



AGENDA

AUDIT COMMITTEE MEETING

An Audit Committee Meeting of the Shire of Halls Creek will be held at **4.30pm on 12 November 2024** in the Council Chambers, 7 Thomas Street, Halls Creek.

Susan Leonard

8/11/2024

Susan Leonard

Date

Chief Executive Officer

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TUESDAY 12 NOVEMBER 2024**

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AUDIT COMMITTEE MEETING

AGENDA

1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

The meeting was opened at by.....

2. RECORD OF ATTENDANCE/ LEAVE OF ABSENCE (PREVIOUSLY APPROVED)/ APOLOGIES/ LATE ARRIVALS/DECLARATIONS OF INTEREST

2.1 Attendance

Shire President
Deputy President
Councillors

Cr Malcolm Edwards
Cr Patricia McKay
Cr Rosemary Stretch
Cr Virginia O'Neil

Chief Executive Officer
Executive Assistant

Susan Leonard
Dianne Hayes

2.2 Leave of Absence (previously approved)

Nil

2.3 Apologies

Nil at the time of writing the agenda.

2.4 Late Arrivals

2.5 Declaration of Interests

Councillor/Staff Member	Item No.	Interest	Comments
Name/position	Nil	Nil	Nil

3. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

Officer's Recommendation

That Council confirms the minutes of the Audit Committee Meeting held 13 March 2024 as a true and accurate record.

Moved: Cr

Seconded: Cr

Note: The minutes of the Council meeting listed above is provided under separate cover via www.hallscreek.wa.gov.au

4. PETITIONS / DEPUTATIONS / PRESENTATIONS

Nil at time of writing the agenda.

5. REPORTS OF OFFICERS AND COMMITTEES

5.1 2022-23 Audit Findings Improvement Action Plan Update November 2024

ITEM NUMBER:	5.1
REPORTING OFFICER	Sue Leonard, Chief Executive Officer
SENIOR OFFICER	Sue Leonard, Chief Executive Officer
MEETING DATE:	12 November 2024
DISCLOSURE OF INTEREST:	Nil

1.0 Matter for Consideration

- 1.1 For the Audit Committee to receive the report which provides updates on the actions adopted by the Shire to address matters identified by the auditor during the 2022/23 audit.

2.0 Background

- 2.1 The audit report issued by the Office of the Auditor General (OAG) on 23 April 2024 relates to the Shire of Halls Creek 2022/23 Annual Financial Report.
- 2.2 At the time of providing the signed Annual Financial Report to the auditors in November 2023 the former CEO signed the Statement by the CEO.
- 2.3 At the time of signing the Audit Report, management agreed with OAG the signed 2022/23 Annual Financial Report contained material misstatements.
- 2.4 The following basis for a disclaimer of opinion was provided within the audit report dated 23 April 2024 and signed by the Assistant Auditor General Financial Audit, Delegate of the Auditor General for Western Australia.

“Basis for Disclaimer of Opinion

Financial report not supported with complete and accurate underlying records I was unable to obtain sufficient appropriate audit evidence regarding the financial report as a whole as the financial report was submitted for audit purposes without complete and accurate underlying records. I was unable to audit the financial report by alternative means.”

- 2.5 Accompanying the audit report a Management Letter was issued detailing the findings identified during the audit which reflected a number of items identified and ratings of the matters within each identified area.
- 2.5 Section 7.12A (4) of the *Local Government Act 1995* requires a local government to prepare a report stating what action has been taken or is intended to be taken in respect to significant matters raised within the audit report.

- 2.6 At its ordinary meeting held 16 May 2024, Council considered and endorsed an Improvement Action Plan setting out the improvements required which were also to be used as a tool for monitoring and reporting progress of the plan. This was also provided to the Minister and placed on the website as required by legislation (resolution 2024/160).
- 2.7 It was noted when the Improvement Action Plan was considered in May 2024, actions may require updates to remain relevant and appropriate toward achieving objectives set out, as well as to assist with ongoing monitoring and reporting.

3.0 Comments

- 3.1 The key improvement actions are detailed at section 3.0 of the Improvement Action Plan Update (as attached), and are summarised below:
- a) Appointment of a new Chief Executive Officer and senior finance staff with appropriate qualifications and experience.
Update: Chief Executive Officer appointed. An Executive Manager Finance & Support Services was appointed, position no longer exists
 - b) Appointment of a sufficient number of experienced finance staff to enable proper segregation of duties and oversight of financial transactions, reconciliations and reviews.
Update: Intention to appoint a suitably qualified accountant.
 - c) Ensure an appropriately secure IT environment is maintained.
Update: Current IT consultants engaged to upgrade IT security and undertake actions from Audit Improvement Program, expected onsite prior to 30 October 2024.
 - d) Train all staff involved in procurement and disposal of assets in the appropriate procedures to be followed.
Update: Procedures to be formalised before training occurs.
 - e) Establish documented procedures for key finance functions, this should primarily occur through the creation of checklists to help ensure procedures are routinely followed and monitored.
Update: Overarching governance frameworks and Code of Conduct have been developed. Procedure for development and implementation of procedures and checklists to be developed by 30 October to facilitate development and version control and authorisation of procedures and checklists.
 - f) Undertake a review of payroll processes and transactions to ensure these are appropriate.
Update: Issues have been identified and are currently being addressed.

- g) Implement appropriate grievance and disciplinary procedures to help ensure staff performance is routinely monitored and addressed.
Update: Overarching governance frameworks and Code of Conduct have been developed.
 - h) Rescind inappropriate Council Policies, such as A20 Employee Incentives.
Update: All Council policies being reviewed Policy A20 Employee Incentives has been rescinded.
 - i) Action the improvement plan attached to this report.
Update: Progress on implementation of the plan continues.
 - j) Report quarterly to the Audit Committee on the progress of the actions included within the improvement plan.
Update: This is the first report to Council on the progress of Actions.
- 3.2 Section 4.0 of the Improvement Action Plan sets out detailed actions required to address each of the matters noted in the audit report for 2022/23, along with a priority rating for each. The timeline for completion of all of the tasks identified in the plan is likely to span a number of financial years.
- 3.3 The status of a number of actions included in the plan have been updated to form a progress report, which was intended to be presented to the Audit Committee quarterly for review and monitoring.
- 3.4 This is the first meeting of the Audit Committee convened since the Improvement Action Plan was endorsed by Council in May 2024, to note the progress of action implementation by the Audit Committee.

4.0 Statutory Environment:

- 4.1 Section 7.12A of the *Local Government Act 1995* requires:
- (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 government's official website.

4.2 Regulation 16 of the *Local Government (Audit) Regulations 1996* includes:

16. Functions of audit committee

(f) to oversee the implementation of any action that the local government —

(i) is required to take by section 7.12A(3); and

(ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a)

5.0 Strategic Implications

5.1 Objective:

4. Civic: Working together to strengthen leadership and effective governance.

5.2 Outcome:

Civic - 4.1 A local government that is respected and accountable

5.3 Strategy:

Civic - 4.1.1 Provide strong, effective and functional governance and leadership in the Shire

6.0 Policy Implications:

6.1 There are no known policy implications arising from adoption of the officer's recommendation.

7.0 Financial Implications

7.1 Actions included in the improvement plan will require additional resources to implement. All expenditure will be included in the relevant budget or reported to Council as required.

8.0 Sustainability Implications

8.1 Environmental

There are no significant identifiable environmental impacts arising from adoption of the officer's recommendation.

8.2 Economic

There are no significant identifiable economic impacts arising from adoption of the officer's recommendation.

8.3 Social

There are no significant identifiable social impacts arising from adoption of the officer's recommendation.

8.4 Risk

Event Likelihood / Impact Matrix			
Likelihood (refer Potential Risk Likelihood Guide)	Impact (refer Potential Risk Impact Guide)		
	Minor	Medium	High
Low (unlikely)	1	2	3
Moderate (likely)	2	4	6
High (very likely)	3	6	9

Risk	
Low Risk	
a risk / activity with a score of 2 or less	N/A
Moderate Risk	
a risk / activity with a score between 3 or 4 more is moderate risk	N/A
High Risk	
a risk activity with a score of 6 or more is a high risk	N/A
Risk Control Measure	

9.0 Officer Recommendation

That the Audit Committee receive the Improvement Action Plan Update (Appendix 5.1A).

VOTING REQUIREMENT: Simple majority

Appendix:

5.1A - Shire of Halls Creek Improvement Action Plan Update – 2022/23 Audit

Shire of Halls Creek

Improvement Action Plan – Update 2022-23 Annual Financial Report Audit Findings October 2024

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1.0 BACKGROUND

The Shire of Halls Creek (the Shire) engaged Moore Australia to prepare an Improvement Plan following the receipt of the issue of a ‘Disclaimer of Opinion’ audit opinion by the Office of the Auditor General in relation to the Shire of Halls Creek 2022/23 Annual Financial Report. The following basis for disclaimer of opinion was provided within the audit report dated 23 April 2024 and signed by the Assistant Auditor General Financial Audit, Delegate of the Auditor General for Western Australia.

“Basis for Disclaimer of Opinion

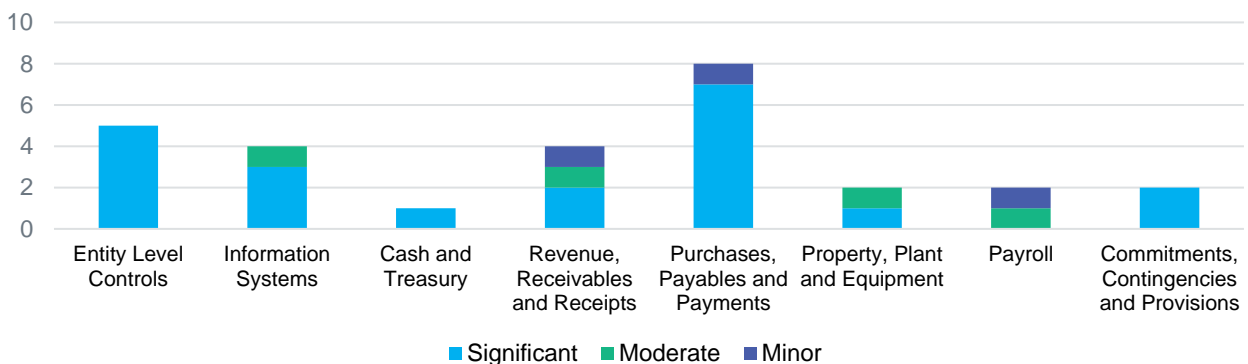
Financial report not supported with complete and accurate underlying records

I was unable to obtain sufficient appropriate audit evidence regarding the financial report as a whole as the financial report was submitted for audit purposes without complete and accurate underlying records. I was unable to audit the financial report by alternative means.”

The audit report relates to the Annual Financial Report 2022-23, a set of signed financial statements was provided to the auditors by the previous CEO in November 2023 (despite the date indicating October 2023). Management at the time of the signing of the Audit report agreed the signed Annual Financial Report contained material misstatements.

Accompanying the audit report a Management Letter was issued detailing the findings identified during the audit. The table below reflects the number of items identified and ratings of the matters within each identified area.

Findings	Rating		
	Significant	Moderate	Minor
Entity level controls	5		
Information systems	3	1	
Cash and treasury	1		
Revenue, Receivables and Receipts	2	1	1
Purchases, Payables, and Payments	7		1
Property, plant and equipment	1	1	
Payroll		1	1
Commitments, contingencies, and provisions	2		
Total	21	4	3



1.0 BACKGROUND (Continued)

At the Ordinary Council Meeting held on 16 May 2024 council considered the report and Improvement Action Plan and resolved the following:

'COUNCIL RESOLUTION: 2024/160

Mover: Cr Raymond Simpson

Secunder: Cr Virginia O'Neil

That Council:

1. Endorse the Improvement Action Plan (Appendix 1);
2. Direct the CEO to provide a copy of this report and the attached Improvement Action Plan to the Minister as required by legislation; and
3. Direct the CEO to publish a copy of the Improvement Action Plan on the shire website as required by legislation.

CARRIED: 6/0'

This update seeks to inform Council of actions taken to date and current status of improvement actions as management seeks to rectify the existing financial records and improve current controls and governance.

2.0 BASIS FOR ACTION IMPROVEMENT PLAN

Section 7.12A (4) of the *Local Government Act 1995* requires a local government to prepare a report stating what action has been taken or is intended to be taken in respect to matters raised within the audit report. The primary goal of this improvement plan is to convey actions the shire intends to take at the time of the compilation of the report to address the audit findings and is intended to assist the shire continue operating effectively. This report is not a comprehensive review of all controls and is intended to primarily address matters raised within the Improvement Action Plan.

The scope of this update addresses matters identified within the Audit Improvement Action Plan and excludes any commentary relating to legislative compliance tasks. As such no opinion is offered or implied as to the level of compliance with legislative requirements.

Through consultation with the Chief Executive Officer at the Shire of Halls Creek, this update has been developed and details the status of actions the Shire has commenced or intends to take to address the matters included in the audit improvement action plan.

An update has been prepared to summarise the status of improvements required as a tool for monitoring and reporting of the progress toward completing all the established actions.

An update on the improvement action plan will be reported to the Audit Committee on a quarterly basis.

3.0 KEY IMPROVEMENT ACTIONS

The following items were viewed as key improvement actions central to restoring the proper financial reporting of the Shire of Halls Creek.

1. Appointment of a new Chief Executive Officer and senior finance staff with appropriate qualifications and experience.
Update: Chief Executive Officer appointed. An Executive Manager Finance & Support Services was appointed, position no longer exists.
2. Appointment of a sufficient number of experienced finance staff to enable proper segregation of duties and oversight of financial transactions, reconciliations and reviews.
Update: Intention to appoint a suitably qualified accountant.
3. Ensure an appropriately secure IT environment is maintained.
Update: Current IT consultants engaged to upgrade IT security and undertake actions from Audit Improvement Program, expected onsite prior to 30 October 2024.
4. Train all staff involved in procurement and disposal of assets in the appropriate procedures to be followed.
Update: Procedures to be formalised before training occurs
5. Establish documented procedures for key finance functions, this should primarily occur through the creation of checklists to help ensure procedures are routinely followed and monitored.
Update: Overarching governance frameworks and Code of Conduct has been developed. Procedure for development and implementation of procedures and checklists to be developed by 30 October to facilitate development and version control and authorisation of procedures and checklists.
6. Undertake a review of payroll processes and transactions to ensure these are appropriate.
Update: Issues have been identified and are currently being addressed
7. Implement appropriate grievance and disciplinary procedures to help ensure staff performance is routinely monitored and addressed.
Update: Overarching governance frameworks and Code of Conduct has been developed.
8. Rescind inappropriate Council Policies, such as A20 Employee Incentives.
Update: All Council policies being reviewed Policy A20 Employee Incentives has been rescinded
9. Action the improvement plan detailed within this report.
Update: Progress on implementation of the plan continues
10. Report quarterly to the Audit Committee on the progress of the actions included within the improvement plan.
Update: This is the first report to Council on the progress of Actions

4.0 IMPROVEMENT ACTION PLAN

The following is a list of detailed actions to be undertaken to address the points raised within the Management Letter provided at Appendix A. The initial status is the status at the time of adoption of the Audit Improvement Action Plan, updated status is the status at the time of this update.

Improvement Action Plan			
Improvement Actions:	Priority	Initial Status:	Updated Status
Finding: 1. Lack of audit readiness and quality of financial statements and supporting documentation			
1.1 Review financial close process and corresponding resource requirements	High	Not Commenced	Not Commenced
1.2 Prepare and implement a checklist of monthly financial close procedures and ensure these are reviewed before finalising the monthly financial report	High	Complete	Complete
1.3 Prepare audit readiness procedures based on the OAG Better Practice Guides	High	Not Commenced	Not Commenced
1.4 Implement Audit Readiness procedures and checklists	High	Not Commenced	Not Commenced
1.5 Ensure staff access required relevant training to undertake tasks effectively	High	In-progress	No staff currently undertaking role
1.6 Plan audit in liaison with Shire auditors based on expected timing of preparation of supporting information	High	Not Commenced	In-progress Awaiting correction of financial records
1.7 Ensure all working papers provided for audit have been adequately reviewed to ensure their completeness and accuracy to support disclosures within the financial report.	High	Not Commenced	In-progress Awaiting correction of financial records
Finding: 2. Identification of critical control weaknesses impacting the shire's system of internal controls			
2.1 Recruit an appropriately qualified and experienced CEO tasked with promoting a culture of compliance within the organisation	High	Completed	Complete
2.2 Recruit appropriately qualified and experienced finance staff (onsite/offsite) to ensure an appropriate level of segregation of duties and independent oversight.	High	In-progress	Consultants engaged to assist. New structure drafted and circulated. CFO requirement identified. Awaiting feedback on draft 2
2.3 Document and implement appropriate segregation of duties for finance functions	High	Not Commenced	In-progress
2.4 Undertake a review of systems of controls to ensure compliance with legislation and high level of governance.	High	In-progress	In-progress
2.5 Undertake a review of Council policies and code of conduct to ensure they promote ethical behaviour and high level of accountability.	High	Not Commenced	Updated Council Code of Conduct endorsed. New employee code of conduct submitted for Council approval 14 November 2024 Policy improvement Plan endorsed by Council August 2024
2.6 Develop a standard format and authorisation process for CEO procedures and other control documentation.	High	Not Commenced	Policy governance framework in development Authorisation process will be a part of this framework

4.0 IMPROVEMENT ACTION PLAN (CONTINUED)

2.7	Review CEO procedures to ensure their alignment with Council policy. CEO Procedures to provide detailed practical controls	Medium	Not Commenced	Policy and procedure template drafted
2.8	Develop and implement formal documented risk management procedures	High	Not Commenced	Commenced
2.9	Conduct a thorough review of the qualifications and competencies of financial personnel, provide necessary training and support to bridge any skill gaps identified	Medium	Not Commenced	Not commenced
2.10	Terminate contract with financial services firm responsible for maintaining financial systems and procedures in 2022/23	High	Complete	Complete
2.11	Tender RFT2024-05-ED Financial Services for the Shire of Halls Creek awarded and appropriate engagement process undertaken	High	Completed	Complete

4.0 IMPROVEMENT ACTION PLAN (CONTINUED)

Improvement Action Plan			
Improvement Actions:	Priority	Initial Status:	Updated Status
Finding 3. Failure to complete the related party disclosure data collection form			
3.1 Implement procedure for obtaining, reviewing, and maintaining appropriate records for required AASB 124 Related Party Disclosures	High	In-progress	Complete
3.2 Compare the information provided within the data collection forms to other sources of information held by the shire (such as annual returns or disclosure of interest forms) to ensure related parties as defined by AASB 124 are complete and accurate.	Medium	Not Commenced	In-progress
3.3 Review on an annual basis the shire's accounting records for transactions with all related parties and maintain evidence of this process.	Medium	Not Commenced	In-progress
3.4 Ensure all working papers provided for audit have been adequately reviewed to ensure their completeness and accuracy to support disclosures within the financial report.	Medium	Not Commenced	In-progress
Finding 4. Manual journals – complete listing not provided			
4.1 Maintain a register of Journals containing the following information, Journal Number, date, purpose, prepared by, approved by, posting period and batch no.	High	Complete/Ongoing	Complete for journals raised by Moore
4.2 Supporting documents filed to enable easy retrieval	High	Completed	Completed
4.3 Produce a system report listing all manual journal entries processed during the reporting period for audit.	Medium	In-progress	In-progress
4.4 Develop and approve procedure for contract accountants to raise journals, approve and post journals	High	Completed	Completed
4.5 Develop and implement standardised documentation procedures for manual journal entries to ensure consistency and completeness. This must provide clear guidelines for recording, reviewing, and approving manual journals, including appropriate segregation of duties and verification journals are posted as approved.	High	In-progress	Completed

4.0 IMPROVEMENT ACTION PLAN (CONTINUED)

4.6	Provide training to relevant personnel on the importance of maintaining adequate documentation for manual journal entries and the associated risks of non-compliance.	High	Not Commenced	Staff not raising manual journals
Finding 5. Timely completion of grant acquittals				
5.1	Establish and maintain a grant register.	High	In-progress	Complete/Ongoing
5.2	Review, update and implement effective grant acquittal process	High	Not Commenced	Process to be developed
5.3	Establish and implement a process for the approval and submissions of grants for acquittal where required	High	In-progress	Process to be developed
5.4	Track grant acquittal status within the grant register	High	Completed	Complete/Ongoing
5.5	Provide training and professional development opportunities to staff involved in grant management to enhance their understanding of acquittal requirements and improve efficiency in completion	Medium	Not Commenced	The Shire is seeking to establish a Principal Governance Officer to oversight statutory and contract compliance as part of its new structure
5.6	Develop and implement appropriate communication process for managing grants	Medium	Not Commenced	Not Commenced

4.0 IMPROVEMENT ACTION PLAN (CONTINUED)

Improvement Action Plan			
Improvement Actions:	Priority	Initial Status:	Updated Status
Finding 6. Inappropriate access to shire records and systems by financial consultants			
6.1 Establish formal service agreements when engaging consultancy services and other services outlining the terms and conditions of their access to shire information and resources.	High	In-progress	Complete
6.2 Clearly define the scope of services, roles, and responsibilities of all parties within the agreement for all contracted services or goods.	High	In-progress	Complete
6.3 Review IT systems and records to minimise staff and contractors access to data and records.	High	In-progress	Complete/Ongoing
6.4 Review IT controls to minimise the risks of a data breach	High	In-progress	Fourier engaged to review
6.5 Ensure all staff and contractors with access to Shire data have read and understood the Code of Conduct.	High	Not Commenced	Complete, new code to be adopted
6.6 Review compliance with relevant regulations and industry standards governing the handling of the shire's data, including any personal information. Where necessary amend procedures and controls	Medium	Not Commenced	Not commenced
6.7 Reviewing and monitor the activities of third-party service providers to ensure adherence to the terms of the agreement and mitigate potential risks.	High	In-progress	In-progress
6.8 Formally advise previous contractors of their obligation to maintain confidentiality	High	Completed	Completed
6.9 Review systems to ensure there have been no unauthorised access or data breaches by consultants and or relevant shire staff.	High	Completed	Completed
6.10 Ensure termination of system access has been affected for any consultants and shire staff who have ceased providing services to or employment with the shire.	High	Completed	Completed
6.11 Establish and maintain appropriate termination procedures to ensure system access is maintained	High	In-progress	In-progress
6.12 Regularly review system access to ensure any system access authorised continues to remain appropriate. Administrator access systems such as finance and payroll should be restricted to ensure the integrity of the system and data.	High	In-progress	Fourier engaged to review
6.13 Review controls and processes implemented to prevent data breaches and ensure the protection of sensitive information.	High	Not Commenced	Fourier engaged to review
Finding 7. IT governance			
7.1 Develop and implement an appropriate IT governance framework	High	Not Commenced	Fourier engaged to review
Finding 8. Change management process			
8.1 Develop and implement procedures to review and approve changes to procedures and processes, either manual or IT based	High	Not Commenced	In Progress

4.0 IMPROVEMENT ACTION PLAN (CONTINUED)

8.2	Liaise with IT service providers regarding the process and risk minimisation procedures to be followed in managing Shire IT. Undertake an independent third party review of IT environment and IT risk management	High	Not Commenced	Fourier engaged to review
Finding 9. Disaster recovery process				
9.1	Review and update the Disaster Recovery Plan	Medium	Not Commenced	Fourier engaged to review
9.2	Implement regular testing program for Disaster Recovery Plan	Medium	Not Commenced	Fourier engaged to review

4.0 IMPROVEMENT ACTION PLAN (CONTINUED)

Improvement Action Plan			
Improvement Actions:	Priority	Initial Status:	Updated Status
Finding 10. Bank reconciliation discrepancy			
10.1 Shire does not support the use of an automated bank reconciliation process due to the issues encountered by other local governments. Bank reconciliations are to be prepared and reviewed prior to preparation of the monthly reports for Council	High	Not Commenced	Reconciliations up to date however outstanding items require resolution
10.2 Implement robust controls and procedures to enhance the effectiveness of the bank reconciliation process, including regular reviews, segregation of duties, and clear documentation of reconciliation procedures and findings	High	In-progress	
10.3 Develop documented procedures and controls for the timeous investigation and resolution of reconciling items	High	In-progress	
10.4 Provide appropriate training to staff involved in the bank reconciliation process to ensure competence and adherence to established procedures.	High	Not Commenced	Bank Reconciliations being undertaken by Moore
10.5 Review and update reconciliation procedures in accordance with procedure update procedures as necessary to address any identified deficiencies and improve accuracy and efficiency.	High	In-progress	
Finding 11. Revenue recognition assessment for grants and contributions revenue not performed			
11.1 Document revenue recognition basis and support within grants register	Medium	In-progress	Complete where copies of grant agreements are available
11.2 Reconcile contract liabilities monthly prior to preparation of monthly reports.	High	In-progress	Year end balances still to be finalised
Finding 12. Insufficient processes to review outstanding rates and other receivables			
12.1 Implement program to actively follow up long outstanding debtors	High	In-progress	A finance role will be created to focus on debtors. Should be in place by end of December 2024
12.2 Investigate debtors where debtor contests payment and ensure appropriate support is available.	High	Not Commenced	Not Commenced
12.3 Where appropriate commence legal proceedings to recover debts.	High	Not Commenced	Not Commenced
12.4 Identify potential bad debts	High	Not Commenced	Not Commenced
12.5 Develop procedures to determine the Expected Credit losses at 30 June 2023	High	Not Commenced	Not Commenced
12.6 Engage a rates and debtors officer to follow up outstanding receivables.	High	Not Commenced	Finance (Rates and Debtor officer) PD currently being finalised

4.0 IMPROVEMENT ACTION PLAN (CONTINUED)

12.7 Develop and implement a documented credit verification and authorisation procedure.	High	Not Commenced	
12.8 Council is currently provided with a monthly aged analysis of receivables and chart of the current and prior year monthly receivables balance. This is considered adequate.	Low	Completed	Completed
12.9 Appropriately qualified and/or experienced debtors officer to be engaged.	High	Not Commenced	In progress

4.0 IMPROVEMENT ACTION PLAN (CONTINUED)

Improvement Action Plan			
Improvement Actions:	Priority	Initial Status:	Updated Status
Finding 13. Review of end-of-month rates reconciliation			
13.1 All reconciliations are to be prepared and reviewed by an appropriately experienced independent officer prior to preparation of the monthly reports for Council.	High	In-progress	Undertaken by Readytech
13.2 Provide necessary training and guidance to the relevant personnel involved in the reconciliation process to ensure an understanding of their responsibilities and the importance of timely review and approval.	High	Not Commenced	Undertaken by Readytech
13.3 Checklist of reconciliations to be completed to be maintained and completed as part of preparation of monthly financial report.	High	Completed	Completed
13.4 Report prepared for CEO of outstanding matters identified in preparation of monthly financial report.	High	Completed	Completed
13.5 Outstanding reconciliation items awaiting information from other divisions to be raised at management meetings	High	Not Commenced	
Finding 14. Review of procedures relating to rates processing			
14.1 Review and update rates processing procedures with particular attention to control reconciliations and reviews.	High	Not Commenced	Rates processed by Readytech
Finding 15. Non-compliance with <i>Local Government (Functions and General) Regulations 1996 - Requirements for Public Tender</i>			
15.1 Review Procurement Policy	High	Not Commenced	Procurement policy has been updated and is currently with WALGA
15.2 Review and document procurement controls such as purchasing authorities and documentation requirements	High	Not Commenced	Identified for development as part of 2024-2025 operational plan
15.3 Procurement procedures to require procurement documentation to be maintained within Shire record keeping system.	High	Not Commenced	In progress
15.4 Establish documented induction training for staff when granted procurement authority.	High	Not Commenced	Not Commenced
15.5 Re-induct all current staff with procurement authority.	High		Not Commenced
Finding 16. Non-compliance with Procurement of Goods and Services Policy - Insufficient number of quotations			
16.1 Review and update procedures for the processing and authorisation of invoices for payment to include verification procurement procedures have been followed.	High	Not Commenced	
16.2 Ensure appropriate whistleblower procedures are in place.	High	Not Commenced	Policy drafted and ready to be submitted to Council for approval on 14 November 2024

4.0 IMPROVEMENT ACTION PLAN (CONTINUED)

16.3 Procurement procedures to require procurement documentation to be maintained within Shire record keeping system.	High	In-progress	In-progress – needs formalisation
16.4 Establish documented induction training for staff when granted procurement authority.	High	Not Commenced	Not Commenced
Finding 17. Changes in supplier master file – lack of documented change verification process			
17.1 Develop and document a clear and formalised change management procedure for alterations to the supplier master file. This procedure should outline the steps involved in validating changes, including the necessary method of verification for all changes before changes are adopted.	High	Not Commenced	Not Commenced
17.2 Conduct regular training sessions and awareness programs for employees involved in the change verification process. Ensure that they are well-versed in the documented procedures and understand the importance of adhering to the established controls.	High	Not Commenced	Not Commenced

4.0 IMPROVEMENT ACTION PLAN (CONTINUED)

Improvement Action Plan			
Improvement Actions:	Priority	Initial Status:	Updated Status
Finding 18. Lack of verification of invoices against purchase orders			
18.1 Engage an appropriately experienced staff member for the processing of supplier invoices independent of any procurement activity or debtor processing.	High	Not Commenced	In progress
18.2 Develop and implement documented procedures to require supplier invoices to undergo a thorough documented review and verification against corresponding POs before approval for payment. This should involve comparing quantities, prices, and other relevant details to ensure accuracy and legitimacy.	High	Not Commenced	Invoices checked against PO's but no procedure in place. No review occurring and errors not identified.
18.3 Provide training to relevant staff members involved in the invoice approval process, emphasising the importance of verifying invoices against POs and highlighting potential consequences of non-compliance. Regular reminders and updates on best practices can help reinforce this requirement.	High	Not Commenced	Not Commenced
18.4 Investigate technology solutions, such as accounting software with built-in validation features, to streamline the invoice verification process and minimise the risk of human error or oversight. Automated controls can help flag discrepancies and enforce compliance with established procedures.	High	Not Commenced	Not Commenced
18.5 Establish a routine schedule for conducting internal reviews or audits of the invoice approval process to monitor compliance with established controls and identify any recurring issues or areas for improvement. Particular focus of these reviews should be instances of management override of controls.	High	Not Commenced	Not Commenced
Finding 19. Termination of credit cards of former employees			
19.1 Confirm only current employees have credit cards and/or purchasing cards	High	Completed	Completed
19.2 Develop and implement documented staff exit procedures which ensure all credit cards and purchasing cards along with IT and physical access is removed on termination of an employee.	High	In-progress	
Finding 20. Reconciliation of cash floats not performed regularly- Shire Administration Office			

4.0 IMPROVEMENT ACTION PLAN (CONTINUED)

20.1 Documented reconciliation process be implemented for all cash floats to ensure the accuracy and completeness of the cash float balances. These reconciliations should be undertaken daily, floats with minimal cash movements may be undertaken at least weekly.	High	Not Commenced	
Finding 21. Unrecorded creditors			
21.1 Develop procedures to monitor invoices received after 30 June to ensure they do not relate to goods or services received prior to 30 June. Likewise invoices received in June are to be monitored to ensure the goods or services were received and in use prior to 30 June.	Medium	Not Commenced	Not Commenced
Finding 22. Review of creditor procedures manual			
22.1 Review and update documented creditors procedures and checklists.	Medium	Not Commenced	Not Commenced
Finding 23. The fair value of infrastructure assets - frequency of valuations			
23.1 Regulatory changes have removed this requirement. Responsibility for ensuring revaluations are undertaken timeously should be formalised.	Medium	Not Commenced	
23.2 Develop procedures for the review and verification of fixed asset revaluations	Medium	Not Commenced	

4.0 IMPROVEMENT ACTION PLAN (CONTINUED)

Improvement Action Plan			12 November 2024
Improvement Actions:	Priority	Initial Status:	Updated Status
Finding 24. Lack of documented approval before disposal of assets			
24.1 Develop documented procedures and controls for the disposal of assets to ensure evidence of the disposal value is obtained and no assets are disposed of without prior authorisation or in non-compliance with regulatory requirements. Ensure management override of the procedures is not allowable.	High	Not Commenced	10 year plant replacement program endorsed by Council on 22 August 2024 Procedures and controls not yet commenced/
Finding 25. Absence of acknowledgement letter for resigned employee			
25.1 Develop standardised procedures as part of the documented staff exit procedures for the issuance of acknowledgment letters to employees who resign. These procedures should outline the steps, responsibilities, and timelines for drafting and delivering acknowledgment letters.	High	Not Commenced	In progress
25.2 Provide training to Human resources staff in relation to the documented staff exit procedures.	High	Not Commenced	Not yet commenced
Finding 26. Review of payroll policies			
26.1 Policies are to be reviewed annually by Council	High	Not Commenced	Policy Improvement Plan endorsed by Council for review of policy manual over next two years. Additional policies have also been identified for development as part of this process.
26.2 As part of the development of procedures specify the next review date for the procedure.	High	Not Commenced	In progress
26.3 Develop procedures to ensure procedure reviews are documented and undertaken in time.	High	Not Commenced	In progress
Finding 27. Provision for remediation costs not reassessed since the prior year			
27.1 Document responsibility for undertaking the update of the landfill rehabilitation liability annually.	High	Not Commenced	Valuation undertaken 30 June 2024
27.2 Ensure funding the landfill closure is planned for within the Long Term Financial Plan.	Low	Not Commenced	Landfill closure Plan is in place Long term financial plan not yet commenced
Finding 28. Omission of contingent liability and commitment notes within the financial report			
28.1 Document responsibility for ensuring information required for the annual financial report is available and fully supported.	High	Not commenced	Not yet commenced

4.0 IMPROVEMENT ACTION PLAN (CONTINUED)

Finding 29. Manual journals – complete listing not provided

This is the same as finding 4 in Audit Management Letter 23 April 2024.

Finding 30. Timely completion of grant acquittals

This is the same as finding 5 in Audit Management Letter 23 April 2024.

Finding 31. Revenue recognition assessment for grants and contributions revenue not performed

This is the same as finding 11 in Audit Management Letter 23 April 2024.

Finding 32. Provision for remediation costs not reassessed since the prior year

This is the same as finding 27 in Audit Management Letter 23 April 2024.

Finding 33. Omission of contingent liability and commitment notes within the financial report

This is the same as finding 28 in Audit Management Letter 23 April 2024.

Finding 34. Bank Reconciliation Discrepancy

34.1 Reconcile all bank accounts timeously	High	In-progress	Reconciliations currently undertaken monthly
34.2 Review bank reconciliations prior to preparation of Monthly reports	High	In-progress	Complete/Ongoing
34.3 Take action to minimise the number of reconciling items	High	In-progress	In Progress
34.4 Ensure appropriately experienced staff prepare and review the bank reconciliations	High	In-progress	Moore preparing reconciliations
34.5 Update documented bank reconciliation procedures	High	Not Commenced	Not Commenced

5.0 OTHER MATTERS

Disclaimer

Since the service provided in terms of our engagement comprise an advisory engagement and is not an assurance engagement, we are not required to verify the reliability, accuracy or completeness of the information provided to us by management in undertaking the consulting engagement. Accordingly, we do not express an audit opinion or a review conclusion to convey assurance for the service/s performed within our report.

Moore Australia (WA), a Perth based partnership of trusts ("the firm"), carries on business separately and independently from other Moore Australia member firms around Australia and Moore Global firms worldwide.

Sole Recourse

Services provided under our engagements are between the Shire of Halls Creek and Moore Australia (WA) Pty Ltd. Throughout this document, a reference to Moore Australia refers to Moore Australia (WA) Pty Ltd trading as agent ABN 99 433 544 961. The relationship is solely with Moore Australia (WA) Pty Ltd in respect of our appointment as professional advisors.

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Report Date

14 May 2024

Report Contact

Russell Barnes
Director
Moore Australia (WA) Pty Ltd

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APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023

This appendix details the findings identified by the OAG in their management letter to the Shire, dated 23 April 2024.

Finding 1. Lack of audit readiness and quality of financial statements and supporting documentation

Finding:

The shire was unable to prepare its financial statements to meet its regulatory requirements and in readiness for the financial statement audit. A set of signed financial statements by the former CEO was provided in November 2023 (despite the date indicating October 2023). This was after the audit visit had concluded on 27 October 2023. Consequently, there was a limitation in scope allowing the auditors to perform the audit whilst on site. Whilst endeavours have been made to validate the financial statements from information that has been provided subsequently, many areas of the financial statements require further audit procedures that will require an additional site visit.

A trial balance reconciling to underlying financial records reported in the financial statements was insufficiently supported.

The shire did not exercise due concern that they were unable to prepare their financial statements. A risk assessment presented to Council in October 2023 rated the inability of the shire to prepare its financial statements, as 'Low'. The shire had also incurred significant expense and engaged financial consultants despite which the shire has been unable to meet its reporting obligations.

Further, two resulting extensions were sought through the Department of Local Government, Sport and Cultural Industries and were approved. The auditors were neither advised as to the reasoning for these extensions nor provided these as part of the audit process and were required to make further enquiries to determine why the shire was seeking these extensions and the basis of approval.

In January 2024, the shire requested the audit be paused to allow the shire the time required to suitably complete their financial statements and attend to outstanding audit queries.

Rating:

Significant

Implication:

As a result of the matters highlighted above, the financial statements approved to be released by the shire to the auditors were materially incorrect and did not agree with the underlying financial records. Consequently, significant additional time and effort has been committed by the audit team in progressing the audit to this point and more will now be required to complete it.

Further, without timely consideration of the shire's ability to fulfil its reporting responsibilities, these may not be met thus impacting transparency and accountability back to users of the financial statements.

Additionally, a delay in receiving appropriate documents and evidence can create inefficiencies and a loss of productivity in the audit process. In the absence of sufficient appropriate audit evidence, we may not be able to comfortably conclude such transactions and balances.

The above matters may also lead to incorrect financial information being used in the management decision-making process on an ongoing basis.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Recommendation:

The shire reviews its financial close process and corresponding resource requirements to ensure the above matters are addressed as part of its monthly financial close and preparation of annual financial statements. The shire must ensure all information to support the preparation of the financial report is complete, accurate and available for the audit team to inspect during the audit.

Further, to ensure that the shire is suitably audit-ready at the commencement of each phase of the audit the shire should utilise the various Better Practice Guides the OAG has developed and ensure all requested information is available.

Management comment:

Accepted. Will be addressed in Improvement Action Plan currently being developed.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 2. Identification of critical control weaknesses impacting the Shire’s system of internal controls

Finding:

As part of our audit procedures, we have conducted inquiries, observations, and documented inspections related to the shire’s internal control systems.

During our audit procedures, we identified several significant matters affecting the shire’s internal controls:

A. Leadership and management of the Chief Executive Officer (CEO)

1. We have noticed that the leadership and management style of the former CEO resulted in various operational functions requiring CEO input and approval thereby hindering effective communication and collaboration within the Shire.
2. Specifically, during our on-site audit work between October 23 and 27, 2023:
 - The shire’s finance office was not informed of the scheduled audit visit because the former CEO failed to communicate this information. Additionally, no prior requests for audit evidence were conveyed to allow for preparation before the audit.
 - The former CEO instructed the audit team not to engage with the finance officer or other shire staff to obtain audit evidence without either the CEO or Financial Consultants present.
 - All requests for audit evidence and information had to go through the CEO or the financial consultants.

An autocratic management approach can hinder the establishment of a robust internal control environment by discouraging open dialogue and feedback from employees.

B. Lack of an Effective Work Culture

- Leadership and Oversight by the former CEO:
 - On 1 December 2023, we received a phone call from a senior management employee within the shire. The employee reported the following:
 - The former CEO had restricted their oversight over finances related to specific programs within their role.
 - Concerns were raised that the project codes for these programs were being inappropriately used to record expenditures. Consequently, grant acquittal audits could not be completed due to insufficient records being provided to auditors.
 - Additionally, the audit fraud inquiry questionnaires we requested senior management to complete had to be filtered by the former CEO before being remitted back to the auditors.
 - Non-compliance with Local Government Regulations:
 - Our findings indicate non-compliance with *the Local Government (Functions and General) Regulations 1996*, specifically related to requirements for public tender in the appointment of the financial consultants engaged.
 - Documented communications between the former CEO and a financial consultant reveal that the former CEO explicitly acknowledged and highlighted the potential non-compliance resulting from the consideration the shire was paying for services exceeding delegate authority limits requiring a tender process that had not been initiated.
 - However, no remedial action was taken to address this issue, to comply with the Local Government regulatory framework concerning procurement.

Upholding an appropriate work culture is fundamental to the effectiveness of internal controls, as it sets the tone for ethical conduct throughout the shire.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

C. Procurement of services of Financial Consultants

Our audit findings reveal that the shire engaged the services of a financial consultant to manage its finance functions without conducting a public tender (Refer Finding 11). The nature of the proposed services and proposed quantum of expenditure would require a public tender process. We noted that there was also no formal service agreement with the financial consultants.

Without a public tender process, there was no evaluation of the financial consultants' suitability regarding skills, experience, and capability to deliver the requisite services or value for money as would be required as part of the public tender evaluation process.

Therefore, we are unable to determine if the financial consultants were suitably qualified to undertake such a material function for a Local Government, nor were we able to ascertain, in the absence of a service contract, whether the shire has received the services it has paid for or being requested to pay for.

Rating:

Significant

Implication:

The findings can have several implications and risks for the shire:

- **Operational Inefficiency:** An autocratic leadership style may lead to operational inefficiencies due to limited collaboration and communication. This could hinder decision-making processes, slow down response times, and ultimately impact the shire's ability to adapt to changes in the business environment.
- **Management override of controls:** The lack of emphasis on compliance, implementing and adhering to systems of control within the shire poses serious risks, including potential ethical misconduct, fraud, misappropriation, reputational damage, and legal ramifications. Failure to address these concerns could lead to the erosion of trust among stakeholders, including ratepayers and regulatory authorities.
- **Financial Reporting Accuracy:** The involvement of financial consultants who have not been assessed to have the skills, experience and capacity to perform critical financial accounting functions increases the risk of errors, misstatements, and inaccuracies in financial reporting. This could undermine the reliability and credibility of the shire's financial records and statements, potentially leading to compliance issues and regulatory scrutiny.

Recommendation:

To address this finding and mitigate the associated risks, we recommend the shire should:

1. Embed an appropriate work culture including implementing appropriate segregation of duties to foster a more participative leadership style that encourages transparency, accountability, and teamwork, thereby promoting a culture of internal control consciousness throughout the shire.
2. Review the shire's systems of controls to ensure these are in compliance with the *Local Government Act 1995* and regulations. An effective tone from the top is established in line with the shire's expectations and prioritises ethics and integrity in all business dealings. This should include implementing policies and procedures that promote ethical behaviour and accountability among employees at all levels.
3. We recommend conducting a thorough review of the qualifications and competencies of financial personnel and providing necessary training and support to bridge any skill gaps identified.
4. Perform a review of the shire's engagement with its financial consultant to determine the appropriateness of the arrangement and whether the shire has and is receiving the services it has paid for.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Management comment:

Accepted. Will be addressed in Improvement Action Plan currently being developed. Recruitment of new CEO and additional finance staff currently underway. Tender RFT2024-05-ED Financial Services Halls Creek Shire has been advertised.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 3. Failure to complete the related party disclosure data collection form

Finding:

During our audit the shire was unable to provide a completed *AASB 124 Related Party Disclosures Data Collection Form* for the year ended 30 June 2023 in relation to all elected members and senior officers of the shire.

The shire noted on the audit requests that there were no related party transactions, this lacked any evidence of substantive work being done by the shire to assert this position which could then be audited.

Rating:

Significant (2022: Moderate)

Implication:

Failure to complete the *AASB 124 Related Party Disclosures Data Collection Form* by senior officer's limits transparency and may result in the incomplete collection of information to determine disclosures within the financial report.

Recommendation:

To address this finding and mitigate the associated risks, we recommend that Shire should:

1. Obtain and review the data collection forms upon receipt from elected members and senior management upon completion to ensure that they are properly completed.
2. Compare the information provided within the data collection forms to other sources of information held by the shire (such as annual returns or disclosure of interest forms) to ensure related parties as defined by AASB 124 are complete and accurate.
3. Review on an annual basis the shire's accounting records for transactions with all related parties and maintain evidence of this process.
4. Ensure that working papers provided for audit have been adequately reviewed to ensure their completeness and accuracy to support disclosures within the financial report.

Management comment:

Accepted. Will be addressed in Improvement Action Plan currently being developed.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 4. Manual journals – complete listing not provided

Finding:

The shire did not provide a complete listing of journals processed, which limited our scope of work concerning testing of manual journal entries including ensuring all journals posted had been reviewed and approved by an independent officer. This lack of documentation increases the risk of material misstatement due to fraud and potential override of internal controls.

Rating:

Significant

Implication:

The absence of a complete listing of manual journals processed poses several implications:

- **Risk of Fraud:** Without a comprehensive record of manual journal entries, there is an increased risk that unauthorised or fraudulent transactions could be included in the financial statements. This lack of transparency raises concerns about the accuracy and reliability of the reported financial information.
- **Override of Internal Controls:** Inadequate documentation of manual journals makes it difficult to assess the effectiveness of internal controls over financial reporting as accounting journals can represent significant adjustments to previously approved accounting transactions and should therefore be supported by adequate explanations to enable review by an independent officer. There is a heightened risk that control procedures designed to prevent and detect errors or irregularities may be circumvented or overridden, leading to potential misstatements in the financial statements.

Recommendation:

To address this finding and mitigate the associated risks, we recommend the following actions be taken:

1. **Complete Listing of Journals:** The shire should provide a comprehensive and up-to-date listing of all manual journal entries processed during the reporting period for audit. This listing should include details such as the date of entry, description of the transaction, the reason for the journal, and approval/sign-off by appropriate personnel.
2. **Documentation Standards:** Implement standardised documentation procedures for manual journal entries to ensure consistency and completeness. This may involve establishing clear guidelines for recording, reviewing, and approving manual journals, including appropriate segregation of duties.
3. **Training and Awareness:** Provide training to relevant personnel on the importance of maintaining adequate documentation for manual journal entries and the associated risks of non-compliance. Increasing awareness among employees will promote a culture of accountability and adherence to internal control policies.

Management comment:

Agreed. The shire intends to implement a documented journal procedure, requiring journals to be appropriately supported and authorised. A large number of journals raised in the 2022/23 Financial Year by the shire's financial consultants without support have been reversed.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 5. Timely completion of grant acquittals

Finding:

During the audit, we noted 14 instances where grant acquittals were not completed within the specified timeframe.

Name of grant and funder	Financial year ended	Acquittal due date	Submitted date	Status*
1. Roads to recovery -Department of Infrastructure, Transport, Regional Development, Communications and the Arts	30 June 2022	31 October 2022	30 May 2023	Completed
2. Local Roads and Community Infrastructure Program- Department of Infrastructure, Transport, Regional Development, Communications and the Arts	30 June 2022	31 October 2022	22 March 2024	Completed – further information required from the funder by the shire
3. Halls Creek Youth Services- Department of Communities	30 June 2022	31 October 2022	20 March 2024	Completed
4. Youth Diversion Program- National Indigenous Australians Agency	30 June 2022	31 October 2022	20 March 2024	Completed
5. Family Empowerment Model- National Indigenous Australians Agency	30 June 2022	31 October 2022	20 March 2024	Completed
6. Indigenous Civil Training Group – Kimberly Regional Development Commission	1 January 2023	15 April 2023	Not completed	Outstanding
7. Roads to recovery -Department of Infrastructure, Transport, Regional Development, Communications and the Arts	30 June 2023	31 October 2023	Not completed	Outstanding
8. Local Roads and Community Infrastructure Program- Department of Infrastructure, Transport, Regional Development, Communications and the Arts	30 June 2023	31 October 2023	Not completed	Outstanding
9. Alternative Education- Department of Justice	30 June 2023	31 October 2023	Not completed	Outstanding

*As at 31 March 2024.

Delays were observed in the submission of acquittal reports for several grants, raising concerns regarding compliance and accountability.

Rating:

Significant

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Implication:

The delayed completion of grant acquittals poses several implications for the shire:

- **Compliance Risks:** Failure to submit grant acquittals within the stipulated timeframe may result in non-compliance with grant terms and conditions, potentially leading to delays in obtaining funding, grants being refunded and reputational damage.
- **Misallocation of Resources:** Delayed acquittals can hinder the timely allocation of resources for future projects or initiatives, impacting the shire's planning and sustainability.
- **Loss of Credibility:** Late submission of grant acquittals can erode the trust and credibility of the shire with funders and stakeholders, affecting future funding opportunities and partnerships.

Recommendation:

To address this finding and mitigate the associated risks, we recommend the following actions be taken:

1. **Review and Update Processes:** Evaluate your current grant acquittal processes to identify bottlenecks or inefficiencies contributing to delays. Consider streamlining procedures and implementing controls to ensure timely completion.
2. **Resource Allocation:** Assess the availability of resources, including staff and technology, dedicated to grant management activities. Adequate staffing and technological support can expedite the acquittal process and mitigate delays.
3. **Compliance Monitoring:** Establish robust monitoring mechanisms to track the status of grant acquittals and enforce accountability for adherence to deadlines. Regularly review progress and intervene promptly to address any delays.
4. **Training and Capacity Building:** Provide training and professional development opportunities to staff involved in grant management to enhance their understanding of acquittal requirements and improve efficiency in completion.
5. **Communication with Funders:** Maintain open communication channels with grantors to apprise them of any challenges or delays in acquittal submission. Proactive engagement can help mitigate potential repercussions and demonstrate commitment to compliance.

Management comment:

Agreed. The shire has subsequent to the audit acquitted these grants except Roads to Recovery and LRCIP and is actively working to acquit all grants where works have been undertaken. A grant register has been established and is intended to be maintained to help monitor and manage grants.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 6. Inappropriate access to shire records and systems by financial consultants

Finding:

Our audit findings reveal that the shire engaged the services of a financial consultant to manage its finance functions without conducting a public tender. Our discussion with the former CEO led us to believe that the engagement of the consultants was approved by the former CEO. However, no formal service agreement with the financial consultants was provided detailing the services to be provided.

On engagement the financial consultant had access to the shire's financial accounting records and information, employee payroll records and information and critical accounting systems (the shire's ERP and payroll application) without formal authority.

The financial consultant had access between September 2022 to December 2023.

Rating:

Significant

Implication:

This situation raises concerns regarding the security and confidentiality of the shire's financial data and employee information. Without a formal agreement in place, the terms of access, responsibilities, and confidentiality obligations may not have been clearly defined, potentially exposing the shire to risks such as data breaches, unauthorised disclosures, and inadequate protection of sensitive information.

Recommendation:

To address this finding and mitigate the associated risks, we recommend the following actions be taken:

1. Establish formal service agreements when engaging consultancy services outlining the terms and conditions of their access to shire information and resources.
2. Clearly define the scope of services, roles, and responsibilities of all parties within the agreement.
3. Implementing appropriate confidentiality and data protection measures to safeguard the shire's data and information.
4. Ensuring compliance with relevant regulations and industry standards governing the handling of the shire's data, including any personal information.
5. Regularly reviewing and monitoring the activities of third-party service providers to ensure adherence to the terms of the agreement and mitigate potential risks.
6. Undertake a review to ensure that any confidential sensitive information has not been inappropriately used by consultants.
7. Review its systems to ensure there have been no unauthorised access or data breaches by consultants and or relevant shire staff.
8. Ensure termination of system access has been affected for any consultants and shire staff who have ceased providing services to or employment with the shire.
9. Review more broadly its controls and processes in ensuring authorisation and termination of system access is appropriate. System access should be regularly reviewed to ensure any system access authorised continues to remain appropriate. Administrator access systems such as finance and payroll should be restricted to ensure the integrity of the system and data.
10. Review its controls and processes implemented to prevent data breaches and ensure the protection of sensitive information.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Management comment:

Accepted. Will be addressed in Improvement Action Plan currently being developed. Engagement with previous financial consultant has been terminated and access to all systems and records removed with the exception of the ATO portal. Access to the ATO portal is currently being addressed as a matter of urgency.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 7. IT governance

Finding:

We identified during the audit that there is currently no overarching IT governance framework responsible for overseeing IT strategy, risks, operations, or cyber security.

At present, the shire outsources its IT to an organisation that only provides guidance to the shire as the shire has no documented governance process.

Rating:

Significant

Implication:

Without an appropriate IT Governance framework, there is an increased risk of inadequate strategic oversight, resource allocation and decision-making for strategic and operational business requirements. This may result in security or other exposures.

Recommendation:

Management should establish an appropriate IT governance framework such as a steering committee with relevant skill sets to manage the shire's risks.

Management comment:

Accepted. Will be addressed in Improvement Action Plan currently being developed.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 8. Change management process

Finding:

We identified during the audit that there is no formal change management process in place and therefore could not verify if the change management process is appropriate.

We acknowledge that change management requests are tracked by a ticketing system of the shire's outsourced IT provider.

Rating:

Significant

Implication:

Without a formal change management process, there is an increased risk of unauthorised changes to the network and systems. This in turn may result in undue system outages or downtime.

Recommendation:

Management should implement a formal change management framework and procedures to help ensure that:

1. Changes are appropriately reviewed and approved and have a risk and impact analysis performed.
2. Release and backout plans are defined for promoting new versions into production.
3. That the test environment reflects the production environment as appropriate and that the test environment is isolated.
4. User Acceptance Testing (UAT) and stress tests are performed.
5. Changes in production are segregated from development personnel and restricted to authorised users.
6. Post-implementation reviews are performed and documented as required.

Management comment:

Accepted. Will be addressed in Improvement Action Plan currently being developed and following current staff recruitment.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 9. Disaster recovery process

Finding:

Based on our enquiries with the shire, we identified that the shire's formally documented disaster recovery plan was last reviewed in November 2019.

Rating:

Moderate

Implication:

Without a timely review of the documented disaster recovery processes, there is an increased risk of inappropriate or ineffective approaches being adopted by staff, consultants, or contractors.

Recommendation:

To address this finding and mitigate the associated risks, we recommend the following actions be taken:

1. Review and update the November 2019 Disaster Recovery Plan; and
2. Test the plan at least on an annual basis once developed and documented.

Management comment:

Accepted. Will be addressed in Improvement Action Plan currently being developed.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 10. Bank reconciliation discrepancy

Finding:

During our procedures over of cash and cash equivalents, we identified the following significant discrepancy related to the preparation of the municipal cash bank reconciliation as at 30 June 2023.

- a) The bank reconciliation process as at 30 June 2023 was performed manually, rather than utilising reports generated by the SynergySoft accounting system as per prior years. As such there was limited details regarding the movement in the general ledger between reconciliation dates.
- b) A complete list of journal transactions was not available to be audited, raising concerns about the integrity of the municipal cash bank ledger balance as we could not determine if the ledger was subject to override by manual journals during the period.
- c) The bank reconciliation process is outsourced to an external consultant and is not subject to review by an officer of the shire.

Rating:

Significant

Implication:

These findings have several implications for the financial management and control environment at the shire:

- Manual bank reconciliation increases the risk of errors and inaccuracies in financial records, potentially leading to misstatements in the financial statements.
- Lack of internal review of the reconciliation process may result in insufficient oversight and accountability, exposing the organisation to the risk of undetected errors or fraud.
- Incomplete records of journal transactions raise concerns about the reliability of the bank ledger balance and may indicate a lack of adequate controls over financial reporting processes.

Recommendation:

We recommend the following actions be taken:

1. Automate Bank Reconciliation Process: Implement an automated bank reconciliation process to enhance accuracy and efficiency in reconciling bank accounts. Bank reconciliations prepared should be independently reviewed by an appropriate independent officer.
2. Implement robust controls and procedures to enhance the effectiveness of the bank reconciliation process, including regular reviews, segregation of duties, and clear documentation of reconciliation procedures and findings.
3. Ensure timely reconciliation of all outstanding items, including outstanding checks, deposits in transit, bank errors, and any other items impacting the reconciling items.
4. Provide appropriate training to staff involved in the bank reconciliation process to ensure competence and adherence to established procedures.
5. Review and update reconciliation procedures as necessary to address any identified deficiencies and improve accuracy and efficiency.

Management comment:

Agreed. Bank reconciliations have been completed to 31 December 2023 and work continues to bring these up to date.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 11. Revenue recognition assessment for grants and contributions revenue not performed

Finding:

During our review of the design and implementation of controls over grants and contribution revenue, we noted that:

- a) the documented assessment to determine how revenue should be recognised during the financial year for receipts of grants and contributions under the following *Australian Accounting Standards (AAS); AASB 15 Revenue from Contracts with Customers* and/or *AASB 1058 Income of Not-for-Profit Entities* is not performed;
- b) reconciliations of contract asset/ liability balances related to grants and contributions did not occur.

As the shire is a reporting entity it is therefore required to prepare general-purpose financial reports in compliance with Australian Accounting Standards (AAS), this includes monthly Statements of Financial Activity and the Annual Financial Statements. The requirement to comply with AAS is established by the Local Government Act (the Act) and the Local Government (Financial Management) Regulations (the Regulation).

Rating:

Significant

Implication:

Failure to undertake an assessment of revenue recognition from grants and contributions and to reconcile the associated asset/liability balances monthly increases the risk of non-compliance with the AAS, the Act and the Regulations. Furthermore, it may also result in the reporting of incorrect financial information.

Recommendation:

We recommend the following actions be taken:

1. Document the assessment of how the shire will recognise revenue from grants and contributions under Australian Accounting Standards and complete a detailed revenue recognition assessment of all revenue streams in order to conclude if a particular revenue stream or transaction arises from an enforceable contract with a customer and has sufficiently specific performance obligations. This assessment will aid the shire to establish whether revenue recognition requirements have been met; and
2. Perform reconciliations of contract asset/ liability balances at each month's end throughout the financial year.

Management comment:

Agreed. These assessments are intended to form part of the grant register referred to in the previous item.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 12. Insufficient processes to review outstanding rates and other receivables

Finding:

Based on our audit we have identified a significant amount of overdue rate and other receivables of the shire as per the below tables.

Rate receivables

	2023	2022	2021	2020 and earlier	Total
Amount	\$268,766	\$268,766	\$268,766	\$268,766	\$268,766
Percentage	35%	35%	35%	35%	35%

Sundry receivables

	Current	Greater than 30 days	Greater than 60 days	Greater than 90 days	Total
Amount	\$571,140	\$571,140	\$571,140	\$571,140	\$571,140
Percentage	61%	61%	61%	61%	61%

We noted that the shire has raised a provision for expected credit losses of \$70,870 as of 30 June 2023.

We understand the current procedure by the shire is:

- A reminder is sent out a week before payment is due.
- When an invoice becomes overdue, the senior accounts officer will send out further reminder notices each week until it is two months overdue, at which point further action will be taken, in line with the rates and sundry debtors collection policy.
- Records are kept of actions taken to follow up on overdue debt by the senior accounts officer.
- Debtors' reconciliation is prepared each month by the senior accounts officer and reviewed by the director of corporate services.
- Debtors to be written off must be approved by the relevant delegated officer. Certain debts will require Council approval before being written off, as per s6.12(c) of the *Local Government Act 1995*.

Based on our enquiries with the shire, we identified that the shire was not implementing the procedures and the controls as designed by the shire due to a lack of resourcing.

As highlighted in Finding 1 above regarding the lack of audit readiness and quality of supporting documentation, we have also not been provided with a robust assessment of the shire's expected credit losses over these receivable balances and as such are unable to audit what would be a reasonable estimated provision for expected credit losses given the significant overdue amount of rate and other receivables.

Rating:

Significant

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Implication:

The findings can have several implications and risks for the shire:

- **Financial Misstatement:** Failure to identify and provide for expected credit losses can increase the risk of bad debts. This can result in financial losses for the shire and impact cash flow.
- **Cash Flow Issues:** Delays or failures in collecting outstanding debts can strain the shire's cash flow, affecting its ability to meet short-term obligations and invest in its community. Inadequate follow-up procedures may exacerbate cash flow issues by prolonging the collection process.
- **Reputation Damage:** Persistent issues with aged debtors can damage the shire's reputation among customers, suppliers, and other stakeholders. Late payments or unresolved disputes may harm relationships and impact future opportunities.
- **Operational Inefficiencies:** Weaknesses in credit control policies, follow-up procedures, and staff training can result in operational inefficiencies and increased administrative burden. Manual processes and lack of automation may lead to errors, delays, and missed opportunities for debt recovery.
- **Management Oversight:** Poor reporting and monitoring mechanisms hinder management's ability to effectively oversee and manage aged debtors. Without timely and accurate information, management may make uninformed decisions or fail to address emerging issues proactively.

Recommendation:

To address this finding and mitigate the associated risks, we recommend the following actions be taken:

1. **Identification of Doubtful Accounts:** While reviewing the aged debtors, we observed instances where overdue balances were not adequately identified or provisioned for. It's essential to establish clear criteria for identifying and provisioning for expected credit losses under relevant accounting standards. Regular assessments should be conducted to ensure adequacy and accuracy in the provision.
2. **Follow-up Procedures:** We found that there is a lack of resources allocated by the shire to follow-up procedures for aged debtors. Timely and consistent follow-up actions are crucial in managing outstanding debts and minimising the risk of bad debts. We recommend establishing structured follow-up processes, including reminders, escalation procedures, and communication protocols, to facilitate prompt resolution of overdue accounts.
3. **Credit Control Policies:** There appears to be a need for a review of existing credit control policies and procedures due to the significant overdue balance. Strengthening credit evaluation processes and setting appropriate credit limits can help mitigate the risk of aging debtors and potential bad debts. Additionally, regular monitoring and review of credit terms and conditions can ensure alignment with the shire's risk appetite and financial objectives.
4. **Reporting and Monitoring:** We suggest enhancing reporting mechanisms related to aged debtors to provide management and the Council with timely and relevant information for decision-making. Implementing dashboards or management reports that highlight key metrics such as aging trends, collection efficiency, and overdue balances can facilitate proactive management of debtors' accounts.
5. **Staff Training and Awareness:** Adequate training and awareness programs should be provided to staff involved in debtors' management to ensure compliance with established policies and procedures. Staff should be equipped with the necessary skills and knowledge to effectively manage debtor relationships and resolve issues promptly.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Management comment:

Accepted. Will be addressed in Improvement Action Plan currently being developed.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 13. Review of end-of-month rates reconciliation

Finding:

As part of our review of the design and implementation of internal controls for rates, we noted the Shire's internal processes require the Chief Executive Officer (CEO) to review the end-of-month rate debtor reconciliations.

During our site visit in October 2023, we noted that certain end-of-month rate debtor reconciliations had not been reviewed and signed off by the CEO timely (i.e. within a week of the end of the month).

The following reconciliations were reviewed and signed by the CEO on 24 October 2023 during the audit site visit

- October 2022
- December 2022
- March 2023
- May 2023
- June 2023

Rating:

Moderate

Implication:

Timely review and approval of these reconciliations are crucial for maintaining accurate financial records and detecting any discrepancies or irregularities promptly.

Recommendation:

Management should implement a formal month-end framework and procedures to help ensure that:

1. Establish a clear timeline and protocol for the review and approval of end-of-month rate debtor reconciliations by the CEO. This should include specific deadlines for completion following the end of each reporting period.
2. Provide necessary training and guidance to the relevant personnel involved in the reconciliation process to ensure an understanding of their responsibilities and the importance of timely review and approval.
3. Implement periodic monitoring and reporting mechanisms to track the progress of reconciliation reviews and ensure adherence to established timelines.
4. Enhance communication channels between departments involved in the reconciliation process to facilitate the timely resolution of any issues or discrepancies identified.

Management comment:

Accepted. Will be addressed in Improvement Action Plan currently being developed. All reconciliation processes need to be reviewed, ensuring they are not only done but also that the matters identified are addressed and noted on the next reconciliation as to why they are outstanding.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 14. Review of procedures relating to rates processing

Finding:

Based on our enquiries with the shire, we identified that the shire's verification of rates processing procedures document was last reviewed in May 2022. The document required review every 12 months, and we were not able to obtain a version of these procedures which were reviewed in 2023.

Rating:

Minor

Implication:

Without a timely review of the document, there is an increased risk of inappropriate or ineffective approaches being adopted by staff, consultants, or contractors.

Recommendation:

We recommend that shire review the document to address this finding and mitigate the associated risks.

Management comment:

Accepted. Will be addressed in Improvement Action Plan currently being developed and following current staff recruitment.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 15. Non-compliance with *Local Government (Functions and General) Regulations 1996 - Requirements for Public Tender*

Finding:

Procurement activities of the shire are primarily governed by the Local Government (Functions and General) Regulations 1996 (the Regulations). These regulations establish specific requirements related to public tenders.

Tenders must be publicly invited in accordance with the Regulation when a Local Government enters into a contract for another party to supply goods or services. This requirement applies if the consideration under the contract is, or is expected to be, more than \$250,000.

During the course of the audit, we identified a matter that indicated material non-compliance with the Regulation:

On 17 July 2023, we were informed by the shire's executive manager of corporate services that the shire's former CEO intended to bring a proposal to the Council for endorsement. The proposal aimed to engage the services of a financial consultant to manage the shire's finance functions. Consequently, the position of executive manager of corporate services would be made redundant.

Subsequently, from July 2023 to November 2023, while engaging with the financial consultant as part of the audit planning and execution, we became aware of issues between the shire and the financial consultant concerning their service delivery. As a result, we conducted further inquiries based on our professional judgment regarding the evaluation of the financial consultants' experience and expertise related to Local Government financial accounting as there were indications the financial consultant may lack the requisite expertise related to Local Government financial accounting. The results of our inquiries are as noted below.

- On 10 November 2023, while conducting the audit fieldwork, a request was made to the former CEO via email for a copy of the service agreement between the shire and the financial consultants. We were not provided a response to this request.*
- On 30 November 2023, we were contacted by the shire's director of regulatory services. They informed us that the former CEO was on leave, and the Council had appointed them as the Acting Chief Executive Officer (A/CEO). The A/CEO inquired about the status of the audit since they were unable to establish contact with the financial consultants.*
- On 4 December 2023, we received an email from the A/CEO stating that, after searching the shire's records, a service agreement with the financial consultants could not be located. Additionally, several email exchanges between the former CEO and the financial consultants were provided. Here is a summary of those emails:*
- Email dated July 11, 2023 (from the former CEO to the financial consultants):*
 - The email contained a scope of work for the financial consultants' proposal (though not attached). The former CEO concluded the email with the following note:*
"Note: Contracts exceeding \$250,000 per year require public tender."
- Email dated 17 November 2023 (from the former CEO to the financial consultants):*
 - In this email, the former CEO informed the financial consultants to adhere to the scope of works as the amounts being invoiced were unsustainable and he recognised the need to initiate a public tender process if payment of invoices was to continue.*

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

- *Email dated 3 December 2023 (from the financial consultants to the A/CEO)*
 - *The financial consultants attached an original scope of work document titled “Jim_accounting.docx.”*
 - *Upon inspection, the attached document was a one-page list of 14 tasks, which did not resemble the comprehensive scope of work expected from financial consultants handling such a significant function on behalf of the shire.*
- *On 7 December 2023, we engaged in a telephone discussion with the shire president. During this conversation, the shire president informed us that the former CEO had not communicated to them or the Council regarding the intention to contract a financial consultant. Additionally, the Council did not recall any discussions related to the procurement of financial consultancy services or the engagement of the specific financial consultant in question.*

Upon examining the shire’s creditor payment records associated with the financial consultants, we observed that 26 invoices were paid between 1 September 2022 and 20 November 2023, totalling \$368,364.

Rating:

Significant

Implication:

The findings can have several implications and risks for the shire:

- **Financial Mismanagement:** Inadequate documentation of procurement increases the risk of financial mismanagement. Without proper documentation and evaluation of procurement decisions, there is a higher likelihood of overspending or inappropriate allocation of funds.
- **Fraud and Corruption:** Weak procurement controls create opportunities for fraudulent activities such as kickbacks, or collusion with vendors. Lack of transparency in procurement processes increases the risk of corruption within the shire.
- **Regulatory Non-compliance:** Failure to adhere to the shire’s procurement policy and record-keeping requirements may result in violations of shire’s policy, *Local Government Act 1995 – Sections 2.7, 3.57; Local Government (Functions and General) Regulations 1996: Part 4 – Provision of Goods and Services and State Records Act 2000.*
- **Reputational Damage:** Instances of non-compliance with procurement policies can tarnish the shire's reputation, eroding public trust and confidence. Negative publicity stemming from irregularities in procurement practices may impact relationships with stakeholders, including residents, ratepayers, and funding agencies.
- **Inefficiency and Waste:** Without proper procurement procedures, there is a risk of inefficiency and waste in the allocation of resources. Lack of competitive tendering and evaluation may result in suboptimal procurement decisions, leading to unnecessary costs or inferior quality goods and services.
- **Operational Disruption:** Inconsistencies in procurement processes can disrupt operations and delay project timelines.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Recommendation:

To address this finding and mitigate the associated risks, we recommend:

1. Establishment of robust procedures to ensure compliance with the shire's procurement policy and relevant regulations governing procurement practices, including implementation of adequate segregation of duties.
2. Implementation of a centralised system for documentation and record-keeping related to procurement activities.
3. Training and awareness programs for staff involved in procurement to ensure understanding and adherence to the established procedures.

Management comment:

Accepted.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 16. Non-compliance with Procurement of Goods and Services Policy - *Insufficient number of quotations*

Finding:

During our review of the design and implementation of controls over controls concerning procurement and purchasing, we performed a walkthrough of a transaction to verify the process and associated controls.

We inspected the following documents:

- Purchase Order (PO#2011) dated 5 April 2023 issued by the Shire's Executive Director for the purchase of the following item at auction.

Description	Amount (inc GST)
John Beer Skid Steer	\$54,576.00

- Proforma invoice dated 31 March 2023 issued by the vendor to the Shire of Halls Creek on PO#2011 relating to:

Description	Amount (inc GST)
John Beer Skid Steer	\$54,576.00

- Remittance advice dated 4 May 2023 issued by the Shire of Halls Creek to the vendor of \$54,576.00.

The shire's Procurement of Goods and Services Policy (the Policy), requires that for procurement of goods or services where the value exceeds \$20,001, - \$250,000 it is required to seek three written quotations with a sufficient amount of detail.

A request for the requisite quotations and evaluation of the procurement of the asset as per the Policy, these documents could not be provided.

As such this indicates non-compliance with the Policy and the shire's record-keeping requirements.

Furthermore, it was evidence based on the document provided that retrospective approval of procurement was given as the PO was issued six days after the date on the proforma invoice was issued to the shire.

Rating:

Significant

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Implication:

The findings can have several implications and risks for the shire:

- **Financial Mismanagement:** Inadequate documentation and retrospective approval of procurement increase the risk of financial mismanagement. Without proper documentation and evaluation of quotations, there is a higher likelihood of overspending or inappropriate allocation of funds.
- **Fraud and Corruption:** Weak procurement controls and retrospective approvals create opportunities for fraudulent activities such as bid rigging, kickbacks, or collusion with vendors. Lack of transparency in procurement processes increases the risk of corruption within the shire.
- **Regulatory Non-compliance:** Failure to adhere to the shire's procurement policy and record-keeping requirements may result in violations of shire's policy, *Local Government Act 1995* – Sections 2.7, 3.57; *Local Government (Functions and General) Regulations 1996*: Part 4 – Provision of Goods and Services and *State Records Act 2000*.
- **Reputational Damage:** Instances of non-compliance with procurement policies can tarnish the shire's reputation, eroding public trust and confidence. Negative publicity stemming from irregularities in procurement practices may impact relationships with stakeholders, including residents, ratepayers, and funding agencies.
- **Inefficiency and Waste:** Without proper procurement procedures, there is a risk of inefficiency and waste in the allocation of resources. Lack of competitive quotations and evaluation of quotations may result in suboptimal procurement decisions, leading to unnecessary costs or inferior quality goods and services.

Recommendation:

To address this finding and mitigate the associated risks, we recommend:

1. Establishment of robust procedures to ensure compliance with the shire's procurement policy and relevant regulations governing procurement practices.
2. Implementation of a centralised system for documentation and record-keeping related to procurement activities.
3. Training and awareness programs for staff involved in procurement to ensure understanding and adherence to the established procedures.

Management comment:

Accepted. Will be addressed in Improvement Action Plan currently being developed.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 17. Changes in supplier master file – lack of documented change verification process

Finding:

During our procedures over the design and implementation of controls concerning procurement and purchasing, we identified that the shire has no process to verify supplier master file changes before these changes are made to the supplier master file.

Based on our walkthrough documentation and our enquiries of management of a change in a supplier's bank details dated 20 February 2023 we noted that there was no documented evidence of an independent review by a shire officer independent from the shire officer who actioned the change to verify the change in supplier bank account details was made with accuracy and was supported.

Rating:

Significant

Implication:

The absence of a documented process to verify changes in the supplier master file before implementation is a critical control weakness. A well-defined process ensures that changes are properly validated, reducing the likelihood of errors, inaccuracies, or malicious alterations. Without this process, the integrity of the supplier master file is compromised, impacting the reliability of financial data. The risk of errors, inaccuracies, or malicious alterations is enhanced due to the deficiencies identified in the shire's system of internal controls.

Recommendation:

To address this finding and mitigate the associated risks, we recommend the shire:

1. Develop and document a clear and formalised change management procedure for alterations to the supplier master file. This procedure should outline the steps involved in validating changes, including the necessary method of verification for all changes before changes are adopted.
2. Conduct regular training sessions and awareness programs for employees involved in the change verification process. Ensure that they are well-versed in the documented procedures and understand the importance of adhering to the established controls.

Management comment:

Accepted. Will be addressed as a matter of urgency.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 18. Lack of verification of invoices against purchase orders

Finding:

During our procedures over the design and implementation of controls concerning procurement and purchasing, we performed a walkthrough of a transaction to verify the process and associated controls.

We inspected the following documents:

- Purchase Order (PO# 640) dated 6 July 2022 issued by the shire's executive director for the purchase of the following item at auction.

Description	Amount (inc GST)
RFQ 2022-06-DA 2022 Sealed Roadworks Program	\$77,336.49

- Tax invoice dated 9 September 2022 issued by the vendor to the shire on PO# 640 relating to:

Description	Amount (inc GST)
AGRN899 Duncan Rd Floodways	\$96,392.23

- Remittance advice dated 28 October 2022 issued by the shire to the vendor of \$96,392.23.

The variance between the purchase order and the invoice was \$19,055.74 (being a 24.6% variance to the original PO). Based on enquiries made by the shire's finance officer the invoice should not have been processed given the amount per the invoice did not match the purchase order.

Rating:

Significant

Implication:

The finding can have several implications and risks for the shire:

- Potential overpayment: Without cross-referencing invoices with corresponding POs, there is a heightened risk of paying for goods or services that were not properly authorised or received. This could result in financial losses for the shire and negatively impact its bottom line.
- Inaccurate financial reporting: Failure to reconcile invoices with POs may lead to discrepancies between recorded expenses and actual expenditures. This could distort financial statements and misrepresent the shire's financial position, leading to potential compliance issues and loss of investor confidence.
- Lack of accountability: By bypassing the verification process, the shire undermines its internal controls and accountability mechanisms. Without ensuring that invoices align with authorised POs, it becomes difficult to track expenses accurately and hold responsible parties accountable for discrepancies or errors.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Recommendation:

To address this finding and mitigate the associated risks, we recommend that shire:

1. Strengthen the approval process: Requires that invoices undergo a thorough review and verification against corresponding POs before approval for payment. This should involve comparing quantities, prices, and other relevant details to ensure accuracy and legitimacy.
2. Enhance training and awareness: Provide training to relevant staff members involved in the invoice approval process, emphasising the importance of verifying invoices against POs and highlighting potential consequences of non-compliance. Regular reminders and updates on best practices can help reinforce this requirement.
3. Implement automated controls: Consider leveraging technology solutions, such as accounting software with built-in validation features, to streamline the invoice verification process and minimise the risk of human error or oversight. Automated controls can help flag discrepancies and enforce compliance with established procedures.
4. Conduct periodic reviews: Establish a routine schedule for conducting internal reviews or audits of the invoice approval process to monitor compliance with established controls and identify any recurring issues or areas for improvement. This proactive approach can help prevent future lapses and ensure ongoing adherence to best practices. The shire should perform its own reviews to ensure that payments made are supported and validated to underlying invoices, recognising the audit process involves testing on a sample basis.

Management comment:

Accepted. Will be addressed in Improvement Action Plan currently being developed and following current staff recruitment.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 19. Termination of credit cards of former employees

Finding:

During our procedures over the design and implementation of controls concerning corporate credit cards, we requested evidence of the cancellation of a credit card issued to an employee who ceased their employment with the shire effective 21 September 2022.

As highlighted in Finding 1 above regarding the lack of audit readiness and quality of supporting documentation, we were not provided with any evidence hence we are not able to evaluate if the design and implementation of controls concerning corporate credit cards is appropriate. We are also unable to conclude if an expenditure continued on this credit card once employment ceased.

Rating:

Significant

Implication:

The finding can have several implications and risks for the shire:

- Risk of Unauthorised Expenditures: Without evidence of cancellation, there is a risk that the former employee could still have access to the corporate credit card, potentially leading to unauthorised expenditures or misuse of funds.
- Potential Fraud: Failure to cancel the credit card increases the shire's vulnerability to fraud. The uncanceled card can be exploited to make unauthorised purchases or engage in fraudulent activities, which could result in financial losses for the shire.
- Reputational Damage: Instances of lax control over financial processes can damage the shire's reputation, eroding trust among stakeholders, including ratepayers.

Recommendation:

To address this finding and mitigate the associated risks, we recommend that shire promptly investigate the status of the credit card in question and provide documentation confirming its cancellation.

Additionally, we recommend a review of existing policies and procedures governing the issuance and cancellation of corporate credit cards to ensure they align with best practices and regulatory requirements. Further, the shire should review its employee termination processes to ensure an exit checklist is completed allowing for all shire assets to be returned prior to employment ceasing.

Management comment:

Accepted. Will be addressed in Improvement Action Plan.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 20. Reconciliation of cash floats not performed regularly- Shire Administration Office

Finding:

As part of our audit procedures, we performed an unanticipated cash count of the float at the administration office on 23 October 2023 while on-site undertaking audit fieldwork.

According to the trial balance, the cash float at the centre is recorded as \$200.00. However, during our count, we observed a total of \$345.70.

We would like to bring to your attention that, based on our discussions with management, no reconciliation was provided for the cash float. This has resulted in an inability to verify the accuracy and completeness of the cash float balances.

Rating:

Significant

Implication:

The risks associated with the findings from the audit of the shire administration office are primarily related to the potential for financial misstatement and fraud.

- **Financial Misstatement:** Without a regular reconciliation process, there is a risk that the cash float balances may not be accurately reported in the financial statements. This could lead to a material misstatement of the financial position and performance of the centre.
- **Fraud Risk:** The absence of a reconciliation process increases the risk of theft or fraud going undetected. Cash is a highly liquid asset and is therefore susceptible to misappropriation. Regular reconciliation can act as a deterrent and help in the early detection of any irregularities.
- **Internal Control Weakness:** The lack of reconciliation indicates a weakness in the centre's internal control system. Effective internal controls are essential for the prevention and detection of errors and fraud.

Recommendation:

We recommend that a regular reconciliation process be implemented for the cash float to ensure the accuracy and completeness of the cash float balances. This will not only enhance the internal control over cash but also provide a reliable basis for the preparation of the financial statements.

Management comment:

Accepted. Will be addressed in Improvement Action Plan.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 21. Unrecorded creditors

Finding:

During the audit for the year ended 30 June 2022, we identified:

- Unrecorded expenditures relating to the 2021-22 financial year of \$244,000 (rounded) which were not recorded as accrued expenses.
- This occurred due to invoices received post-year end not being identified by the shire as requiring accrual for the financial year.

In the current year audit for the year ended 30 June 2023, we were unable to complete our audit work on this area of financial statements because we have not been provided with sufficient appropriate audit evidence to allow us to perform unrecorded creditors testing.

Rating:

Significant (2022: Minor)

Implication:

Understatement of liabilities and related expenses during the financial year, leading to cashflow mismanagement and possible material misstatement within the shire's financial statements.

Recommendation:

We recommend that the shire formalise the review of invoices and expenses incurred after year-end to ensure that all invoices related to the financial year are captured and accurately recognised and provide audit with sufficient appropriate audit evidence as requested.

Management comment:

Accepted. Will be addressed in Improvement Action Plan.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 22. Review of creditor procedures manual

Finding:

Based on our enquiries with the shire, we identified that the shire formally reviewed its creditor procedures manual in May 2022. The document required review every 12 months, we were not able to obtain a version of these procedures which were reviewed in 2023.

Rating:

Minor

Implication:

Without a timely review of the document, there is an increased risk of inappropriate or ineffective approaches being adopted by staff, consultants, or contractors.

Recommendation:

To address this finding and mitigate the associated risks, we recommend that shire review the document in accordance with its requirements to ensure the document remains fit for purpose.

Management comment:

Accepted. Will be addressed in Improvement Action Plan as all policies and procedures will require review as part of an overall improvement plan.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 23. The fair value of infrastructure assets - frequency of valuations

Finding:

During the prior year audit for the year ended 30 June 2022, we identified:

- While the shire performed an assessment to determine whether its infrastructure assets represent fair value, this assessment was insufficient as it only considered if there were any indicators of impairment (internal and external factors) as outlined by *AASB 136 Impairment of Assets*.
- The assessment did not consider if changes in underlying valuation assumptions (i.e. changes in material and contract rates) may indicate the assets' fair values were materially above their current carrying values.

During the current year audit for the year ended 30 June 2023, we identified:

- The shire's impairment assessment questionnaire which was completed by the former CEO across all classes of property, plant and equipment and infrastructure lacked any detail or robust analysis to enable the audit to place reliance on the quality of the assessment which was performed to enable us to consider it sufficient and appropriate audit evidence to be evaluated.
- The shire had obtained a fair value assessment from an independent expert concerning the following classes of assets.
 - Roads
 - Footbaths and lighting
 - Drainage
 - Bridges

However, based on our enquiry the shire did not undertake a robust documented evaluation of the assumptions and data within the independent expert report. The shire's infrastructure assets were last formally revalued in 2018 and were due for a formal revaluation as at 30 June 2023.

Rating:

Significant (2022: Significant)

Implication:

Without a robust assessment of the fair value of the shire's assets, there is a risk that the fair values of these assets may not have been assessed adequately and in compliance with *AASB 13 Fair Value Measurement*, as well as Regulation 17A(4)(b) of the *Local Government (Financial Management) Regulations 1996* (the Regulations).

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Recommendation:

To address this finding and mitigate the associated risks, we recommend that shire:

1. Implement as part of the preparation of financial statements a formal robust process to determine whether indicators exist annually, that would trigger a requirement to perform a formal revaluation of the shire's assets. Where indicators exist, a robust fair value assessment should be performed to capture the requirements of *AASB 13 Fair Value Movements*. This process is to ensure that the shire's assets are recorded at fair value in compliance with *AASB 13 Fair Value Measurement* and the Regulations.

This may entail obtaining relevant input from an independent valuer as to whether or not they consider there are any prevailing market factors that may indicate that the fair values of relevant assets are likely to have been impacted to any significant/material extent from the prior year. Where a fair value assessment has been performed internally the shire may consider having this assessment peer-reviewed by an independent valuer to obtain assurance over the valuation methodology applied, inputs and the reasonableness of the valuation model applied.

2. Implement a process where it has obtained a fair value assessment from an independent expert or sufficiently experienced officer to robustly document its evaluation of the assumptions and data within the assessment to satisfy itself that the valuation is reasonable and appropriate for the shire and provide its auditors with sufficient and appropriate audit evidence.

Management comment:

Accepted. Will be addressed in Improvement Action Plan noting the changes to regulatory requirements for the 2023-24 year with regards to this matter.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 24. Lack of documented approval before disposal of assets

Finding:

During the audit, we reviewed the shire's design and implementation of controls for the disposal of assets. We understand that any disposal of assets by the shire requires Council consideration.

We inspected a remittance advice issued by a vendor on 3 July 2023 which indicated that the shire disposed of a 2020 Haulmore side tipper trailer at auction on 21 June 2023 for \$87,000.

We noted that the shire's budget for 2022/2023 indicated the disposal of two vehicles with budget proceeds of \$40,000. The budget documentation was not sufficiently transparent to indicate the Council's endorsement of the disposal of the 2020 Haulmore side tipper trailer.

The shire was unable to provide documentation to indicate that the disposal of the 2020 Haulmore side tipper trailer was considered by the Council before its disposal.

Rating:

Moderate

Implication:

To address this finding and mitigate the associated risks, we recommend that shire:

- Financial Risk: Without proper approval, the financial impact of the disposal may not have been adequately assessed, leading to potential financial losses or gains that are not accounted for.
- Accountability Concerns: The lack of approval documentation raises questions about accountability and oversight in the asset management process.

Recommendation:

To address this finding and mitigate the associated risks, we recommend that shire:

1. Immediate Investigation: Conduct a thorough investigation to determine the circumstances surrounding the disposal and identify responsible parties.
2. Review and Strengthen Policies: Review the existing asset disposal policy to identify any gaps or weaknesses and update it as necessary to prevent future unauthorised disposals.
3. Enhance Approval Process: Strengthen the approval process for asset disposals by clearly defining roles and responsibilities, and ensuring that approvals are obtained at appropriate levels.

Management comment:

Accepted. Will be addressed in Improvement Action Plan. Controls relating to disposal of assets will be addressed as a priority as the shire considers this matter a significant risk.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 25. Absence of acknowledgement letter for resigned employee

Finding:

During the audit, we reviewed the shire’s design and implementation of controls for the payroll cycle. We obtained a resignation letter related to an employee who terminated their employment with the shire on 23 June 2023.

Upon inspection of the employee records, we noted that there was no acknowledgment letter issued by the shire confirming receipt of the employee's resignation.

Rating:

Moderate

Implication:

Acknowledgment letters serve as crucial documentation confirming the receipt of an employee's resignation and outlining pertinent information regarding the resignation process, such as the effective date of resignation, final pay details, benefits status, return of shire property, and any other relevant information. They not only serve as a formal record for both the employee and the shire but also help in ensuring clarity and transparency throughout the resignation process.

The absence of an acknowledgment letter raises concerns regarding compliance with internal policies and regulatory requirements. It indicates a gap in the procedural framework for managing employee resignations effectively. Without such documentation, there is an increased risk of misunderstandings, disputes, or legal implications arising from unclear communication and lack of formal acknowledgment of the resignation terms.

Recommendation:

To address this finding and mitigate the associated risks, we recommend that shire:

1. Establish Clear Procedures: Develop standardised procedures for the issuance of acknowledgment letters to employees who resign. These procedures should outline the necessary steps, responsibilities, and timelines for drafting and delivering acknowledgment letters.
2. Template Creation: Create a template for acknowledgment letters that includes essential information such as resignation date, final pay check details, benefits status, and instructions for returning shire property.
3. Training and Awareness: Provide training to relevant personnel involved in the resignation process to ensure they understand the importance of acknowledgment letters and how to effectively utilise the template.

Management comment:

Accepted. Will be addressed in Improvement Action Plan.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 26. Review of payroll policies

Finding:

Based on our enquiries with the shire, we became aware that the following payroll policies were last reviewed in May 2022.

- HR 6 General benefit – Permanent Employees
- HR 5 Flexible Work Arrangements
- HR15 Study leave

The documents require review every 12 months; we were not able to obtain a version of these procedures which were reviewed in 2023.

Rating:

Minor

Implication:

Without a timely review of the document, there is an increased risk of inappropriate or ineffective approaches being adopted by staff, consultants, or contractors.

Recommendation:

To address this finding and mitigate the associated risks, we recommend that shire review policies timely.

Management comment:

Accepted. Will be addressed in Improvement Action Plan as all policies and procedures will require review as part of an overall improvement plan.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 27. Provision for remediation costs not reassessed since the prior year

Finding:

The shire operates its regional landfill facility. During our review of the rehabilitation cost and provision workings we noted the following:

- As part of conducting our audit procedures over provisions, the shire has not provided us with a reconciliation or supporting working papers to allow us to assess the adequacy for the provision for the remediation balance of the rehabilitation facility of \$1,159,522. Consequently, we could not undertake our procedures to ensure that the balance was accounted for in all material respects in accordance with *Australian Accounting Standards 137 Provisions, Contingent Liabilities and Contingent Assets* and *Australian Accounting Standards Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities*.
- As the rehabilitation cost forms a part of the landfill facility asset (Infrastructure – Landfill), any indicators of a material change in the fair value of this asset has also not been assessed in accordance with *AASB 116 Property, Plant and Equipment*.

The shire has a cash backed reserve called refuse site rehabilitation reserve. The funds held in this reserve are to assist the shire pay for the rehabilitation of the landfill facility site in the future. We noted that the reserve balance of \$63,809 is significantly lower than the provision balance as at 30 June 2023.

Rating:

Significant

Implication:

Failure to provide us with a reconciliation or supporting working papers for the provisions for the remediation increases the risk of non-compliance with the AAS, the Act and the Regulations and has placed a limitation of scope on the audit as a conclusion cannot be made if the balance reported is true and fair. Further without an assessment of the rehabilitation reserve balance set aside, the shire may not have sufficient funds to pay for the rehabilitation of the landfill facility site in the future and may impact its long term financial planning.

Recommendation:

We recommend that the shire review the provision at least annually to ensure compliance with *Australian Accounting Standards* and provide the documented supporting work papers for audit and whilst there is no statutory requirement for the landfill facility rehabilitation provision to be fully funded by the shire's reserves, the provision balance should be closely monitored so that sufficient funds are set aside to meet the shire's rehabilitation obligations.

Management comment:

Agreed.

APPENDIX A – MANAGEMENT LETTER YEAR ENDED 30 JUNE 2023 (CONTINUED)

Finding 28. Omission of contingent liability and commitment notes within the financial report

Finding:

As part of conducting our audit procedures over the disclosure made in the financial report of the shire signed and dated 24 October 2023 by the former Chief Executive Officer, we noted that the following required disclosures were omitted:

- Contingent liabilities; and
- Commitments (for capital expenditure)

Furthermore, we have not been able to seek representation letters from the shire's solicitors as part of the final fieldwork or any supporting working papers for the shire's capital commitments where a contractual obligation exists, but the liability has not yet been incurred.

Rating:

Significant

Implication:

Failure to disclose contingent liability and commitment notes within the financial report increases the risk of non-compliance with the AAS, the Act and the Regulations and has placed a limitation of scope on the audit as a conclusion cannot be made if appropriate disclosures have been made within the shire's financial report. Further, in relation to capital commitments, there is an increased risk the shire may not have full visibility and understanding of capital commitments the shire is legally committed to incurring.

Recommendation:

We recommend that the shire reviews the disclosures made within its financial report to ensure compliance with Australian Accounting Standards and provide the documented supporting work papers for audit. The shire implements procedures to correctly identify and track their commitments including reviewing underlying contracts to aid in this assessment.

Management comment:

Agreed, the previous Chief Executive Officer was unable to provide this information.

APPENDIX B - ADDITIONAL AUDIT FINDINGS – YEAR ENDED 30 JUNE 2032

The following findings were identified in the Management Letter – Additional Findings.

Finding 29. 1. Manual journals – complete listing not provided

This is the same finding as Finding 4 listed in Section 2.

Finding 30. 2. Timely completion of grant acquittals

This is the same finding as Finding 5 listed in Section 2.

Finding 31. 3. Revenue recognition assessment for grants and contributions revenue not performed

This is the same finding as Finding 11 listed in Section 2.

Finding 32. 4. Provision for remediation costs not reassessed since the prior year

This is the same finding as Finding 27 listed in Section 2.

Finding 33. 5. Omission of contingent liability and commitment notes within the financial report

This is the same finding as Finding 28 listed in Section 2.

Finding 34. 6. Bank Reconciliation Discrepancy

This finding is related to Finding 10 listed in Section 2.

Finding:

During our procedures over of cash and cash equivalents, we identified a significant discrepancy related to the municipal cash at bank balance, between the balance as per the 30 June 2023 bank statement and the balance per general ledger.

Specifically, the municipal cash at bank balance per bank statement amounted to \$6,311,860, whereas the balance per general ledger was reported as \$8,341,984.

This resulted in a difference of \$2,030,124 between the two amounts.

Rating:

Significant

Implication:

The inability to reconcile the differences between the bank statement and the general ledger raises concerns regarding the accuracy and reliability of financial reporting. Failure to address this discrepancy promptly could lead to misstatements in the financial statements, increases the risk of fraud, and loss of stakeholder confidence.

Recommendation:

We recommend the following actions be taken:

1. Conduct a thorough investigation to identify the root cause of the discrepancy between the bank statement and the general ledger.
2. Implement robust controls and procedures to enhance the effectiveness of the bank reconciliation process, including regular reviews, segregation of duties, and clear documentation of reconciliation procedures and findings.
3. Ensure timely reconciliation of all outstanding items, including outstanding checks, deposits in transit, bank errors, and any other items impacting the reconciling items.
4. Provide appropriate training to staff involved in the bank reconciliation process to ensure competence and adherence to established procedures.
5. Review and update reconciliation procedures as necessary to address any identified deficiencies and improve accuracy and efficiency.

Management comment:

Agreed. Bank Reconciliations have been completed to 31 December 2023 and work continues to bring these up to date.

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- 6. NEW DECISIONS OF AN URGENT NATURE INTRODUCED BY
DECISION OF THE MEETING**
- 7. MATTERS BEHIND CLOSED DOORS**
- 8. CLOSURE OF MEETING**