



Office of the Auditor General
Serving the Public Interest

Our Ref: 7976

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Dear Mr Hartley

**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 deficiency in internal control that was identified during the course of the interim audit. This matter has 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 Town of Cottesloe 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 7525 if you would like to discuss these matters further.

Yours faithfully

KELLIE TONICH
SENIOR DIRECTOR
FINANCIAL AUDIT
9 July 2020

Attach

TOWN OF COTTESLOE

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Lack of documentation of reasons for purchasing policy variations			✓

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 COTTESLOE

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

1. Lack of documentation of reasons for purchasing policy variations

Finding

There is a section on the purchase order form that requires the preparer to record the vendor names and prices of all quotations that were obtained in accordance with the purchasing policy. Where quotations are required by the purchasing policy but were not obtained, the preparer must document the reasons for the variation from the policy.

As part of our test of controls across the procurement to payables cycle, we observed 1 out of 40 instances in which a quotation was required by the purchasing policy however no quotation was obtained and no reason for the variation from the policy was recorded on the purchase order form. From our further enquiries, we note that this was due to the chosen vendor being the sole supplier of the purchased items in the local region. However, it is not readily determinable from the purchase order form as to the reason why a written quote was not sourced or retained.

Rating: Minor

Implication

Lack of documentation of control procedures being performed does not allow management, internal auditors and external auditors to monitor the proper execution of the control procedures.

If purchases are made without obtaining sufficient quotes or documenting the reason(s) why obtaining quotes is not necessary for particular purchases, there is a risk of favouritism of suppliers and not obtaining value for money.

Recommendation

The preparer of the purchase order form should document why the purchase of a good or service is not supported by a quotation, if applicable, in consideration of the exemptions available under the purchasing policy. An appropriate member of management should only authorise the purchase order prior to the initiation of purchase transaction to the extent they are satisfied that a quotation is not required to be obtained.

Management Comment

Management accepts this finding and has reminded staff to adhere to the policy.

Responsible Person: Wayne Richards
Completion Date: 30 June 2020