

AUDIT COMMITTEE RESOLUTION ACM03/06/2022

Moved Cr Douglas seconded Cr Morrell

That the Audit Committee recommends that Council:

- 1. Receives the Office of Auditor General overview of the audit findings for the year ended 30 June 2021 (as outlined in the Report to Audit Committee – ATTACHMENT 6.1.3);*
- 2. Receives the comments on the Management Letter and responses provided by the Chief Executive Officer as contained in ATTACHMENT 6.1.2; and*
- 3. Provide additional feedback to the Office of Auditor General on the findings and any other matter related to the audit if required.*

CARRIED 5/0

SHIRE OF WOODANILLING

AUDIT PLAN

YEAR ENDING 30 JUNE 2022

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This document sets out our Audit Plan for the year ending 30 June 2022, and summarises our audit approach, highlights key areas of audit risk and focus, provides details of the engagement team and other required communications.

Recent Industry and Economic Trends

The Local Government sector in Western Australia operates in a relatively stable economic environment. Entities rely on funding from State and Federal Government to supplement own source revenue. Funding is both for operations and capital works projects. Additional capital funding is opportunistic and reliant on whole of Government initiatives. Local Governments budget for additional capital funding only when the project and funding source is probable.

There is a long history of recurring grant funding and whilst there is ever increasing requirements to fund target service delivery and capital needs, in general, recurring funding is known and is expected to continue.

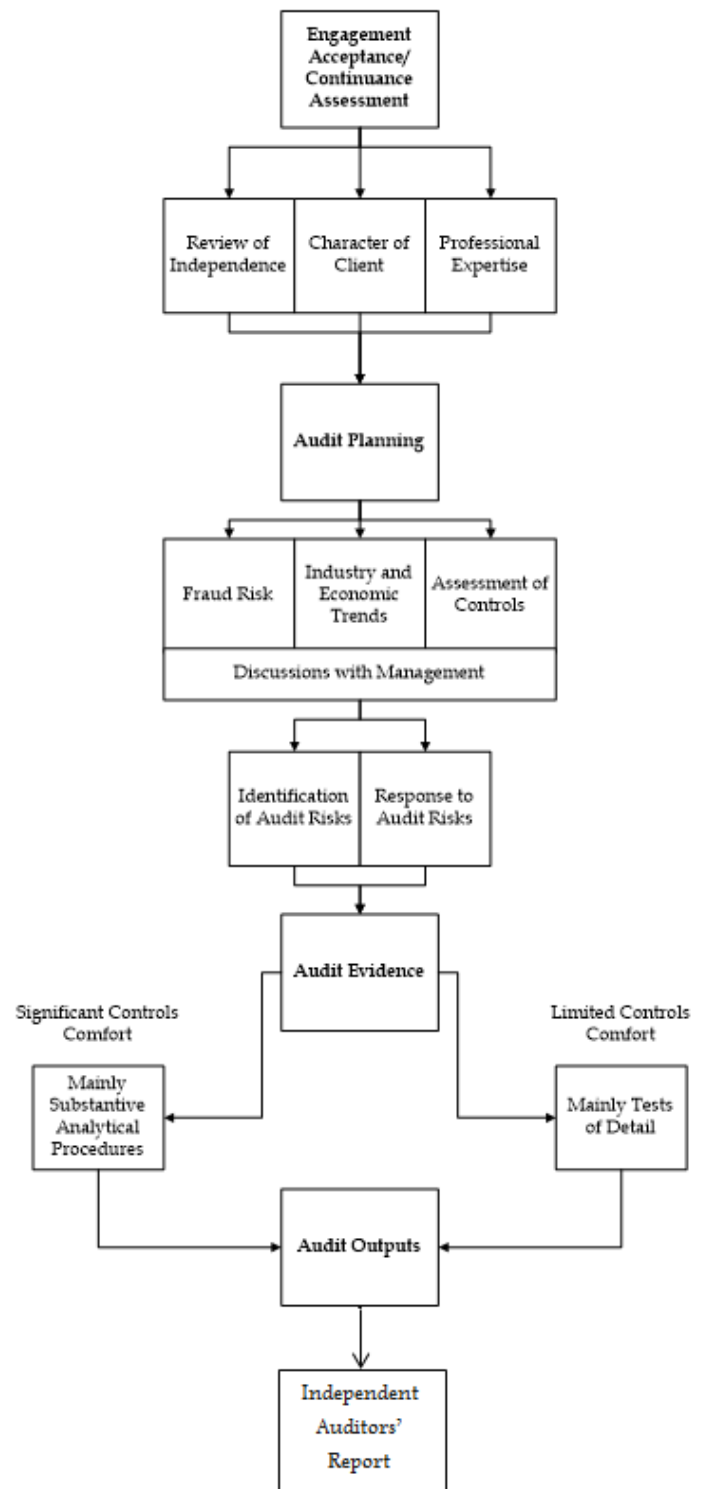
Operational costs are generally predictable and can be controlled. Additionally, and to a larger extent by deferral of capital acquisition and infrastructure construction projects. Long term asset management plans and financial plans exist to control risk of a deteriorating asset base and loss of service potential.

In the past, Council has shown rapid and measured response to the management of the financial impacts of natural disasters and most recently, the Covid 19 pandemic.

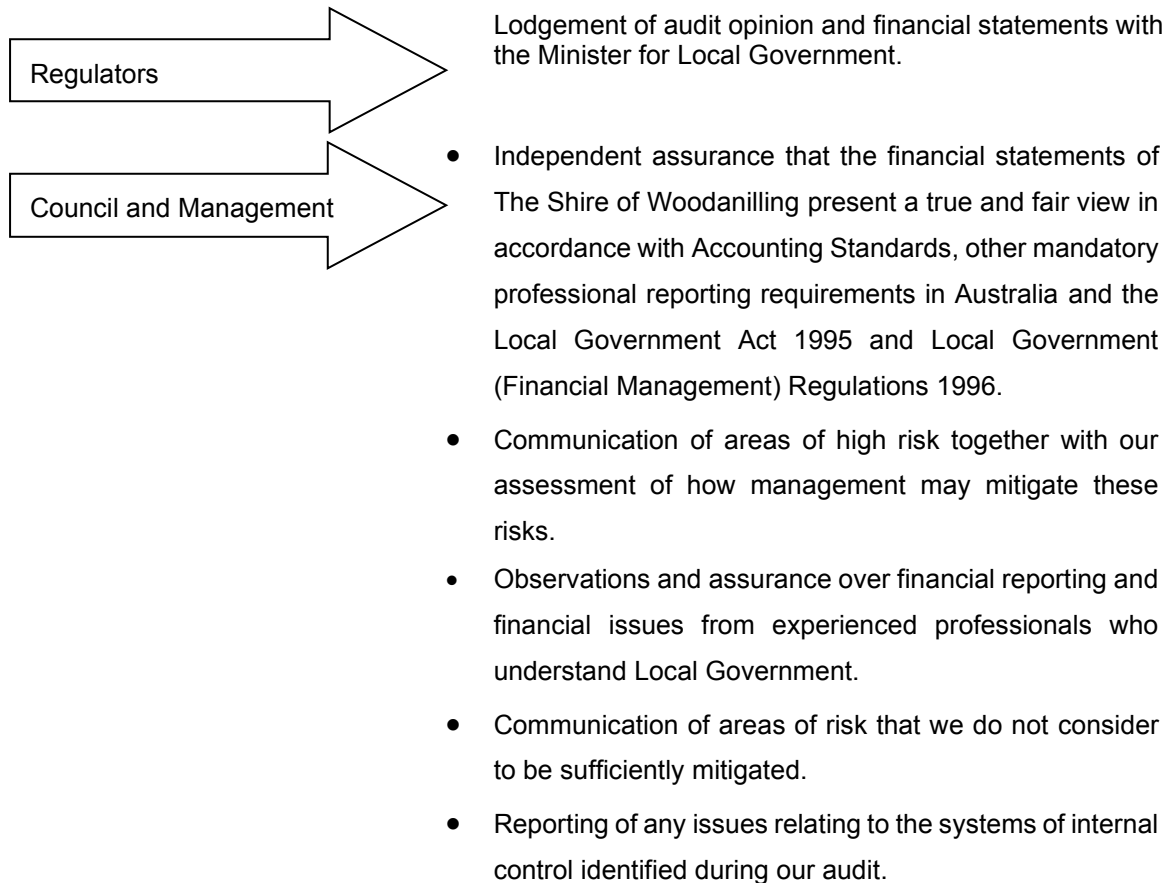
Our methodology involves the development of a risk matrix to determine the overall audit risk as a result of the interaction between control risk and inherent risk.

The risk matrix will be used to determine assurance levels and sample sizes for statistical sampling.

Our risk-based audit approach ensures that our audit procedures are targeted towards the significant risk areas of the entity allowing for an efficient allocation of our resources. Additionally, this methodology is based on us developing a detailed understanding of the transactional processes inherent in your organisation, which ensures that our audit testing will provide an independent review of your systems of internal control where recommendations for improvements will be communicated through the annual management letter.



The audit will be primarily directed towards assurance at two levels:



As a Contract Auditor to the OAG, we are responsible for undertaking the audit work on behalf of the OAG. The Auditor General retains responsibility for the audit opinion of the Shire of Woodanilling's financial statements. The audit will be conducted in accordance with the Australian Auditing Standards.

Scope of Work

- Audit of the general-purpose financial statements of the Shire of Woodanilling.
- Audit of compliance with specified provisions of the Local Government Act 1995
- Audit of compliance with the Local Government (Financial Management) Regulations 1996

Australian Auditing Standard ASA 260: Communication of Audit Matters with those charged with Governance requires that we communicate with "those charged with governance" of the Shire of Woodanilling in relation to some aspects of our audit.

ASA 260 defines "Those charged with governance" to include "those persons accountable for ensuring that the entity achieves its objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties. Those charged with governance include management only when it performs such functions."

We advise that we will communicate matters of governance interest arising from our audit with

- (i) the Council, and/or
- (ii) management

as we consider appropriate in relation to each matter to be communicated.

Ordinarily, we will initially discuss audit matters of governance interest with management. Draft management letters will be provided to you for comments from appropriate members of your management. We request these be returned to us within 14 days.

The final management letter will be issued and will be addressed to the President and CEO after it has been discussed with management and comments received. All matters will be communicated on a timely basis.

Materiality

The scope of our audit is influenced by the application of materiality. During the audit we may identify amounts that we believe should be recorded differently in the financial statements. In accordance with ASA 320 – Materiality in Planning and Performing an Audit, where these are material in amount or by nature, we will request management to adjust the financial statements. In addition, we will provide management with a summary of all audit identified adjusted and unadjusted differences in the management representation letter. In line with the OAG’s policy, we have not disclosed our materiality amount

Prior to the conclusion of our audit, we will advise you of:

- All adjustments to the financial statements made as a result of our audit.
- Uncorrected misstatements identified during the audit which management determined were not material. An audit of a financial report is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, our audit does not ordinarily identify all such matters.

Our communications of matters of governance interest includes only those audit matters of governance interest that have come to our attention as a result of the performance of our audit.

Management Representation Letter

The audit plan assumes that management will be in a position to sign a management representation letter. A draft management representation letter will be provided to you for consideration and review and should be signed and dated at the same time as the financial report and as close as practicable to the date of the audit opinion. Ordinarily, this would be no more than five working days prior to the issue of the opinion.

We will rely on the Chief Executive Officer and the Director of Corporate Services (or equivalent) signing the financial statements as evidence that they confirm:

- They have fulfilled their responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation;
- They have provided us with access to all relevant information necessary or requested for the purpose of the audit; and
- All transactions have been recorded and are reflected in the financial report.

Fraud Risk

The primary responsibility for the prevention and detection of fraud and error rests with the Council and the management of The Shire of Woodanilling. Management is responsible for maintaining accounting records and controls designed to prevent and detect fraud and error, and for the accounting policies and estimates inherent in the financial report.

Under Australian Auditing Standard ASA 240 *The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report*, when planning and performing audit procedures and evaluating the results, the auditor must consider the risk of material misstatement in the financial report as a result of fraud and error.

Our audit scope covers areas within the entity where material misstatements resulting from fraud or error (intentional or unintentional) would be most likely to occur, due to either control weaknesses or inherent susceptibilities.

All entities are susceptible to financial reporting fraud where transactions fall outside the embedded systems and controls, for example year end journals posted by management.

Our perspective on fraud risk is that controls are in place to identify fraud and reduce the residual risk to low.

Industry Level Risk

Planning has identified no significant industry risk.

Inherent Risk

Following our preliminary enquiries and analysis we have identified some specific audit risks that impact on our audit of Shire of Woodanilling.

Details of Risk / Issue	Lincolns Audit Approach
Grant Funding and Other Revenue	<ul style="list-style-type: none"> • Agree revenue by direct confirmation to funding agreements and bank statements. • Consider and respond to risk of fraud in the revenue cycle including testing related party transactions • We will review the Shire's assessment of revenue recognition with respect to the recognition requirements of AASB 15 and AASB 1058. • Given the nature of local government grants, we will substantively test this revenue to third party documentation such as funding agreements & invoices and vouch receipt of funds in accordance with our established sampling methodology. • We will also test the recognition of contract liabilities to ensure proper accounting with AASB 15 and AASB 1058. • Analysis of revenue allocation to ensure that revenue is recognised in the correct period and any related liabilities for contracts with customers are recorded.
Rates Revenue	<ul style="list-style-type: none"> • Review and testing of procedures and key controls in the rating system. • Agree rates to the following: <ul style="list-style-type: none"> • Property valuations rolls • Check control procedures in place for transfer of rates from Valuer General to Internal Software system • Check rate notice calculation and disclosures.
Expenses and other material balances	<ul style="list-style-type: none"> • The design and implementation of controls will be assessed as the basis for designing audit procedures that are considered appropriate in the circumstances • Agree expenses to procurement policy, source evidence, and review approval process.
Payroll/Provisions	<ul style="list-style-type: none"> • Review and testing of payroll system procedures and key controls. • Agree pay-run to the following: <ul style="list-style-type: none"> • Employee awards • Employee contracts • Check calculation of super and tax, • Check authority to deduct salary sacrifice • Check the control procedures in payroll department in line with internal policies. • Check provisions • Analytical review
Management's monitoring of the control environment	<ul style="list-style-type: none"> • Review council minutes of meetings for the following:

Details of Risk / Issue	Lincolns Audit Approach
	<ul style="list-style-type: none"> • Management process for reviewing internal control procedures including evidence of periodic review of policy manual. • Management's implementation and monitoring of new control procedures. • Management's implementation and monitoring for amending current control procedures.
Management Override of Controls	<ul style="list-style-type: none"> • We will review and test a sample of general journals entries • Understand and test the adequacy and effectiveness of segregation of duties • Controls testing • Substantive procedures
Property, Plant and Equipment & Infrastructure	<ul style="list-style-type: none"> • Review asset register and agree to general ledger • Check additions to supporting documentation and ensure compliance with procurement procedures • Check disposals of assets to supporting documentation and ensure calculation of profit/loss on disposals of assets performed correctly
Revaluation of assets per AASB 116 2021/22 – Land & Buildings	<ul style="list-style-type: none"> • Evaluate skills, qualifications and expertise of independent valuer • Evaluate valuation methodology to ensure consistent with Standards and assumptions reasonable • Ensure completeness and validity of uptake to asset register by agreeing to valuation report • Ensure depreciation basis correctly reflects rates and remaining useful life by agreeing asset register to valuation report
Restricted Reserve Accounts	<ul style="list-style-type: none"> • Review movements within the restricted reserve accounts to ensure they are approved by Council and transfers out are used in accordance with the intended purpose of the respective reserve.
<p>The following financial statement items are derived from accounting estimates and hence will receive specific audit attention:</p> <ul style="list-style-type: none"> • Provision for long service leave • Property, plant and equipment <p>Depreciation and amortisation</p>	<ul style="list-style-type: none"> • Review the method and underlying data that management and where applicable third parties use when determining critical accounting estimates. This will include considering the reasonableness of assumptions and corroborating representations. • For infrastructure, property, plant and equipment we will review Management's assessment of the useful lives and existence of assets. Where impairment indicators of assets have been identified we will ensure the Shire has accurately accounted for the impairment losses.

Details of Risk / Issue	Lincolns Audit Approach
Related Party Disclosure	Review process undertaken by the Shire and the records or declarations collected to ensure related party transactions are adequately disclosed.
COVID-19	<p>We will work with your management to minimise the risk for your staff and councillors, and our staff and contractors, and to your operations, while completing audits in the best timeframe possible under the circumstances.</p> <p>This will likely involve more audit work being performed remotely rather than at your premises, and/or delaying audit work if unforeseen circumstances arise.</p>
Local Government Reform changes that may impact for the first time this year	The Local Government Reforms project is currently underway and at this stage it is unclear if there will be any impacts on the Shire this financial year. We will continue to review developments arising from the reform project and will assess the impact of any changes to regulatory requirements

We confirm our continued commitment to provide the highest level of service possible by using our most experienced staff and where possible, providing ongoing continuity of engagement team members.

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Engagement Principal	Russell Harrison	russellh@lincolns.com.au
Engagement Team	Chris Martain	chrism@lincolns.com.au
	Thomas Warner	thomasw@lincolns.com.au
	Garrett Douglas	garrettd@lincolns.com.au
	Davin Tranter	davint@lincolns.com.au

The engagement principal is responsible for assuring the overall quality, value and timeliness of our services to you.

Please feel free to contact any member of the engagement team as your needs arise.

Key dates for the engagement are detailed as follows:

Engagement Timetable	Key Dates
Interim audit procedures	5-6 July 2022
Interim Management Letter	22 July 2022
Receipt of financial statements	30 September 2022
Receipt of R2R and LRCI certification documents	30 September 2022
R2R and LRCI documents to OAG	19 October 2022
R2R and LRCI OAG completion and issue of opinion	31 October 2022
Completion of Audit Documentation – Lincolns OneDrive	7 November 2022
Year end audit	21-25 November 2022
Audit files to OAG	2 December 2022
OAG File Review Complete	9 December 2022
Formal Exit Meeting	15 December 2022
CEO to sign off financial statements and management representation letter	15 December 2022
Issue of audit opinion	Week Ending 23 December 2022

Achieving this sign-off date is dependent on our receiving all required information requested in our year end folder to be delivered to you following completion of the interim audit. If the information and documents detailed in the year end folder cannot be provided in a timely manner, please contact the engagement partner as soon as possible.

Confidentiality and independence are fundamental to our work as auditors and we take these issues very seriously.

We will only discuss Shire of Woodanilling affairs with those partners, staff, OAG representatives or client personnel who have a need to know.

We have security procedures over our working papers, both electronic and hard copy.

We require all our professional staff to comply with our independence requirements and our Firm Policies, which governs individual behaviour.

Every partner and every staff member at Lincolns takes personal responsibility for compliance with independence requirements.

The audit engagement partner monitors independence in relation to all clients on a regular basis. This process is supported by:

- accessible independence policies and procedures on our office intranet;
- annual independence declarations by all staff employed by Lincolns;
- our annual independence statement that forms part of the financial statements.

1. AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current.

This standard will apply to local government entities for the 2022/23 reporting year. This is not expected to impact the 2021/22 financial report.

AASB 2020-1 has minor changes to the definition of current liabilities. Liabilities will need to be assessed to ensure they are correctly classified between current and non-current.

2. AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018 – 2020 and Other Amendments

This standard will apply to local government entities for the 2022/23 reporting year. The specific impacts of this amendment have not been identified. This is not expected to impact the 2021/22 financial report.

AASB 2020-3 contains amendments to AAS 1, AASB 3, AASB 9, AASB 116, AASB 137 and AASB 141.

3. AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates.

This standard will apply to local government entities for the 2023/24 reporting year. This is not expected to impact the 2021/22 financial report.

AASB 2021-2 clarifies the requirements and provides guidance for disclosure of accounting policies, and clarification on how changes in accounting policies and estimates should be distinguished.

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
Matters identified during the current year			
1. Month End Reconciliation Review	✓		
Matters outstanding from the previous year			
2. Asset Renewal Funding Ratio	✓		
3. Bonds and Deposits Held		✓	
4. Municipal Bank Reconciliation		✓	

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.
- 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.

Matters identified during the current year

1. Month End reconciliation Review

Finding

During our review of reconciliations, we noted there was no evidence that the bank, creditors or receivables reconciliations for July 2020 to May 2021 had been reviewed by an authorised officer.

Rating: Significant Implication

Reconciliations are a key control for ensuring financial data is completely and accurately reflected in the general ledger from which financial statements are derived. There is a risk that internal controls are not being fully applied and that unreconciled or unauthorised transactions may go undetected and/or unresolved.

Recommendation

We recommend reconciliations should be reviewed by an independent senior officer and evidence of this review is to be retained.

Management Comment

The recommendation is acknowledged and accepted. The Chief Executive Officer, Deputy Chief Executive Officer or the Accountant will be responsible to perform the review of the month end reconciliation with a procedure and month end checklist to be activated and utilised by all responsible officers. This includes responsible officers and Management to be fully aware of the month end reconciliation process and procedure.

Responsible Person: Chief Executive Officer/Accountant
Completion Date: July 2022

Matters outstanding from the previous year

2. Asset Renewal Funding Ratio

Initial Finding - 2020

The Shire has not reported the Asset Renewal Funding Ratio for 2020 or 2021 in the annual financial report, as required by Regulation 50(1)(c) of the Local Government (Financial Management) Regulations 1996. This is because the Asset Management Plan and Long Term Financial Plan have not been recently updated, as a result of which the ratios would not be current and accurate.

We note that the Shire has commenced a review of these plans, although this has not yet been finalised and endorsed by Council.

Finding status - 2021

The Asset Management Plan and the Long-Term Financial Plan have not been updated. We understand that the Shire intends to engage a consultant to complete these plans in the 2021-22 financial period.

2021 Rating: Significant (2020 Rating: Significant)

Implication

The financial report does not comply with Regulation 50(1)(c) of the Local Government (Financial Management) Regulations 1996.

Recommendation

We recommend that the Shire prepares, reviews and updates the Asset Management Plan and the Long-Term Financial Plan annually, to ensure that 10 year projections are available as required by the regulations, in order for the asset renewal funding ratio to be calculated based on verifiable information and reasonable assumptions.

Management Comment - 2020

Noted and Accepted. Will be completed by 30 June 2021.

Responsible Person: Chief Executive Officer

Completion Date: 30 June 2021

Management Comment - 2021

The non-compliance is noted and accepted. There is a desire to complete the Asset Management through a structured and meaningful approach that reflects the condition, required maintenance and retention of each asset that can be then accurately inform the Long Term Financial Plan. This process will commenced in the 2022/2023 financial year with current road conditions and input into RAMM to commence the process.

Responsible Person: Chief Executive Officer/Works Supervisor

Completion Date: June 2023

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4. AUDIT & ACCOUNTING ISSUES

4.1 Significant Adverse Trends

Following Office of the Auditor General guidelines, the following significant adverse trends occurred;

- The Operating Surplus Ratio has been below the OAG threshold for all 3 years reported in the financial report.

4.2 Audit Report

The audit report will have an unqualified opinion, and the following matter of non-compliance with the Local Government Act 1995 will be reported:

- The Operating Surplus Ratio has been below the OAG threshold for all 3 years reported in the annual financial report
- Asset Renewal Funding Ratio was not reported in the 2020 and 2021 financial report.

4.3 Management Letter Findings

The management letter contains the following findings and their rating:

Current Year Finding:

- Review of Month End Reconciliations – Significant
- Review of Payroll Master File Audit Trail - Moderate

Findings Outstanding from Prior Year:

- Asset Management and Long-Term Financial Management Plan - Significant
- Review required of Bonds and Deposits held - Minor
- Completeness of June 2021 Municipal Bank Reconciliation - Moderate

5. ACCOUNTING MISSTATEMENTS

5.1 Uncorrected Audit Misstatements

There are no uncorrected misstatements.

5.2 Corrected Audit Misstatements

There are no corrected misstatements.

6. ACTIONS / ISSUES FOR NEXT YEAR'S AUDIT

6.1 New Accounting Standards

New accounting standards will have application in future years. A brief discussion of the impact of these follows.

- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current. Applies to the financial year ended 30 June 2024.

- This is not expected to impact the financial report.

- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018 – 2020 and Other Amendments. Applies to the financial year ended 30 June 2023.

- Specific impacts have not been identified.

-AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies or Definition of Accounting Estimates. Applies to the financial year ended 30 June 2024.

- This is not expected to impact the financial report.

6.2 Asset Revaluation

Local Government (Financial Management) Regulations 1996 – Reg. 17A requires that Land & Buildings and Infrastructure asset classes must be revalued at fair value at least every five years. As Land & Buildings were last revalued in the 2016/17 financial year, they will need to be revalued in the 2021/22 financial year.

6.2 OFFICE OF THE AUDITOR GENERAL INTERIM MANAGEMENT LETTER NOVEMBER 2021

File Reference	ADM0063
Date of Report	10 May 2022
Responsible Officer	Kellie Bartley, Chief Executive Officer
Author of Report	Kellie Bartley, Chief Executive Officer
Disclosure of any Interest	No Officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .
Voting Requirement	Simple Majority
Attachments	Attachment No. 6.2.1 – Management Letter Interim Audit - November 2021 Attachment No. 6.2.2 – Interim Audit – Findings - November 2021

BRIEF SUMMARY

The purpose of this report is for the Audit Committee to receive the Audit Management Letter from the 2021 Interim Audit.

BACKGROUND/COMMENT

Lincolns on behalf of the Office of Auditor General visited the Shire of Woodanilling in May 2021 to conduct the Interim Audit for the year ending 30 June 2021.

Interim Audit results are presented to the Audit Committee in Management Letter as contained in **ATTACHMENT 6.2.1**. The focus on the interim audit was to evaluate Council’s overall control environment and to obtain an understanding of the key business processes, risks and internal controls relevant to the audit of the annual financial report.

The matters raised in the Interim Management Letter Report and the Shire of Woodanilling Management Letter comments are as contained in **ATTACHMENT 6.2.2**.

There was one moderate finding contained within the Interim Audit Management Letter in the current audit. The find has been reviewed, controls implemented and can be marked off as completed.

Interim Management Report

INDEX OF FINDINGS	RATING		
	SIGNIFICANT	MODERATE	MINOR
Matters identified during the current year			
1. Payroll Master File Audit Trail Review		✓	

Significant - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity 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.

Officer Comment

In relation to the specific matter raised, below is the comments of this matter and how they were addressed by management:

1. Payroll Master File Audit Trail Review

Finding

It was noted during payroll testing that while the audit trail report for payroll master file amendments for pay periods ended 14th October 2020, 27th January 2021 and 17th March 2021 were printed and saved with the payroll batch reports, these was no clear evidence of review by an appropriate person.

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
Matters identified during the current year			
1. Payroll Master File Audit Trail Review		✓	

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.

1. Payroll Master File Audit Trail Review

Finding

It was noted during payroll testing that while the audit trail report for payroll master file amendments for pay periods ended 14th October 2020, 27th January 2021 and 17th March 2021 were printed and saved with the payroll batch reports, there was no clear evidence of review by an appropriate person.

Rating: Moderate

Implication

Without clear evidence of review of payroll master file amendments there is an increased risk of unauthorised changes to the payroll master file and incorrect or fraudulent payroll payments being processed.

Recommendation

Payroll master file amendments should be formally reviewed by an appropriate person prior to payroll processing and a record of these amendments and review maintained.

Management Comment

Audit Trail of access and modification to payroll master file is now reviewed and signed by appropriate officer as part of weekly payroll approval and payment reports.

Responsible Person: Stephen Gash - CEO

Completion Date: 1 June 2021

STATUTORY/LEGAL IMPLICATIONS

Regulation 17 of the *Local Government (Audit) Regulations 1996*, states the following:

17. CEO to review certain systems and procedures

- (1) *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —*
 - (a) *risk management; and*
 - (b) *internal control; and*
 - (c) *legislative compliance.*
- (2) *The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.*
- (3) *The CEO is to report to the audit committee the results of that review.*

POLICY IMPLICATIONS

There is no Council Policy relevant to this item.

FINANCIAL IMPLICATIONS

There are no known financial implications upon either Council's current budget or long term financial plan with regards to this item.

STRATEGIC IMPLICATIONS

THEME 3

Governance

OBJECTIVES

To promote continual improvement that is supported by efficient and effective governance structures and processes.

STRATEGIES

By ensuring legislation is used to effectively enable quality decision making.

CONSULTATION/COMMUNICATION

Reporting Officers receive monthly updates to track expenditure and income and to be aware of their work commitments versus budget allocations.

RISK MANAGEMENT

The risk in relation to this matter is assessed as "Low" on the basis that if Council does not receive the Monthly Financial Reports for the month reported leading to the Shire not meeting legislative requirements on financial reporting. The risk identified would be failure to fulfil statutory regulations or compliance requirements.

Consequence Likelihood	Insignificant	Minor	Moderate	Major	Extreme
Almost Certain	Medium	High	High	Severe	Severe
Likely	Low	Medium	High	High	Severe
Possible	Low	Medium	Medium	High	High
Unlikely	Low	Low	Medium	Medium	High
Rare	Low	Low	Low	Low	Medium

Risk Rating	Action
LOW	Monitor for continuous improvement.
MEDIUM	Comply with risk reduction measures to keep risk as low as reasonably practical.
HIGH	Review risk reduction and take additional measures to ensure risk is as low as reasonably achievable.
SEVERE	Unacceptable. Risk reduction measures must be implemented before proceeding.

VOTING REQUIREMENTS

Simple Majority

OFFICER'S RECOMMENDATION

That the Audit Committee recommends that Council:

1. *Receives the 2020/2021 Interim Audit Findings as contained in **ATTACHMENT 6.2.2**; and*
2. *Receives the 2020/2021 Interim Management Letter as contained in **ATTACHMENT 6.2.1**.*

AUDIT COMMITTEE RESOLUTION ACM 04/06/2022

Cr Morrell seconded Cr Douglas

That the Audit Committee recommends that Council:

1. *Receives the 2020/2021 Interim Audit Findings as contained in **ATTACHMENT 6.2.2**; and*
2. *Receives the 2020/2021 Interim Management Letter as contained in **ATTACHMENT 6.2.1**.*

CARRIED 5/0



Our Ref: 7966

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469 Wellington Street, Perth

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Dear Mr Gash

**ANNUAL FINANCIAL REPORT
INTERIM AUDIT RESULT FOR THE YEAR ENDED 30 JUNE 2021**

We have completed the interim audit for the year ending 30 June 2020. We performed this phase of the audit in accordance with our audit plan. The focus of our interim audit was to evaluate your overall control environment, but not for the purpose of expressing an opinion on the effectiveness of internal control, and to obtain an understanding of the key business processes, risks and internal controls relevant to our audit of the annual financial report.

Management Control Issues

I would like to draw your attention to the attached deficiency in internal control that was identified during the course of the interim audit. The matter has been discussed with management and their comment has been included on the attachment. The matter reported is limited to the deficiency that was identified during the interim audit that we have concluded are of sufficient importance to merit being reported to management. Matters we report may be included in our auditor's report in accordance with section 7.9(2) of the *Local Government Act 1995* or regulation 10(3)(a) and (b) of the Local Government (Audit) Regulations 1996. If so, we will inform you before we finalise the report.

This letter has been provided for the purposes of your local government and may not be suitable for other purposes.

We have forwarded a copy of this letter to the President. A copy will also be forwarded to the Minister for Local Government when we forward our auditor's report on the annual financial report to the Minister on completion of the audit.

Feel free to contact the undersigned on 6557 7675 if you would like to discuss these matters further.

Yours faithfully

Katie MacLachlan
Acting Assistant Director
Financial Audit
17 November 2021

Attach

INDEX OF FINDINGS	RATING		
Matters identified during the current year	Significant	Moderate	Minor
1. Payroll Master File Audit Trail Review		✓	

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.

1. Payroll Master File Audit Trail Review

Finding

It was noted during payroll testing that while the audit trail report for payroll master file amendments for pay periods ended 14th October 2020, 27th January 2021 and 17th March 2021 were printed and saved with the payroll batch reports, there was no clear evidence of review by an appropriate person.

Rating: Moderate

Implication

Without clear evidence of review of payroll master file amendments there is an increased risk of unauthorised changes to the payroll master file and incorrect or fraudulent payroll payments being processed.

Recommendation

Payroll master file amendments should be formally reviewed by an appropriate person prior to payroll processing and a record of these amendments and review maintained.

Management Comment

Audit Trail of access and modification to payroll master file is now reviewed and signed by appropriate officer as part of weekly payroll approval and payment reports.

Responsible Person: Stephen Gash - CEO

Completion Date: 1 June 2021

7. OTHER OFFICER'S REPORTS

Nil

8. ITEMS LISTED FOR DISCUSSION

Nil

9. CLOSURE OF MEETING

Meeting closed at 2.47pm.