

OUR REF: FIN007C
YOUR REF:
ENQUIRIES/CONTACT IAN D'ARCY – CHIEF EXECUTIVE OFFICER
ceo@brookton.wa.gov.au

Hon John Carey
Minister for Housing; Local Government
Level 7, Dumas House
2 Havelock Street,
WEST PERTH WA 66005

Dear Minister,

RE: Significant Matters Reported by the Office of Auditor General in 2019-20 Audit Report

In accordance with Section 7.12A of the *Local Government Act 1995* (the Act), the Shire has responded to the significant matters raised in the Office of Auditor General's independent auditor's report on the Shire of Brookton's 2019/20 Annual Financial Report.

Significant Matters Identified by OAG

For the year ending 30 June 2020, the Auditor General identified 3 areas that have been raised as from the previous year's findings. The following significant issues raised have been identified as:

- Purchasing Policies and Procedures
- Asset Management Plan Review
- User Access Management

It is acknowledged these findings are potentially a significant risk to the organisation should the finding not be addressed by the Shire of Brookton in a prompt manner. 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 is accepted that these operational requirements should be addressed promptly.

- **Purchasing Policies and Procedures**
Audit finding 2020



The Shire has not yet developed documented procedures over the authorisation and payment of accounts. From a sample purchases selected for testing, seven instances (23% of the sample tested) were noted where evidence that appropriate quotes were obtained could not be provided and verified by audit. In addition, one sample was noted where the PO was not authorised before the purchase was made.

Audit recommendation

The Shire should review its purchasing policies and procedures with a view to providing greater guidance over the authorisation of payments and the payment of accounts. This guidance should include the items mentioned in regulation 11 of the Local Government (Financial Management) Regulations 1996.

Agreed actions to be taken

- The recommendation is accepted.
- A review will be undertaken on the procurement practices with the view to amending the process and authority to pay in consideration of Regulation 11.
- The review will include the review of the policy, procedure and processes, variances of 10%, authorisation limits, training of staff, internal procedures against the purchasing thresholds, delegation limits by officer.

Actions performed

- Officer's have had training with regards to their delegation limits and their authorisations.
- The Shire's Procurement Policy has been reviewed with Council, however further development is required.
- Shire Officer's are now converse with the threshold limits within the procurement policy and are required to provide the correct supporting documentation to maintain the number of quotes or guidelines as per each individual threshold.

● **Asset Management Plan Review**

Audit finding 2020

We noted that the Shire's asset management plan is yet to be updated. Due to the lack of information, the Shire was unable to report its 'asset renewal funding ratio' in its financial statements.

Audit recommendation

We recommend that the Shire consider updating their asset management plan annually, or alternatively additional years are endorsed separately by management to ensure that the asset renewal funding ratio is consistent with management's future intentions.

Shire Management comments

The non-compliance is noted and accepted. There is desire to complete the Asset Management through a structured and meaningful approach that reflects the condition, required maintenance and retention or replacement of each asset that can then accurately inform the Long Term Financial Plan. This process is unfortunately taking considerably longer than initially expected but is progressing. Recurrent review, update and reporting of the asset management framework is partially canvassed in a

draft IPR policy being presented to the Audit and Risk Committee at the December 2020 Committee meeting for consideration.

Agreed actions to be taken

The Asset Management Framework is being progressed with the Policy and Strategy to be completed in the first half of the 2020-21 financial year and the specific Asset Management Plans for each class being prepared during the second half of the financial year.

Actions performed

- Asset Management Policy – review completed and adopted by Council at its October 2020 Ordinary Council Meeting.
- Asset Management Strategy – review completed and adopted by Council at its December 2020 Ordinary Council Meeting.
- Specific Asset Management Plans being prepared for presentation to Council at the June 2021 Ordinary Council Meeting follow review by OAG.

• **User Access Management**

Audit finding 2020

We noted that the Shire has not yet implemented a process to regularly review logs of changes made to rates. We are aware of an instance where approved rates were changed without authorisation, resulting in incorrect rate statements being issued for the 2020-21 rating year.

Audit recommendation

The Shire should implement a regular review of changes made to fees and master files against approved fees and charges listings or other corroborating information. The review should be performed by more than one officer and variances noted from this review should be investigated by management so that appropriate action can be taken in a timely manner.

In regards to incorrect rating statements being issued, the Shire should take steps to identify the unauthorised changes, determine and quantify the impact to the Shire of the unauthorised changes and where possible, attempt to correct the error.

Agreed actions to be taken

The recommendation is accepted. A procedural process will be implemented to ensure regular review of the rating system is conducted and required performance and appropriate authorisation is granted before changes are implemented.

Actions performed

- Rating procedures are now implemented and require the sign off of documentation prior to processing by the Manager.
- Balancing of valuations and the interims process have now been created and are required to be completed on each entry level.
- Checklists are now in place for interim rating and end of month processing with approval signatures required.
- Valuation balancing is now in place with a rolling valuation that matches to the software system.

- Audit logs are reviewed and verify each month of appropriate changes.
- The forward plan for valuation changes, rates modelling, and rates billing will be completed under the guidance procedures of the computer software system and making sure no changes are done outside of the rating timeframe.

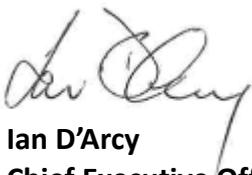
Specifically, the Shire's response to these significant matters entailed the following:

- A report was prepared on the 2019/20 Annual Financial Report.
- The findings and officer recommendations was presented to the Audit and Risk Committee held on 4th March 2021.
- The Office of Auditor General highlighted the significant adverse trends in their report presented to the Audit and Risk Committee on 4th March 2021.
- There was a discussion at the meeting on this and other matters between the OAG, Audit Committee and the Shire's Leadership team that explained the reasons and intended actions.
- The Audit and Risk Committee accepted the explanations given and recommended the 2019-20 annual financial report and audit report for adoption by Council.
- Council adopted the 2019-20 annual financial report and audit report at the Special Council Meeting held on 4th March 2021.
- In providing this information to you at this time, the Shire has complied with the "within 3 months" requirement under Section 7.12A (4)(b).

The Shire will publish a copy of this information on the Shire's website within 14 days of submitting this letter in accordance with Section 7.12A (5).

If you require any further assistance, please contact the Shire Administration Office on 9642 1106 or email mail@brookton.wa.gov.au.

Yours sincerely



Ian D'Arcy
Chief Executive Officer

6 May 2021