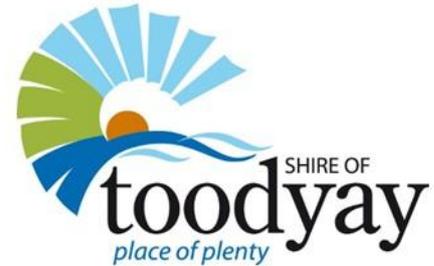


Our Ref: FIN7/COC2

16 January 2025

Hon Hannah Beasley MLA
Minister for Local Government
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Dear Minister Beasley,

Significant Finding from 2024/25 Financial Management Report

The Shire of Toodyay has completed its 2024/25 audit with the Financial Management Report identifying significant items. In accordance with the requirements of the Local Government Act 1995, you are being advised of these matters and the actions taken to correct.

Significant Audit Findings

1. Comparative information and verification of opening balances

Findings

The financial report for the year ended 30 June 2025 includes comparative information for the year ended 30 June 2024 that is subject to a modified audit opinion. As a result of this modification, we were unable to obtain sufficient appropriate audit evidence to determine whether any adjustments were necessary to the opening balances as 1 July 2024 or the comparative information presented in the FY25 financial report.

This matter represents a continuation of the prior-year findings raised in FY21, FY22, and FY23, where comparative information could not be fully substantiated, and differences remained unexplained. The underlying issue persists due to the absence of robust controls and supporting documentation to ensure that comparative information is carried forward accurately and reconciled to audited balance

Rating: Significant

Implication

Inability to substantiate comparative information increases the risk of errors going undetected and compromises the reliability and comparability of financial statements across periods. This may impair decision-making by users of the financial report and

highlights ongoing weaknesses in the Shire's financial reporting processes and controls over the preparation of annual financial statements. The continued qualification on comparative figures further reduces confidence in the accuracy of historical financial information.

Recommendation

We recommend that management implement strong controls over the preparation and review of comparative information included in the annual financial statements. This should include clear documentation supporting any adjustments made to prior-year figures, reconciliation of comparative amounts to the audited financial statements, and the retention of adequate records to support historical balances. Strengthening these controls will assist in resolving the ongoing qualification and ensure that comparative information can be verified in future years.

Management Comment

Management agrees with the recommendations above and measures are being put in-place to ensure that key reconciliations are undertaken to ensure that all balances can be verified at year end.

2. Duplicate Payment of a transaction-Significant Irregularity

Finding

During the audit of subsequent payments (payments after year end), we identified that an expenditure amount of \$242,521.73 relating to financial year 2025 was paid twice in financial year 2026. The first payment was processed on 03/07/2025, and a second identical payment was processed again on 25/07/2025.

On further review, we noted that the second payment was not recorded in the Shire's financial system. Management confirmed that this was a duplicate payment to suppliers and that the overpayment has not been fully recovered to date.

The combination of a high-value duplicate payment, dual approval, absence of system records for the second payment, and lack of detection or reporting represents a serious deficiency in the Shire's internal controls over expenditure, financial reporting, and fraud prevention.

Rating: Significant

Implication

The lack of adequate system processes and internal controls over the payment process approval, exposes the Shire to significant risk of financial loss, fraud and material misstatement of the financial report.

In addition, the absence of recording payments in the Shire's financial system, lack of timely detection and reporting to Council, further heighten the risk of fraud and loss to the Shire and highlights the deficiencies in the current payments processes.

Recommendation

Given the seriousness of the control deficiencies and the associated risk on the financial report, we recommend the Shire to undertake a full review of the system and control deficiencies over the payment processes to ensure that:

- all payments are recorded in the accounting system, without exception, with system controls preventing payment processing without an approved invoice or batch.
- all payments to be presented to Council, regardless of nature, to strengthen transparency and oversight.

Management Comment

The ability to load a second bank file to the bank account is a matter that has been raised with Datacom as once the file has been loaded to the bank, it should be locked so it cannot be loaded a second time.

It must be noted that these duplicate payments were not identified during the audit as they were identified when they first occurred and was reported to Councillors at the time.

In addition, it must be noted that in previous years, payments have been made by Direct Debit that have previously not been reported to Council. This practice has now stopped, and all payments (including all Direct Debits) are being reported to Council.

3. Inconsistent Fixed Asset Information Between Excel FAR and Datascape

Finding

It was noted that the Shire maintains its Fixed Asset Register (FAR) for financial reporting purposes in an Excel spreadsheet, which appears to reasonably reflect annual movements and total depreciation balances. However, the underlying asset management system, Datascape, has not been updated at an individual asset level. Key information such as useful lives, depreciation, accumulated depreciation, and asset movements remain outdated or incomplete within the system. To compensate for the system's inaccuracies, management posted journals at the total balance level using reasonable depreciation rates to arrive at a correct aggregated amount. Despite these adjustments, the fundamental issue persists: the system-level asset records do not support or reconcile to the Excel FAR, resulting in inconsistent fixed asset information.

Rating: Significant

Implication

Reliance on a manually prepared Excel FAR combined with an outdated system register increases the risk of misstatement, incomplete records, and errors going undetected. The lack of accurate asset-level data in Datascape weakens internal control, impairs audit trails, limits operational asset management, and prevents the Shire from using its system as a reliable source of truth. Although the Shire has

posted year-end journals to correct the total depreciation balance, this does not resolve the underlying issue that individual asset details in Datascape are inaccurate, exposing the Shire to continued financial reporting and governance risks.

Recommendation

The Shire should update all individual asset records in Datascape so that depreciation, useful lives, accumulated depreciation, and asset movements align with the Excel FAR. Regular reconciliations should be performed to ensure Datascape and the General Ledger remain consistent, reducing reliance on manual spreadsheets and year-end total-balance journals.

Management Comment

This again has been an issue since 2021, and it is the first time since 2021 that a balanced Asset Register exists. Datacom are working with the Shire to update the system-based Asset Register to align with the Excel Based Asset Register and General Ledger Balances. This is an ongoing project that is expected to be completed by the end of February 2026.

4. Deficiencies in Bank Reconciliation Processes

Finding

During the audit, we identified significant deficiencies in the Shire's bank reconciliation processes during FY25. Specifically, the following issues were noted:

- No monthly bank reconciliations were performed for July 2024 to May 2025.
- The only reconciliation provided (June 2025) lacked evidence of preparer, reviewer, or date of review.
- The June 2025 reconciliation contained errors, which were identified by audit and communicated to management.
- There was no documented oversight or approval process in place throughout the year to ensure the accuracy and completeness of bank reconciliations.
- The Shire's bank reconciliation as at 30 June 2025 included an unreconciled balance of \$22,991.

Bank reconciliations are a fundamental internal control in accounting processes to ensure accuracy, completeness and integrity of cash records which are critical to reliable financial reporting

This finding was first raised in 2021.

Rating: Significant (FY-2024: Significant)

Implication

The absence of routine bank reconciliations and the lack of documented review significantly increase the risk that errors and fraudulent transactions may go undetected. An unsigned and unreconciled June bank reconciliation expose the

Shire to a heightened risk of material misstatement of cash balances and undermine confidence in the accuracy and completeness of financial information. The identification of errors within the June reconciliation demonstrates that errors may have gone unnoticed during the year due to the absence of regular reconciliations and control review processes.

Recommendation

We recommend that the Shire implement a formal monthly bank reconciliation process covering all bank accounts, ensuring each reconciliation is prepared, reviewed, and dated by individuals independent of each other. Reconciliations should be completed promptly after month-end, with documented review and approval to ensure accountability and timely detection of discrepancies. Management should also ensure that any errors identified are corrected immediately and that staff are adequately trained in proper reconciliation procedures to prevent recurrence. The current unexplained reconciling item of \$22,991 to be resolved as a priority.

Management Comment

A substantial reconciliation has been undertaken in the 2024/25 financial year to verify the opening bank balances at the 30 June 2024. This included identifying and verifying transactions dating back to 2021. The reconciliation at the 30 June 2025 has provided a baseline to commence monthly bank reconciliations commencing from July 2025.

5. Absence of Grants Register

Finding

During the audit, we noted that the Shire does not maintain a grant register to record all grants received, associated conditions, funding milestones, acquittal requirements, and remaining unspent balances. Grant information is currently dispersed across various documents and emails, with no single source tracking the status of conditional and unconditional grants or documenting compliance with funding agreements. The absence of a structured register increases the risk that grant conditions, performance obligations, and acquittal deadlines are not monitored effectively. Notwithstanding this control weakness, the audit team performed additional substantive and alternative audit procedures, including testing grant agreements, reconciling grant receipts to the general ledger and bank statements, and reviewing acquittal documentation. Based on these procedures, sufficient appropriate audit evidence was obtained to gain comfort over the grant balances recognised at year end.

Rating: Significant

Implication

Without a grant register, the Shire is exposed to the risk of incorrect revenue recognition under AASB 15/1058, incomplete recording of contract liabilities, missed acquittal deadlines, and potential non-compliance with funding agreements.

Recommendation

We recommend that the Shire establish and maintain a comprehensive grant register that captures all relevant information, including grant details, conditions, performance obligations, acquittal deadlines, funds received, and unspent balances. The register should be updated regularly and reviewed by management to ensure accurate financial reporting and compliance with funding agreements.

Management comment:

It is agreed that as a matter of best practice that a grants register be maintained, however we must point out that there is no legislative requirement to do so, and all grants have been correctly recorded in the General Ledger and all audit evidence was obtained as the Management Letter identified.

6. IT Governance

Finding

During the testing of IT controls, the predecessor auditor noted the following:

- **Absence of IT-related policies and procedures:**

The Shire lacks comprehensive IT related policies and procedures, indicating a potential gap in governance and regulatory compliance. Although there exists an ICT Use Policy, important information such as adoption and review dates are absent, which raises concerns about its relevance and effectiveness.
- **No current IT Strategic Plan:**

The absence of a current IT Strategic Plan suggests a deficiency in long-term vision and direction for the Shire's IT initiatives. While a previous ICT 2018-19 plan existed, the absence of an updated version may result in misalignment with Shire goals and technological advancements.
- **Missing IT Asset Management Plan:**

The Shire does not have an IT Asset Management Plan in place, indicating a lack of structured processes for the acquisition, deployment, maintenance, and disposal of IT assets. This oversight can lead to inefficiencies, increased costs, and potential security risks.
- **Absence of asset classification based on sensitivity:**

The Shire lacks a system for classifying IT assets based on their sensitivity to the project or Shire. This omission can result in inadequate protection of sensitive information, potentially exposing the Shire to security breaches and compliance violations.

Rating: Significant (FY-2024: Significant)

Implication

The Shire might face significant risks stemming from the absence of IT related policies and procedures. Without clear guidelines in place, the Shire may struggle to comply with relevant laws, regulations, and industry standards, potentially leading to legal consequences, financial penalties, and reputational damage.

The lack of a current IT Strategic Plan hampers the Shire's ability to align IT initiatives with business objectives and allocate resources effectively, which could result in redundant investments, missed opportunities, and decreased competitiveness.

The absence of an IT Asset Management Plan and asset classification framework can lead to operational inefficiencies and security vulnerabilities which increases the risk of data breaches, loss of intellectual property, and reputational harm, underscoring the urgent need for comprehensive IT governance measures to mitigate these risks and safeguard the Shire's interests.

Recommendation

To strengthen IT governance, we recommend the Shire review and update IT policies and procedures, ensuring clarity and adherence to industry standards. Clear adoption and review dates are to be established to foster ongoing improvement and accountability.

Additionally, we recommend developing an IT Strategic Plan aligned with business objectives, engaging stakeholders for support and regularly updating it to reflect evolving priorities.

The implementation of an IT Asset Management Plan will assist to manage asset lifecycles effectively, with defined processes for tracking, inventory management, and data destruction. Asset classification based on sensitivity will prioritise protection measures, with regular reviews to adapt to changing needs and risks.

Management Comment:

Agreed. This is a historical issue as the Shire has not had the necessary IT plans in place. The Executive is working towards correcting these historical issues and this includes preparing the necessary plans and documents to support the ongoing financial viability of the Shire.

During the 2024-25 year, the Shire has made significant progress towards completing these by undertaking an IT Audit, which identified all the shortcomings in our IT network and the lack of plans and policies that are in place and an implementation plan was developed and approved by the Audit and Risk Committee on the 5th of June 2025.

7. Security weakness in active directory/ workstation

Finding

We were unable to obtain sufficient evidence to determine whether the 2023's finding regarding the active directory configuration and patch management has been appropriately addressed.

The issues identified in 2023 and continued in 2024, such as computers not being included in the Domain Group and the incorrect recording of patch update dates (e.g., TSC-CR03 patch update date recorded as 1 January 0001), suggest a failure in the system's ability to properly track and update patch installation dates, indicating a gap in control and oversight over patch management processes.

As a result, we consider this an unresolved finding from the prior year that persists in 2025.

This finding was first raised in 2023.

Rating: Significant (2024: Significant)

Implication

The exclusion of computers from the Domain Group can lead to unauthorised access, compromise of sensitive data, and increased exposure to external threats.

Inaccurate patch update dates indicate a failure to maintain an effective security posture, leaving the network susceptible to known vulnerabilities and exploits. Such weaknesses could result in data breaches, system outages, and reputational damage to the organization.

Recommendation

We recommend that management conduct a review of the active directory structure to ensure all computers are properly included in the Domain Group and implement access controls to prevent unauthorised entry.

We further recommend that management rectify the inaccuracies in patch update dates by establishing a systematic approach to patch management.

Management Comment:

This is a historical issue and prior to 2024/25 had not been addressed by management. During the 2024-25 year, the Shire undertook an IT Audit, which identified all the shortcomings in our IT network on the 5th of June 2025. In the first half of 2026, the Shire will be developing a new IT framework using the Essential 8 principles which will address the issues identified above.

Action Taken by the Shire of Toodyay

The Shire of Toodyay notes that many of these items have been reported as significant items in previous years audits (some dating back to 2021) and reported to Council through the management letters.

Against each of the above items is Management Comments and these comments are the actions that either have been taken or will be taken to address each of the significant items that the Auditor has raised.

Of the significant issues raised, one item would have had a potential impact on the audit opinion and this was comparative financial information and verification of opening balances from 2024. I point out that the 2024 audit was a disclaimer audit, the 2025 audit is a qualified audit.

The Shire is working towards addressing these and all the issues by either completing the actions required, preparing the necessary registers and by Council adopting the appropriate policies. These will be completed by the timeframes specified in the completion dates detailed against each action in the Management Report.

A copy of the Management Report, Audit Committee and Council Minutes considering this matter are attached.

If you would like to discuss this matter further, please do not hesitate to contact me at ceo@toodyay.wa.gov.au

Yours sincerely



Aaron Bowman
Chief Executive Officer