



Shire of Pingelly

Minutes

Audit Committee Meeting
17 November 2010

Minutes of the Audit Committee Meeting of the Shire of Pingelly held in the Council Chambers, 17 Queen Street, Pingelly on 17 November 2010 – commencing at 4.05pm.

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MEMBERS PRESENT

Cr MT Beard President
Cr SJ Lange Deputy President
Cr LN Kirk
Cr RJ Marshall
Cr WV Mulroney
Cr LN Steel
Cr D Watts

STAFF IN ATTENDANCE

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

OBSERVERS & VISITORS

Ms Maria Cavallo – AMD (Via Teleconference)

1. OPENING & ANNOUNCEMENTS

The Chairman declared the meeting open at 4.05pm.

2. APOLOGIES AND APPROVED LEAVE OF ABSENCE – Nil

3. DISCLOSURES OF INTEREST – Nil

4. MINUTES

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

Recommendation:

That the Minutes of the Audit Committee of the Shire of Pingelly held in the Council Chambers on 17 March 2010 be confirmed.

10536 - Moved Cr Steel, Seconded Cr Marshall

That the Minutes of the Audit Committee of the Shire of Pingelly held in the Council Chambers on 17 March 2010 be confirmed.

CARRIED 7/0

5. BUSINESS

5.1 Audit Management Report

File Reference: 06.04 & 06.15.00
Location: N/A
Applicant: N/A
Date: 2 November 2010
Disclosure of Interest: Nil
Author: M.G. Oliver, Chief Executive Officer
Attachments: Nil
Previous Reference: Item 9.4 – 21 July 2010

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.

The annual audit was completed by AMD Chartered Accountants in October 2010. Councillors have been provided with a copy of the Audit Report and Management Report.

The Auditor has commented, in the Audit Report that:

There are not other matters indicating non-compliance with Part 6 of the *Local Government Act 1995* (as amended), the *Local Government (Financial Management) Regulations 1996* (as amended) or applicable financial controls of any other written law were noted during the course of our audit, with the exception of the following:

- (i) Council has prepared Monthly Financial Activity Statement Reports; however the reports do not comply with Local Government (Financial Management) Regulation 34, sections (1) (d) & (e) and (2) (a) & (b) in respect to:
 - an explanation of material variances between actual and budget; and
 - the inclusion of an explanation of the composition of the net current assets of the month less committed and restricted assets.
- (ii) The 2009/10 budget disclosures in respect to proposed new loans did not include the nature of the proposed financial accommodation, an estimate of the interest rate and other charges payable and a correct estimate of the amount to remain unused at 30 June 2010 as required by the Local Government (Financial Management) Regulation 29(d) (iii), (v) and (vii). Although this loan was budgeted in 2009/10, the loan was not actually drawn down during the year ended 30 June 2010.

Through the Management Report the Auditor has commented:

1. ROAD INFRASTRUCTURE

Finding Rating: *Moderate*

Our inquiries indicated that roads infrastructure balances currently recorded in the financial statements are calculated and supported via the use of a spreadsheet, rather than by a recognised system such as the Romans Road Database. As a result the calculation of the 2010 depreciation on roads was performed using a weighted average method.

Our inquiries also indicated that the road network as reported within the spreadsheet is not complete and up to date.

Recommendation

We recommend that Council review the current method of recording road infrastructure assets and depreciation by possibly utilising a system (such as the Romans Road Database) which will allow each road to be individually valued. This will enable a more reliable record of the Shire of Pingelly's road network and segment classification to be maintained.

We also recommend that irrespective of the system utilised to record Shire of Pingelly's road network, road records be updated on a regular basis.

Management Comment

Acknowledged and noted. Updating of ROMAN data (both physical and condition) to allow infrastructure balances to be calculated is a priority.

2. WORKS COSTING AND ADMINISTRATION ALLOCATIONS**Finding Rating: *Moderate***

We noted allocation rates used for Public Works Overheads (PWO) and Plant Operating Costs (POC) were too high for the year ending 30 June 2010 with PWO costs over allocated by approximately \$151,000 (37% of total expenditure) and POC costs over allocated by approximately \$10,000 (33% of total expenditure).

In addition, we also noted that administration and overhead allocations for the year ending 30 June 2010 were too low with administration costs under allocated by approximately \$85,000.

As a result of the above over and under allocations, "Other Expenditure" with the Statement of Comprehensive Income by Nature or Type and "Other Property Services" within the Statement of Comprehensive Income by Program appear as income items.

Recommendation

We recommend allocation rates and allocations to jobs be reviewed periodically during the year, to ensure there are no major under or over allocations of PWO, POC and administration costs, and to ensure job costings (in particular private works where completed) are reasonably accurate throughout the year.

We suggest it may be appropriate to review allocation rates 3 times during the year - possibly in October/November, February/March, and May each year and adjust where necessary.

Management Comment

Changes to PWO and POC rated mid-year is not accepted as a logical or desirable outcome — both costs are not allocated consistently through the year and the rates are designed to recover the costs over the full year.

The issue with 2009/10 under and over allocations reflected the lack of detailed calculation at the time of preparation of the 2009/10 Budget. Whilst it was feasible to correct the variance as at 30 June 2010 it was considered neither a priority or worthwhile — given the various other issues being addressed.

The 2010/11 rates in the Budget have been reviewed and it is anticipated that the problems of the past will not be repeated.

3. BACKDATING TRANSACTIONS**Finding Rating: *Moderate***

We noted various cheques raised after 30 June 2010 to pay creditors were backdated. We also noted that the June 2010 Business Activity Statement ("BAS") was also backdated to 30 June 2010.

The back dating of the above led to the 30 June 2010 Municipal bank reconciliation being out of balance with the trial balance.

In addition to the above, we also noted various entries dated July 2010 but posted in the 2009/10 period.

Recommendation

We recommend cheques and deposits are not backdated within the system, but rather included within creditors or accrued expenses, and within debtors or accrued income at 30 June each year.

In addition please ensure entries are posted in the correct accounting period.

Management Comment

The issue of back dating cheques was identified by Staff mid-process and those in the system allowed to continue but direction given to stop future occurrences. The practice was another inheritance — sundry creditors provisions were not previously used.

4. EMPLOYEE LEAVE PROVISIONS

Finding Rating: *Minor*

We noted the wage rates utilised to calculate annual leave entitlements were incorrect for employees who salary sacrifice (i.e. the wage rate net of salary sacrifice was utilised instead of the gross wage rate).

In addition, we also noted that the accrued annual leave entitlement hours for one employee tested per the system was less than the calculated entitlement.

Recommendation

We recommend employee leave provisions are calculated utilising the correct wage rates.

In addition, we recommend a review of hours accrued be completed to ensure accruals are calculating correctly per the system.

Management Comment

The wage rate used for the annual leave entitlements is noted as being incorrect (salary sacrificed rate was used) and will be addressed in the future.

The difference in entitlement hours relates to leave due as opposed to leave accrued. The examples tested all had leave accrued (accruements occur fortnightly) — but did were not entitled to take the leave (less than 12 months service).

5. PAYG WITHHOLDING TAX PAYABLE

Finding Rating: *Minor*

We noted the PAYG withholding tax payable account has not been reconciled regularly and as a result a credit balance of \$2,155.84 is included within the statement of financial position for the year ending 30 June 2010 (balance remaining after the preparation of the June 2010 BAS).

Recommendation

All clearing accounts should be reconciled at least monthly to ensure all amounts have been correctly allocated within the ledger accounts.

Management Comment

Agreed. Action has been taken to ensure this happens.

In July 2010 Council considered the Financial Systems and Procedures Review and resolved that:

- the Financial Systems and Procedures Review by AMD be received;
- the comments be noted;
- a progress Report be provided to the next meeting of the Audit Committee.

The issues involved (together with an Update Comment) were:

1.0 STATUTORY NON-COMPLIANCE

1.1 Monthly Financial Reporting

Risk Rating: *Significant*

Council has prepared Monthly Financial Activity Statement Reports; however the reports do not comply with Local Government (Financial Management) Regulation 34, sections (1) (d) & (e) and (2) (a) & (b) in respect to:

- (i) an explanation of material variances between actual and budget; and
- (ii) the inclusion of an explanation of the composition of the net current assets of the month less committed and restricted assets.

Recommendation

We recommend that the Monthly Financial Activity Statement Reports be revised to include explanations of material variances between actual and budget and a composition of the net current assets of the month.

Management Comment

The non-compliance of the monthly financial reports to Council with Local Government (Financial Management) Regulation 34 is known and accepted. Quite simply, the group of reports which extract the balances from the General Ledger have been bastardised and no longer produce balanced reports. The Report which produces the Programs and Balance Sheet has been repaired and produced whilst Staffs efforts have been concentrated on balancing the subsidiary ledgers. This information has been conveyed to Council (verbally) each month with the progress reports on correcting the financial records. The aim has been to have the required reports to Council as at 30 June 2010. No disagreement with the Recommendation or the *Significant* Risk Rating.

Update Comment

Staff are continuing to set up the reporting system in the General Ledger.

1.2 Annual Report 2008/09

Risk Rating: *Significant*

The 2008/09 annual report was not completed and adopted by 31 December 2009 in accordance with the Local Government (Administration) Regulation 19B and section 5.53 of the Local Government Act.

We note however that the annual report was subsequently adopted by Council on the 28 January 2010.

Recommendation

We recommend the 2009/10 annual report be adopted in accordance with the Act and Regulations requirements.

Management Comment

This non completion and adoption of the 2008/09 Annual Report by 31 December 2009 was considered an oversight by the previous Management— given that the organization was without a CEO at the time, an extension of time was sought and the audit firm of the day was requested to prepare the Annual Report. No disagreement with the Recommendation although the Risk Rating is considered *Moderate* or even *Minor*.

Update Comment

Report was completed and adopted, no further action required.

1.3 Reimbursement of Travel Expenses

Risk Rating: *Moderate*

We noted reimbursement of travel expenses to elected members was not in accordance with the Public Service Award as required by the Local Government (Administration) Regulation 31 and section 5.98 of the Local Government Act.

This has subsequently been corrected by new senior management.

Recommendation

We acknowledge that this matter has been subsequently corrected.

Management Comment

The correction of the rate for members travel expenses has been effected — when the error was discovered as part of the Statutory Compliance Audit. No disagreement with the Recommendation although the Risk Rating is considered *Minor*.

Update Comment

Issue has been addressed, no further action required.

1.4 President and Deputy President Allowances

Risk Rating: *Moderate*

We noted the President \ Deputy President allowances was not in accordance with that prescribed by section 5.98 of the Local Government Act and the Local Government (Administration) Regulation 33A.

This has subsequently been corrected by management.

Recommendation

We acknowledge that this matter has now been corrected.

Management Comment

The correction of the Deputy President's allowance to within the range prescribed has been effected — when the error was discovered as part of the Statutory Compliance Audit. The Risk Rating is considered *Minor*.

Update Comment

Issue has been addressed, no further action required.

1.5 Budget Disclosures — New Loans

Risk Rating: *Moderate*

The 2009/10 budget disclosures in respect to proposed new loans did not include the nature of the proposed financial accommodation, an estimate of the interest rate and other charges payable and a correct estimate of the amount to remain unused at 30 June 2010 as required by the Local Government (Financial Management) Regulation 29 (d) (iii), (v) and (vii).

Recommendation

We recommend that future budget disclosures be in accordance with the Local Government Act and Local Government (Financial Management) Regulations 1996.

Management Comment

It is agreed that the 2009/10 Budget did not disclose an estimate of the interest rate or other charges — probably an oversight. The Budget did disclose the estimated balance to remain unspent (Note 5(b) - \$530,000) and the nature of the loan (Note 5(b) - SSL SES Building). No disagreement with the Recommendation although the Risk Rating is considered *Minor*.

Update Comment

Issue has progressed, no further action required.

2.0 OPENING GENERAL LEDGER BALANCES

Risk Rating: *Significant*

From a review of the opening 30 June 2009 general ledger balances per the Synergy system, we identified the following variance:

Retained surplus per 30 June 2009 audited financial statement	\$20,744,182
Opening general ledger retained surplus balance per Synergy	<u>\$20,491,087</u>
Difference	\$253,095

Recommendation

We recommend the above opening balance variance be investigated and corrected prior to the drafting of the 30 June 2010 financial statements, to ensure carry forward 30 June 2009 balances agree to the 30 June 2009 balances per the audited financial statements.

Management Comment

This issue of differences between the accounting system (Synergy) and the accounting reports (2008/09 Financial Report) is acknowledged and will be investigated once all of the subsidiary ledgers are balanced to the General Ledger and the other balance sheet items are proved up. No disagreement with the Recommendation or the *Significant* Risk Rating.

Update Comment

Issue has been addressed, no further action required.

3.0 TRUST FUND

Risk Rating: *Significant*

Our inquiries and testing identified there is an imbalance between the trust fund reconciled bank balance and the trust fund general ledger. This variance was \$287.04 as at 28 May 2010.

Recommendation

Although immaterial to the overall presentation of the financial statements, we recommend the trust fund imbalance be investigated with the necessary action taken to correct.

Management Comment

This balancing of the Trust Fund on a number of fronts was an issue identified — and has now been completed. No disagreement with the Recommendation or the *Significant* Risk Rating.

Update Comment

Issue has been addressed, no further action required.

4.0 FIXED ASSETS & INFRASTRUCTURE ASSETS**4.1 Fixed Asset Register Reconciliation**

Risk Rating: *Significant*

As identified within the 30 June 2009 Management Report, fixed assets are not reconciled on a monthly basis (i.e. the fixed asset register is not agreed to the general ledger each month).

Recommendation

We recommend the variances between the fixed asset register and general ledger be investigated with the necessary action taken to correct by 30 June 2010.

We also recommend asset register balances are reconciled to the general ledger on a monthly basis. Monthly fixed asset reconciliations should be reviewed by someone independent of the preparation and signed off as evidence of this review.

Management Comment

This balancing of the Fixed Asset Register to the General Ledger was an issue identified over successive audits — and has now been completed. The reconciliation has been added to the monthly processes — which are countersigned. No disagreement with the Recommendations or the *Significant* Risk Rating.

Update Comment

Issue has been addressed, no further action required.

4.2 Roads Infrastructure

Risk Rating: *Significant*

Our inquiries indicated that roads infrastructure is currently recorded in the financial statements utilising a spreadsheet (instead of a recognised system such as the Romans Road Database). As a result the calculation of the 2009 depreciation on roads was performed using a weighted average method.

We also noted that Council policy in relation to the revaluation of road infrastructure assets as stated in the 2008/09 financial statements is to re-value roads with sufficient regularity to ensure the carrying amount of each road asset is fairly stated at reporting date. However the same financial report also states that road infrastructure is recorded at cost.

Recommendation

We recommend that Council review the current method of recording road infrastructure assets and depreciation by possibly utilising a system (such as the Romans Road Database) which will allow each road to be individually valued. This will enable a more reliable record of the Shire of Pingelly's road network to be maintained.

In addition, we recommend accounting policies as stated within the annual financial statements are consistent with that adopted by Council and in accordance with Australian Accounting Standards.

Management Comment

The use of a spreadsheet to calculate values and depreciations of roads infrastructure is a recognized and accepted method in small rural local governments. Notwithstanding this, the updating of the ROMAN data is necessary to maximize FAGs income. Once updated, the information will be used to calculate roads infrastructure values. No disagreement with the Recommendations however the Risk Rating is considered *Minor*.

Update Comment

Issue is still being addressed.

4.3 Fixed Asset Stocktake

Risk Rating: *Moderate*

Our inquiries indicated that a fixed asset stocktake has not been completed for a number of years.

Recommendation

We recommend that a fixed asset stocktake be completed to ensure that assets as recorded within the fixed asset register actually exist and are valued appropriately (i.e. not impaired).

Management Comment

No evidence has been found regarding a physical check of assets recorded in the Asset Register. Certainly, a casual glance quickly establishes that there appears to be assets recorded that have been disposed of. Without the physical check there is a gaping hole in the security and control over the Shire's Assets. Having now balanced the Asset Register to the General Ledger, the physical check can proceed and will be undertaken as a matter of priority. No disagreement with the Recommendation — although the Risk Rating is considered *Significant*.

Update Comment

Issue is still being addressed.

5.0 BUDGET REVIEW**5.1 Budget Review as per Financial Management Regulations**

Risk Rating: *Significant*

Local Government (Financial Management) Regulation 33A requires Council to conduct a budget review between 1 January and 31 March each year.

Although an assessment of the 2009/10 budget was undertaken by senior management, a formal budget review comparing actual to budget and making the necessary budget adjustments was not performed.

Recommendation

Our inquiries indicated the formal budget review was not conducted as a result of the lack of detail and supporting assumptions within the 2009/10 budget; however we recommend that future budget reviews be conducted in accordance with Local Government (Financial Management) Regulation 33A.

Management Comment

The FM R33A does not specify the process to be used or outcome sought in relation to the budget review— however the Department of Local Government has previously issued guidelines. Notwithstanding this, a significant amount of effort was committed by the CEO together with an external consultant to establish a true position — and ultimately abandoned due to insufficient information and the limited opportunity to correct any issues discovered — as highlighted to Council and to the Department of Local Government. No disagreement with the Recommendation or the *Significant* Risk Rating.

Update Comment

Issue has progressed, no further action required.

5.2 Authorisation for Budget Variations

Risk Rating: *Significant*

During our review of asset purchases during the year, we identified the purchase of a 2010 Isuzu Crew Tipper instead of the budgeted Foreman's Ute / Crew Cab as outlined within the 2009/10 budget.

The variation to the budgeted expenditure was not authorised by Council.

Recommendation

We recommend that variations to budgeted expenditure be approved by Council prior to the expenditure being incurred.

Management Comment

It is understood that Council was part of the decision making process in this instance — however the decision was not documented. No disagreement with the Recommendation or the *Significant* Risk Rating.

Update Comment

Issue has been addressed, no further action required.

5.3 2009/10 Budget disclosures

Risk Rating: *Moderate*

During our review of the 2009/10 budget, we noted the following:

- 5.5% interest charged on instalments was not disclosed within the 2009/10 budget (however this was adopted as noted within Council minutes from the Budget meeting on the 15 July 2009 and included within the Annual Newsletter accompanying the rates notice);
- The budget did not balance as a result of an incorrect calculation in respect to unspent loan funds carried forward; and
- Disposal of assets were included in the 2009/10 budget as zero.

Recommendation

We recommend the above budget disclosures matters be considered when preparing the 2010/11 budget with the necessary action taken where necessary.

Management Comment

This non-disclosure in the Budget (Note 13) is assumed to be an oversight. No disagreement with the Recommendation or the *Moderate* Risk Rating.

Update Comment

Issue has progressed, no further action required.

6.0 SHIRE OF PINGELLY CARAVAN PARK RECEIPTS**6.1 Caravan Park Receipts**

Risk Rating: *Significant*

During our onsite visit to the Shire of Pingelly Caravan Park, we noted that takings are receipted into the manager's personal business till machine and banked into the manager's personal business bank account. A reconciliation is completed at the end of each month (reconciling cash received to the receipt book maintained) and forwarded to the Shire office with a cheque.

We also noted that there is no formal management agreement between Council and the managers of the Shire of Pingelly Caravan Park.

Recommendation

As best practice, all Council funds should be controlled and deposited within a Council bank account. We recommend the process for receiving Caravan Park receipts be reviewed with action taken to enhance controls over Council monies.

We also recommend the management of the Shire of Pingelly Caravan Park be formalised within a management agreement outlining the scope, term, responsibilities and payment terms.

Management Comment

Although not formalised, the Caravan Park bookings and rent collections are effectively undertaken by an Agent. An Agency arrangement needs to be formalised and a structured remittance process arranged. No disagreement with the Recommendation or the *Significant* Risk Rating.

Update Comment

Issue has been addressed, no further action required.

6.2 GST On Caravan Park Long Stay Accommodation

Risk Rating: *Moderate*

Section 136 of the Goods and Services Tax Ruling GSTR 2000/10 states GST on long stay accommodation greater than 28 days is to be charged at 5%. From a review of the Caravan Park Takings reconciliation for the month of February 2010, we noted that GST on long stay accommodation was nil.

Recommendation

We acknowledge that this matter has been subsequently corrected.

Management Comment

The correction of the GST was undertaken — when the error was discovered as part of the Statutory Compliance Audit. No disagreement with the Recommendation or the *Moderate* Risk Rating.

Update Comment

Issue has been addressed, no further action required.

7.0 WORKS COSTING

Finding Rating: *Minor*

We noted allocation rates used for Public Works Overheads (PWO) and Plant Operating Costs (POC) are currently too high.

For the 11 months ending 31 May 2010, PWO costs were over allocated by approximately \$136,000 (37% of total expenditure) and POC costs were over allocated by approximately \$4,000 (23% of total expenditure).

Recommendation

We recommend allocation rates and allocations to jobs be reviewed periodically during the year, to ensure there are no major under or over allocations of PWO or POC costs, and to ensure job costings are reasonably accurate throughout the year.

We suggest it may be appropriate to review allocation rates 3 times during the year - possibly in October/November, February/March, and May each year.

Management Comment

Whilst it is acknowledged that as at 31 May both PWO and POC costs were over allocated, apparently resulting from a miscalculation at budget time, it is not a practical solution to review and vary allocation rates quarterly or even mid-year due to the severe peaks and troughs of these expenses. More appropriately, the end result needs to be reviewed and, if necessary (significant), a reallocation undertaken. The *Minor* Risk Rating is agreed.

Update Comment

Issue has been addressed, no further action required.

8.0 INFORMATION TECHNOLOGY**8.1 Information Technology Security**

Finding Rating: *Moderate*

Our inquiries regarding physical security and information technology access security indicated the following:

- All staff use the same code to enable and disable the shire office alarm system;
- Users are not prompted to change their passwords on a regular basis;
- All users have access to the same modules within Synergy, including the payroll module; and
- Computers are not setup with automatic log off on individual workstations.

Recommendation

We recommend security over the shire office building and access to information can be improved by:

- Allocation of individual codes per employee to enable and disable the shire office alarm;
- Systems used by the Shire of Pingelly be set up to prompt users to change their passwords on a regular basis (i.e. every 3 to 6 months);
- Different access levels be set for users of Synergy to restrict access to only those modules required by the individual employee and
- Computers be set up to enable automatic log off on individual workstations.

Management Comment

Security within the Office is an area identified for further consideration. No disagreement with the Recommendation or the Moderate Risk Rating.

Update Comment

Issue is still being addressed.

8.2 IT Consultant Services

Finding Rating: *Moderate*

Our inquiries indicated there is no formal agreement signed by the IT consultant, has the ability to can log-in to the Shire of Pingelly's systems remotely.

Recommendation

To enhance security over confidentiality of information maintained by the Shire of Pingelly and to ensure service levels are agreed, we recommend a formal agreement be entered into with the IT consultant

Management Comment

Security within the computer system is an area identified for further consideration. No disagreement with the Recommendation or the *Moderate* Risk Rating.

Update Comment

Issue is still being addressed.

8.3 Disaster Recovery Plan

Finding Rating: *Moderate*

Our inquiries indicated that the Shire of Pingelly has no formal Disaster Recovery Plan in place in relation to information technology systems.

Recommendation

We suggest that a Disaster Recovery Plan be developed and documented to ensure that in the event of a disaster, the appropriate actions can be taken.

Management Comment

Whilst excellent back-up systems are in place it is acknowledged that there is no formal Disaster Recovery Plan. No disagreement with the Recommendation or the *Moderate* Risk Rating.

Update Comment

Issue is still being addressed.

9.0 SHIRE OF PINGELLY DEPOT**9.1 Security over Fuel Stocks**

Finding Rating: *Moderate*

During our visit to the Shire of Pingelly depot, we noted the tap at the back of the above ground diesel fuel tank is not secure and can be accessed by anyone who gains access to the yard.

We also noted that the fuel trailer maintained in the depot yard is not secure.

Recommendation

We recommend all fuel tanks be secured to restrict access to authorised personnel only.

Management Comment

No disagreement with the Recommendation although with fuel stocks being regularly balanced, the Risk Rating is considered *Minor*.

Update Comment

Issue is still being addressed.

9.2 Physical Access to the Depot Yard

Finding Rating: *Minor*

We noted the fence between the SES building and depot has been removed, thereby allowing those persons with keys to the SES building to also access the depot yard.

Recommendation

To ensure access to the depot yard is restricted to only authorised personnel, we recommend the fence between the SES building and depot yard be replaced or alternative procedures be implemented.

Management Comment

No disagreement with the Recommendation with SES operations being an extension of the Shire's operations, the Risk Rating is considered *Minor*.

Update Comment

Issue is still being addressed.

10.0 CEO TERMINATION PAY-OUT

Finding Rating: *Minor*

During wages testing, we noted there was no evidence of an independent review being undertaken for the termination pay-out of the former CEO.

Recommendation

Due to the nature of employee termination payments, (e.g. one-off transactions, often including large payments), we recommend all termination payments be independently reviewed by someone other than the payroll administrator processing the payments and signed as evidence of this review.

Independent review will ensure that termination payments have been calculated correctly and are authorised appropriately.

Management Comment

No disagreement with the Recommendation or the *Minor* Risk Rating.

Update Comment

Issue has been addressed, no further action required.

11.0 ADMINISTRATION OVERHEAD ALLOCATION

Finding Rating: *Minor*

As a result of change in senior management, we were unable to obtain explanations on how administration expenses (including salaries and on-costs, building expenses, telephone expenses, office equipment maintenance expenses, postage and stationery expenses and other general expenses) are allocated to each program.

Recommendation

We recommend administration overhead allocations for 2010/11 be reviewed to ensure reasonable.

Management Comment

Investigations suggest that the logic for the reallocation of Other Governance (Administration) costs goes back to 2004 — a review is overdue. No disagreement with the Recommendation or the *Minor* Risk Rating.

Update Comment

Issue has been addressed, no further action required.

12.0 REGISTERS, POLICIES & PROCEDURES

Finding Rating: *Minor*

We noted the following matters when reviewing Shire of Pingelly's registers, policies and procedures:

- A key register is maintained, however we noted there is no policy or master listing of keys held (for example the current CEO has not signed the key register and holds all keys);
- Section 5.2 of the Policy Manual (as updated April 2010) — Investment of Surplus Funds states that "a summary of investments is to be presented to each Ordinary meeting of Council" however this does not occur in practice.
- Section 5.11 of the Policy Manual (as updated April 2010)— Purchasing indicates various thresholds in respect to obtaining written quotations when purchasing however this policy is not being adhered to; and
- Shire of Pingelly Record Keeping Plan was adopted by Council 18 February 2004 with no evidence of review subsequent to this.

Recommendation

We recommend the following in respect to the maintenance of registers, policies and procedures:

- We recommend a master listing of keys be held with a policy documented on personnel entitled to hold keys;
- We recommend the Policy Manual be adhered to with internal compliance checks performed on a regular basis; and
- We recommend policies and procedures be reviewed and updated where necessary on an annual basis. Evidence of review should be noted within the policy.

Management Comment

No disagreement with the Recommendation or the *Minor* Risk Rating.

Update Comment

Issue is still being addressed.

Comment:

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

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.

Regulation 5 (Financial management duties of the CEO) of the *Local Government (Financial Management) Regulations* provides that:

- (1) Efficient systems and procedures are to be established by the CEO of a local government —
 - (a) for the proper collection of all money owing to the local government;
 - (b) for the safe custody and security of all money collected or held by the local government;
 - (c) for the proper maintenance and security of the financial records of the local government (whether maintained in written form or by electronic or other means or process);
 - (d) to ensure proper accounting for municipal or trust —
 - (i) revenue received or receivable;
 - (ii) expenses paid or payable; and
 - (iii) assets and liabilities;
 - (e) to ensure proper authorisation for the incurring of liabilities and the making of payments;
 - (f) for the maintenance of payroll, stock control and costing records; and
 - (g) to assist in the preparation of budgets, budget reviews, accounts and reports required by the Act or these regulations.
- (2) The CEO is to —
 - (a) ensure that the resources of the local government are effectively and efficiently managed;
 - (b) assist the council to undertake reviews of fees and charges regularly (and not less than once in every financial year); and
 - (c) undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 4 financial years) and report to the local government the results of those reviews.

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 2010, together with comments from Management, be noted.

10537 - Moved Cr Mulrone, Seconded Cr Watts

That the issues raised in the Audit Management Report for the year ended 30 June 2010, together with comments from Management, be noted.

CARRIED 7/0

6. CLOSURE

The Chairman declared the meeting closed at 4.45pm.

These minutes were received by Council at the Ordinary Meeting held on 16 February 2011

Signed

Presiding Person at the meeting at which the minutes were confirmed

Date