

## 10.1 2202 ANNUAL FINANCIAL REPORT AND AUDIT REPORT AND ATTENDANCE OF OFFICE OF AUDITOR GENERAL

<b>Report Reference Number</b>	ACR-173
<b>Prepared by</b>	Sam Dolzadelli, Manager Finance
<b>Supervised by</b>	Peter Kocian, Executive Manager Corporate Services
<b>Meeting date</b>	Tuesday, 22 February 2022
<b>Voting requirements</b>	Simple Majority
<b>Documents tabled</b>	Nil

### Attachments

1. Annual Financial Report (Audited) for the Year Ended 30 June 2021
2. Audit Opinion
3. Final Audit Findings for the Year Ended 30 June 2021 (Confidential Attachment)
4. Interim Audit Findings for the Year Ended 30 June 2021 (Confidential Attachment)
5. Audit Exit Briefing for the Year Ended 30 June 2021 (Confidential Attachment)

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### PURPOSE

The purpose of this report is for the Audit Committee to receive the Annual Financial Report (Audited) for the year ended 30 June 2021, and to consider significant matters raised in the Independent Auditor's Report.

The Audit Committee is being requested to note that representatives (Mr Jeff Sweetman – Audit Manager; Mr Aram Madnack – Director) from the Office of Auditor General will be attending the February meeting.

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### EXECUTIVE SUMMARY

Section 6.4 of the *Local Government Act 1995* requires local governments to prepare an annual financial report for the preceding financial year. The financial report is to be prepared and presented in the manner and form prescribed in the *Local Government (Financial Management) Regulations 1996*. Local Governments are required to submit the annual financial report to its auditor by the 30 September.

The Town has requested attendance by the Office of Auditor General to this meeting. This presents an opportunity for the Committee to meet with the Audit Team to discuss the Audit Plan and any matters relating to the external audit.

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### BACKGROUND

The 2020/21 audit timeline included field work from the 8 November to 3 December 2021. An exit meeting was held on the 9 December 2021, receipt of signed financials and representation letter on 10 December 2021, and issue of audit opinion on 14 December 2021.

Part 7 of the *Local Government Act 1995* deals with matters specific to the conduct of local government audit. Section 7.12A requires that a local government do the following amongst other things:

- Examine the audit report;
- Determine if any matters raised by the audit report, require action to be taken;
- Ensure that appropriate action is taken in respect of those matters;
- Prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters;

- Provide a copy of that report to the Minister within 3 months after the audit report is received by the local government; and
- Within 14 days after a local government gives a report to the Minister, the CEO must publish a copy of the report on the local government's official website.

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## CONSULTATION

Executive Manager Corporate Services  
Chief Executive Officer  
Office of Auditor General

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## STATUTORY ENVIRONMENT

Part 7 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996* applies to audit in local government.

After the annual financial report has been audited, the CEO is to sign and append to the report a declaration. A copy of the annual financial report is then to be submitted to the Departmental CEO within 30 days of the receipt by the local government's CEO of the auditor's report on that financial report.

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## POLICY IMPLICATIONS

The Department of Local Government has published Operational Guideline No. 9 Audit in Local Government that covers the appointment, functions and responsibilities of Audit Committees.

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## FINANCIAL IMPLICATIONS

The Town accrued expenditure of \$44,300 (excl. GST) in audit fees for 2020/21, being the indicative audit fee previously advised. The Office of Auditor General confirmed on the 9 December 2021 that the final audit fee would be as indicated.

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## STRATEGIC IMPLICATIONS

Strategic Priority 5 – Leadership and Governance

5.1 Strengthen organisational accountability and transparency

5.3 Strive for excellence in leadership and governance

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## RISK IMPLICATIONS

### Risks

Risk	Risk Likelihood (based on history & with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That the Town receives a qualified audit opinion	Possible (3)	Moderate (3)	Moderate (5-9)	REPUTATIONAL Substantiated, low impact, low news item	Control through robust internal controls and staff development ...

### Risk Matrix

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Extreme
		1	2	3	4	5
Almost Certain	5	Moderate (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Moderate (6)	Moderate (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating is provided below. Any items with a risk rating over 16 will be added to the Risk Register, and any item with a risk rating over 16 will require a specific risk treatment plan to be developed.

### RISK RATING

<b>Risk Rating</b>	9
<b>Does this item need to be added to the Town's Risk Register</b>	NO
<b>Is a Risk Treatment Plan Required</b>	No

### SITE INSPECTION

Not Applicable.

### COMMENT

The Independent Auditor's Report is appended to the Annual Financial Report. The Auditor has provided the opinion that the financial report of the Town of East Fremantle:

- (i) Is based on proper accounts and records; and
- (ii) Fairly represents, in all material respects, the results of the operations of the Town for the year ended 30 June 2021 and its financial position at the end of that period in accordance with the *Local Government Act 1995* and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

The Auditor has however raised two 'significant' matters that meet the review and reporting requirements of section 7.12A (3)(4) of the *Local Government Act 1995*. These matters are listed below, along with management comment. This agenda report is to be provided to the Minister and will be published on the Town's website as per requirements.

#### **Significant Finding 1**

The following material matter indicates a significant adverse trend in the financial position of the Town:

- a. The Operating Surplus Ratio as reported in Note 35 of the financial report has been below the Department of Local Government, Sport and Cultural Industries' standard for the current year and past 2 years.

### **Management Comment**

Council adopted a 15-year Strategic Resource Plan (combined asset management and long term financial plan) at its ordinary meeting of May 2019. Section 5.11 of this document discusses the forecast operating ratios from 2019-2034. The Operating Surplus Ratio is not projected to meet the Department's standard of 1.00% until the 2028-29 financial year. Council is aware of this, with the following comment provided in the agenda report of May 2019:

*Council has a legislative requirement to comply with the principles of sound financial management, of which a key component is the preparation of a Long Term Financial Plan. The Office of Auditor General is also required to undertake a performance audit of adverse financial trends in the financial position or the financial management practices of the local government. This will be limited a high level assessment of whether the 7 financial ratios reported in the notes to the financial report achieved the standards set by the Department of Local Government, Sport and Cultural Industries. Council therefore needs to be cognizant of the ratio analysis included in the Forecast Financial Statements as 3 of the ratios are below benchmark.*

A number of assumptions underpin the Strategic Resource Plan, including a 3% annual rate increase. Every endeavour will be made to ensure operating revenue grows at a faster rate than operating expenditure in order to achieve an improved Operating Surplus Ratio.

The following are material matters identified by the Auditor indicating non-compliance with Part 6 of the *Local Government Act 1995*, the *Local Government (Financial Management) Regulations 1996* or applicable financial controls of any other written law.

### **Significant Finding 2**

Evidence was not consistently retained to demonstrate whether changes to the supplier master file, including bank account details, were authorized by an officer other than the person making the amendment. This increases the risk that unauthorized changes may be made, resulting in errors or funds being inappropriately transferred. Our audit did not identify any instances of unauthorized changes.

### **Management Comment**

All changes to the supplier and trust creditor master-files are independently reviewed.

- The Senior Finance Officer reviews all creditor and trust creditor payment batches which includes the checking of bank account details in the first instance.
- During the 2021/22 financial year, the Town has implemented a third-party solution 'eftsure' which is a specialised electronic funds transfer verification tool which verifies supplier's details (including bank details) to ensure the Town is making payment to the correct supplier. This solution identifies errors and fraudulent/scam payments before funds are released. All new suppliers are now onboarded using the eftsure platform which further increases the accuracy and integrity of the Town's supplier master-file. Any new suppliers or suppliers with a change in details that have been entered via Eftsure are cross-checked by the Finance Officer or Senior Finance Officer with the Town's creditor system in Synergysoft. The Manager Finance will then review any changes to the creditor record and sign the eftsure report which illustrates the review was undertaken.
- Prior to the implementation of eftsure, for the 2020/21 financial year (current audit), the Town was utilising a form to capture changes to the supplier master file. The Town acknowledges that the form may not have been signed on all occasions by both the Manager Finance and Administration and

Executive Manager Corporate Services in all instances at the time. Noting that the most significant period of failure to append the signatures was whilst one of them was on leave. Management also acknowledges that this is not the only detective control of potential fraud.

- An audit report, detailing changes to bank account details (and identifying whom made the change) is generated on a fortnightly basis and emailed to the Executive Manager Corporate Services, Manager Finance, Senior Finance Officer and Finance Officer for review. This audit report is cross-checked against the eftsure new supplier/change of supplier details reports.

Regulations require the auditor, where appropriate, to prepare a management report to accompany the auditor's report. Although there is no legislative requirement for the auditor to prepare a management report unless deemed appropriate, local governments may wish to require the auditor to prepare a report on all issues identified during the audit.

The audit findings from interim and final audit is presented as attachment 2 and 3 to this report and will be incorporated into the standing status report that is presented to the Audit Committee for ongoing monitoring.

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## CONCLUSION

Not Applicable.

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## OFFICER RECOMMENDATION / COMMITTEE RESOLUTION

### **Committee Resolution 012202**

#### **OFFICER RECOMMENDATION**

**Moved Cr White, seconded Mayor O'Neill**

**That the Audit Committee recommend Council:**

- 1. Receive the Annual Financial Report for the year ended 30 June 2021, inclusive of the independent Auditor's Report.**
- 2. Request that the Chief Executive Officer submit a copy of the Annual Financial Report, inclusive of the Independent Audit Report, to the Department Chief Executive Officer within 30 days of receipt of the Auditor's Report.**
- 3. Note the 'significant' matters raised in the independent Auditor's Report, and the Management Comment, as discussed in the body of this agenda report.**
- 4. Request that the Chief Executive Officer submit a copy of this agenda report and minutes to the Minister, within 3 months from the date of the Independent Auditor's Report (i.e. 3 months from 14 December 2021).**
- 5. request that a copy of this agenda report and minutes be published on the Town of East Fremantle website, within 14 days of the report being provided to the Minister.**

**The Audit Committee noted that representatives from the Office of the Auditor General were in attendance at the February Meeting to discuss the Audit Opinion and Audit Findings for the year ended 30 June 2021.**

(CARRIED UNANIMOUSLY)