

## SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: 1 JULY 2021 TO 30 JUNE 2022

## FINDINGS IDENTIFIED DURING THE AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
<b>Findings identified in the current year</b>			
1. Fair value of infrastructure assets - frequency of valuations	✓		
2. Supplier masterfile amendments		✓	
3. Leave forms not completed for annual leave		✓	
4. Employees not provided pay increment letters			✓
<b>Matters outstanding from prior year</b>			
5. Inadequate purchasing procedures	✓		
6. Excessive annual leave		✓	

**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.

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## FINDINGS IDENTIFIED DURING THE AUDIT

**1. Fair value of infrastructure assets - frequency of valuations****Finding**

The Shire has not performed an assessment to determine whether its infrastructure assets represent fair value.

**Rating: Significant****Implication**

Without a robust assessment of fair value of the Shire's infrastructure assets there is a risk that the fair value of infrastructure 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).

**Recommendation**

The Shire considers implementing 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 Infrastructure Assets. Where indicators exist, a robust fair value assessment should be performed capturing the requirements of *AASB 13 Fair Value Movements*. This process is to ensure that the Shire's infrastructure 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 which may indicate that the fair value 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 LG entity 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.

**Management comment**

*Management is comfortable with the infrastructure asset valuations for 2021/2022 as stated in the annual financial report. A full revaluation process for infrastructure assets will be conducted by external consultants for the 2022/2023 financial year.*

**Responsible person:**

DCEO

**Completion date:**

30 June 2023

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**2. Supplier masterfile amendments**

**Finding**

We noted that no supplier master file amendment form is completed to evidence changes to supplier master files. Supporting documentation from suppliers is obtained and verified to affect changes to the supplier master files. An audit trail is generated from the accounting system each month which details all supplier master file amendments.

From our sample of 12 master file amendments, we noted that the accompanying audit trail was not reviewed on 4 occasions.

**Rating: Moderate**

**Implication**

This may result in unauthorised or inaccurate supplier information being processed to the supplier module giving rise to the risk of payments not being made to the appropriate supplier.

**Recommendation**

Management should review each monthly audit trail for changes to supplier master files to confirm that they were valid.

**Management Comment**

*The imbedded procedure for changing master file details (bank account) involves the supporting information being provided along with the audit trail report to the DCEO for independent verification. Management have reviewed the amendment process and will verify all master file amendments as the changes are made rather than via the end of month process.*

**Responsible Officer:**

DCEO

**Completion Date:**

Immediate (In Place)

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**3. Leave forms not completed for annual leave**

**Finding**

We found that leave forms in respect of annual leave were not completed on 2 occasions for the sample of 14 leave applications tested.

**Rating: Moderate**

**Implication**

When leave processed within the system is not supported by an authorised leave form, there is a risk that leave recorded is not valid, resulting in inaccurate leave balances and incorrect payments to employees.

**Recommendation**

We recommend that leave forms are completed for all forms of leave and that they are duly authorised by the appropriate manager before the leave is processed in the payroll system.

**Management's comments**

*Leave forms will be completed for all leave occurrences.*

**Responsible Person:** Finance Officer  
**Completion Date:** Immediate/Ongoing

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**4. Employees not provided pay increment letters**

**Finding**

We noted that annual employee increments are approved by management and provided to the Finance Officer for processing however letters are not prepared and provided to employees as confirmation of the increments.

**Rating: Minor**

**Implication**

Without formal annual increment letters, disputes could occur in relation to employment entitlements and pay rates. There is also an increased risk that errors may occur within payroll transactions which could go undetected.

**Recommendation**

To help ensure the accuracy and validity of payroll transactions, all employees should be presented with an increment letter which details all necessary pay rate movements as and when these occur. These increment letters should be retained within the employee personnel files.

**Management Comment**

*Employees will be provided with a letter in future for pay increases including increments, annual increases, and any other pay rate changes.*

**Responsible Person:** Finance Officer  
**Completion Date:** Immediate/Ongoing

**SHIRE OF NORTHAMPTON****PERIOD OF AUDIT: 1 JULY 2021 TO 30 JUNE 2022****FINDINGS IDENTIFIED DURING THE AUDIT****Matters outstanding from prior year****5. Inadequate purchasing procedures****2021 Finding**

The Shire's finance policy section 2.3.6 Purchasing Thresholds requires quotations to be obtained for purchases greater than \$5,000. Our testing of purchases made on a sample basis identified instances whereby there was insufficient documentation to indicate that the required number of quotations had been obtained.

From our sample of 50 purchases tested the following was noted:

- 2 purchases in the range of \$5,001 to \$19,999 had no evidence of two verbal quotes being obtained. Our inquiries indicated that for 1 of these purchases, there was no other suitable supplier to complete the works in the region, however there was no documented evidence to support this;
- 2 purchases in the range of \$20,000 to \$149,999 only had one written quote obtained. Our inquiries indicated that for 1 of these purchases, there was no other suitable supplier to complete the works in the region, however there was no documented evidence to support this. and
- 1 purchase in the range of \$20,000 to \$149,999 had no evidence of 2 written quotes obtained.

**2022 Update**

From our sample of 50 purchases tested the following was noted:

- 7 purchases in the range of \$5,001 to \$19,999 had no evidence of two verbal quotes being obtained, as required by the Shire's policies. Our inquiries indicated that the suppliers engaged were local suppliers and that there were no other suitable suppliers to complete the works in the region. However there was no documented evidence to either support this or to confirm that quotes from outside the Shire were obtained per section 2.1.1(a) of the finance policy;
- 1 purchase in the range of \$20,000 to \$249,999 only had one written quote obtained. Our inquiries indicated that there was no other suitable supplier to complete the works in the region, however there was no documented evidence to support this;
- 2 purchase orders were not on file;
- 1 purchase order was not signed as evidence of approval; and
- 1 purchase invoice was not signed as evidence of approval.

Discussions with management also indicate purchase orders do not always state the dollar amount.

**Rating: Significant** (2021 Rating: Significant)

**Implication**

- Non-compliance with Shire's finance policy section 2.1.1(a) and 2.3.6;
- No evidence that the ordering of goods was approved prior to the order being placed;
- Risk of favouritism of suppliers and not obtaining value for money; and
- Risk that the Shire may commit to expenditure which has not been appropriately authorised and may not represent valid business-related expenditure of the Shire which may potentially result in financial loss to the Shire;

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**FINDINGS IDENTIFIED DURING THE AUDIT**

**Recommendation**

We recommend:

- The Finance policy be communicated to all employees to ensure the required minimum number of quotations are obtained prior to purchase;
- Where there is no other supplier who can fulfill the required works, supporting evidence be obtained by way of an email by alternate suppliers asked to quote or by way of notation on the purchase order documentation; and
- That the Purchasing Policy be amended to include a preferred local supplier list with details of conditions where the requirement to obtain quotes or a purchase order up to a predetermined dollar value limit is not required for those suppliers. We further recommend that the preferred local supplier list be endorsed by the Council and reviewed annually to ensure that the Shire continues to receive value for money from the local suppliers.

**2021 Management Comment**

*There has been a general improvement in our procurement compliance however this is an area that will require ongoing attention to ensure all policies are adhered to in future.*

*Staff will be instructed to note on the Purchase Order when there are situations that are contrary to our Purchasing Policy*

**Responsible Officer:** CEO

**Completion Date:** Ongoing

**2022 Management Comment**

*The Shire will progress to implementing the SynergySoft Purchasing module as soon as possible pending funding and service provider availability. The implementation of the Purchasing module plus a more rigorous approach from staff will ensure our performance improves in this area.*

**Responsible Officer:** DCEO/Finance Officer

**Completion Date:** 30 June 2022

## SHIRE OF NORTHAMPTON

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**6. Excessive annual leave****2021 Finding**

During our testing on employee leave provisions, we noted two of the 41 staff employed at the Shire have accrued annual leave balances in excess of 8 weeks at year end.

**2022 Finding**

During our review we identified one employee who has an annual leave accrued balance in excess of 300 hours as at 30 June 2022.

We note management have processes in place to identify and monitor staff that have accrued excessive annual leave balances and have taken appropriate action.

**Rating: Moderate** (2021 Rating: Moderate)

**Implication**

Excessive accrued annual leave balances increases the risk of an adverse impact through excessive financial liabilities and may also indicate over-reliance on key individuals. As well as managing leave liabilities, it is important for staff to take regular leave for their health and wellbeing, and to develop staff to perform the tasks of others. In addition, fraud can be more easily concealed by staff who do not take leave.

**Recommendation**

The Shire should continue to monitor and manage excessive leave balances to reduce the financial liability, risk of business interruption and fraud.

**2021 Management Comment**

*There has been a reduction in both our annual leave and long service leave liability. Staff are regularly reminded about their leave balances and several key personnel have taken leave or have leave planned in the next 6-12 months.*

*The CEO will re-access all leave balances and encourage any employees with excessive leave balances to take additional or extended leave notwithstanding that the Shire needs to continue operating and the costs associated with backfilling key positions.*

**Responsible Officer:** CEO  
**Completion Date:** Ongoing

**2022 Management Comment**

*It is anticipated that there will be further reductions in our annual and long service leave liability during 2022/2023. Staff will be encouraged to schedule leave and ensure they are working towards clearing any excessive leave balances within our operational capacity.*

**Responsible Officer:** CEO  
**Completion Date:** Ongoing