

## SHIRE OF BRUCE ROCK

### AUDIT COMMITTEE AGENDA MEETING 20 MAY 2021

## TABLE OF CONTENTS

1. Declaration of Opening .....	2
2. Record of Attendance / Apologies / Leave of Absence (Previously Approved) ..	2
3. Response to Previous Public Questions Taken on Notice .....	2
4. Public Question Time .....	2
5. Petitions / Deputations / Presentations / Submissions .....	2
6. Confirmation of Minutes .....	2
6.1. Audit Committee Meeting – 18 February 2021 .....	2
7. Reports of Officers .....	3
7.1. Manager of Finance .....	3
7.1.1 Receiving the 2019-20 Audit Report .....	3
8. New Business of an urgent nature introduced by discussion of the meeting...	6
9. Closure of Meeting. ....	6

## SHIRE OF BRUCE ROCK

### AUDIT COMMITTEE MINUTES MEETING 20 MAY 2021

#### *Disclaimer*

*The recommendations in the Agenda are subject to confirmation by Council. The Shire of Bruce Rock warns that anyone who has any application lodged with Council must obtain and should only rely on written confirmation of the outcomes of the application following the Council Committee meeting, and any conditions attaching to the decision made by the Council in respect of the application. No responsibility whatsoever is implied or accepted by the Shire of Bruce Rock for any act, omission or statement or intimation occurring during a Council Committee meeting.*

#### **1. Declaration of Opening**

The Shire President Stephen Strange declared the meeting open at 11.03am.

#### **2. Record of Attendance / Apologies / Leave of Absence (Previously Approved)**

President	Cr SA Strange
Deputy Shire President	Cr R Rajagopalan
Councillors	Cr AR Crooks Cr IS Dolton Cr KP Foss Cr NC Kilminster Cr PG Negri Cr BJ Waight
Chief Executive Officer	Mr DRS Mollenoyux
Deputy Chief Executive Officer	Mr A O'Toole
Manager of Finance	Mrs JL Bow
Executive Assistant	Mrs MJ Schilling
Apology	Cr RA Waye

#### **3. Response to Previous Public Questions Taken on Notice**

#### **4. Public Question Time**

#### **5. Petitions / Deputations / Presentations / Submissions**

#### **6. Confirmation of Minutes**

##### **6.1. Audit Committee Meeting – 18 February 2021**

#### **COMMITTEE DECISION**

**Resolution ACM May 21 – 6.1**

**Moved:** Cr Rajagopalan  
**Seconded:** Cr Waight

**That the minutes of the Audit Committee held 18 February 2021 be confirmed as a true and correct record.**

**Carried 9/0**

## 7. Reports of Officers

### 7.1. Manager of Finance

<b>Agenda Reference and Subject:</b>	
	<b>7.1.1 Receiving the 2019-20 Audit Report</b>
<b>File Reference:</b>	8.2.3.1 Annual Audit
<b>Reporting Officer:</b>	Jennifer Bow, Manager of Finance
<b>Author:</b>	Jennifer Bow, Manager of Finance
<b>Disclosure of Interest</b>	Nil
<b>Attachments</b>	<i>Item 7.1.1 Attachment A – Draft Audit Report</i> <i>Item 7.1.2 Attachment B - Exit Meeting Agenda</i>

#### **Summary**

The Audit Committee is to examine the auditor's report at the completion of the annual audit and provide direction and assistance to the local government.

#### **Background**

At the completion of the annual audit, the Office of the Auditor General (OAG) prepares an Audit Report.

#### **Comment**

This is the third audit that the OAG has overseen for the Shire and the final audit that AMD were contracted to conduct the audit on their behalf.

Council has received advice from the OAG that for the financial statements for the year ending 30<sup>th</sup> June 2021, a new contract audit firm has been appointed, Butler Settineri. They will commence the interim audit shortly.

#### **Exit Meeting**

The Exit Meeting was held between the Shire President, CEO, Manager of Finance, Director from OAG, Kien Neoh and Auditor, Tim Partridge on behalf of Maria Cavallo from AMD on Tuesday 11<sup>th</sup> May 2021. The purpose of the Exit Interview was to discuss the audit and also any items contained in the Audit Report.

The agenda for the Exit Meeting is attached. All recommendations raised in either the previous year's audit or the interim audit have been implemented and there were no issues reported in the current audit.

#### **Audit Report**

The 2020 Audit Report issued is an Unqualified Report. This is a vast improvement from the 2019 Financial Statements which were qualified due to the OAG not being able to verify the valuations of the Other Infrastructure Assets. However, the condition assessments were completed during the 2019-20 financial year to satisfy the requirements of the OAG.

There were no matters of non-compliance with Other Legal or Regulatory Requirements.

At the time of the Exit Meeting, the OAG's Director, Mr Kien Neoh, explained the process for this year's audit report. As we received a qualified report last year, Kien will make a recommendation to the OAG's committee that an unqualified report is issued this year.

The OAG also made comment on three adverse ratios reported in Note 33 of the financial statements. This was also included in the last two years' audit reports;

- Asset Sustainability Ratio is below the Department of Local Government, Sport & Cultural Industries standard of 0.8 for the last three years. This means that we are not replacing assets soon enough but is a direct correlation to our depreciation expense in the financials.
- Operating surplus ratio is below the Department of Local Government, Sport & Cultural Industries standard of 0 for the last three years. However the OAG commented that most local governments have had this reported as an adverse trend as local governments are not meant to make a profit and so there may be a flaw in the standard that needs revising.
- Own Source Revenue ratio is below the Department of Local Government, Sport & Cultural Industries standard of 0.35. This is because it reflects our reliance on government grants due to our low rate base and our inability to raise our own revenue from rates and fees and charges.

Overall Kien commented that although there were delays in finalising the audit this was due to a combination of factors including Covid-19, the Shire taking on the supermarket operations, the fact that the interim audit was conducted remotely and legislative changes that weren't enacted until November 2020 across the sector which has delayed all Local government audits. Shire staff also hadn't finalised reconciling the fair values for several assets classes and providing some other additional information which delayed the audit. In light of this, AMD have had to charge additional fees for the completion of the audit of between \$3,000 to \$4,000.

The only issue that will need to be addressed in the next audit will be to correctly disclose operating leases over GROH housing in accordance with AASB 16 paragraphs 95 and 97. This will be discussed with our new auditors, Butler Settineri for 2020-21 Financial Statements.

#### **Consultation**

Chief Executive Officer, Darren Mollenoyux  
Deputy Chief Executive Officer, Alan O'Toole  
Manager of Finance , Jennifer Bow  
Office of Auditor General, Kien Neoh  
AMD Auditors, Tim Partridge and Maria Cavallo

#### **Statutory Implications**

Audit Report - *Local Government Act 1995* s. 7.9 and *Local Government (Audit) Regulations 1996* r. 10.

#### **Policy Implications**

Nil

### Risk Implications

**Risk:** Compliance – Non-compliance with relevant sections and regulations of the Local Government Act 1995.

Likelihood	Consequence	Rating
Possible	Moderate	Moderate

### Action / Strategy

This item has been evaluated against the Shire of Bruce Rock's Risk Management Procedures Risk Matrix. The perceived level of risk is considered to be "Medium" risk and will be managed to mitigate the risks associated with each of the areas of the financial audit.

### Financial Implications

Additional audit costs of between \$3,000 to \$4,000.

### Strategic Implications

Shire of Bruce Rock – Strategic Community Plan 2017-2027

Governance

Goal 12 - Council leads the organisation in a strategic and flexible manner.

### Voting Requirements

Simple Majority

### COMMITTEE DECISION

**Resolution ACM May 21 – 7.1.1**

**Moved: Cr Rajagopalan**

**Seconded: Cr Crooks**

**That the Audit Committee recommends to Council to receive the Audit for the year ended 30 June 2020.**

**Carried 9/0**

**8. New Business of an urgent nature introduced by discussion of the meeting.**

**9. Closure of Meeting.**

The Shire President Stephen Strange declared the meeting closed at 11.08am.

These minutes were confirmed at a meeting on

---

Cr Stephen Strange  
Shire President



# Auditor General

## INDEPENDENT AUDITOR'S REPORT

### To the Councillors of the Shire of Bruce Rock

### Report on the Audit of the Financial Report

#### **Opinion**

I have audited the annual financial report of the Shire of Bruce Rock which comprises the Statement of Financial Position as at 30 June 2020, the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and Rate Setting Statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.

In my opinion the annual financial report of the Shire of Bruce Rock:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2020 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

#### **Basis for Opinion**

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Shire in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the annual financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **Emphasis of Matter – Basis of Accounting**

I draw attention to Notes 1 and 11 to the annual financial report, which describe the basis of accounting. The annual financial report has been prepared for the purpose of fulfilling the Shire's financial reporting responsibilities under the Act, including the Local Government (Financial Management) Regulations 1996 (Regulations). My opinion is not modified in respect of these matters:

- (i) Regulation 17A requires a local government to measure vested improvements at fair value and the associated vested land at zero cost. This is a departure from AASB 16 *Leases* which would have required the entity to measure the vested improvements also at zero cost.
- (ii) In respect of the comparatives for the previous year ended 30 June 2019, Regulation 16 did not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report.

#### **Responsibilities of the Chief Executive Officer and Council for the Financial Report**

The Chief Executive Officer (CEO) of the Shire is responsible for the preparation and fair presentation of the annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal control as the CEO determines is necessary to enable the preparation of the annual financial report that is free from material misstatement, whether due to fraud or error.

In preparing the annual financial report, the CEO is responsible for assessing the Shire's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State Government has made decisions affecting the continued existence of the Shire.

The Council is responsible for overseeing the Shire's financial reporting process.

#### ***Auditor's Responsibility for the Audit of the Financial Report***

The objectives of my audit are to obtain reasonable assurance about whether the annual financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual financial report.

A further description of my responsibilities for the audit of the annual financial report is located on the Auditing and Assurance Standards Board website at [https://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This includes the identification and assessment of the risk of material misstatement due to fraud arising from management override of controls. This description forms part of my auditor's report.

#### **Report on Other Legal and Regulatory Requirements**

In accordance with the Local Government (Audit) Regulations 1996 I report that:

- (i) In my opinion, the following material matters indicate significant adverse trends in the financial position of the Shire:
  - a. The Operating Surplus Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the last three financial years.
  - b. The Asset Sustainability Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the last three financial years.
  - c. The Own Source Revenue Coverage Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the last three financial years.
- (ii) There were no instances of non-compliance with Part 6 of the *Local Government Act 1995*, the *Local Government (Financial Management) Regulations 1996* or applicable financial controls of any other written law identified during the course of my audit.
- (iii) All required information and explanations were obtained by me.
- (iv) All audit procedures were satisfactorily completed.
- (v) In my opinion, the Asset Consumption Ratio and the Asset Renewal Ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

#### **Matters Relating to the Electronic Publication of the Audited Financial Report**

This auditor's report relates to the annual financial report of the Shire of Bruce Rock for the year ended 30 June 2020 included on the Shire's website. The Shire's management is responsible for the integrity of the Shire's website. This audit does not provide assurance on the integrity of the Shire's website. The auditor's report refers only to the annual financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this annual financial report. If users of the annual financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited annual financial report to confirm the information contained in this website version of the annual financial report.

SHIRE OF BRUCE ROCK  
EXIT MEETING AGENDA

Tuesday 11<sup>th</sup> May 2021 at 9am  
Teleconference

**ATTENDEES:**

**Councillors:**

Cr Stephen Strange

Shire President

**Staff:**

Darren Mollenoyux

Chief Executive Officer

Jennifer Bow

Manager of Finance

**AMD Chartered Accountants (via phone conference):**

Tim Partridge

Director

**Office of the Auditor General (via phone conference):**

Kien Neoh

Director, Financial Audit

**AGENDA ITEMS:**

**1. Audit Approach**

*Refer also attached Audit Planning Summary Dated, including Section 5 "Significant Risks" and Section 6 "Audit Emphasis and Significant Account Balances"*

- Interim Visit / Testing Completed
- Year End Communications
- Final Visit / Testing Completed

**2. Variations to Audit Plan (where applicable)**

- No variations

**3. Subsequent Events**

- Discussion and reconfirmation regarding subsequent events.

**4. Audit Issues**

- **Status of prior year audit issues:**  
Recommendations have been implemented.
- **Status of audit issues reported at 2020 interim:**  
Recommendations have been implemented.
- **Audit issues reported in the current audit:**  
Nil.

**5. Audit Report**

*Refer DRAFT Audit Report attached*

- **Opinion Qualification Matters:**  
Unqualified audit opinion.
- **Report on Other Legal and Regulatory Requirements Matters:**  
No matters of non-compliance.

- **Report on Other Matters:**

Three adverse ratios reported as follows:

- a. *The Asset Sustainability Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for the last three years;*
- b. *The Operating Surplus Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for the last three years; and*
- c. *The Own Source Revenue Coverage Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for the last three years.*

## 6. Issues Relevant To Next Audit

- Operating Leases Disclosure
  - The 3 GROH leases and other housing leases to Shire employees are considered lessor operating leases under AASB 16. Therefore disclosure is required by AASB 16 paragraphs 95 and 97 and will be required to be included for year ended 30 June 2021.

## 7. Close