

## SHIRE OF CRANBROOK

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2023

## FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

Index of findings	Potential impact on audit opinion	Rating			Prior year finding
		Significant	Moderate	Minor	
1. Superannuation Guarantee Calculation	No		✓		
2. Review of monthly reconciliation debtors & creditors	No		✓		
3. Review of payroll	No		✓		

**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. A significant rating could indicate the need for a modified audit opinion in the current year, or in a subsequent reporting period if not addressed. However even if the issue is not likely to impact the audit opinion, it should be addressed 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.

**SHIRE OF CRANBROOK****PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2023****FINDINGS IDENTIFIED DURING THE INTERIM AUDIT****1. Superannuation Guarantee Calculation**

Testing of superannuation calculations in payroll noted that for the pay period ended 25 January 2023, the employees selected for testing that had taken annual leave had no superannuation paid on the leave loading component of their pay. We do note however, that employees tested in the period ended 22 July 2022 did have the leave loading component included in the calculation of the superannuation payable. Upon investigation by the Shire the impact on the financial statements is not material.

**Rating:** Moderate

**Implication**

It is important to ensure that superannuation guarantee is paid on all eligible components of an employees pay to ensure compliance with the requirements of legislation in relation to employers' obligations for superannuation payments to employees.

**Recommendation**

That an investigation into the timeframe where employees may not have had leave loading included in their super guarantee calculations be carried out to determine the extent of the potential underpayment, and corrective action that may be required. Additionally, review of set up of employees in the payroll system be conducted to ensure all components of pay that should be included in the calculation of super guarantee are included.

**Management comment**

*This was due to a gap in training in the setting up of new employees in the payroll system when one payroll officer left and another commenced. In addition, the standard operating procedure for setting up a new employee was reviewed and the step to include the superannuation calculation on leave loading was added to the flow chart. The timeframe for the lack of inclusion was established, and a spreadsheet was created to capture the extent of the underpayment, and this was then paid in full in April 2023. As this was only applicable to the period with the change of payroll officer, and limited to new employees appointed during that time, the work to rectify it was able to be done quickly. The total amount due to the all new employees was less than \$2,000.*

**Responsible person:** Linda Gray Chief Executive Officer

**Completion date:** 13 July 2023

**SHIRE OF CRANBROOK**

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**2. Review of monthly reconciliation debtors and creditors**

During our audit testing there was one instance out of ten, debtors and creditors reconciliation being completed but not evidenced as reviewed by an appropriately authorised person.

**Rating:** Moderate

**Implication**

Monthly reconciliations and reviews create stronger internal controls and reduce the instances of errors occurring and not being picked up in a meaningful time frame.

**Recommendation**

All month end reconciliations should be completed as soon as practicable to month end. All reports prepared should be marked up to identify the preparer and the reviewer for transparency of duties.

**Management comment**

*This was reviewed and the importance of sign off by an appropriately authorised person was discussed, and the need to have two people review any financial documentation was emphasised at our Staff Administration Meeting held on 9 July 2023.*

**Responsible person:** Linda Gray Chief Executive Officer  
**Completion date:** 13 July 2023

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**3. Review of payroll**

While conducting the walkthrough to test controls and procedures for payroll, it was noted that one of the employees selected for testing, (out of 30 tested) was paid for 60 hours worked when the timesheet relating to that pay period only recorded 30 hours. This was detected after the pay run had been finalised and corrected in the following pay run.

**Rating:** Moderate

**Implication**

Conducting detailed review of payroll processing to detect any errors that may occur is important to ensure that employees are not over or underpaid, and that employee expenses as disclosed in the general ledger and financial statements is accurate.

**Recommendation**

That extra attention and care is taken when reviewing payroll processing to ensure that any errors that may occur are detected to enable correction prior to finalisation of the pay run. In this case specifically, use of the Synergy Compare Gross Payroll Report to compare variances between current pay run and previous pay run would aid in identification of the error, as the large variance would need to be scrutinised in more detail.

**Management comment**

*Management recognises that closer analysis of the comparison reports needs to be done to assist the payroll officer in recognising both human and computer errors. This will now be done.*

**Responsible person:** Linda Gray  
**Completion date:** 13 July 2023