

18 October 2024

Root causes of OAG rejection of the City of Nedlands 2023 audit

The City of Nedlands has released a comprehensive financial report completed in response to the Office of the Auditor General's (OAG) finding of a disclaimer of opinion with respect to the City's audit.

This disclaimer amounted to the City's audit for the year ended 30th of June 2023 being graded as a failure.

The OAG audited 137 local government financial reports for the year ended 30 June 2023, and only the City of Nedlands received a disclaimer of opinion - the most serious audit outcome, amounting to a failure.

The Report found the root causes were:

- **Failure of the then CEO and senior finance staff to keep proper records and accurate data required for audit purposes**
- **Failure of the then CEO to heed repeated warnings issued by the auditor that there were serious problems with the City of Nedlands audit process**
- **Failure of the then CEO to communicate problems and warnings to the full Council**
- **Failure of the Chair of the Audit Committee to pass warnings and vital information to the full Council and Mayor**

The warts and all review found a failure by the then CEO, senior finance staff and Chair of the Audit Committee to appreciate the severity of warnings repeatedly issued by the auditors, which emphasised the importance of accurate and timely supporting documentation.

Stark warnings by auditors were not acted on in a timely manner by the then CEO and senior finance staff.

During the audit period from October to November 2023, weekly warnings on audit-process shortcomings were provided to the City's executive management team, led by the then CEO who left the City in December 2023.

These warnings were not appropriately communicated by the then CEO to the Mayor or raised in Council meetings. As a result, the audit disclaimer (read failure) was only fully brought to the attention of the Mayor and full Council at a very late stage, being February 2024.

The audit was performed contemporaneously with the flawed implementation of the City's new ERP financial software system. This impacted negatively on the audit process as the implementation of the new financial software system was contaminated by the migration of incomplete and unreconciled financial data into the new package.

The consequences of these failures in record keeping, IT implementation, processes and lack of communication have incurred adverse outcomes for the City including significant reputational damage.

The keeping of accurate and robust financial records is an obligation of the CEO. Without such records, the City's ability to operate prudently and effectively has been frustrated.

It is noteworthy those staff who presided over this litany of failures and errors are no longer in their positions and the City has refreshed its high-level finance staff, employing chartered accountants and other staff to address the deficiencies identified in the report. The report was provided to the persons mentioned in the report, prior to its release and no concerns were raised with the accuracy of the report.

To restore confidence, importantly, the current Council has appointed a highly qualified new CEO to ensure ratepayers' funds are managed in the public interest for the whole of Nedlands.

The Council is committed to implementing the recommendations from this report and strengthening the City's financial management processes moving forward.

<ends>

City of Nedlands

Analysis of factors leading to the disclaimer of opinion on the
financial report for the year ended 30 June 2023

Report by Independent Consultant
Craig Ross
June 2024

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Executive Summary

The Council of the City of Nedlands engaged an independent consultant to review the circumstances which led to the financial report disclaimer of opinion for the year ended 30 June 2023 with the view to enable the Council to avert such circumstances in the future.

This report identifies a number of contributing factors which led to the submission of a financial report without complete and accurate underlying records to the auditor.

Many of the contributing factors are process and technical in nature, however they are rooted in the following key failings within the financial management processes.

The Audit Committee of the Council failed to:

- Recognise the poor quality of the financial report submitted to the auditor
- Review the financial report prior to auditor submission
- Track execution of the audit fieldwork phases and completion timelines
- Ensure key internal audit findings impacting financial reporting were addressed
- Communicate emerging audit issues to the Council in a timely manner
- Challenge executive management on finance staff turnover reasons and capacity limitations

The City's executive management failed to:

- Keep proper accounts and records
- Manage internal controls to ensure the financial report was free from material misstatement
- Report emerging audit issues in an open and timely manner to Council
- Follow better practice financial reporting and audit readiness guides
- Provide external audit progress reports to the Audit Committee
- Address appropriately the high finance staff turnover and report implications to the Audit Committee
- Monitor directly finance staff performance
- Remediate key internal audit findings impacting the financial reporting process
- Respond accordingly to the change in audit approach when information or key staff were not reasonably available

The organisational culture:

- Prevented open communication of unfavourable information
- Allowed mistrust within the hierarchical structure of the Council and the executive management team
- Did not encourage better practice financial reporting processes
- Did not address timely management of inadequate finance staff performance

The report proposes a number of financial reporting specific recommendations for immediate consideration by the Council and the Chief Executive Officer. It is probable a number of the root causes leading to the disclaimer of opinion would have evolved over a number of years. Whilst the scope of this report is limited to the financial reporting and the external audit impact, it is recommended that Council and executive management review the factors contributing to the disclaimer of opinion through an integrated approach across the organisation.

1. Background and report purpose

The City of Nedlands (City) prepares an annual financial report in accordance with the Western Australian *Local Government Act 1995 (LG Act)*. The *Act* and *Local Government (Audit) Regulations 1996* stipulate the timeframe and the auditing scope provided by the Office of the Auditor General (OAG).

The City's financial report for the year ended 30 June 2022 received an unqualified audit opinion, albeit with concerns noted around completeness and audit readiness.

However, the City's financial report for the year ended 30 June 2023 received a disclaimer of opinion. A disclaimer of opinion is a rare and serious matter.

The OAG report on Local Government 2022-23 Financial Audit Results was presented to the Parliament of Western Australia on 6 June 2024. The report stated that of the 137 local government entities audited only the City of Nedlands received a disclaimer of opinion.

The OAG disclaimed the City's financial report as it was not based on complete and accurate underlying records, and they were unable to obtain sufficient and appropriate evidence to form an opinion regarding the financial report. Furthermore, the opinion stated being unable to audit the financial report by alternative means, and consequently were unable to determine whether any adjustments were necessary to the financial report as a whole for the year ended 30 June 2023.

On 20 March 2024, the Council of the City of Nedlands (Council) resolved to appoint an independent consultant.

The scope of work outlined for the independent consultant included the preparation of this report to identify and inform Council of the main factors which contributed to the disclaimer of opinion and to make recommendations to reduce the risk of such circumstances in the future.

This report has been prepared based on written information made available by the City and the Council during the period 3 April to 30 June 2024.

2. Financial report responsibilities

In accordance with the local government legislation, both Councillors and the Chief Executive Officer (CEO) have financial reporting responsibilities.

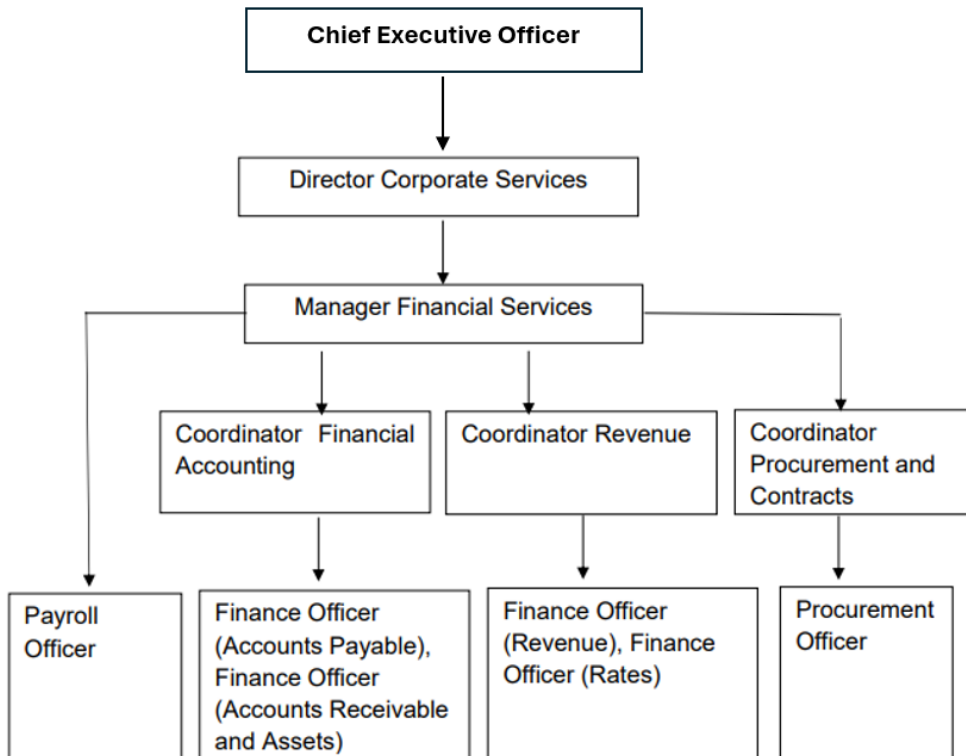
The Council's responsibility centres on broad governance and oversight. The *Act* requires the Council to establish an Audit Committee. This committee plays a key role in fulfilling the Council's governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, legislative compliance, and the internal and external audit functions.

During the year ended 30 June 2023 the Audit Committee of the Council (Audit Committee) was chaired by Presiding Member Cr McManus and comprised of Mayor Argyle and one councillor for each ward. Audit Committee meetings generally were held quarterly with additional meetings if required for tabling of reports. On 21 August 2023 the Audit Committee recommended to Council the appointment of two independent community members.

Under the *Act* the CEO has substantial operational responsibility for financial management including internal control and procedures. Sections 5.41 and 6.5 of the *LG Act* states the CEO is responsible for maintaining proper accounts and records, and for the provision of advice and information to Council. These responsibilities include managing internal controls to ensure the financial report presented for audit is free from material misstatement, whether due to fraud or error.

The City's Chief Executive Officer, Mr Parker (CEO Parker) was responsible for preparation of the City's financial report for the year ended 30 June 2023. This responsibility was executed through the Director Corporate Services, Mr Cole (Director Cole). A member of the executive management team, Director Cole was responsible for the City's business functions including finance, information systems, audit and risk management.

The responsibility for the preparation of the financial report including the compilation of complete and accurate underlying records for audit purposes was delegated to the Manager Financial Services, Mr Billingham and the finance staff. See below the City's finance organisational structure.



3. Office of the Auditor General requirements

In April 2023 the OAG hosted an 'Audit Committee Chair Forum' which outlined their expectations for local government audits. At this forum the OAG communicated the requirement that financial reports provided for audit purposes should be reviewed and signed by the CEO of each local government as if it was the final version.

On the Audit Committee meeting of 22 May 2023, the committee received the City's audit plan for the year ended 30 June 2023. The plan included deliverables and timelines with reference to the OAG's financial report requirements. The audit plan indicated the City's financial report would be reviewed and signed by the CEO for submission to the auditor by 30 September 2023, with fieldwork commencing 16 October 2023, and an exit meeting with the Audit Committee in early December 2023.

On 6 September 2023 the OAG wrote to CEO Parker, copying in Mayor Argyle, advising the consequences of delay if key information and people are not reasonably available within the agreed audit schedule, and warning of reduced assistance to help the City 'get across the line'. Refer to Appendix A.

CEO Parker did not raise the letter contents for discussion to the Audit Committee. Consequently, the letter's implications to the City's audit approach and financial reporting process were not considered by the Audit Committee.

4. Financial report preparation

The City was not able meet the 30 September 2023 submission deadline for the financial report, and on 28 September 2023 CEO Parker sought an extension of this deadline to 16 October 2023. Refer to Appendix B. The basis for the extension was the delay in receiving the City's infrastructure valuation. Neither the Council nor the Audit Committee were made aware on this request to seek an extension.

The City's accounting policies require an infrastructure revaluation at least every five years. Valuation of local government infrastructure is a lengthy exercise, highly subjective, and requiring the engagement of a qualified independent valuer. There is a limited pool of suitably qualified independent valuers. It had been five years since the City last revalued infrastructure and an update was required on 30 June 2023 for the financial report. The City was late in engaging a suitable valuer and also once engaged provided the valuer with incomplete asset listings. The initial valuation results were received on 27 September 2023 which left insufficient time for effective review before incorporation into the financial report.

On 13 October 2023 the Manager Financial Services compiled the City's financial report for signing by CEO Parker.

On 16 October 2023 CEO Parker signed the 'Statement by Chief Executive Officer' which accompanied the financial report, for submission to the auditor.

The financial report was incorrectly dated as 16 November 2023, contained incomplete note disclosures, and as indicated by the OAG to be without complete and accurate underlying records.

OAG's better practice audit readiness guide recommends a review of the financial report by the 'accountable authority', being the Council, prior to CEO sign off and submission for audit purposes. The financial report signed by CEO Parker for audit purposes had not been reviewed by the Council nor the Audit Committee, nor was it prepared as if it was the final version.

The OAG had planned to issue their audit opinion on 8 December 2023 to allow the City to discharge its statutory financial reporting responsibilities no later than 31 December 2023. However, due to the numerous corrections and financial report iterations the City did not meet the 31 December 2023 reporting deadline.

5. Financial report audit fieldwork and aftermath

RSM Australia had been contracted by the OAG to execute the audit and report to the OAG. On 20 September 2023, the City received the auditor's information request list for compilation in readiness for commencement of the final audit fieldwork phase.

Audit fieldwork began on 18 October 2023, two days later than planned due to incomplete information provided by the City. Throughout the following month there were continual ongoing queries on the financial report figures, infrastructure valuation adjustments, balance sheet reconciliation issues, and lack of underlying supporting documentation.

On 1 November 2023 the Manager Financial Services advised the auditor that the infrastructure asset listings provided for valuation had been incomplete. The valuer was re-engaged to value the missing assets.

On 10 November 2023 the auditor warned Director Cole and the Manager Financial Services the City was tracking well behind schedule to meet the agreed audit finalisation date.

On 14 November 2023 the auditor reviewed and discussed the status of the outstanding audit information with Director Cole and the Manager Financial Services.

On 16 and 17 November 2023, email correspondence from the OAG show Director Cole and the Manager Financial Services were warned that a modified audit opinion is likely to be issued due to the outstanding information requests, significant remaining audit work, and delay concerns. The OAG indicated the audit was to be completed in December 2023 and would work with the current data provided by the City and the audit work completed to date, and then issue the final audit opinion based on the level of assurance they were able to achieve.

It is not clear if the City's executive management appreciated the implications of the differing types of audit opinions, as any indication of a modified audit opinion should have raised alarm bells with the matter brought immediately to the attention of CEO Parker, the Audit Committee, the Mayor and the Council. The matter was not brought by executive management to Council attention.

The Council which, under Sections 2.5 and 2.6 of the *LG Act*, is the governing body of the City was also not advised by the OAG of the audit issues that had emerged nor warned as to the likelihood of a modified audit opinion. The OAG should have brought the likely audit outcomes to the attention of the Audit Committee, the Mayor and the Council to facilitate governance responsibilities in accordance with the statutory framework outlined in the *LG Act*.

On 20 November 2023 an Audit Committee meeting was held but the agenda did not include a report on the external audit and the matters were not discussed. The Audit Committee should have reported directly to the Council the significant audit issues that had emerged, via reports on the Council agenda.

An auditors' ready expertise in technical accounting and financial reporting allows some leeway to constructively resolve issues to facilitate a financial report to 'get across the line'. However, the OAG assessed the magnitude and nature of audit findings were too significant to enable resolution and to avert a modified audit opinion. The City ultimately incurred \$59,820 of additional audit fees for the extra time incurred by the auditor.

On 28 November 2023 the OAG informed Director Cole and the Manager Financial Services the OAG had ceased the audit.

On 29 November 2023 the Manager Financial Services resigned.

On 30 November 2023 Director Cole spoke with the Audit Committee Presiding Member Cr McManus to advise of the audit outcome and indicated they would meet for a further briefing on 4 December 2023.

CEO Parker's resignation of 31 August 2023 meant that his last day as the City's CEO was 1 December 2023.

On 18 December 2023 the Acting CEO, Mr Free, confirmed Mayor Argyle had been advised the City is likely to receive a qualified audit opinion, not a disclaimer of opinion.

On 19 December 2023 the OAG agreed the interim Manager Financial Services should submit a 'presentable' financial report by 15 January 2024 for inclusion in the City's published annual report. The decision to proceed with the preparation of a 'presentable' financial report was not advised to Council, and there is no evidence that Council or the Audit Committee were provided this amended financial report for review.

From 15 January to mid-February 2024 the OAG completed their administrative review process.

On 15 February 2024 the OAG provided the audited financial report, audit findings and the disclaimer of opinion wording. A City administrative officer emailed these documents with a brief explanation on behalf of the Director Corporate Services to Council.

On 19 February 2024 an Audit Committee meeting was held where the OAG presented the reasons for the disclaimer of opinion, and identified significant areas of concern which would necessitate improved resourcing of the finance team both in terms of skill and personnel. The agenda item background and minutes of the meeting were generic and brief.

On 27 February 2024 during the Ordinary Council meeting the Audit Committee Presiding Member Cr McManus briefed the Council on the disclaimer of opinion and requested Acting CEO Free prepare a plan to address the OAG audit findings.

On 1 March 2024 the OAG issued the disclaimer of opinion. Refer to Appendix C.

On 11 March 2024 at a Special Council meeting called by the Mayor, Acting CEO Free proposed a plan to address the audit outcome. The plan included recruitment of a new permanent Manager Financial Services and four contract staff employed for six months to address issues identified by the audit.

Acting CEO Free's proposal was not accepted by Council. Instead, Council voted to select and appoint an independent consultant for a period of three months with the scope to review the remediation of the audit findings and resourcing plans, and support the finance team in preparation for the 30 June 2024 audit. Additionally, Council requested regular progress updates and analysis of root causes for Council consideration.

6. Factors leading to the Disclaimer of Opinion

Below is an outline of the factors which led to the audit disclaimer of opinion with a summarised timeline and further analysis provided in Appendix D and E.

6.1 Inadequate infrastructure revaluation

Infrastructure is the City's largest balance sheet item and in accordance with the City's accounting policy was subject to external revaluation on 30 June 2023. The net infrastructure valuation increase recorded in the financial report was \$152.7million.

The City's delay in engaging a suitably qualified valuer coupled with incomplete asset listings meant the final valuation results were not available to meet the agreed audit timetable. Furthermore, the City did not appropriately review the valuation report and the key underlying valuation assumptions prior to submission to the auditor. Consequently, queries arose during the audit and the auditor noted numerous material adjustments.

6.2 Unsupported general journals and inaccurate transactions.

The OAG found journal samples selected for testing did not have supporting documentation to explain transactions. These journals had a pervasive impact across the financial report. Additionally, there was a failure to accrue and account for transactions within the correct accounting period and multiple instances were found where accrual and prepayment transactions were recognised as invoiced in the year ended 30 June 2023 when they related to the prior or future accounting periods.

6.3 Incomplete transition to OneCouncil

During FY23, the City partially changed its accounting software from Civica Authority to OneCouncil with the effective date of 1 July 2022. However, data migration was incomplete and accounting opening balances not properly reconciled. The system-related challenges delayed preparation of the finance report and also meant finance staff were unable to provide complete, accurate and reconciled financial information during the audit.

6.4 Lack of balance sheet reconciliations

During the audit process, finance staff were unable to provide explanations for balance sheet reconciliation variances to the 30 June 2023 trial balance. The City lacked effective end of month balance sheet processes with discrepancies and errors carried forward each month, dating back several years.

The audit findings also indicated multiple suspense accounts, and the finance staff were unable to provide explanations for posted transactions.

6.5 General computer controls

General computer controls are integral to effectively support the preparation of the financial report, delivery of key services, confidentiality, integrity and availability of information systems. The auditors identified four 'Significant' findings relating to privileged account access, authentication and user access. The information system control weaknesses impacted the timing and extent of the audit approach.

6.6 Internal audit management

The City has a strategic internal audit plan conducted externally by Moore Australia.

It is noted that several external audit findings had previously been identified by the internal auditor. For example, on 20 February 2023 Moore's report on Asset Management was presented to the Audit Committee. The report noted no fixed asset module was being maintained in either the Civica Authority or OneCouncil, incomplete reconciliations of the asset registers to the general ledger, capital work in progress not capitalised, regular depreciation postings missing, and the underlying records did not support financial reports.

Despite consequential internal audit findings, the Audit Committee only received limited commentary from executive management, and the meeting minutes only record brief generic wording under the section titled Strategic Implications. The annual internal auditor plan, findings and recommended actions, and implementation of remediation actions were under the responsibility of Director Cole.

6.7 External audit readiness

On 6 September 2023 the OAG had advised the City if key information and people were not reasonably available within the agreed audit schedule it would no longer wait as was done in prior years. However, there was no structured process for CEO Parker or the Audit Committee to systematically track and report to Council the preparation and progress of the audit, to recognise if additional skills and resources were required to meet the agreed audit schedule.

6.8 Financial staff resourcing and turnover

Effective end of month processes and provision of the annual financial report are fundamental responsibilities of the Manager Financial Services. There was turnover in this position during FY22, FY23 and FY24 with significant impact on the 30 June 2023 financial reporting and audit result.

The position of Manager Financial Services became vacant on 4 May 2022. On 19 April 2022 Mr Billingham was appointed as an external hire on an interim basis for six months. The interim hiring decision was initiated by Director Cole and approved by CEO Parker. On 8 August 2022 the appointment was extended by three years following a formal recruitment process. This extension was approved by CEO Parker based on a suitability statement provided by Director Cole who also conducted the recruitment interview with two staff from the Human Resources team. The City's records do not mention receipt of further references.

There was a turnover in the Coordinator Financial Accounting position on 14 April 2023. This position had cross over duties within the OneCouncil team and the loss of the incumbent had a particularly significant impact on the finance team's OneCouncil capabilities, accounting expertise, and financial reporting skills.

There was also a turnover of other financial staff roles during the external audit preparation and fieldwork phases which hindered audit progress.

7. Root causes

In reviewing the factors that led to the disclaimer of opinion the following contributing root causes have been identified.

7.1 Financial Governance

The Council and particularly the Audit Committee was responsible for overseeing the City's financial reporting process including the execution phases of the external audit.

The Audit Committee failed to:

- Recognise the poor quality of the financial report submitted to the auditor
- Review the financial report prior to auditor submission
- Track execution of the audit fieldwork phases and completion timelines
- Ensure key internal audit findings impacting financial reporting were addressed
- Communicate emerging audit issues to the Council in a timely manner
- Challenge executive management on finance staff turnover reasons and capacity limitations

7.2 Executive Management

Executive management were responsible for keeping proper accounts and records and managing internal controls to ensure the financial report was free from material misstatement. This also includes managing the conduct, performance and capability of the financial staff in accordance with the City's practices and procedures.

Executive management failed to:

- Manage internal control to ensure the financial report was free from material misstatement
- Report emerging audit issues in an open and timely manner at Executive Management Team meetings, and onto Council
- Follow better practice financial reporting and audit readiness guides
- Provide external audit progress reports to the Audit Committee
- Address appropriately the high finance staff turnover and report implications to the Audit Committee
- Monitor directly finance staff performance
- Remediate key internal audit findings impacting the financial reporting process

7.3 Organisational Culture

The Council and the City's executive management team were responsible for developing an organisational culture necessary to avert failure.

The organisational culture:

- Prevented open communication of unfavourable information
- Allowed mistrust within the hierarchical structure of the Council and the executive management team
- Did not encourage better practice financial reporting processes
- Did not address timely management of inadequate finance staff performance

It is probable a number of the root causes leading to the disclaimer of opinion would have evolved over a number of years. They may have combined to trigger a financial reporting failing on this occasion, but they will probably have had impact across other areas of the City's performance.

8. Recommendations

Since the events that led to the disclaimer of opinion a number of governance framework and management changes have been instigated by the City most notably:

- The number of City councillors has reduced from 12 to 9
- The Audit Committee reconstituted to include all Councillors and appointment of a new Audit Committee Presiding Member
- Appointment of a new Chief Executive Officer
- New appointments for Manager Financial Services and Manager ICT

As a consequence of these changes some of the financial reporting and governance related specific recommendations proposed below for consideration are in progress, but included here for completeness.

- Council to widen membership of the Audit Committee to include all Councillors
- Council enabled to directly engage resources related to governance and financial reporting oversight responsibilities
- Audit Committee to prepare an annual calendar of activities with key milestone dates, and work plan, and a sufficiently resourced secretariat function
- Audit Committee agendas to include summary information which succinctly explain financial and performance reporting matters for consideration
- Audit Committee to proactively assess the internal audit plan, monitor progress and timely implementation of recommendations
- Audit Committee to receive agenda items and generate meeting minutes of sufficient quality to allow Councillors to perform their governance oversight role properly and effectively
- Audit committee to track all key OAG and other regulatory correspondence
- Audit Committee to track financial performance through informal staff discussions
- Audit Committee Presiding Member to provide regular updates to Council on committee activities,
- CEO to foster a continuous improvement process within finance staff through better practice financial reporting guides and audit readiness checklists
- CEO to analyse changes significantly affecting financial reporting internal controls
- CEO to monitor remediation of Internal Audit recommendation in a timely manner
- CEO to review key staff recruitment, assessment and feedback practices
- CEO to proactively alert the Audit Committee of emerging financial reporting, external audit, and risk management issues
- Council and executive management communicate openly significant accounting and auditing, risk management, and ICT related matters
- Council and executive management establish collaborative processes to discuss objective metrics such as staff turnover statistics, frequency of repeat internal and external audit findings and timeliness of corrective actions
- Council and executive management establish collaborative processes to discuss subjective metrics such as information sharing, building trust, openness to scrutiny, and financial reporting performance accountability

It is recommended that Council and executive management work to address the root causes identified in this report through an integrated and holistic approach across the organisation, as it is unlikely that impact will be limited to only finance management related issues.



Our Ref: 8359

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Dear Mr Parker

2023 LOCAL GOVERNMENT FINANCIAL AUDIT OPINIONS

As you may be aware, we have recently tabled our [Financial Audit Results – Local Government 2021-22](#) report which summarises the financial audit results for local government entity audits. In the report we noted the impact of financial reporting quality and timeliness, and the cost of delays, on the 2021-22 audit season. To address these concerns, shared by both the local government sector and my Office, we are implementing changes for the 2023 reporting season.

Timeliness

To uphold our auditor reporting obligations, we are aiming to issue most financial audit opinions for the 2023 reporting period on or around 8 December 2023.

This will enable you to discharge your statutory financial reporting responsibility to ratepayers in a timely manner (i.e. by no later than 31 December 2023). We expect your entity to be prepared and provide certified financial statements to the audit team at audit commencement. Being better prepared and audit ready should mean fewer queries from your financial auditors, which contributes to timely completion of the audit and potentially reduced audit costs.

We may not be able to attend all audit committee or general council meetings prior to issuing our audit opinion, as waiting to do so has contributed to some delays in signing our opinion in the past. However, audit exit meetings will occur as normal, and we can provide additional briefings at your council or committee meeting after our auditor's report is issued.

If key information and people are not reasonably available within the agreed schedule, we will no longer wait until the local government is ready, as we have done in prior years. Instead, we will consider our option to issue our audit opinion on the information we have available. By providing less assistance and time to help some entities 'get across the line' with their financial statements, we may issue more modified (e.g. qualified) opinions, but this will give a truer reflection of the state of financial management in the sector and is part of our efforts to contain escalating audit costs.

New audit tool and methodology

In the coming months our in-house audit teams will be implementing a new audit tool and methodology which will ultimately result in overall efficiencies for the audit process, albeit with some potentially additional audit procedures in the first year. This will ensure our financial audit methodologies remain fit for purpose and incorporate professional best practices. Sharpening the risk-based approach to audit requires our auditors to have an in-depth understanding of your entity's operations and business processes. This new audit tool and methodology will be effective for the 30 June 2024 audit for your local government, and you can expect some focused questions that may not have been asked previously to inform our assessments.

Grant acquittal certifications

To improve the timeliness of certifications for the Roads to Recovery and Local Roads and Community Infrastructure Programs, we've had discussions with the Australian Government Department of Infrastructure, Transport, Regional Development, Communications and the Arts. The agreed approach, effective for the 2023 reporting period, allows entities to engage an audit firm that has been pre-accredited by the OAG (refer to [Appendix A](#)) to undertake these certifications and report on them directly without the need for us to be involved. We may choose, based on risks or sensitivities, to undertake the certification(s) for certain entities (e.g. for those local government audits undertaken directly by our Office). In these cases, we shall notify you accordingly.

If we have appointed a contract audit firm for the audit of your financial statements, our preference is for you to engage the same firm to undertake this audit work but understand circumstances may arise in which you prefer to choose another pre-accredited firm. If you choose another firm, you need to advise us which firm you have appointed as soon as practicable and keep us updated throughout the audit and acquittal season.

Fair value assessments

We understand that the Department of Local Government, Sport and Cultural Industries (DLGSC) is presently preparing, for the Minister's approval, proposed amendments to the Local Government (Financial Management) Regulations 1996, which if introduced, will reduce the current complexity regarding fair value measurement. These changes are anticipated to be effective for the 2024 financial reporting period.

The changes being proposed are in effect to prescribe set timeframes on when a revaluation of applicable non-financial assets is to be performed by local government entities, alleviating the need for revaluations in the intervening years.

In view of this impending change, we have determined to adopt a pragmatic approach to fair value assessments of land, buildings and infrastructure assets in the 2023 reporting period. That is, we shall adopt a position consistent with that for the 2022 reporting season – recommend a fair value assessment is undertaken as required by the accounting standard for those assets not already subject to a formal valuation as required in 2023, however, if this is not undertaken appropriately then we shall raise this as a significant management letter observation. If the intended changes are not enacted by February 2024, we will review this approach.

In order to aid consistency, the DLGSC has advised via an LG Alert issued on 28 July 2023, that land be valued using the market approach in AASB 13 *Fair Value Measurement*. This requires that, if land has any public sector restrictions including community use, these restrictions must be considered when valuing the land. If this latter aspect is problematic given you may already have engaged a valuer and/or received a valuation report prior to the release of this LG Alert, then you should liaise with the DLGSC for guidance. This LG Alert also does not support early adoption of AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* at this time.

Support

To assist you and your team in preparing for your financial audit, we have released the following reports:

- [Western Australian Public Sector Financial Statements – Better Practice Guide](#) supports entities in a practical sense to implement sound financial reporting arrangements to fulfil statutory obligations.
- [Audit Readiness – Better Practice Guide](#) assists you in understanding the audit process, preparing the financial audit file, and enabling you to have the necessary information in a manner that meets our requirements at the commencement of the audit. The guide is complemented by an [online audit readiness tool](#), including video presentations and templates.
- [Financial Audit Results – Local Government 2021-22](#) includes learnings from the previous audit season and the inaugural list of best practice top 20 entities, from whom we encourage learnings around efficient reporting and audit readiness to be shared.

We strongly encourage your finance teams to use these guides, including tool kits. This demonstrates to them ‘what good looks like’ and will help you as accountable leaders to have confidence that you are appropriately informed and supported in discharging your financial reporting duties.

We appreciate the ongoing feedback provided by the sector and acknowledge the concerns raised surrounding timeliness and the delays some entities have experienced receiving their audit opinion. We will continue to regularly engage with the DLGSC and key local government bodies to address important issues impacting the sector, such as encouraging streamlined reporting and valuation processes. By working together with you, I am confident we can uplift the quality and timeliness of financial reporting over coming years for the benefit of the communities we serve.

If you have any questions, as usual, please contact your OAG engagement leader in the first instance.

Yours sincerely



Caroline Spencer
Auditor General for Western Australia
6 September 2023

Attach

Appendix A: OAG pre-accredited audit firms

List of OAG pre-accredited audit firms that can undertake financial audit certifications:

Firm	Contact Details
AMD Audit & Assurance	Timothy Partridge Timothy.Partridge@amdonline.com.au (08) 9780 7555
Armada Audit Services	Marcia Johnson MarciaJ@armada.com.au (08) 6165 4090
BDO	Jarrad Prue Jarrad.prue@bdo.com.au (08) 6382 4600
Crowe	Cyrus Patell Cyrus.patell@crowe.com.au (08) 9481 1448
Deloitte	Peter Rupp perupp@deloitte.com.au (08) 9365 7000
Dry Kirkness	Marius van der Merwe mvdm@drykirkness.com.au (08) 9481 1118
Ernst & Young	Fiona Drummond Fiona.drummond@au.ey.com (08) 9429 2222
Francis A Jones	Daniel Papaphotis daniel@faj.com.au (08) 9335 5211
Grant Thornton	Brent Steedman Brent.steedman@au.gt.com (08) 9480 2173
HLB Mann Judd	Brad McVeigh BMcVeigh@hlbwa.com.au (08) 9227 7500
KPMG	Rob Gambitta rgambitta@kpmg.com.au (08) 9263 7171
Lincolns	Russell Harrison RussellH@lincolns.com.au (08) 9841 1200
Macri Partners	Tony Macri amacri@armada.com.au (08) 9470 4848
Moore Australia	David Tomasi David.tomasi@moore-australia.com.au (08) 9225 5355
Nexia	Justin Mulhair justin.mulhair@nextiaperth.com.au (08) 9463 2463
Pitcher Partners	Paul Mulligan mulliganp@pitcher-wa.com.au (08) 9322 2022
PWC	Amanda Williams amanda.williams@au.pwc.com (08) 9238 3000
RSM	Amit Kabra amit.kabra@rsm.com.au (08) 9261 9594
Stantons International	Martin Michalik mmichalik@stantons.com.au (08) 9481 3188
William Buck	Conley Manifis conley.manifis@williambuckwa.com.au (08) 6436 2888

Request for extension of time to submit an Annual Financial Report to the Auditor

Local governments who wish to seek Ministerial approval for an extension of time to submit the draft Annual Financial Report to the auditor, under section 6.4(3) of the *Local Government Act 1995*, will need to submit this application.

An extension of time will be considered if you are unable to prepare and submit the Annual Financial Report to your auditor by 30 September for the preceding financial year. An extension cannot be considered if this request is received **after 30 September** for the preceding financial year.

This application should be lodged via email to legislation@dlgsc.wa.gov.au

If you need help completing this form, telephone the department on (08) 6551 1530 or toll free for country callers on 1800 620 511, or email legislation@dlgsc.wa.gov.au. For a Translating and Interpreting Service (TIS) telephone 13 14 50.

Check the appropriate boxes and enter text to fill in the form below.

Applicant

Shire / Town / City:	City of Nedlands			
CEO Title:	Mr <input checked="" type="checkbox"/>	Mrs <input type="checkbox"/>	Ms <input type="checkbox"/>	Other <input type="checkbox"/>
First name:	Bill			
Surname:	Parker			
Email address:	bparker@nedlands.wa.gov.au			
Telephone:	9273 3500			
Contact Title:	Mr <input checked="" type="checkbox"/>	Mrs <input type="checkbox"/>	Ms <input type="checkbox"/>	Other <input type="checkbox"/>
Contact position:	Director Corporate Services			
Email address:	mcole@nedlands.wa.gov.au			
Telephone:	0491 214 347			

Application details

Provide the financial year of Annual Financial Report: As at 30 June 2023

Provide the new date you would like to lodge the draft Annual Financial Report with the auditor: 16 October 2023.

Appendix B Request for extension to submit Financial Report

Give reason/s for the extension: Independent Valuers report for revaluation of Infrastructure for 2023, not received by the City of Nedlands to date.

Have all balance sheet accounts been reconciled to 30 June 2023? No

If not, provide reasons: Infrastructure Assets Balance sheet accounts waiting for revaluation adjustments to be processed from the infrastructure revaluation report from APV valuers.

Does the local government have all the information necessary to report all required financial and asset ratios? No

If not, identify those ratios that cannot be reported and provide reasons: All asset ratios.

Provide details of the last three years:

Annual Report Year	30/6/2020	30/6/2021	30/6/2022
Date submitted to auditor	30/9/2020	30/9/2021.	30/9/2022
Date of audit certificate	17/6/2021	30/11/2021	21 April 2023
Year extension requested	N/A.	N/A	N/A
Date of extension	N/A	N/A	N/A

If the local government outsources any of its accounting and financial statement preparation, provide details: N/A

Has council agreed to this decision to seek an extension? No

If 'Yes', provide the date of the Ordinary Council Meeting at which this decision was agreed: N/A

Name of auditor appointed by OAG Council: RSM Australia Pty Ltd - Matthew Beevers, Director

Business name of auditor: OAG/RSM Australia Pty Ltd

Was the Auditor consulted on this application? If 'Yes', did the auditor provide feedback on council's proposed revised timeframe? Yes

Provide auditor feedback:

This request is consistent with our understand of the facts and circumstances impacting the City's ability to meet the deadline.

With the requested extension, what is the auditor's expected date of sign off for the auditor's report?

8 December 2023.

Provide the date of adoption and review for the most recent plans:

- Strategic community plan: July 2020.
- Corporate business plan: July 2020.
- Long term financial plan: March 2023.
- Asset management plan: July 2022.

Legislative requirements

All local governments are required to prepare their financial statements in accordance with the *Local Government Act 1995*, the *Local Government (Financial Management) Regulations 1996*, Australian Accounting Standards (AASB) and the Australian Accounting Standards Board Interpretations (AASBI).

Section 6.4(3) of the *Local Government Act 1995* requires a local government to complete its Annual Financial Report and submit the report to its auditors by 30 September in each financial year, or **such extended time as the Minister allows**.

Decision

The Director General has delegated authority from the Minister to consider and approve any extension. In making a decision, the following is taken into consideration:

- timeliness of application
- reasonableness of extension period requested
- adverse effects of delaying adoption
- reason and justification
- transparency

Relevant legislation:

- *Local Government Act 1995*
Section 5.54 Acceptance of annual reports
Section 5.55 Notice of annual reports
Section 6.4(3) Financial Report

Appendix B Request for extension to submit Financial Report

- Local Government (Financial Management) Regulations 1996
 - Reg 5A Local governments to comply with AAS
 - Reg 51 Annual financial report to be signed etc. by CEO and given to Department

Approval

The department will provide a decision to the applicant by email within five working days from the date and time of lodgement in Smart Hub of this request.

Applications will be considered until 5.00pm, 30 September for the preceding financial year.

Enquiries

Email: legislation@dlgsc.com.au

Telephone: 08 6552 1530

Declaration

To the best of my knowledge, the information provided is true and correct.

Signature: 

Date: 28 September 2023.

Chief Executive Officer

Bill Parker



Our Ref: 8359

Mr Tony Free
Acting Chief Executive Officer
City of Nedlands
PO Box 9
NEDLANDS WA 6909



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

Mail to: Perth BC
PO Box 8489
PERTH WA 6849

Tel: 08 6557 7500
Email: info@audit.wa.gov.au

Email: council@nedlands.wa.gov.au

Dear Mr Free

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2023

The Office has completed the audit of the annual financial report for your City. In accordance with section 7.12AD (2) of the *Local Government Act 1995*, we enclose the Auditor General's auditor's report, together with the audited annual financial report.

We have also forwarded the reports to the Mayor and the Minister for Local Government, as required by the Act. You are required to publish the annual report, including the auditor's report and the audited financial report, on your City's official website within 14 days after the annual report has been accepted by your Council.

Disclaimer of opinion auditor's report

As discussed at the exit meeting, the Auditor General's audit opinion had been disclaimed as we were unable to obtain sufficient appropriate audit evidence regarding the financial report as a whole as the financial report was submitted for audit purposes without complete and accurate underlying records. We were unable to audit the financial report by alternative means. Consequently, we were unable to determine whether any adjustments were necessary to the financial report as a whole for the year ended 30 June 2023.

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 audit. These matters have been discussed with management and their comments have been included in the attachment.

Please note that the purpose of our audit was to express an opinion on the financial report. The audit included consideration of internal control relevant to the preparation of the financial report in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

An audit is not designed to identify all internal control deficiencies that may require management attention. The matters being reported are limited to those deficiencies that have been identified during the audit that are of sufficient importance to warrant being reported. It is possible that other irregularities and deficiencies may have occurred and not been identified as a result of our audit.

Unresolved matters from prior audits

We also draw your attention to the Matters Outstanding from Prior Audits issues set out in the attachment. We would appreciate your attention to these matters before next year's audit.

The date that entities provided their annual financial report to the Office has been recorded for purposes of reporting to Parliament. The date recorded for the receipt of your financial statements was 17 January 2024.

This letter has been provided for the purposes of the City and the Minister for Local Government and may not be suitable for other purposes.

I would like to take this opportunity to thank you, the management and the staff of the City for their cooperation with the audit team during our audit.

Feel free to contact me on 6557 7544 if you would like to discuss these matters further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. Perumal', written over a rectangular stamp or box.

Punitha Perumal
Director
Financial Audit
1 March 2024

Attach

Office of the Auditor General and RSM

22 May 2023	29 May 2023	6 Sep 2023	18 Oct 2023	18 Oct -16 Nov	16 Nov 2023	28 Nov 2023	Jan - 15 Feb 2024	15 Feb 2024
30 June 2023 audit plan presented to Audit Committee	Interim audit fieldwork commenced	OAG letter to the City on audit readiness and opinion approach	Final audit fieldwork commenced	Numerous ongoing auditor queries and fieldwork extended	OAG indicated modified audit opinion likely	OAG discussion on audit work ceasing	Administrative review process	OAG disclaimer wording and audit findings finalised

FY23 audit planning memorandum, including expected audit timelines

OAG letter advised CEO less assistance for the City to 'get across the line'

Agreed start date of 16 Oct delayed due to lack of documents provided by finance staff

Queries on infrastructure valuation and underlying supporting documentation

Numerous emails and meetings to discuss status of outstanding queries

OAG indicated the City significantly behind schedule to meet agreed deadlines

Audit opinion of financial report based on current data provided

19 Feb 2024 presentation to Audit Committee on reasons for disclaimer of opinion



CEO requested DLGSC to extend submission of financial report from 30 Sep to 16 Oct

CEO signed and submitted financial report for audit on 16 Oct

Lack of supporting information provided to auditor

Unanswered queries by finance staff

Ongoing lack of reconciliations and incomplete underlying records

Inability to provide accurate underlying records

Temporary finance staff prepared 'presentable' financial report

6 Sep 2023	28 Sep 2023	16 Oct 2023	18 Oct onwards	14 Nov 2023	16 Nov 2023	29 Nov 2023	Dec 2023	15 Jan 2024
CEO received OAG letter on changes in audit approach	CEO sought financial report extension	CEO signed financial report for audit purposes	Incomplete and inaccurate underlying records provided to auditor	Well behind schedule to meet agreed audit timetable	City informed modified audit opinion likely	Manager Financial Services resigned	Interim Financial Services staff appointed	Presentable financial report prepared

Executive Management

Audit Committee

21 Nov 2022	22 May 2023	21 Aug 2023	20 Nov 2023	30 Nov 2023	19 Feb 2024
Audit Committee meeting - Internal Auditor review on Effectiveness of the Audit Committee presented	Audit Committee meeting - 30 June 2023 audit plan presented	Audit Committee meeting - no external audit agenda item	Audit Committee meeting - no external audit agenda item and no discussion on audit matters	Audit Committee Presiding Member informed audit work ceased	Audit Committee meeting - audit findings and disclaimer of opinion discussed

Internal Audit findings noted lack of formalised documentation to support efficient and effective activities of Audit Committee	DLGSC extension request letter for financial report signed by CEO not raised with Council or Audit Committee	Appointment of 2 independent community members to Audit Committee	CEO signed financial report on 16 Oct not reviewed by Council or Audit Committee	16 Nov OAG indicated modified audit opinion likely	Status and non-adherence to the agreed audit timeline plan not raised or discussed by Audit Committee	28 Nov 2023 OAG indicated audit work ceased
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1 Mar 2024
FY23
disclaimer
of opinion

- | | | | | | |
|---|--|---|--|--|--|
| <ol style="list-style-type: none"> 1. Turnover of key staff 2. Migration process to OneCouncil 3. Revenue transactions still required to be processed in legacy system | <ol style="list-style-type: none"> 4. Staff lacked knowledge and understanding of OneCouncil 5. Staff lacked confidence in identifying transactions in the system and how to extract | <ol style="list-style-type: none"> 6. Basic reconciliations were not completed 7. Depreciation of assets, and additions & disposals not undertaken in a timely manner | <ol style="list-style-type: none"> 8. Infrastructure revaluation undertaken by valuer incomplete, and lack of meaningful review by management 9. Availability of staff during the audit period and willingness to respond promptly | <p>Lack of external audit matters in Executive Management Team meeting minutes or deficiencies escalated by CEO or Acting CEO to Council agendas</p> | <p>Non-adherence to agreed audit plan timetable:</p> <ul style="list-style-type: none"> • 30 Sep 2023 financial report signed by CEO as if it is final version • 30 Nov 2023 Auditor’s closing report • 8 Dec 2023 exit meeting and financial report sign-off • 12 Dec 2023 adoption of 30 June 2023 financial report by Council |
|---|--|---|--|--|--|

Finance staff

Financial Governance

Contributing causes	Why did it happen ?	Why was it missed ?
1. Recommendations of Internal Audit ‘Review of the Effectiveness of the Audit Committee’ presented to the Audit Committee on 21 November 2022 not fully accepted by administration	<ul style="list-style-type: none"> Additional staff resources and budget constraints to comply with governance recommendations 	<ul style="list-style-type: none"> Low priority to address Audit Committee governance process improvements Low priority by Executive Management to follow up key Internal Audit findings
2. Audit Committee meeting of 20 November 2023 did not include an external audit progress report from Director Corporate Services or Chief Executive Officer	<ul style="list-style-type: none"> Ineffective Audit Committee secretariat function Audit Committee members did not request a progress report on the external audit 	<ul style="list-style-type: none"> Low priority by Executive Management to proactively update the Audit Committee on status of agreed external audit deadlines or emerging audit issues
3. Lack of formalised documentation to support efficient and effective Audit Committee activities	<ul style="list-style-type: none"> No formalised calendar or work plan to ensure all agreed external audit related deadlines are diarised and achieved on a timely basis 	<ul style="list-style-type: none"> Following appointment of Coordinator Governance and Risk the secretariat function considered appropriate by Executive Management
4. Skills and competence, and lack of formal induction and regular training of Councillors in relation to the City’s external audit governance and oversight responsibilities	<ul style="list-style-type: none"> Skills and experience matrix and training requirements for Committee not prepared for financial reporting and external audit related matters 	<ul style="list-style-type: none"> Resourcing and budget constraints Over reliance on appointment of the two Independent Community Members
5. Lack of reporting from the Audit Committee to Council on activities and emerging financial reporting and external audit risks	<ul style="list-style-type: none"> Terms of reference were not explicit on the reporting mechanism from the Audit Committee to Council Over reliance on tabling Audit Committee minutes being sufficient 	<ul style="list-style-type: none"> Audit Committee meeting minutes did not clearly and succinctly describe strategic implications of emerging external audit issues

Financial Governance

Contributing causes	Why did it happen ?	Why was it missed ?
6. Strategic risk register did not sufficiently consider disclaimer of opinion risk for annual financial reporting internal controls and external audit processes	<ul style="list-style-type: none"> Governance staffing and resourcing constraints 	<ul style="list-style-type: none"> Lack of maturity of the City's risk management framework
7. Compilation by the administration and secretariat function of committee agendas did not include external audit progress updates as a standing meeting agenda item	<ul style="list-style-type: none"> Good governance and better practice principles not followed Lack of effective Audit Committee or Council calendar or work plan to monitor external audit deadlines and emerging financial reporting issues 	<ul style="list-style-type: none"> Low priority by administration to proactively inform Council on emerging financial reporting and external audit governance issues, and non-adherence to deadlines agreed with the auditor
8. Lack of acceptance by administration for the Audit Committee Presiding Member to provide an update agenda paper to the Council on Audit Committee activities	<ul style="list-style-type: none"> Recommendation not accepted by administration as it considered the minutes of the Audit Committee meetings prepared by administration gave sufficient information to the Council 	<ul style="list-style-type: none"> Low priority by administration to prepare summary papers to succinctly explain the actions and issues considered by the Audit Committee including progress updates on the agreed 30 June 2023 external audit plan

Chief Executive Officer

Contributing causes	Why did it happen ?	Why was it missed ?
9. Chief Executive Officer did not review the financial report submitted for audit purposes on 16 October 2023 as if it was the final version	<ul style="list-style-type: none"> • Change in audit opinion approach for 30 June 2023 not fully appreciated by Chief Executive Officer for the OAG to provide less assistance on the financial report to ‘get across the line’ • Lack of time allowed to ensure necessary processes had been conducted on the financial report preparation and review process 	<ul style="list-style-type: none"> • Lack of robust and timely review at key points during the financial reporting preparation process • Lack of early recognition of the severity of financial reporting internal control issues
10. Chief Executive Officer did not seek approval from Council as the ‘accountable authority’ before the financial report submitted for audit purposes	<ul style="list-style-type: none"> • Prior year practices • Insufficient open communication and escalation of key financial reporting and auditing deadlines, governance processes and concerns to Council 	<ul style="list-style-type: none"> • Audit Committee did not request to review financial report prior to submission to the auditor • Lack of clear and pragmatic procedural steps how the Council discharges responsibility for overseeing the City’s financial reporting process as an ‘accountable authority’
11. Chief Executive Officer did not manage internal controls to ensure the financial report is free from material misstatement	<ul style="list-style-type: none"> • Low priority in Executive Management Team meetings for departmental updates on financial reporting internal control processes and external audit issues 	<ul style="list-style-type: none"> • Governance staffing and resourcing constraints

Financial Services business unit

Contributing causes	Why did it happen ?	Why was it missed ?
12. Turnover of Financial Services key staff	<ul style="list-style-type: none"> • Working practices of Manager Financial Services • Lack of best practice checklists within Financial Services to provide a clearer and structured end-of-month and end-of-year process for staff clarity • Pressure from OneCouncil implementation and overall lack of 30 June 2023 audit readiness • Better opportunities and work place environment elsewhere 	<ul style="list-style-type: none"> • Lack of robust performance review of Manager Financial Services before and during the critical financial reporting and audit fieldwork phases • Lack of robust performance review of Financial Services staff • Staff turnover issue not escalated to Council on a timely basis
13. Migration process to OneCouncil	<ul style="list-style-type: none"> • Introduction on 1 July 2022 at the busiest period for Financial Services staff • Inadequate OneCouncil training and familiarisation • Unreconciled data migrated • Information required for 30 June 2023 audit purposes contained within a combination of the legacy accounting system and OneCouncil 	<ul style="list-style-type: none"> • Underestimation of time and readiness required for financial data quality, reconciliations and cleansing before migration • Lack of awareness of impact on migrating unreconciled data for balance sheet reconciliations • Impact on financial accounting and external audit issues not effectively escalated to Audit Committee
14. Processing of revenue transactions in legacy system	<ul style="list-style-type: none"> • Inadequate matching of debtor receipts against invoices and lack of ageing debtor's analysis 	<ul style="list-style-type: none"> • Unresolved debtor mismatch highlighted since FY20 not considered a priority with transition to OneCouncil
15. Lack of OneCouncil knowledge and understanding	<ul style="list-style-type: none"> • Inadequate training, time availability, or desire to obtain understanding of OneCouncil 	<ul style="list-style-type: none"> • Underestimation of staff systems learning curves • Underestimation of impact on data extraction required for external audit purposes

Financial Services business unit

Contributing causes	Why did it happen ?	Why was it missed ?
16. Staff lacked confidence in identifying transactions in the OneCouncil system and how to extract data	<ul style="list-style-type: none"> • Insufficient training, guidance to staff, or understanding of OneCouncil 	<ul style="list-style-type: none"> • Untimely performance review process and training assessment of Financial Services staff
17. Basic reconciliations were not completed	<ul style="list-style-type: none"> • Checklists not enforced for basic period end processes and procedures • Inadequate training or guidance 	<ul style="list-style-type: none"> • Skill gap in period end financial reporting best practices and basic financial accounting internal controls
18. Depreciation and fixed asset additions/disposals not undertaken in a timely manner	<ul style="list-style-type: none"> • Lack of procedures in place to process fixed asset movements in a timely manner • Internal Audit recommendations following an Asset Management review not remediated 	<ul style="list-style-type: none"> • Inadequate monthly fixed asset reconciliation processes tolerated by Executive Management
19. Infrastructure revaluation contained errors, and lack of meaningful review by management	<ul style="list-style-type: none"> • External valuer engaged too late and incomplete fixed asset listing provided to valuer 	<ul style="list-style-type: none"> • Inadequate project management • Tolerance by Executive Management for non-adherence to meeting agreed financial reporting and audit deadlines
20. Lack of availability of staff during the audit period and willingness to respond	<ul style="list-style-type: none"> • Audit requests not prioritised 	<ul style="list-style-type: none"> • Priorities of staff for external audit process were not clearly communicated
21. Delays in providing audit documentation to the auditor	<ul style="list-style-type: none"> • Over reliance on verbal representations from Manager Financial Services to address issues arising • Lack of skilled and knowledgeable finance team 	<ul style="list-style-type: none"> • Lack of robust and timely performance review process of Manager Financial Services and staff

Financial Services business unit

Contributing causes	Why did it happen ?	Why was it missed ?
22. Emerging significant financial reporting, OneCouncil accounting difficulties, staffing, and external audit issues not escalated in timely manner to Council	<ul style="list-style-type: none"> Lack of open communication to escalate unfavourable governance related information to Council to instigate timely corrective action 	<ul style="list-style-type: none"> Lack of clarity for accountability and proactively reporting of emerging governance matters from the Financial Services staff to Chief Executive Officer through to Council
23. Inadequate pre-year end financial reporting and external audit readiness	<ul style="list-style-type: none"> Change in audit opinion approach in 30 June 2023 not fully appreciated for the OAG to assist the City's financial report 'get across the line' Coordinator Financial Accounting turnover and other staff turnover 	<ul style="list-style-type: none"> Low priority for updates of financial report progress and external audit related matters based on Executive Management Team meeting minutes
24. Financial Services team not applying expected end of month processes, balance sheet reconciliations, unsupported general journals, and posting of inaccurate transactions	<ul style="list-style-type: none"> Better practice guides not followed Skill gap and excessive workload OneCouncil knowledge Inadequate consequences for poor performance 	<ul style="list-style-type: none"> Tolerance by Executive Management Team for not applying good governance and better practice guides to identify financial reporting issues earlier Key Internal Audit findings for financial reporting matters not prioritised
25. Manager Financial Services late engagement process for infrastructure valuation, lack of planning and late preparation of the financial report	<ul style="list-style-type: none"> Lack of efficient planning and staff supervision Due care for key financial accounting steps including provision of incomplete listings to the valuer 	<ul style="list-style-type: none"> Tolerance by Executive Management of inefficient financial accounting processes and practices
26. Recruitment process for Manager Financial Services	<ul style="list-style-type: none"> Lack of time to interview and assess candidates to ensure the best fit for the role, even if it takes longer 	Insufficient independent review and assessment of candidates, seeking independent references for Human Resources records and panel process

Internal Audit and tracking

Contributing causes	Why did it happen ?	Why was it missed ?
27. Audit Committee meeting agendas only gathering Internal Audit reports and transmitting information by administration	<ul style="list-style-type: none"> Lack of summarised strategic implications in agenda papers on the Internal Audit area findings to assist in Audit Committee deliberations 	<ul style="list-style-type: none"> Lack of staff resources to summarise strategic implications of Internal Audit findings Low priority for follow-up of open findings
28. Strategic Internal Audit plan not effective as 3 rd line of risk assurance defence to prevent 30 June 2023 disclaimer of opinion	<ul style="list-style-type: none"> Disconnect link between the Internal Audit findings which had a direct impact and consequence on the 30 June 2023 financial report compilation and external audit process 	<ul style="list-style-type: none"> Fully outsourced Internal Audit function Function not able to act dynamically as issues arising
29. Log of Internal Audit findings and remediation status not followed up on a timely manner particularly those with financial reporting implications	<ul style="list-style-type: none"> Insufficient staff resources skilled in risk management, governance and control to follow up findings with business units Budget constraints 	<ul style="list-style-type: none"> Low priority to address recommendations and process improvements
30. Overwhelming number of reports and Internal Audit data together with other reports in Council agendas	<ul style="list-style-type: none"> Cumbersome and time-consuming compilation process for Council agenda papers to provide succinct summary 	<ul style="list-style-type: none"> Volume of Council agenda items and reports
31. Annual financial reporting process and audit readiness not included as an area to review in the Internal Audit plan	<ul style="list-style-type: none"> Annual financial reporting, OneCouncil implementation accounting processes straddling year end and external audit failure risks not included in strategic risk register for Internal Audit consideration 	<ul style="list-style-type: none"> Over reliance on Manager Financial Services verbal representations to address annual financial reporting issues arising