



Our Ref: 7976

Mr Mat Humfrey
Chief Executive Officer
Town of Cottesloe
PO Box 606
COTTESLOE WA 6911

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

Dear Mr Humfrey

**ANNUAL FINANCIAL REPORT
INTERIM AUDIT RESULTS FOR THE YEAR ENDING 30 JUNE 2019**

We have completed the interim audit for the year ending 30 June 2019. We performed this phase of the audit in accordance with our audit plan. The focus of our interim audit was to evaluate your overall control environment, but not for the purpose of expressing an opinion on the effectiveness of internal control, and to obtain an understanding of the key business processes, risks and internal controls relevant to our audit of the annual financial report.

Management Control Issues

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

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

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

Feel free to contact me on 6557 7525 if you would like to discuss these matters further.

Yours faithfully

KELLIE TONICH
SENIOR DIRECTOR
FINANCIAL AUDIT

24 July 2019

Attach

TOWN OF COTTESLOE
PERIOD OF AUDIT: YEAR ENDED JUNE 2019
FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Lack of documentation of test and approval for minor changes		✓	
2. Unrestricted vendor's access to Authority's production environment		✓	
3. Business user with privileged IT functions to the Authority application		✓	
4. Discounts on rates		✓	
5. Document execution of control procedures			✓
6. Review of policies and procedures		✓	
7. Quotation acceptance	✓		
8. Grants and contracts register			✓

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 JUNE 2019
FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

1. Lack of Documentation of Test and Approval for Minor Changes in the IT Environment

Finding

Town of Cottesloe (ToC) manages its daily operations with the help of the Authority IT system ("Authority"). Authority is the enterprise system that is used to manage human resources and payroll, process payments, capture revenue and record GL information.

Based on our understanding of ToC's change management process, we understand that changes are categorised into two categories: major and minor changes. Major changes incorporate the major system upgrade which occurs approximately every 18 months. All major changes undergo testing and approval and evidence of these are documented and kept by the IT team. Minor changes are comprised of patches, hot fixes and bug resolutions which occur every couple of weeks/months. These types of changes are tested and approved, however, evidence of testing and approval are not required to be documented and retained by management.

Rating: Moderate
Implication

When there is lack of documentation to support that tests were performed and approval was obtained, it may be difficult for management to ensure that only approved changes are placed into production.

In addition, insufficient tests may be conducted which may negatively impact the systems' performance.

Recommendation

Management should implement processes to mandate documentation for tests performed and approvals sought for all changes prior to migrating the change to the production environment.

Management Comment

This recommendation is noted and accepted by management. A new change request form will be developed and used to sign off all future minor upgrades.

Responsible Person: Garry Bird
Completion Date: 15 July 2019

TOWN OF COTTESLOE
PERIOD OF AUDIT: YEAR ENDED JUNE 2019
FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

2. Unrestricted Vendor's Access to Authority's Production Environment

Finding

Authority is a purchased application from vendor, Civica, who owns the source code of this system (i.e. no one from ToC has access to make changes to this system's source code). Civica provides continuous support to ToC when the latter encounters issues in using the system. In this regard, Civica has been granted unrestricted access to Authority's production environment due to the continuous support and maintenance services being provided.

Through discussions with the IT team, we also noted that there are no monitoring controls in place to review the activities performed by Civica and to identify any unauthorised changes made in the system.

Rating: Moderate

Implication

Providing the vendor with unrestricted and unmonitored access to modify aspects of the system, increases the risk of unauthorised changes being made (intentionally or inadvertently) without being detected and corrected in a timely manner.

Recommendation

Management should:

- Implement a process to only allow access to the vendors on 'as-needed' basis, and/or
- Periodically monitor vendor's changes to the production environment to identify potential unauthorised or unapproved changes. Evidence of these reviews and the corresponding actions should be documented and maintained.

Alternately management should enquire with Civica in regards to the availability of an Assurance report to obtain assurance that Civica have appropriate internal controls in place to prevent and/or detect inappropriate changes and access. This could be in the form of a Service Organisation Controls (SOC) report in line with the ASAE3402 standard.

Management Comment

The Town has raised this matter with Civica and received an assurance that a statement that satisfies ASAE3402 will be developed by them as a matter of priority.

In the interim, the Town does not propose to restrict Civica access to the system as this would effectively mean that Civica would not be able to respond to support requests and other matters until an approval was granted. Given the importance of some of these support requests, the potential for delay in responding may create further issues.

Responsible Person:

Garry Bird

Completion Date:

3 July 2019

**TOWN OF COTTESLOE
PERIOD OF AUDIT: YEAR ENDED JUNE 2019
FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

3. Business User with Privileged IT Functions to the Authority Application

Finding

Authority is the key application used by Town of Cottesloe as this system is used to support the core business functions. Therefore, it is imperative that the administrator access to this system be restricted to appropriate persons only.

Through our discussion with the IT team and the Finance Manager, we understand that the Finance Manager (Wayne Richards) is provided with administrator access to the Authority system that gives him the ability to add, modify and remove user access in the Authority system.

Rating: Moderate

Implication

Providing business users with administrative rights to systems provides them the ability to elevate user privileges and/or create fictitious users to perform business transactions that may normally be prevented by segregation of duties implemented through user access security.

Recommendation

Management should perform either of the following:

- Consider revoking the administrator access for the business user, or
- Where the business user is required to have the administrator access, management should examine the feasibility of enabling logging facility that would record the activities carried out by the user's account. These logs should be independently reviewed on a periodic basis (i.e. quarterly) by management and evidence of these reviews should be documented and maintained. The users should be provided two accounts (a standard account and administrator account) and the administrator account only used when required to perform a specific administrator function and the standard account used for everyday finance transaction processing.

Management Comment

Whilst it is agreed that it is not ideal to have the Finance Manager also involved in processing or amending users access privileges, only having access part time IT support has made this a necessity.

Please note transaction logs cannot be amended firstly by the Finance Manager.

Responsible Person: Garry Bird
Completion Date: 15 July 2019

TOWN OF COTTESLOE
PERIOD OF AUDIT: YEAR ENDED JUNE 2019
FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

4. Discounts on Rates

Finding

As part of our test of controls across the rates to cash receipts process, we observed three (3) instances from a representative sample of 25 transactions in which the discount available to concession holders was miscalculated. Two (2) instances of the erroneous calculation of discounts was caused by the fact that an incorrect discount amount was inputted into the Authority system.

Rating: Moderate

Implication

The lack of review procedures across the calculation of discounts against rates revenue increases in the risk of undetected errors.

Recommendation

Management should implement a control to test the accuracy of the discounts automatically calculated by the Authority system for each possible type of concession holder.

Management Comment

We accept this comment and have now developed a system whereby the rates parameters settings, including rebates, are now reviewed and authorised.

Notwithstanding this, it should be noted that the Office of State Revenue has responsibility for the ultimate approval for all rebate claims.

Responsible Person:

Garry Bird

Completion Date:

15 July 2019

**TOWN OF COTTESLOE
PERIOD OF AUDIT: YEAR ENDED JUNE 2019
FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

5. Document Execution of Control Procedures

Finding

We were advised that Management review a representative sample of rates notices for accuracy prior to printing and distribution to ratepayers; however, there is no evidence that this key control was executed.

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. This increases the risk that improper or incomplete execution of control procedures may go undetected resulting in an increased risk of undetected error or fraud, the risk of misstatement in the financial statements or misappropriation of assets.

Recommendation

ToC should implement internal policies to more formally document the features of the control and require evidence of control performance. In cases of independent review, the control should indicate details of the review procedures performed and document the date and reviewers signature as evidence of review and approval.

Management Comment

This recommendation is noted and accepted by management. A new sign off form will be developed and used to confirm sign off.

Responsible Person:

Garry Bird

Completion Date:

15 July 2019

TOWN OF COTTESLOE
PERIOD OF AUDIT: YEAR ENDED JUNE 2019
FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

6. Review of Internal Policies and Procedures

Finding

We noted that ToC's policies and procedures as published in the Town's website (<https://www.cottesloe.wa.gov.au/documents/policies>) have not been updated on a regular basis.

For instance:

No	Name of policies and procedures	Last updated
1	Asset management policy	March 2010
2	Corporate card policy	May 2016
3	Differential rate policy	November 2010
4	Rate recovery policy	July 2009

In addition, we noted that there was no formal accounting manual outlining various internal financial statement close processes for the Town.

Rating: Moderate

Implication

Lack of reviews and updates to the internal policies and procedures and a formal accounting manual may lead to processing inconsistencies and errors. Similar activities may be performed in a different manner and to unclear deadlines, creating difficulties if an alternative performer of the activity is required. The lack of revision over internal policies and procedures and a formal accounting manual may also lead to inefficiencies in the monthly and annual close processes.

Recommendation

Management should update the policies and procedures on a regular basis (preferably on an annual basis) and formalise its internal accounting manual. We recommend the creation of a risk control matrix to establish clear accountability and segregation of duties. In addition, this documentation exercise will provide an opportunity to review procedures and to introduce efficiencies or improve controls, as well as to provide support for future growth.

Management Comment

It is noted that some of the above policies are overdue for formal review. The Town generally adopts a four-year review period for new or amended policies as a minimum. Policies can be reviewed within this four-year period if deemed necessary as evidenced by the recent reviews of the Management of Investments Policy.

Given the Town's limited resources and the time etc. required to review all policies on an annual basis, the perceived benefit of this exercise is questioned.

There is no statutory requirement to review policies on an annual basis.

The development of an internal accounting manual to formalise the existing processes is supported and will be developed on an ongoing basis during 2019/20.

Responsible Person:

Garry Bird

Completion Date:

15 July 2019

TOWN OF COTTESLOE
PERIOD OF AUDIT: YEAR ENDED JUNE 2019
FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

7. Quotation Acceptance

Finding

Under the legacy purchasing policy, effective for periods prior to 30 April 2019, "a purchase order will only be issued after a written quote, confirming the verbal quote, is received".

However, as part of our test of controls across the procurement to payables cycle, we observed 4 out of 33 instances in which no written quote was retained. It is not readily determinable as to reasons why a written quote was not sourced or retained; for example, whether the procurer utilised the exemptions available under the legacy purchasing policy or failed to formalise a verbal quote with a written quote. In addition, we observed 2 out of 33 instances in which (a) a written quote was available but (b) there was no written evidence available as to why the particular vendor was selected.

Rating: Significant

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, there is a risk of favouritism of suppliers not obtaining value for money.

Recommendation

Management should document why the purchase of a good or service is not supported by a quotation acceptance, 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 acceptance is not required to be completed.

Management Comment

The Town accepts this comment and has developed a form that is used to support the Purchase Order that summarises the quotations received or why the requirements of the Purchasing Policy have not been adhered to.

It is intended to purchase new Purchase Order books to include the information contained on the form so that staff.

Responsible Person:

Garry Bird

Completion Date:

23 July 2019

TOWN OF COTTESLOE
PERIOD OF AUDIT: YEAR ENDED JUNE 2019
FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

8. Grants and Contracts Register

Finding

ToC has a process of maintaining and cataloguing key agreements (e.g. contracts and grants) in an electronic document repository system. However, ToC does not maintain a register of contracts or grants.

Rating: Minor

Implication

ToC may not comply with the financial reporting obligations of grant arrangements, which may result in the return of grant monies where the conditions attached to the grant contract are not satisfied.

Recommendation

Management should develop and implement a grant and contracts register, within which all contracts, grant arrangements and variations are documented and retained. In respect of grant arrangements, the register should document any financial reporting obligations, if any, including commentary on due dates and external audit requirements.

Management Comment

These comments are supported and the Town has recently created separate grant and contract registers as a result of recommendations contained in the 2019 Financial Management Review.

Comments from the Office of the Auditor General in regards to these two new registers would be welcome.

Responsible Person:

Garry Bird

Completion Date:

15 July 2019