

SHIRE OF BRUCE ROCK

AUDIT COMMITTEE MINUTES MEETING 20 FEBRUARY 2020

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 – 15 August 2019.....	2
7.	Reports of Officers	3
7.1.	Manager of Finance	3
7.1.1	Auditor’s Report and Management Letter	3
7.2.	Deputy Chief Executive Officer.....	9
7.2.1	Adoption of 2019 Compliance Audit Return.....	9
8.	New Business of an urgent nature introduced by discussion of the meeting.	11
9.	Closure of Meeting.....	11

SHIRE OF BRUCE ROCK

AUDIT COMMITTEE MINUTES MEETING 20 FEBRUARY 2020

1. Declaration of Opening

The Committee Chair, Stephen Strange declared the meeting open at 11.46am.

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

President	Cr SA Strange
Deputy President	Cr R Rajagopalan
Councillors	Cr AR Crooks
	Cr IS Dolton
	Cr KP Foss
	Cr NK Kilminster
	Cr PG Negri
	Cr MK Thornton
	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

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 – 15 August 2019

COMMITTEE DECISION

Resolution ACM Feb 20 – 6.1

Moved: Cr Waight

Seconded: Cr Foss

That the minutes of the Audit Committee held 15 August 2019 be confirmed as a true and correct record.

Carried 9/0

7. Reports of Officers

7.1. Manager of Finance

Agenda Reference and Subject:	7.1.1 Auditor’s Report and Management Letter
File Reference:	8.2.6.1 – Annual Audit
Reporting Officer:	Jennifer Bow, Manager of Finance
Author:	Jennifer Bow, Manager of Finance
Disclosure of Interest	Nil
Attachments	<i>Item 7.1.1 Attachment A – Auditor’s Report</i> <i>Item 7.1.1 Attachment B – Management Letter</i> <i>Item 7.1.1 Attachment C – Exit Meeting Agenda</i> <i>Item 7.1.1 Attachment D – OAG Position Paper on Bonds</i>

Summary

The Audit Committee is to examine the auditor’s report and accompanying management letter 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 prepares an Audit Report and Management Letter outlining any areas or issues that Council needs to address.

Comment

This is the second audit that the Office of the Auditor General has overseen for the Shire and AMD were contracted to conduct the audit on their behalf.

Exit Meeting

The Exit Meeting will be held between the Shire President, CEO, Manager of Finance, Director from Auditor General’s Office, Kien Neoh and Auditor, Maria Cavallo from AMD. The purpose of the Exit Interview is to discuss the matters raised in the Management Letter and also any items contained in the Audit Report.

Attached is the agenda for the meeting. Staff will provide the committee with an overview of the meeting. Also to be discussed is issues that may be relevant to next year’s audit including;

- Resolution of the infrastructure valuation matter for 2020.
- Impact of introduction of new accounting standards. AASB15 (Revenue from Contracts with Customers), AASB16 (Leases) and AASB1058 – Income of Not for Profit Entities.
- Continued assessment of Department of Environmental Regulation obligations in relation to the waste site.

Audit Report

The 2019 Audit Report issued is a Qualified Report. This is on the basis that the OAG is unable to verify that the Other Infrastructure assets listed in the financial statements has not been corrected valued or condition assessments conducted on these assets as required as per the 2018 Management Letter.

The following is an extract from the Audit Report;

Basis for Qualified Opinion

Other than for roads, the valuation of infrastructure assets including bridges, footpaths, drainage, other infrastructure and the airstrip which was performed in 2017-18 was a desktop valuation and did not include an assessment of the condition of assets.

I am therefore unable to obtain sufficient appropriate audit evidence to confirm that infrastructure assets other than roads, totalling \$33,767,492 at 30 June 2019 and \$34,303,030 at 30 June 2018 represent fair value in accordance with Regulation 17A of the Local Government (Financial Management) Regulations 1996 and Australian Accounting Standards. In addition, I am also unable to obtain sufficient appropriate audit evidence that the revaluation surplus and movements in comprehensive income associated with the 2017-18 valuation of these assets are fairly presented.

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.

In discussions with AMD, the OAG has taken a firm stance on instances where local governments have been requested to fulfil a requirement and if that has been completed, then in most cases a qualified audit opinion will result. Staff will obtain quotations to have these valuations updated and conditions assessed so that they can be updated for inclusion in the 2019-20 financial statements.

The Auditor General also made comment on three adverse ratios reported in Note 32 of the financial statements. This was also included in last year's audit report;

- 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 (2016; -0.86, 2017; -0.70, 2018; -1.87). However the Auditor General 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 (2016; 0.43, 2017;0.30, 2018;0.22). The previous 2 years' ratio looked better due to the grain freight route funding however 2018's ratio has returned to situation where it demonstrates our reliance on government grants due to our low rate base.

The Auditor General has also stated that we are non-compliant with Part 6 of the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996:

- a. The Shire has included bonds and other monies in its trust account which are not held in trust, or required to be credited to the trust account under section 6.9(1) of the Local Government Act 1995.

Staff had conducted a review of bond money held in trust and transferred out any residential property bonds that didn't specifically state that they were to be held in trust. There are other funds held in trust for a few different community organisations including the recessed Wheatbelt Women Committee and

Vietnam Veterans. However, we are only able to hold money in trust that specifically has an agreement to be held in trust and will have to transfer these funds back to those community organisations.

Management Letter

The Management Letter contains comments on the findings identified during the year-end audit. These findings identified during the final audit have been weighted in accordance with the following scale;

- Significant – findings where there is potentially a significant risk to the entity should the finding not be properly addressed.
- Moderate – findings which are of sufficient concern to warrant action being taken by the entity as soon as possible.
- Minor – findings that are not of primary concern however still warrant action being taken.

The following is an extract from the Management Letter and outlines each of the findings, the rating of the finding, the implication, auditor’s recommendation, management’s comments, a responsible officer and the completion date.

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Trust monies	✓		
2. Infrastructure valuation	✓		
3. Vehicle management practices			✓

1. FINDING- TRUST MONIES

Finding

In accordance with the OAG ‘Accounting for work bonds, building bonds and hire bonds’ position paper dated 1 July 2019 bonds such as work bonds, building bonds and hire bonds should not, for accounting purposes, be regarded as Trust Fund moneys in terms of the Local Government Act 1995.

Our review of the Shire of Bruce Rock’s financial statements Note 26 and discussions with management indicate the following trust monies continue to be held in trust and an assessment as to whether they need to be reclassified to municipal funds has not yet been completed:

- *Factory unit and housing bonds;*
- *Fundraisers;*
- *Kwolyin Progress Association;*
- *Sale of land deposits;*
- *Bruce Rock museum funds;*
- *Rates overpayment;*
- *Community recreation centre;*
- *Tidy towns;*
- *Vietnam veterans;*
- *Wind up committee; and*
- *Wheatbelt women.*

Rating: Significant

Implication:

Risk of incorrect classification of trust and municipal funds and non-compliance with Local Government Act 1995.

Recommendation:

We recommend a review of trust funds be completed in 2019/20 to identify monies required to be returned to customer, recognised as income by the Shire or reclassified to municipal funds.

Management Comment:

Management did conduct a review of bonds held in the Trust Account and have moved any bond that does not state in the agreement that they must be held in Trust. The remaining bond monies are associated with factory units and their agreements do state that the bonds must be held in the Shire's Trust Account.

The other monies held in trust are not bonds. There are several that can be brought through to the municipal account which will be done in the course of 2019/20 financial year.

Responsible Officer:

MOF

2. INFRASTRUCTURE VALUATION

Finding

The valuation of bridges, footpaths, drainage, other infrastructure, and the airstrip which was performed in 2017-18 was a desktop valuation and did not include an assessment of the condition of each of assets.

Under Australian Accounting Standards, the condition of the asset is an important characteristic which needs to be considered when determining the fair value of an asset.

Rating: Significant

Implication

At 30 June 2019 and 30 June 2018 we were unable to obtain evidence that infrastructure assets amounting to \$33,767,492 and \$34,303,030 respectively, represent fair value in accordance with the requirements of Australian Accounting Standards and the requirements of Regulation 17A of the Local Government (Financial Management) Regulations 1996.

Recommendation

The Shire should ensure that future valuations of property, plant and equipment include assessments of the condition of assets.

Management Comment

Management will engage a suitably qualified consultant to provide fair values in accordance with the Australian Accounting Standards and Regulation 17A of the Local Government (Financial Management) Regulations 1996 for other infrastructure as at 30th June 2020. This will include the physical inspection of assets as required.

Responsible Person: MOF

Completion Date: 30th June 2020 (for inclusion in the financial statements for the year ending 30th June 2020)

3. VEHICLE MANAGEMENT PRACTICES

Finding

We noted that the Shire does not have a vehicle fleet management policy. We understand that vehicles are sold after reaching a set mileage, and this may result in vehicles being replaced within a short period (ie within 12 months). However, without a formal policy to support the approach, it is unclear whether the Shire has assessed the cost/benefits of this practice.

During our review of vehicle sales in 2018-19 we also identified the following:

- *For the July 2018 transaction the quoted price from the selected supplier did not agree to the purchase order price or the final sales invoice price. All 3 prices were different.*
- *For the May 2019 transaction, 1 of the 3 supplier quotes obtained did not include a vehicle trade-in price from that supplier. Instead, there was a hand written amount within that quote which appears to be a trade-in price.*

Rating: Minor

Implication

Without a vehicle fleet management policy, there is a greater risk that the Shire will not be getting the best value for money from its vehicle purchases.

Unresolved discrepancies between quotations, purchase orders and invoices can increase the risk of financial loss or fraud. They can also result in non-compliance with the Shire's procurement policy.

Recommendation

The Shire should

- (1) develop a vehicle fleet management policy. When developing this policy, the Shire should assess whether current practices reflect the best value for money*
- (2) investigate and resolve the discrepancies in the quotations identified above.*

Management Comment

Management will develop a policy for vehicle fleet management. Management will also direct staff involved in procurement and purchasing to ensure that all steps in the procurement process are followed.

Responsible Person: MOF

Completion Date: 30th September 2020

Overall the Auditor General was satisfied with how the audit was conducted.

A report will also have to be sent to the Minister of Local Government, Hon David Templeman in accordance with section 7.12A(5) of the Local Government Act 1995 outlining our management will address any significant matters raised in the Management Letter. Within 14 days of submitting this report, it must also be displayed on our website.

Consultation

Chief Executive Officer
Deputy Chief Executive Officer
Manager of Finance
Office of Auditor General
AMD Auditors

Statutory Implications

Audit Report - *Local Government Act 1995 s. 7.9* and *Local Government (Audit) Regulations 1996 r.9 & 10*.

Management Letter - Section 7.9 & 7.12A of *Local Government Act 1995 s7.9 & 7.12A* and *Local Government (Audit) Regulations 1996 r.9 & 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

Unknown expense for obtaining valuations and condition assessments for Other Infrastructure which will be brought to March Council meeting for Budget Amendment.

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 Feb 20 – 7.1.1

Moved: Cr Rajagopalan

Seconded: Cr Waight

That the Audit Committee recommends to Council to receive the Audit Report and accompanying Management Letter for the year ended 30 June 2019.

Carried 9/0

7.2. Deputy Chief Executive Officer

Agenda Reference and Subject:	7.2.1 Adoption of 2019 Compliance Audit Return
File Reference:	1.6.1.6 Compliance Audit Return
Reporting Officer:	Alan O’Toole, Deputy Chief Executive Officer
Author:	Alan O’Toole, Deputy Chief Executive Officer
Disclosure of Interest	Nil
Attachments	<i>Item 7.2.1 Attachment A – Compliance Audit Return</i>

Summary

This item is for the Audit Committee to consider the Compliance Return and make a recommendation to Council. Each year Council has to complete a Compliance Audit.

Background

The Compliance Audit Return has to be completed and submitted to the Department of Local Government and Regional Development by 31 March 2020.

Comment

The audit has been distributed with the Agenda and as can be seen, Council is compliant. The Compliance Audit is to be;

- a) presented to Council at a meeting of the Council;
- b) adopted by the Council; and
- c) the adoption recorded in the minutes of the meeting at which it was adopted.

Consultation

Chief Executive Officer
Deputy Chief Executive Officer
Manager of Finance

Statutory Implications

This Audit is to test Council’s statutory compliance with the Local Government Act 1995 and associated regulations.

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 Compliance Audit Return.

Financial Implications

Nil

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 Feb 20 – 7.1.2

Moved: Cr Dolton

Seconded: Cr Negri

That Council adopt the Compliance Audit Return, as attached, for the period 1 January 2019 to 31 December 2019, in accordance with the Local Government (Audit) Regulations 1996.

Carried 9/0

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

9. Closure of Meeting.

The Committee Chairman, Mr Stephen Strange thanked everyone for their attendance and closed the meeting at 11.08am.

These minutes were confirmed at a meeting on

Cr Stephen Strange
Shire President