

# PAXON

## SHIRE OF NANNUP

Regulation 5 Internal Audit Review

Final : May 2023

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# 1. INTRODUCTION

## 1.1 Background & Objective

Shire of Nannup's Regulation 5 Review outlines the requirement for Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996, stating that *"The CEO is to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews."*

The overall objective for this internal audit was to assist the CEO in reporting to the Shire on the appropriateness and effectiveness of the Shire's financial management systems and procedures. The Shire uses Synergysoft as its finance system.

## 1.2 Risks & Scope

The Regulation 5 Review focussed on the risk that the Shire's financial management systems and procedures are not appropriate and effective. The Regulation 5 Review covered the period from 2 July 2020 to 31 October 2021. The scope of review as per the regulation is as follows:

### 5. CEO's duties as to financial management

- (1) *Efficient systems and procedures are to be established by the CEO of a local government —*
  - (a) *for the proper collection of all money owing to the local government; and*
  - (b) *for the safe custody and security of all money collected or held by the local government; and*
  - (c) *for the proper maintenance and security of the financial records of the local government (whether maintained in written form or by electronic or other means or process); and*
  - (d) *to ensure proper accounting for municipal or trust —*
    - (i) *revenue received or receivable; and*
    - (ii) *expenses paid or payable; and*
    - (iii) *assets and liabilities; and*
  - (e) *to ensure proper authorisation for the incurring of liabilities and the making of payments; and*
  - (f) *for the maintenance of payroll, stock control and costing records; and*
  - (g) *to assist in the preparation of budgets, budget reviews, accounts and reports required by the Act or these regulations.*

The scope of review was limited as set out within Section 2 of this report.

## 2. EXECUTIVE SUMMARY

### 2.1 Timeline of Review and Limitation of Scope

Paxon was appointed by the Shire to perform this review in December 2021, with an information request sent in January 2022. Information was then received by Paxon periodically throughout 2022 and early 2023.

However information relating to certain areas of the scope were requested but not received leading to the scope of the review being limited and as such this report does not provide assurance on the following:

#### Banking

- A credit card register was received but no detailed acquittal information

#### Accounting Records

- No stock related information was received

#### Liabilities and Payments

- Delegation from CEO to officers is documented within position descriptions which were not provided to us so we could not test if appropriate approval of purchase orders, procurement processes and other payments such as payroll had occurred in accordance with them.

### 2.2 Audit Findings

Set out below are the audit findings identified based upon the work that was performed. Given the limitation of scope above it has not been possible in all instances to fully assess the risk impact to the Shire of these findings, though ratings have been applied based upon the information available.

Findings are summarised below and documented in detail within section 3 of this report.

Risk Area	Finding	Risk Rating
Liabilities & Payments	Purchasing Processes	High
Accounting	Reconciliations not evidenced as prepared and reviewed	High
Financial Management	Access to Synergysoft	Medium
Investments	Selection and authorisation of investments	Medium
Journals	Independent review of journals	Medium

We also noted two other findings which have been raised within the Regulation 17 report performed by Paxon and so are not duplicated within this report:

- There are no processes in place to follow-up and track the implementation of findings and related recommendation raised by internal audit reviews and the Office of the Auditor General.
- Financial related internal guidance is not always updated on a timely basis e.g. the Investments Policy was last updated in 2018.

### 3. METHODOLOGY

Our methodology for this review comprised of the following steps:

- Conduct an initial meeting with management to obtain an understanding of processes and potential issues
- Develop overview documentation of the processes including key controls by discussion with staff and review of the processes
- Evaluate the effectiveness of the design of controls to cover the identified risk and test the operation of the key controls
- Develop appropriate recommendations for improvement for discussion with management
- Draft a report of findings and recommendations and obtain formal responses from management
- Finalise the report and issue it to management for distribution to the Audit Committee and relevant management

Each finding detailed in section 5 is rated based on the following scale:

Rating	Definition
<b>High</b>	Major contravention of policies, procedures or laws, unacceptable internal controls, high risk for fraud, waste or abuse, major opportunity to improve effectiveness and efficiency, major risk identified. Immediate corrective action is required. A short-term fix may be needed prior to it being resolved properly.
<b>Medium</b>	Moderate contravention of policies, procedures or laws, poor internal controls, significant opportunity to improve effectiveness and efficiency, significant risk identified. Corrective action is required. Need to be resolved as soon as resources can be made available, but within six months.
<b>Low</b>	Minor contravention of policies and procedures, weak internal controls, opportunity to improve effectiveness and efficiency, moderate risk identified. Corrective action is required. Need to be resolved within twelve months.

## 4. INHERENT LIMITATIONS

Due to the inherent limitations in any internal control structure, it is possible errors or irregularities may occur and not be detected. Further, the internal control structure, within which the control procedures that have been reviewed operate, has not been reviewed in its entirety and therefore no opinion is expressed as to the effectiveness of the greater internal control structure.

It should also be noted our review was not designed to detect all weaknesses in control procedures as it was not performed continuously throughout the period subject to review.

The review conclusion and any opinion expressed in this report have been formed on the above basis.

## 5. DETAILED AUDIT FINDINGS

### 5.1 Purchasing Policy and Processes

#### Audit Finding

A sample of ten procurement processes were selected for testing which covered the different value thresholds within the Purchasing Policy.

Paxon noted findings in relation to all ten transactions as set out below:

- No documented evaluation panels or the evaluations themselves were provided for seven of the eight samples where they could reasonably be expected to be provided over \$5,000 as required by policy within sections 3 and 7.
- No documented conflicts of interest (or their absence) were noted for any of the sample and the requirement is only to declare conflicts not to confirm that there aren't any.
- No evidence of quote(s) received was noted for transactions under \$5,000 as required by section 7.1 of the policy

It was also noted that the purchasing policy stored on the Shire's website is an old version and should be updated.

#### Risk Rating

Paxon has determined this finding to be of **High Risk**

#### Implication

Appropriate purchasing and procurement processes are not followed resulting in unauthorised or fraudulent purchases being made.

#### Recommendation

- 5.1.1 Templates for procurement processes should be established to assist with consistency of approach. This could include evaluation templates and conflict of interest declarations.
- 5.1.2 A role responsible for procurement should be determined and monitoring of processes undertaken to ensure compliance with processes.
- 5.1.3 The Purchasing Policy should be updated on the website.

#### Management Comment

- Agree with recommendations of audit.
- WALGA templates for procurement processes are used to assist with consistency of approach.
- In June 2022, a realignment of corporate services responsibilities occurred and the responsibility for procurement process monitoring is undertaken by the Governance, Risk and Compliance position. This position provides direction and assist officers in undertaking the procurement of goods and services. This role also assists in the development of relevant template documents and forms that will enhance procurement processes.
- Inconsistency in the person appointed in the Manager Corporate Services role has been a major weakness in the monitoring of procurement processes.

**Action Owner:** Governance, Risk and Compliance Officer

**Target Completion Date** 30 September 2023

## 5.2 Reconciliations

### Audit Finding

- 5.2.1 A payroll summary report was received in response to our request to payroll reconciliations, but it was not reconciled to any other document and it was not documented as to whom it was prepared and reviewed by.
- 5.2.2 We also noted that other reconciliations had the performer and reviewer typed into the spreadsheet as evidence of performance, but this would be better evidenced through digital or physical signatures.

### Risk Rating

Paxon has determined this finding to be of **High Risk**

### Implication

- 5.2.1 Payments may not be appropriately accounted for.
- 5.2.2 Reconciliations may not be performed and independently reviewed.

### Recommendation

- 5.2.1 The payroll system should be reconciled to the general ledger periodically and independently reviewed.
- 5.2.2 Digital or physical signatures should be used to evidence performance and review of all reconciliations.

### Management Comment

- Agree with recommendations of audit.
- Inconsistency in the person appointed in the Manager Corporate Services role has been a major weakness in the monitoring of reconciliations.

**Action Owner** Manager Corporate Services

**Target Completion Date** Immediate



### 5.3 Access to Synergysoft

#### Audit Finding

A user access listing was received detailing user accounts within the Synergysoft finance system at a high level e.g. superuser, enquiry, purchase order.

It was noted that there are 32 user accounts of which 16 are Superusers, which enables widespread access to the system.

#### Risk Rating

Paxon has determined this finding to be of **Medium Risk**

#### Implication

Inappropriate access may be obtained to the system.

#### Recommendation

A review of users and their level of access should be performed to ensure users only have access to required areas.

#### Management Comment

- Agree with recommendations of audit.

**Action Owner**                      Manager Corporate Services

**Target Completion Date**        Immediate

## 5.4 Selection and Authorisation of Investments

### Audit Finding

A sample of two term deposits placed with banking institutions were selected for testing.

There was no evidence of a process to determine the amount to be deposited or the selection of the institution to which they were placed as there is no assessment form. There was also no evidence of approval.

### Risk Rating

Paxon has determined this finding to be of **Medium Risk**

### Implication

- Amounts placed on deposit may result in the Shire having a surplus or deficit of cash.
- Deposits selected may not ensure the best return or provide adequate protection of Shire assets.

### Recommendation

A process for assessing and authorising term deposits should be put in place including consideration and documentation of:

- Cash flow requirements
- Exposure to institutions
- Return on investment
- Duration, and
- Authorisation of the above process.

### Management Comment

- Agree with recommendations of audit.

**Action Owner** Finance Coordinator

**Target Completion Date** 31 December 2023

## 5.5 Authorisation of Journals

### Audit Finding

A report of journals posted during the period of review was obtained and a sample selected for testing of review and authorisation.

There was no evidence of independent review and authorisation of journals.

### Risk Rating

Paxon has determined this finding to be of **Medium Risk**

### Implication

Inappropriate or incorrect adjustments may not be identified.

### Recommendation

Journals should be independently reviewed.

### Management Comment

- Agree with recommendations of audit.
- Inconsistency in the person appointed in the Manager Corporate Services role has been a major weakness in the authorising of Journals.

**Action Owner**                      Manager Corporate Services

**Target Completion Date**        Immediate

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