



# MINUTES

of the

# AUDIT COMMITTEE MEETING

held on

Thursday, 29 August 2019  
Commencing at 5.30 pm

at

**the Pavilion, Wubin – Mullewa Highway, Perenjori WA 6620**

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Upon request



<p><b>Notice of an AUDIT COMMITTEE Meeting</b></p>
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Dear Council Member

The next Audit Committee Meeting of the Shire of Perenjori will be advised.

Mark Chester  
Acting Chief Executive Officer

Date: 3 September 2019

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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 (eg: 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 of the Shire of Perenjori Audit Committee Meeting held on Thursday 29 August 2019, at the Pavilion, Wubin – Mullewa Highway, Perenjori WA 6620**

### **1 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS**

The Commissioner Hon. Paul Omodei declared the Ordinary Meeting open at 5:30 pm.

### **2 OPENING PRAYER**

At commencement of the Ordinary Council Meeting.

### **3 DISCLAIMER READING**

As printed

### **4 RECORD OF ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE PREVIOUSLY APPROVED**

#### **4.1 Attendance:**

MEMBERS	Commissioner Hon. Paul Omodei
STAFF	Mark Chester Acting Chief Executive Officer (ACEO)
	Karen Malloch – Executive Assistant (EA)
	Caroline Dahlberg – Customer Service Officer (CSO)
	Joel Hesford – Manager Cleaning Services (MCS)
	Julie Lucas – Cleaning Services Department
DISTINGUISHED VISITORS	Brian Baxter – Freeman, Shire of Perenjori
MEMBERS OF THE PUBLIC	Eleven
LEAVE OF ABSENCE	Nil
APOLOGIES	Nil

### **5 PUBLIC QUESTION TIME**

#### **5.1 Response to Questions Taken on Notice:**

Nil

#### **5.2 Questions Without Notice:**

Nil

## **7 APPLICATIONS FOR LEAVE OF ABSENCE**

### **6.1 Application/s for Leave of Absence**

Nil

## **8 MINUTES OF PREVIOUS AUDIT COMMITTEE MEETING**

### **8.1 Audit Committee Meeting Held on 18 March 2019**

#### **COMMITTEE DECISION**

**THAT the Minutes of the Audit Committee Meeting held on 18 March 2019, be received.**

**Moved: Commissioner P Omodei**

**Motion put and carried 1/0**

## **9 ANNOUNCEMENTS BY PRESIDING MEMBER WITHOUT DISCUSSION**

Nil

## **10 PETITIONS/DEPUTATIONS/PRESENTATIONS**

Nil

## **11 ANNOUNCEMENTS OF MATTERS FOR WHICH MEETING MAY BE CLOSED**

Nil

## **12 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.”

Nil

## 13      **REPORTS OF COMMITTEES AND MEMBERS**

### **13.1          Interim Audit for the Year Ending 30 June 2019 – Office of the Auditor General**

Applicant:                      Shire of Perenjori  
 File:                              ADM0357  
 Disclosure of Interest:      Nil  
 Author:                          Emily Sutherland – A/Manager Corporate Development Services  
    (A/MCDS)/Mark Chester Acting CEO  
 Responsible Officer:        Mark Chester - Acting Chief Executive Officer (A/CEO)  
 Attachments:                OAG advises the management report is confidential and not for public  
    disclosure

#### Executive Summary:

The Office of Auditor General reported to Council in June 2019 that there were a number of deficiencies in internal controls.

Auditors have discussed the matters with management of the Shire and comments have been included in the attachment to the corresponded, as tabled, not for public distribution as advised by the OAG.

#### Background:

Interim audits are conducted annually, in addition to the audit of the Annual Financial Report. Interim audits general focus on internal controls as highlighted in this report. This gives the administration the opportunity to bring correction to 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.

When the next interim audit is done the changes will be noted by the auditor.

#### Legal Compliance:

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.

#### Council Role:

#### Executive

#### Council Policy Compliance:

Budget Implications:              Nil

#### Consultation:

Acting Manager Corporate and Community Services, Department of Local Government, Moor Stephens Consultants, the Acting CEO and Finance Officers of Council.

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*

Risk Assessment:

<b>Risk Statement</b>	<b>Level of Risk</b>	<b>Risk Mitigation Strategy</b>
Risk of non-compliance with legislation.	A moderate consequence which is possible resulting in medium level of risk.	Rectify non-compliant issues.

Officer Comment:

The Audit has been completed and includes mention of a number of issues of non-compliance. These are listed below together with management comment and timeline for compliance.

It is recommended that the Audit Committee recommend to Council that the Acting 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:

**13.1.1 Interim Audit for the Year Ending 30 June 2019 – Office of the Auditor General**

**COMMITTEE DECISION**

**THAT the Audit Committee recommends that Council: -**

- 1. Accepts the Office of Auditor Generals Interim Audit Report for the financial year ending 30 June 2019.**
- 2. Endorse the Officer's response to the OAG Report as follows:**

**Non-compliance with Local Government (Financial Management) Regulations:**

**Rating - Moderate**

**In accordance with Regulation 33 of the Local Government (Financial Management) Regulations 1996, the Shire submit the annual budget to the Departmental CEO within 30 days of its adoption and retain evidence to support submission.**

**In accordance with Regulation 51(2) of the Local Government (Financial Management) Regulations 1996, the annual report is submitted to the Departmental CEO within 30 days of receiving the signed audit report.**

**Management Comment:**



*The Annual Budget for 2018/19 was forwarded via email on the 13 September 2018, the budget was adopted on 16 August 2018.*

*The Annual Report and budget have been lodged and measures put in place to forward the Annual Budget and Annual Report via the Department of Local Government Smarthub portal.*

**Reconciliation of Fixed Assets – Rating - Significant**

Fixed assets register is updated monthly for capital purchases and reconciliations to the general ledger be performed on a regular basis. The reconciliations will be signed as evidence of independent review occurring.

At the time of procurement, the assessment of whether the purchase is capital or repairs and maintenance is completed to ensure expenditure is correctly classified in accordance with AASB 116 Property, Plant and Equipment.

The Shire must conduct a formal assessment of the impact of the introduction of Regulation 17A(5) of the Local Government (Financial Management) Regulations 1996 and complete the necessary actions accordingly.

**Management Comment:**

*The Asset Register has been reconciled. All financial procedures will be reviewed and updated within 120 days of the signed Audit Report. This will include the Asset Register Procedures. These procedures will be communicated to all staff and regularly monitored.*

*An assessment of this will be undertaken, consideration will be given to low value assets under \$5,000. Advice is being sought from the asset valuers and the Office of Auditor General.*

*The review will be completed in 120 day of the date of the Audit Report.*

**Masterfile Accuracy and Validity – Rating - Significant**

An independent review of all changes made to master-files be conducted periodically. This review should involve:- A download of all changes (new/old/modify) made to each master-file; - A representative sample then be tested and traced to originating/supporting documentation to confirm validity and timeliness; and - a review of suspicious master-file changes (e.g. changes to bank details, unusual variations to pay-rates and amendments to existing supplier bank account details) should be performed

**Management Comment:**

*An audit has been set up on the financial management software (Synergy) and will be updated within 120 days of the signed Audit Report. The software is to trigger an email to the relevant officer to notify of changes and journals to be completed.*

**Review of daily banking - Rating – Significant**

From 23 January 2019 onwards daily banking reconciliations are being signed by the preparer only with no independent review performed prior to banking monies.

**Management Comment:**

*Daily banking is now being reviewed by an independent employee and signed as evidence.*

**IT Disaster Recovery Plan – Rating – Moderate**

The Local Recovery Plan dating from 2014 does not give specific consideration to disaster recovery procedures in respect to IT.

**Management Comment:**

*A contract has been signed to develop an IT disaster recovery plan. This will be reviewed and adopted within 120 days of the signed Audit Report.*

**Review and Processing of General Journals - Rating - Moderate**

General journals should be signed to evidence review and approval by someone independent of the processing function. General journals should furthermore only be processed into the current open financial period.

**Management Comment:**

Changes have been made to procedures to require an independent person to verify journals as required.

**Payroll Exceptions - Inadequate Recordkeeping – Rating - Significant**

The payroll cover page be physically signed off by the two independent reviewers as evidence of review and authorisation.

A termination checklist be completed, reviewed and approved by management for all terminated employees.

Termination calculations be generated and signed off by the independent reviewer as evidence of the review.

Terminated employee files be maintained in accordance with Section 535 of the Fair Work Act 2009.

All allowances and deductions claimed be supported by an approved agreement or deduction form.

All leave taken be supported by an appropriately authorised leave form.

**Management Comment:**

*Changes have been made to procedures to require an independent person to verify transactions as directed by the Audit, all Finance Officers have been advised, all allowances, leave applications are now supported by the required signed documentation..*

**Review and Approval of Credit Notes - Rating – Moderate**

All credit notes raised to be independently approved and authorised

All sundry debtors' invoices raised be adequately supported with agreements and supporting calculations.

**Management Comment:**

*Changes have been made to procedures to require an independent person to verify transactions as directed by the Audit, all Finance Officers have been advised this verification is to occur prior to processing.*

**Sundry Debtor Support – Rating – Moderate**

All sundry debtors' invoices raised be adequately supported with agreements and supporting calculations.

**Management Comment:**

*This refers in part to property rentals. Leases have been reviewed along with the procedures for issuing invoices to comply with the agreements. Finance Officers have been advised to maintain the revised procedures.*

**Reporting of Credit Card Expenditure to the Shire – Rating – Moderate**

In accordance with Regulation 13(1) of the Local Government (Financial Management) Regulations 1996, individual accounts paid be itemised on the List of Payments presented to the Shire which includes individual transactions incurred using the Shire's credit card.

**Management Comment:**

*A detailed Credit Card report has been implemented with the verification of transactions being counter signed by an independent senior officer.*

**Month End Procedures and Reconciliation Checklist – Rating – Minor**

A comprehensive month end checklist be implemented whereby procedures and reconciliations are signed by the preparer once complete and also signed as evidence of independent review by the Manager Corporate and Development Services or the Chief Executive Officer.

**Management Comment:**

*A full review is to be undertaken within 120 days of the signed Audit Report. Finance staff have been advised to review and reconcile month end reports.*

**Journal Authorising Policy – Rating - Moderate**

Policy 4012 – Authorising of Journals will be amended to reflect the best practice procedure currently adopted by management whereby all general journals, other than automated Synergy journals, are independently reviewed and authorised, irrespective of the amount being adjusted.

**Management Comment:**

*An amendment to Policy 4012 has been drafted for presentation to the Council for adoption.*

3. Report the responses relating to the matters rated as significant to the Auditor General and the Minister for Local Government and publish the report on the Shire of Perenjori web page as required by s7.12A of the Local Government Act 1995.

Moved: Commissioner P Omodei

Motion put and carried 1/0

### 13.2 Shire of Perenjori Annual Report 2017/18 – 2017/18 Audit Report Auditor General

Applicant: Shire of Perenjori  
 File: ADM0357  
 Disclosure of Interest: Nil  
 Author: Mark Chester Acting Chief Executive Officer  
 Responsible Officer: Mark Chester Acting Chief Executive Officer  
 Attachments:
 

- Department of Local Government, Sport and Cultural Industries letter dated 7 August 2019.
- Copy officer report to Council 20 December 2018.

#### Executive Summary:

The Office of Auditor General reported to Council in December 2018 that there were significant matters to be dealt with by Council in relation to shortcoming in compliance.

The officer report to Council to adopt the 2017/18 Annual Report included the Auditor General's Audit Report and the findings as attachment to the Annual Report. The officer report also highlighted the adverse trends in the management report, however the following matter noted as significant by the auditor was not mentioned in the report to Council: -

*"Significant adverse trend in the financial position: Operating Surplus Ratio below the Department standard for the last three years."*

*Section 7.12A (4) of the Local Government Act 1995 states that a local government must:*

*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.*

*Within 14 days after the local government gives a report to the Minister under subsection (4)(b) the CEO must publish a copy of the report on the local government's official website.*

The Department of Local Government, Sport and Cultural Industries has now written to Council reminding Council that this obligation has not been complied with. See attachment letter dated 7 August 2019, Appendices 13.2.1.

The officer report to Council to adopt the 2017/18 Annual Report is attached as Appendices 13.2.1.

#### Background:

The adoption of the 2017/18 Annual Report included the 2017/18 Audit Report, however the section referring to the adverse trend, Operating Surplus Ratio was overlooked, therefore the Council response was not forwarded to the Minister or published on the Shire of Perenjori's web site as required by the regulations.

#### Legal Compliance:

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.

**Department of Local Government guidelines: -**

**Operating Surplus Ratio**

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

**Purpose**

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.

**Standards**

Basic Standard between 1% and 15% (0.01 and 0.15) Advanced Standard > 15% (>0.15).

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.

\*Note: Typically, local governments disclose in their annual financial statements, a nature or type classification described as 'Reimbursements and Recoveries, Contributions and Donations' (or similar). In order to calculate the value of own source revenue, it is essential that reimbursements and recoveries are disclosed separately from contributions and donations. This can be by way of note.

Council Role:

Executive

Council Policy Compliance:

Budget Implications: Nil

Strategic Community Plan:

Area 5: Investing in Council's 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.

Consultation:

Risk Assessment:

Local governments are required to comply with legislation. The risk is mitigated by correcting non-compliance.

Precedents:

Officer Comment:

The guidelines set a benchmark that the ration is to be between 1% and 15%.

The 2018/19 Surplus Ratio was (0.17) that is below zero by 17%. Page 59 of the Annual Report.

Refer Shire of Perenjori web page link:

<http://www.perenjori.wa.gov.au/wp-content/uploads/2019/01/Shire-of-Perenjori-Annual-Report-2017.2018.pdf>

It is recommended that the Audit Committee recommend to Council that the Acting Chief Executive Officer report to the Minister that the surplus ratio is noted as not meeting the standard and that the Council is satisfied that the Shire's non-restricted Reserve Funds are considered a source of revenue that can be applied to meet current liabilities if required before the annual cash flow from rates is received.

In addition, the Shire of Perenjori has the ability to make overdraft arrangements if required.

Council will also consider the budget implications and the impact on rates when considering the 2019/20 budget to close the gap and move toward a ratio of 1%.

Voting Requirements: Simple 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:

### **13.2.1 Shire of Perenjori Annual Report 2017/18 – 2017/18 Audit Report Auditor General**

#### **COMMITTEE DECISION**

**That the Audit Committee recommend to Council that the Acting Chief Executive Officer report to the Minister:-**

- 1. The surplus ratio is noted as not meeting the standard.**
- 2. That the Council is satisfied that the Shire's non-restricted Reserve Funds are considered a source of revenue that can be applied to meet current liabilities if required before the annual cash flow from rates is received.**
- 3. In addition, the Shire of Perenjori has the ability to make overdraft arrangements if required; and**
- 4. Council will also consider the budget implications and the impact on rates when considering the 2019/20 budget to close the gap and move toward a ratio of 1%.**

**Moved: Commissioner P Omodei**

**Motion put and carried 1/0**

**14 MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN**

Nil

**15 NOTICE OF MOTIONS**  
(for consideration at the following meeting, if given during the meeting).

Nil

**16 NEW BUSINESS OF AN URGENT NATURE ADMITTED BY COUNCIL**

Nil

**17 CLOSURE OF MEETING**

There being no further business the Commissioner declared the meeting closed at 5.45 pm.

**18 DATE OF NEXT MEETING / MEETINGS**

To be advised.