



Our Ref: 8367

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Mr Paul Martin
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Dear Mr Martin

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2021

The Office has completed the audit of the annual financial report for your Shire. In accordance with section 7.12AD (2) of the *Local Government Act 1995*, we enclose the Auditor General's auditor's report, together with the audited annual financial report.

We have also forwarded the reports to the President and the Minister for Local Government, as required by the Act. You are required to publish the annual report, including the auditor's report and the audited financial report, on your Shire's official website within 14 days after the annual report has been accepted by your Council.

Matters of regulatory non-compliance and adverse trends in the financial position are reported on page 2 of the auditor's report.

Management Control Issues

While the result of the audit was generally satisfactory, we would like to draw your attention to the attached listing of deficiencies in internal control and other matters that were identified during the audit. These matters have been discussed with management and their comments have been included in the attachment.

Please note that the purpose of our audit was to express an opinion on the financial report. The audit included consideration of internal control relevant to the preparation of the financial report in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

An audit is not designed to identify all internal control deficiencies that may require management attention. The matters being reported are limited to those deficiencies that have been identified during the audit that are of sufficient importance to warrant being reported. It is possible that other irregularities and deficiencies may have occurred and not been identified as a result of our audit.

This letter has been provided for the purposes of the Shire and the Minister for Local Government and may not be suitable for other purposes.

We would like to take this opportunity to thank you, the management and the staff of the Shire for their cooperation with the audit team during our audit.

Feel free to contact the undersigned on 6557 7674 if you would like to discuss these matters further.

Yours faithfully

A handwritten signature in black ink that reads "A Madnack". The signature is written in a cursive style with a large initial 'A'.

Aram Madnack
Director
Financial Audit
22 December 2021

Attach

SHIRE OF SERPENTINE-JARRAHDALÉ**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021****FINDINGS IDENTIFIED DURING THE FINAL AUDIT**

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Treatment of gifted assets		✓	
2. Review of post period supplier invoices		✓	
3. Excessive annual leave			✓

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 may be reported as a matter of non-compliance in the audit report 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 report, 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 SERPENTINE-JARRAHDALE

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

1. Treatment of Gifted Assets

Finding

At the time of completing the audit, the Shire was unable to provide copies of the Certificate of Practical Completion for 9 sub-divisions gifted by the developers out of a total of 14 selected for testing. This resulted in us not being able to verify the exact date of ownership of these gifted assets including when the Shire should have started recording the associated depreciation expense.

In addition, for the sub-divisions where the Certificate of Practical Completion was provided, we identified that the assets were not recorded at the time of practical completion, resulting in an understatement of the depreciation expense for FY2020/21. The Shire explained that this occurred due to the difficulty in obtaining the relevant information from the developer in order to complete the validation process.

Rating: Moderate

Implication

Failure to determine the exact date of ownership results in the inability to commence calculated depreciation from the correct period. In addition, the depreciation expense is understated due to the difficulty of obtaining the relevant information from the developer and delaying the validation process.

Recommendation

Ensure appropriate documentation is obtained in a timely manner in order to complete the validation process. Gifted assets to be recognised at the date of practical completion and depreciation be calculated and recorded from the date the asset is in use.

Management Comment

The Shire has recently completed a restructure of the Infrastructure Directorate which has resulted in responsibility for asset data capture and maintenance, to now sit within the finance department. This has resulted in the finance department having more control over the data validation process and subsequent recognition.

As part of the process for subdivision approvals and subsequent asset recognition, the finance department has added a step to the existing process, requesting practical completion letters be provided in addition to the As Constructed asset data, prior to commissioning of the asset. This is to ensure that appropriate cut-off can be applied.

This attribute will also be made a mandatory field within the Shire's ERP, meaning that the system will not allow you to add the asset without the requisite information.

Responsible Officer: Manager Finance

Completion Date: December 2021

SHIRE OF SERPENTINE-JARRAHDALÉ
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021
FINDINGS IDENTIFIED DURING THE FINAL AUDIT

2. Review of Post Period Supplier Invoices

Finding

During our review of supplier invoices received subsequent to year-end, we identified supplier invoices received in the month of July 2021 that had not been recognised as an accrued expense. This resulted in an adjustment of \$56,635.15 recognised in the annual financial report. Furthermore, an additional \$102,430.16 was recognised as capital commitments in the annual financial report.

**Rating: Moderate
Implication**

Ineffective review of invoices subsequent to year-end increases the risk of material misstatement through understatement of liabilities and expenses balances.

Recommendation

Management ensure that sufficient review of supplier invoices received post year-end is performed to recognise liabilities for goods and services received by the Shire prior to year-end.

Management Comment

The Shire applies a cut-off annually to enable finalisation of actuals and ensure the Shire can progress with its financial reporting requirements. In addition, the cut-off is applied to ensure staff and suppliers are aware of the need to progress invoices and goods receipts in a timely matter.

The cut-off period is currently two weeks post year end, with review of payment runs post cut-off, including an assessment of any invoices dated in the previous financial year to ensure any material invoices are recognised in the correct period, subject to confirmation the good or service has actually been provided.

Moving forward, the Shire will extend the cut-off period to the end of July. We will continue to review payment runs post cut-off to ensure any material invoices are recognised in the correct period.

Responsible Officer: Financial Accountant
Completion Date: July 2022

SHIRE OF SERPENTINE-JARRAHDALÉ
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021
FINDINGS IDENTIFIED DURING THE FINAL AUDIT

3. Excessive Annual Leave

Finding

We noted 17 employees have accrued in excess of eight weeks annual leave at year end.

Rating: Minor

Implication

The cost to the Shire is greater if annual leave is not paid out on a regular basis due to:

- The cumulative effect of salary increases over a period of time.
- Recreational leave enhances employee performance; and
- It is a fundamental principle of good internal control that all employees take regular leave.

Recommendation

We recommend employees take regular leave through ongoing management of leave scheduling and leave liabilities.

Management Comment

The Shire provides monthly manager reports detailing leave balances. As part of managing leave entitlements the Shire is looking to actively encourage staff to take leave, with development of leave plans and other measures to facilitate taking of leave and reduction of balances.

In addition, and in accordance with the Award, employees with excess of eight weeks leave can be directed to take leave, however the Shire will always seek to engage with employees in a collaborative manner in this regard.

It should be noted that the impacts of COVID and closing of borders has had a significant impact on the taking of leave, due to the limits regarding travel.

Responsible Officer: All Management Group

Completion Date: Ongoing