



Our Ref: 8367

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Dear Mr Martin

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2023

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.

Management control issues

While the result of the audit was generally satisfactory, I 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.

Unresolved matters from prior audits

We also draw your attention to the Matters Outstanding from Prior Audits issues set out in the attachment. We would appreciate your attention to these matters before next year's audit.

The date that entities provided their annual financial report to the Office has been recorded for purposes of reporting to Parliament. The date recorded for the receipt of your financial statements was 29 September 2023.

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.

I 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 me on 6557 7729 if you would like to discuss these matters further.

Yours sincerely

Reagan Lau
Assistant Director
Financial Audit
22 November 2023

Attach

ATTACHMENT**SHIRE OF SERPENTINE JARRAHDAL****PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2023****FINDINGS IDENTIFIED DURING THE AUDIT**

Index of findings	Potential impact on audit opinion	Rating			Prior year finding
		Significant	Moderate	Minor	
1. Excessive leave management	No		✓		✓
2. Late lodgment of budget with Department	No		✓		
3. Payroll deductions	No			✓	
4. Term deposit interest accruals	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 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.

ATTACHMENT

SHIRE OF SERPENTINE JARRAHDAL
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2023
FINDINGS IDENTIFIED DURING THE AUDIT

1. Excessive leave management**Finding**

During our testing on employee leave provisions, we noted that 17 employees (2022: 14 employees) have annual leave balances in excess of eight weeks (40 days) at year end.

This finding was first raised in 2021-22.

Rating: Moderate (2022: Moderate)

Implication

Excessive annual leave balance may have adverse effects on the Shire including:

- Key staff not being rotated, a preventive control against fraud.
- Health and safety concerns with staff members not taking their annual leave entitlements.
- Increase in the Council's employee costs given salary increments over time.

Recommendation

The Shire should continue to manage and monitor the excessive leave balance to reduce the financial liability, risk of business interruption and fraud. The Shire should meet with the employee as soon as practicable to discuss the excess leave and develop an agreed plan for the leave to be taken.

Management comment:

The Shire continues to experience high turnover rate of staff. In 2022 – 2023, 64 people terminated employment with the Shire which is approximately 34% of total staff. This results in consistently high workload for our remaining employees, making it difficult to take their allocated leave.

The Shire recognises the importance of managing excess leave to ensure it does not become a financial liability to the organisation and that employees take regular leave for their own wellbeing. The Shire will continue to report on excessive leave and develop an agreed plan with the employee for the leave to be taken.

Responsible person: People, Development and Wellbeing Manager
Completion date: ongoing

ATTACHMENT**SHIRE OF SERPENTINE JARRAHDALÉ
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2023
FINDINGS IDENTIFIED DURING THE AUDIT****2. Late lodgment of budget with the Department****Finding**

The Local Government (Financial Management) Regulations 1996 requires local government entities to lodge the Statutory Budget with the Department within 30 days of adoption by the Council.

The Shire's 2023 Statutory Budget was adopted on 26 July 2022 and lodged with the Department on 30 August 2022, four days after the required timeframe.

Rating: Moderate

Implication

Non-compliance with the Local Government (Financial Management) Regulations 1996.

Recommendation

The Shire should ensure compliance and timely lodgement of their Statutory Budget within the required timeframe.

Management comment:

Finance acknowledges the late lodgement of the 2023 Statutory budget with the department and understands the importance of adhering to this required 30-day timeframe for submitting the budget following Council adoption.

Upon recognising this oversight, we have taken immediate action to rectify the situation and prevent future delays. We have added the task of submitting the budget to the department within the specified timeframes to our year-end task list.

Responsible person: Manager Finance
Completion date: 17 October 2023

ATTACHMENT**SHIRE OF SERPENTINE JARRAHDAL****PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2023****FINDINGS IDENTIFIED DURING THE AUDIT****3. Payroll deductions****Finding**

We identified one of eight payslip samples tested during the interim audit did not have the appropriate authorised documentation for an amount to be deducted from an employee's pay.

Rating: Minor

Implication

There is an increased risk of unauthorised deduction or fraudulent siphoning of employee's pay without appropriate authorised documentation to support deductions from employee wages.

Recommendation

The Shire should ensure all payroll deductions are valid and supported by appropriate authorised documentation from individual employees.

Management comment:

The sample taken was in relation to a deduction form that was completed but not signed in 2016. Officers have since attained a sign deduction form and the employee has declared that they have given retrospective authority.

Officers feel that this sample does not reflect current practices within the payroll team, who now ensure that any deductions have appropriate authorised documentation. Further to this, the Payroll team are undergoing a process of reviewing all current deductions to ensure correct authorise documentation is held on file

Responsible person: Manager Finance
Completion date: 17 October 2023

ATTACHMENT**SHIRE OF SERPENTINE JARRAHDALÉ
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2023
FINDINGS IDENTIFIED DURING THE AUDIT****4. Term deposit interest accruals****Finding**

During our testing of accrued income balances, we have identified interest earning on current term deposits was not being brought to account at the end of each month and consequently interest earnings was understated by \$715,989 as at 30 June 2023.

Rating: Minor

Implication

Without an effective process to review and accrue for interest earning increases the risk of misstatements within the financial statements.

Recommendation

The Shire should implement a process to appropriately account for interest earnings.

Management comment:

At the time of audit, it was identified that the Shire did not have a monthly procedure in place to accrue interest from Term Deposits. This matter was raised to the Shire's attention prior to the finalisation of the 2022/23 Annual report and an accrual was processed to correctly account for the Term deposit interest.

This process gap had not been identified previously due lower interest rates resulting in immaterial interest earnings in the past. The Shire have now implemented a process to ensure interest is accrued on a monthly basis and has included the activity on the month end checklist.

Responsible person: Manager Finance
Completion date: 16 November 2023