



Our Ref: 7889

Mr Tony Battersby  
Chief Executive Officer  
Bunbury Harvey Regional Council  
PO Box 111  
AUSTRALIND WA 6233



7th Floor, Albert Facey House  
469 Wellington Street, Perth

Mail to: Perth BC  
PO Box 8489  
PERTH WA 6849

Tel: (08) 6557 7500  
Fax: (08) 6557 7600

Email: [info@audit.wa.gov.au](mailto:info@audit.wa.gov.au)

Dear Sir

**ANNUAL FINANCIAL REPORT  
INTERIM AUDIT RESULTS FOR THE YEAR ENDING 30 JUNE 2018**

We have completed the interim audit for the year ending 30 June 2018. 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 Chairperson. 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 7640 if you would like to discuss these matters further.

Yours faithfully

CARLY MEAGHER  
DIRECTOR FINANCIAL AUDIT  
28 August 2018

Attach



**BUNBURY-HARVEY REGIONAL COUNCIL**  
**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018**  
**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Non – compliance with Legal and regulatory requirements	✓		
2. Credit cards	✓		
3. Monthly reconciliations		✓	
4. Daily receipting procedures		✓	
5. Risk management and governance		✓	
6. Purchase orders dated after invoice		✓	
7. Regulation 17 review		✓	
8. Human Resources Processes		✓	
9. Leave Forms		✓	
10. Audit committee			✓

#### 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.

**BUNBURY-HARVEY REGIONAL COUNCIL**  
**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018**  
**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

**1. FINDING – NON COMPLIANCE WITH LEGAL AND REGULATORY REQUIREMENTS**

Our review of Bunbury-Harvey Regional Council's ("BHRC") compliance with the *Local Government Act 1995* and *Local Government (Financial Management) Regulations 1996* identified the following items of non-compliance:

- As required by section 5.53 of the *Local Government Act 1995*, the annual report for 2017 did not include the following:
  - An overview of the plan for the future of the district;
  - A matter on which a report must be made under section 29(2) of the *Disability Services Act 1993*; and
  - Details of entries made under section 5.21 during the financial year in the register of complaints
- Public notice of the availability of the 2017 annual report was not provided as required by section 5.55 of the *Local Government Act 1995*;
- The 2017 annual report was not published on BHRC's website as required by section 5.55A of the *Local Government Act 1995*;
- Primary returns were not obtained for five councillors and the CEO and lodged within three months of start date as required by section 5.75 of the *Local Government Act 1995*;
- Annual returns have not been obtained from Councillors and the CEO and lodged by 31 August 2017 as required by section 5.76 of the *Local Government Act 1995*;
- The gifts and contributions to travel registers were not published on BHRC's website as required by section 5.89A(5) of the *Local Government Act 1995*;
- A review in relation to the appropriateness and effectiveness of a local government's systems and procedures in relation to risk management, internal controls and legislative compliance was not completed at least once every two calendar years (last review 2014) as required by Regulation 17 of the *Local Government (Audit) Regulations 1996*; and
- There are no documented procedures in place for credit cards and petty cash systems as required by Regulation 11 of the *Local Government (Financial Management) Regulations 1996*.

**Rating: Significant  
 Implication**

Non-compliance with *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and *Local Government (Audit) Regulations 1996*.

**Recommendation**

We recommend:

- The annual report for 2018 include all required information per section 5.53 of the *Local Government Act 1995*;
- Public notice of the availability of the 2018 annual report be provided as soon as practicable;
- The annual report and gifts and travel contributions registers be published on the BHRC website;
- Primary and annual returns be obtained from all elected members and the CEO;
- A regulation 17 review is completed prior to 31 December 2018; and
- A credit card and petty cash policy be documented, approved and implemented.

**BUNBURY-HARVEY REGIONAL COUNCIL**  
**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018**  
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**Management Comment**

The recommendations are noted and will be completed during 2018/19.

**Responsible Officer:** Tony Battersby, CEO  
**Completion Date:** 30 June 2019

**BUNBURY-HARVEY REGIONAL COUNCIL  
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018  
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**2. FINDING - CREDIT CARDS**

Our testing noted credit card statements are not subject to independent review and there is no credit card acceptance form in place with the credit card holder.

**Rating: Significant  
Implication**

By not having an independent review of credit card statements there is an increased risk of fraud and error. In addition, by not obtaining acceptance forms, there is no evidence that cardholders have accepted their responsibilities.

**Recommendation**

We recommend all employee credit card statements are independently reviewed and credit card acceptance forms be signed by all cardholders and retained.

**Management Comment**

A credit card policy has been completed and recommendations implemented.

**Responsible Officer:** Tony Battersby, CEO  
**Completion Date:** 31 December 2018

**BUNBURY-HARVEY REGIONAL COUNCIL  
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018  
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**3. FINDING- MONTHLY RECONCILIATIONS**

We noted the following in respect of monthly reconciliations:

- Investment reconciliations are completed on a monthly basis by the senior finance officer; however these are not subject to independent review; and
- Fixed asset reconciliations are completed on a monthly basis by the senior finance officer; however these are not subject to independent review.

**Rating: Moderate**

**Implication**

By not having an independent review of reconciliations there is an increased risk of error.

**Recommendation**

We recommend all reconciliations are signed as evidence of independent review occurring.

**Management Comment**

The investment and fixed asset reconciliations will now include evidence of an independent review.

**Responsible Officer:** David Ransom, Manager Finance

**Completion Date:** Completed

**BUNBURY-HARVEY REGIONAL COUNCIL**  
**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018**  
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**4. FINDING - DAILY RECEIPTING PROCEDURES**

We note the following in respect of receipting procedures at Stanley Road and Banksia Road:

- End of shift summary reports are produced in Mandalay daily however, reports are not signed by the employee responsible for completing reconciliation of takings per end of shift summary report to actual cash on hand; and
- End of shift summary reports are not subject to independent review prior to monies being banked.

**Rating: Moderate**

**Implication**

By not having an independent review of end of shift summary reports before monies are banked, there is a significantly increased risk of fraud and error.

**Recommendation**

We recommend end of shift summary reports are signed by the preparer and a second employee to evidence independent review across all locations.

**Management Comment**

The recommendations are noted and will be implemented during 2018/19.

**Responsible Officer:** Tony Battersby, CEO  
**Completion Date:** 30 June 2019

**BUNBURY-HARVEY REGIONAL COUNCIL**  
**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018**  
**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

**5. FINDING – RISK MANAGEMENT AND GOVERNANCE**

Our inquiries of management indicated the following:

- There is no overall organisational risk management policy or risk management framework in place documenting assessed risks and risk management procedures; and
- There is no compliance calendar/compliance register maintained listing all regulatory Act and Regulation requirements.

**Rating: Moderate**

**Implication**

By not implementing a documented risk management framework and procedures, there is a lack of effective risk management process to ensure regulatory requirements are met.

**Recommendation**

We recommend an overall risk management policy/risk management framework and a compliance calendar/compliance register be designed, implemented and monitored on a regular basis.

**Management Comment**

The recommendations are noted and will be implemented during 2018/19.

**Responsible Officer:** Tony Battersby, CEO

**Completion Date:** 30 June 2019



**BUNBURY-HARVEY REGIONAL COUNCIL  
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**6. FINDING - PURCHASE ORDERS DATED AFTER INVOICE**

During our sample testing of payments made throughout the year, we identified instances where the authorised purchase order was dated after the corresponding supplier invoice.

**Rating: Moderate**

**Implication**

By raising purchase orders after the invoice is received there is an increased risk of unauthorised purchases, and non-compliance with Council's purchasing policy.

**Recommendation**

We recommend purchase orders are completed for all applicable items prior to incurring the expenditure.

**Management Comment**

All authorised purchasing officers will be reminded that a purchase order is required to be raised at the time of the ordering any goods or services

**Responsible Officer:** Tony Battersby, CEO

**Completion Date:** 30 June 2019

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**7. FINDING - REGULATION 17 REVIEW**

We noted a re-assessment of the recommendations raised in the last Audit Regulation 17 review (completed internally by BHRC in 2014) has not been completed on a regular basis.

**Rating: Moderate**

**Implication**

By not including all review items as part of the audit committee papers, there is a lack of effective monitoring and an increased risk that recommendations are not implemented.

**Recommendation**

We recommend a report on the status of all Audit Regulation 17 recommendations still to be implemented be presented at audit committee meetings for monitoring and follow up.

**Management Comment**

The recommendation is noted and will be implemented during 2018/19.

**Responsible Officer:** Tony Battersby, CEO  
**Completion Date:** 30 June 2019

**BUNBURY-HARVEY REGIONAL COUNCIL**  
**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018**  
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**8. FINDING - HUMAN RESOURCES PROCESSES**

Our inquiries indicate BHRC does not currently have its own documented policies and/or procedures pertaining to the following HR processes:

- Staff recruitment;
- Staff performance appraisals;
- Staff training and development;
- Disciplinary procedures and terminations; and
- Managing leave entitlements.

The above lack of documented procedures is apparent from our testing which identified the following:

- A medical report was not located for one new employee;
- No evidence on the employees personnel file that induction had been completed;
- No evidence on the employees personnel file that an employee had passed probation nor was a letter sent to the employee informing them that they had passed probation; and
- Not all employees had finalised the 2016/17 staff performance appraisals.

**Rating: Moderate**

**Implication**

Risk that current practices followed by BHRC employees are not reflective of those desired by Council.

**Recommendation**

We recommend that management develop and implements policies and/or procedures pertaining to the key HR processes noted above. These policies and/or procedures should include the following (non-exhaustive list):

*Staff Recruitment*

- Identification of new positions;
- Determining additional staff requirements;
- Setting job descriptions;
- Setting basis of remuneration;
- Advertising the position;
- How panel members are selected;
- Reviewing applicants;
- Interviewing applicants;
- Making selection;
- Offering the job; and
- Probation including period, assessment practices and communication of outcome.

*Staff Performance Appraisal and Training and Development*

- Avenues to provide feedback on performance;
- Periodic performance review;
- Assessing reviews and salary increases; and
- Career development plans including identification of training needs and approval of training.

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*Disciplinary Procedures / Termination*

- Disciplinary / poor performance warnings;
- Disciplinary actions;
- Use of termination checklists;
- Calculation of termination pay-outs and review of these calculations; and
- Exit interviews for terminated employees.

*Managing Leave Entitlements*

- Rostering leave;
- Monitoring the roster;
- Use of leave forms;
- Identifying employees with excess leave entitlements; and
- Reducing excess leave entitlements.

In addition, we recommend that all relevant documentation such as medical testing results, induction and assessment of the employee's probation (including the issuance of a letter to the employee communicating the outcome) be retained as evidence and appropriately stored on the employees personnel file.

Furthermore, BHRC management should ensure that all staff performance appraisals are finalised in a timely fashion (for example: by 30 September each year).

**Management Comment**

The recommendations are noted and will be implemented during 2018/19.

**Responsible Officer:** Tony Battersby, CEO  
**Completion Date:** 30 June 2019

**BUNBURY-HARVEY REGIONAL COUNCIL**  
**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2018**  
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**9. FINDING - LEAVE FORMS**

We were unable to agree various employees (two employees tested) leave taken to approved leave forms. The table below summarises the leave taken that did not have associated approved leave forms on file:

<b>Employee number</b>	<b>Type of leave</b>	<b>Period of leave</b>
9044	Personal/Carer's Leave	23/05/2018 – 23/05/2018
9044	Personal/Carer's Leave	21/03/2018 – 21/03/2018
9044	Personal/Carer's Leave	20/03/2018 – 20/03/2018
9044	Personal/Carer's Leave	6/09/2017 – 6/09/2017
9044	Personal/Carer's Leave	23/08/2017 – 23/08/2017
9044	Personal/Carer's Leave	18/07/2017 – 19/07/2018
9017	Annual Leave	17/05/2018 -17/05/2018
9017	Personal/Carer's Leave	16/05/2018 – 16/05/2018
9017	Personal/Carer's Leave	24/04/2018 – 24/04/2018
9017	Personal/Carer's Leave	8/03/2018 – 8/03/2018
9017	Personal/Carer's Leave	1/02/2018 – 1/02/2018
9017	Personal/Carer's Leave	18/01/2018 – 18/01/2018
9017	Annual Leave	27/12/2017 – 29/12/2018
9017	Personal/Carer's Leave	30/11/2017 – 30/11/2017
9017	Personal/Carer's Leave	6/11/2017 – 6/11/2017
9017	Personal/Carer's Leave	23/10/2017 – 23/10/2017
9017	Personal/Carer's Leave	13/09/2017 – 13/09/2017
9017	Personal/Carer's Leave	21/08/2017 – 21/08/2017
9017	Personal/Carer's Leave	17/07/2017 – 17/07/2017
9017	Personal/Carer's Leave	6/07/2017 – 6/07/2017

**Rating: Moderate**

**Implication**

Lack of evidence that employees have requested leave, and that leave taken has been authorised appropriately.

**Recommendation**

We recommend leave forms completed by employees be signed off by an appropriate level of management as evidence of approval, and retained as evidence of leave taken.

**Management Comment**

Annual leave or personal/carers leave forms are required to be completed and approved, but on these occasions this did not occur. However, in each instance the timesheet showing the leave was signed by the CEO indicating approval for the leave taken.

Staff will be reminded to complete annual leave forms prior to leave being taken and an annual leave plan has also been implemented.

**Responsible Officer:** Tony Battersby, CEO  
**Completion Date:** 31 December 2018

**BUNBURY-HARVEY REGIONAL COUNCIL**  
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**FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

**10. FINDING – AUDIT COMMITTEE**

Local Government Operational Guideline Number 09 model terms of reference states the committee should meet at least quarterly. We note only one BHRC audit committee meeting has been held between 1 July and 31 May 2018 (meeting date 23 November 2017).

**Rating: Minor**

**Implication**

By not holding regular Audit Committee meetings, there is a lack of effective governance monitoring.

**Recommendation**

We recommend the BHRC Audit Committee consider meeting on a quarterly basis.

**Management Comment**

As all members of the Council have been appointed to the Audit Committee it has not been considered necessary for a separate regular meeting of the Audit Committee to be held. Ordinary Council Meetings (OCM) are conducted monthly (except for January). Any matters concerning governance are presented for consideration directly to the OCM. The only separate meeting for the Audit Committee is when they meet with the Auditor.

**Responsible Officer:** Tony Battersby, CEO

**Completion Date:** Completed