



TOWN OF VICTORIA PARK

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Our Ref: 8380

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Dear Sir

**ANNUAL FINANCIAL REPORT
INTERIM AUDIT RESULTS FOR THE YEAR ENDING 30 JUNE 2020**

We have completed the interim audit for the year ending 30 June 2020. We performed this phase of the audit in accordance with our audit plan. The focus of our interim audit was to evaluate your overall control environment, but not for the purpose of expressing an opinion on the effectiveness of internal control, and to obtain an understanding of the key business processes, risks and internal controls relevant to our audit of the annual financial report.

Management Control Issues

I would like to draw your attention to the attached listing of deficiencies in internal control and other matters that were identified during the course of the interim audit. These matters have been discussed with management and their comments have been included on the attachment. The matters reported are limited to those deficiencies that were identified during the interim audit that we have concluded are of sufficient importance to merit being reported to management. Some of the matters may be included in our auditor's report in accordance with section 7.9(2) of the *Local Government Act 1995* or regulation 10(3)(a) and (b) of the *Local Government (Audit) Regulations 1996*. If so, we will inform you before we finalise the report.

This letter has been provided for the purposes of your local government and may not be suitable for other purposes.

We have forwarded a copy of this letter to the Mayor. A copy will also be forwarded to the Minister for Local Government when we forward our auditor's report on the annual financial report to the Minister on completion of the audit.

Feel free to contact me on 6557 7609 if you would like to discuss these matters further.

Yours faithfully

JORDAN LANGFORD-SMITH
SENIOR DIRECTOR FINANCIAL AUDIT
12 October 2020

Attach

TOWN OF VICTORIA PARK

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020

MATTERS IDENTIFIED DURING THE INTERIM AUDIT

INDEX OF FINDINGS		RATING		
Identified in The Current Year				
No	Description	Significant	Moderate	Minor
1.	New Accounting Standards	✓		
2.	Pay Authorisation Review		✓	
3.	Purchase Orders		✓	
4.	Payroll Reconciliations		✓	
5.	Depreciation Rate Review			✓

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.

TOWN OF VICTORIA PARK**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020****MATTERS IDENTIFIED DURING THE INTERIM AUDIT****1. New Accounting Standards****Finding**

Two new accounting standards, AASB 15: 'Revenue from contracts with customers' and AASB 1058: 'Income of not-for-profit entities' became effective for the Town from 1 July 2019 which supersede the previous revenue accounting standards. Additionally, AASB 16: 'Leases' came into effect for the Town from 1 July 2019 and replaced the previous requirements of AASB: '117 Leases'.

The full impact of the initial and subsequent application of these three accounting standards has not yet been assessed and recognised.

Rating: Significant**Implication**

Non-compliance with AASB 15 and/or AASB 1058. As these standards generally result in delayed income recognition, the Town's revenue may be overstated for the 2019-20 financial year.

Non-compliance with AASB 16 can result in depreciation and interest expense being understated for the 2019-20 financial year and the overstatement of lease expenses. As a result of this, financial information may not be prepared in accordance with current accounting standards. In addition, monthly financial information that is presented to Council may not be in compliance with current accounting standards.

Recommendation

The Town should complete a detailed revenue recognition assessment of all revenue streams in order to conclude if a particular revenue stream or transaction arises from an enforceable contract with a customer and has sufficiently specific performance obligations. The assessment will trigger the revenue recognition requirements under AASB 15, or if it falls outside this scope, under AASB 1058.

The Town should also measure the impact of the application of AASB 15 and AASB 1058 at 1 July 2019 and process appropriate adjustments in the accounts, as well as considering the required disclosures and amended accounting policies that will need to be disclosed in the 30 June 2020 financial report in advance of year-end.

The Town should consider all its operating leases to determine if they are in the scope of AASB 16. For those that are, the Town should ensure they are correctly accounted for in accordance with AASB 16.

Management Comment

Management notes the observations. The delay in the application of the new accounting standards were due to a resourcing gap and have now being rectified with the changes being implemented and recognised in the final 30 June 2020 annual financial report.

Responsible Person: Financial Controller

Completion Date: 30 June 2020

TOWN OF VICTORIA PARK**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020****MATTERS IDENTIFIED DURING THE INTERIM AUDIT****2. Pay Authorisation Review****Finding**

We noted that not all managers are confirming that they have reviewed the Pay Authorisation List report. We reviewed 1 pay run and found only 6 of the 15 service managers returned an approved authorisation list.

Each pay run, a Pay Authorisation List report is sent to each centre's management, detailing employees paid that pay run. Management of each centre are required to reply agreeing that each employee exists and notify if anybody is missing from the pay run.

Rating: Moderate**Implication**

Given the large number of staff across a large number of locations, this detective control helps to mitigate the risk of incorrect or fraudulent payroll payments being made.

Recommendation

Management of each Centre should review and approve the Pay Authorisation List report each pay. Any outstanding approvals should be followed up promptly.

Management Comment

Management notes the observations. Reminders have been issued to Manager to ensure Pay Authorisations are promptly authorised and returned to Payroll. The Finance Manager is also working with the People and Culture team to develop a robust Fortnightly Payroll review process to reflect best LG Industry practice.

Responsible Person: Payroll officer

Completion Date: Ongoing

TOWN OF VICTORIA PARK**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020****MATTERS IDENTIFIED DURING THE INTERIM AUDIT****3. Purchase Orders****Finding**

During our testing of purchases, we noted one instance from a sample of 25, where a purchase order was raised after the date on the supplier invoice.

Rating: Moderate**Implication**

This increases the risk of incorrect purchases being made.

Recommendation

To help ensure purchases have been appropriately authorised, all authorising officers should be reminded of the requirement to ensure purchase orders are raised prior to the time of authorising work/services or ordering goods.

Management Comment

Management is currently finalising a purchaser order audit report that can be run monthly. Any findings of noncompliance with the Procurement management practice will be identified and additional training will be provided to the relevant officers.

Responsible Person: Senior Accounting officer

Completion Date: Ongoing

TOWN OF VICTORIA PARK**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020****MATTERS IDENTIFIED DURING THE INTERIM AUDIT****4. Payroll Reconciliations****Finding**

We noted that fortnightly reconciliations between the payroll system and the general ledger were not independently reviewed.

These reconciliations are prepared by a Payroll Officer and are part of the overall exception reporting generated during each pay run.

Rating: Moderate**Implication**

This increases the risk of error and differences between payroll system and the general ledger going undetected.

Recommendation

The reconciliation should be reviewed and signed by a person independent to the Payroll Officer.

Management Comment

Management notes the observations. As noted above, Finance is working with People and Culture to develop a robust Fortnightly Payroll review process as recommended to reflect best LG Industry practice.

Responsible Person: Senior Human Resources officer / Manager Human Resources
Completion Date: Ongoing

TOWN OF VICTORIA PARK**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020****MATTERS IDENTIFIED DURING THE INTERIM AUDIT****5. Depreciation Rate Review****Finding**

It was noted that for new fixed assets additions, the Accounts Officer will input a rate for depreciation based on the rates given in the capitalisation policy. However, the rate included by Accounts Officer does not get reviewed by another person. Further, the rates have not been subject to a formal review by management on an annual basis as required under Australian accounting standards.

Rating: Minor**Implication**

Lack of review may cause inappropriate useful lives to be used on fixed asset thereby affecting depreciation amount. This could lead to errors in the financial report.

Recommendation

The Town should perform an annual review of depreciation rates / useful lives.

Management Comment

Management notes the observations as stated. The Town is currently in the process of implementing an asset management system, which would allow the depreciation rates to be reviewed and updated on a regular basis.

Responsible Person: Senior Finance Officer / Coordinator Strategic Assets

Completion Date: 30 June 2021