

SHIRE OF SHARK BAY MINUTES

2 June 2022

AUDIT COMMITTEE



2 JUNE 2022



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MINUTES OF THE AUDIT COMMITTEE MEETING

2 JUNE 2022

The minutes of the Audit Committee held in the Council Chamber at the Shark Bay Recreation Centre, Francis Street, Denham on 2 June 2022 commencing at 1.02 pm.

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AC5.0 AUDIT COMMITTEE REPORTS

AC5.1 ANNUAL REPORT 2020/2021
FM00009

Author

Executive Manager Finance and Administration

Disclosure of Any Interest

Nil

Moved

Cr Ridley

Seconded

Cr Vankova

Audit Committee Resolution

The Audit Committee recommend that Council –

- 1. Receive and Accept the Annual Report for the 2020/2021 financial year.**
- 2. Receive and Accept the Annual Financial and Auditors reports for the 2020/2021 financial year and note the comment on ratios.**
- 3. Set the date for the Annual Electors Meeting for Wednesday 15 June 2022 commencing at 6.30 pm at the Shark Bay Recreation Centre in accordance with section 5.27(2) of the *Local Government Act 1995*.**

7/0 CARRIED

Background

The 2020/2021 Annual Report, which includes the annual financial statements and auditor's report, has been prepared in accordance with section 5.53 of the *Local Government Act 1995* and is attached under separate cover. The Audit Committee recommended that the Annual Report, the Annual Financial and Auditors report for 2020/2021 be adopted by Council.

The Annual Report highlights the Shire's achievements in 2020/2021 under the outcomes in the Strategic Community Plan.

Following the acceptance of the Annual Report the Council must have a meeting of electors not more than 56 days after the acceptance of the Annual Report for the previous financial year. This means that the last day that the Council can hold an electors' meeting is 20 July 2022.

Comment

The annual financial statements are included in the Annual Report and reflect an unqualified audit report.

The management letter mentions two areas in which the auditors recommend improvements, being:

- Conflict of interest declarations not completed by procurement evaluation panel members; and

MINUTES OF THE AUDIT COMMITTEE MEETING

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- Purchase orders raised after the service is performed or goods received.

A full copy of the Management Letter is attached to this agenda item for your information which incorporates the details of the findings as well as Managements comments.

Legal Implications

Sections 5.53, 5.54 and 5.55 of the *Local Government Act 1995* refer to the acceptance of the annual report.

Policy Implications

There are no policy implications associated with this report.

Financial Implications

The annual report includes the Shire's audited annual financial statements, which present the Shire's financial position as at 30 June 2021 and is a useful tool for evaluating the Shire's operations.

Strategic Implications

Strategy 4.1 / 4.2 The Shire is a strategically focused, unified Council and organisation, functioning efficiently and effectively

Risk Management

There is a low risk associated with this item. Council needs to adopt the annual report to maintain compliance with the *Local Government Act 1995*.

Voting Requirements

Simple Majority Required

Signatures

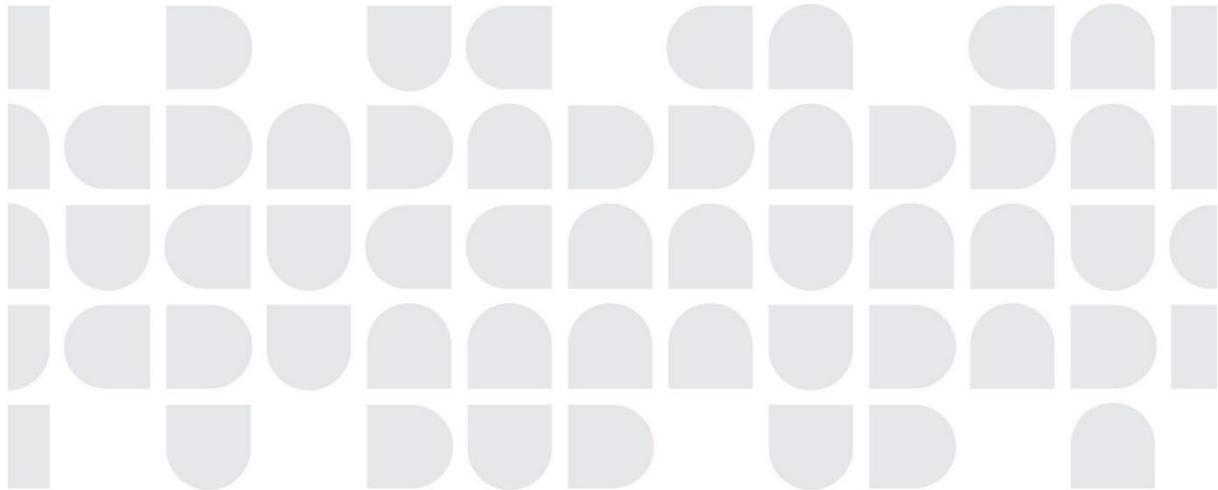
| | |
|-------------------------|------------------|
| Author | <i>A Pears</i> |
| Chief Executive Officer | <i>D Chapman</i> |
| Date of Report | 17 May 2022 |

2 JUNE 2022



Shire of Shark Bay
Report to the Audit
Committee for the year ended
30 June 2021

4 April 2022



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MINUTES OF THE AUDIT COMMITTEE MEETING

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1. Executive summary

This executive summary provides a brief overview of the more detailed sections covered in the remainder of this report.

| Section | Overview |
|---|---|
| Purpose and scope | This report sets out the major matters arising from this year's audit, which has been performed in order to enable the Auditor General to express an opinion on the Shire of Shark Bay's (the Shire) financial statements. |
| Outstanding matters | Our audit of the financial report is substantially complete. We propose to recommend to the Auditor General to issue an unmodified audit opinion on the financial report subject to the completion of: <ul style="list-style-type: none">- Appropriate procedures relating to subsequent events;- Receipt of the signed management representation letter;- Certification of the financial report. |
| Basis of preparation of the financial report | The accounting policies adopted are materiality consistent with the accounting policies in the 30 June 2020 annual financial report. |
| Summary of unadjusted differences | There were no unadjusted differences noted for the financial year ended 30 June 2021. |
| Key areas of focus and audit response | Our audit procedures were focused on those activities that are considered to represent the key audit risks identified in our audit plan and through discussions with management during the course of our audit. These areas of focus are consistent with those set out in the Audit Strategy Memorandum tabled at the entrance meeting on 2 June 2021. We are satisfied that these key areas of focus have been addressed appropriately and are properly reflected in the financial report. Please refer to Section 3 of this report for a more detailed discussion on the key areas of focus. |
| Independence | We confirm that we are independent with respect to professional requirements. |

2. Purpose and scope

Overview

We have conducted an audit of the Shire of Shark Bay for the year ended 30 June 2021.

Our audit was performed pursuant to the requirements of the *Auditor General Act 2006*, with the objective of enabling the Auditor General to express an opinion on the financial report.

Our audit was conducted in accordance with *Local Government Act 1995*, *Local Government (Financial Management) Regulation 1996* and to the extent that they are not inconsistent with the Act, Australian Accounting Standards to provide reasonable assurance as to whether the financial report is free from material misstatements. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements will be detected.

We perform procedures under the Auditor General Act 2006 to assess whether in all material aspects all procedures are performed in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulation 1996* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Shire's financial position, and of its performance as represented by the results of its operations and cash flows.

We form our audit opinion on the basis of these procedures, which include:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Shire.

This report has been prepared to:

- summarise any major changes affecting the Shire during the period;
- report the key issues arising from our audit;
- provide a summary of any significant changes in financial reporting; and
- draw to the attention of the Audit Committee for any other matters of relevance.

We also confirm that all significant matters that we have discussed with management are documented in this report and that we are not aware of any other matters that should be brought to the attention of the Audit Committee.

Acknowledgement

We would like to take this opportunity to thank Andrea Pears and her team for their co-operation during the course of our audit, who helped to facilitate a smooth year-end audit process.

3. Key areas of focus and audit response

Our audit procedures were focused on those areas of the Shire's activities that are considered to represent the key audit risks. These areas of focus were identified as a result of:

- The risk assessment process undertaken during the planning phase of our engagement and were presented to the Audit Committee in our Audit Strategy Memorandum;
- Discussions with management during the course of our audit; and
- Review of internal audit reports.

We are satisfied that the key areas of focus have been addressed appropriately and are properly reflected in the financial report:

1) Revenue recognition

The Shire's main source of revenue are rates and fees and charges. The Shire also receives significant grants, subsidies and contributions.

We have performed the following:

- control testing on revenue transactions and analytical review;
- cut-off testing and credit notes testing subsequent to the financial year;
- assessed that the Shire's revenue is recognised in accordance with AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income for Not for Profit Entities*; and
- checked that the rates valuation reconciliation received from Landgate has been duly reviewed by a senior officer independent of preparation.

There were no issues noted with the measurement and recognition of revenue.

2) Employee expenses and Long Service Leave Entitlements for Casual Employees under the Long Service Leave Act 1958

Employee expenses is one of the major expenses of the Shire.

We have performed control testing on payroll transaction, including but not limited to employment and termination, performed analytical review and enquired on management's casual employee policies and arrangements and confirmed that no casual employees are eligible for long service leave.

There were no issues noted with the measurement of employee expense and provision for employee benefits.

3) Material and contracts

Material and contract expenses is also one of the major expenses of the Shire.

We have performed control testing on expenses, including obtaining and reviewing the current policies and procedures implemented and performed analytical review.

There were no issues noted with the measurement and recognition of material and contract expenses.

4) Cash and cash equivalents

The Shire has significant cash and cash equivalent balance.

We have performed the following:

- control testing on bank reconciliation;
- performed analytical review, including independently obtaining bank confirmation and investigating any significant exceptions; and
- reviewed the split between unrestricted and restricted cash and ascertain that it is in accordance with the imposed regulations and legislation.

There were no issues noted with the existence of cash and cash equivalents.

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3. Key areas of focus and audit response

5) Recoverability of debtors

Collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written off against the allowance account, when objective evidence that the Shire will not be able to collect its debts has been established. Receivables are normally settled within 30 days.

We have performed analytical review, including reviewing the Shire's ongoing assess of collectability of receivables and traced material receivables to subsequent collection.

There were no issues noted with the measurement and recognition of trade and other receivables, including assessment of expected credit losses.

6) Property, plant and equipment and infrastructure

The Shire owns significant amounts of property plant and equipment and infrastructure. Impairment, accuracy of the depreciation charge and appropriateness of asset capitalisation are identified as risks.

We have performed analytical review, including the following:

- recalculating depreciation and reviewing the reasonableness of the assets useful life, including checking that the annual review has been signed-off by the Executive Manager Finance & Admin;
- verified significant additions and disposals.
- evaluated management's assessment of impairment; and
- considered the appropriateness of the accounting treatment of costs incurred as either maintenance or capitalised as asset enhancements.

There were no issues noted with the existence, measurement and recognition of property, plant and equipment and infrastructure.

7) Financing Arrangements

The Shire has financing arrangements comprising liquid facility and direct borrowings. All borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. Subsequent measurement is at amortised cost using the effective interest rate method. Borrowing costs are expensed as incurred.

We have performed analytical review, including the following:

- Agreed closing balances to year end repayment schedule provided by the Western Australian Treasury Corporation.
- Recalculated the current/n-current split of borrowings as at year end.

There were no issues noted with the measurement and recognition of financing arrangements

8) Disclosure of related party transactions

The Shire has transactions with related parties which are on normal commercial terms and conditions. There is a risk that related party transactions and balances are not appropriately disclosed in the financial report in accordance with the Shire's applicable accounting policies and the relevant accounting standards.

We have performed the following analytical review, including the following:

- reviewed and determined that the Shire's accounting policy is in line with AASB 124 *Related Party Disclosures*;
- enquired and understood the process for identification of related parties, reviewed the register of related party transactions, and assessed whether the disclosures made in the notes to the annual financial report are appropriate; and
- agreed related party transactions to supporting documentation and ensured appropriate disclosures have been included in the notes to the annual financial report.

There were no issues noted with the disclosure of related party transactions.

MINUTES OF THE AUDIT COMMITTEE MEETING

2 JUNE 2022

3. Key areas of focus and audit response

9) Local Government Regulations

Regulation 10(3)(b) of the *Local Government (Audit) Regulations 1996* (LG Audit Regulations) requires the auditor to report, in the auditor's report, any matters indicating non-compliance with Part 6 of the *LG Act 1995*, *LG Financial Management Regulations 1996* or applicable financial controls in any other written law. These matters may relate to the financial report or to other financial management matters. There is a risk of breach of the Local Government Regulations.

We have enquired with management of any breaches with the *LG Act 1995* and the *LG Financial Management Regulations 1996* and throughout the audit checked for non-compliance.

There were no matters indicating non-compliance that were noted.

10) Financial ratios

Regulation 50 of the *Local Government (Financial Management) Regulations 1996* requires the Shire to disclose seven financial ratios in the annual financial report, for the current financial year and two preceding financial years. There is a risk that the financial ratios may not be calculated correctly resulting in inaccurate results disclosed.

We have performed the following:

- checked and verified the financial ratios covered by the current and the two preceding financial years to supporting documents;
- reported any non-compliance and where the financial ratios indicate significant adverse trends with Part 6 of the *LG Act 1995*, *LG Financial Management Regulations 1996* in the auditor's report; and
- recalculated the financial ratios.

There were no issues noted with the calculation, however, we noted that the operating surplus ratio as reported in Note 29 of the financial report has been below the Department of Local Government, Sport and Cultural Industries' standard for the last three years.

4. Control environment

Accounting systems and controls

As part of our normal statutory audit procedures, we considered the systems and controls existing in respect of the operational and financial activities of the Shire. This allowed us to:

- develop our understanding of the financial and operating procedures;
- document the processes for our permanent files for future reference;
- review the systems for potential weaknesses and assess the likelihood that errors could occur;
- determine our audit approach (including the degree of reliance on internal controls); and
- ensure that the accounting systems and records were sufficient for the preparation of true and fair financial statements.

Our audit is planned and conducted so as to enable us to express a professional opinion on the statutory financial statements. It is not designed, nor can it be expected to disclose, all defalcations or irregularities. Such matters might be revealed during the course of our work. If this were the case, the matters would be reported to you.

Design effectiveness

Our review indicated that, based on the size of the Shire, the current systems and processes are well designed and controlled. We are of the view that the Shire's controls are adequate and comply with relevant legislative provisions. We did not identify any control weaknesses except for the following which has been included in the management letter:

- Conflict of interest declarations not completed by procurement evaluation panel members
- Purchases orders raised after the service was provided or goods received

5. Independence

Overview

Our audit services are subject to the Office of the Auditor General's, William Buck's and the profession's strict rules and policies regarding auditor independence, as well as certain statutory requirements. We enforce these policies and values in order to maintain objectivity and to be free of conflicts of interest when discharging our professional responsibilities.

The Office of the Auditor General and William Buck understand the importance of our role as auditors in the external reporting framework and we work hard to maintain an extensive system of quality controls over our audit practices.

6. Summary of unadjusted audit differences

In performing our audit of the Shire for the year ended 30 June 2021, we have not identified any unadjusted audit differences.

7. Matters for the 2021-22 Audit

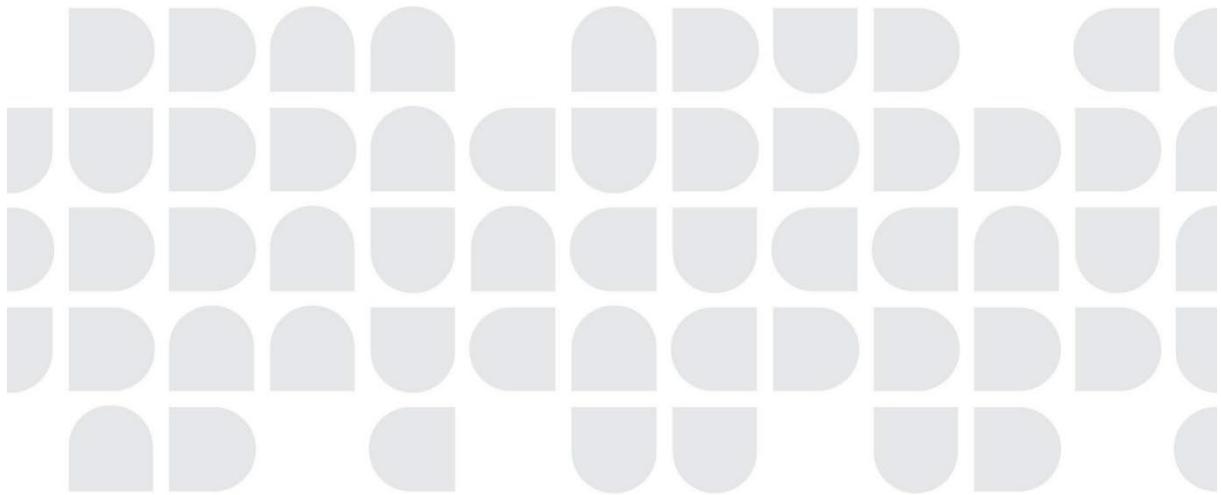
In addition to the matters raised in section 4 of this report we would like to draw your attention to the following items for the 2021-22 audit:

1) Risk management policy not reviewed since 2017

We note that the Shire's Risk Management Policy has not been reviewed since February 2017 and note that the update of the Risk Management Policy is pending finalisation of the Local Government (Audit) Regulation 17 review. We will review the updated policy during the 2021-22 audit.

2) Asset sustainability ratio

The Shire's asset sustainability ratio has been below the Department of Local Government, Sports and Cultural Industries' standard for 2 of the last 3 years. The ratio may meet the adverse trend criteria in the 2021-22 financial year if it does not improve from the current year figure of 0.70.



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2 JUNE 2022

SHIRE OF SHARK BAY

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

| INDEX OF FINDINGS | RATING | | |
|--|-------------|----------|-------|
| | Significant | Moderate | Minor |
| 1. Conflict of interest declarations not completed by procurement evaluation panel members | | ✓ | |
| 2. Purchases orders raised after the service is performed or goods received | | ✓ | |

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating may be reported as a matter of non-compliance in the audit report in the current year, or in a subsequent reporting period if not addressed. However, even if the issue is not likely to impact the audit report, it should be addressed promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

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2 JUNE 2022

SHIRE OF SHARK BAY

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

1. Conflict of interest declarations not completed by procurement evaluation panel members

Finding

During testing of purchases, we noted that conflict of interest declarations were not completed by members of the evaluation panel who were responsible for completing the Evaluation and Recommendation Report in relation to Tenders and Request-For-Quote transactions.

We note that this is currently not a requirement per the Shire's procurement policy.

Rating: Moderate

Implication

The risk of any actual, potential or perceived conflict of interest not being identified and addressed in a timely manner increases when conflicts of interest are not declared by the panel members and adequately managed by the Shire.

Recommendation

Management should update its procurement policy and implement processes for the identification and management of conflicts of interest by panel members, prior to the evaluation of tenders or request-for-quotes taking place.

Management Comment

This is not a regulation and the example provided for by the Office of the Auditor General in the best practice report, which is not legislatively required, related to tenders and not Request for Quote which the audit testing refers to. However, to strengthen our internal controls and procurement policy we will implement a Conflict of Interest Form, to be completed by all panel members of Tenders and Request for Quote, to identify any potential conflicts and to ensure independence within the purchasing procedure.

Responsible Person: Executive Manager Finance and Administration

Completion Date: 30 June 2022

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2 JUNE 2022

SHIRE OF SHARK BAY

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

2. Purchases orders raised after the service is performed or goods received

Finding

Our sample testing of purchase transactions noted 2 instances out of a total of 15 transactions (13%) where purchase orders were raised after the goods/services and invoice had been received.

Rating: Moderate

Implication

If purchases are made without first obtaining authorisation through an approved purchase order, there is a risk that unauthorised goods/services may be purchased.

Recommendation

For purchases below the tender threshold, management should ensure that purchase orders are raised and authorised in accordance with the Shire's procurement policy, prior to goods/services being ordered.

Management Comment

This has already been identified by the Finance Department and we have implemented steps to ensure that purchase orders are raised by the Authorised Officer before the goods/services and invoice has been received. Should the Finance Department identify that this has not occurred the purchase order and invoice is sent back to the purchasing officer for a written explanation on the purchase order as to why this occurred and that this is an approved purchase. In addition, the finance department reinforces that purchase orders need to be raised at the time of the order and before the invoice is received so that the accounts department can match the purchase order authorisation to the invoice prior to payment occurring.

Responsible Person: Executive Manager Finance and Administration

Completion Date: 30 June 2022

MINUTES OF THE AUDIT COMMITTEE MEETING

2 JUNE 2022

AC6.0 NEXT AUDIT COMMITTEE MEETING

The next meeting of the Audit Committee will be held as required.

AC7.0 CLOSURE OF MEETING

The Chairperson, Cr Cowell closed the Audit Committee meeting at 1.11pm.