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17 December 2018

Mr B Piesse
President
Shire of Donnybrook-Balingup
PO Box 94
DONNYBROOK WA 6239

Dear Brian

SHIRE OF DONNYBROOK-BALINGUP
30 JUNE 2018 MANAGEMENT REPORT

Following completion of our 30 June 2018 audit, we provide our Management Report and audit recommendations.

1.0 Our Audit Approach

The Australian Auditing Standards are the professional Standards applicable to all audit engagements. Accordingly, our audit was conducted in accordance with Australian Auditing Standards, with testing designed solely to enable the expression of an opinion on the financial report of the Shire of Donnybrook-Balingup. This involved us making an assessment of the risk of material misstatement, whether due to fraud or error, and then using our professional judgement, applying audit procedures to mitigate that risk.

To assist Council in understanding our role as external auditor, we have previously detailed our audit responsibilities and scope of work to be performed to meet those responsibilities in our audit engagement letter.

Australian Auditing Standards require us to document and evaluate Shire of Donnybrook-Balingup's system of internal control to establish the level of reliance on the internal control system in determining the nature, timing and extent of other auditing procedures necessary to enable us to complete our audit. This work is not primarily directed towards the discovery of weaknesses or the detection of fraud or other irregularities and should not, therefore, be taken to assume that no other weaknesses exist. Accordingly the comments within this letter refer only to those matters that have come to our attention during the course of our normal audit work and may not identify all possible improvements that an internal controls review may detect.

Our audit approach is based on a risk analysis methodology which relies upon our understanding of Shire of Donnybrook-Balingup's operations, strategies and risks. We performed a review of applicable accounting systems and tested those during our audit. The level of testing performed by us is determined by the degree of reliance we place on the internal control systems in place which has a resulting impact on the amount of substantive testing required during our audit procedures. The level of testing performed is also aligned with what is required to form an overall opinion on the financial statements which may not coincide with what the Shire of Donnybrook-Balingup perceives should be tested.

Our audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and judgements, as well as evaluating the overall presentation of the financial report.

There were no areas of disagreement either in the accounting estimates or judgements or in the presentation and disclosures made in the financial report.

2.0 Assessment of Fraud and Error

The primary responsibility for the prevention and detection of fraud is that of Council and management. As a result, it is important that management with the oversight of Council place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and resulting consequences.

In accordance with Australian Auditing Standards we are required to obtain reasonable assurance that the financial report taken as a whole is free from material misstatement, whether caused by fraud or error. While our procedures are designed to identify material weaknesses and misstatements from fraud and error, there is an unavoidable risk that even some material misstatements may remain undiscovered. This unavoidable risk is due to the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system.

We confirm that incidences of fraud, alleged fraud, or suspected fraud (two incidences) have been brought to our attention. Our audit procedures did not identify any instances of suspected or actual fraud, with exception of the following two matters / alleged matters:

- Use of Shire property (photocopier) for personal benefit (CEO investigation conducted and solved);
- Alleged access to restricted Shire system (Dog registration software) for personal benefit (CEO investigation underway at time of audit).

We take this opportunity to remind you that our audit is not designed to detect fraud and therefore our audit procedures are not designed for that purpose.

3.0 Accounting Policies

We confirm to you that we are not aware of any changes to the accounting policies of the Shire of Donnybrook-Balingup since 30 June 2017 in respect of the preparation of the 30 June 2018 financial report other than those changes required under Australian Accounting Standards and the Local Government Act and Regulations which are adequately disclosed.

4.0 Commitments and Contingencies

On completion of our audit and subsequent discussions with management, we did not identify any additional commitments or contingencies that required disclosure within the financial report of the Shire of Donnybrook-Balingup, apart from those already disclosed.

5.0 Subsequent Events

We did not identify any additional subsequent events up until the date of this report that required disclosure within the financial report of the Shire of Donnybrook-Balingup, apart from those already disclosed.

We note that legal advice continues to be sought subsequent to 30 June 2018 in respect to funds formerly held in various bank accounts under the name of "Donnybrook Balingup Aged Homes" which were transferred to Council's trust account during the 2015/16 year. This matter is disclosed in Note 20 within the 2018 Annual Financial Report.

6.0 Financial Ratio Performance Measures

A review of Shire of Donnybrook-Balingup's financial ratio as included within Note 19 of the financial report indicates the following adverse trend based on the Department of Local Government, Sport and Cultural Industries guidelines:

- Operating surplus ratio as reported in Note 19 of the financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of zero for the last three years (2016: -0.57, 2017: -0.39 and 2018: -0.49).

We recommend Council continue to consider the impact on ratios and long term sustainability when making decisions regarding budgets and operational expenditures.

We note the following Shire of Donnybrook-Balingup ratios were within the guidelines:

- Asset sustainability ratio;
- Current ratio;
- Debt service ratio;
- Own source revenue ratio;
- Asset consumption ratio; and
- Asset renewal funding ratio.

7.0 Local Government Act Compliance Measures

In conjunction with our review of the financial statements, we also perform a review of the Shire of Donnybrook-Balingup's compliance with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.

Our review of compliance with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996 did not indicate any issues of non-compliance, with exception of the following:

- The annual financial report for 30 June 2018 was not submitted to the auditor by the extension date of 31 October 2018 previously approved by the Department of Local Government, Sport and Cultural Industries as required by section 6.4 of the Local Government Act 1995; and
- The compliance audit return for the year ended 31 December 2017 was not submitted to the Executive Director at Department of Local Government, Sport and Cultural Industries by 31 March 2018 as required by Regulation 19 of the Local Government (Audit) Regulations 1996.

8.0 Audit Recommendations

Please refer to Appendix 1 for recommendations arising from our 30 June 2018 audit.

9.0 Audit Adjustments

During the course of our audit, we did not identify any misstatements in the financial report.

10.0 Other Matters

In accordance with the terms of our engagement letter, we have a responsibility to provide an opinion in respect to the Shire of Donnybrook-Balingup's annual financial report as to whether it is free from material misstatement.

Our management report is on an exception basis, and therefore we have not commented on the various internal controls in place within your accounting systems. We would like to take this opportunity to thank Greg, Belinda and the finance team for the assistance provided to us during our audit.

Should you have any questions concerning the above or would like to discuss any other aspect of our audit, please do not hesitate to contact me.

Yours sincerely

AMD Chartered Accountants



TIM PARTRIDGE FCA
Director

cc Ben Rose
Chief Executive Officer

APPENDIX 1
Audit Recommendations for the year ended 30 June 2018

GUIDANCE TO FINDINGS RATING / IMPLICATION

Findings identified during the final audit have been weighted in accordance with the following scale:

Significant: Those findings where there is potentially a significant risk to the entity should the finding not be addressed promptly.

Moderate: Those findings which are of sufficient concern to warrant action being taken by the entity as soon as possible.

Minor: Those findings that are not of primary concern however still warrant action being taken.

AUDIT FINDINGS

1. GENERAL JOURNALS

Finding Rating: Significant

We note general journals raised are not signed to evidence independent review by a senior employee.

Implication

Increased risk of fraud or error.

Recommendation

We recommend all general journals raised be signed to evidence independent review by a senior employee.

Management Comment

General journals are generally only processed by senior accounting staff, however, the recommendation is supported. We will implement a process to ensure all journals are reviewed by a senior employee. In most cases this will be the Accountant or in the care where the journal is prepared by the Accountant, the Manager Finance and Administration will undertake the review.

2. INTERIM AUDIT RECOMMENDATIONS

Finding Rating: Minor

Interim recommendations previously brought to management's attention following our June 2018 interim have been implemented with exception of the following:

- i) We note there is no termination checklist completed for employees following resignation or termination;
- ii) We note a review of employee Synergy user access levels are required to ensure access is appropriate given responsibilities;
- iii) We note a number of Council policies have not been reviewed by the scheduled review date, examples include: credit card policy, petty cash policy, regional price preference policy, investment policy and complaints management policy;

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- iv) We note there is no documented disaster recovery plan or IT policies in place and that there is no review of IT security logs and internet usage completed periodically throughout the year.

Implication

- i) Risk that tasks required to be undertaken following an employee's departure are not completed on a timely basis;
- ii) Increased risk of fraud or error;
- iii) Risk policies are not reviewed in accordance with stated review dates; and
- iv) IT risks relating to disaster recovery and user access not adequately addressed.

Recommendation

We recommend:

- i) A termination checklist be developed which is required to be completed and signed off. Items which may be relevant to include on the checklist include: return of laptop, return of gate and office keys, removal of IT access, redirection of team member emails, alarm codes deactivated and payroll data base to be updated;
- ii) A review of Synergy user access be completed;
- iii) Policies be reviewed in accordance with scheduled review dates;
- iv) A documented disaster recovery plan and IT policies be prepared and a review of IT security logs and internet usage be completed periodically.

Management Comment

Recommendation supported and will be actioned.

- (i) Termination checklist to be implemented as a priority.
- (ii) Review of Synergysoft Access rights will be undertaken in the first half of 2019.
- (iii) Policy review has commenced (Works and Services completed) and the remainder of policies will be reviewed once the new Governance Officer commences in the position i.e. early 2019.
- (iv) It disaster recovery plan, IT policies and development of a process to review IT security logs and internet usage will be implemented as part of the overall development of an IT Plan which is scheduled for the first half of 2019. Additional staff resources have been approved with an IT Network Support Officer to be appointed in early 2019. This appointment will enable resources to be deployed to the production of the plans, policies and procedures identified in the recommendations.

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Audit Recommendations for the year ended 30 June 2018

3. AGED RATE DEBTORS***Finding Rating: Moderate***

Our review of the aged rate debtor listing at 30 June 2018 and subsequent discussions with the Rates Officer indicated a number of debtors are required to be referred to debt collection.

We note the above recommendation was also raised in our 30 June 2016 and 30 June 2017 management reports.

Implication

Risk that rate debtors recorded are not recovered on a timely basis.

Recommendation

We recommend a review of the rate debtor listing be completed to identify debtors required to be referred to an external debt collection agency.

Management Comment

Recommendation noted and supported. Whilst debt collection has been ongoing, management have identified the need for a full review of rates debtors. The process has commenced and we have appointed an experienced Rates Officer to assist with comprehensive review our rating database.

4. RELATED PARTY DISCLOSURE REQUIREMENTS***Finding Rating: Moderate***

We understand related party disclosure forms for the year ending 30 June 2018 were provided to all Councillors and Key Management Personnel for completion, however only three councilor declarations were returned as at the date of our December audit visit.

Implication

Risk of non-compliance with AASB124 and risk that disclosures within the financial statements are incomplete.

Recommendation

We recommend related party disclosure forms be obtained from all Councillors and key management personnel.

Management Comment

Whilst disclosure documents were provided to all Elected Members, with reminders, the full return of these documents was not achieved. We will ensure all key management personnel complete this documentation for the 2018/19 financial year.

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Audit Recommendations for the year ended 30 June 2018

5. WORKS COSTINGS***Finding Rating: Minor***

We note there was a 15.4% underallocation of plant operating costs for the year ended 30 June 2018, which was subsequently corrected via general journals raised as at 30 June 2018.

Implication

Risk that plant operating cost rates are inaccurate.

Recommendation

We recommend allocation rates and the method of allocations to jobs be reviewed periodically during the year to ensure there are no major under or over allocations.

Management Comment

Noted. Our monthly reporting process does track the over/under allocation of plant operating costs, however, no adjustments were made to recovery rates will need to be undertaken which we envisage will be completed during the formulation of the 2019/20 budget. In the interim we will continue to monitor recovery rates and make adjustments to rates as we consider appropriate to minimize an end-of-year under/cover allocation.

6. SUPERANNUATION PAYMENT***Finding Rating: Minor***

We note superannuation accrued for the month of June 2018 for Tuia Lodge employees was not paid within 28 days of quarter end (payment was subsequently made 4 September 2018).

Implication

Risk of non-compliance with statutory obligations not being met.

Recommendation

We recommend superannuation is paid to employee superfunds within 28 days of quarter end.

Management Comment

Recommendation support. The remittance for the quarter was not lodged as we were waiting for superannuation forms to be returned by employees. We have since established that in cases where forms are not returned we are able to lodge the employee's superannuation payments with the default local government fund. In future, there is no reason why we should not be able to meet our obligations to pay the monies within 28 days of the quarter end.

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7. REVIEW OF TRUST BALANCES

Finding Rating: Minor

A review of the detailed trust ledger balances listing and through discussions held with management indicated that a detailed review of old trust balances has not been completed for a number of years.

Implication

Risk that Shire of Donnybrook- Balingup continues to hold monies in trust which are to be refunded or recognised as income in the event that the amount relates to performance bonds where conditions have not been met.

Recommendation

We recommend a detailed review of the trust ledger balances listing be completed to determine if monies are required to be returned or recognised as income where related obligations have not been met.

Management Comment

Noted. Recommendation supported. We aim to have this detailed review completed prior to the end of the 2018/19 financial year.