form.

Management Comment

The Shire will develop a pro forma quotation form and implement a process for its use ASAP.

Responsible Person: Manager Corporate Services/CEO/Works Manager
Completion Date: In progress

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4. Monthly Bank Reconciliations not independently reviewed

Finding

We found no evidence of an independent review of the Muni bank reconciliations for the months of July and August 2021. In addition, the reconciliation for March 2022 was independently reviewed but the date of the review was not documented.

Rating: Moderate Implication

Reconciliations are a key control for ensuring financial data is completely and accurately reflected in the general ledger from which financial statements are derived. The absence of an independent and documented review process of the reconciliations can result in errors or omissions remaining undetected, leading to misstatements in the financial statements.

Recommendation

The bank reconciliations should be reviewed in a timely manner and the evidence of such review be appropriately documented.

Management Comment

The Shire is implementing a formal process for all end of month processes including a review of bank reconciliations.

Responsible Person: Manager Corporate Services
Completion Date: In progress

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5. Excessive user access to the financial system

Finding

Based on our review of user access levels in the financial management system, we noted that the Rates Officer has super user access, which appears to be excessive. However, no unusual entries done by the rates officer were identified during our review.

Rating: Moderate Implication

Super user access to the financial system may allow staff to use the system inappropriately. For example, this access could be used to undermine the effectiveness of system controls (such as segregation of duties) and diminish accountability.

Recommendation

We recommend user access rights to be reviewed and updated to ensure that only appropriate staff have access, and duties remain effectively segregated without preventing tasks being completed effectively and efficiently.

Management Comment

Due to recent high staff changeover, the Shire at times relies heavily on external consultants (including the Rates Officer, who provides the rates service offsite). The Rate Officer has previously worked with ITVision and is a Synergy expert who the Shire relies heavily on to provide assistance with many Synergy Soft modules. Once new staff are settled and have confidence in the system's operations, the Shire will review Super User access.

Responsible Person: Manager Corporate Services
Completion Date: In progress

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6. Overdue Rates debtors

Finding

Our review of the rate debtors at 2 April 2022 indicated that approximately 30% debtors (non-pensioners) totalling \$ 20,483 were outstanding for more than 2 years. The Shire however has implemented procedures for the recovery of outstanding debts.

Rating: Moderate Implication

Overdue debtor accounts may adversely affect the Shire's cashflow requirements. Management may encounter difficulty in recovering long outstanding debts resulting in financial loss.

Recommendation

Management should take appropriate action to recover all long outstanding debts without delay and also ensure that all debts are recovered within the credit period offered.

Management should also review the existing provision for doubtful debts in the books and consider its adequacy for the financial year ending 30 June 2022.

Management Comment

All debts shall be pursued in line with the newly implemented procedures.

The Shire will review the provision for doubtful debts as part of the 2021-22 financial statements preparation.

Responsible Person: Manager Corporate Services/ Consultants
Completion Date: In progress

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7. No reconciliations for accounts receivable and payable accounts

Finding

We noted that the monthly reconciliations for accounts receivable and payable had not been prepared from January to March 2022.

Rating: Significant Implication

Reconciliations are a key control for ensuring financial data is completely and accurately reflected in the general ledger from which financial statements are derived. Lack of key accounts' reconciliation increases the risk of errors, omissions or fraud remaining undetected. In turn, this could lead to misstatements in financial reporting.

Recommendation

The accounts receivable and payable balances should be reconciled in a timely manner and be independently reviewed.

Management Comment

With new staff on board the Shire is implementing a formal review process for all end of month processes including debtors and creditors.

Responsible Person: Manager Corporate Services
Completion Date: In progress

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8. Submission of the Annual Financial Report

Finding

We noted that the Shire had not submitted a copy of the Annual Financial Report to the Department of Local Government, Sport and Cultural Industries within 30 days of the receipt of the Auditor's Report on the Financial Report as required by Regulation 51(2) of the Local Government (Financial Management) Regulations 1996.

Rating: Moderate Implication

Non- compliance with Regulation 51(2) of the Local Government (Financial Management) Regulations 1996.

Recommendation

Management should submit a copy of the Annual Financial Report for the year ended 30 June 2021 at the earliest and should adhere to the timeline specified by the Regulation with regard to submitting the Annual Financial Report to the Department in future.

Management Comment

The Shire will ensure that the relevant documents are sent to the Department in accordance with the Regulations in future.

Responsible Person: Manager Corporate Services

Completion Date: In progress

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9. Lack of segregation of duties

Status in 2022

We noted 3 out of 30 purchase transactions, where the same staff issued and approved the purchase orders and authorised related supplier invoices.

Finding in 2021

We noted 18 out of 38 purchase transactions, where the same staff issued and approved the purchase orders and authorised related supplier invoices. In addition, there were no evidence on the invoices indicating who received the goods/services.

Rating: Significant Implication

Lack of segregation of duties increases the risk of unauthorised purchases occurring without detection, resulting in financial loss to the Shire.

Recommendation

Management should review these 3 transactions and other similar transactions to ensure their validity. Also, management should implement appropriate segregation of duties, particularly between authorisation of purchase order and approving relevant supplier invoices.

Management Comment

The Shire will review its current processes to ensure an appropriate segregation of duties, recognising recent challenges with staff changeover and unfilled positions.

Responsible Person: Manager Corporate Services/CEO/Works Manager

Completion Date: In progress

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10. Investment of surplus funds

Status in 2022

The Shire has still not formally established and documented internal control procedures as outlined below in the last year's issue.

Finding in 2021

We noted that the Shire does not have a formally established and documented internal control procedures for:

- the placement of investments i.e. recording of interest quotes from banks, confirmation and authorisation of deals etc.
- the rollover of investments
- the redemption of investments
- the receipt of income

Current practice of the investments of surplus funds at the Shire appears to be at the discretion of the officers responsible for this function. Regulation 19(1) of the Local Government (Financial Management) Regulations 1996 requires a local government to establish and document internal control procedures to be followed by employees to ensure control over investments.

We also noted that the Shire does not have an Investment Register as required by the Investment Policy

Rating: Moderate Implication

In the absence of formally established and documented internal control procedures, there is an increased risk of inefficient investment of surplus funds. This practice is also non-compliant with Regulation 19 (1) of the *Local Government (Financial Management) Regulations 1996*.

Also, lack of an investment register, which is inconsistent with the investment policy, may pose difficulty in management monitoring the movements in investments and make decisions that are in the best interest of the Shire.

Recommendation

The Shire should establish and document internal control procedures that should be followed by employees to ensure control over investments, in accordance with Regulation 19(1) of the Local Government (Financial Management) Regulations.

The Shire should also establish and maintain an Investment Register in order to comply with the requirements of the Investment Policy.

Management Comment

The Shire shall develop an internal control procedure for control over investments and create an investment register ASAP.

Responsible Person: Manager Corporate Services/ Consultants
Completion Date: In progress

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11. Purchase orders dated after invoice dates

Status in 2022

During our sample testing of payments made throughout the year, we identified 6 instances, out of our samples of 30, where the authorised purchase orders were dated after the dates of the corresponding supplier invoices.

Finding in 2021

During our sample testing of payments made throughout the year, we identified 9 instances, out of our samples of 38, where the authorised purchase orders were dated after the dates of the corresponding supplier invoices.

Rating: Moderate Implication

There is no evidence that the ordering of goods was approved prior to ordering.

Recommendation

Purchase orders should be approved for all applicable items prior to ordering.

Management Comment

The Shire shall review the Purchasing policy and reiterate to staff adherence to minimise the matter of purchase orders being raised after the invoice date.

Responsible Person: Manager Corporate Services

Completion Date: In progress

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12. Employee termination payments

Status in 2022

We noted that the former Manager of Corporate Services' termination payment calculations were not evidenced as being reviewed by an independent senior officer. We have however confirmed that the calculations are correct.

Finding in 2021

We noted that employee termination payment calculations were not evidenced as being reviewed and approved by a supervisor.

Rating: Moderate Implication

Termination payouts can be high value, and if calculations are not reviewed, incorrect payouts could pass undetected.

Recommendation

We recommend the calculations for all termination payments are independently reviewed and evidence of this review is retained.

Management Comment

The Shire will ensure that future termination payments are reviewed, and evidence of review clearly documented.

Responsible Person: Manager Corporate Services
Completion Date: In progress

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13. No Asset Disposal Forms

Status in 2022

Management still has not implemented a process of formally documenting the disposal of assets.

Finding in 2021

We noted that currently there is no process of formally documenting the disposal of assets i.e. *Asset Disposal Form*, and obtaining management's approval prior to disposing individual assets. We however acknowledge that potential disposals are included in the Shire's approved budget.

Rating: Moderate Implication

Although potential disposals are reflected in the Shire's approved budget, it is likely that the budgeted sales proceeds may differ from actual. Therefore, such practice could potentially result in the misappropriation of assets and result in a financial loss to the Shire.

Recommendation:

Management should introduce an Asset Disposal/Deletion form to formalise the asset disposals/deletions process, which should also be subject to appropriate authorisation.

Management Comment

The Shire will develop a pro-forma disposal form and implement a process for use and approval ASAP.

Responsible Person: Manager Corporate Services/Consultants

Completion Date: In progress