



Shire of Pingelly

Minutes

Audit Committee Meeting
17 March 2010

Minutes of the Shire of Pingelly Audit Committee meeting held in the Council Chambers, 17 Queen Street, Pingelly on 17 March 2010 commencing at 2.35pm.

Table of Contents

- 1. Opening and Announcements 2**
- 2. Apologies and Approved Leave of Absence 2**
- 3. Election of Chairman.....2**
- 4. Disclosures of Interest 2**
- 5. Business 3**
 - 5.1 Audit Management Report..... 3
 - 5.2 Auditor Contract 8
- 6. Closure12**

MEMBERS PRESENT

Cr SJ Lange Deputy President
Cr NP Cowcher
Cr LN Kirk
Cr RJ Marshall
Cr WV Mulroney
Cr LN Steel

STAFF IN ATTENDANCE

Mr MG Oliver Chief Executive Officer
Mr S Marshall Deputy Chief Executive Officer

OTHERS IN ATTENDANCE

Mr Greg Godwin, Auditor, UHY Haines Norton from 2.39pm (by telephone).

1. OPENING & ANNOUNCEMENTS

The Chief Executive Officer declared the meeting open at 2.35pm.

2. APOLOGIES AND APPROVED LEAVE OF ABSENCE

2.1 Cr Beard

Cr Beard was granted leave of absence for this meeting (Item 5.1 – 17 February 2010).

2.2 Cr Watts

Cr Watts has tendered her apologies.

3. ELECTION OF CHAIRMAN

The *Local Government Act* (Election of presiding members and deputies) provides that the members of a committee are to elect a presiding member from amongst themselves.

Statutory Environment:

Section 5.12 of the *Local Government Act* (Election of presiding members and deputies) provides that:

- (1) The members of a committee are to elect a presiding member from amongst themselves in accordance with Schedule 2.3, Division 1 as if the references in that Schedule —
 - (a) to “office” were references to “office of presiding member”;
 - (b) to “council” were references to “committee”; and
 - (c) to “councillors” were references to “committee members”.
- (2) The members of a committee may elect a deputy presiding member from amongst themselves but any such election is to be in accordance with Schedule 2.3, Division 2 as if the references in that Schedule —
 - (a) to “office” were references to “office of deputy presiding member”;
 - (b) to “council” were references to “committee”;
 - (c) to “councillors” were references to “committee members”; and
 - (d) to “mayor or president” were references to “presiding member”.

Cr Mulroney nominated Cr Lange. There being no further nominations, the CEO declared Cr Lange elected. Cr Lange assumed the Chair.

4. DISCLOSURES OF INTEREST Nil

5. BUSINESS

Mr Greg Godwin, Auditor, UHY Haines Norton joined the meeting at 2.39pm (by telephone).

5.1 Audit Management Report

File Reference: 06.04
Location: N/A
Applicant: N/A
Date: 23 February 2010
Disclosure of Interest: Nil
Author: M.G. Oliver, Chief Executive Officer
Attachments: Nil

Background:

The role of the Audit Committee is to provide an independent oversight of the financial systems of a local government on behalf of Council. The Council (unless delegated to the Audit Committee) is required to meet a minimum of once per year with the Auditor (which may be by video or telephone). The Committee is required to examine audit reports / management letters and advice received from the Auditor and to ensure appropriate action and response is provided.

Council considered the Audit Report at the Special Meeting held on 28 January 2010 and resolved that the Report be accepted. The Audit Management Report was left for Council to consider on 17 February 2010. The Report was accepted and referred to this meeting.

In the Audit Management Report Greg Godwin, UHY Haines Norton (Auditor) has raised a number of issues for the Audit Committee's consideration:

We advise that we have completed our audit procedures for the year ended 30 June 2009 and enclose our Audit Report.

We are required under the *Local Government (Audit) Regulations* to report certain compliance matters in our audit report. Other matters which arise during the course of our audit that we wish to bring to Council's attention are raised in this management report.

It should be appreciated that our audit procedures are designed primarily to enable us to form an opinion on the financial statements and therefore may not bring to light all weaknesses in systems and procedures which may exist. However, we aim to use our knowledge of the Shire's organisation gained during our work to make comments and suggestions which, we hope, will be useful to you.

Road Infrastructure — Depreciation

As in previous years, the calculation of depreciation on roads for the year ended 30 June 2009 was performed using a weighted average method.

From our testing and review, the depreciation expense arrived at appeared to be reasonable and no adjustment to the calculation was required.

However, we again recommend that Council review the current method of recording and depreciating road infrastructure with a view to implementing a system which will allow each road to be dissected into its component parts. This will enable a more reliable record of Council's road network to be maintained as well as helping to ensure depreciation is correctly reflected.

Fixed Assets - Reconciliation

Reconciliation of the fixed assets register to the general ledger did not occur on a monthly basis. In addition, we have noted that one of additions has been wrongly been posted in the fixed asset register at year end.

To help ensure the fixed asset register agrees to the general ledger, we recommend the above reconciliation be prepared monthly and reviewed by a senior staff member.

Bank Reconciliations

We noted the bank reconciliations have items titled "In bank but not posted to system" and "In system but not in bank". Whilst these reconciling items are usually not significant they have remained on the reconciliations for a significant amount of time and refer to:-

- Credit cards payments not posted to an account; and
- Centrelink payments not traced to bank statements.

To help ensure reconciling items are kept to a minimum and dealt with before they become significant or untraceable due to the lapse of time, we recommend all payments from Shire bank accounts be identified to facilitate regular posting to the correct general ledger accounts.

We noted no other matters that we wish to draw to Council's attention.

Corrected Misstatements

We advise that we have informed the Shire management of several misstatements which were corrected during the course of our audit and are reflected in the financial report. These corrected misstatements are attached at Appendix 1 to this letter.

Uncorrected Misstatement

We advise that we have informed Shire management that there were no uncorrected misstatements above \$3,000 noted by us during the course of our audit.

We take this opportunity to thank the Chief Executive Officer and all staff for the assistance provided during the audit.

APPENDIX 1 - Corrected Misstatements

Item	Description	DR (\$)	CR (\$)
1.	Municipal Bank Trade Creditors <i>To reclassify trade creditors from Municipal Bank</i>	66,336	66,336
2.	Rates Outstanding Pensioners Rates Outstanding <i>To reclassify deferred pensioners rates outstanding</i>	21,944	21,944
3.	Depreciation Provision for depreciation on Infrastructure <i>To correct under provision of depreciation on infrastructure</i>	13,036	13,036
4.	Grants received GST Payable <i>To correct overprovision of grants received last year</i>	47,673	47,673
5.	Trade Creditors PAYG Payables GST Payables <i>To reclassify PAYG and GST payables this year</i>	26,773	13,868 12,905
6.	PAYG Payables GST Payables Trade creditors Materials and Contracts <i>To reverse the reclassification of PAYG and GST payables last year</i>	14,446 18,242	28,267 4,421
		208,450	208,450

Comment:

There is no disagreement with the issues raised by the Auditor.

In November 2008 Council considered similar issues raised by the Auditor:

- The Auditor has asked that Council review the current method of infrastructure depreciation with a view to implementing a system which allows for more accurate calculation of Infrastructure Depreciation.
- A recommendation was also made that the fixed asset register be reconciled to the general ledger on a monthly basis. This is generally carried out on an annual basis, but will be done more regularly where practicable.

In November 2007 Council also considered a similar issue raised by the Auditor:

- The Auditor has asked that Council review the current method of infrastructure depreciation with a view to implementing a system which allows for more accurate calculation of Infrastructure Depreciation.

Specifically:

- Bank Reconciliations – Staff have progressed the reconciliation to the point where it is up to date, all the transactions have been accounted for and almost the point where it will become a simple daily process.
- Road Infrastructure — Depreciation – the details of roads infrastructure depreciation is produced by the ROMAN system – which appears to have last been maintained in 2004. Effort is currently being undertaken to establish what works have been completed since that time with the intent to use a specialist to bring the ROMAN register up to date. The process will have additional benefits – road grant funds are based on the ROMAN data.
- Fixed Assets – Reconciliation – the process of reconciling the Fixed Asset Register has not commenced.

Consultation: Nil

Statutory Environment:

Section 7.12A provides:

- (1) A local government is to do everything in its power to —
 - (a) assist the auditor of the local government to conduct an audit and carry out his or her other duties under this Act in respect of the local government; and
 - (b) ensure that audits are conducted successfully and expeditiously.
- (2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.
- (3) A local government is to examine the report of the auditor prepared under section 7.9(1), and any report prepared under section 7.9(3) forwarded to it, and is to —
 - (a) determine if any matters raised by the report, or reports, require action to be taken by the local government; and
 - (b) ensure that appropriate action is taken in respect of those matters.
- (4) A local government is to —
 - (a) prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
 - (b) forward a copy of that report to the Minister, by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.

Regulation 16 of the *Local Government (Audit) Regulations* provides that an audit committee —

- (a) is to provide guidance and assistance to the local government —
 - (i) as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and
 - (ii) as to the development of a process to be used to select and appoint a person to be an auditor;and
- (b) may provide guidance and assistance to the local government as to —
 - (i) matters to be audited;
 - (ii) the scope of audits;
 - (iii) its functions under Part 6 of the Act; and
 - (iv) the carrying out of its functions relating to other audits and other matters related to financial management.

Policy Implications: Nil

Financial Implications: Nil

Strategic Implications: N/A

Voting Requirements: Simple Majority

Recommendation:

That the issues raised in the Audit Management Report for the year ended 30 June 2009 be noted and that the CEO be requested to keep the Council informed of the progress to their resolution.

10218 - Moved Cr Mulrone, Seconded Cr Cowcher

That the issues raised in the Audit Management Report for the year ended 30 June 2009 be noted and that the CEO be requested to keep the Council informed of the progress to their resolution.

CARRIED 6/0

Mr Greg Godwin, Auditor, UHY Haines Norton left the meeting at 2.51pm.

5.2 Auditor Contract

File Reference:	06.04.00
Location:	N/A
Applicant:	N/A
Date:	1 March 2010
Disclosure of Interest:	Nil
Author:	M.G. Oliver, Chief Executive Officer
Attachments:	Nil
Previous Reference:	Item 10.15 – 17 February 2010

Summary:

Council to consider quotations for the services of an Auditor.

Background:

The 4 year contract with David Tomasi UHY Haines Norton for the supply of audit services expired on 30 June 2009.

Council resolved in February 2010 that quotations be sought for the provision of audit services to the Shire of Pingelly for the three years 1 July 2009 to 30 June 2012 in accordance with the audit specification:

1. Introduction

This document is provided for the assistance of auditors who wish to apply for the role of auditor with the Shire of Pingelly.

Auditors are required to address all of the matters outlined in the specification.

Auditors who submit an application may be asked to provide further information and/or make a presentation to the Audit Committee.

2. Objectives of the Audit

To provide an independent audit opinion of the accounts and annual financial reports of the Shire of Pingelly for each financial year covered by the term of the audit appointment.

3. Term of Audit Appointment

The term of appointment will be for the three financial years commencing 1 July 2009 through to 30 June 2012.

4. Scope of the Audit

The Auditor is to –

- 4.1 Carry out such work as necessary to form an opinion and Report as to whether -
 - a) the accounting records are reliable and adequate as a basis for the preparation of the financial statements;
 - b) the accounts are properly kept;
 - c) the annual financial report:
 - (i) is prepared in accordance with the financial records; and
 - (ii) represents fairly the results of the operations of the local government and the financial position of the local government as at 30 June in accordance with the *Australian Accounting Standards*, the *Local Government Act*, the *Local Government (Financial Management) Regulations* and other mandatory professional reporting requirements.
 - d) there are any material matters indicating a significant adverse trend in the financial position or the financial management practices of the Council;

- e) there are any matters indicating non-compliance with Part 6 of the *Local Government Act*, the *Local Government (Financial Management) Regulations* or applicable financial controls of any other written laws.

4.2 Give an opinion in the audit report on -

- a) the financial position of the local government; and
- b) the results of the operation of the local government.

5. Audit Methodology and Approach

- a) The auditor is required to comply with the requirements of section 7.9 of the *Local Government Act* and the *Local Government (Audit) Regulations*.
- b) An audit is to be carried out in accordance with the *Local Government Act* and various regulations, the Australian Auditing Standards and accompanying Auditing Guidance Statements adopted from time to time by the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia.
- c) The auditor is to provide the local government with a general outline of his/her methodology.
- d) The auditor is to provide the local government with a plan for the audit including:
 - timing of interim audit visits;
 - final audit visit (within 30 days of being advised that the accounts and annual financial report are available for audit);
 - timing of the legislative requirement to meet with the local government and whether that meeting will be in person or by some other means; and
 - the method to be used to communicate with, and provide advice and information to, the local government.
- e) The auditor is required to produce an audit report as required by section 7.9 of the *Local Government Act* and, if considered appropriate by the auditor, a management report.

6. Critical Matters to be Audited

The auditor is to include in his or her application the extent to which the critical matters outlined below will be audited so as to form an opinion on the matter in which they have been maintained.

- (i) Revenue
 - Rates Revenue
 - Government grants
 - User pays revenue
 - Profit on sale of non-current assets
 - Other income
- (ii) Expenditure
 - Salary and wage costs
 - Depreciation
 - Materials and contract expenditure
 - Loss on sale of non-current assets
 - Insurances
 - Bad debts
 - Other expenditure
- (iii) Current Assets
 - Bank and short term investments
 - Receivables and prepayments
 - Inventory
- (iv) Non-current Assets
 - Property, plant, furniture and equipment
 - Infrastructure and depreciation
 - Other receivables

- (v) Liabilities (Current and non-current)
 - Creditors and accruals
 - Loan borrowings including new loans raised
 - Provision for annual and long service leave entitlements(vi) Reserve Funds
- (vii) Contingent Liabilities
- (viii) Capital Commitments
- (ix) Accounting Policies and Notes to the Financial Statements
- (x) Cash Flow Statement
- (xi) The financial ratios required by the *Local Government (Financial Management) Regulations*.

7. Hours, fees and Expenditure

The auditor is to provide:

- Estimate of the time to be spent on the audit.
- Fees for completing the audit in accordance with this specification.
- Nominated auditor(s) and registered company audit number(s).
- Experience of the nominated auditors in completing local government audits.

The auditor is to provide a fee for any additional audit requested by Council.

8. Terms

Conditions to be noted by auditors:

- The auditor shall not sub contract to a third party.
- The auditor shall not, and has no right to, assign the audit contact to third parties.
- The auditor shall not be engaged by the local government to undertake any financial consultancy with the local government that requires the preparation of financial information that will be the subject of the annual audit.
- The auditor shall confirm that he or she has and will maintain during the duration of the audit term, professional indemnity insurance covering the legal liability arising out of any neglect, default, error or omission.

9. Termination of Appointment

The appointment as auditor is terminated if:

- a) the auditor ceases to be a registered company auditor;
- b) the auditor ceases to be an approved auditor under Section 7.5 of the Local Government Act;
- c) the auditor is a disqualified person under Section 7.4(2) of the Local Government Act;
- d) the auditor resigns by notice in writing to the Shire of Pingelly;
- e) the Shire of Pingelly serves notice in writing to the auditor terminating the appointment.

Quotations were sought by advertisement in the West Australian on 3 March 2010 closing at noon on 16 March 2010.

Comment:

Following Council's decision to seek quotes for audit services, the quote to undertake the Financial Management Systems & Procedures Review, which was on the basis of being undertaken as part of the interim audit by UHY Haines Norton was reconsidered and a decision made to include the Review as an addition to the audit services.

Consultation: Nil

Statutory Environment:

Section 7.3 of the *Local Government Act* (Appointment of auditors) provides that:

- (1) A local government is to, from time to time whenever such an appointment is necessary or expedient, appoint (by Absolute Majority) a person, on the recommendation of the audit committee, to be its auditor.
- (2) The local government may appoint one or more persons as its auditor.
- (3) The local government's auditor is to be a person who is —
 - (a) a registered company auditor; or
 - (b) an approved auditor.

Section 7.6 provides:

- (1) The appointment of a local government's auditor is to have effect in respect of the audit of the accounts and annual financial report of the local government for a term of not more than 5 financial years, but an auditor is eligible for re-appointment.
- (2) The appointment of an auditor of a local government ceases to have effect if —
 - (a) his or her registration as a registered company auditor is cancelled;
 - (b) his or her approval as an approved auditor is withdrawn;
 - (c) he or she dies;
 - (d) the auditor ceases to be qualified to hold office as auditor or becomes a disqualified person;
 - (e) the auditor resigns by notice in writing addressed to the local government; or
 - (f) the appointment is terminated by the local government by notice in writing.
- (3) Where —
 - (a) the registration of a local government's auditor as a registered company auditor is suspended; or
 - (b) a local government's auditor becomes unable or unwilling to carry out all or part of his or her duties,the local government is to appoint a person to conduct the audit or to complete that part of the audit which remains to be conducted, as the case requires.

Section 7.8 of the *Local Government Act* (Terms of appointment of auditors) provides:

- (1) Subject to this Part and to any regulations, the appointment of a person as auditor of a local government is to be made by agreement in writing on such terms and conditions, including the remuneration and expenses of the person to be appointed, as are agreed between that person and the local government.
- (2) The remuneration and expenses payable to the auditor of a local government (whether appointed by the local government or by the Departmental CEO under section 7.7) are payable by the local government.

Regulation 7 of the *Local Government (Audit) Regulations* provides that an agreement between a local government and an auditor is to include —

- (a) the objectives of the audit;
- (b) the scope of the audit;
- (c) a plan for the audit;
- (d) details of the remuneration and expenses to be paid to the auditor; and
- (e) the method to be used by the local government to communicate with, and supply information to, the auditor.

Policy Implications: Nil

Financial Implications: Nil

Strategic Implications: N/A

Voting Requirements: Simple Majority

Recommendation:

That the quotes received for the audit services for the 3 years 1 July 2009 to 30 June 2012 together with the Financial Management Systems & Procedures Review be determined and a recommendation made to Council.

The CEO tabled quotes received from:

- Greg Wyllie, Churchlands
- AMD Chartered Accountants, Bunbury
- BDO, Subiaco
- UHY Haines Norton, Osborne Park

10219 - Moved Cr Mulroney, Seconded Cr Marshall

That the quote received from AMD for the audit services for the 3 years 1 July 2009 to 30 June 2012 together with the Financial Management Systems & Procedures Review totalling \$34,800 be recommended to Council.

CARRIED 6/0

14. CLOSURE

The Chairman declared the meeting closed at 3.00pm.

These minutes were confirmed by Council at the Ordinary Meeting held on 21 April, 2010

Signed

Presiding Person at the meeting at which the minutes were confirmed

Date