



AGENDA

Audit and Risk Management Committee Meeting Friday, 9 August 2019

I hereby give notice that an Audit and Risk Management Committee Meeting will be held on:

Date: Friday, 9 August 2019

Time: 8:00am

**Location: Town of Claremont
Claremont Council Chambers
308 Stirling Highway, Claremont**

**Liz Ledger
Chief Executive Officer**

DISCLAIMER

Persons present at this meeting are cautioned against taking any action as a result of any Committee recommendations until such time as those recommendations have been considered by Council and the minutes of that Council meeting confirmed.

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- 1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS**
- 2 RECORD OF ATTENDANCE / APOLOGIES**
- 3 DISCLOSURE OF INTERESTS**
- 4 CONFIRMATION OF MINUTES OF PREVIOUS MEETING**

5 REPORTS OF THE CEO

5.1 2018-19 ANNUAL FINANCIAL REPORT - INTERIM AUDIT RESULTS

File Number: FIM/00070-05, D-19-26171

Author: Katie Bovell, Governance Officer

Authoriser: Les Crichton, Director Corporate and Compliance

Attachments: 1. Annual Financial Report Interim Audit Results for the Year Ended 30 June 2019 [↓](#) 

PURPOSE

To present the Interim Audit Results for the Year Ended 30 June 2019 for review by the Audit and Risk Management Committee.

BACKGROUND

The *Local Government Amendment (Auditing) Act 2017* was proclaimed on 28 October 2017, giving the Auditor General the mandate to audit all Western Australian local government entities.

The Act allowed the Office of the Auditor General (OAG) to begin performance audits straight away, while responsibility for financial audits to transition over 4 years, as local government's existing audit contracts expire. By the financial year 2020-21, all local government entities will be audited by the OAG.

The Town's audit contract with Moore Stephens expired on conclusion of the 2017-18 audit, which resulted in the OAG becoming responsible for all future financial audits, beginning with the 2018-19 financial year.

In February 2019, the OAG confirmed this arrangement with the Town, outlining our respective responsibilities, together with the audit objective and scope.

As detailed in the Auditors Audit Strategy Memorandum presented by the OAG to the Audit and Risk Management Committee (ARMC) at its meeting of 1 May 2019, the audit includes the conduct of an interim audit, and issue of an interim management report, if any matters need to be reported. The OAG (through its contractors Moore Stephens) completed the onsite element of the interim audit from 1-3 May 2019 inclusive.

In preparing the interim audit results, the OAG submitted a draft report for management comment, which are included the final report.

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DISCUSSION

As detailed within the report (Attachment) the OAG identified six areas it considered deficient in internal control. The OAG assessed three as of significant risk or concern, two as moderate, and one as minor.

While management comment including corrective action is provided within the OAG Report, the following additional comments are provided on those matters with a rating of significant.

Trust Funds transacted through municipal bank account

Current receipting software only enables funds received regardless of purpose to be allocated to a single bank account. As the majority of transactions are related to the Town's municipal function, the Municipal Bank account and associated General Ledger account is therefore used.

The receipting system however allocates all transactions to their respective municipal revenue or trust deposit accounts at source. This facilitates reconciliation of both municipal and trust bank accounts, which together with daily maintenance of the municipal fund to cover payments before they are made mitigates if not removes any risk of inadvertent use of trust funds for municipal purposes.

The software provider has also been requested to upgrade the software to provide separate banking reports within end of day receipting reporting.

Journals not independently reviewed

This matter relates to the adequate demonstration of journal approval and review. The large number of lines of journals (at times above 1,000) makes printing and signing by the authoriser and reviewer impractical.

The current practice retains the journal files within excel spreadsheets. To address the evidence concerns, the files will continue to be retained with excel spreadsheets however is now maintained within the Town's records management system. This provides logs of all creators, authorisers and reviewers of the journal files.

Fixed Assets below \$5,000

This requirement is scheduled for inclusion in the *Town's year end processes which will address the requirement of Regulation 17A of the Local Government (Financial Management) Regulations 1996.*

The Audit and Risk Management Committee (ARMC) on reviewing progress on recommendations following completion of the 2017 Compliance Audit Return raised its concerns, at the increasing number of reports of non-compliance in the areas of procurement and delegations within the local government and public sector.

The Office of the Auditor General had completed and published a review of local government procurement which highlighted weaknesses in procurement controls, processes and documentation across each the eight local governments it reviewed.

PAST RESOLUTIONS

Audit and Risk Management Committee Meeting 1 May 2019, Resolution 7/19:

That the Audit and Risk Management Committee -

- *Notes the recommendations and agreed management action within the Procurement and Delegation Internal Audit Review - April 2019, and*
- *Recommends Council receive the Delegations of Authority and Procurement Internal Audit Review.*

CARRIED

Audit and Risk Management Committee Meeting 8 March 2019:

Paxon Group Executive Director, Cameron Palassis, outlined the proposed audit plan for the Procurement and Delegation Process Audit, clarified the expectations and responded to questions from the committee.

Audit and Risk Management Committee Meeting 1 March 2019, Resolution 04/19:

That the Audit Committee endorse engagement of the Paxon Group to undertake the audit of procurement and delegation processes as set out in their proposal.

CARRIED

Ordinary Council Meeting 4 December 2018, Resolution 217/18:

That Council engage an external auditor to review and report to the Audit and

Risk Management Committee by the end of the 2018-19 financial year on the appropriateness, processes and application of the Towns policies, procedures, and associated record keeping (including sampling), in relation to;

- i. Procurement, and*
- ii. Delegations*

CARRIED BY AN ABSOLUTE MAJORITY

That Council:

- 1. The Terms of Reference for the review and report be developed for endorsement by the Audit Committee Chair, and*
- 2. Council approve an unbudgeted allocation of \$15,000 to fund the external review of the procurement and delegation policies and procedures.*

CARRIED BY AN ABSOLUTE MAJORITY

Audit and Risk Management Committee Meeting 23 November 2018,

That Council engage an external auditor to review and report to the Audit and Risk Management Committee by the end of the 2018-19 financial year on the appropriateness, processes and application of the Towns policies, procedures, and associated record keeping (including sampling), in relation to;

- i. Procurement, and*
- ii. Delegations*

CARRIED

FINANCIAL AND STAFF IMPLICATIONS

Nil

POLICY AND STATUTORY IMPLICATIONS

Local Government Act 1995: Part 7 - Audit

Local Government (Audit) Regulations 1996: Cl. 9 - Performance of Audit; Cl. 10 – Report by Auditor

COMMUNICATION / CONSULTATION

Nil

STRATEGIC COMMUNITY PLAN

Leadership and Governance

We are an open and accountable local government; a leader in community service standards.

- Demonstrate a high standard of governance, accountability, management and strategic planning.
- Manage our finances responsibly and improve financial sustainability.

URGENCY

Nil

VOTING REQUIREMENTS

Simple majority decision of Council required.

OFFICER RECOMMENDATION

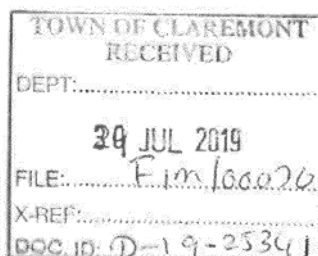
That the Audit and Risk Management Committee,

- 1. Receives the Office of Auditor General's Annual Financial Report – Interim Audit Results for the Year Ended 30 June 2019, and**
- 2. Notes the recommendations and management comments/actions within the Report.**



Our Ref: 8282

Ms Liz Ledger
Chief Executive Officer
Town of Claremont
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CLAREMONT WA 6910



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Dear Ms Ledger

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

We have completed the interim audit for the year ended 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 Mayor. 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 7674 if you would like to discuss these matters further.

Yours faithfully

ARAM MADNACK
DIRECTOR FINANCIAL AUDIT
24 July 2019

Attach

ATTACHMENT

TOWN OF CLAREMONT

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Purchase orders are raised/approved after service performed or goods received		✓	
2. Trust funds transacted through municipal bank account	✓		
3. Borrowings reconciliations			✓
4. Journals not independently reviewed	✓		
5. Fixed assets below \$5,000	✓		
6. Documented procedure for changes to supplier master file was not followed		✓	

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.

ATTACHMENT

TOWN OF CLAREMONT

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

1. Purchase orders are raised/approved after service performed or goods received**Finding**

Our sample testing of payment transactions noted instances where purchase orders were raised after the invoice was received.

We also noted the Town's accounting system does not allow purchase orders to be applied to invoices for subsequent processing of payments if the details of both documents were not exactly identical. Consequently, purchase orders were either raised in draft form and only finalised or raised and finalised with the exact details upon receiving the applicable invoices. Effectively, purchase orders were not properly raised and authorised at the time purchases were made.

Rating: Moderate**Implication**

Purchases made without authorised purchase orders may increase the risk of unauthorised expenditure occurring and going undetected.

Recommendation

To help ensure all purchases are made in line with the Town's purchasing policy and within budgetary responsibility, they should be supported by duly authorised purchase orders which should be raised and issued to suppliers prior to goods or services being received. They should contain all of the necessary details (including quantity and price) for matching with final invoices subsequently received from suppliers.

Any subsequent changes to the details of original purchase orders when matching them with the final invoices received and entered into the system, should then be properly documented to ensure proper accountability and audit trail.

Management Comment

The requirement of issuing purchase orders is consistently addressed with all staff by senior management however as identified system limitations prohibit changes to purchase order details after issue, resulting in some instances where issued dates show after invoice date.

A requirement to enable and track such changes is a mandatory specification within the 2019-20 upgrade/replacement of our Town's ERP system.

Responsible Person: Finance
Completion Date: Ongoing

ATTACHMENT

TOWN OF CLAREMONT

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

2. Trust funds transacted through municipal bank account**Finding**

We noted that trust transactions are processed through the municipal bank account with journals being processed to transfer the fund received for these transactions to the trust bank account monthly.

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

The municipal fund to be kept separate and distinct from the trust fund.

Rating: Significant**Implication:**

In processing trust transactions through the municipal bank account there is increased risk that the Town may be utilising trust moneys as part of the municipal fund and non-compliance with the Act.

Recommendation

To help ensure adequate control over trust funds and proper compliance with the Act, all bona fide trust money should be transacted directly via a Trust bank account as and when the money is received or paid.

Management Comment

Any risk associated with the use of trust funds for municipal purposes is negated by the daily maintenance of municipal fund bank balances to cover all municipal payments. This is validated through the Municipal and Trust bank reconciliations which show no record of any monthly transfer from Municipal Fund to the Trust Fund below Trust Fund receipts for that month.

This has been necessary as our current software doesn't have functionality to provide separate end of day banking reports for the municipal and trust banks. As a newly identified item, we have requested the software provider address this requirement as a matter of urgency together with a separate Trust Fund EFTPOS terminal.

Responsible Person: Hitesh Hans
Completion Date: 31 December 2019

ATTACHMENT

TOWN OF CLAREMONT

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

3. Borrowings reconciliations

Finding

Reconciliation of the subsidiary register to corresponding general ledger control account for borrowings has not been performed since June 2018.

Rating: Minor**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. The absence of a documented review process by the Town over the reconciliations can result in errors or omissions remaining undetected, leading to misstatements in the financial statements.

Recommendation

To help ensure the Town's borrowings are correctly completely and accurately reflected in the general ledger for proper financial reporting purposes, management should consider implementing at least a quarterly reconciliation process over borrowings.

Management Comment

With only five loans, all of with semi-annual payments, quarterly reconciliations might be considered excessive with no real benefit provided.

Borrowing reconciliations are performed at the end of each financial year and checked against the loan outstanding report provided by our (only) lender.

Forecast of borrowing movements and interest between the beginning and the end of the current financial year is also performed at budget preparation time.

We propose to now include a second borrowings reconciliation as part of our mid-year review process.

Responsible Person: Hitesh Hans
Completion Date: 18 June 2019

ATTACHMENT

TOWN OF CLAREMONT**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019****FINDINGS IDENTIFIED DURING THE INTERIM AUDIT****4. Journals not independently reviewed****Finding**

We noted no evidence that journals were being authorised before posting and reviewed by an independent officer after posting.

Rating: Significant**Implication**

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

Recommendation

We recommend that a person more senior than the preparer authorises all journal entries prior to posting, and reviews journals after posting. Evidence of this authorisation and review should be retained.

Management Comment

Typically most journals relate to adjusting incorrect cost allocation, accruals and end of month journals. We have and can demonstrate that journals are currently being reviewed by two officers (Finance Officer/Senior Finance Officer and Manager Finance) electronically.

To address evidence concerns, the process has been amended to record the name and date of the officers on these electronic documents. A second layer of review will also be added through the monthly submission of the journals through our records system, to the Director Corporate and Governance.

Responsible Person: Hitesh Hans
Completion Date: 18 June 2019

ATTACHMENT**TOWN OF CLAREMONT****PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019****FINDINGS IDENTIFIED DURING THE INTERIM AUDIT****5. Fixed assets below \$5,000****Finding**

From 1 July 2018, Regulation 17A(5) of the Local Government (Financial Management) Regulations 1996 now requires assets with a fair value at the date of acquisition of less than \$5,000 to be excluded from the assets reported in the financial report of a local government entity.

From discussions with management and review of the asset register, we found the Town had recognised a number of assets with a purchase value below \$5,000 in its fixed assets register.

We also noted that the Town's fixed asset policies do not currently detail the determination of the unit of account for capitalisation (i.e. whether assets would be capitalised as a group or individually in the asset register).

Rating: Significant**Implication**

Non-compliance with Regulation 17A(5) of the Local Government (Financial Management) Regulations 1996, and risk of misstatement of fixed assets in the financial report.

Recommendation

Management should review the asset register and ensure any assets acquired with a fair value under \$5,000 are excluded from the register. Management should also update the fixed asset policies to include details for the determination of the unit of account for capitalisation.

Management Comment

This is a result on the 2018 amendment to the Financial Regulations. The Town further recognised this requirement through its amendment to its Accounting Policy and as required a list of under \$5,000 assets was forwarded for audit review and feedback. The sector is still determining which type/class of assets should be capitalised as a group. The year is not yet complete and opportunity for any further adjustments to comply with the requirement remains. We consider a scoring of minor or moderate is more appropriate.

Responsible Person: Margaret Brophy, Marty Symmons and Hitesh Hans
Completion Date: 31 August 2019

ATTACHMENT

TOWN OF CLAREMONT

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

6. Documented procedure for changes to supplier master file was not followed**Finding**

We noted an instance where the Town's finance officer did not follow the documented accounts payable procedure for changing creditor Masterfile details. In this instance the finance officer replied to the email request to change bank details that the requestor should phone the Town to confirm the change instead of the finance officer phoning the creditor using the contact details previously saved in the Masterfile.

Rating: Moderate**Implication**

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

Recommendation

To further safeguard the Town from the risks identified above, any requests to change the system details should be verified by following the Town's documented accounts payable procedure. Training/direction should also be provided to remind staff of the need to be ever vigilant and to exercise a level of scepticism for all requests, but, most importantly, to raise a concern if there is any doubt about the veracity of a request for change.

Management Comment

Audit trail of changes to Creditor's Masterfile is printed and reviewed before payments are processed.

In regards to this instance, finance officer said that as the supplier was not picking up the phone she emailed them to call her back. This was to ensure that their payment is timely processed. She mentioned that she did spoke with the authorised person and matched the phone number (called ID) with the system. All the officers are also reminded to follow documented procedures in the last finance team meeting held on 14th June 2019.

Responsible Person: Hitesh Hans
Completion Date: 14 June 2019

6 OTHER BUSINESS

7 NEW BUSINESS OF AN URGENT NATURE APPROVED BY THE PRESIDING PERSON OR BY DECISION OF MEETING

8 FUTURE MEETINGS OF COMMITTEE

9 DECLARATION OF CLOSURE OF MEETING