

SHIRE OF LAVERTON

PERIOD OF AUDIT: 1 JULY 2022 TO 30 JUNE 2023

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

Index of findings	Potential impact on audit opinion	Rating			Prior year finding
		Significant	Moderate	Minor	
1. Inventory management	No		✓		✓
2. Accounts payable cut-off issues	No		✓		
3. Maintenance of attractive assets register	No		✓		
4. Timeliness of review of bank reconciliations	No			✓	
5. Timeliness of report generation	No			✓	
6. Incorrect calculation of on-costs for annual leave	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.

SHIRE OF LAVERTON

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1. Inventory management

Finding

During the course of our final audit, we were unable to review the reconciliation of inventory for fuel. We understand that there are no formal processes for inventory management of fuel. We noted the only available documents for reference were email correspondences between the Depot & Town Services Co-Ordinator and Deputy CEO, advising the counts in writing. We also additionally note that the HINO service truck does not have the ability for the fuel being held to be measured. Thus, the Shire is unable to accurately record the fuel held in those storages.

Rating: Moderate

Implication

There is an increased risk that internal controls are weakened due to the absence any formality to record and monitor quantity of inventory held. Further, inventory may be misappropriated, misused and over or understated which causes the balance sheet items to be inaccurate.

Recommendation

The Shire should improve current practices for inventory use and ensure all adequate supporting documentation is maintained by the Shire for all movements in inventory level.

Management comment

The observation is noted and accepted.

Responsible person: CEO
Completion date: 30 June 2024

SHIRE OF LAVERTON

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2. Accounts payable cut-off issues

Finding

During the course of the final audit, from our procedures and testing over unrecorded liabilities, we noted that there were issues with cut-off for subsequent payables as at 30 June 2023.

RSM initially tested 25 samples, from bank payments subsequent for the period 1st July 2023 to 31st August 2023, and have noted that three samples have not been recorded correctly. The invoices for the samples were for services provided during June 2023. However, no accruals were made to record the payables as at 30 June 2023. The total value of the samples that were not recorded as at 30 June 2023 was 54,927.

Rating: Moderate

Implication

There is an increased risk that the accounts payable balance being materially misstated as at 30 June 2023.

Recommendation

It is recommended that formal review and closing-off procedures for monthly payables are introduced to ensure there are no inappropriate exclusions of payables as at 30 June 2023.

Management comment

The Council kept the creditors open for approx. six weeks to ensure clarity for the 22/23 financial year and a clear determination was made that amounts under a \$10,000 limit was in material within the council's finances. The Council has noted the observation and will work with the auditors during the interim audit in 23/24 to ensure consistency.

Responsible person: CEO
Completion date: 30 June 2024

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3. Maintenance of Attractive Assets Register

Finding

During the course of our audit, it's noted that the Attractive Assets Register was neither maintained or produced for the year ending 30 June 2023.

Rating: Moderate

Implication

Failure to maintain an assets register can result in the increased risk in unauthorized movement and misappropriation of assets valued below \$5000.

Management comment

The observation is noted and accepted.

Responsible person:

CEO

Completion date:

30 June 2024

SHIRE OF LAVERTON

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4. Timeliness of review of bank reconciliation

Finding

During the Course of the audit, it's observed that the bank reconciliations provided to the audit team for the month of June 2023, there was no evidence of a secondary reviewer. The "reviewer date" of the reconciliations were thereafter back-dated on 19 November 2023 (5-month period from month end).

Rating: Moderate

Implication

Without formal reviews, errors and omissions can go undetected. This may lead to potential misappropriation of cash and cash equivalents.

Recommendation

It is recommended that all bank reconciliations should be prepared and reviewed in a timely manner, signed and dated by both the preparer and reviewer to reinforce the assignation of responsibilities.

Management comment

The observation is noted and accepted.

Responsible Person: CEO
Completion Date: 30 June 2024

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5. Timeliness of report generation

Finding

When performing testing over accounts receivable, we noticed that the Overdue Rates Report and the Rates Outstanding Debtors (Non-pensioners) Report could not be produced as at 30 June 2023. Instead, these reports were produced as at 03 July 2023 and 04 July 2023, respectively. Small variances are observed when compared.

Rating: Minor

Implication

As these reports could not be produced as at 30 June 2023, the figures illustrated in the subsequent year ended reports could not be tied back to the Trial Balance as at 30 June 2023.

Recommendation

We recommend that the finance staff be reminded to run the reports at COB on the last day of the year or in the new financial year prior to new transactions being processed.

Management comment

The observation is noted, however, the council will not be exploring or purchasing another accounting package. The facts are that the 30th of June 2023 was a Friday, the receipting was completed on the 3rd of July, the reports were run on the 3 / 4 July at the earliest opportunity. The amounts involved were immaterial.

Responsible Person: CEO
Completion Date: 30 June 2024

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6. Incorrect calculation of oncosts for annual leave

Finding

When performing testing over the provisions for annual leave, we noticed that the on-costs calculations have been calculated incorrectly.

We understand that the correct formula to calculate oncosts for annual leave is "Hourly Rate X Closing Leave Balance at year-end X Oncosts Rate".

We observed that the Shire has accounted their annual leave calculations using "Accrued Hours X Hourly Rate X Inflation Factor X Discount Rate X Oncosts Rate".

Rating: Minor

Implication

There is a risk that the provision for annual leave could be understated.

Recommendation

RSM recommends that the Shire adopts the correct formula in calculating oncosts for annual leave commencing next financial year ended.

Management comment

The Council has noted the observation and will review the formula in line with the auditors during the interim audit for 23/24 to determine a way forward for the annuals.

As such, we consider this matter closed.

Responsible Person: CEO
Completion Date: 20 November 2023