

Cr Matthew Hannan
Mayor
Berrigan Shire Council
56 Chanter Street
BERRIGAN NSW 2712

Contact: Lawrissa Chan
Phone no: 02 9275 7255
Our ref: D1730254/1692

7 December 2017

Dear Cr Hannan

Berrigan Shire Council
Management Letter
for the year ended 30 June 2017

The final phase of our audit of Berrigan Shire Council (the Council) for the year ended 30 June 2017 is complete. This letter outlines:

- matters of governance interest I identified during the current audit
- unresolved matters identified during previous audits
- matters I am required to communicate under Australian Auditing Standards.

I planned and carried out my audit to obtain reasonable assurance the financial statements are free from material misstatement. Because my audit is not designed to identify all matters that may be of governance interest to you, there may be other matters that did not come to my attention.

The Management Letter may be sent to the Minister, if requested.

For each matter in this letter, I have included my observations, risk assessment and recommendations. The risk assessment is based on my understanding of your business. Management should make its own assessment of the risks to the Council.

I have kept management informed of the issues included in this letter as they have arisen. A draft of this letter was provided to management on 24 November 2017. This letter includes management's formal responses, the person responsible for addressing the matter and the date by which this should be actioned.

As soon as practicable, I recommend you:

- assign responsibility for implementing the recommendations
- develop an action plan, including a timetable, to implement the recommendations
- nominate an individual or establish a committee to monitor and report on progress.

The Auditor-General may include items listed in this letter in the Report to Parliament. I will send you a draft of this report and ask for your comments before it is tabled in Parliament.

If you would like to discuss any of the matters raised in this letter, please contact me on 02 9275 7255 or Phil Delahunty on 03 5445 4200.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Lawrissa Chan', written in a cursive style.

Lawrissa Chan
Director, Financial Audit Services

cc: Rowan Perkins
General Manager



Berrigan Shire Council

Management Letter
for the Year Ended 30 June 2017



Berrigan Shire Council

Management Letter

for the year ended 30 June 2017

I have rated the risk of each issue as 'Extreme', 'Moderate' or 'Low' based on the likelihood of the risk occurring and the consequences if the risk does occur.

The risk assessment matrix used aligns with the risk management framework in [TPP12-03](#) 'Risk Management Toolkit for the NSW Public Sector'.

This framework may be used as best practice for councils.

RISK LEVELS	
Extreme	12 – 16
Moderate	5 – 11
Low	1 – 4

The risk level is a combination of the consequences and likelihood.

		CONSEQUENCE			
		Low	Medium	High	Very High
LIKELIHOOD	Almost Certain	10	11	15	16
	Likely	4	9	13	14
	Possible	3	7	8	12
	Rare	1	2	5	6

Berrigan Shire Council

Management Letter

for the year ended 30 June 2017

For each issue identified, I have used the consequence and likelihood tables from [TPP12-03](#) to guide my assessment.

Consequence levels and descriptors

Consequence level	Consequence level description
Very high	Affects the ability of your entire agency to achieve its objectives and may require third party intervention
High	Affects the ability of your entire agency to achieve its objectives and requires significant coordinated management effort at the executive level
Medium	Affects the ability of a single business unit in your agency to achieve its objectives but requires management effort from areas outside the business unit
Low	Affects the ability of a single business unit in your agency to achieve its objectives and can be managed within normal management practices

Likelihood levels and descriptors

Likelihood level	Frequency	Probability
Almost certain	The event is expected to occur in most circumstances, and frequently during the year	More than 99 per cent
Likely	The event will probably occur once during the year	More than 20 per cent and up to 99 per cent
Possible	The event might occur at some time in the next five years	More than 1 per cent and up to 20 per cent
Rare	The event could occur in exceptional circumstances	Less than 1 per cent

Summary of Issues

Appendix	Detail	Likelihood	Consequence	Risk Assessment
Financial Reporting Issues				
1.1	Understatement of depreciation expense on library books	Likely	Low	Low
1.2	Unrecorded liabilities	Likely	Low	Low
Control Issues				
1.3	Review of payroll masterfile changes	Likely	Medium	Moderate
1.4	Payroll upload error	Almost Certain	Medium	Moderate
1.5	Cash payments to caretaker staff through committee of management	Likely	Medium	Moderate
1.6	Supporting workpapers for asset revaluation	Possible	Low	Low
Information Technology Issues				
1.7	Non-IT staff have inappropriate access to directly modify financial data outside of the application	Possible	Medium	Moderate
1.8	Sharing of high privilege user accounts	Possible	Medium	Moderate
1.9	Audit logs of privileged access activities are not reviewed	Possible	Medium	Moderate
2	Review of Matters Raised in Prior Year's Management Letter			

Appendix 1.1

Issue	Likelihood	Consequence	Risk	Systemic Issue	Category
Understatement of depreciation expense on library books	Likely	Low	Low	Yes	Reporting

Observation	Implication	Recommendation	Management Response
<p>Library books acquired up until 2010 are recorded as a cumulative balance instead of recording them individually in the year of purchase. The entire balance is then depreciated over a single useful life. The estimated impact on the depreciation expense and assets carrying value is \$47,858.</p> <p>We acknowledge that subsequent to 2010, additions to library books are recorded and depreciated accordingly.</p>	Understatement of depreciation expense and overstatement of the carrying value for library books.	<p>We recommend that Council conduct a comprehensive review of existing library books to ensure:</p> <ul style="list-style-type: none"> annual depreciation expense is calculated and recorded correctly carrying values for library books is accurate. 	<p>In this case, the Council did not continue to depreciate its ongoing stack of books purchased before 2010/11, once it decided to record and depreciate each year's purchases separately. Management note that the \$47,858 shown as an understatement of depreciation is a cumulative figure and the year-on-year impact on depreciation expense is approximately \$7,000. This is an oversight on the Council's behalf and depreciation should have been charged in this case. A review will be conducted as part of the annual assessment of asset values in 2017/18 and any adjustment recorded.</p> <p>Person Responsible: Finance Manager</p> <p>Date to be Actioned: March 2018</p>

Appendix 1.2

Issue	Likelihood	Consequence	Risk	Systemic Issue	Category
Unrecorded liabilities	Likely	Low	Low	No	Reporting

Observation	Implication	Recommendation	Management Response
In our review of trade and other payables, we noted 2 instances (out of 13 invoices tested) of liabilities not recognised by the Council. We estimate the total value of unrecorded liabilities as at 30 June 2017 amounts to \$94,102.	Risk of liabilities not recorded at year end resulting in understatement of trade and other payables balance.	We recommend that Council improve processes around identifying and recording creditors and accruals at year end to ensure all amounts due are captured.	<p>The Council's existing procedures are designed to identify and record all expenses relating to the prior year and ensure that they are properly accrued. The Finance Manager and her team discuss the accrual process as part of their end-of-year team meetings and discussions.</p> <p>To ensure that all invoices are accrued correctly, the Finance Manager and her team chase up all outstanding orders prior to the end of the financial year to determine if they will be received by the end of the financial year and chase invoices as required. Before the accrual cut-off date, necessary to meet reporting deadlines, all invoices received are analysed to determine what amounts apply to each year. After the accrual cut-off date, amounts are only accrued where it is material.</p> <p>Regarding the specific invoices in question – one invoice was a genuine oversight by the Council's finance team. Management will remind all staff of the importance of following the Council's set procedures for accrual.</p>

Observation	Implication	Recommendation	Management Response
			<p>The second invoice was an ongoing month-by-month direct debit for fuel using Council's fuel cards. The direct debit in July was for fuel used in June. Given that the amount of fuel used does not vary significantly from month to month, the Council has not made a practice of accruing the June fuel paid each July – on the basis that 12 months of fuel expense has been brought to account each year. Management agree that in future years this transaction will be accrued.</p> <p>Person Responsible: Finance Manager</p> <p>Date Resolved: Management believes process in place is satisfactory.</p>

Appendix 1.3

Issue	Likelihood	Consequence	Risk	Systemic Issue	Category
Review of payroll masterfile changes	Likely	Medium	Moderate	Yes	Operational

Observation	Implication	Recommendation	Management Response
<p>During our review of payroll masterfile changes report, we identified 3 instances where a changes report was not generated and a further 2 instances where the report was not reviewed by an independent officer.</p> <p>Management has implemented a detective monitoring control, whereby changes to the payroll Masterfile are reported before each payrun and the report is reviewed by the Finance Manager.</p>	<p>If changes to the payroll master file are not reviewed by an independent officer, this increases the risk of error and / or fraudulent transactions.</p>	<p>We recommend that management reiterate to staff the importance of generating payroll Masterfile changes report and its review by the Finance Manager.</p>	<p>The Council's existing procedure is that all changes to the payroll Masterfile are to be authorised by the Finance Manager and/or alternate where she is unavailable. This happens prior to each fortnightly payrun.</p> <p>Management will reiterate to all staff involved the importance of generating payroll Masterfile reports and their review by the Finance Manager.</p> <p>Person Responsible: Finance Manager</p> <p>Date to be Actioned: December 2017</p>

Appendix 1.4

Issue	Likelihood	Consequence	Risk	Systemic Issue	Category
Payroll upload error	Almost Certain	Medium	Moderate	No	Operational

Observation	Implication	Recommendation	Management Response
<p>During our review of payroll process, we noted an instance where an incorrect ABA file was uploaded to NAB Connect and was subsequently approved by the two bank signatories. This resulted in incorrect payments being made.</p> <p>Approval process requires the signatories to review and match the EFT payment totals with the payroll report.</p> <p>We acknowledge that management has reviewed and corrected the error through subsequent payruns. Management has also engaged an external consultant to conduct an investigation and provide recommendations to implement appropriate controls.</p>	<p>If the review processes in place are not appropriately adhered to, there is a risk of incorrect payments being made.</p>	<p>We recommend that Council review the error in detail to ensure that all necessary corrections to the payroll have occurred.</p> <p>We also recommend that the management reiterate to staff the importance of an appropriate review to prevent similar occurrence in the future.</p>	<p>As noted, the Council has engaged an external consultant to review this particular error and to advise on any necessary changes required.</p> <p>In the meantime, all Council staff with authority to create and/or approve EFT transactions have been made aware of their responsibility to ensure that the payment they are creating or authorising in its online banking system matches the audit file generated by the Council's accounting software.</p> <p>Person Responsible: Finance Manager</p> <p>Date to be Actioned: December 2017</p>

Appendix 1.5

Issue	Likelihood	Consequence	Risk	Systemic Issue	Category
Cash payments to caretaker staff through S355 committee	Likely	Medium	Moderate	Yes	Operational

Observation	Implication	Recommendation	Management Response
<p>We note that Tocumwal Foreshore Committee of Management (the Committee), a section 355 committee of the Council, has been paying a caretaker in cash for their role with maintaining the foreshore reserve.</p> <p>Council's processes do not allow cash payments to third parties. The caretaker is not an official employee of the Council.</p>	<p>There is an increased risk of inappropriate transactions where cash is used to pay for services.</p> <p>Further, there are risks associated with having a person essentially employed by a Committee of Council, who is not appropriately registered through the necessary processes as an employee.</p>	<p>We recommend that Council ensures that all cash payments are ceased to comply with Council's approved policies.</p> <p>If the Committee wishes to engage a caretaker, it should be done after following Council's hiring processes.</p>	<p>Management took steps to stop this practice as soon as it was made aware of the matter. The Tocumwal Foreshore Committee of Management have been reminded of their obligations and responsibilities as a volunteer committee of the Council as per the Council's Volunteer Committee of Management guidelines.</p> <p>The Council has worked with the committee to regularise the appointment of a contractor to undertake caretaker duties at the Tocumwal Town Beach caravan park. The contractor is being paid via the Council's ordinary accounts payable procedures.</p> <p>Person Responsible: Director Corporate Services</p> <p>Date Resolved: November 2017</p>

Appendix 1.6

Issue	Likelihood	Consequence	Risk	Systemic Issue	Category
Supporting workpapers for asset revaluation (repeat issue)	Possible	Low	Low	Yes	Operational

Observation	Implication	Recommendation	Management Response
<p>Management was not able to provide appropriate assessments to support the carrying value of assets as at 30 June 2017. Movement in unit rates was not supported by appropriate source documentation.</p> <p>We acknowledge that management made available detailed workpapers for water and sewer assets that were subject to comprehensive revaluation during 2016-17.</p>	<p>There is a risk that the carrying values of assets may not reflect fair value as required by Australian Accounting Standards.</p>	<p>We recommend that management should perform an annual assessment to ensure the assets carrying is materially consistent with their fair value.</p> <p>Management should also prepare adequate supporting workpapers that enables an efficient and effective internal review and external audit.</p>	<p>Ideally, the Council would like to have supporting workpapers for these assets available much earlier. The Council had vacancies in some key technical positions during the year; these positions have now been filled.</p> <p>Management are also investigating the use of dedicated valuation software such as FairValuePro to assist in the preparation of suitable workpapers.</p> <p>Person Responsible: Director Technical Services</p> <p>Date to be Actioned: March 2018</p>

Appendix 1.7

Issue	Likelihood	Consequence	Risk	Systemic Issue	Category
Non-IT staff have inappropriate access to directly modify financial data outside of the application	Possible	Medium	Moderate	Yes	Operational

Observation	Implication	Recommendation	Management Response
<p>Whilst we have not sought to place reliance on IT controls as part of our audit approach, through the work performed to understand the council's control activities and obtain an understanding of how the council has responded to risks arising from IT, we noted that non-IT admin staff have inappropriate access to directly modify financial data outside of the application (Practical).</p> <p>This is possible through the use of a database query tool which allows database tables to be modified directly. The risk exists where staff, including non-IT staff, are using super-user or administration accounts which have higher levels of access than general user accounts.</p> <p>We would like to note that we did not perform a comprehensive review of the IT control environment and there may be other control weaknesses that did not come to our attention.</p>	<p>Financially relevant data could be modified directly within the database (either on purpose or in error), bypassing key business process controls and segregated duties that may be relied upon in Practical.</p>	<p>We recommend that Council review its existing list of assigned IT access privileges for each staff member against their current role to ensure their access level assigned remains current and appropriate, taking corrective action, as necessary.</p> <p>Access to directly modify the Practical database should be restricted to relevant IT staff only.</p> <p>For those Council staff assigned with 'super user'/ administrator IT access privileges we recommend Council consider the following controls:</p> <ul style="list-style-type: none"> Practical privileged access audit logs are reviewed regularly by a suitably independent and qualified individual, with appropriate action taken when required or; Standing Practical privileged access is removed and only granted on a temporary basis when required 	<p>Management was unaware of any such ability to directly modify financial data. Management will work with the software provider to address this risk.</p> <p>In the meantime, Council will maintain its current practice of segregation of PCSADMIN permissions from the staff responsible for processing transactions. Management agree that audit logs of Practical privileged access should be reviewed regularly by a suitably independent and qualified individual and will put in place such a program.</p> <p>Person Responsible: Director Corporate Services</p> <p>Date to be Actioned: March 2018</p>

Appendix 1.8

Issue	Likelihood	Consequence	Risk	Systemic Issue	Category
Sharing of high privilege user accounts	Possible	Medium	Moderate	Yes	Operational

Observation	Implication	Recommendation	Management Response
<p>Whilst we have not sought to place reliance on IT controls as part of our audit approach, through the work performed to understand the council's control activities and obtain an understanding of how the council has responded to risks arising from IT, we noted that highly privileged user accounts are shared amongst staff.</p> <p>We noted that the highly privileged "PCSADMIN" user account is shared between the Finance Manager and Technology and Innovations Officer.</p> <p>We would like to note that we did not perform a comprehensive review of the IT control environment and there may be other control weaknesses that did not come to our attention.</p>	<p>In the absence of tools to enable the secure use of generic highly privileged user accounts, sharing of these accounts increases the likelihood of individuals gaining inappropriate access to business functions.</p> <p>Due to the lack of a clear audit trail, inappropriate or incorrect privileged system activities may not be able to be traced to the accountable individual. Subsequent resolution procedures may be time consuming and costly.</p>	<p>We recommend Council consider the following controls:</p> <ul style="list-style-type: none"> • Users with high privileged access should have individual user accounts to perform their normal duties • Standing Practical privileged access is removed and only granted on a temporary basis when required • Practical privileged access audit logs are reviewed regularly by a suitably independent and qualified individual, with appropriate action taken when required • User access privileges should be regularly reviewed to ensure they remain commensurate with each individual's role and any segregation of duties defined by management 	<p>Users with high privileged access to Practical Plus (in the case of Berrigan Shire, only the Finance Manager and the Technology and Innovations Officer) have individual user accounts that they are expected to use to perform their normal duties</p> <p>The ordinary roles of the Finance Manager and the Technology and Innovations Officer do not include day-to-day transaction processing in Practical – there is clear segregation of duties in place.</p> <p>The Council's procedures do not permit the routine use of the PCSADMIN account for transaction processing. It is only used for a specific set of functions.</p> <p>No other person has access, or is given access on a temporary basis, to the PCSADMIN account – this includes the Director Corporate Services and the General Manager.</p> <p>Management agree that audit logs of Practical privileged access should be reviewed regularly by a suitably independent and qualified individual and will put in place such a program.</p>

Observation	Implication	Recommendation	Management Response
			<p>Management agree that that user permissions in Practical should be regularly reviewed and will put in place such a program.</p>
			<p>Person Responsible: Director Corporate Services</p>
			<p>Date to be Actioned: March 2018</p>

Appendix 1.9

Issue	Likelihood	Consequence	Risk	Systemic Issue	Category
Audit logs of privileged access activities are not reviewed	Possible	Medium	Moderate	Yes	Operational

Observation	Implication	Recommendation	Management Response
<p>Whilst we have not sought to place reliance on IT controls as part of our audit approach, through the work performed to understand the council's control activities and obtain an understanding of how the council has responded to risks arising from IT, we noted that audit logs of privileged IT access activities are not reviewed on a periodic basis.</p> <p>We would like to note that we did not perform a comprehensive review of the IT control environment and there may be other control weaknesses that did not come to our attention.</p>	<p>Inappropriate or incorrect privileged system activities may go undetected and/or uncorrected.</p>	<p>For those Council staff assigned with 'super user'/ administrator IT access privileges we recommend Council consider the following controls:</p> <ul style="list-style-type: none"> Practical privileged access audit logs are reviewed regularly by a suitably independent and qualified individual, with appropriate action taken when required or; Standing Practical privileged access is removed and only granted on a temporary basis when required 	<p>As per its response to Appendix 1.7, Management agree that audit logs of Practical privileged access should be reviewed regularly by a suitably independent and qualified individual and will put in place such a program.</p> <p>Person Responsible: Director Corporate Services</p> <p>Date to be Actioned: March 2018</p>

Appendix 2**REVIEW OF MATTERS RAISED IN PRIOR YEAR MANAGEMENT LETTERS**

The issues in this appendix were raised in previous management letters but remain relevant in the current year. For each of these issues, I have determined:

- how management has addressed the issue in the current year
- what management still needs to do to address unresolved issues.

Prior Issues Raised	Assessment of Action Taken	Recommendation
Asset Revaluation Supporting Workpapers	In progress	Refer to Appendix 1.6
Treatment of Assets Disposed	Matter has been addressed by Management	Nil as matter addressed