



Shire of
Perenjori
Embrace Opportunity

MINUTES
for the
AUDIT COMMITTEE
MEETING

15 JULY 2021

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COUNCIL ROLE

Advocacy	When Council advocates on its own behalf or on behalf of its community to another level of government /body /agency.
Executive/Strategic	The substantial direction setting and oversight role of the Council e.g. Adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.
Legislative	Includes adopting local laws, town planning schemes and policies.
Review	When Council reviews decisions made by Officers.
Quasi-Judicial	<p>When Council determines an application/matter that directly affects a person's rights and interests. The Judicial character arises from the obligations to abide by the principles of natural justice.</p> <p>Examples of Quasi-Judicial authority include town planning applications, building licences, applications for other permits/licences (e.g.: under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.</p>

DISCLAIMER

"Any statement, comment or decision made at a Council or Committee meeting regarding any application for an approval, consent or licence, including a resolution of approval, is not effective as an approval of any application and must not be relied upon as such.

Any person or entity that has an application before the Shire must obtain, and should only rely on, written notice of the Shire's decision and any conditions attaching to the decision and cannot treat as an approval anything said or done at a Council or Committee meeting.

Any advice provided by an employee of the Shire on the operation of a written law, or the performance of a function by the Shire, is provided in the capacity of an employee, and to the best of that person's knowledge and ability. It does not constitute, and should not be relied upon, as a legal advice or representation by the Shire. Any advice on a matter of law, or anything sought to be relied upon as a representation by the Shire should be sought in writing and should make clear the purpose of the request."

SHIRE OF PERENJORI

Minutes for the Shire of Perenjori Audit Committee Meeting held on Thursday 15 July 2021, at the Shire of Perenjori Council Chambers, 56 Fowler Street Perenjori WA 6620, commenced at 2:30 pm.

1. DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS:

The Shire President declared the meeting open at 2.30 pm and welcomed those in attendance.

Welcome to Country: -

As per the Shire of Perenjori Policy (Nº 1021) we wish to acknowledge the traditional owners of the land upon which the Shire of Perenjori is situated and to demonstrate respect for the original custodians.

Therefore, I respectfully acknowledge the past and present custodians of the land on which we are meeting, the Badymia people.

I also acknowledge the pioneers who settled this country, developed the land and turned it into the productive country that we know today, allowing us to enjoy the lifestyle to which we have become accustomed.

2. DISCLAIMER READING:

As printed.

3. RECORD OF ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE:

3.1 ATTENDANCE:

(1) A person who is not physically present at a meeting of a council or committee is to be taken to be present at the meeting if —

- (a) the person is simultaneously in audio contact, by telephone or other means of instantaneous communication, with each other person present at the meeting; and
- (b) the person is in a suitable place; and
- (c) the council has approved* of the arrangement.

A resolution to this affect is set out below and must be carried by an **absolute majority**.

3.1.1 COMMITTEE DECISION

THAT Cr C King's request to attend the July Audit meeting via teleconference while based in Perth be approved.

Moved: Cr P Logue

Seconded: Cr J Sutherland

**Motion put and caried: 4/0
(Absolute Majority)**

MEMBERS: Cr Chris King – Shire President (via teleconference)
Cr Jude Sutherland – Deputy Shire President
Cr Brian Baxter
Cr Colin Bryant
Cr Phil Logue

STAFF: Mario Romeo – Chief Executive Officer
Wayne Scheggia – Executive Advisor
Ken Markham – Manager Infrastructure Services

DISTINGUISHED VISITORS: Nil.

MEMBERS OF THE PUBLIC: Nil.

LEAVE OF ABSENCE: Nil.

APOLOGIES: Cr Daniel Bradford
Cr Les Hepworth
Nola Comerford-Smith – MCCS
Bianca Plug – Executive Assistant

4. PUBLIC QUESTION TIME:

Nil.

5. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS:

5.1 AUDIT MEETING HELD ON 25 MARCH 2021

COMMITTEE DECISION

THAT the Minutes of the Audit Committee Meeting held on 25 March 2021, presented in attachment 5.1 (a), be confirmed as true and correct subject to no / the following corrections.

Moved: Cr C Bryant

Seconded: Cr J Sutherland

Motion put and carried: 5/0

6. DECLARATION OF INTEREST:

“Members should fill in Disclosure of Interest forms for items in which they have a financial, proximity or impartiality interest and forward these to the Presiding Member before the meeting commences.”

No Declarations of Interests were made.

7. GOVERNANCE

7.1 AUDIT FOR THE YEAR ENDING 30 JUNE 2020 – OFFICE OF THE AUDITOR GENERAL

Applicant:	Shire of Perenjori
File:	ADM0357
Report Date:	15 July 2021
Disclosure of Interest:	Nil
Author:	Wayne Scheggia – Executive Advisor
Responsible Officer:	Mario Romeo - Chief Executive Officer
Attachments:	7.1 (a) – Financial Report 30 June 2020 7.1 (b) – Financial Management Letter 30 June 2020 7.1 (c) – OAG Opinion 30 June 2020

Executive Summary

This report presents the Auditors reports for the 2019/20 financial year.

Background

Audits are conducted annually and are presented to the Audit Committee prior to consideration by Council. The Audit Committee plays an important role in advising Council on the conduct of the audit to ensure the proper financial management of the organisation.

The administration has the opportunity to highlight any corrective action proposed to be taken to address any identified shortcomings, with the requirement to report to the Audit Committee with a recommendation to Council to acknowledge the report and the action taken to correct the matters raised and report to the Auditor General the actions implemented.

Statutory Environment

Local Government Act 1995

7.12A. Duties of local government with respect to audits

- (4) A local government must —
 - (a) prepare a report addressing any matters identified as **significant** by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and
 - (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.

Legal Compliance

Nil.

Consultation

Senior Management and financial staff, Department of Local Government, AMD (Council's Auditors), Auditor General's Office.

Financial Implications

Nil.

Precedents

Previous audits have discovered deficiencies in controls, these are corrected as matters are raised and reported as required.

Strategic Community Plan

Area 5: Investing in Councils Capacity – Our Leadership

Goal: Strengthen the Shire's position as an innovative, independent local Government providing excellence in all areas of governance, management and leadership

Officer Comment

The Ratings in the Auditor's 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. They 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.
- 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 Audit has been completed and includes mention of 3 issues of non-compliance, only one of which was considered by the Auditor to be significant. In addition, a significantly adverse trend was reported in Council's Operating Surplus Ratio. These matters are listed below together with management comment and timeline for compliance.

Understatement of Depreciation Expense Finding

We identified that the depreciation expense had not been calculated correctly for a number of furniture and equipment and plant and equipment assets. Additionally, the Shire did not record road additions until 30 June and therefore the associated depreciation expense is not calculated from the date that the respective assets were available for use, as required by accounting standard AASB 116: Property, Plant and Equipment.

Rating: **Significant**

Implication: Incorrect calculation of depreciation means that the Shire is not complying with the requirements of AASB 116. This resulted in the understatement of depreciation expense and overstatement of property, plant and equipment of \$108,110. This was an unadjusted audit difference.

Recommendation: We recommend that the Shire reviews the Fixed Asset Register regularly to ensure that all assets have been depreciated in accordance with the Shire's depreciation policies. Depreciation should be recorded from the date that each asset is available for use in accordance with the requirements of AASB 116.

Management Comment: This situation has now been addressed and we have a process in place moving forward to ensure all asset depreciation schedules are created at the time of asset creation in our Asset Register.

Responsible Officer: Accountant

Completion Date: Completed

Unrecorded Wages and Salaries Finding

Our audit identified unpaid wages and salaries expenses relating to the year ended 30 June 2020 totalling \$23,430 which had not been brought to account as accrued wages and salaries at 30 June 2020. This has resulted an unadjusted audit difference.

Rating: Moderate

Implication The liability for accrued wages and salaries and the related wages and salaries expense balance are understated for 30 June 2020.

Recommendation Expenses should be recorded in the accounting period in which they relate. Management should establish procedures to ensure that any expenses that have been incurred but not yet paid by the end of the period have been recorded as a liability.

Management Comment: The Shire performed the manual operation for the actual time worked by each employee up-to and including the last day the end of the Financial year via an accrual by journal outside of the payroll system to report accurate costs in its P&L. In doing so an oversight occurred in not reporting the accrual value as a liability in the end of year accounts (as the payroll wasn't due to be run until the 7 of July). This recommendation has been noted for future end of financial year reporting whilst operating in the parameters of our current management information system.

Responsible Officer: Accountant

Completion Date: Completed

Excessive Annual Leave Balances and Other Leave Matters

Finding During our audit work on annual leave we identified two employees who had accrued balances in excess of 304 hours (approximately eight weeks) each as at 30 June 2020. In addition, we identified six instances where leave taken was not supported by an approved leave form. Furthermore, we identified due to incorrect inputs that long service leave had been under-accrued for two employees by one year resulting in their respective long service leave balances being understated by 49.4 hours.

Rating: Moderate

Implication: Excessive accrued annual leave balances increases the risk of an adverse impact through excessive liabilities and may also indicate over-reliance on key individuals. This over-reliance can result in business interruption when the employee takes extended leave or is ceases their employment with the Shire. Failure to take leave can also be an opportunity to perpetrate fraud. Incorrect inputs to leave calculations result in the misstatement of liability and the correlating employee expenses.

Recommendation: The Shire should continue to manage and monitor the excessive annual leave accruals to reduce the liability as well as the risk of business interruption and fraud. All leave taken should be supported by an approved application for leave. The Shire should regularly review the long service leave entitlements calculations to ensure that the entitlements are correct.

Management Comment: Management agrees with the recommendation and will ensure individual leave accrual balances are reported to Senior Management for review on a quarterly basis.

Responsible Officer: Manager Corporate and Community Services

Completion Date: Completed

Operating Surplus Ratio

(Operating Revenue MINUS Operating Expense) divided by Own Source Operating Revenue

Guidelines state that this ratio is a measure of a local government's ability to cover its operational costs and have revenues available for capital funding or other purposes, and suggest a Basic Standard between 1% and 15% and an Advanced Standard > 15%

Definitions	Description
Operating Revenue	Means the revenue that is operating revenue for the purposes of the AAS, excluding grants and contributions for the development or acquisition of assets.
Operating Expense'	Means the expense that is operating expense for the purposes of the AAS.
Own Source Operating Revenue	Means revenue from rates and service charges, fees and user charges, reimbursements and recoveries *, interest income and profit on disposal of assets.

Over the last three years the Operating Surplus Ratio was (0.17), (0.12) and (0.01). Whilst the ratio is outside of the desired levels it is trending in the right direction and is on track to achieve the basic standard within the next 12 months.

It is recommended that the Audit Committee recommend to Council that the Chief Executive Officer provide a copy of the Audit Committee meeting minutes to the Minister for Local Government and the Auditor General once the actions as noted have been endorsed and the Committee meeting minutes are received at a future Council meeting.

Voting Requirements: Absolute Majority

Change to Officer Recommendation

No Change. OR:

As per Local Government (Administration) Regulations 1996 11(da) Council records the following reasons for amending the Officer Recommended Resolution:

**150721.1 AUDIT FOR THE YEAR ENDING 30 JUNE 2020 – OFFICE OF THE AUDITOR GENERAL
COMMITTEE DECISION**

THAT the Audit Committee recommends that Council:

- 1. Accepts the Auditor's Financial Report for the financial year ending 30 June 2020.**
- 2. Notes the findings identified in the Auditor's Management Letter and the Officers responses to the issues raised.**
- 3. Notes the opinions expressed in the Independent Auditor's Report and the Officers responses to the issues raised.**
- 4. Notes the surplus ratio is not meeting the standard.**
- 5. Notes that the ratio is trending towards, and is close to achieving, the Basic Standard**
- 6. Will continue to monitor the ratio and consider options to close the gap as part of its continuing financial management effort.**
- 7. That a copy of the finalised Audit Committee Minutes be presented to the Minister and Auditor General.**

Moved: Cr P Logue

Seconded: Cr C Bryant

Motion put and carried 5/0

NOTE: The CEO was asked to inform the Council Forum as to how excess leave will be managed and to keep Council apprised of progress.

8. CONFIDENTIAL REPORTS

9. OTHER BUSINESS

THAT the work of the current executive staff be acknowledged and appreciated.

Moved: Cr B Baxter

Seconded: Cr J Sutherland

Motion put and carried: 5/0

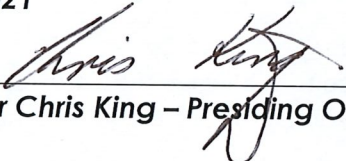
10. CLOSURE OF MEETING

The Shire President declared the meeting closed at 3.15 pm.

11. NEXT MEETING:

The next Ordinary Meeting of Council will be held on 15 July 2021, commencing at 3:00 pm at the Shire of Perenjori Council Chambers 56 Fowler Street, Perenjori WA 6620.

I certify that this copy of the Minutes is a true and correct record of the meeting held on 15 July 2021

Signed: 
Cr Chris King – Presiding Officer

Date: 17/03/2022