

**SHIRE OF KATANNING**

**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019**

**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Journals not Independently Reviewed	✓		
2. Changes to Supplier Details	✓		
3. Interest on Trust Funds	✓		
4. Capitalisation of Fixed Assets	✓		
5. Asset Reconciliation Review		✓	
6. Payroll		✓	

**KEY TO RATINGS**

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

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

**SHIRE OF KATANNING**

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**FINDINGS**

**1. Journals not Independently Reviewed**

**Finding**

We noted manual accounting journal entries prepared and posted by the same employee were not independently reviewed by a second officer.

**Rating: Significant**

**Implication**

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

**Recommendation**

To help maintain the integrity of the accounting system and ensure the journals are correctly recorded, journal entries should be reviewed and authorised by a more senior staff member independent of preparation. This review should also seek to confirm the accuracy of the journals and should be evidenced accordingly.

**Management Comment**

*Officers are aware of this and will ensure all journals are independently reviewed. Officers are already required to attach sufficient evidence to all manual journals as justification.*

**Responsible Person:**

*Executive Manager, Finance & Administration*

**Completion Date:**

*Complete.*

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**2. Changes to Supplier Details**

**Finding**

The process and procedures for changing supplier details is not formally documented.

Further, there is no evidence retained to demonstrate whether changes to supplier details, including bank account details are being reviewed before each payment run.

**Rating: Significant**

**Implication**

Without an approved policy or procedure, staff may be unaware of management's expectations regarding the process and authorisations required relating to changes made to the Supplier Master File. There is an increased risk that unauthorised changes may be made resulting in errors or funds being inappropriately transferred.

**Recommendation**

The Shire should develop an approved policy or procedure to formally document the process for changing supplier details within the Supplier Master File. Changes to the Supplier Master File should be independently reviewed to ensure all changes are authorised and correct.

**Management Comment**

*Officers will develop a procedure to address this, as well as reviewing the existing new creditor forms. Purchasing Officers will be briefed on the correct procedure.*

**Responsible Person:**

*Executive Manager Finance & Administration*

**Completion Date:**

*30 June 2019*

**SHIRE OF KATANNING**

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**3. Interest on Trust Funds**

**Finding**

We noted that interest earnings on trust fund moneys are not retained in trust or provided back to the entitled recipient on return of their moneys. Rather the Shire keeps these earnings as their own.

The *Local Government Act 1995 (Act)* requires:

Where money or other property is held in the trust fund, the local government is to - in the case of money, pay it to the person entitled to it together with, if the money has been invested, any interest earned from that investment.

We noted that management have quantified the cumulative effect of interest earned on trust funds.

**Rating: Significant**

**Implication**

This is non-compliance with Section 6.9(3)(a) of the *Local Government Act 1995 (the Act)*. In retaining interest earned on invested trust fund moneys, the Shire is keeping and utilising moneys that it is not entitled to under the Act.

As a further consequence, the disclosure of trust fund money within the annual financial report is not accurate.

**Recommendation**

The Shire should account for and manage trust fund moneys and associated interest in accordance with the Act.

The Shire should also undertake the necessary steps to identify any obligations it has to return moneys that it has incorrectly retained from the current and previous years.

**Management Comment**

*Officers have already been in discussions with the Commonwealth Bank to revert to an interest-free account to permanently resolve this concern.*

*Presently, the Shire's Trust fund is predominantly maintained for holding department of transport licensing payments, and a small number of facility bonds. Facility bonds are generally reimbursed within 1-2 months.*

*Transport transactions are deposited into the municipal bank account on a daily basis, with the Department of Transport withdrawing the funds from the municipal bank account within three days. There are issues with the practicality and additional costs of using the physical Trust account as a transactional account, so the Trust account is used to capture the balance of funds owed to the Department of Transport at any given date.*

*Trust/Municipal transfers are not undertaken on a regular basis, so the interest earned in the Trust account may not always reflect the amount that should be held in the Trust account.*

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*Interest accrued in this account is around \$250 annually, while there are account keeping fees of approximately \$65 annually, and eftpos charges directly associated with Department of Transport transactions of approximately \$13,000 annually.*

*Audit suggestion is that the Shire review the past 10 years of interest transactions although the last 10 years of audits have never noted this as an issue.*

*In speaking to Transport they have no desire to see interest from our holding of funds returned to them.*

**Responsible Person:**

*Manager Finance*

**Completion Date:**

*30 June 2019*

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**SHIRE OF KATANNING**

**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019**

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**4. Capitalisation of Fixed Assets**

**Finding**

From 1 July 2018, Regulation 17A (5) of the *Local Government (Financial Management) Regulations 1996* requires assets with a fair value at the date of acquisition below \$5,000 be excluded from the assets of the local government entity.

This represents a change in the Shire's accounting policy and should be retrospectively applied.

From our review of the Fixed Asset Register we note numerous assets whose fair value is below \$5,000 continue to be included within the Fixed Assets Register.

**Rating: Significant**

**Implication**

This represents non-compliance with Regulation 17A (5) of the *Local Government (Financial Management) Regulations 1996*. Further the Assets of the Shire may not be accurately reported in the Shire's annual financial report.

**Recommendation**

Management should review the Fixed Asset Register and ensure any assets acquired with a fair value below \$5,000 as at the date of acquisition are excluded from the Fixed Asset Register.

This review should include the retrospective application of this regulation.

**Management Comment**

*Acquisitions are only added to the Fixed Asset Register if the purchase price is greater than \$5,000.*

*The assets currently on the Fixed Asset Register that now fall below the \$5,000 threshold do so because of depreciation. At this point in time, assets with a written down value less than \$5,000 represent 17% of the number of assets registered on the Shire's Fixed Asset Register.*

*Officers will review these prior to the end of financial year to ensure assets falling below the threshold are no longer assets.*

**Responsible Person:**

*Manager Finance via Senior Finance Officer*

**Completion Date:**

*30 September 2019*

**SHIRE OF KATANNING**

**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019**

**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

**5. Asset Reconciliation Review**

**Finding**

Whilst the Asset Reconciliations were reviewed by a senior staff member independent of preparation as required, these reconciliations were not evidenced as such.

**Rating: Moderate**

**Implication**

Asset reconciliations are an important internal control which help to ensure all additions, disposals and depreciation of non-current assets are correctly posted to the general ledger. Without evidence of independent review of the Asset Reconciliations there is a higher risk and reduced accountability for any errors that may go undetected.

**Recommendation**

To help enhance accountability and also ensure the Asset Reconciliation is correct, review of reconciliations by a senior staff member independent of preparation should be evidenced accordingly.

**Management Comment**

*A procedure has been developed for the Officer responsible for the preparation of the reconciliations. While Asset Reconciliations have been reviewed by the Senior Officer, they had not been signed; the Officer will ensure this step is key in the procedure.*

**Responsible Person:**

*Senior Finance Officer*

**Completion Date:**

*May 2019*

**SHIRE OF KATANNING**

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**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

**6. Payroll**

**Finding**

Our testing of payroll noted instances where the pay rates for the employees selected in our sample could not be traced to the corresponding pay review letters or to supporting variations easily.

**Rating: Moderate**

**Implication**

Without updated employee pay rates that can be verified to supporting variations easily, there is an increased risk that errors in payroll transactions may occur and go undetected.

**Recommendation**

To help ensure the accuracy and validity of payroll transactions any changes in employee pay rates should be documented, authorised and retained within the employee's personnel file.

**Management Comment**

*The current system ensures all variations to pay rates are documented by a letter signed by the CEO and kept within employee personnel files.*

*The noted incidence related to the period before this system was in place (pre 2012), where the Shire did not specifically employ a HR Officer to manage and document this process.*

**Responsible Person:**

*HR Co-ordinator*

**Completion Date:**

*Already in place.*

## Councillors

- Initial Comprehensive Induction (after Election)
- Policy Review (major in 2018)
- New Policies can be suggested by Council or Officers
- Ongoing WALGA Training

# Code of Conduct for Councillors and Employees

\*Primary document

*Clearly defines & sets expectations for Managing:*

- Conflict of Interest**
- Disclosure of Interest**
- Improper Use of Information**
- Conduct**
- Gifts**
- Use of Council Property**

*Clearly explains who and how to report*

## Staff

- Initial Comprehensive General Induction (at start of employment)
- Inductions are specific to level of employee
- Separate inductions for Records Management, Purchasing
- HR Form that specifies System Access requirements

- Reporting Breaches**
- Reporting Misconduct**

*Includes Section 4 of the Corruption & Crime Commission Act 2003*

**Defines Misconduct**

## Supporting Council Policies

- Risk Management Policy
  - Purchasing Policy
- Corporate Credit Card Policy
- Legislative Compliance Policy
  - Internal Controls Policy

Supporting Management Directives  
Staff Intranet (being developed)