

Shire of Wiluna



Report of the Audit Committee

meeting held on

Tuesday 27th March 2018

Table of Contents

1. Attendance.....	2
2. Declarations of Interest	2
3. Confirmation of Minutes – 14 February 2018	2
4. Reports	3
4.1 Audited Annual Financial Report for YE 30 June 2017	3
5. Presentation.....	7
6. Closure.....	7

APPENDIX 4.1.**Audit Management Letter****Lilac Pages**

DISCLAIMER READING

Resolutions are not considered final until the minutes of the meeting are confirmed.

Members of the public should also note that they act at their own risk if they enact any resolution prior to receiving official written notification of Council's decision.

MINUTES

For the meeting held on Tuesday 27 March 2018, in the Council Chamber, commencing at. 1.05pm.

1. Attendance

Cr Peter Grundy	Chairperson
Cr Graham Harris	
Cr Stacey Petterson	(arrived at 1.11pm)
Cr Jim Quadrio	
Cr Caroline Thomas	
Cr Norma Ward	

In Attendance:

Colin Bastow	Chief Executive Officer
Warren Olsen	Deputy Chief Executive Officer
Katrina Boylan	Executive Assistant

Russell Harrison	Lincolns
------------------	----------

Apologies:

Cr Lena Long

2. Declarations of Interest

Nil

3. Confirmation of Minutes – 14 February 2018

That the Minutes of the meeting held on 14 February 2018 be confirmed as a true and correct record of proceedings.

<i>Officer Recommendation</i>

MOVED CR HARRIS

SECONDED CR WARD

That the Minutes of the meeting held on 14 February 2018 be confirmed as a true and correct record of proceedings.

CARRIED 5/0

DISCLAIMER READING

Resolutions are not considered final until the minutes of the meeting are confirmed.
Members of the public should also note that they act at their own risk if they enact any resolution prior to receiving official written notification of Council's decision.

4. Reports

4.1 Audited Annual Financial Report for YE 30 June 2017

File:	ADM 0332
Reporting Officer:	Warren Olsen – Deputy CEO
Date of Report:	23 March 2018
Date of Meeting:	27 March 2018
Disclosure of Interest:	Nil

Purpose

The purpose of this report is to present to the Committee the Financial Statements and Audit report for the year ended 30th June 2017, and the Audit Management Letter.

Background

At its meeting held on 26 February 2016, the Council resolved to appoint Mr Russell Harrison of Lincolns Accountants and Business Advisers as Auditors for the Shire of Wiluna for the period 1st July 2016 to 30th June 2020.

Chris Martain and Claire Murray from the Lincolns office attended the Shire of Wiluna office from 12th to 14th June 2017 to conduct the interim audit.

Obviously, we have been working in some difficult circumstance due to the lack of stability in the management of the accounting section since the departure of the former Executive Manager Corporate Services in March 2017. Although the team were reasonably well prepared for the interim audit visit in June, there were a number of issues relating to the assets register (some of which predated the Finance Manager who started in May) which took a long time to sort out.

It is probably fair to say that the Auditors (and also other local government auditors in Western Australia) have been especially busy during this past audit season due to the changing system for local government audits which will mean that the Auditor-General's Office (AGO) will be appointing our Auditors in future, instead of the auditor being appointed by the Council.

Although this change will not directly affect the Shire of Wiluna until the expiry of the current audit contract in 2020, in reality the (AGO) is already putting extra requirements onto the local government audit firms that they are obviously highly motivated to meet in order to achieve the AGO accreditation on which the future of their audit businesses will rely. Consequently, I think it fair to say that the changes being implemented by the AGO have caused some delays within audit firms this year, which has exacerbated the difficulties that we were already experiencing due to changes in staff.

DISCLAIMER READING

Resolutions are not considered final until the minutes of the meeting are confirmed.

Members of the public should also note that they act at their own risk if they enact any resolution prior to receiving official written notification of Council's decision.

Comment

In the event, everything has worked out okay. Although it would have been nice to have received the audited Annual Financial Report some months ago (so that we could progress other matters), we are still compliant with the legislative requirements and have kept the Department of Local Government, Sport and Cultural Industries informed in relation to the delays that we experienced.

Audit Management Letter

The Audit Management Letter is attached to this agenda as Appendix 4.1.

The Management Letter deals with:

- Comments on financial ratios
- Corrected misstatements from the draft Annual Financial Statements; and
- Audit findings (for systemic improvements that need to be made).

With regard to the comments on financial ratios (as set out in Annexure 1 to the Management Letter), it is noted that all ratios are above the benchmark except the Asset Sustainability Ratio. Review of the Long-Term Financial Plan is indicated, and this process has already been initiated as part of the Integrated Planning and Reporting Review currently being undertaken by Moore Stephens.

With regard to corrected misstatements (as shown in Annexure 2), this was a very simple (but basic error) by a previous employee as FAGS are never “restricted cash” as they are untied grants.

With regard to the Audit Findings (set out in Annexure 3), I comment as follows:

- The stale cheques were already cancelled some months ago. This is a problem that will never occur in the future as the Shire no longer uses cheques as a method of payment.
- The fixed asset register is an area that does need regular attention, and I concur with the CEO’s comments on this matter.
- With regard to reconciliations, I have detected quite a few errors over recent times by comparing the notes of the monthly financial statements with bank statements and with the investment spreadsheet that I prepare independently. This is an area where we need to make further improvement, and I will be seeking advice on additional checks that I can use to independently verify that the reconciliations have been correctly performed.
- Related Party Disclosure Declarations are a new requirement that we caught up with at the end of the period. Unfortunately, some former Councillors and Staff had already left the organisation without completing a Declaration. In fact, we need to:
 - Obtain outstanding 2017-2018 Related Party Disclosure Declarations as soon as possible; and
 - Ensure that these are distributed and collected each July in future years.

DISCLAIMER READING

Resolutions are not considered final until the minutes of the meeting are confirmed.

Members of the public should also note that they act at their own risk if they enact any resolution prior to receiving official written notification of Council’s decision.

2016-2017 Annual Financial Report and Independent Auditor's Report

The Annual Financial Report and Independent Auditor's Report is distributed with this agenda as a separate document.

The Independent Auditor's Report indicates that the financial statements give a true and fair view of the Shire's financial position as at 30th June 2017, and that (so far as the Auditors' enquiries have revealed) we have complied with Part 6 of the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996 and the applicable financial controls of any other written law.

The Independent Auditor's Report also records that we were able to furnish all necessary information and explanations and that the supplementary ratio calculations were reasonably calculated and based on verifiable information.

Consultation

Russell Harrison, Auditor

Chris Martain, Lincolns Accountants and Business Advisers

Colin Bastow, CEO

Statutory Environment

Subsection 7.9 (1) of the Local Government Act 1995 states as follows:

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.

Section 7.12AB specifies:

The auditor must audit the accounts and annual financial report of a local government at least once in respect of each financial year.

Obviously, these requirements have now been completed.

Regulation 51 of the Local Government (Financial Management) Regulations 1996 requires that:

- (1) After the annual financial report has been audited in accordance with the Act the CEO is to sign and append to the report a declaration in the form of Form 1.
- (2) A copy of the annual financial report of a local government is to be submitted to the Departmental CEO within 30 days of the receipt by the local government's CEO of the auditor's report on that financial report.

DISCLAIMER READING

Resolutions are not considered final until the minutes of the meeting are confirmed.

Members of the public should also note that they act at their own risk if they enact any resolution prior to receiving official written notification of Council's decision.

We have already complied with Regulation 51, and have the Department of Local Government, Sport and Cultural Industries' written acknowledgement.

As noted in the Auditor's report, management is responsible for the other information that will make up the Shire's 2016-2017 Annual Report. Now that the Financial Statements and Independent Auditor's Report are to hand, the management team will produce the 2016-2017 Annual Report with a view to presenting it to the next ordinary Council meeting for acceptance.

The process going forward is set out in Sections 5.54 to 5.55A of the Local Government Act 1995:

5.54. Acceptance of annual reports

- (1) Subject to subsection (2), the annual report for a financial year is to be accepted* by the local government no later than 31 December after that financial year.

** Absolute majority required.*

- (2) If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.

5.55. Notice of annual reports

The CEO is to give local public notice of the availability of the annual report as soon as practicable after the report has been accepted by the local government.

5.55A. Publication of annual reports

The CEO is to publish the annual report on the local government's official website within 14 days after the report has been accepted by the local government.

Risk Assessment

Comments on Financial Risk Management are set out in Note 35 of the Annual Financial Statements.

Policy Implications

Nil

Financial Implications

Nil

Strategic Implications

Nil

DISCLAIMER READING

Resolutions are not considered final until the minutes of the meeting are confirmed.

Members of the public should also note that they act at their own risk if they enact any resolution prior to receiving official written notification of Council's decision.

Voting Requirements SIMPLE MAJORITY

Officer Recommendation

MOVED CR THOMAS**SECONDED CR WARD****That:**

1. The audited Annual Financial Report for the Year Ended 30th June 2017 be received.
2. The Independent Auditor's Report for the Year Ended 30th June 2017 be received.
3. The Audit Management Letter be received.
4. The Auditor's comments and the CEO's comments as set out in the Audit Management Letter and its annexures be noted.

CARRIED 6/0**5. Presentation**

Russel Harrison– Lincolns

6. Closure

There being no further business the meeting was closed at 1.42pm.

DISCLAIMER READING

Resolutions are not considered final until the minutes of the meeting are confirmed.
Members of the public should also note that they act at their own risk if they enact any resolution prior to receiving official written notification of Council's decision.

Appendix 4.1 - Audit Management Letter

22 March 2018



Colin Bastow
Chief Executive Officer
Shire of Wiluna
PO Box 38
WILUNA WA 6646

Dear Council

Audit for the year ended 30 June 2017

We are pleased to report that our audit of the Shire of Wiluna's financial statements and records for the year ended 30 June 2017 is now complete.

Accordingly we enclose a signed copy of the financial statements and audit certificate for your attention.

We confirm that we will arrange for one copy to be forwarded directly to the Department of Local Government, and the Shire President on your behalf.

Our responsibilities as auditors are outlined in our audit report. Significantly our objectives are to obtain reasonable assurance that the financial report is free from material misstatement and to provide our opinion to that effect. Reasonable assurance, whilst being high level, is not a guarantee that a material misstatement has occurred.

We obtain reasonable assurance by;

- Identifying the risks of material misstatement, design and perform audit procedures in response and obtain audit evidence to support our opinion;
- gain an understanding of internal controls to assist in the design of our audit procedures;
- evaluate accounting policies and confirm the design, structure and content of the financial report.

The nature of our audit is influenced by factors such as the use of professional judgement, selective testing, inherent limitations in internal control, persuasive rather than conclusive evidence.

Comment on Adverse Ratios

Local Government guidelines provide 'standards' applicable to financial reporting ratios as detailed in the financial report.

Annexure 1 contains details and discussion of ratios below the established standard.

Audit Misstatements

Audit misstatements are presented as;

- 1) Uncorrected Misstatements
- 2) Corrected Misstatements

Refer to Annexure 2

Findings and Recommendations

During our audit we noted the matters referred to in Annexure 3 which we wish to bring to Council's attention.

In conclusion we take this opportunity to thank Warren and your administration staff for their pleasant and co-operative assistance throughout the audit.

Should there be any matters that you would like to discuss further please do not hesitate to contact us.

Kind Regards



.....
Russell Harrison
Partner

enc

ANNEXURE 1
SHIRE OF
COMMENT ON ADVERSE RATIOS
FOR THE YEAR ENDED 30 JUNE 2017

RATIO	ACTUAL			TARGET	COMMENT
	2017	2016	2015		
Current Ratio	11.12	4.97	3.39	≥ 1	This ratio is above the bench mark.
Asset Sustainability Ratio	0.11	0.20	0.47	≥ 0.9	This ratio has been impacted by significant capital expenditure on new, rather than replacement assets in the 2016/17 year. Review of the long Term Financial Plan discloses that this ratio is expected to meet and exceed benchmark in the longer term. Ongoing review of the LTFP is essential as strategic responses will be required in the event of depreciation continuing to exceed replacements.
Debt Service Cover Ratio	17.71	9.25	9.14	≥2	This ratio is above the bench mark.
Operating Surplus Ratio	0.36	(1.02)	(0.10)	≥0.01	This ratio is above the bench mark. The ratio remains above bench mark after notionally removing the FAGS prepayment received by all Local Governments in the 2017 year.
Own Source Revenue Coverage Ratio	0.56	0.20	0.47	≥0.4	This ratio is above the bench mark.
Asset Consumption Ratio	0.75	0.78	0.80	≥0.5	This ratio is above the bench mark.
Asset Renewal Funding Ratio	1.92	0.94	0.86	≥0.75	This ratio is above the bench mark.

ANNEXURE 2
SHIRE OF WILUNA
CORRECTED MISSTATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

	FINANCIAL STATEMENTS ACCOUNTS IMPACTED	STATEMENT OF FINANCIAL POSITION ADJUSTMENT	EFFECT ON OPERATING SURPLUS	EFFECT ON OTHER COMPREHEN SIVE INCOME	COMMENT
	Unrestricted Cash Restricted cash	\$732,884 -\$732,884			Being unspent FAGS removed from restricted cash as the grant is untied and available for discretionary expenditure

ANNEXURE 3
SHIRE OF WILUNA
AUDIT FINDINGS
FOR THE YEAR ENDED 30 JUNE 2017

Matter	Present Procedure Finding	Recommendation	CEO Comment
Municipal Bank Stale Cheques	Audit procedures determined that the following cheques remained uncleared at audit date: 17 March 2016 "Leslie McIntyre" \$31.14 17 March 2016 "Brandon Chae Rae" \$20.76 19 April 2016 "Nye Petterson" \$20.76	We recommend that these cheques are followed up and cancelled and reissued if necessary.	Agree, the Shire no longer issues cheques to pay creditors. The Shire will address this matter as per your recommendation.
Asset Register	The asset register had not been reconciled to the general ledger or financial statements. Subsequent audit testing identified major errors in the asset register. These were numerous but included negative asset additions, unidentified asset class (\$2,116,500). Audit trail of analysis of road assets into components was not available. It was later produced.	This is the essential register controlling over \$185 million of assets. It is critical that the responsible person has adequate training and supervisory review. Audit trails of all movements (additions, disposals, revaluations, depreciation expense) must be complete, accurate and readily available.	Unfortunately, the previous Manager of Finance did not understand the importance of this task, which is a major reason why he no longer works for the Shire. The Shire has since engaged the services of suitably qualified and experienced persons to overcome this issue on a contract basis. Current applications are being assessed for the appointment of a new Manager of Finance. An important part of the recruitment process will be a skill testing component.
Rate Setting Statement and Statement of Cash Flows Reconciliations	At the time of audit, both reconciliation's in the financial statements were out of balance by \$109,979. This was subsequently resolved and corrected in the final accounts.	These essential reconciliations are required to be correctly completed prior to final audit visit.	Your comments are noted. The Shire tried to implement a monthly reconciliation program with the previous Manager of Finance. This requirement will be closely monitored by the Deputy CEO in the future.

ANNEXURE 3
SHIRE OF WILUNA
AUDIT FINDINGS
FOR THE YEAR ENDED 30 JUNE 2017

Related Parties	At the time of audit, a Related Parties Disclosure Declaration had not been received from several key management personnel who were no longer engaged by the Shire.	Related Parties disclosures are an essential element of the established internal control system managing the risks associated with related party transactions. It is essential that these documents are completed as part of the induction process. In this case we understand that the policy was not in place at the time of engaging the personnel.	The Deputy CEO was advised by the previous Manager of Finance that he had a copy of all the relevant Related Party Disclosures, The Shire intends to develop stronger procedure around Related Parties Disclosures as it better understand the requirement of this standard.
-----------------	---	--	--