



Shire of Pingelly

Minutes

Audit Committee Meeting
17 July 2019

SHIRE OF PINGELLY

Minutes of the Audit Committee Meeting of the Shire of Pingelly held in the Council Chambers, 17 Queen Street, Pingelly on 17 July 2019 at 1.30pm.

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1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

The Chairman declared the meeting open at 1.30pm.

1.1. ACKNOWLEDGEMENT OF COUNTRY

We acknowledge the Noongar people of this area and recognise their continuing connection to land, waters and community. We pay respect to both the Aboriginal and non-Aboriginal people past and present.

2. RECORD OF ATTENDANCE / APOLOGIES / APPROVED LEAVE OF ABSENCE

MEMBERS PRESENT

Cr WV Mulroney	President
Cr DI Freebairn	Deputy President
Cr EJ Hodges	
Cr JM Walton-Hassell	
Cr BW Hotham	
Cr J McBurney	
Cr K Hastings	

STAFF IN ATTENDANCE

Mr M Dacombe	Acting Chief Executive Officer
Mr S Billingham	Director Corporate and Community Services
Mrs L Boddy	Executive Assistant

APOLOGIES

Cr P Wood

OBSERVERS & VISITORS

Nil

3. RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE

Nil

4. PUBLIC QUESTION TIME

No members of the public present.

5. APPLICATIONS FOR LEAVE OF ABSENCE

N/A

6. DISCLOSURES OF INTEREST

The *Local Government Act* (Section 5.60 – 5.62) provides that it is the Councillor’s obligation to declare an interest if they believe that they have a financial interest, proximity interest, closely associated persons interest or an interest affecting impartiality in a matter being discussed by Council.

The Act provides that the interest may be declared in writing to the Chief Executive Officer prior to the meeting or declared prior to discussion of the agenda item at the meeting. Forms for this purpose are available to Councillors.

The Act further provides that the extent of the interest needs to be declared if the Councillor seeks to remain in the Chamber during the discussion, debate or voting on the item.

A Councillor declaring a financial or proximity interest must leave the meeting prior to the matter being discussed or voted on (including the question as to whether they are permitted to remain in the Chamber). Councillors remaining in the Chamber may resolve to allow the member to return to the meeting to participate in the proceedings.

7. CONFIRMATION OF MINUTES AND REPORTS

7.1 Audit Committee Meeting – 20 February 2019

Statutory Environment:

Section 5.22 of the Local Government Act provides that minutes of all meeting to be kept and submitted to the next ordinary meeting of the council or the committee, as the case requires, for confirmation.

Voting Requirements:

Simple Majority

12702 Moved: Cr Hodges

Seconded: Cr Hastings

Recommendation and Council Decision:

That the Minutes of the Audit Committee of the Shire of Pingelly held in the Council Chambers on 20 February 2019 be confirmed.

Carried 7:0

8. ANNOUNCEMENTS BY THE PRESIDING PERSON WITHOUT DISCUSSION

Nil

9. PETITIONS / DEPUTATIONS / PRESENTATIONS / SUBMISSIONS

Nil

10. BUSINESS

10.1 Office of the Auditor General Interim Management Letter June 2019

File Reference: ADM0074
Location: Shire of Pingelly
Applicant: Office of the Auditor General
Author: Stuart Billingham, Director Corporate & Community Services
Date: 4 July 2019
Disclosure of Interest: Nil
Attachments: OAG Interim Management Letter Report for Year ending 30 June 2019 (Attachment 1 following red sheet at the end of this document)

Summary:

To provide the Audit Committee with the Interim Management Report from its Office of the Auditor General for consideration. (See attached report submitted as a separate attachment)

Background:

AMD Accountants on behalf of the Office of the Auditor General visited the Shire of Pingelly on the 27-29 May 2019 to conduct the Interim Audit for the year ending 30 June 2019.

Below is listed the matters raised in the Interim Management Letter Report and the Shire of Pingelly Management Comments.

Consultation:

Shire of Pingelly Audit Committee
 Acting Chief Executive Officer
 Office of the Auditor General
 AMD Chartered Accountants

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. User Access Management		✓	
2. Fees and Charges		✓	
3. Credit Card Statements		✓	
4. Review of Reconciliations		✓	
5. Journal Entries			✓

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.
- 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.

1. User Access Management

Finding

Our review of user access levels within the Shire's financial reporting system (Synergy) identified that 9 user accounts still exist for staff, who were no longer employed by the Shire.

Rating: Moderate

Implication

Without an effective user access management process to ensure user accounts of individuals leaving the Shire are appropriately removed or disabled, there is an increased risk of unauthorised access.

Recommendation

We recommend that the Shire regularly review its user accounts within Synergy, and promptly remove or disable user accounts of staff who have left the Shire.

Management Comment

Affected Synergysoft user profiles to be addressed as listed below:

1. CEO Profile name changed and updated to Acting CEO - CEO position remains
2. ETO officer user profile 'depot' – name changed to position title - removed.
3. Casual Admin Officer RG – 'policy' – name changed to position - removed.
4. Project Admin Officer TW user profile 'pao' – Name changed to position – removed.
5. Admin Officer - AO - removed.
6. Community Development Officer KS – CSO position currently vacant and name removed and changed to position title until position recruited.
7. Casual LD - contractor4 – removed
8. Project Management- pm - removed
9. Trainee-Trainee - removed

Risk of other employees using an old user profile and bypassing their access restrictions considered low as staff are not permitted to share their login details and passwords. Audit trails are switched on in Synergysoft. As part of Termination check list all outgoing staff have their passwords cancelled within the hour of their termination to stop access either by remote connection or at any PC, Laptop or smart device or phone to email or server files including SynergySoft.

Responsible Officer: Director Corporate and Community Services
Completion Date: 30 June 2019

2. Fees and Charges

Finding

From our testing of 5 sundry debtor invoices, we found the following:

1. In one instance, the administration charge for rubbish disposal was not included on the Shire's published list of fees and charges for 2018-19.
Section 6.19 of the *Local Government Act 1995* (Act) requires:
If a local government wishes to impose any fees or charges after the annual budget has been adopted, it must, before introducing the fees or charges, give local public notice of — its intention to do so; and the date from which it is proposed the fees or charges will be imposed.
2. In one instance, the rate charged for truck repairs to the Shire of Brookton was not indexed at 1 July 2018 to include the annual increase of 3%, which was agreed between both Shires.

Rating: Moderate

Implication

The Shire is not complying with the requirement of the Act.

By charging an incorrect fee, there is a risk of financial loss to the Shire.

Recommendation

We recommend that the Shire ensure a public notice is given for any fees and charges imposed that are not included within the original budget, in accordance with the Act.

We also recommend that the Shire undertake the necessary steps to ensure correct rates are charged when invoicing.

Management Comment

Senior Finance Officer has now updated the Private Works procedures and calculation spreadsheet after being supplied copy of the new agreement for Heavy Duty Plant Mechanic Services between the Shire of Pingelly and the Shire of Brookton signed in February 2019. Due to short period of time and a downturn in usage from the Shire of Brookton this 3% lower charge out rate is considered immaterial. It should be noted that Private Works is still producing a reasonable Profit as a cost centre.

Schedule of Fees and Charges for 2018/19 only has an administration fee under private works \$156 and the Draft Fees and Charges for 2019/20 to include an administration fee under Refuse/Rubbish Disposal/Environment for to ensure future compliance.

Responsible Officer:

Director Corporate and Community Services

Completion Date:

17 July 2019 Budget Adoption date proposed

3. Credit Card Statements

Finding

We noted that since new credit cards were issued to the acting Chief Executive Officer (CEO) and Director of Corporate and Community Services (DCCS) in March 2019, the CEO and DCCS had self-approved their credit card statements.

While we acknowledged that the Senior Finance Officer's (SFO) sign off is also on the credit card statements, her sign off is more to evidence that the credit card transactions are supported by invoices/receipts and recorded in the correct general ledger accounts. Furthermore, the DCCS and SFO are closely related which could be seen as a threat to actual or perceived independence.

Rating: Moderate

Implication

By not having an independent review of credit card statements, there is an increased risk of fraud and error passing undetected.

Recommendation

We recommend that the Shire ensure all credit card statements are reviewed and signed by an independent senior officer.

As best practice, we also recommend that the CEO's credit card statements be reviewed and signed by the President or a representative of Council.

Management Comment

The Chief Executive Officer now reviews and signs off the Director of Corporate and Community Services credit cards monthly transactions. The Shire President now reviews and signs off the Chief Executive Officer monthly credit card transactions.

Responsible Officer: Chief Executive Officer and Director Corporate and Community Services
Completion Date: 30 June 2019

4. Review of Reconciliations

Finding

From our review of the reconciliations performed, we noted that there was no evidence that the following reconciliations were being independently reviewed:

- Monthly fixed asset reconciliations
- Periodic reconciliations of WA Treasury Corporation (WATC) loans and self-supporting loans

Rating: Moderate

Implication

When reconciliations are not independently reviewed, there is an increased risk that errors may not be detected and resolved promptly.

Recommendation

We recommend that the Shire ensure all reconciliations performed are reviewed and signed by an independent senior officer.

Management Comment

Monthly fixed asset reconciliations are now being prepared by the DCCS from May 2019 and to be reviewed by an independent officer other than SFO.

Half yearly reconciliation of Loans and Self Supporting loans to be undertaken DCCS as paid usually every 6 months. SSL Reconciliation prepared and compared to agreed repayment schedule/terms. Loans Liability Reconciliation currently prepared annually to be changed to 6 monthly and compared to WATC reports and GL balances.

Responsible Officer: Director Corporate and Community Services
Completion Date: 30 June 2019

5. Journals Entries

Finding

We noted that journals processed by the DCCS are reviewed and signed off by the SFO, and vice versa. As noted in Finding 3, these two employees are closely related.

Rating: Minor

Implication

If journals are not independently reviewed and approved, there is an increased risk that erroneous or fraudulent transactions may pass undetected.

Recommendation

We recommend that all journal entries be independently reviewed and the evidence of authorisation retained. Also given the close relationship between the DCCS and SFO, we recommend that the Shire consider whether significant adjusting journals should be further reviewed by the CEO.

Management Comment

Future Journals created by the DCCS and SFO are to be reviewed and signed off by another independent Officer to reduce threat to actual or perceived independence e.g. CEO.

Responsible Officer: Director Corporate and Community Services

Completion Date: 30 June 2019

Statutory Environment:

Local Government Act 1995 and associated regulations

Policy Implications:

There are no policy implications arising from this report.

Financial Implications:

There are no known financial implications upon either the Council’s current budget or long term financial plan.

Strategic Implications:

There are no known significant strategic implications relating to the report or the committee recommendation.

Risk Implications:

Risk	Medium (6)
Risk Likelihood (based on history and with existing controls)	Medium (6)
Risk Impact / Consequence	Medium (6)
Risk Rating (Prior to Treatment or Control)	Medium (6)
Principal Risk Theme	Medium (6)
Risk Action Plan (Controls or Treatment Proposed)	Medium (6)

Risk Matrix

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Medium (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Medium (6)	Medium (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Medium (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating of 6 has been determined for this item. Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk rating over 17 will require a specific risk treatment plan to be developed.

Voting Requirements:

Simple Majority

12703 Moved: Cr Hodges

Seconded: Cr McBurney

Recommendation:

That the Audit Committee recommends to Council:

1. receive the minutes of the Audit Committee dated 17 July 2019; and
2. notes there are no further actions required by the Acting Chief Executive Officer to address matters raised in the attached Interim Management Letter Report.

Carried 7:0

10.2 Audit Committee Terms of Reference Name Change

File Reference: ADM0074
Location: Shire of Pingelly
Applicant: Stuart Billingham, Director Corporate & Community Services
Author: Stuart Billingham, Director Corporate & Community Services
Date: 4 July 2019
Disclosure of Interest: Nil
Attachments: Shire of Pingelly Audit and Risk Committee terms of reference updated
 (Attachment 2 following orange sheet at the end of this document)

Summary:

To provide the Audit Committee with a request to review and change its term of reference and name.

Background:

With a growing focus on risk management in Local Government many Councils are now adding to the Audit Committee responsibilities the role of risk management. A new Draft Terms of Reference attached for consideration of adoption and a name change for the committee.

Statutory Environment:

Local Government Act 1995 and associated regulations

Policy Implications:

There are no policy implications arising from this report.

Financial Implications:

There are no known financial implications upon either the Council's current budget or long term financial plan.

Strategic Implications:

There are no known significant strategic implications relating to the report or the committee recommendation.

Risk Implications:

Risk	Low (2)
Risk Likelihood (based on history and with existing controls)	Low (2)
Risk Impact / Consequence	Low (2)
Risk Rating (Prior to Treatment or Control)	Low (2)
Principal Risk Theme	Low (2)
Risk Action Plan (Controls or Treatment Proposed)	Low (2)

Risk Matrix

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Medium (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Medium (6)	Medium (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Medium (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating of 2 has been determined for this item. Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk rating over 17 will require a specific risk treatment plan to be developed.

Voting Requirements:

Simple Majority

12704 Moved: Cr Hotham

Seconded: Cr McBurney

Recommendation:

That the Audit Committee recommends to Council it adopts the new Name of ‘Audit and Risk Committee’ and updates the Terms of Reference of the Audit and Risk Committee as submitted in the attached Draft Terms of Reference.

Carried 7:0

10.3 Significant Adverse Trend Report to Minister for Local Government S7.12A

File Reference: ADM0074
Location: Shire of Pingelly
Applicant: Department of Local Government, Sport and Cultural Industries
Author: Stuart Billingham, Director Corporate & Community Services
Date: 8 July 2019
Disclosure of Interest: Nil
Attachments: Department Local Government Letter for Year Ending 30 June 2018
 (Attachment 3 following yellow sheet at the end of this document)

Summary:

To provide the Audit Committee with a report on the Significant adverse trend in the financial position of the Shire: Operating Surplus Ratio below the Department standard the last three years.

Background:

AMD Accountants in the Auditor Report for the year ending 30 June 2018, under Report on Other Legal and Regulatory Requirements states.

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

- (i) In our opinion, the following matters indicate significant adverse trends in the financial position of the Shire of Pingelly:
 - (a) Operating surplus ratio as reported in Note 31 of the financial report is below the below the Department of Local Government, Sport, and Cultural Industries (DLGSCI) standard of zero for the last three years (2016:-0.719, 2017:-0.596 and 2018: -0.472).

$$\text{Operating Surplus Ratio} = \frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$$

The Operating Surplus Ratio is calculated by Operating revenue minus operating expense as a ratio of own source operating revenue. It measures the Shires ability to cover operational costs and have revenues available for capital funding or other purposes. Basic standard met if ratio is above 0.01. A sustained period of deficits will reduce the ability of the Shire to maintain service levels and its asset base. Accurate depreciation levels may result in an improvement to this ratio. As shown below own source operating revenue is made up of Rates, Fees and Charges, Interest Income, Profit on disposals of assets, reimbursements and recoveries and other revenue.

2018 OPERATING SURPLUS RATIO	Operating Minus Revenue Expense Operating		(1,139,409)			
	Net Result	+	4,901,168			
	- less: Non-Operating grants, Subsidies and contributions	-	(6,040,577)		(1,139,409)	
	Own Source Operating Revenue		2,415,798		2,415,798	-0.472
	- add: rates	+	1,913,399			=
	- add: fees and user charges	+	319,050			
	- add: service charges	+	0			
	- add: interest income	+	80,339			
	- add: profit on disposal of assets	+	0			
	- add: reimbursements and recoveries	+	60,311			
- add: other revenue		42,699				

2017 OPERATING	Operating Minus Revenue Expense Operating		(1,442,862)			=
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SURPLUS RATIO	Net Result	+	1,736,983			
	- less: Non-Operating grants, Subsidies and contributions	-	(3,179,845)		(1,442,862)	-0.596
	Own Source Operating Revenue		2,421,274		2,421,274	
	- add: rates	+	1,870,046			
	- add: fees and user charges	+	284,771			
	- add: service charges	+	0			
	- add: interest income	+	136,752			
	- add: profit on disposal of assets	+	0			
	- add: reimbursements and recoveries	+	20,751			
	- add: other revenue		108,954			

2016 OPERATING SURPLUS RATIO	Operating Minus Revenue Expense		(1,671,586)			
	Net Result	+	(336,905)			
	- less: Non-Operating grants, Subsidies and contributions	-	(1,334,681)		(1,671,586)	-0.719
	Own Source Operating Revenue		2,325,151		2,325,151	
	- add: rates	+	1,699,390			
	- add: fees and user charges	+	322,566			
	- add: service charges	+	0			
	- add: interest income	+	166,725			
	- add: profit on disposal of assets	+	11,069			
	- add: reimbursements and recoveries	+	74,509			
	- add: other revenue		50,892			

Comment:

Many Country Local Governments in WA are heavily funded by external grants and often lack the capacity to raise their own source funding to meet the growing challenge of balancing the annual budget whilst maintaining service levels.

It is noted by the Auditors that the Shire of Pingelly was unable to achieve a zero operating surplus ratio or better in the past three (3) years (and refer attached Note 31. Financial Ratios - excerpt from the 30 June 2018 Annual Financial Statements) reflects the shire's reliance on non- operating grants (\$6,040,577 in 2017-18) to offset the shire's annual depreciation expense (\$1,522,726 in 2017-18).

The Shire's 30 June 2014 Annual Financial Statements reported depreciation expense at \$1,991,572, and this expense has not been responsible for adversely affecting this ratio as council has re-valued its assets so as to accord with the Act's re-valuation for fair value regulations.

The matter of this adverse trend of the operating surplus ratio and this 'seeming' reliance by small regional Local Governments on non-operating grants appears to be the norm rather than the exception in Country and Regional Western Australia.

It appears that without a change in the *status quo* e.g. a change in the DLGSCI's operating surplus ratio standard of zero; or transfer of the shire's circa \$68M of roads, drainage and bridges infrastructure assets to the state, seems that every year the Shire of Pingelly, with its *circa* \$87M in total of non-current assets and reliance on non-operating grants, will be reporting on this matter in future years again.

Consultation:

Acting Chief Executive Officer
Office of the Auditor General
AMD Chartered Accountants

Statutory Environment:

Local Government Act 1995 and associated regulations

Division 4 — General

7.12A. Duties of local government with respect to audits

- (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.
- (2) 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.
- (3) 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.

[Section 7.12A inserted by No. 49 of 2004 s. 8.]

Policy Implications:

There are possible future policy implications arising from this report.

Financial Implications:

There are no known financial implications upon either the Council's current budget or long term financial plan. Future Plans may need to consider increasing own source revenues or reducing service levels to address this matter.

Strategic Implications:

There are no known significant strategic implications relating to the report or the committee recommendation. Future discussions on how to address this matter to be held before 30 June 2020.

Risk Implications:

Risk	Low (2)
Risk Likelihood (based on history and with existing controls)	Low (2)
Risk Impact / Consequence	Low (2)
Risk Rating (Prior to Treatment or Control)	Low (2)
Principal Risk Theme	Low (2)
Risk Action Plan (Controls or Treatment Proposed)	Low (2)

Risk Matrix

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Medium (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Medium (6)	Medium (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Medium (5)

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating of 2 has been determined for this item. Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk rating over 17 will require a specific risk treatment plan to be developed.

Voting Requirements:

Simple Majority

12705 Moved: Cr Hastings

Seconded: Cr McBurney

Recommendation:

That the Audit Committee recommends to Council:

That Council:

- 1. Recognises that relative to Department of Local Government, Sport and Cultural Industries criteria, the Shire of Pingelly is not meeting the operating surplus ratio (zero) standard, and directs the Chief Executive Officer to arrange, before 30 June 2020, workshop(s) as required so that Council might further discuss and attempt to address this matter.**
- 2. Directs the Acting Chief Executive Officer to give a copy of this report to the Minister for Local Government as soon as practically possible; and publish a copy of this report on the Shires official website.**

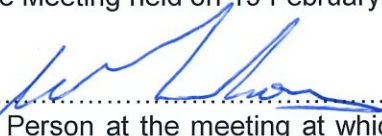
(NB: Statutory timeframe of providing this report to the Minister within three (3) months after 30 June 2018 audit report was received by the local government having passed and may be raised as a future noncompliance matter.)

Carried 7:0

11. CLOSURE OF MEETING.

The Chairman declared the meeting closed at 1.50pm.

These minutes were confirmed by Council at the Audit Committee Meeting held on 19 February 2020.

Signed 
Presiding Person at the meeting at which the minutes were confirmed.