

14.5 Report to the Minister on Significant Findings in the 2019/20 Audit

Applicant:	Shire of Yalgoo
Date:	14/04/2022
Reporting Officer:	Chief Executive Officer Ian Holland
Disclosure of Interest:	NIL
Attachments:	2019/20 Audit Management Letter

SUMMARY

That Council accept a report on significant audit findings that will be published on the Shire website and provided to the Minister for Local Government.

COMMENT

At the Audit Meeting held on the 21st March 2022 the Committee was asked to give consideration to the Audit Management Letter and Independent Auditors Report for the year ended 30th June 2020 together with responses provided by the Chief Executive Officer. An exit interview with the Office of the Auditor General was held on Friday 25 February 2022 and the auditors report was received on the 3rd March 2022. This report resulted in a Disclaimer of Opinion.

Council is required to examine the report of the Auditor and take appropriate action in relation to the matters raised.

The findings identified during the Audit of the Shire of Yalgoo Financial Statements for the year ended 30 June 2020 are stated in the Management letter, together with the response provided by the Chief Executive Officer under the heading of "Management Comment" as provided to the Audit Committee.

The Auditors Report identified the following material/significant matters to be addressed by the Shire of Yalgoo.

(i) The following material matters indicating non-compliance with Part 6 of the *Local Government Act 1995*, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law were identified during the course of my audit:

- a. Changes made to the supplier, employee, debtors and fixed assets masterfiles were not independently reviewed and authorised. This increased the risk of unauthorised changes to key information, although our audit sampling did not identify any.
- b. For 13 out of 26 purchases sampled there was no purchase order raised. Additionally, 11 out of 13 of the purchase orders sampled were dated after the dates of the corresponding supplier invoices. Further, for 22 out of 26 payments sampled the creditor batch listing were not consistently signed as evidence of independent review and 21 out of 26 physical bank authorisation forms were not consistently signed by two authorities prior to payment.

Additionally, for 7 out of 26 purchases sampled there was insufficient documentation to confirm if sufficient quotes had been obtained. These practices increase the risk of fraud or favoritism of suppliers, not obtaining value for money in procurement, and inappropriate or unnecessary purchases.

- c. All daily banking reconciliations sampled (being 21 instances) were either not completed or not signed by the preparer or reviewer. This increases the risk of errors and omissions relating to cash remaining undetected.
 - d. From our review of the financial policy manual there were numerous instances identified where policies were out of date, required further work or did not reflect current practices. Without approved policies and procedures, this may lead to errors, fraud or non-compliance.
 - e. Management has not updated the asset management plan and long-term financial plan since 2013. As a result the Asset Renewal Funding Ratio for all years presented in the annual financial report as required by section 50(1)(c) of the Local Government (Financial Management) Regulations 1996 is not able to be supported by verifiable information or reasonable assumptions.
 - f. Our payroll testing identified that office employee timesheets are not independently reviewed and signed off. This could result in errors in the payroll or incorrect amounts being paid.
 - g. Our sampling identified that for 8 out of 12 months of the year, there were not receipts or invoices to support expenditure incurred on the purchasing cards. This could result in unauthorised expenditure by the Shire.
 - h. Reconciliations for Trust accounts, investments, fixed assets, sundry debtors, sundry creditors, rates debtors and rates valuations were not maintained by the Shire for the full year. With key balance sheet accounts not being reconciled to the general ledger on a regular basis there is an increased risk that errors or imbalances will not be detected on a timely basis, which in turn could lead to misstatements in the Shire's financial reporting.
 - i. Accounting journal entries were processed with no evidence of independent review and approval by a senior staff member for 90% of the journals sampled. Additionally, adequate supporting documentation or commentary was not retained to support journal entries in 80% of the journals sampled. Accounting journals can represent significant adjustments to previously approved accounting transactions and, should therefore be independently reviewed and approved with evidence of this review being retained.
- (ii) As a result of the matters described in the Basis for Disclaimer of Opinion section of my report, I am not able to report that:
- a. All required information and explanations were obtained by me.
 - b. All audit procedures were satisfactorily completed.
 - c. The Asset Consumption Ratio included in the annual financial report was supported by verifiable information and reasonable assumptions.

Further Management Comment

The Shire of Yalgoo is addressing the issues raised. Additional staff and contractors have been engaged to improve internal controls and review these potential weaknesses. Where work has been undertaken by a contractor more internal documentation is being produced to assure auditors of review and approval.

The Shire is currently transitioning to more fit for purpose financial software. This is a costly and time consuming process that will improve staff training and benefit internal controls.

The Community Strategic Plan has been renewed allowing for further Integrated Plans to be adequately redeveloped. Proposed local government reforms could see some of this process significantly changed or made obsolete. It would not be financially responsible for a small Council to engage contractors, generate all required reports and then shelve them due to altered requirements. That being said valuations and data collection is being undertaken to redevelop asset and other long term plans.

Due to changes in management a significant number of these issues have been practically improved and further changes are being implemented as described by the Management Comments provided to the Audit Committee. Policy reviews and staff training have resulting in improvements to payroll and purchasing authorisations and further policy review will be conducted when operationally achievable.

STATUTORY ENVIRONMENT

Local Government Act 1995

7.12A. Duties of local government with respect to audits

- (3) A local government must —
 - (aa) examine an audit report received by the local government; and
 - (a) determine if any matters raised by the audit report, require action to be taken by the local government; and
 - (b) ensure that appropriate action is taken in respect of those matters.

- (4) A local government must —
 - (a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and
 - (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.

- (5) Within 14 days after a local government gives a report to the Minister under subsection (4) (b), the CEO must publish a copy of the report on the Local governments' official website.

POLICY/FINANCIAL IMPLCATIONS

NIL

VOTING REQUIREMENT

Simple Majority

OFFICERS RECOMMENDATION

That Council adopts the Report on the Audit Management Letter for the financial year ended 30 June 2020 for publication on the Shire Website and forwarding to the Minister for Local Government.

COUNCIL RESOLUTION

Moved: Cr Raul Valenzuela

Seconded: Cr Gail Simpson

That Council adopts the Report on the Audit Management Letter for the financial year ended 30 June 2020 for publication on the Shire Website and forwarding to the Minister for Local Government.

CARRIED: 4/0