



# AGENDA

## AUDIT COMMITTEE MEETING

**Wednesday 15 December 2021**

**2:00pm**

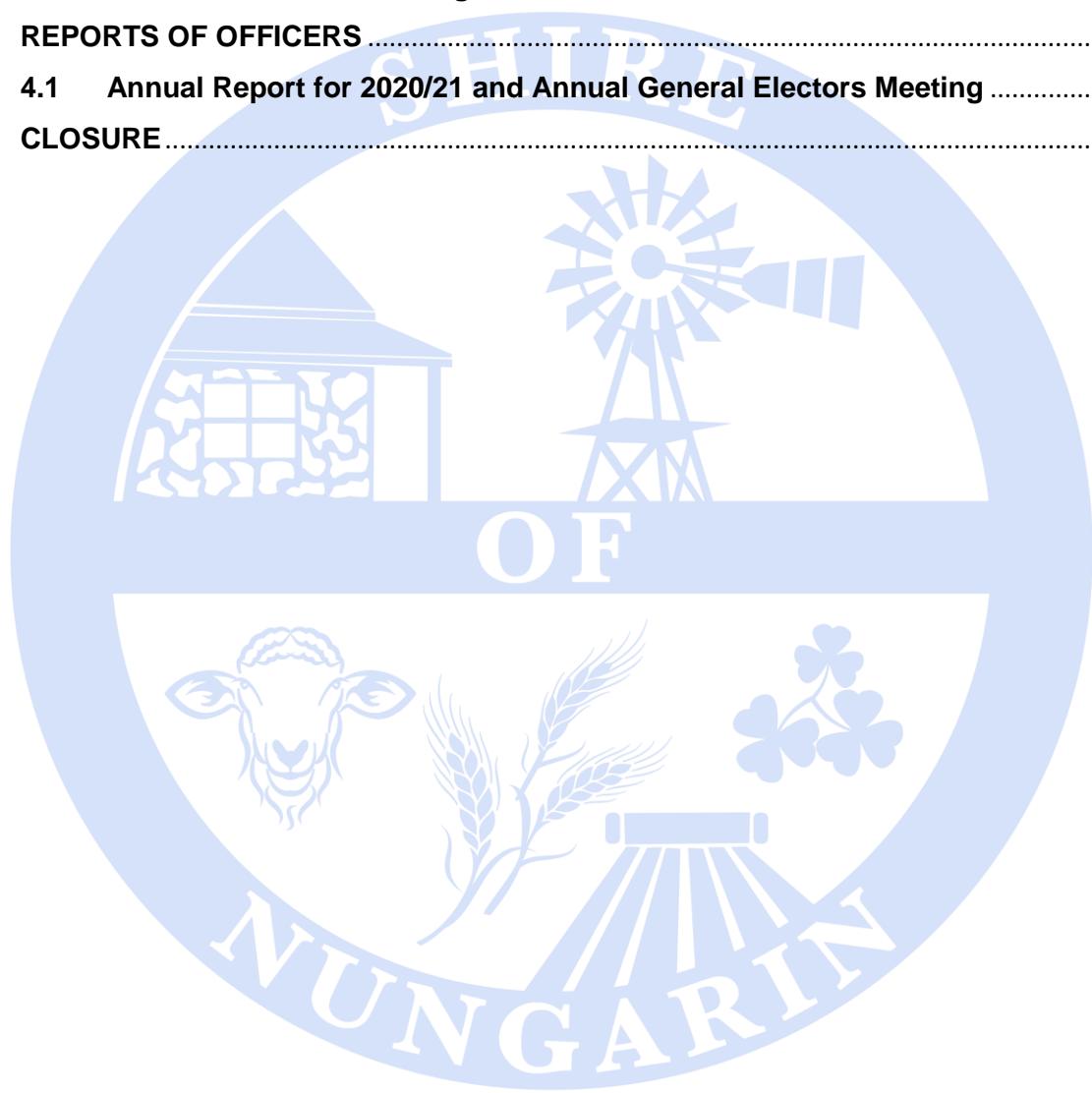
**Council Chambers**



**NUNGARIN**

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## **AGENDA**

### **1. DECLARATION OF OPENING**

The presiding member opened the meeting at ..... pm

### **2. ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE**

#### **2.1 ATTENDANCE**

Shire President (Chairperson)	Cr P de Lacy
Deputy Shire President	Cr G Coumbe
Elected Member	Cr RE O'Connell
Elected Member	Cr K Dayman
Elected Member	Cr W Lee
Elected Member	Cr M Caughey
Elected Member	Cr J Davis
Chief Executive Officer	Mr L Long
Manager Works & Services	Mr C Large

#### **2.2 APOLOGIES**

Nil

### **3. CONFIRMATION OF MINUTES**

#### **3.1 Minutes of the Shire of Nungarin Audit Committee**

#### **RECOMMENDATION**

That the Minutes of the Audit Committee held on 25 March 2021 be confirmed as a true and correct record.

Moved: .....

Seconded: .....

.....

#### **4. REPORTS OF OFFICERS**

<b>4.1 Annual Financial Report and Audit Report for 2020/21</b>	
<b>File Ref:</b>	41001
<b>Previous Item Ref:</b>	Nil
<b>Applicant:</b>	Nil
<b>Author and Title:</b>	Leonard Long, Chief Executive Officer Darren Long, Financial Consultant
<b>Declaration of Interest:</b>	Nil
<b>Voting Requirements</b>	Absolute Majority
<b>Appendix Number:</b>	4.1A – 2020/21 Annual Financial Statement 4.1B - 2020/21 Auditor General's Opinion 4.1C – Annual Financial Audit Exit Brief

#### **RECOMMENDATION**

**The Audit Committee recommends to Council that:**

1. **The Annual Financial Report for the year ended 30 June 2021 be adopted;**
2. **The Audit Report for the 2020-2021 financial year be accepted;**
3. **The CEO be authorised to forward the Council report to the Minister outlining the actions to be taken regarding the items raised in the Audit Report for 2021;**
4. **The Auditors Management Report for the year ended 30 June 2021 be received.**

Moved: .....  
 Seconded: .....

Absolute majority required

#### **IN BRIEF**

The Audit Committee is required to examine the Annual Financial Report which includes the Audit Report, for the year ending 2020/2021 and to make a recommendation to Council.

The Audit Committee is also to consider the Auditors Management Report for the year ended 30 June 2021.

#### **BACKGROUND**

The purpose and responsibilities of the Audit Committee is outlined in Part 7 of the *Local Government Act 1995*.

One of the Audit Committee's responsibilities is to examine the reports of the auditor. The committee would then determine if any matters raised in the reports require action to be taken by the local government and to ensure appropriate

action is implemented. The Audit Committee is to receive and authorise a report relating to the audit prepared by the Chief Executive Officer that is subsequently to be sent to the Minister.

This report outlines actions intended to be undertaken in relation to matters identified by the auditor.

## **REPORT DETAIL**

Council's annual audit for 2020/21 has now been finalised by the Council's auditor Audit Partners Australia (draft) and will be signed off by the Auditor General Office in due course.

Details of management issues, suggestions etc. are contained within a separate management report and are addressed on an ongoing basis. A copy of the 2020/2021 Annual Financial Statements can be found at **APPENDIX 4.1(A)**.

Following adoption of the Annual Report, the Annual Financial Statements and the official audit report the document will be presented to the Electors at the annual electors meeting. It is also a requirement that a copy of the audit report and Financial Statements be forwarded to the Dept. of Local Government.

The Auditor General has raised three items of concern resulting from the audit conducted.

### 1. Asset Renewal Funding Ratio not reported in Annual Financial Report

The Council is required to report on 7 financial ratios in its annual financial statements. These ratios measure trends in the Council's financial performance by a series of benchmarks.

The Auditor General has advised the Shire has not reported the Asset Renewal Funding Ratio for 2021 in the annual financial report, as required by Regulation 50(10(c) of the *Local Government (Financial Management) Regulations 1996*.

This ratio indicates whether the local government has the financial capacity to fund asset renewal as required, and can continue to provide existing levels of services in future, without additional operating income; or reductions in operating expenses. The ratio is calculated from information included in the local government's Long-Term Financial Plan and Asset Management Plans.

The Shire's Long Term Financial Plan and Asset Management Plans are outdated and the data to calculate the ratio was unavailable.

To ensure this ratio can be calculated in future, the Shire will need to prepare a Asset Management Plans that contain at least 10 years of forecast asset renewal data, and maintain the 10 year renewal forecasts. The Shire will also need to ensure that it maintains an up to date Long Term Financial Plan that contains at least 10 years of planned asset renewal data.

The Shire has begun the preparation of the asset management plans, having prepared a draft plant replacement plan projected for the next 10 years. A draft Road Infrastructure Asset Management Plan has also been prepared and is currently being reviewed by Executive Officers.

In addition, quotations have been requested from contractors to undertake an asset condition audit of building assets.

A draft Long Term Financial Plan is currently being prepared, and will be workshopped with Council in March / April 2022. Once complete, the Shire will be able to calculate the Asset Renewal Funding Ratio for the 2021-22 financial year and for each year thereafter, as long as each of the Plans are reviewed and updated annually.

## 2. Non-Compliance with Purchasing Policy

For approximately 11% of transactions, the Shire did not have a sufficient number of supplier quotations as required under the Shire's purchasing policy, or there was no documentation to explain why other quotations were not sought.

The CEO has implemented an electronic purchase order system, which requires the ordering officer to ensure the relevant number of quotations are sourced, or to seek approval from the CEO detailing why the required number of quotations was unable to be obtained. This approach also requires a copy of all quotation documentation to be submitted with the purchase order, ensuring appropriate records are kept.

## 2. User Access to Shire's Financial Management System

All users of the Shire's financial management system have privileged (super user) access level. This access could be used to undermine the effectiveness of system controls (such as segregation of duties) and diminish accountability.

The Shire administration team is very small. All staff perform a broad range of duties, requiring them to have access to all system modules at all times during work hours, and this makes it impossible to have clear segregation of duties at any level, or impose security restrictions within the financial system.

This risk has been previously identified and steps have been taken to minimise the level of risk exposure. Minimisation strategies include ensuring fortnightly logs are reviewed and signed off by the CEO for those systems considered to be high risk for fraudulent activity, such as payroll and creditors.

The Shire Executive is well aware of the risk, but without the current user access level, it would be impossible to manage and operate the organisation as efficiently as it is. The Executive will continue to monitor user access and review the level of risk on an ongoing basis.

## **SHIRE OF NUNGARIN COMMUNITY STRATEGIC PLAN 2023**

<b>Focus Area</b>	Civic Leadership
<b>Aspiration</b>	A strong local democracy with an actively engaged community and effective partnership.
<b>Objective</b>	16.7 Annually review compliance methods.

## **OTHER STRATEGIC LINKS**

Nil

## **STATUTORY ENVIRONMENT**

### Local Government Act 1995, Section 7.9:

Requires the Auditor to examine the accounts and annual financial report by 31 December following the end of the financial year.

### Local Government Act 1995, Section 7.12A:

Sets out the requirements for local governments in respect to audits. This includes the need to prepare a report to the Minister within 3 months of receiving the audit report if the auditor identifies any items it considers significant.

### Local Government (Audit) Regulations 1996, section 10:

Requires the audit report to be forwarded to the Audit Committee within 30 days of completing the audit.

### Local Government (Audit) Regulations 1996, section 16:

Describes the functions of the audit committee.

## **SUSTAINABILITY AND RISK CONSIDERATIONS**

### **Economic – (Impact on the Economy of the Shire and Region)**

Nil

### **Social – (Quality of life to community and / or affected land owners)**

Nil

### **Policy Implications**

Nil

### **Risk Management Implications**

<b>Risk Level</b>	<b>Comment</b>
High	The legislative requirements of the Act are clear on the process required following the receipt of the Auditor General's Audit Report. Failing to meet the requirements exposes the Shire to action by the Department of Local Government, Sport and Cultural Industries.

## **CONSULTATION**

Throughout the preparation of the Annual Financial Report the Shire's Auditors, Audit Partners Australia consulted the Shires' Financial Consultant Darren Long and the Senior Finance Officer.

Early in March 2021 the Auditors, Audit Partners Australia together with the Auditor Generals' Office had an audit exit meeting to present the Annual financial Report and audit report to the Shire's Audit Committee.

## **RESOURCE IMPLICATIONS**

### **Financial**

Nil

### **Workforce**

Nil

## **CONCLUSION**

The Annual Financial Report is the final component of the Shire's Integrated Planning & Reporting Framework, and is a mechanism of communicating with the community and key stakeholders in a transparent and accountable way.

The acceptance of the Annual Financial Report will allow the report to be published on the Shire's website in advance of the Annual Elector's Meeting which is proposed for Wednesday 2 February 2022 at 4:30pm.

## **5. CLOSURE**

The being no further business the meeting closed at .....pm

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Presiding Member

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Date

