

**RSM Australia Pty Ltd**

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7 May 2019

Mr David Pentz  
Chief Executive Officer  
Town of Port Hedland  
Civic Centre  
McGregor Street  
PORT HEDLAND WA 6721

Dear Mr Pentz

## Report of Factual Findings

### 1 The objective and scope of the engagement

We have performed the procedures agreed with you to report factual findings for the purpose of assisting you in determining the appropriateness and effectiveness of the financial management systems and procedures in accordance with regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*. The procedures performed are detailed in the engagement letter of 1 April 2019 and described below with respect to the Town of Port Hedland (**Town**) for the period 1 July 2018 to 31 March 2019.

### 2 The Chief Executive Officer's responsibility for the procedures agreed

As the Chief Executive Officer (**CEO**), you are responsible for the adequacy or otherwise of the procedures agreed to be performed by us. You are responsible for determining whether the factual findings provided by us, in combination with any other information obtained, provide a reasonable basis for any conclusions which you or other intended users wish to draw on the subject matter.

### 3 Assurance practitioner's responsibility

Our responsibility is to report factual findings obtained from conducting the procedures agreed. We conducted the engagement in accordance with Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*. We have complied with ethical requirements equivalent to those applicable to Other Assurance Engagements, including independence.

Because the agreed-upon procedures do not constitute either a reasonable or limited assurance engagement in accordance with AUASB standards, we do not express any conclusion and provide no assurance on the appropriateness and effectiveness of the financial management systems and procedures in accordance with regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.

## THE POWER OF BEING UNDERSTOOD

### AUDIT | TAX | CONSULTING

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RSM Australia Pty Ltd ACN 009 321 377 atf Birdanco Practice Trust ABN 65 319 382 479 trading as RSM

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#### 4 Procedures performed.

We have performed the following procedures, which are the minimum level of monitoring activities and key control activities listed in Section 7.3 of the Western Australian Local Government Accounting Manual Edition 3 issued by the Department of Local Government, Sport and Cultural Industries in September 2012 and report to you the factual findings resulting from our work:

The procedures applied in order to satisfy ourselves with the findings, on a sample basis, were as follows:

- Inspection;
- Observation;
- External confirmation;
- Re-calculation;
- Re-performance; and
- Enquiry.

#### 5 Factual findings:

##### 5.1 Monitoring activities

Risk area	Monitoring activities to be verified	Source	Sample Size	Error or Exceptions noted
<b>Annual Budget</b>	Monthly actuals are compared to budget and significant variances fully investigated and explained	Monthly statement of financial activity	2	No exceptions noted
<b>Financial reporting</b>	Through the presentation of the Monthly Statement of Financial Activity ( <b>SFA</b> ) to council actual results are compared to budget each month; management reviews, investigates and explains significant variances.	Monthly statement of financial activity	2	No exceptions noted
<b>Grants</b>	a) Management regularly reviews all grant income and monitors compliance with both the terms of grants and council's grant policy (including claiming funds on a timely basis).	Monthly statement of financial activity	2	No exceptions noted
	b) Through the SFA, grant revenue is compared to budget; management reviews, investigates and explains significant variances.	Monthly statement of financial activity	2	No exceptions noted
<b>Receipting</b>	a) Income is compared to budget regularly in the SFA; management reviews, investigates and explains significant variances.	Monthly statement of financial activity	2	No exceptions noted

Risk area	Monitoring activities to be verified	Source	Sample Size	Error or Exceptions noted
	b) Statements of accounts receivable are sent to customers enabling review.	Statements	2	No exceptions noted
<b>Rates</b>	a) Management reviews rates ageing profile on a monthly basis and investigates any outstanding items.	Monthly statement of financial activity	2	No exceptions noted
	b) Actual rate revenue is compared to budget; management reviews, investigates and explains significant variances.	Monthly statement of financial activity	2	No exceptions noted
	c) Annual valuation update is balanced prior to the generation of rates; this is reconciled to the rate record and reviewed.	Valuation reconciliation	1	No exceptions noted
	d) Interim valuation updates are balanced prior to the generation of the interim rates; this is reconciled to the rate record and reviewed.	Valuation reconciliation	1	No exceptions noted
<b>Receivables</b>	a) Receivables and revenue are compared to budget monthly; management reviews, investigates and explains significant variances.	Monthly statement of financial activity	2	No exceptions noted
	b) Management reviews provision for doubtful debts on a regular basis.	Monthly statement of financial activity	2	No exceptions noted
	c) Management reviews debtors ageing profile on a monthly basis and investigates any outstanding items.	Monthly statement of financial activity	2	No exceptions noted
	d) Trade receivables age listing reconciliation to the general ledger is reviewed at least monthly.	Reconciliation	2	No exceptions noted
<b>Bank accounts and banking</b>	a) Management reviews journal transactions to the bank account.	Bank reconciliations	2	No exceptions noted
	b) Management reviews bank reconciliations monthly to confirm large outstanding items are adequately explained and subsequently resolved.	Bank reconciliations	2	<b>Exception noted, refer to Exception 1</b>

Risk area	Monitoring activities to be verified	Source	Sample Size	Error or Exceptions noted
<b>Investments</b>	a) Review the council investment performance regularly.	Monthly statement of financial activity	2	No exceptions noted
	b) Actual investment income compared to budget on a regular basis; management reviews, investigates and explains significant variances.	Monthly statement of financial activity	2	No exceptions noted
	c) Investments register maintained in accordance with regulations and investment policy.	Investment register	2	No exceptions noted
	d) Reconciliation of investment register to general ledger routinely prepared and reviewed.	Investment register reconciliation	2	No exceptions noted
<b>Payroll</b>	a) Management reviews employee costs against budget on a monthly basis and investigates any outstanding items.	Monthly statement of financial activity	2	No exceptions noted
	b) Each departmental manager performs a regular review of reports detailing all employees listed on payroll master file; all unusual items are investigated.	Employee master file reports	2	No exceptions noted
	c) Salary and hourly payroll reports (including compensation and withholding information) are reviewed and approved by management before payments are approved.	Payroll reports	3	No exceptions noted
	d) The payroll deduction table data is periodically reviewed by management for accuracy and ongoing pertinence.	Payroll reports	3	<b>Exception noted, refer to Exception 2</b>
	e) Management reviews a selection of salary sacrifice calculations for accuracy and compliance with statutory requirements; identified errors are promptly corrected.	Payroll reports	3	<b>Exception noted, refer to Exception 2</b>

Risk area	Monitoring activities to be verified	Source	Sample Size	Error or Exceptions noted
	f) Each pay run is reviewed prior to authorisation for payment for consistency with prior pay runs and for abnormal items such as overtime.	Payroll reports	3	No exceptions noted
<b>Purchasing, procurement and payments</b>	a) Actual expenditure is compared to budget monthly; management reviews, investigates and explains significant variances.	Monthly statement of financial activity	2	No exceptions noted
	b) A list of all payments is prepared and presented monthly to the council; management reviews, investigates and explains any unusual or large payments.	Accounts and statement of accounts report presented to Council	2	No exceptions noted
	c) Management reviews supporting documentation before approving payments.	Payment listings	3	No exceptions noted
<b>Trade payables</b>	a) Management reviews trade payables ageing profile on a monthly basis and investigates any outstanding items.	Monthly statement of financial activity	2	No exceptions noted
	b) Trade payables age reconciliation to the general ledger is reviewed at least monthly.	Trade payables age reconciliation	2	<b>Exception noted, refer to Exception 3</b>
<b>Fixed Assets</b>	a) Management compare actual fixed asset balance to budget; management reviews, investigates and explains significant variances.	Monthly statement of financial activity	2	No exceptions noted
	b) Activity recorded in fixed asset register is reviewed by management, including comparison to the capital budget.	Asset register	2	No exceptions noted
	c) Management regularly reviews valuation of fixed assets (i.e. methodology and useful lives of assets) to ensure that assets' valuation is appropriate and in accordance with Australian Accounting Standards.	Revaluation reports	1	No exceptions noted

Risk area	Monitoring activities to be verified	Source	Sample Size	Error or Exceptions noted
	d) Management reviews depreciation rates and methodology (at least annually) to ensure that rates and remaining useful lives are reasonable.	Asset register	1	No exceptions noted
	e) Fixed asset register to the general ledger reconciliation is prepared and reviewed routinely.	Fixed asset register reconciliation	1	No exceptions noted
<b>Borrowings</b>	Borrowings actual and interest charges are compared to budget monthly; management reviews, investigates and explains significant variances.	Monthly statement of financial activity	2	No exceptions noted
<b>Journals</b>	All journals are independently reviewed (including check to ensure correct account allocation) and contain sufficient support information.	Journal listing	1	No exceptions noted
<b>General IT Risks</b>	Regular IT audits performed focusing on data accuracy, retention, recovery and security. Results of these IT Audits reviewed by management and action plan promptly implemented.	IT audit reports	1	No exceptions noted

## 5.2 Key control activities

Risk area	Key control activities to be verified	Source	Sample Size	Error or Exceptions noted
<b>Financial Report Preparation</b>	a) Employees responsible for financial report preparation are competent and adequately trained.	HR records	1	No exceptions noted
	b) All journal entries require supporting documentation. Any non-routine entries require documented approval prior to being posted.	Journal support	1	No exceptions noted
	c) Accounting software used contains application controls that prevent or detect an error from occurring.	Synergy application controls	1	No exceptions noted
<b>Payroll</b>	a) Payroll staff are competent for their assigned tasks, adequately trained and supervised.	HR records	1	No exceptions noted

Risk area	Key control activities to be verified	Source	Sample Size	Error or Exceptions noted
	b) Persons processing payroll are independent of other payroll functions, such as hiring/firing of staff, timekeeping and EFT payment.	Payroll walkthrough	1	No exceptions noted
	c) Approval in writing is obtained before adding new employees to payroll.	Evidence of approval	1	No exceptions noted
	d) Signed and dated approval of each employee's pay rate is documented on employee file.	Evidence of approval	1	No exceptions noted
	e) Timesheets and totals of hours worked are approved before being processed for payment	Timesheets	3	No exceptions noted
	f) Procedures exist to ensure terminated employees are immediately removed from payroll.	Terminations	2	No exceptions noted
	g) Payroll register is reconciled to the general ledger and reviewed by a senior officer independent of payroll.	Payroll register reconciliation	3	<b>Exception noted, refer to Exception 4</b>
	h) Costs by sub program, are compared to budget.	Payroll reports	3	No exceptions noted
	i) Staff required to take their leave entitlements annually.	Leave balances report	2	No exceptions noted
<b>Revenue</b>	a) Rates/debtors officers are competent for their assigned tasks, adequately trained and supervised.	HR records	1	No exceptions noted
	b) Monthly statements are issued to trade debtors.	Monthly statements	2	No exceptions noted
	c) Rates are raised in line with the approved budgeted rate in the dollar.	Rates notices	1	No exceptions noted
	d) The rate record is updated and reconciled monthly to the Valuer Generals Office (VGO) records.	Rates reconciliation	2	No exceptions noted
	e) Documented procedures are in place to ensure the VGO is informed of any building works approved.	Rates walkthrough	1	No exceptions noted

Risk area	Key control activities to be verified	Source	Sample Size	Error or Exceptions noted
	f) The rates ledger is reconciled to the General Ledger.	Rates reconciliations	1	<b>Exception noted, refer to Exception 5</b>
	g) The approved schedule of Fees and Charges is used for invoice preparation. Exceptions require documentation and approval	Receipts sample	5	No exceptions noted
	h) Automatic or manual checks are performed on serial continuity of invoice documents.	Synergy system controls	1	No exceptions noted
	i) Credit note approvals are independent of accounts receivable.	Credit notes	3	<b>Exception noted, refer to Exception 8</b>
<b>Receivables / Receipting</b>	a) Staff handling cash receipts and managing receivables are competent for their assigned tasks, adequately trained and supervised.	HR records	1	No exceptions noted
	b) Bank reconciliation is prepared monthly (with statements from bank) and management approval documented.	Bank reconciliations	2	<b>Exception noted, refer to Exception 1</b>
	c) Customers are informed (signs, etc.) that they should obtain receipts.	Observation	1	No exceptions noted
	d) Pre-numbered cash receipts are issued for every cash sale. Serial continuity is reviewed periodically and checked against cash deposits data.	Cash receipts sequence	1	No exceptions noted
	e) When opening mail, cheques are stamped "for deposit only" with the local government bank account number. Cheques received are listed, totalled and reviewed before deposit.	Cash deposit batches	3	No exceptions noted
	f) All receipts cash/cheques are deposited on a regular and timely basis.	Cash deposit batches	3	No exceptions noted
	g) Reconciliation of daily deposit total to receivable posting and cash sales is prepared and reviewed.	Daily deposit reconciliations	3	No exceptions noted

Risk area	Key control activities to be verified	Source	Sample Size	Error or Exceptions noted
	h) A reconciliation of aged receivables to control accounts is prepared monthly and management approval documented.	Aged receivables reconciliation	2	No exceptions noted
	i) Procedures exist to ensure receipts are recorded in the correct period.	Receipts walkthrough	1	No exceptions noted
	j) Significant overdue customer accounts are investigated by management and actions taken documented.	Client prepared documentation	1	No exceptions noted
<b>Purchases, payables, payments</b>	a) Personnel responsible for the purchasing, shipping, receiving and payable functions are competent, adequately trained and supervised.	HR records	1	No exceptions noted
	b) Management reviews outstanding cheques on period-end bank reconciliation.	Bank reconciliations	2	<b>Exception noted, refer to Exception 1</b>
	c) Pre-numbered cheques are used EFT's are allocated a sequential number for each creditor payment and details for every number is documented. Spoiled cheques are clearly marked "VOID" and cancelled.	Cheques and EFT batches	3	<b>Exception noted, refer to Exception 6</b>
	d) The purchasing policy clearly defines who can issue purchase requisitions/orders and to what dollar limit.	Purchasing policy	1	No exceptions noted
	e) Access to purchasing, receiving, accounts payable, and inventory records is restricted to authorised personnel.	Synergy controls	1	No exceptions noted
	f) Spending limits are set by budget or individual levels of authority. These limits are monitored by the system or manually.	Synergy controls	1	No exceptions noted
	g) A list of preferred suppliers is maintained and used where possible.	Client prepared documentation	1	No exceptions noted

Risk area	Key control activities to be verified	Source	Sample Size	Error or Exceptions noted
	h) Controls exist to ensure corporate buying cards/credit cards are only issued to authorised staff and personal purchases are not allowed.	Credit card policy	1	No exceptions noted
	i) Pre-numbered purchase orders and receiving reports are used and exceptions are approved and documented.	Purchase order sequence	1	No exceptions noted
	j) Period-end procedures exist to detect and account for unprocessed goods/service receipts.	Client prepared documentation	1	No exceptions noted
	k) Personnel receiving goods do not perform any accounting functions.	Purchases walkthrough	1	No exceptions noted
	l) An aged accounts payable listing is reconciled to general ledger each month and exceptions investigated by management.	Aged accounts payable reconciliation	2	<b>Exception noted, refer to Exception 3</b>
	m) Aged report of open orders is reviewed each month and old/unusual items are investigated.	Aged report of open orders	3	No exceptions noted
	n) Unit prices on invoices received are checked against price lists, quotes or approved purchase orders. Invoices are checked for correct calculations, discounts, taxes and freight before payment	Client prepared documentation	23	No exceptions noted
	o) System has checks to prevent duplicate payments on same order.	Synergy controls	2	No exceptions noted
	p) A list of accounts for payments is prepared in line with the legislation and authorised by council or a person with delegated authority before cheques are signed or EFT is authorised.	Accounts and statement of accounts report presented to Council	5	No exceptions noted
	q) Signing officers examine supporting documentation to payments and document approval.	Payment batch documentation	1	No exceptions noted
r) All cheques must be made out to authorised vendors and cannot be made out to "cash".	Cheque butts	2	No exceptions noted	

Risk area	Key control activities to be verified	Source	Sample Size	Error or Exceptions noted
	s) A reconciliation of the accounts payable sub ledger to the general ledger is prepared monthly and approved by management.	Accounts payable sub ledger reconciliation	2	<b>Exception noted, refer to Exception 3</b>
	t) Suppliers' statements are reconciled to accounts payable monthly and reviewed by management.	Supplier statements reconciliations	1	<b>Exception noted, refer to Exception 7</b>
	u) Procedures exist to ensure payments are recorded in the correct period.	Purchases walkthrough	1	No exceptions noted
	v) Procedures exist to ensure all bank accounts and signatories are authorised by council.	Cash cycle documentation	1	No exceptions noted
	w) The accounting policy for when goods should be capitalised is documented and clearly understood by accounting personnel.	Accounting policy, capital purchases	1	No exceptions noted
	x) Management regularly compares actual purchases (costs and expenses) to budgeted purchases and investigates and documents variances.	Monthly statement of financial activity	2	No exceptions noted
	y) Management follows up creditor queries on a timely basis.	Aged creditor listing	2	No exceptions noted
	z) Management addresses the reasons for debit balance creditor accounts on a timely basis.	Aged creditor listing	2	No exceptions noted

## 6 Recommendations

Although the primary purpose of our engagement was to enable us to issue the above described report, we also provide you with recommendations in Appendix A for strengthening controls, if such matters are observed during the process of the engagement. While issues raised may not represent deficiencies in the appropriateness and effectiveness of the financial management systems and procedures, our recommendations will address areas where we believe controls could be improved.

## 7 Restriction on distribution and use of report

This report is intended solely for the use of the Town for the purpose set out above. As the intended user of our report, it is for you and other intended users to assess both the procedures and our factual findings to determine whether they provide, in combination with any other information you have obtained, a reasonable basis for any conclusions which you wish to draw on the subject matter. As required by ASRS 4400, distribution of this report is restricted to those parties that have agreed the procedures to be performed with us and other intended users identified in the terms of the engagement (since others, unaware of the reasons for the procedures, may misinterpret the results). Accordingly, we expressly disclaim and do not accept any responsibility or liability to any party other than the Town for any consequences of reliance on this report for any purpose.

A handwritten signature of 'RSM' in black ink.

RSM AUSTRALIA PTY LTD

A handwritten signature of 'David Wall' in black ink.

D J WALL  
Director

Perth, WA  
Dated: 7 May 2019

**TOWN OF PORT HEDLAND**  
**FINANCIAL MANAGEMENT REVIEW**  
**NINE MONTHS ENDED 31 MARCH 2019**  
**FINDINGS IDENTIFIED DURING THE REVIEW**

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1 Bank reconciliations		✓	
2 Payroll deductions and salary sacrifice calculations		✓	
3 Reconciliation of accounts payable subledger to general ledger		✓	
4 Reconciliation of payroll register to general ledger			✓
5 Reconciliation of rates ledger to general ledger		✓	
6 Cancelled cheques		✓	
7 Reconciliation of supplier statements to accounts payable		✓	
8 Credit note approvals		✓	

**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 opinion, 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.

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**Exception 1**

**Monitoring or Key Control Activity:**

As per section 7.3 of the *Western Australian Local Government Accounting Manual Edition 3*:

1. Management should review bank reconciliations monthly to confirm large outstanding items are adequately explained and subsequently resolved;
2. Bank reconciliations should be prepared monthly (with statements from bank) and management approval documented; and
3. Management should review outstanding cheques on period-end bank reconciliations.

**Finding:**

From our sample of three reconciliations, it was noted that two reconciliations (Municipal Fund Account October 2018 and January 2019) had cash transactions processed after bank reconciliations had been performed and the bank reconciliations were not subsequently updated.

Furthermore, it was also noted that from a sample of three reconciliations, the Trust Fund bank reconciliations (October 2018, December 2018 and January 2019) contained three stale cheques dating from the 2017 financial year.

**Rating: Moderate**

**Implication:**

Inconsistent application of the bank reconciliation preparation process increases the risk of fraud, errors and omissions remaining undetected, which in turn could lead to misstatements in the Town's financial reporting. There is a further risk of non-compliance with regulation 5(2)(a) of the *Local Government (Financial Management) Regulations 1996* which requires the CEO to ensure that the resources of the local government are effectively and efficiently managed.

**Recommendation:**

Management should ensure that bank reconciliations are updated and reviewed to reflect any changes to the bank after it has been reconciled.

Management should review outstanding cheques on period-end bank reconciliations and adequately explain or resolve any long outstanding items.

**Management Comment:**

Management will check previous reconciliations to opening balances going forward to ensure any changes made are updated and reflected in reconciliations.

The Town acknowledges that there are outstanding items on our bank reconciliation. We are currently working through the reconciliations, with an intention to resolve long outstanding items prior to 30 June 2019.

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**Exception 2**

**Monitoring or Key Control Activity:**

As per Section 7.3 of the *Western Australian Local Government Accounting Manual Edition 3*:

1. The payroll deduction table data should be periodically reviewed by management for accuracy and ongoing pertinence.
2. Management should review a selection of salary sacrifice calculations for accuracy and compliance with statutory requirements and identified errors should be promptly corrected.

**Finding:**

From our sample of three pay runs, it was noted that there is no explicit evidence of the payroll deduction table data and salary sacrifice calculations being reviewed by management.

**Rating: Moderate**

**Implication:**

Failure to maintain evidence that the payroll deduction data and salary sacrifice calculations increases the risk of inappropriate payments and, in extreme cases, fraud. There is a further risk of non-compliance with regulation 5(2)(a) of the *Local Government (Financial Management) Regulations 1996* which requires the CEO to ensure that the resources of the local government are effectively and efficiently managed.

**Recommendation:**

Management should ensure that reviews of payroll deduction table data and salary sacrifice calculations are reviewed periodically and documented.

**Management Comment:**

The Town agree with the recommendations provided by the auditors.

The intention is to include this recommendation in the HR Operational plan which is currently being drafted.

**TOWN OF PORT HEDLAND**  
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**Exception 3**

**Monitoring or Key Control Activity:**

As per Section 7.3 of the *Western Australian Local Government Accounting Manual Edition 3*:

1. A reconciliation of the accounts payable sub ledger to the general ledger should be prepared monthly and approved by management;
2. Trade payables age reconciliation to the general ledger should be reviewed at least monthly; and
3. An aged accounts payable listing should be reconciled to general ledger each month and exceptions investigated by management.

**Finding:**

From our sample of two accounts payable sub ledger to general ledger monthly reconciliations, it was noted that the reconciliation of the aged payables trial balance to general ledger for the period ending 31 August 2018 had been prepared on 10 September 2018, but not reviewed by management until 27 February 2019.

**Rating: Moderate**

**Implication:**

Timely review of reconciliations increases the risk that errors remain undetected and not promptly rectified.

**Recommendation:**

Management should ensure that the reconciliation of the accounts payable sub ledger to the general ledger is reviewed and approved by management on a timely basis.

**Management Comment:**

The current procedure is to ensure all reconciliations are reviewed electronically prior to the preparation of the monthly financial statements presented to Council. Following feedback from the audit 30 June 2018, received 4 February 2019, the Town has implemented a procedure to print and sign all reconciliations.

Management going forward will continue to print, review and sign reconciliations for governance and record purposes.

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**Exception 4**

**Monitoring or Key Control Activity:**

As per Section 7.3 of the *Western Australian Local Government Accounting Manual Edition 3*, the payroll register should be reconciled to the general ledger and reviewed by a senior officer independent of payroll.

**Finding:**

From our sample of three payroll register to general ledger reconciliations, it was noted that the required reconciliation had not been prepared for the fortnight ending 20 August 2018.

**Rating: Minor**

**Implication:**

Failure to prepare the payroll register reconciliation increases the risk that errors are not undetected and corrected on a timely basis.

**Recommendation:**

Management should ensure that the payroll register is reconciled to the general ledger on a timely basis.

**Management Comment:**

The Town acknowledge that the payroll register was not reconciled for that fortnight.

The Town has reconciled the payroll register on a fortnightly basis since the 20 August 2018 and will continue this process. The Town is of the opinion that it is good practice to reconcile accounts on a minimum monthly basis which has occurred for this account.

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**Exception 5**

**Monitoring or Key Control Activity:**

As per Section 7.3 of the *Western Australian Local Government Accounting Manual Edition 3*, the Rates Ledger should be reconciled to the General Ledger.

**Finding:**

From our sample of one, it was noted that the reconciliation of the Rates Ledger to the General Ledger as at 8 January 2019 contained an unreconciled difference of \$4,729.07.

**Rating: Moderate**

**Implication:**

Unreconciled differences in reconciliations increases the risk of fraud, errors and omissions remaining undetected, which in turn could lead to misstatements in the Town's financial reporting. There is a further risk of non-compliance with regulation 5(2)(a) of the *Local Government (Financial Management) Regulations 1996* which requires the CEO to ensure that the resources of the local government are effectively and efficiently managed.

**Recommendation:**

Management should ensure that there are no unreconciled differences between the Rates Ledger and the General Ledger.

**Management Comment:**

Following the audit for period ending 30 June 2018 we have been working to improve on our monthly rates reconciliations and minimise the imbalance present.

We will continue to work on this area to minimise discrepancies going forward with improved reconciliations and further training. Management will ensure all reconciliation issues are resolved in time for the 30 June accounts.

We have experienced issues with Synergy and are working with IT Vision to implement a solution.

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**Exception 6**

**Monitoring or Key Control Activity:**

As per Section 7.3 of the *Western Australian Local Government Accounting Manual Edition 3*:

1. Pre-numbered cheques should be used EFT's should be allocated a sequential number for each creditor payment and details for every number documented; and
2. Spoiled cheques should be clearly marked "VOID" and cancelled.

**Finding:**

From our sample of three cancelled cheques, it was noted that none had been retained. We therefore could not ascertain that spoiled cheques had been clearly marked "VOID" and cancelled.

**Rating: Moderate**

**Implication:**

Spoiled cheques should be retained, clearly marked as "VOID" and cancelled to ensure they cannot be subsequently presented for payment.

**Recommendation:**

Management should ensure that spoiled cheques are retained, clearly marked "VOID" and cancelled.

**Management Comment:**

The Town recognises that each area has a different process for the management of cheques (between Municipal and Trust). Management will initiate a working group and create a uniform process for cancelled cheques to be rolled out across the organisation.

The Town is also looking at ways to minimise usage of cheques.

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**Exception 7**

**Monitoring or Key Control Activity:**

As per Section 7.3 of the *Western Australian Local Government Accounting Manual Edition 3*, suppliers' statements should be reconciled to accounts payable monthly and reviewed by management.

**Finding:**

From our sample of one, it was noted that there was no evidence to show that the supplier statements were reconciled to accounts payable monthly and reviewed by management.

**Rating: Moderate**

**Implication:**

Reconciliation of supplier statements will assist to ensure that accounts payable are not materially misstated.

**Recommendation:**

Management should ensure that supplier statements are reconciled to accounts payable monthly and reviewed by management.

**Management Comment:**

Statements have been reviewed on a regular basis by a senior staff member. We will continue this process and update the procedure to ensure all statements are signed off once reviewed by a senior member of the team.

Priority will be given to high volume and/or high value accounts.

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**Exception 8**

**Monitoring or Key Control Activity:**

As per Section 7.3 of the *Western Australian Local Government Accounting Manual Edition 3*, credit note approvals should be independent of accounts receivable.

**Finding:**

From our sample of three credit notes, it was noted that two credit notes had no evidence of independent review or approval by management.

**Rating: Moderate**

**Implication:**

The lack of independent review and approval of credit notes increases the risk of inappropriate payments and, in extreme cases, fraud. There is a further risk of non-compliance with regulation 5(2)(a) of the *Local Government (Financial Management) Regulations 1996* which requires the CEO to ensure that the resources of the local government are effectively and efficiently managed.

**Recommendation:**

We recommend that all credit notes are independently reviewed and authorised by management.

**Management Comment:**

Requests to create a credit note were prepared by staff and signed off within allocated purchasing delegations. The request forms are then handed to our Accounts Officer for processing. Large credit notes are reviewed and authorised by senior management following creation by our Accounts Officer.

Management have addressed this issue by including a new delegation to the current delegation register to specify who has authority to sign off on Credit Notes. This will be presented to Council at the May OCM to consider and endorse the new delegation.