

Our Ref: 1.1.3
Enquiries: Andrew Campbell

6 January 2025

Hon Hannah Beazley MLA
Minister for Local Government
7th Floor Dumas House
2 Havelock Street
WEST PERTH WA 6005

Dear Minister Beazley,

SIGNIFICANT FINDING FROM 2023/24 FINANCIAL MANAGEMENT REPORT

The Shire of Northampton has completed its 2023/24 audit with the Financial Management Report identifying one significant rating. In accordance with the requirements of the *Local Government Act 1995*, you are being advised of this matter and the actions taken to correct.

Significant Audit Finding

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2024

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

1. Non-Compliance with Local Government Act and Regulations

Audit procedures identified the following:

- Draft 30 June 2024 financial statements were submitted to the auditor post 30 September 2024 representing a breach of Section 6.4 of the *Local Government Act 1995*.
- Reserves term deposit accounts were closed in error and transferred to the Municipal Bank Account representing a breach of section 8 of the *Local Government (Financial Management) Regulations 1996*. We note the Shire subsequently took action to correct this matter by opening new reserve term deposit accounts in August 2024.

Rating: Significant

Implication

- Non-compliance with Section 6.4 of the *Local Government Act 1995*.
- Non-compliance with Section 8 of the *Local Government (Financial Management) Regulations 1996*.

Recommendation

We recommend that the Shire establish and implement robust procedures to ensure compliance with the Local Government Act 1995 and the Local Government (Financial Management) Regulations 1996. These procedures should include timely submission of financial statements and proper management of reserve accounts to prevent similar non-compliance issues.

Management comment

Noted, and Reserve issue corrected.

Responsible person: Completion date:

Andrew Campbell Chief Executive Officer 09/12/2024

Action taken by Shire of Northampton

1. The Shire of Northampton lost a key senior employee on 31 May 2024 who was responsible for financial control. As a result of this the new employee commenced and identified, in conjunction with consultancy support, deficiencies in the approach to Shire accounts that required correction. An extension to the submission deadline was sought and received from the Department of Local Government, Sport and Cultural Industries until the 25 October 2024 to enable corrections to be made with the final draft accounts submitted by the next working day on 28 October 2024. This matter is unlikely to arise in the future now that the account approach has been corrected.
2. Reserve term deposits expired just prior to the end of the 2023/24 financial year and rather than following past practice of rolling Reserve term deposits over, a dedicated Reserve account was created to ensure more transparent financial management. Due to the timing of the creation of the new Reserve account and the delay from the Shire's banking institution, the Reserve funds had to be transferred to the Municipal Account as an interim step and this coincided with crossing over into the 2024/25 financial year, identified by the audit. A Reserve account is now established, and this issue will not arise in the future.

A copy of the Management Report and the Audit Committee Minutes considering the matter are attached.

If you would like to discuss this matter further, please do not hesitate to contact me at ceo@northampton.wa.gov.au.

Yours sincerely



Andrew Campbell
CHIEF EXECUTIVE OFFICER

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2024

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

Index of findings	Potential impact on audit opinion	Rating			Prior year finding
		Significant	Moderate	Minor	
1. Non-Compliance with Local Government Act and Regulations	No	✓			
2. Incorrect Application of Depreciation Policies	No		✓		
3. Lack of comprehensive grant register	No		✓		
4. Inadequate Cut-off Procedures	No		✓		
5. Reconciliation of ESL Debtor	No		✓		
6. Recognition of ATO Liabilities	No			✓	
7. Excessive Leave Balances	No			✓	✓

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.

The ratings included are preliminary ratings and could be modified pending other findings being identified, rated and the consideration of them collectively on the ratings and any potential impact on the audit opinion.

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2024

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

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Rating: Significant

Implication

- Non-compliance with Section 6.4 of the *Local Government Act 1995*.
- Non-compliance with Section 8 of the *Local Government (Financial Management) Regulations 1996*.

Recommendation

We recommend that the Shire establish and implement robust procedures to ensure compliance with the Local Government Act 1995 and the Local Government (Financial Management) Regulations 1996. These procedures should include timely submission of financial statements and proper management of reserve accounts to prevent similar non-compliance issues.

Management comment

Noted, and Reserve issue corrected.

Responsible person: Andrew Campbell Chief Executive Officer
Completion date: 09/12/2024

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2024

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

2. Incorrect Application of Depreciation Policies

During the audit of the depreciation expense for the year, the following issues were identified:

- The depreciation rates for four asset classes did not align with the policy approved by Council, as outlined in the budget.
- The depreciation rates for two asset classes in the financial statements did not match the rates recorded in the Shire's accounting system. These rates were later corrected to align with the accounting system.

Rating: Moderate

Implication

- Risk of misstatement in the reported values for property, plant and equipment, infrastructure and depreciation.
- Risk budgetary information presented to Council may be inaccurate or misleading.

Recommendation

We recommend that the Shire ensure that the depreciation rates adopted by Council are consistently applied across the accounting system and reflected accurately in the financial statements. This will help maintain alignment between the financial reporting and the approved budget.

Management comment

Noted. AFR depreciation rates (Note 10(a)) to be presented to Council 19 December 2024 for endorsement.

Responsible person: Andrew Campbell Chief Executive Officer
Completion date: 19 December 2024

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2024

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

3. Lack of comprehensive grant register

We noted the Shire does not maintain a comprehensive grant register. This lack of detailed documentation led to challenges in auditing grant revenue, contract assets, and contract liability balances.

Rating: Moderate

Implication

The absence of a comprehensive grant register increases the risk of incomplete or inaccurate recording of grant-related transactions and associated balances, which could impact the accuracy of financial reporting.

Recommendation

We recommend that the Shire establish and maintain a detailed grant register to accurately track all grant-related transactions. This will improve transparency, streamline the audit process, and ensure proper accounting for grant revenue and related balances.

Management comment

Agreed. A detailed grant register is in development, and will be maintained.

Responsible person:

Leanne Rowe Manager Financial Services

Completion date:

30 June 2025

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2024

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

4. Inadequate Cut-off Procedures

We noted an instance where work/expenditure to the value of \$44,500 relating to the 2023/2024 financial year had not been accurately accrued.

Rating: Moderate

Implication

There is a risk of misstatement in the accruals reported in the financial statements, potentially affecting the accuracy of financial reporting.

Recommendation

We recommend that the Shire review its cut-off procedures and implement robust processes to ensure that all work and expenditure for each financial year are correctly accrued. This will help maintain accurate financial records and ensure compliance with accounting standards.

Management comment

Agreed. Year end cut-off procedure to be reviewed and updated.

Responsible person:

Leanne Rowe Manager Financial Services

Completion date:

30 June 2025

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2024

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

5. Reconciliation of Emergency Services Levied(ESL) Debtor

During our review of rates balances at 30 June 2024, we noted that ESL debtor balance per the general ledger was \$68,631, compared to the "Rates Outstanding Report" which showed a balance of \$18,599. Management was unable to reconcile this difference during the audit.

Rating: Moderate

Implication

- Risk of misstatement to the financial statements.
- Risk of financial loss to the Shire.

Recommendation

We recommend:

- the Shire conducts a full reconciliation of Emergency Services Levied to resolve the variance.
- Emergency Services Levied reconciliation forms part of the monthly rates reconciliation moving forward.

Management comment

Agreed. Rates Officer has commenced reconciliation. Rates end of month procedure to be updated to include ESL reconciliation.

Responsible person: Leanne Rowe Manager Financial Services
Completion date: 30 June 2025

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2024

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

6. Recognition of ATO Liabilities

During our review of ATO liabilities, we noted the June Business Activity Statement balance had been included within Trade Payables.

Rating: Minor

Implication

- Risk of misstatement to the financial statements.

Recommendation

We recommend ATO liabilities are separately disclosed in the financial statements in line with best practice.

Management comment

Agreed. Year end procedure to be reviewed and updated.

Responsible person:

Leanne Rowe Manager Financial Services

Completion date:

30 June 2025

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2024

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

7. Excessive Leave Balances

We identified six employees with annual leave balances exceeding eight weeks as of 30 June 2024. The value of leave exceeding eight weeks being \$38,000.

Additionally, we identified seven employees with long service leave balances exceeding sixteen weeks as of 30 June 2024. The value of leave exceeding sixteen weeks being \$47k.

This issue was first reported in the 2021 management letter.

Rating: Minor (2023: Minor)

Implication

Excessive accrued leave balances increase the risk of an adverse impact through excessive liabilities and may also indicate over-reliance on key individuals. It is important for staff to take regular leave for their health and wellbeing, and to develop staff to perform the tasks of others. Additionally, employees who do not take leave may have opportunities to conceal fraudulent activities.

Recommendation

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

Management comment

Noted, and Chief Executive Officer to continue to advocate for employees to take leave.

Responsible person: Andrew Campbell Chief Executive Officer
Completion date: 30 June 2025



Andrew Campbell
Chief Executive Officer
9 December 2024



SHIRE OF NORTHAMPTON
MINUTES

Audit and Risk Management Advisory Committee held in the Council Chambers,
Northampton
9 December 2024

1. **DECLARATION OF OPENING OF MEETING BY THE CHAIRPERSON**
Cr Roslyn Suckling declared the meeting open at 1.35am

2. **ACKNOWLEDGEMENT OF COUNTRY**
We would like to respectfully acknowledge the Yamatji People who are the Traditional Owners and First People of the land on which we meet. We would like to pay our respects to the Elders past, present and future for they hold the memories, the traditions, the culture and hopes of the Yamatji People.

3. **ATTENDANCE / APOLOGIES**

Members

Cr Roslyn Suckling
Cr Liz Sudlow – Shire President
Cr Richard Burges
Cr Tim Hay

Apologies

Nil.

Observers

Mr Andrew Campbell (CEO)
Mrs Leanne Rowe (Manager Financial Services)

4. **DECLARATIONS OF FINANCIAL INTERESTS**
Nil.

5. **CONFIRMATION OF MINUTES OF MEETING HELD 21 NOVEMBER 2024**

Moved: Cr Sudlow

Seconded Cr Burges

“That the minutes of the Audit and Risk Management Advisory Committee held on 21 November 2024 be received as a true and correct record.”

Carried 4-0

For: Cr’s Suckling, Sudlow, Burges, and Hay.
Against: Nil

6. REVIEW OF FINDINGS OF 2023/24 ANNUAL FINANCIAL REPORT

The Committee considered the 2023/24 Annual Financial Report following on from the Audit Exit meeting held with the Office of Auditor General and the Shire's auditors, AMD. Four recommendations were made:

Moved: Cr Sudlow

Seconded Cr Hay

"That the 2023/24 Annual Financial Report is recommended to Council for adoption."

Carried 4-0

For: Cr's Suckling, Sudlow, Burges, and Hay.

Against: Nil

Moved: Cr Sudlow

Seconded Cr Hay

"That the 2024/25 carry forward budget deficit arising from the finalisation of the 2023/24 Annual Financial Report is corrected through the following budget amendment:

<i>2024/25 Budget</i>	<i>Current</i>	<i>Proposed</i>	
<i>Strategic Opportunities Reserve</i>	<i>(\$694,957)</i>	<i>(\$377,149)</i>	<i>(\$317,808)</i>
<i>Carry Forward Surplus</i>	<i>\$1,708,870</i>	<i>\$1,391,062</i>	<i>\$317,808</i>
		<i>Net impact</i>	<i>\$0</i>

Carried 4-0

For: Cr's Suckling, Sudlow, Burges, and Hay.

Against: Nil

Moved: Cr R.Suckling

Seconded Cr Burges

"The Audit and Risk Management Advisory Committee recommend that Council adopt the depreciation rates noted on page 20, note 10 of the 2023/24 Annual Financial Report to align with the infrastructure valuation completed by AssetVal on 30 June 2023."

Carried 4-0

For: Cr's Suckling, Sudlow, Burges, and Hay.

Against: Nil

Moved: Cr Sudlow

Seconded Cr Burges

"The Audit and Risk Management Advisory Committee accept the 2023/24 final Management Report as written."

Carried 4-0

For: Cr's Suckling, Sudlow, Burges, and Hay.
Against: Nil

7. CHIEF EXECUTIVE OFFICER PRIORITY RISK REPORT

The following items of risk were raised and discussed by the CEO:

1. The current status of Legal Documents and steps being put in place to rationalise and correct issues; and
2. The approach to the significant rainfall event that has damaged Shire of Northampton road and drainage infrastructure including the appointment of consultants GHD, damage assessment, and navigating the DRFAWA processes.

8. DATE FOR NEXT MEETING

To be advised.

9. CLOSURE

There being no further business the Chairperson closed the meeting at 2.18pm.