



AUDIT FINDINGS REPORT

Contents

- A. INTRODUCTION
- B. AUDIT FINDINGS 2014/15
- C. AUDIT FINDINGS 2015/16
- D. CONCLUSION
- E. ATTACHMENTS

A. Introduction

RSM Australia identified the Town's internal control weaknesses over the last two financial years. This report summarise both the weaknesses identified and the Towns actions to address these weaknesses.

B. Audit findings 2014/15

During the 2014/15 financial audit, the following internal control weaknesses were identified.

The findings were:

1. High annual leave accrual at year end
2. Negative leave balances
3. Fortnightly payroll variance reporting
4. No loan agreements in place regarding self-supporting loan
5. Overhead allocation

All items identified were deemed moderate risks.

The following audit adjustments were made during the audit for:

- Allocation of prepaid expenses to creditors.
- Revaluation of culverts and bridges

The Town of Port Hedland implemented plans and actions to address and improve the identified control weaknesses.

High annual leave accrual at year end

Finding: Some employees have annual leave balances accrued in excess of 300 hours.

Actions identified and implemented include:

- Fortnightly report of leave in excess of 228 hours to Human Resources Manager
- Monthly report of leave in excess of 228 hours to Managers
- Monthly report of leave in excess of 350 hours to Executive Leadership Team
- Management of leave through the internal operating procedure for leave. Procedure HR008.

Individuals is encouraged to take Annual leave. The Town also continue to cross train staff. A high staff turnover related to the economic and industry environment continue to place pressure on staff in key positions. It should also be noted that the EBA include higher than industry leave provision to ensure a work/life balance for staff working and living in the Pilbara.

Negative leave balances

Finding: Synergy payroll system contains errors regarding employee leave entitlements.

As a result, some employees have large negative leave balances, which means they have overdrawn their leave entitlements and are in a position where they effectively owe that amount back to the Town.

The Town of Port Hedland completed a full review and audit of all leaves. The following were done as part of this project:

- Set-up errors corrected in Synergy system
- Synergy system errors corrected
- Payroll staff trained regarding Synergy set up and leave accrual handling
- EBA and Synergy leave set up aligned
- Employees trained in the calculation and application of leave
- Full audit of all leave categories done by individual
- All leave issues and discrepancies identified and Synergy records updated
- Fortnightly leave exception report generation and checking

In addition, negative leave is checked as part of the fortnightly payroll process. Leave without pay is processed where no leave available. An exception report is also printed fortnightly and reviewed. As a result, negative leave occur only by exception. There is currently no negative leave balances in the Town records.

Fortnightly payroll variance reporting

Finding: A back pay of \$62,212 was paid again in January 2015. Recovery from employees was unresolved. An outstanding balance of \$36,427 existed at 30 June 2015.

The back pay overpayment was a result of inadequate process. A full audit was done to determine the overpayment amount per staff member. The following actions were taken by the Town:

- Process improvements made:
 - No manual back pay to be done. Only Synergy Soft ERP generated back pays
 - No interim back pay will be done prior to the EBA being signed
- All outstanding monies were collected from staff
- Invoices were raised where staff left the Town's employment prior to finalisation of the back pay duplication. Collection was done via Accounts Receivable.

No loan agreements in place regarding self-supporting loan

Finding: Two loans from 2007 did not have a loan agreement in place

The Town was unable to obtain signed agreements for the two self-supporting loans. The parties are signing acknowledgement of debtor documentation at each financial yearend. This is administered by the Strategic Accountant responsible for Treasury.

Overhead allocation

Finding: During testing of the overhead allocation reconciliation it was noted that Plant operating cost and public works overhead amounts in the General Ledger were understated in the Statement of Comprehensive Income by \$214,607 and \$832,723 respectively.

In the 2014/15 financial year, the Town of Port Hedland restructured the General Ledger. All costs were reclassified and overhead allocations refined. An overhead allocation review is done as part of the bi-annually budget review. Further, reconciliation of the overhead allocations forms part of the monthly Financial Services checklist and responsibilities.

C. Audit findings 2015/16

During the onsite 2015/16 financial audit the following internal control weaknesses were identified:

1. Overhead allocation
2. Non-compliance with internal purchasing policy
3. High annual leave accrual at year end

These were all deemed medium risks.

During the interim audit review in April 2016, the auditors reported two audit findings. These were related to:

1. Non-compliance with internal purchasing policy and
2. Credit Card transactions

The first finding was included in the financial yearend audit findings. The second, related to invoices for credit card spent not scanned to the electronic records keeping system. The process has been changed. All supporting documentation after checking and approval is scanned to the electronic records as the last step prior to payment. This ensure all records received is properly recorded.

Audit adjustments were made to:

- Reverse previous revaluation recognition.
- Adjust revaluation of Property, Plant and Equipment and Furniture
- Adjustment to apply square meters when converting land and land held for resale as Investment Property.

This adjustments relate to the disposal and lease of Port Hedland International Airport. An unadjusted audit difference remained at year end. It relates to a classification adjustment between two current liability accounts.

The Town of Port Hedland implemented the following actions to address and improve this control weaknesses.

Overhead allocation

Finding: During testing of the overhead allocation reconciliation it was found that the cost allocated in the General ledger were understated in the Statement of comprehensive income by \$241,216

This weakness was identified during 2014/15 as well. Current treatment notes were incorporated in the 2014/15 details.

Non-compliance with internal purchasing policy

Finding: During the review of the tender register it was found that the Tender 11/15 – Tyre Disposal, has been sub delegated to the Director Works and Services but at the time of payment the Acting Director of Works and Services approved the payment.

The Town is in the process of implementing a centre-led procurement and purchasing process. This will electronically manage approvals and authorisations and will ensure all approvals is within delegated authority.

Currently all CEO delegations is activated by the Governance Department. An official letter is issued with the detail of delegation by individual. The Accounts Payable Officer monitor all payment requests against this delegations approvals.

Governance Department monitors each step of the Tender processes, ensuring compliance to CEO delegations. This will be replaced in future by centre-led procurement automated controls.

The Procurement policy was updated. The following policies are in place regarding procurement:

2/007 Purchasing – updated 27 July 2016

2/011 Tender Evaluation – updated 27 July 2016

2/016 Regional Price Preference – updated 27 July 2016

High annual leave accrual at year end

Finding: Excessive annual leave balances accrued

This weakness was identified during 2014/15 as well. Current treatment notes were incorporated in the 2014/15 details.

D. Conclusion

The internal control weaknesses identified by RSM Australia provided an opportunity to improve internal processes. Internal Control improvement is an ongoing process to ensure good governance and to safeguard the Town's assets. This remains a key deliverable for the Town.

E. Attachments

- RMS Bird Cameron Closing Report 30 June 2015
- RSM Australia Closing Report 30 June 2016

- Extract Audit, Risk & Governance Committee meeting minutes 5 July 2016