

SHIRE OF WEST ARTHUR

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
Findings identified in Current Year			
1. Fair Value of Infrastructure Assets - Frequency of Valuations	✓		
2. Daily Banking Controls - Cheques		✓	
Findings identified in Prior Year			
3. Business Continuity Plan and Information Technology Disaster Recovery Plan		✓	
4. Leave Provisions		✓	

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.

1. FAIR VALUE OF INFRASTRUCTURE BRIDGES ASSETS – FREQUENCY OF VALUATIONS

Finding

The Shire has not performed a robust assessment to determine whether its bridges infrastructure assets represent fair value. Instead a high-level assessment has been performed, which concluded that there were no factors or triggering events that would impact the fair value of bridges infrastructure assets relevant to 30 June 2022.

Whilst acknowledging management's assessment we note that this conclusion appears somewhat inconsistent with the outcomes (revaluation increments) of independent valuations that were obtained for other assets such as buildings and roads infrastructure.

Rating: Significant Implication

Without a robust assessment of fair value of the Shire's infrastructure assets, there is a risk that the fair value of those assets may not have been assessed adequately and in compliance with *AASB 13 Fair Value Measurement*, as well as Regulation 17A(4)(b) of the Local Government (Financial Management) Regulations 1996 (the Regulations).

Recommendation

The Shire should consider implementing as part of the preparation of financial statements each year a formal robust process to determine whether indicators exist annually, that would trigger a requirement to

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perform a formal revaluation of the Assets. Where indicators exist a robust fair value assessment should be performed capturing the requirements of *AASB 13 Fair Value Measurement*. This process is to ensure that the Shire's infrastructure assets are recorded at fair value in compliance with *AASB 13 Fair Value Measurement* and the Regulations.

This may entail obtaining relevant input from an independent valuer as to whether or not they consider there are any prevailing market factors which may indicate that the fair value of relevant assets is likely to have been impacted to any significant / material extent from the prior year. Where a fair value assessment has been performed internally, the LG entity may consider having this assessment peer reviewed by an independent valuer to obtain assurance over the valuation methodology applied, inputs and the reasonableness of the valuation model applied.

Management comment

Noted. A revaluation of the Shire's bridges will be performed at 30 June 2023.

Responsible person: Melinda King

Completion date: 30 June 2023

2. DAILY BANKING CONTROLS - CHEQUES

Finding

Sample testing of daily banking processes identified two large cheques which were not banked until 4 days and 8 days after receipt.

Rating: Moderate

Implication

Risk that error or fraud may not be detected on a timely basis.

Recommendation

Banking be completed regularly with large deposits banked daily.

Management Comment

Noted and improvements have been made. Banking is completed daily.

Responsible Person: Manager Corporate Services

Completion Date: December 2022

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FINDINGS IDENTIFIED IN PRIOR YEAR

3. BUSINESS CONTINUITY PLAN AND INFORMATION TECHNOLOGY DISASTER RECOVERY PLAN

Finding 2022 and 2021

The Shire of West Arthur does not have a Business Continuity Plan or an approved Information Technology Disaster Recovery Plan in place.

Rating: Moderate (2021: Moderate)

Implication

Without a Business Continuity Plan and Information Technology Disaster Recovery Plan in place there is a risk of significant delays and business interruption in the event of unforeseen circumstances in respect to the Shire's business.

Recommendation

The Shire develop a Business Continuity Plan and Information Technology Disaster Recovery Plan based on an evaluation of risks which may disrupt critical business functions. The evaluation should identify critical systems and processes, minimum resources and response times needed to assure/resume operations.

An incident response plan - containing the information needed to respond to an incident (e.g. emergency contact lists, responsibilities) and a disaster recovery plan - detailing the steps to be taken to recover operations, should be developed based on the business continuity plan.

Plans should be communicated to staff and tested on a periodic basis to ensure that staff are familiar with their responsibilities. This should also include testing of IT system backups

Management Comment 2022

*Business continuity plan is being developed by a consultant.
IT disaster recovery plan has been completed.*

Management Comment 2021

Business continuity plan draft started. Noted to follow up.
IT disaster recovery plan to be drafted.

Responsible Person: Manager Corporate Services

Completion Date: January 2023

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4. LEAVE PROVISIONS

Finding 2022 and 2021

Testing identified one employee with an annual leave balance of greater than eight weeks.

Rating: Moderate (2021: Moderate)

Implication

The rate of pay for annual leave is the employee's current rate of pay at the time the leave is taken. This may result in a financial burden for the Shire when leave is paid out in one lump sum for example, when an employee resigns or is terminated.

Recommendation

We recommend employees with leave balances of greater than eight weeks be encouraged to take regular leave where practicable.

Management Comment 2022

Policy has been prepared to limit accrued annual leave. Managers and staff have been made aware of any excessive leave. Leave form has been received from employee with excessive leave.

Management Comment 2021

Add annual audit of leave balances to compliance calendar. Relevant manager to arrange leave for employee with excessive balance.

Responsible Officer: Manager Corporate Services

Completion Date: 30 June 2023