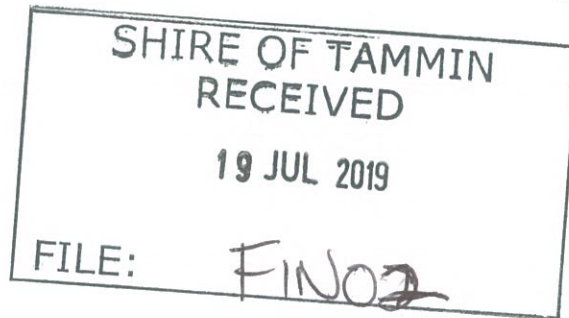




Our Ref: 7960

Mr Neville Hale
Chief Executive Officer
Shire of Tammin
PO Box 53
TAMMIN WA 6409



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Serving the Public Interest

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Dear Mr Hale

**ANNUAL FINANCIAL REPORT
INTERIM AUDIT RESULTS FOR THE YEAR ENDING 30 JUNE 2019**

We have completed the interim audit for the year ending 30 June 2019. 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 listing of deficiencies in internal control and other matters that were identified during the course of the interim audit. These matters have been discussed with management and their comments have been included on the attachment. The matters reported are limited to those deficiencies that were identified during the interim audit that we have concluded are of sufficient importance to merit being reported to management. Some of the matters 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 of the Shire. 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 me on 6557 7644 if you would like to discuss these matters further.

Yours faithfully


PATRICK ARULSINGHAM
SENIOR DIRECTOR FINANCIAL AUDIT

16 July 2019

Attach

SHIRE OF TAMMIN

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Non-compliance with internal purchasing policy	✓		
2. Review of property values input into SynergySoft		✓	
3. Fixed asset and attractive items register		✓	
4. Changes to employee and supplier master files		✓	
5. Capitalisation threshold 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.
- 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 TAMMIN

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

1. Non-compliance with internal purchasing policy

Findings:

Schedule 3.1(b) *Purchasing Thresholds and Requirements* of the Shire's purchasing policy requires that purchases, within prescribed threshold amounts, meet certain conditions that must be met to comply with the *Local Government Act 1995* and accompanying regulations.

During our procurement testing, from a sample of 30 purchases made during the period 1 July 2018 to 31 March 2019, we noted 17 instances (57%) where there was insufficient documentation to indicate that the requisite number of quotations had been obtained and evaluated.

Rating: Significant**Implication:**

Non-compliance with the internal purchasing policy increases the risk of breaching Part 4 of the *Local Government (Functions and General) Regulations 1996* and regulations 11A (3)(b) of the *Local Government (Finance and General ledger) Regulations*. There is a further risk of not achieving the objectives of 'Value for Money' as stated in Policy 4 *Value for Money* of the Shire's purchasing policy.

Recommendation:

The requirement for full compliance with the Shire's purchasing policy must be communicated to all staff and be closely monitored by management. Taking this action should reduce the risk of non-compliance with *Local Government Act 1995* and accompanying regulations.

If instances arise where the Shire is unable to obtain the requisite number of quotations, the reasons should be recorded and attached to the purchase order at the time of the purchase being made.

Management Comment:

Verbal and written quotes will be obtained prior to purchase orders being created. All documentation to be attached to the invoice. Staff to review and understand purchasing policy.

Responsible Person: All staff
Completion Date: June 2019

SHIRE OF TAMMIN**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019****FINDINGS IDENTIFIED DURING THE INTERIM AUDIT****2. Review of property values input into SynergySoft****Findings:**

In August 2018, the Shire issued rate notices for the 30 June 2019 financial year based on valuation reports received from Landgate. Rates are calculated, in part, by referring to the property values manually input by the Property and Rates Officer into the Shire's SynergySoft financial management platform.

During our audit we noted that the Shire failed to independently review the property values manually input into SynergySoft.

Rating: Moderate**Implication:**

Failure to independently review the property values manually input into SynergySoft may lead to inaccuracies in both the rates charged and the rates revenue recognised in the financial statements.

Recommendation:

The Shire should implement a formal review process for the property values manually input into SynergySoft.

Management Comment:

Valuations uploaded into SynergySoft by the Property and Rates Officer will be checked and authorised by the Manager of Finance and Administration.

Responsible Person: Property and Rates Officer and
Manager of Finance and Administration

Completion Date: June 2019

SHIRE OF TAMMIN

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

3. Fixed asset and attractive items register**Findings:**

During our audit, we noted the following matters in relation to the Shire's fixed assets register and attractive items register:

- The fixed assets register is not maintained during the year and is not reconciled to the general ledger on a periodic basis. As at date of the interim audit, we noted a variance between the fixed assets register and general ledger of \$632,000. We understand the differences are recorded by the Shire on a monthly basis, before being reconciled at financial year-end.
- Effective from 1 July 2018, regulation 17A(5) of the Local Government (Financial Management) Regulations 1996 (**Financial Management Regulations**) provides that an asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition by the local government is under \$5,000. As at date of audit, 39 assets were recorded on the fixed assets register with a cost of less than \$5,000.
- As at date of audit, the Shire has not established an 'attractive items register' to help control and maintain important assets under \$5,000 which have been excluded from the fixed asset register as required under regulation 17A(5) of the Financial Management Regulations.

Rating: Moderate**Implication:**

- Failure to maintain and reconcile the fixed assets register on a periodic basis results in an increased risk relating to the completeness of the fixed assets register and depreciation expense.
- Failure to expense assets acquired for less than \$5,000 results in an increased risk of non-compliance with regulation 17A(5) of the Financial Management Regulations.
- Failure to maintain an 'attractive items register' for important assets excluded from the fixed assets register results in an increased risk of asset misappropriation.

Recommendation:

The Shire should:

- Maintain the fixed asset register throughout the year and reconcile it to the general ledger on a period basis.
- Review the fixed asset register to ensure all items acquired for less than \$5,000 have been expensed for accounting purposes.
- Construct and maintain an 'attractive items register' to help control important assets excluded from the fixed asset register.

SHIRE OF TAMMIN

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

3. Fixed asset and attractive items register (cont.)

Management Comment:

Reconciliations will be completed quarterly to make sure the fixed asset register balances to the general ledger. Assets under \$5,000 will be removed from the asset register and an attractive items register will be put in place prior to the final audit in October 2019.

Responsible Person: Manager of Finance and Administration
Completion Date: June 2019

SHIRE OF TAMMIN

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

4. Changes to employee and supplier master files

Findings:

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

Rating: Moderate

Implication:

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

Recommendation:

Changes to the employee and supplier master files should be independently reviewed.

System access privileges to the master files should be reviewed to ensure that only appropriate, approved staff have access.

Management Comment:

The payroll officer will run an audit trail report after each payroll and attach it to the other reports. This will show any changes made to employee records. The creditors officer will also run the same report after each payment run which will show if any changes have been made to the supplier details.

Responsible Person: Payroll Officer and Finance Officer

Completion Date: June 2019

SHIRE OF TAMMIN

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

5. Capitalisation threshold review

Findings:

The WA Local Government Accounting Manual (**Accounting Manual**), issued by the Department of Local Government, Sport and Cultural Industries, recommends that the Shire should establish a minimum threshold amount for the recognition of any non-current assets in the statement of financial position. Section 9.1.3 of the Accounting Manual recommends that the capitalisation threshold amounts should be reviewed annually to ensure they remain effective in the face of inflation.

During our audit, we noted that the Shire does not have a policy that requires the annual review of the capitalisation threshold amounts to ensure they remain effective in the face of inflation.

Rating: Minor**Implication:**

Failure to annually review the capitalisation threshold amounts increases the risk that immaterial expenditure is inappropriately capitalised, creating unnecessary detail and inefficient use of the Shire's resources.

Recommendation:

The Shire should annually review the capitalisation threshold amounts to ensure they remain effective in the face of inflation.

Management Comment:

The Shire of Tammin will adopt a policy in regards to this requirement prior to 30 June 2019.

Responsible Person:

Chief Executive Officer and
Manager of Finance and Administration

Completion Date:

June 2019