

NAME OF ENTITY: SHIRE OF NUNGARIN

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2023

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

Index of findings	Potential impact on audit opinion	Rating			Prior year finding
		Significant	Moderate	Minor	
1. Procurement practices	No	✓			✓
2. Excessive superuser access	No	✓			
3. Supplier masterfile amendments	No	✓			✓
4. Fair value of Land and Building and Infrastructure assets	No		✓		✓
5. Payroll practices	No		✓		
6. Bank reconciliations	No		✓		
7. Risk Management Policy	No		✓		✓
8. Asset Management Plan	No		✓		
9. Lack of IT Governance	No		✓		✓
10. No Business Continuity Plan and Disaster Recovery Plan	No		✓		✓
11. Lack of IT risk register and periodic meetings for managing cybersecurity risks	No		✓		
12. No change management process in place	No		✓		
13. No Service Level Agreement with IT service provider	No		✓		
14. Absence of IT and security related training	No			✓	

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**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.
- 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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**1. Procurement practices**

**Finding**

From a sample of 25 payments as part of our testing of procurement and payments we noted the following:

- four instances where the purchase orders were raised after the invoice date.
- four instances where batch payment listings were not signed.
- one instance where a supplier invoice was approved by an employee above their delegated threshold; and
- one instance where the batch payment amount did not match to the amount paid in the bank statement.

**Rating:** Significant

**Implication**

The Shire has not adhered to the purchasing policy and the Local Government (Financial Management) Regulations. There is an increased risk of favouritism of suppliers, not obtaining value for money and unauthorised goods/services may be purchased and increases the likelihood of financial loss to the Shire.

**Recommendation**

Staff are reminded of appropriate procurement policies and practices and to ensure purchase orders are raised and appropriately approved prior to goods/services being ordered.

In addition to this the amount on the purchase order should match the price quoted by the supplier to be invoiced. Any variations to the quote should be documented and approved prior to additional goods/services being provided by the supplier.

**Management comment:**

*Conduct regular training sessions on procurement policies and practices. Implement an automated system for purchase orders and batch payment approvals.*

**Responsible person:** Manager of Corporate Services

**Completion date:** April 2024

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**2. Excessive superuser access**

**Finding**

The Shire has excessively granted superuser access to many users.

**Rating:** Significant

**Implication**

Of 24 users, 23 have superuser access in Synergy, which poses a significant risk of unauthorised access and potential security breaches. This wide distribution of superuser privileges increases the likelihood of sensitive information being accessed or manipulated by individuals who may not require such elevated permissions for their regular tasks.

**Recommendation**

Access to superuser privileges should be strictly based on a "need-to-know" basis. The Shire should conduct a thorough access review and re-evaluate the necessity of superuser privileges for each mentioned role. This process will help minimise the risk of unauthorised access and enhance the security posture of the Shire's systems and sensitive data.

**Management comment:**

*Establish a periodic access review schedule. Implement a role-based access control system to restrict privileges based on job roles and responsibilities.*

**Responsible person:** Manager of Corporate Services

**Completion date:** January 2024

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### **3. Supplier masterfile amendments**

#### **Finding**

From our review of changes to supplier master files, we noted the following:

- one instance out of a sample of eight where no New/Change of Supplier Details Form was prepared to support changes to supplier master files.
- six instances out of a sample of eight where the New/Change of Supplier Details Form was not signed as evidence of review.
- there is no evidence of review of Audit Trail Reports

We however acknowledge that our testing to validate suppliers' information in the system did not identify any discrepancies.

This finding was first reported in 2022.

**Rating:** Significant (2022: Moderate)

#### **Implication**

This may result in unauthorised or inaccurate supplier information being processed to the supplier modules giving rise to the risk of payments not being made to the appropriate supplier.

There is a further risk that unauthorised changes to supplier information is not identified and corrected.

#### **Recommendation**

We recommend that New/Change of Supplier Details Forms be completed for all amendments to the supplier data base with a requirement for a background check to be performed.

We further recommend that New/Change of Supplier Details Forms and Monthly Audit Trail report generated from the accounting system be reviewed on a regular basis and that this be evidenced either by being manually signed, or digitally signed by a senior employee of Council.

#### **Management comment:**

*Develop a checklist for supplier amendments and require sign-offs for each step. Implement an automated system for tracking and reviewing supplier master file changes.*

**Responsible person:** Manager of Corporate Services

**Completion date:** February 2024

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#### **4. Fair value of Land and Building and Infrastructure assets-Frequency of valuations**

##### **Finding**

The Shire has not performed a robust fair value assessment in 2022-23 to determine whether its Land and Building and Infrastructure assets represent fair value at the end of the reporting period.

Regulation 17A(4)(b) of the FM Regulations requires a local government to revalue its revalued assets when it is of the opinion that the fair value is likely to be materially different to the carrying amount.

##### Update to the FM Regulations:

We acknowledge that the FM Regulations was updated on 18 October 2023 and the fair value amendment, which applies from 2023-24, will just require the Shire to revalue its land, building and infrastructure assets every five years since the asset's last valuation date (Regulations 17A(4A)). The Shire may also revalue earlier if it chooses to do so (Regulation 17A(4B)).

**Rating:** Moderate

##### **Implication**

Without a robust assessment of fair value of the Shire's Land and Building and Infrastructure Assets there is a risk that the fair value of Land and Buildings and Infrastructure 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**

We recommend that the Shire comply with the fair value requirements of the updated FM Regulations for 2023-24 and onwards.

##### **Management comment:**

*Establish a timeline for regular fair value assessments. Engage external experts for periodic assessments to ensure compliance and accuracy.*

**Responsible person:** Chief Executive Officer

**Completion date:** November 2024

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## **5. Payroll practices**

### **Finding**

From a sample of 20 employees as part of our testing of payroll we noted the following:

- one instance where there is no evidence that a timesheet was approved by the appropriate manager.
- one instance where the resignation/termination letter was not on file.
- one instance where the payroll report was not updated to reflect an employee who had resigned.
- one instance where the payroll report reflected more hours of leave taken by an employee than what was approved by the signed leave application form.
- two instances where the employment contract was signed after commencement of employment.
- one instance (payroll period ended 21 Dec 2022) where there was no evidence that the payroll reconciliation was reviewed or approved.
- one instance (payroll period ended 28 Sept 2022) where there was no evidence that the payroll report was reviewed or approved.

**Rating:** Moderate

### **Implication**

Without evidence of a review and authorization of timesheets prior to capture to the payroll system, incorrect wages calculation may be processed and may potentially result in financial loss to the Shire.

Without a formal record of termination details, incorrect pay details may be processed to the payroll system resulting in incorrect termination pay to employees resulting in financial loss to the Shire.

Leave processed within the system is not supported by hours as recorded on the authorised leave form resulting in inaccurate payments to employees and leave balances.

The absence of formal review of payroll reports and reconciliation reports by a senior member of management increases the risk of unnoticed errors in payroll transactions and may potentially result in financial loss to the Shire.

### **Recommendation**

We recommend the following:

- Timesheets are completed for all employees and are duly authorised by the appropriate manager before leave is processed to the payroll system.
- Termination letters with all details of the termination are prepared and signed by management before being sent to the departing employee and placed on the employee file as a record to support the payroll records.
- The list of terminated employees per the payroll system is reviewed for accuracy a part of the review of each pay run.

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- That leave movements as recorded in the fortnightly payroll reports are reviewed against leave forms.
- That all employment contracts are signed before the commencement of work
- That a senior member of management other than the payroll officer review and sign the payroll report and reconciliation report as evidence of review to ensure that all payroll information is recorded accurately

**Management comment:**

*Introduce an automated timesheet approval system. Implement an electronic record-keeping system for terminations. Conduct regular training for senior management on reviewing payroll reports.*

**Responsible person:** Manager of Corporate Services  
**Completion date:** February 2024



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**6. Bank reconciliations**

**Finding**

We noted that the bank reconciliations for the month of December 2022 were not provided for inspection.

We noted that the municipal bank account reconciliations for the months of February 2023 and April 2023 were not performed within 2 months after the month end.

We further noted that the reserve bank account reconciliation for October 2022 was performed on 22 June 2023.

**Rating:** Moderate

**Implication**

Bank reconciliations are a fundamental internal control in accounting to ensure that there are no transactions that have been misstated.

**Recommendation**

We recommend that banks reconciliations are performed within one month to ensure that to ensure that there are no transactions that have been misstated and accounting records are accurate and complete.

**Management comment:**

*Develop a monthly reconciliation calendar with specific deadlines. Utilize automated reconciliation tools to streamline the process and reduce manual effort.*

**Responsible person:** Manager of Corporate Services

**Completion date:** February 2024

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## **7. Risk Management Policy**

### **Finding**

The Shire does not have a comprehensive risk management policy and maintain a risk register for the Shire. The Shire has also not implemented the previous recommendation of Regulation 17 of the Local Government (Audit) Regulations 1996 review for the financial year ended 30 June 2023 to establish the risk management policy.

The above findings were first reported in 2022.

**Rating:** Moderate (2022: Moderate)

### **Implication**

Without a comprehensive documented risk management policy and risk register, the Shire has exposure to risks that if unmanaged, may have an adverse impact on the achievement of organisational objectives.

### **Recommendation**

The Shire should establish a written comprehensive Risk Management policy and maintain a risk register and ensure that the risk register is up to date.

### **Management comment:**

*Establish a dedicated team responsible for continuous monitoring and updating of the risk register. Conduct regular risk assessment workshops to ensure comprehensive coverage.*

**Responsible person:** Chief Executive Officer

**Completion date:** June 2024

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## **8. Asset Management Plan**

### **Finding**

The Shire does not currently maintain an Asset Management Plan.

Comprehensive asset management planning will highlight the age and condition of a local government's stock of physical assets. This should result in a determination of the financial costs associated with the maintenance and renewal of the local government's asset portfolio. Asset Management Plans help to identify significant unfunded asset gaps which may, in turn, reveal whether a local government is in a financially unsustainable position.

**Rating:** Moderate

### **Implication**

The absence of an Asset Management Plan may impact the Shire's strategic planning process and long-term future sustainability.

### **Recommendation**

We recommend that the Asset Management Plan are prepared, reviewed, and updated annually as part of the Integrated Planning and Reporting Framework to address identified long-term sustainability issues within the Shire.

### **Management comment:**

*Engage with asset management experts to develop a comprehensive plan. Implement a system for continuous monitoring and updating of asset-related data.*

**Responsible person:** Chief Executive Officer

**Completion date:** June 2024

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## **9. Lack of IT Governance**

### **Finding**

The Shire has neither implemented IT-related policies nor has an IT strategic plan in place and procedures. The shire also lacks a system for classifying IT assets based on their sensitivity and criticality levels.

**Rating:** Moderate

### **Implication**

The Shire's lack of established IT policies and procedures creates inconsistency and security vulnerabilities. Without an IT strategic plan, resource allocation becomes ad hoc, hindering efficiency and goal achievement. Failure to classify IT assets by importance may misallocate resources, increasing the risk of security breaches for critical assets.

### **Recommendation**

To enhance IT governance, the Shire should develop and implement IT policies covering data security, access control, password management, backup plans, incident response, and system maintenance. Simultaneously, creating an IT strategic plan aligned with business objectives will optimise resource allocation and long-term goal achievement. Implementing an asset classification framework based on sensitivity and criticality assessments will ensure effective security resource allocation, including access controls and monitoring protocols, all subject to regular updates to adapt to evolving needs and risks. This proactive approach will mitigate security risks efficiently.

### **Management comment:**

*Collaborate with IT experts to create comprehensive policies aligned with industry best practices. Conduct regular training for IT staff on governance procedures and protocols.*

**Responsible person:** Manager of Corporate Services

**Completion date:** March 2024

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**10. No Business Continuity Plan and Disaster Recovery Plan**

**Finding**

The Shire currently lacks a structured and comprehensive business continuity plan (BCP) and a well-defined disaster recovery plan (DRP) to address potential disruptions or catastrophic events.

**Rating:** Moderate

**Implication**

Without BCP and DRP, the Shire is vulnerable to extended downtime, data loss, financial setbacks, and potential legal and regulatory consequences. These plans are essential safeguards for the Shire's resilience and continued success in the event of unforeseen disasters or disruptions.

**Recommendation:**

The Shire should establish a Business Continuity Planning (BCP) and Disaster Recovery Planning (DRP). This involves creating comprehensive strategies for maintaining essential operations in the face of disruptions.

**Management comment:**

*Conduct regular drills and simulations to test the effectiveness of the BCP and DRP.  
Collaborate with external experts to ensure the plans align with industry standards.*

**Responsible person:** Chief Executive Officer

**Completion date:** June 2024

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**11. Lack of IT risk register and periodic meetings for managing cybersecurity risks.**

**Finding**

There is no IT risk register in place to identify potential risks. The Shire also does not regularly convene meetings to address and oversee cybersecurity risks.

**Rating:** Moderate

**Implication**

The absence of an IT Risk register means that the Shire is not proactively identifying, assessing, and mitigating risks, leaving it vulnerable to unexpected threats. The lack of regular cybersecurity risk management meetings suggests insufficient attention to monitoring, addressing, and adapting to evolving cybersecurity threats.

**Recommendation**

The Shire should develop and maintain an IT risk register to identify, assess, and prioritise potential risks. This will enable proactive risk management and mitigation strategies. The Shire should organise regular cybersecurity risk management meetings to assess current risks, discuss mitigation strategies, and stay updated on emerging threats and best practices.

**Management comment:**

*Collaborate with cybersecurity experts to identify and document potential IT risks. Establish a clear framework for ongoing risk assessments and mitigation strategies.*

**Responsible person:** Manager of Corporate Services

**Completion date:** March 2024

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**12. No change management process in place**

**Finding**

There is currently a lack of a structured change management process established within the Shire.

**Rating:** Moderate

**Implication**

The lack of a change management process may result in uncontrolled changes to IT systems, increasing the risk of system disruptions and security vulnerabilities.

**Recommendation**

The Shire should establish a formal change management process to document, review, and approve all changes to IT systems. This will help minimise disruptions and maintain system integrity.

**Management comment:**

*Engage with change management experts to create a customized process aligned with organizational needs. Establish clear communication channels for change notifications and approvals.*

**Responsible person:** Chief Executive Officer

**Completion date:** June 2024

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**13. No Service Level Agreement with IT Service Provider**

**Finding**

There is no Service Level Agreements (SLA) of Shire with their Managed Service Provider (MSP)

**Rating:** Moderate

**Implication**

Failing to establish and synchronise policies with Service Level Agreements (SLAs) and neglecting to enforce performance management practices can result in a lack of transparency and responsibility within the partnership with the Managed Service Provider (MSP). This may pave the way for misunderstandings, unfulfilled expectations, and a decrease in the efficiency of service delivery.

**Recommendation**

The Shire should develop IT-related policies, SLAs, and performance management practices with its MSP. This should involve a detailed analysis of existing agreements and practices, identifying gaps and areas for improvement.

**Management comment:**

*Collaborate with the MSP to create customized SLAs. Establish clear performance metrics and reporting mechanisms. Conduct regular reviews and updates to ensure alignment with organizational goals.*

**Responsible person:** Manager of Corporate Services

**Completion date:** March 2024



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**14. Absence of IT and security related training**

**Finding**

The Shire's employees are currently not receiving the necessary training in the fields of IT and security, leading to a deficiency in relevant knowledge and skills.

**Rating:** Minor

**Implication**

The absence of IT and security-related training for staff leaves the Shire vulnerable to potential security breaches and exposes the Shire to higher risks of cyber threats. Without adequate training, employees may not have the knowledge and skills to recognise and respond to security incidents, making them more susceptible to phishing attacks, malware infections, and other cybersecurity risks.

**Recommendation**

The Shire should prioritise implementing regular IT and security training programs for all staff members. This training should cover essential topics such as cybersecurity best practices, recognising phishing attempts, password management, and data protection. The Shire can significantly enhance its overall security posture and reduce the likelihood of successful cyberattacks by providing staff with the necessary knowledge and skills.

**Management comment:**

*Collaborate with training providers to create a comprehensive curriculum. Implement regular assessments to measure the effectiveness of training programs. Ensure continuous updates to address emerging threats.*

**Responsible person:** Chief Executive Officer

**Completion date:** TBC