

MvdM : MJ
PEPP01

15 January 2019

Mr D Burnett
Chief Executive Officer
Shire of Peppermint Grove
PO Box 221
COTTESLOE WA 6911

Dear Sir

SHIRE OF PEPPERMINT GROVE

We wish to advise that we have recently completed the audit of the above mentioned Shire for the year ended 30 June 2018.

The Australian Auditing Standards require auditors to communicate with those charged with governance as a means of advising the Council and Management of any matters noted during the course of the audit.

Our audit work involves the review of only those systems and controls adopted by the Council upon which we wish to rely for the purposes of determining our audit procedures. Furthermore, our audit should not be relied upon to disclose defalcations or other similar irregularities, although their disclosure, if they exist, may well result from the audit tests we undertake. While we have considered the control environment in accordance with Australian Auditing Standards, we have not tested controls and hence do not comment on whether systems and controls are operating effectively.

We advise that we have not encountered any significant matters during the course of our audit that we believe should be brought to your attention other than the following:

Financial ratios

Finding

Note 18 of the financial report sets out various financial ratios. We note that the asset sustainability ratio does not meet the benchmark set by the Department of Local Government.

We are required by the Regulations to report this to the Department of Local Government and our report has been modified as such.

Recommendation

We recommend that management review the ratios to identify the reasons for not meeting the benchmark and implement plans to achieve compliance.

Management Comment

Several infrastructure projects programmed for 2017/18 did not occur, as follows:

Hobbs Place (\$25,000) – deferred to 2018/19 to enable more consultation with Royal Freshwater Bay Yacht Club and Freshwaters Café;

Pavilion (\$15,000) – deferred as work not deemed necessary at this time;

Right-of-Way Upgrades (\$30,000) – due to no single RoW requiring greater than \$5,000 worth of upgrade work (and a new capitalisation threshold of \$5,000) all works were performed as maintenance projects;

Replacement website (\$20,000) – this project was deferred to 2018/19 due to the changeover of key personnel.

Had these four projects proceeded as planned the 90% benchmark would have been easily attained.

The draft ten-year financial plan foreshadows continued strong investment in renewing assets and attainment of the asset sustainability benchmark for 7 out of 10 years.

At the September 2018 Council meeting, Council adopted key performance indicators to assess the CEO's performance including the requirement to develop financial and asset ratios to meet or exceed Dept. of Local Government guidelines by 30 June 2019.

Separation of duties

Finding

We appreciate that due to the nature and size of the Shire, management oversees all the functions within the Shire. However, there is an inherent risk of a lack of segregation of duties within the general financial administrative process.

Recommendation

We recommend that this should be continually considered by Council and management in designing compensating controls.

Management Comment

This matter was also raised in the 2017 audit management report resulting in action taken to employ a finance/administration officer to undertake creditor and payroll processing and general human resources duties.

Ongoing reviews of approvals processes will also address issues of separation of duties.

Additionally, an internal auditor, Mr Santo Casilli, has been engaged to review Council's procurement processes and this will include reporting on separation of duties.

Employee Records

Finding

When performing our audit procedures, we inspected employee files and found the following:

- An employee file did not contain a letter of employment, TFN Declaration or document to confirm the current rate of pay.
- An employee's employment letter on file was not signed by the CEO.
- We were unable to inspect the file of one employee as this could not be made available during our audit visit.

Recommendation

Employee files should be reviewed and updated with all the current employee records as required by the Shire's internal policies and regulations

Management Comment

The employment of a finance/administration officer in April 2018 has led to a much greater focus on human resources management.

A recent review of the three files highlighted above has revealed the following:

- Employee One -two TFN declarations present, employment letter by way of memorandum (employee was casually employed prior to April 2014), copy of letter sent to all employees after the 1st July 2018 EBA increase not present.
- Employee Two – unsigned copy of employment offer placed on file. Employee is checking his filing to see if it can be retrieved.
- Employee Three - file has been located and updated.

Timesheets

Finding

We performed audit procedures by selecting a pay run to determine whether all timesheets were approved and therefore the correct hours were paid to employees. We found that one timesheet was not approved by the manager and another was not signed by the employee. The internal control procedures were not adhered to in these instances.

Recommendation

When preparing timesheets for payroll the payroll officer should ensure that only correctly approved timesheets are processed for payment.

Management Comment

The high number of part-time and casual employees does create issues on pay days when an employee has neglected to sign their timesheet. It has been customary to pay the employee upon confirmation by their manager of their hours and seek to update the paperwork when the employee is next at work.

Purchase Orders

Finding

We performed audit procedures to determine whether the internal control procedures relating to the authorisation of purchase orders were adhered to. We found that the purchase orders for 12 out of the 55 transactions selected were not signed as evidence that the purchase was approved. We also found that one purchase in the sample did not have a purchase order.

Recommendation

Management should assess the procurement process to ensure that the internal controls are adhered to.

Management Comment

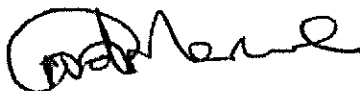
Council is moving towards a paperless procurement system and intends adopting new procedures based on the in-built workflows of its Microsoft Dynamics-based enterprise system. The new procedure will negate the need for signatures, instead relying on a foolproof system of approvals.

Additionally, an internal auditor, Mr Santo Casilli, has been engaged to review Council's procurement policy.

We wish to thank the Shire of Peppermint Grove staff for their assistance during the audit.

Should you have any questions please do not hesitate to contact me.

Yours faithfully
BUTLER SETTINERI (AUDIT) PTY LTD



MARIUS VAN DER MERWE CA
Director