SHIRE OF SHARK BAY

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2025

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

Index of findings	**Potential impact on audit opinion**	**Rating**			**Prior year finding**
		Significant	**Moderate**	**Minor**	
1. Bank reconciliation	No	✓			
2. Grant revenue recognition	No	✓			
3. Sales and credit note cut-off issues	No		✓		
4. Unrecorded liabilities	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.

The ratings included are preliminary ratings and could be modified pending other findings being identified, rated and the consideration of them collectively on the ratings and any potential impact on the audit opinion.

SHIRE OF SHARK BAY

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2025

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

1. Bank reconciliation

The Shire performs bank reconciliations on a monthly basis. As at 30 June 2025, the Shire had the following unexplained unreconciled differences, which management is currently investigating:

- Municipal Fund of $3,641
- Reserve Account of $489.

Rating: Significant

Implication
Unreconciled differences increase the risk that unauthorised or fraudulent transactions may go undetected. In addition, unreconciled bank balances also increase the risk of errors and undetected omissions, which in turn could lead to material misstatements in the Shire's financial reports. Furthermore, failure to reconcile bank accounts promptly may lead to non-compliance with Regulation 5(1) of the *Local Government (Financial Management) Regulations 1996*.

Recommendation
We recommend that management ensure all differences between the bank statement and general ledger balances are promptly identified, investigated, and reconciled.

Management comment
Management has been aware of this issue and has been trying to resolve in conjunction with the Shires Business System software provider.

Responsible person: Jane Green – Finance Manager
Completion date: February 2026

SHIRE OF SHARK BAY

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2025

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

2. Grant revenue recognition

A number of audit adjustments were required to correct the recognition of grant revenue and the related contract asset and liability balances. This indicates weaknesses in the processes and controls for assessing and recording grant revenue in accordance with the applicable accounting standards.

Rating: Significant

Implication
Weaknesses in grant revenue recognition controls increase the risk of material misstatement in the financial statements. Incorrect recognition may lead to misstated revenue, contract assets, and contract liabilities, and may also affect compliance with Australian Accounting Standards (AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*).

Recommendation
Management should review and strengthen controls over grant revenue recognition, including:

- Implementing a formal review process to assess grant terms and conditions for appropriate revenue recognition.
- Providing staff with guidance or training on the correct application of accounting standards.
- Performing regular reconciliations and management reviews to ensure accuracy of related contract asset and liability balances.

Management comment
Accepted. We note however that the term contract asset is defined in AASB 15 and relates to contracts with customers.

Responsible person:	Jane Green Finance Manager/Dale Chapman CEO
Completion date:	Completed, review process and training to be delivered through the remainder of the current financial year.

SHIRE OF SHARK BAY

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2025

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

3. Sales and credit note cut-off issues

Our sample testing identified a number of instances where sales invoices and credit notes were recorded in the incorrect financial year. Specifically, services delivered in May and June 2025 were invoiced in July 2025 (3 instances), and credit notes issued between July and September 2025 were related to invoices originally raised in the year ended 30 June 2025 (2 instances). These issues indicate weaknesses in revenue recognition and year-end cut-off controls.

Rating: Moderate

Implication
Weaknesses in revenue cut-off controls increase the risk of misstated revenue and receivables in the financial statements. Inaccurate period-end recognition of transactions may lead to non-compliance with applicable accounting standards and misstated financial results.

Recommendation
Management should strengthen controls over revenue recognition and year-end cut-off controls by:

- Undertake a root cause analysis for the recording issues above
- Enhance the processes of recording invoices and credit notes to ensure recording in the correct reporting period based on when services are delivered.
- Implementing review procedures during year-end close to identify and adjust transactions that cross the financial year boundary.
- Providing staff with clear guidance on correct cut-off procedures to ensure consistency and compliance with applicable accounting standards.

Management comment
Accepted.

Responsible person:	Jane Green Finance Manager
Completion date:	End of current financial year.

SHIRE OF SHARK BAY

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2025

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

4. Unrecorded Liabilities

During our unrecorded liabilities testing for 2024-25, we identified an invoice totalling $88,000 for services rendered prior to 30 June 2025 that had not been recorded in the financial report for the year ended 30 June 2025. This error was subsequently rectified.

Similar findings were noted in 2023-24.

Rating: Moderate (2024: Moderate)

Implication
Incorrect recording of transactions creates a potential risk of material misstatement in the Shire's financial report.

Recommendation
We recommend that management implement a process to identify all services received prior to the start of the new financial year, and ensures the related expenses are appropriately accrued at year end in future financial periods.

Management comment
Accepted.

Responsible person:	Jane Green Finance Manager
Completion date:	Process to be developed by the end of the current financial year.