



AGENDA

FOR THE AUDIT COMMITTEE MEETING

TO BE HELD ON

FRIDAY 16 DECEMBER 2016

AT 10:00 AM



SHIRE OF YALGOO

NOTICE OF AUDIT COMMITTEE MEETING

A MEETING OF THE AUDIT COMMITTEE WILL BE HELD IN THE COUNCIL CHAMBERS ON
FRIDAY 16 DECEMBER 2016 COMMENCING AT 10:00 AM

Silvio Brenzi
Chief Executive Officer



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Agenda for the Audit Committee Meeting
to be held in the Council Chambers, 37 Gibbons Street, Yalgoo,
on Friday 16 December 2016, commencing at 10:00 am.

Members of the Audit Committee

Council has historically nominated all Councillors to be members of the Audit committee. Nominations to the Audit Committee must be by absolute majority.

The Shire of Yalgoo Audit Committee was established by an absolute majority of Council, resolution S2014-0110, following the 2013 general election in accordance with s7.1A of the Act.

At the Ordinary Meeting of Council 22 October 2015, resolution C2015-1007 declared all positions on the Audit Committee vacant.

Council subsequently appointed, by absolute majority, all Councillors as members of the audit committee:

- *Cr Neil Grinham*
- *Cr Robert (Bob) Grinham*
- *Cr MR (Raul) Valenzuela*
- *Cr Percy Lawson*
- *Cr J Kanny*
- *Cr G Trenfield*

The term of office is until the next ordinary elections in October 2017.

On 18 March 2016, the members of the Audit Committee elected Cr Neil Grinham as the Presiding Member and Cr Raul Valenzuela as the Deputy Presiding Member.

1. DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

2. RECORD OF ATTENDANCE/APOLOGIES

MEMBERS

STAFF

GUESTS

OBSERVERS

APOLOGIES

The Audit agreement states that the Audit Appointment is a term of three financials as stated above and does not provide for the extension of the term.

Statutory Environment

Local Government Act 1995

Division 2 — Appointment of auditors

7.2. Audit:

The accounts and annual financial report of a local government for each financial year are required to be audited by an auditor appointed by the local government.

7.3. Appointment of auditors:

(1) A local government is to, from time to time whenever such an appointment is necessary or expedient, appoint* a person, on the recommendation of the audit committee, to be its auditor.

* *Absolute majority required.*

(2) The local government may appoint one or more persons as its auditor.

(3) The local government's auditor is to be a person who is —

- (a) a registered company auditor; or
- (b) an approved auditor.

[Section 7.3 amended by No. 49 of 2004 s. 6.]

7.4. Disqualified person not to be auditor:

(1) A person may not be appointed as a local government's auditor if that person is a disqualified person.

(2) In this section —

disqualified person means a person who —

- (a) is a councillor or an employee of the local government; or
- (b) is a person who is in debt for more than the prescribed amount to the local government for a period of more than 35 days after —
 - (i) in the case of that part of the debt which is for a rate or service charge under Part 6, the date the rate notice was issued; or
 - (ii) in the case of that part of the debt which is not for a rate or service charge, the date an account was rendered to the person by the local government; or
- (c) is an employee of, or a member of the governing body of, an entity of a kind prescribed for the purposes of this paragraph; or
- (d) is a member of a class of persons prescribed for the purposes of this subsection.

7.5. Approval of auditors:

The Minister may approve a person who, immediately before the commencement of this Act —

- (a) was a registered local government auditor within the meaning of that term in Part XXVII of the Local Government Act 1960 4 as in force before that commencement; and
- (b) was the auditor of a local government, as an approved auditor for the purposes of this Act.

7.6. Term of office of auditor:

(1) The appointment of a local government's auditor is to have effect in respect of the audit of the accounts and annual financial report of the local government for a term of not more than 5 financial years, but an auditor is eligible for re-appointment.

(2) The appointment of an auditor of a local government ceases to have effect if —

- (a) his or her registration as a registered company auditor is cancelled; or
- (b) his or her approval as an approved auditor is withdrawn; or
- (c) he or she dies; or
- (d) the auditor ceases to be qualified to hold office as auditor or becomes a disqualified person; or

- (e) the auditor resigns by notice in writing addressed to the local government; or
- (f) the appointment is terminated by the local government by notice in writing.

(3) Where —

- (a) the registration of a local government's auditor as a registered company auditor is suspended; or
- (b) a local government's auditor becomes unable or unwilling to carry out all or part of his or her duties, the local government is to appoint* a person to conduct the audit or to complete that part of the audit which remains to be conducted, as the case requires.

* Absolute majority required.

7.7. Departmental CEO may appoint auditor:

If by 30 November in any year a local government has not appointed an auditor the Departmental CEO may appoint —

- (a) a qualified person; or
- (b) in default of an appointment under paragraph (a), the Auditor General, to be the auditor of the local government's accounts and annual financial report for the relevant financial year.

7.8. Terms of appointment of auditors:

(1) Subject to this Part and to any regulations, the appointment of a person as auditor of a local government is to be made by agreement in writing on such terms and conditions, including the remuneration and expenses of the person to be appointed, as are agreed between that person and the local government.

(2) The remuneration and expenses payable to the auditor of a local government (whether appointed by the local government or by the Departmental CEO under section 7.7) are payable by the local government.

[Section 7.8 amended by No. 28 of 2006 s. 364.]

Division 3 — Conduct of audit

7.9. Audit to be conducted

(1) An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to —

- (a) the mayor or president; and
- (b) the CEO of the local government; and
- (c) the Minister.

(2) Without limiting the generality of subsection (1), where the auditor considers that —

- (a) there is any error or deficiency in an account or financial report submitted for audit; or
- (b) any money paid from, or due to, any fund or account of a local government has been or may have been misapplied to purposes not authorised by law; or
- (c) there is a matter arising from the examination of the accounts and annual financial report that needs to be addressed by the local government, details of that error, deficiency, misapplication or matter, are to be included in the report by the auditor.

(3) The Minister may direct the auditor of a local government to examine a particular aspect of the accounts and the annual financial report submitted for audit by that local government and to —

- (a) prepare a report thereon; and
- (b) forward a copy of that report to the Minister, and that direction has effect according to its terms.

(4) If the Minister considers it appropriate to do so, the Minister is to forward a copy of the report referred to in subsection (3), or part of that report, to the CEO of the local government to be dealt with under section 7.12A.

[Section 7.9 amended by No. 49 of 2004 s. 7.]

7.10. Powers of auditor:

- (1) An auditor —
- (a) has a right of access at all reasonable times to such books, accounts, documents and assets of the local government as are, in the opinion of the auditor, necessary to allow the audit to be conducted; and
 - (b) may require from a member or an employee of the local government —
 - (i) any book, account, document or asset of the local government; or
 - (ii) any information, assistance or explanation, necessary for the performance of the duty of the auditor in relation to the audit; and
 - (c) may, at the expense of the local government obtain and act upon a legal opinion on a question arising in the course of an audit.
- (2) In this section and in section 7.11 employee includes a person who has a contract for services with the local government.

7.11. Power to demand production of books etc:

For the purpose of an audit, inspection or inquiry, an auditor has authority at all reasonable times and without notice to demand from the local government and its employees, the production of books, accounts, vouchers, papers, documents, records, assets and cash in hand, belonging to the local government or being in the custody or control of it or any of its employees.

7.12. Employees and financial institutions to furnish particulars of money received

- (1) An employee of a local government is to furnish to an auditor, as and when required, a statement in writing of all money received in his or her official capacity by the employee whether on account of the local government or otherwise.
- (2) A bank or other financial institution at which a local government has an account is required to furnish to an auditor, as and when required, full particulars of the account.

Division 4 — General 7.12A.**Duties of local government with respect to audits:**

- (1) A local government is to do everything in its power to —
- (a) assist the auditor of the local government to conduct an audit and carry out his or her other duties under this Act in respect of the local government; and
 - (b) ensure that audits are conducted successfully and expeditiously.
- (2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.
- (3) A local government is to examine the report of the auditor prepared under section 7.9(1), and any report prepared under section 7.9(3) forwarded to it, and is to —
- (a) determine if any matters raised by the report, or reports, require action to be taken by the local government; and
 - (b) ensure that appropriate action is taken in respect of those matters.
- (4) A local government is to —
- (a) prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
 - (b) forward a copy of that report to the Minister, by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.

[Section 7.12A inserted by No. 49 of 2004 s. 8.]

4. Prescribed amount of debt which disqualifies person as auditor (Act s. 7.4(2)(b)):

The amount prescribed for the purposes of section 7.4(2)(b) is \$5 000.

5. Prescribed entity, employment or membership of which disqualifies person as auditor (Act s. 7.4(2)(c)):

The prescribed entities for the purposes of section 7.4(2)(c) are, in relation to a local government —

- (a) a regional local government in which the local government is a participant; and
- (b) an incorporated association which the local government has formed or taken part in forming under the Associations Incorporation Act 1987.

6. Prescribed class of persons, membership of which disqualifies person as auditor (Act s. 7.4(2)(d)):

(1) The prescribed classes of persons for the purposes of section 7.4(2)(d) are —

- (a) persons who are disqualified for membership of a council under section 2.22; and
- (b) persons who are insolvents under administration within the meaning of the Corporations Act 2001 of the Commonwealth; and
- (c) persons who are closely associated with a relevant person.

(2) For the purposes of subregulation (1)(c) a person is to be treated as being closely associated with a relevant person if the person —

- (a) is in partnership with the relevant person; or
- (b) is an employer of the relevant person; or
- (c) is a beneficiary under a trust, or an object of a discretionary trust, of which the relevant person is a trustee; or
- (d) is a body corporate —
 - (i) of which the relevant person is a director, secretary or executive officer; or
 - (ii) in which the relevant person holds shares having a total value exceeding —
 - (I) the amount prescribed for the purposes of section 5.62; or
 - (II) the percentage of the total value of the issued share capital of the company prescribed for

the purposes of section 5.62, whichever is less; or

- (e) is the spouse, de facto partner or child of the relevant person and is living with the relevant person; or
- (f) has a relationship specified in any of paragraphs (a) to (d) in respect of the relevant person's spouse or de facto partner if the spouse or de facto partner is living with the relevant person.

(3) In this regulation —

relevant person in relation to a local government, means a member of the council of the local government or an employee of the local government; value has the meaning given by section 5.62(2).

[Regulation 6 amended in Gazette 28 Sep 2001 p. 5357-8; 30 Jun 2003 p. 2615; 31 Mar 2005 p. 1042.]

7. Agreements with auditors, contents of:

An agreement between a local government and an auditor is to include —

- (a) the objectives of the audit; and
- (b) the scope of the audit; and
- (c) a plan for the audit; and
- (d) details of the remuneration and expenses to be paid to the auditor; and
- (e) the method to be used by the local government to communicate with, and supply information to,

8. Termination of audit agreement, Executive Director to be notified:

(1) Where an agreement between a local government and an auditor is terminated —

- (a) the local government is to, within a period of 30 days from the termination, give to the Executive Director —
 - (i) notice of the termination; and
 - (ii) the reasons for the termination; and
- (b) the auditor is to, within a period of 30 days from the termination, advise the Executive Director of the termination.

(2) Notwithstanding any provision of an agreement between a local government and an auditor to the contrary, an auditor is to be given notice in writing of the termination of his or her appointment.

9. Performance of audit:

- (1) An audit is to be carried out in accordance with the “Auditing Standards” and “Auditing Guidance Statements” adopted from time to time by the Australian Society of Certified Practising Accountants and The Institute of Chartered Accountants in Australia.
- (2) An auditor is to carry out such work as is necessary to form an opinion as to whether —
- (a) the accounts are properly kept; and
 - (b) the annual financial report —
 - (i) is prepared in accordance with the financial records; and
 - (ii) represents fairly the results of the operations of the local government and the financial position of the local government at 30 June in accordance with the Australian Accounting Standards and the Act.

10. Report by auditor:

- (1) An auditor’s report is to be forwarded to the persons specified in section 7.9(1) within 30 days of completing the audit.
- (2) The report is to give the auditor’s opinion on —
- (a) the financial position of the local government; and
 - (b) the results of the operations of the local government.
- (3) The report is to include —
- (a) any material matters that in the opinion of the auditor indicate significant adverse trends in the financial position or the financial management practices of the local government; and
 - (b) any matters indicating non-compliance with Part 6 of the Act, the Local Government (Financial Management) Regulations 1996 or applicable financial controls in any other written law; and
 - (c) details of whether information and explanations were obtained by the auditor; and
 - (d) a report on the conduct of the audit; and
 - (e) the opinion of the auditor as to whether or not the following financial ratios included in the annual financial report are supported by verifiable information and reasonable assumptions —
 - (i) the asset consumption ratio; and
 - (ii) the asset renewal funding ratio. (4A) In subregulation (3)(e) — asset consumption ratio has the meaning given in the Local Government (Financial Management) Regulations 1996 regulation 50(2); asset renewal funding ratio has the meaning given in the Local Government (Financial Management) Regulations 1996 regulation 50(2).
- (4) Where it is considered by the auditor to be appropriate to do so, the auditor is to prepare a management report to accompany the auditor’s report and to forward a copy of the management report to the persons specified in section 7.9(1) with the auditor’s report.

[Regulation 10 amended in Gazette 21 Jun 2013 p. 2449-50.]

11. Hours and fees, auditor to give Minister statement of:

- An auditor is to provide to the Minister with the auditor’s report a detailed statement of —
- (a) the hours worked on the audit; and
 - (b) the remuneration and expenses due to the auditor by the local government.

12. Auditor’s conflict of interest, auditor to report:

- An auditor is to report a possible conflict of interest to the Minister as soon as possible after the auditor becomes aware of the possible conflict of interest.

Policy Schedule 7.2 – Purchasing and Tenders

The purchasing thresholds as detailed in the policy are stated below:

4. Purchasing Thresholds

Where the value of procurement (excluding GST) for the value of the contract over the full contract period (including options to extend) is, or is expected to be –

Amount of Purchase	Model Policy
Up to \$1,000	Direct purchase from suppliers – - where an item of frequent supply or in association with other work, quotations not required - where an infrequent supply over \$500 two verbal quotations required
\$1,001 - \$19,999	Obtain at least three verbal or written quotations.
\$20,000 - \$39,999	Obtain at least three written quotations
\$40,000 to \$99,999	Obtain at least three written quotations to be considered by panel of CEO and either of Executive Manager Corporate or Executive Manager Works and Infrastructure

Consultation

Nil

Comment

A Request for Quotation (RFQ) has been proposed for the Audit Committee consideration which addresses the requirements of the Local Government Act 1995 and its Local Government (Audit) Regulations 1996. In order to comply with the Shire’s policy 7.2 Purchasing And Tenders it is recommended that the Chief Executive Officer request written quotation for Audit services from three registered auditors upon which a report be prepared for the Audit Committee consideration in relation to a recommendation to Council for the appointment of an auditor/s.

Voting Requirements

Simple Majority.

OFFICER RECOMMENDATION

Report on Appointment of Auditors for the 2016-17 Financial Year

That the Audit Committee:

- (1) Approves of the Request for Quotation attached to Report No 5.1 which addresses the requirements of Part 7 of the Local Government Act 1995 and the applicable regulations as set out in the Local Government (Audit Regulations) 1996.**
- (2) That the Chief Executive Officer request at least three (quotations) from suitable suppliers of audit services for the 2016-17 financial year.**

Moved:

Seconded:

Motion put and carried/lost

5.2 Report on 2015 – 2016 Audited Financial Statements and Auditor’s Report

Author:	Dominic Carbone
Interest Declared:	No interest to disclose
Date:	11 December 2016
Attachments:	2015 – 2016 Audited Financial Statements – Auditors to supply

Matter for Consideration

That Council is required to give consideration to the 2015 – 2016 Financial Statements and Independent Auditor’s Report and to take appropriate action in relation to the Auditor’s qualification detailed in the Auditor’s report. The Council is to meet with the Auditor at least once per year.

Background

The Council is required to examine the Auditor’s Report and consider what actions are to be taken.

Statutory Environment

Local Government Act 1995

7.12A. Duties of local government with respect to audits

- 1) A local government is to do everything in its power to —
 - (a) assist the auditor of the local government to conduct an audit and carry out his or her other duties under this Act in respect of the local government; and
 - (b) ensure that audits are conducted successfully and expeditiously.
- (2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.
- (3) A local government is to examine the report of the auditor prepared under section 7.9(1), and any report prepared under section 7.9(3) forwarded to it, and is to —
 - determine if any matters raised by the report, or reports, require action to be taken by the local government; and ensure that appropriate action is taken in respect of those matters.
- (4) A local government is to —
 - (a) prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
 - (b) forward a copy of that report to the Minister, by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.

7.9. Audit to be conducted

- (1) An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to —
 - (a) the mayor or president; and
 - (b) the CEO of the local government; and
 - (c) the Minister.
- (2) Without limiting the generality of subsection (1), where the auditor considers that —
 - (a) there is any error or deficiency in an account or financial report submitted for audit; or

- (b) any money paid from, or due to, any fund or account of a local government has been or may have been misapplied to purposes not authorised by law; or
 - (c) there is a matter arising from the examination of the accounts and annual financial report that needs to be addressed by the local government, details of that error, deficiency, misapplication or matter, are to be included in the report by the auditor.
- (3) The Minister may direct the auditor of a local government to examine a particular aspect of the accounts and the annual financial report submitted for audit by that local government and to —
- (a) prepare a report thereon; and
 - (b) forward a copy of that report to the Minister, and that direction has effect according to its terms.
- (4) If the Minister considers it appropriate to do so, the Minister is to forward a copy of the report referred to in subsection (3), or part of that report, to the CEO of the local government to be dealt with under section 7.12A.

[Section 7.9 amended by No. 49 of 2004 s. 7.]

Business Implications

Nil

Consultation

Nil

Comment

The matter has been addressed in Report 5.3 – Report on Audit Management Letter for the Year Ended 30 June 2016 in Finding N^o 2. The Management comment is as follows:

“External financial suppliers can impede the expediency of reports being delivered on time. From November 2016 financial statements are reported within one month after the end of the month to Council”.

Section 7.12A (4) requires a local government to prepare a report and forward a copy of the report to the Minister by the end of the next financial year or 6 months after the last report prepared under section 7.9 is received whichever is the latest.

Section 7.12A (4) requires a local government to meet with the Auditor at least once a year. A teleconference with the Auditor has been arranged for 10:30 am on 16 December 2016.

Voting Requirements

Simple Major

OFFICERS RECOMMENDATION

Report on 2015 – 2016 Audited Financial Statements and Auditor’s Report

That Council:

- 1. Receive the Audited Financial Statements for the Financial Year ended 30 June 2016;**
- 2. Forward a copy of report to the Department of Local Government and Communities.**

Moved:

Seconded:

Motion put and carried/lost

5.3 Report on Audit Management Letter for the year ended 30th June 2016

Author:	Dominic Carbone
Interest Declared:	No interest to disclose
Date:	11 December 2016
Attachments:	Nil

Matter for Consideration

That Council give consideration to the Audit Management letter for the year 30th June 2016 together with the responses provided by the Acting Chief Executive Officer.

Background

Council is required to examine the report of the Auditor and take appropriate action in relation to matters raised.

Statutory Environment

Local Government Act 1995

7.12A. Duties of local government with respect to audits

- (3) A local government is to examine the report of the auditor prepared under section 7.9(1), and any report prepared under section 7.9(3) forwarded to it, and is to —
- (a) determine if any matters raised by the report, or reports, require action to be taken by the local government; and
 - (b) ensure that appropriate action is taken in respect of those matters.
- (4) A local government is to —
- (a) prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
 - (b) forward a copy of that report to the Minister, by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.

Business Implications

Nil

Consultation

Nil

Comment

Findings identified during the Audit of the Shire's Financial Statements for the year ended 30th June 2015 are as follows, together with the response provided by the Chief Executive Officer under the heading of "Management Comment"

1) Non-compliance with internal purchasing policy**Findings:**

Section 7.2 Purchasing and Tenders of the Shire's purchasing policy require that purchases within different price ranges have certain conditions that need to be met in order to comply with the Local Government Act 1995 and accompanying regulations.

Our testing of procurement identified instances when there was insufficient documentation to show compliance with the purchasing policy. We were unable to locate evidence that quotations were either sought or received as required. In addition, the quotation documentation was not always attached to the payment records.

Furthermore, we noted during our sample selection the following anomalies:

- Five invoices had no purchase orders;
- Three invoices had a purchase order date after invoice date

Rating: Significant

Implication:

Non-compliance with the internal purchasing policy Section 7.2 Purchasing and Tenders.

Recommendation:

The requirement for compliance with the internal purchasing policy should be communicated across the Shire in order to reduce the risk of non-compliance with the Shire's purchasing policy.

Management Comment:

Purchase order forms to be amended to incorporate a section where details of quotations obtained and recommended supplier can be recorded

Responsible Person: CEO

Completion Date: April 2017

2) Submission of Statement of Financial Activity to Council (matter brought forward from the 2015 management letter)**Findings:**

The July 2015, August 2015 and September 2015 Statements of Financial Activity were not presented at an ordinary meeting of Council within 2 months after the end of the month to which the statement relates as required by Local Government (Financial Management) Regulations 1996 regulation 34(4)(a).

Rating: Significant

Implication:

Non-compliance with Local Government (Financial Management) Regulations 1996 regulation 34(4)(a).

Recommendation:

The monthly Statements of Financial Activity should be presented at an ordinary meeting of Council within 2 months after the end of the month to which the statement relates in accordance with the requirements of Local Government (Financial Management) Regulations 1996 regulation 34(4)(a).

Management Comment:

External financial suppliers can impede the expediency of reports being delivered on time. From November 2016 monthly financial statements are reported within 1 month after the end of the month to Council

Responsible Person: CEO

Completion Date: Complete.

3) Double payment and negative creditors**Findings:**

During the testing of the creditor age analysis we have identified some negative creditors. Upon further investigation we were informed that during the course of the year there were two instances in November 2015 and May 2016, where payments were duplicated. This resulted in a receivable balance of \$45,319.80 and negative creditors balance of \$5,210.23 as at 30 June 2016.

In addition to the above we have noted that Robert Grinham, councillor of the Shire, has an amount owing, greater than 90 days as per the age analysis, to the Shire of \$2,404.71.

Rating: Significant

Implication:

Failure to follow correct policies and procedures around the payments and reconciliation of accounts payable could have an adverse impact on the Shire and financial loss, in addition, not complying with internal policies and procedures could mask fraud.

Recommendation:

Stricter controls need to be put in place around internal policies and procedures for payments and reconciliations and staff trained to ensure that overpayments do not occur again.

Management Comment:

The double payment problem has been communicated to the bank and processes are now in place to ensure it won't occur again. In relation to the double payment to Cr R Grinham this will be followed up at the next Council meeting

Responsible Person: CEO

Completion Date: 16th December 2016

4) Review of journals

Findings:

Part of an effective system of internal control is the review of journal entries. The individual who reviews and approves the journal entry should be different from the preparer. Evidence of journal entry approval should be in the form of written signature and date or electronic approval via email. During our review of journal entries we noted that there is insufficient evidence to show that journal entries are properly reviewed.

Rating: Moderate

Implication:

Absence of independent review and approval of journal entries increases the risk invalid, inaccurate or fraudulent entries into the accounting system.

Recommendation:

The Shire should review the processes for general ledger journal entry with a view to ensuring all journals are reviewed/approved by an independent officer and evidence is maintained of the review.

Management Comment:

There are limited staff resources that are capable of this procedure. This reduces the capacity to ensure an independent reviewer is available for timely actions. The Co-ordinator Governance and Technical Services is being trained to fulfil this role

Responsible Person: CEO, Co-ordinator Governance and Technical Services Officer

Completion Date: Ongoing

5) Bank reconciliation (matter brought forward from the 2015 management letter)

Findings:

During the testing of the monthly bank reconciliation process, it was identified that monthly bank reconciliations did not agree back to the monthly general ledger maintained within the Quickbooks accounting system. It was identified that the Shire's cut-off policies and procedures for the posting of accounting entries are not being adhered to.

During the testing of the monthly bank reconciliation process, it was identified that some bank reconciliations had no evidence of review and they are not performed in a timely manner.

We have noted that no formal procedure exists for the monthly bank reconciliation process.

Rating: Moderate

Implication:

Increased risk of inaccurate, untimely or unavailable information regarding cash inflows and outflows and increased risk of erroneous financial reporting.

Recommendation:

A procedure should be implemented to ensure that proper monthly bank reconciliations are being performed in a timely manner and reviewed by a senior staff member who is independent to the preparer.

Management Comment:

Staff are being trained in the reconciliation process and the Co-ordinator Governance and Technical Services will be responsible for the review of the reconciliations.

Responsible Person: CEO, Co-ordinator Governance and Technical Services Officer

Completion Date: Ongoing

6) Credit card support (matter brought forward from the 2015 management letter)**Findings:**

During our review of the monthly credit statements it was noted that not all transactions had supporting invoices attached to them or the supporting invoices could not be located. Four months statements had supporting documentation for a small number of transactions only.

Rating: Moderate

Implication:

This increases the risk of non-compliance with the Local Government Act 1995 section 6.5(a) where the Act requires the Chief Executive Officer to ensure that proper accounts and records of the transactions and affairs of the local government are kept in accordance with regulations.

Failure to obtain supporting documentation for credit card transactions increases the risk of fraud and error occurring.

Recommendation:

Credit Card procedures should be reviewed and ensure that staff comply with the Credit Card Policy. All credit card transactions should be supported by a valid invoice.

Management Comment:

Suppliers do not always send the electronic (e-mail) invoice when requested. Once the purchase is made and an invoice requested, it is not always possible to receive an invoice.

Responsible Person: CEO

Completion Date: Ongoing

7) Revenue recognition**Findings:**

During our rates detail testing we have identified that some assessments had been raised with incorrect land valuations. The land area was used instead of the land value.

During the testing of grant revenue we have identified that the Shire has not issued invoices on the receiving of grants but had journalled the transactions into the accounting record.

Rating: Moderate

Implication:

Increased risk of inaccurate, untimely or unavailable information regarding cash inflows and outflows and increased risk of erroneous financial reporting.

Recommendation:

A procedure need to be put into place to ensure that correct recording method are put into place to ensure that information has been correctly recorded into the accounting system.

Management Comment:

The new software system includes a rates module to eliminate inaccurate data being manually inputted. Invoices for grant revenue are not raised by the Shire as Government Departments require the Shire to use their claim forms and claims be signed off by the CEO. However in the future when claim forms are completed invoices will also be raised.

Responsible Person: CEO, Rates officer, Co-ordinator Governance and Technical Services Officer

Completion Date: July 2017

8) Negative leave balance

Findings:

During the audit of the annual leave provision we have noted that one employee had a negative leave balance, which means that employee has overdrawn on their leave entitlement.

Rating: Moderate

Implication:

Failure to have accurate payroll information increases the risk of overpayment of leave entitlements to employees and can create the situation where employees are unable to repay the overpayment resulting in financial loss to the Shire.

Recommendation:

The Shire should manage and monitor the annual leave taken by employees in order to avoid leave entitlements going into negative balances.

Management Comment:

The leave balances are monitored and the negative leave was approved.

Responsible Person: CEO

Completion Date: Complete

9) Ratio Benchmarks

Findings:

Local Government Operational Guideline Number 18 – June 2013 (the Guideline), provides benchmark standards for the ratios required to be reported under regulation 50 of the Local Government (Financial Management) Regulations 1996.

The following ratios are below the benchmark standards in the Guideline:

Ratio	As per Financials	Recommended
Current ratio	0.97	1:1
Asset sustainability ratio	0.67	Between 0.90 and 1.10
Debt service cover ratio	(1.07)	Greater or equal to 2
Operating surplus ratio	(0.59)	Between 0.01 and 0.15
Own source revenue coverage ratio	0.30	Between 0.40 and 0.60

Rating: Moderate

Implication:

Ratios below the benchmark standard could indicate adverse trends in the short term financial sustainability of the Shire in accordance with the Guideline.

Recommendation:

The Shire needs to consider the impact of the above ratios on the short term financial sustainability of the Shire and any actions required to be incorporated into budgets and the long term financial plan to address this.

Management Comment:

New financial support has increased our real knowledge of our financial status. Ongoing gradual improvements will continue with the addition of new software and a more stable rate base.

Responsible Person: CEO.

Completion Date: July 2017

Voting Requirements

Simple Major

OFFICERS RECOMMENDATION

Report on Audit Management Letter for the Year Ended 30th June 2016

That Council:

- 1/. Receives the Report on Audit Management Letter for the year ended 30th June 2016: and**
- 2/. Forward a copy of the report to the Minister for Local Government and Community.**

Moved:

Seconded:

Motion put and carried /lost

The report to be finalised once the report has been received from Civic Legal, Perth.

5.4 Report on the Review on Appropriateness and Effectiveness of Local Government Systems and Procedures.

Author:	Dominic Carbone
Interest Declared:	No interest to disclose
Date:	12 December 2016
Attachments	Civic Legal Report

Matter for Consideration

That Council give consideration to the report prepared by the Shire’s Consultants Civic Legal on the review of the Appropriateness and Effectiveness of Local Government Systems and Procedures in relation to risk management, internet control and Legislative compliance.

Background

In 2014 the Local Government (Audit) Regulations 1996 were amended to insert Regulation 17. Council in September 2016 engaged the services of Civic Legal to undertake the review in order that the Shire meet it’s statutory compliance requirements.

Statutory Environment

Local Government Act 1995

LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996 - REG 17

17 . CEO to review certain systems and procedures

- (1) The CEO is to review the appropriateness and effectiveness of a local government’s systems and procedures in relation to —
 - (a) risk management; and
 - (b) internal control; and
 - (c) legislative compliance.
- (2) The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.
- (3) The CEO is to report to the audit committee the results of that review.
[Regulation 17 inserted in Gazette 8 Feb 2013 p. 868.]

Strategic Implications

Nil

Financial Implications

The cost to be charged to Account N^o E145085 – Consultancy.

Consultation

Civic Legal

Comment

Voting Requirements

Simple Majority.

OFFICER RECOMMENDATION

Report on

Moved:

Seconded:

Motion put and carried/lost

6. MEETING CLOSURE