

## SIGNIFICANT AUDIT FINDINGS REPORT



This report is produced in accordance with Section 7.12A(4)(a) of the *Local Government Act 1995* and details the actions the Shire of York has taken and intends to take with respect to the Significant Findings identified in the Audit Report for the 2021/22 financial year.

The table below summarises the Findings, the Auditor’s Recommendations, the Shire of York’s comment at the time of the Audit.

No.	FINDING	RECOMMENDATION	MANAGEMENT COMMENT
1	<p>The Shire’s Management Guideline General Journals procedure requires that relevant supporting documentation is attached to manual journal adjustments and that they are reviewed and approved by an appropriate officer before they are processed.</p> <p>From a sample of 38 manual journal entries made, we noted the following:</p> <ul style="list-style-type: none"> <li>• 11/36 journal entries where we were unable to obtain supporting documentation to explain/justify the nature and accuracy of the journal entries</li> <li>• 30/38 journal entries that did not carry evidence of journal review and approval prior or subsequent to processing. Journals were prepared and posted by the same Officer.</li> </ul> <p>Our testing revealed that these instances appear to be isolated to journals prepared by the previous finance manager. We performed additional analysis on all manual journals posted during the</p>	<p>The Shire should ensure that manual journals are reviewed and approved by appropriate officers and who are independent of journal preparation. Manual journals should be accompanied by sufficient and appropriate supporting documentation to ensure they are necessary and accurate.</p> <p>The Shire’s Management Guidelines General Journals should be reviewed and updated to reflect current practices with training to staff to ensure the requirements are understood. This document should be reviewed regularly to ensure its currency and accuracy is maintained.</p> <p>We recommend if possible, the Shire continue in determining the validity of journals posted by the former Finance Manager retrospectively and maintain regular review of manual journals posted at the Shire.</p>	<p>The Shire’s preventative controls through the systems and processes for approvals of journals are considered adequate and appropriate. Detective controls identified that preventative controls were not followed in April 2022 and the Shire immediately rectified the situation to increase management oversight of the journal process.</p> <p>We have reviewed all journals processed by the former Finance Manager 2021/22 FY and an independent review has also been conducted by Moore Australia. All journals raised have either been reversed or subsequently authorised where appropriate supports were in place. It is management’s opinion that all journals now raised are adequately supported and independently reviewed by an appropriate officer. Other than reserve transfers the journals reviewed were purely reallocation journals between cost accounts. There was no misappropriation of funds identified and no evidence of fraud. All activity was isolated to one individual who did not follow existing control procedures. While the sum of journal activity</p>

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	<p>period and noted the following:</p> <ul style="list-style-type: none"> <li>A minimum of 56 individual journals were posted by the finance manager (identified via unique journal batch numbers) amounting to \$10.2M.</li> <li>We tested 38 of these journals amounting to \$4.4M. Of this we have not been able to substantiate \$286K.</li> <li>The total approximate value of the balance of journals of \$5.8M is not supported by sufficient and appropriate documentation to determine the validity of these journals. The Shire has not been able to be provide supporting documentation to date (December 2022).</li> </ul> <p>Due to this issue we are unable to draw a conclusion on the validity of the remaining journals not tested. We also note that the Shire did not have controls and processes implemented to ensure regular review of manual journals posted during the period. The Shire has upon being made aware of the finding above implemented this necessary key control.</p> <p>In addition, the current Management Guidelines General Journals procedure is out of date. The document came into force in June 2016, and it has not been reviewed since then.</p>		<p>appears high, many of the journals are the same journal reversed and repeated several times thus artificially inflating the overall movement. Of the \$10.2M journals \$8.4M relates to a number of journals entered and reversed to support one transaction of \$400K for reserve transfers.</p> <p>The Shire will undertake a review of relevant policies and processes such as the Management Guidelines General Journals procedure to ensure they are up to date as part of the upcoming Regulation 17 and FMR Regulation 5 Audit. Additionally, we are implementing the Government Frameworks Integrated Planning and Reporting software which will track policy and key procedure updates to reduce future risk of out-of-date documentation.</p>

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	<p>It references to positions that no longer exist within the Shire.</p>		
2	<p>The Shire has not performed an assessment to determine whether its infrastructure – other structures, infrastructure – parks and reserves and land and buildings represent fair value.</p>	<p>The Shire should consider 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 asset classes for which no revaluation is conducted are recorded at fair value in compliance with AASB 13 Fair Value Measurement and the Regulations.</p> <p>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 is likely to have been impacted to any significant / material extent from the prior year. Where a fair value assessment has been performed internally the Shire may consider having this assessment peer reviewed by an independent valuer to obtain assurance over the valuation methodology</p>	<p>The Shire recently undertook a fair value assessment of its transport assets in the 2021/22 Financial Year. The transport asset classes include roads (including carparks), drainage, footpaths and bridges. Due to escalating costs and budgeting constraints, fair values for building asset classes could not be achieved at the same time. As agreed with the OAG in early 2022 the valuation for buildings, in addition to public open space, were budgeted for and scheduled in the 2022/23 Financial Year. We have since confirmed that both public open space and buildings assets were not due until 2023. Only transport assets were due in 2022 and this review is captured in the audited financial statements for 2021/22.</p> <p>Prior to 30 June 2022, inflation was not at a level where management considered there was a need to undertake revaluation of all assets. In March 2022 when the Shire considered the need to review Fair Value for all asset classes there were no indicators that land and building inflation rates would substantially rise and decided to progress with the fair value review as planned in the following year.</p>

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		<p>applied, inputs and the reasonableness of the valuation model applied.</p>	<p>The Shire of York will investigate the possibility of obtaining a desk top review of all assets annually (in line with the Local Government (Financial Management) Regulation 17A (4)(a)) should the Shire be of the opinion that the fair value of the asset is likely to be materially different from its carrying amount. The Shire will budget accordingly in the 2023/24 Financial Year and future years.</p>
<p>3</p>	<p>We found the Shire’s network access management process is not fully effective. Testing identified 1 employee whose employment ceased on the 15 March 2022, however their network account remained active until 29 September 2022. We acknowledge that the Shire had lodged a ticket with Focus Network (IT service and management provider) to have the employee’s account deactivated, however the ticket had not been processed by the service provider.</p> <p>Additional audit testing confirmed the employee did not access the network from the date of their termination until the date their account was deactivated.</p> <p>From our review of the Altus Payroll and Procurement user access and privileges listing we found that user privileges are not being appropriately restricted and controlled.</p>	<p>The Shire should implement a user access and privileges monitoring process to ensure only current and valid users are able to access the Shire’s network and systems. This process should be extended to include validation of all privileges assigned to each user that are consistent with the positions’ roles and responsibilities. Where user accounts and/or privileges are no longer required, they should be immediately removed or updated.</p>	<p>The Executive are comfortable with the number of officers who have access/privileges. We note that some of the access identified by the OAG was for leave cover and only temporarily increased the numbers. The Shire will develop a policy position on which roles require access to each system to remove any ambiguity from decision making in this area. The limitations of the software packages preclude complete isolation of duties.</p> <p>The Shire agree that a countersigned audit trail is necessary in payroll as with our other financial packages. We are working with our software provider to establish what audit options are available within the payroll system to identify variations.</p> <p>A review of the exit process will be conducted to ensure the completion of requirements.</p>

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	<p>Specifically, our testing identified:</p> <ul style="list-style-type: none"> <li>• 4 employees from diverse business areas that have been assigned significant payroll privileges. From these accounts, it is possible to:                             <ul style="list-style-type: none"> <li>○ add employees, view and edit employee details (including names, date of birth, contact details, super and tax details),</li> <li>○ edit employee entitlements and</li> <li>○ manage pay runs, among other privileges.</li> </ul> </li> <li>• 3 employees from diverse business areas that can override the required number of quotes imposed by the system and prescribed by the Shire’s Procurement Policy.</li> <li>• 4 employees from diverse business areas that have been assigned super user privileges. From these accounts, it is possible to create, add and modify individual supplier accounts.</li> </ul> <p>In addition, the Shire does not perform regular reviews of user access and privileges to validate the appropriateness of these.</p>		
4	We tested a sample of 36 transactions and found	The Shire should review its underlying policies,	The Shire disagrees with the significant rating. For dot

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	<p>insufficient segregation of duties between the ordering of goods and or services to invoice processing and payment. Our testing identified the following:</p> <ul style="list-style-type: none"> <li>• 12/36 samples where the Chief Executive Officer (CEO) approved the purchase order and the invoice for payment. Of these 12, there were 3 instances where the CEO also performed the receipting function.</li> <li>• 4/36 samples where the Executive Manager – Infrastructure &amp; Development approved the purchase order and the invoice for payment.</li> <li>• 2/36 samples where the Finance Manager created the purchasing requisition, performed the 3-way matching and receipting functions and prepared the supplier payment batch.</li> </ul> <p>We understand that the limited segregation of duties noted is exacerbated as a result of the delegated financial authority gap between the CEO and the Executive Managers (EM), being \$150,000 and \$50,000, respectively, as established in the Shire of York's Policy Manual. At present the only Officer that has delegated financial authority for transactions between \$50,000 and \$150,000 is the CEO.</p> <p>In addition, from the sample of 36 transactions,</p>	<p>procedures, systems and controls around ordering, receipting and approving payment of goods and services. Policies and procedures implemented should ensure sufficient and appropriate segregation of duties is achieved and these should be communicated to all staff.</p> <p>The Shire should also review its delegated financial authority to ensure it remains appropriate to meet the Shire's risk assessment and procurement requirements.</p> <p>As part of ensuring segregation of duties, where purchases are initiated in business units that are not their own, relevant managers should undertake checks and make enquiries as necessary to verify and authorise each transaction.</p>	<p>points one and two the approvals were in line with current policy and in no way breach legislation. There has been no failure of compliance. This process has been audited and accepted as compliant by the OAG over several years. There was no recent communication from the OAG prior to this finding recommending this separation of duties.</p> <p>The process of authorising and subsequently approving a payment requires multiple eyes and signatories. A purchase order is raised and approved by two separate officers. An invoice received into the organisation is then checked by the finance team, who confirm a purchase order is in place, that the invoice conforms with the intent and amount of the order and then sends the invoice to the responsible officer for signed confirmation of receipt. This is then approved by an Executive or the CEO. Further detection opportunities exist when the payment batch is reviewed both by the Finance Manager and Executive Manager prior to processing of payments. This is an appropriate level of detective control and provides adequate segregation of duties. Since the final audit, an organisational realignment has occurred which further separates the CEO from operational business units. Despite this there will be instances where, due to</p>

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	<p>we found 6 instances where purchase orders for less than \$50,000 were approved by the CEO even though there were other officers with the delegated financial authority to approve these. Of the 6 transactions, there was 1 payment for which the CEO approved the purchase order and the invoice for payment. We have been advised by the Shire that these purchases related specifically to the CEO's business unit.</p>		<p>confidentiality, the CEO will both acknowledge receipt of goods and authorise payment.</p> <p>We do not see centralised procurement as a solution to this problem. The Shire will consider what is possible within our systems and staffing levels to see if we can provide any additional separation.</p>
5	<p>The fortnightly payroll reconciliation is an important control to ensure that the General Ledger (GL) is an accurate and complete representation of payroll related payments. From our review, we noted that although fortnightly payroll reconciliations are being prepared, there is no evidence of independent review.</p>	<p>The Shire should ensure that fortnightly payroll reconciliations are adequately performed, and evidence of independent review is retained.</p>	<p>The independent reviews were witnessed to have been conducted however it appears there was a failing to formalise this with sign off. This documented review process has been in place with the Finance Manager and Payroll Officer since May 2022.</p>
6	<p>During the final audit visit we found the June 2022 Property, Plant and Equipment reconciliation was not prepared and reviewed until 5 months after year-end. Property, Plant and Equipment is a key asset for the Shire.</p>	<p>We recommend the Shire prepare and review its Property, Plant and Equipment account reconciliations in a timely manner.</p>	<p>This occurred due to staff changes. Timely reconciliation of the asset register to the general ledger, whilst important, does not impact the completeness or accuracy of the annual financial statement. Management accepts that it may have an impact upon the monthly statement of financial activity.</p>
7	<p>During the final audit visit we found the June 2022 Municipal Bank, Reserve Bank and Trust Bank</p>	<p>We recommend that the Shire review its bank reconciliation processes to ensure the monthly bank</p>	<p>Noted, this was identified by management prior to audit. Management is making all efforts to bring bank</p>

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	<p>reconciliations were not prepared and reviewed in a timely manner. From our review we found:</p> <p><u>Trust Bank Account:</u></p> <ul style="list-style-type: none"> <li>The reconciliation was prepared and reviewed 5 months after year-end.</li> <li>There were 6 long outstanding items totalling \$5k dating from August 2021 to June 2022 that had been recognised in the GL but not reflected in the bank until November 2022.</li> </ul> <p><u>Reserve Bank Account:</u></p> <ul style="list-style-type: none"> <li>The reconciliation was prepared and reviewed 5 months after year-end.</li> <li>There was 1 long outstanding item for \$400k dating to April 2022 that had been recognised in the GL but not transferred from the Municipal account to the Reserve account until November 2022.</li> </ul> <p><u>Municipal Bank Account:</u></p> <p>To be received. (December 2022)</p>	<p>reconciliations are appropriately prepared and in a timely manner. The Shire should ensure an adequate level of training is provided to staff performing the reconciliation. The reviewer should also ensure that reconciling items are accurate and supported.</p>	<p>reconciliations up to date with the aim of them being undertaken monthly as a minimum or more frequently if resourcing levels allow.</p>
8	<p>Although the Shire does maintain some documentation it is not sufficient to demonstrate and evidence the on-going management of contract progress and supplier performance from contract award through to completion for its infrastructure projects.</p>	<p>A contract management plan should be prepared for each capital project which includes, but not limited to, the following:</p> <ul style="list-style-type: none"> <li>Scope and key deliverables</li> <li>Key milestones</li> <li>Variation process</li> </ul>	<p>New contractor management documents were prepared and delivered to the OAG for review at interim audit in May 2022. In addition, the Shire through its organisational realignment has created an Assets and Projects business unit, comprised of four staff members (three new positions) whose roles focus</p>

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	<p>We also noted no formal documentation to indicate any checks being performed to verify the completion of agreed scope of works and quality of the capital projects either delivered by external contractors or performed in house could be evidenced prior to assets being handed over to the Shire.</p>	<ul style="list-style-type: none"> <li>• Conflict resolution</li> <li>• Issue log</li> <li>• Contract closure and transition process of assets to the Shire</li> </ul>	<p>on contractor management. This allows for increased resourcing capacity in this area. Extensive consultation and training were undertaken in the new processes and documentation November 2022 – February 2023 with all staff involved. The processes and documentation are integrated with the new Government Frameworks Integrated Planning and Reporting system, allowing management improved transparency and oversight on key projects. This will be a process of continuous improvement.</p>
9	<p>The Shire’s current Asset Management Plan (AMP) was prepared in 2019. As a result, the Long-Term Financial Plan (LTFP) is also not sufficiently updated.</p>	<p>The AMP and LTFP should be reviewed every year in accordance with the <i>Local Government (Administration) Regulations 1996</i>, s19DA(4).</p>	<p>The Shire sought external contractors to complete the Asset Management Plans for transport and building assets in the 2021/22 Financial Year. Upon receipt of the contractors pricing it was determined that only the transport asset classes could be completed within that year’s budget</p> <p>We note that while Asset Management Plans and the Long-Term Financial Plans are important informing documents these are not required by legislation nor are they required to be reviewed annually. Regulation 19DA (4) refers only to the requirement for the local government to review its current Corporate Business Plan (CBP) annually. The CBP is to develop and integrate matters relating to resources including asset management, workforce</p>

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			planning and long-term financial planning only. Despite this, the Shire will continue to work towards keeping these plans as up to date as possible within existing resource constraints.
10	<p><i>AASB 5 Non-current Assets Held for Sale and Discontinued Operations</i> prescribes where an asset's carrying amount will be recovered principally through a sale transaction rather than through continued use the asset should be reclassified as held for sale and measured at the lower of its carrying amount and fair value less costs to sell.</p> <p>We noted during the audit the Shire's intent and actions taken to sell St Patrick's Convent School triggering the application of this standard. We found that management has not performed an assessment of this standard and as a result, the requirements of this standard, relating to classification, measurement and disclosure, have not been applied at 30 June 2022.</p> <p>We found the combined carrying amount of the assets related to the St Patrick's Convent School, which include land, building and a carpark, is \$518,500. We note that an offer has been accepted for an amount of \$300,000. The carrying amount exceeds the fair value of the assets by \$245,773,</p>	<p>The Shire should ensure that all assets held for sale are appropriately classified and measured in accordance with <i>AASB 5 Non-current Assets Held for Sale and Discontinued Operations</i> requirements.</p>	<p>The Shire disagrees with the OAG's finding in this regard. AASB 5 requires for all three of the following criteria to be met in order to classify assets as held for sale:</p> <ul style="list-style-type: none"> <li>• The assets carrying amount will be recovered principally through a sale transaction rather than continuing use. We agree this criterion was met.</li> <li>• The asset must be available for immediate sale in its present condition. We agree this criterion was met.</li> <li>• The sale is highly probable. We disagree that this criteria was met within the 21/22 Financial Year. A contract for sale was not entered into until September 2022 (the following financial year) and contained a number of conditions which could have resulted in no sale. These conditions have still not been met one year following. Council has withdrawn this property from sale multiple times in the past, with a high likelihood of this occurrence should this sale not progress. It is the Shire's intent to deal with this item either via the conclusion of the</li> </ul>

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	<p>resulting in an impairment loss of the same amount. This has not been reflected in the financial statements of the Shire for the year ended 30 June 2022.</p>		<p>sale, or during the Fair Value assessments process scheduled for the 2022/23 financial year.</p>
<p>11</p>	<p>We noted that the Shire has not implemented a standard process to monitor grant income and expenses in the 2021-22 financial year. There is no ongoing review to track grant income and expenditure other than the mid-year Budget Review and quarterly Finance and Costing review.</p> <p>This issue was raised in the 2019-20 financial year and was subsequently resolved the following year in 2020-21. The grant register was appropriately being maintained by the Finance Department with follow up from responsible officers on progress sought on a monthly basis.</p> <p>In the 2021-22 financial year, the grant register was not maintained, and we were unable to verify that regular updates were being made. Further our sample testing of grant revenue showed that an assessment of grants to underlying grant agreements had not been performed resulting in grant revenue not being recognised in accordance with AASB 15 – Revenue from Contracts with Customers or AASB 1058 – Income of Not-for-Profit Entities.</p>	<p>The Shire should review its current practice and implement a standard process to ensure its grant register is appropriately maintained to address the risks noted above.</p> <p>The Shire should retrospectively complete a detailed revenue recognition assessment of its grant revenue streams. This is to conclude if a particular grant revenue stream or transaction arises from an enforceable contract with a customer and has sufficiently specific performance obligations. The assessment will trigger the revenue recognition requirements under AASB 15, or if it falls outside this scope, under AASB 1058, so that revenue is not misstated for the 2022-23 financial year.</p>	<p>Agreed. The Shire is assessing processes to implement a grant tracking process to align with its integrated planning and reporting process.</p>

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If not already addressed in the above table, the following details the actions the Shire of York intends to take to address the Findings and provides the timeframe in which it is expected those actions to be implemented.

Finding	Action(s)	Owner	Timeframe
1	Review the Shire's control mechanisms and key documents via the Audit Regulation 17 and Financial Management Regulation 5 reviews	EMCCS	June 2023
	Review all journals processed by the former Finance Manager for the 2021/22 Financial Year	EMCCS	Complete
	Implement a policy tracking process to align with the Shire's integrated planning and reporting process	EMCCS	June 2023
2	Undertake Fair Value assessments of public open space and building assets	EMIDS	July 2023
3	Implement an audit process to track payroll system modifications	EMCCS	June 2023
	Review exit process for completeness	EMCCS	June 2023
	Develop a policy position on access requirements for each financial system defining user access privileges aligned to system capabilities	EMCCS	June 2023
4	Consider possible segregation of duties that can be reasonably achieved within resourcing levels	EMCCS	June 2023
5	Ensure fortnightly reviews of payroll reconciliations are performed and recorded.	EMCCS	Complete
6	Undertake regular Property, Plant and Equipment account reconciliations	FM	June 2023
7	Bring 2022/23 bank reconciliations up to date and ensure completion of a monthly process	FM	June 2023
8	Implement new contractor management processes and proformas. Implement a reporting process to align with the Shire's integrated planning and reporting process	EMIDS	Completed
9	Complete the Public Open Space and Buildings Asset Management Plans	EMIDS	December 2023
	Update the Shire's Long Term Financial Plan with updated Asset information	EMCCS	December 2023
10	Implement a grant tracking process to align with the Shire's integrated planning and reporting process.	EMCCS	June 2024

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11	Review the Shire's control mechanisms via the Audit Regulation 17 and Financial Management Regulation 5 reviews.	EMCCS	June 2023
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In accordance with Sections 7.12A(4)(b) and 7.12A(5) of the *Local Government Act 1995* a copy of this report is provided to the Minister for Local Government and published on the Shire's website.

Further information in relation to the report is available by contacting Alina Behan, Executive Manager Corporate & Community Services, on 08 9641 0500 or [records@york.wa.gov.au](mailto:records@york.wa.gov.au).

**Chris Linnell**  
**CHIEF EXECUTIVE OFFICER**

Dated: 18 April 2023