

# **Attachment 1**







LE 45M 0074	
DATE 20 JUN 2019	
Officer	CEO
Copy to	IFM 19835



Office of the Auditor General  
Serving the Public Interest

Our Ref: 8365

Mr William Mulrone  
President  
Shire of Pingelly  
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PINGELLY WA 6308

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Dear President

**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 the 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 the Shire of Pingelly and may not be suitable for other purposes.

We have forwarded a copy of this letter to the Acting CEO. 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 7509 if you would like to discuss these matters further.

Yours faithfully

ANN ANG  
ASSISTANT DIRECTOR  
FINANCIAL AUDIT  
17 June 2019

Attach

## SHIRE OF PINGELLY

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

## FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. User Access Management		✓	
2. Fees and Charges		✓	
3. Credit Card Statements		✓	
4. Review of Reconciliations		✓	
5. Journal Entries			✓

**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 PINGELLY**

**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019**

**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

**1. User Access Management**

**Finding**

Our review of user access levels within the Shire's financial reporting system (Synergy) identified that 9 user accounts still exist for staff, who were no longer employed by the Shire.

**Rating: Moderate**

**Implication**

Without an effective user access management process to ensure user accounts of individuals leaving the Shire are appropriately removed or disabled, there is an increased risk of unauthorised access.

**Recommendation**

We recommend that the Shire regularly review its user accounts within Synergy, and promptly remove or disable user accounts of staff who have left the Shire.

**Management Comment**

Affected Synergysoft user profiles to be addressed as listed below:

1. CEO Profile name changed and updated to Acting CEO - CEO position remains
2. ETO officer user profile 'depot' – name changed to position title - removed.
3. Casual Admin Officer RG – 'policy' – name changed to position - removed.
4. Project Admin Officer TW user profile 'pao' – Name changed to position – removed.
5. Admin Officer - AO - removed.
6. Community Development Officer KS – CSO position currently vacant and name removed and changed to position title until position recruited.
7. Casual LD - contractor4 – removed
8. Project Management- pm - removed
9. Trainee-Trainee - removed

Risk of other employees using an old user profile and bypassing their access restrictions considered low as staff are not permitted to share their login details and passwords. Audit trails are switched on in Synergysoft. As part of Termination check list all outgoing staff have their passwords cancelled within the hour of their termination to stop access either by remote connection or at any PC, Laptop or smart device or phone to email or server files including SynergySoft.

**Responsible Officer:** Director Corporate and Community Services  
**Completion Date:** 30 June 2019

## SHIRE OF PINGELLY

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

## FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

**2. Fees and Charges****Finding**

From our testing of 5 sundry debtor invoices, we found the following:

1. In one instance, the administration charge for rubbish disposal was not included on the Shire's published list of fees and charges for 2018-19.  
Section 6.19 of the *Local Government Act 1995* (Act) requires:  
If a local government wishes to impose any fees or charges after the annual budget has been adopted, it must, before introducing the fees or charges, give local public notice of — its intention to do so; and the date from which it is proposed the fees or charges will be imposed.
2. In one instance, the rate charged for truck repairs to the Shire of Brookton was not indexed at 1 July 2018 to include the annual increase of 3%, which was agreed between both Shires.

**Rating: Moderate****Implication**

The Shire is not complying with the requirement of the Act.

By charging an incorrect fee, there is a risk of financial loss to the Shire.

**Recommendation**

We recommend that the Shire ensure a public notice is given for any fees and charges imposed that are not included within the original budget, in accordance with the Act.

We also recommend that the Shire undertake the necessary steps to ensure correct rates are charged when invoicing.

**Management Comment**

Senior Finance Officer has now updated the Private Works procedures and calculation spreadsheet after being supplied copy of the new agreement for Heavy Duty Plant Mechanic Services between the Shire of Pingelly and the Shire of Brookton signed in February 2019. Due to short period of time and a downturn in usage from the Shire of Brookton this 3% lower charge out rate is considered immaterial. It should be noted that Private Works is still producing a reasonable Profit as a cost centre.

Schedule of Fees and Charges for 2018/19 only has an administration fee under private works \$156 and the Draft Fees and Charges for 2019/20 to include an administration fee under Refuse/Rubbish Disposal/Environment for to ensure future compliance.

**Responsible Officer:** Director Corporate and Community Services  
**Completion Date:** 17 July 2019 Budget Adoption date proposed

SHIRE OF PINGELLY

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

**3. Credit Card Statements**

**Finding**

We noted that since new credit cards were issued to the acting Chief Executive Officer (CEO) and Director of Corporate and Community Services (DCCS) in March 2019, the CEO and DCCS had self-approved their credit card statements.

While we acknowledged that the Senior Finance Officer's (SFO) sign off is also on the credit card statements, her sign off is more to evidence that the credit card transactions are supported by invoices/receipts and recorded in the correct general ledger accounts. Furthermore, the DCCS and SFO are closely related which could be seen as a threat to actual or perceived independence.

**Rating: Moderate**

**Implication**

By not having an independent review of credit card statements, there is an increased risk of fraud and error passing undetected.

**Recommendation**

We recommend that the Shire ensure all credit card statements are reviewed and signed by an independent senior officer.

As best practice, we also recommend that the CEO's credit card statements be reviewed and signed by the President or a representative of Council.

**Management Comment**

The Chief Executive Officer now reviews and signs off the Director of Corporate and Community Services credit cards monthly transactions. The Shire President now reviews and signs off the Chief Executive Officer monthly credit card transactions.

**Responsible Officer:** Chief Executive Officer and Director Corporate and  
Community Services

**Completion Date:** 30 June 2019

**SHIRE OF PINGELLY**

**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019**

**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

**4. Review of Reconciliations**

**Finding**

From our review of the reconciliations performed, we noted that there was no evidence that the following reconciliations were being independently reviewed:

- Monthly fixed asset reconciliations
- Periodic reconciliations of WA Treasury Corporation (WATC) loans and self-supporting loans

**Rating: Moderate**

**Implication**

When reconciliations are not independently reviewed, there is an increased risk that errors may not be detected and resolved promptly.

**Recommendation**

We recommend that the Shire ensure all reconciliations performed are reviewed and signed by an independent senior officer.

**Management Comment**

Monthly fixed asset reconciliations are now being prepared by the DCCS from May 2019 and to be reviewed by an independent officer other than SFO.

Half yearly reconciliation of Loans and Self Supporting loans to be undertaken DCCS as paid usually every 6 months. SSL Reconciliation prepared and compared to agreed repayment schedule/terms. Loans Liability Reconciliation currently prepared annually to be changed to 6 monthly and compared to WATC reports and GL balances.

**Responsible Officer:** Director Corporate and Community Services  
**Completion Date:** 30 June 2019



SHIRE OF PINGELLY

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

**5. Journals Entries**

**Finding**

We noted that journals processed by the DCCS are reviewed and signed off by the SFO, and vice versa. As noted in Finding 3, these two employees are closely related.

**Rating: Minor**

**Implication**

If journals are not independently reviewed and approved, there is an increased risk that erroneous or fraudulent transactions may pass undetected.

**Recommendation**

We recommend that all journal entries be independently reviewed and the evidence of authorisation retained. Also given the close relationship between the DCCS and SFO, we recommend that the Shire consider whether significant adjusting journals should be further reviewed by the CEO.

**Management Comment**

Future Journals created by the DCCS and SFO are to be reviewed and signed off by another independent Officer to reduce threat to actual or perceived independence e.g. CEO.

**Responsible Officer:** Director Corporate and Community Services

**Completion Date:** 30 June 2019



## **Attachment 2**





**SHIRE OF PINGELLY  
AUDIT AND RISK COMMITTEE  
TERMS OF REFERENCE**



1. The Audit and Risk Committee's role, in accordance with Regulation 16 of the Local Government (Audit) Regulations 1996, is to:
  - a. Guide and assist the local government in carrying out:
    - i. its functions under Part 6 of the Act;
    - ii. its functions relating to other audits and other matters related to financial management; and
  - b. Functions in relation to audits conducted under Part 7 of the Act. review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to —
    - i. report to the council the results of that review; and
    - ii. give a copy of the CEO's report to the Council.
  - c. Monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
    - i. regulation 17(1); and
    - ii. the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);
  - d. Support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;
  - e. Oversee the implementation of any action that the local government —
    - i. is required to take by section 7.12A(3); and
    - ii. has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and
    - iii. has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and
    - iv. has accepted should be taken following receipt of a report of a review conducted under the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);
  - f. Perform any other function conferred on the audit committee by these regulations or another written law.
2. The Committee may provide guidance and assistance to the local government regarding:
  - a. Other matters to be audited.
  - b. The scope of audits.
  - c. Financial, risk and compliance management functions as prescribed in the Local Government Act 1995.
  - d. Other matters specified in these Terms of Reference.
3. The Committee may resolve to request the Chief Executive Officer (CEO) to provide any information or make arrangements to provide independent expert advice, as appropriate and required by the Committee in order to fulfil its duties and responsibilities.
4. The Committee is to review and make recommendations to the Council regarding:
  - a. Financial Management



## **Objectives of Audit Committees**

The primary objective of the audit committee is to accept responsibility for the annual external audit and liaise with the local government's auditor so that Council can be satisfied with the performance of the local government in managing its financial affairs.

Reports from the committee will assist Council in discharging its legislative responsibilities of controlling the local government's affairs, determining the local government's policies and overseeing the allocation of the local government's finances and resources. The committee will ensure openness in the local government's financial reporting and will liaise with the CEO to ensure the effective and efficient management of the local government's financial accounting systems and compliance with legislation.

The committee is to facilitate –

- the enhancement of the credibility and objectivity of \*internal and external financial reporting;
- effective management of financial and other risks and the protection of Council assets;
- compliance with laws and regulations as well as use of best practice guidelines relative to auditing; and
- the provision of an effective means of communication between the external auditor, the CEO and the Council.

## **Powers of the Audit Committee**

The committee is a formally appointed committee of council and is responsible to that body. The committee does not have executive powers or authority to implement actions in areas over which the CEO has legislative responsibility and does not have any delegated financial responsibility. The committee does not have any management functions and cannot involve itself in management processes or procedures.

The committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its term of reference. This is in order to facilitate informed decision-making by Council in relation to the legislative functions and duties of the local government that have not been delegated to the CEO.

## **Membership**

The committee will consist of all elected members. All members shall have full voting rights.

The CEO and employees are not members of the committee.

The CEO or his/her nominee is to attend all meetings to provide advice and guidance to the committee.

The local government shall provide secretarial and administrative support to the committee.

## **Meetings**

The committee shall meet at least twice a year.

Additional meetings shall be convened at the discretion of the presiding person.

## **Reporting**

Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council.

## Duties and Responsibilities

The duties and responsibilities of the committee will be –

- a) Provide guidance and assistance to Council as to the carrying out the functions of the local government in relation to audits;
- b) ~~Develop and recommend to Council an appropriate process for the selection and appointment of a person as the local government's auditor;~~
- c) ~~Develop and recommend to Council –~~
  - ~~a list of those matters to be audited; and~~
  - ~~the scope of the audit to be undertaken;~~
- d) ~~Recommend to Council the person or persons to be appointed as auditor;~~
- e) ~~Develop and recommend to Council a written agreement for the appointment of the auditor. The agreement is to include –~~
  - ~~the objectives of the audit;~~
  - ~~the scope of the audit;~~
  - ~~a plan of the audit;~~
  - ~~details of the remuneration and expenses to be paid to the auditor; and~~
  - ~~the method to be used by the local government to communicate with, and supply information to, the auditor;~~
- f) Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions;
- g) Liaise with the CEO to ensure that the local government does everything in its power to –
  - assist the auditor to conduct the audit and carry out his or her other duties under the *Local Government Act 1995*; and
  - ensure that audits are conducted successfully and expeditiously;
- h) Examine the reports of the auditor after receiving a report from the CEO on the matters and –
  - determine if any matters raised require action to be taken by the local government; and
  - ensure that appropriate action is taken in respect of those matters;
- i) Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and presenting the report to Council for adoption prior to the end of the next financial year or 6 months after the last report prepared by the auditor is received, whichever is the latest in time;
- j) Review the scope of the audit plan and program and its effectiveness;
- k) Review the local government's draft annual financial report, focusing on –
  - accounting policies and practices;
  - changes to accounting policies and practices;
  - the process used in making significant accounting estimates;
  - significant adjustments to the financial report (if any) arising from the audit process;
  - compliance with accounting standards and other reporting requirements; and
  - significant variances from prior years;
- l) Address issues brought to the attention of the committee, including responding to requests from Council for advice that are within the parameters of the committee's terms of reference;

- m) Seek information or obtain expert advice through the CEO on matters of concern within the scope of the committee's terms of reference following authorisation from the Council; and
- n) Review the Statutory Compliance Audit Return and make a recommendation on its adoption to Council.

## **Internal Audit**

Many local governments have recognised the need to improve their internal auditing processes, and have moved to either employ an internal auditor or contract out the internal audit function.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of an internal audit would be determined by the Audit committee, with input from the CEO, based on the size of the local government's internal operations and the level of compliance to be achieved. The role differs from that of the external auditor who is appointed by council on the recommendation of the Audit Committee, to report independently to it, through the mayor/president and the CEO, on the annual financial statements. The external auditor's primary role is to decide whether the annual financial statements of a local government are free of material misstatement.

There are certain functions of the internal audit that complement the external auditor's role. As the external auditor plans for an effective audit they need to assess and determine whether to include the scope, procedures and outcomes of the internal audit. The CEO must refer all internal audit reports to the Audit Committee for consideration.

An internal auditor's activities should typically include the following:

- (a) review of the internal control structure, monitoring the operations of the information system and internal controls and providing recommendations for improvements;
- (b) a risk assessment with the intention of minimising exposure to all forms of risk on the local government;
- (c) examination of financial and operating information that includes detailed testing of transactions, balances and procedures;
- (d) a review of the efficiency and effectiveness of operations and services including non-financial controls of a local government;
- (e) a review of compliance with management policies and directives and any other internal requirements;
- (f) review of the annual Compliance Audit Return;
- (g) assist in the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance; and
- (h) specific tasks requested by management.

For local government, the internal auditor should report functionally to the audit committee and administratively to the CEO. It should be remembered that pursuant to section 5.41 of the Act, the CEO is responsible for the day-to-day management of council activities including the direction of staff and implicitly the internal audit function. The CEO may choose to delegate this responsibility provided always that the delegation does not directly or indirectly interfere with the ability of the Internal Auditor to conduct an internal audit function free from interference.

A clear and properly defined reporting relationship ensures that the internal auditor is empowered to perform their role working with management. The direct reporting line to the audit committee also acts as an adequate safeguard in the event of a serious breakdown in internal controls or internal control culture at senior levels in the organisation.

While it is recognised that smaller councils may not be able to justify a full-time internal auditor, a small size of operation does not justify forgoing internal audit altogether. If audit committee or management is of the view that the employment of an independent internal auditor either full-time or part-time is not warranted, it may request the council to have the internal audit function undertaken as necessary by an external contractor, or expand the role of its external auditor.

The external auditor or his or her professional company should only undertake internal audit functions that complement the external audit and do not cloud the objectivity and independence of the external audit. An external auditor must not audit information prepared by them or their accounting practice, as this is considered incompatible with the standard of independence.

Local governments that do not establish an internal audit process but require a review of the financial management systems and procedures, may decide to use the services of the external auditor for that purpose. Such reviews are to be undertaken every four years in accordance with regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.

The review of financial management systems and procedures provides the external auditor with greater assurance of systems and procedures used to prepare the annual financial statements, and whether they provide information free of material misstatement.





## **Attachment 3**





Department of  
**Local Government, Sport  
and Cultural Industries**

Our ref PN3-4#03 E1916533  
Enquiries Stuart Fraser  
Phone 65521586  
Email [stuart.fraser@dlgsc.wa.gov.au](mailto:stuart.fraser@dlgsc.wa.gov.au)

SHIRE OF PINGELLY	
FILE	AM10087 ADM0074
DATE	08 JUL 2019
Officer	CEO DCCS
Copy to	

Mr Mark Dacombe  
Acting Chief Executive Officer  
Shire of Pingelly  
17 Queen Street  
PINGELLY WA 6308

Dear Mr Dacombe

The Department of Local Government, Sport and Cultural Industries (the Department) has received the Shire's 2017-18 Audit Report from AMD Chartered Accountants dated 6 December 2018.

The Audit Report identifies matters as significant in regard to adverse trends, qualified audits and other matters. The following matter is identified as significant by the auditor:

- Significant adverse trend in the financial position of the Shire: Operating Surplus Ratio below the Department standard the last three years.

Section 7.12A(4) of the *Local Government Act 1995* states that a local government must:

*prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and*

*(b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.*

*Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.*

To date it appears that a report has not been received and has not been published on the Shire's official website in accordance with Section 7.12A.

As a matter of priority the Shire must prepare a report for its Audit Committee and seek council's endorsement before forwarding a copy to the Department at [audits@dlgsc.wa.gov.au](mailto:audits@dlgsc.wa.gov.au)

As this report is now overdue, the Department requires the local government to remedy this non-compliance within the next 60 days from the date of this letter.

Gordon Stephenson House, 140 William Street  
PO Box 8349 Perth Business Centre, WA 6849  
Telephone (08) 6552 7300  
Email [info@dlgsc.wa.gov.au](mailto:info@dlgsc.wa.gov.au)  
Web [www.dlgsc.wa.gov.au](http://www.dlgsc.wa.gov.au)

For further information please review the Department's Circulars 05-2019 Local Government Auditing and 02-2018 Guide to Local Government Auditing Reforms (page 8) which are published on the Department's website.

Should you have any queries please contact the Department on the above email address or phone 65527300.

Yours sincerely



Narrell Lethorn  
Director Industry and Sector Regulation

28 June 2019

cc Cr William Mulroney, President, Shire of Pingelly