

Audit Committee Meeting Minutes 10 May 2021

Minutes of the Manjimup Audit Committee held at **Council Chambers** on **Monday 10 May 2021**.

1. DECLARATION OF OPENING OF MEETING

The meeting was opened by Chairperson, Cr Omodei at 11.02am

2. ATTENDANCE / APOLOGIES

Present:

- Cr Paul Omodei
- Cr Robert Taylor
- Cr Murray Ventris
- Cr Cliff Winfield

Apologies

- Cr Denise Jenkins

Observers:

- Andrew Campbell – Chief Executive Officer (CEO)
- Greg Lockwood - Director Business (DB)
- Tim Partridge – AMD Chartered Accountants

3. DECLARATION OF FINANCIAL INTERESTS

Nil.

4. CONFIRMATION OF MINUTES OF THE MEETING HELD 4 MARCH 2021

Moved Cr Ventris / Seconded Cr Winfield

“That the minutes of the Audit Committee meeting held on 4 March 2020 be adopted as a true and correct record.”

Carried 4/0

5. MATTERS ARISING FROM THE MEETING HELD 4 MARCH 2021

Nil.

6. RISK MANAGEMENT

Nil

7. PRESENTATION OF 2019/2020 AUDIT REPORT and AUDIT FINDINGS

Punitha Perumal from the Office of Auditor General presented via the phone.

As per the attached AMD Chartered Accountants agenda both Punitha Perumel and Tim Partridge presented various elements of the audit process, being;

1. Audit Approach
2. Variations to Audit Plan

3. Subsequent Events
4. Audit Issues
5. Audit Report
6. Issues Relevant to next Audit

The Audit Committee received the 2019/2020 Audit Report and audit findings.

8. GENERAL BUSINESS

The Shire President thanked Tim Partridge and AMD Chartered Accountants for their 25 plus years of audit services to the Shire of Manjimup.

9. NEXT MEETING

The next meeting is scheduled for June 2021

10. MEETING CLOSURE

The meeting was closed at 11.25am.



**SHIRE OF MANJIMUP
EXIT MEETING AGENDA**

**Date 10th May 2021 at 11am
Teleconference**

ATTENDEES:

Shire of Manjimup Audit Committee

Cr Paul Omodei Shire President
Cr Robert Taylor
Cr Denise Jenkins
Cr Murray Ventris
Cr Cliff Winfield

Shire of Manjimup Executive Management

Andrew Campbell Chief Executive Officer
Greg Lockwood Director of Business

AMD Chartered Accountants:

Tim Partridge Director

Office of the Auditor General (via phone conference):

Punitha Perumal Assistant Director, Office of the Auditor General WA

AGENDA ITEMS:

1. Audit Approach

Refer also attached Audit Planning Summary, including Section 4 "Significant Risks" and Section 5 "Audit Emphasis and Significant Account Balances"

- Interim Visit / Testing Completed
- Year End Communications
- Final Visit / Testing Completed

2. Variations to Audit Plan (where applicable)

No variations

3. Subsequent Events

We are not aware of any subsequent events.

4. Audit Issues

- Status of prior year audit issues:
All prior year recommendations have been implemented.
- Status of audit issues reported at 2020 interim:
All interim audit findings have been implemented or are in progress.
- Audit issues reported in the current audit:
As reported within 'Findings Identified during Year End Audit' document attached.



5. Audit Report

Refer DRAFT Audit Report attached

- Opinion Qualification Matters (where applicable):
No qualifications to audit opinion.
- Report on Other Legal and Regulatory Matters:
 - a) One adverse ratio reported.
 - Operating surplus ratio as reported within the financial report has been below the Department of Local Government, Sport and Cultural Industries' standard for the past three years.
 - b) Instances of non-compliance
 - A list of accounts paid from the municipal and trust fund was not presented at the next ordinary meeting of the Council as required by Regulation 13(3) of the Local Government (Financial Management) Regulations 1996 for the months of July 2019 to January 2020. The accounts were presented 2 to 3 meetings late.
 - A statement of financial activity was not presented to Council within 2 months of month end as required by Regulation 34(4) of the Local Government (Financial Management) Regulations 1996 for the months of February 2020 to June 2020. The statements were presented between 1 to 2 months late.
 - Formal bank reconciliations for the municipal and trust accounts were not completed for the majority of the financial year. This increased the risk of misstatements, fraud and error not being detected in a timely manner. However there were no material unreconciled items at year end.
 - Formal monthly reconciliations of key balance sheet accounts (cash, sundry debtors, rates debtors, sundry creditors, fixed assets) were not completed between July 2019 and May 2020. This increased the risk of misstatements, fraud and error not being detected in timely manner.
 - Changes made to the suppliers, debtors, payroll and rate assessment masterfiles were not independently reviewed and authorised. This increased the risk of unauthorised changes to key information, although our audit sampling did not identify any.

6. Issues Relevant To Next Audit

There will be a change in the contract auditor from AMD Chartered Accountants to Moore Australia.

7. Close

INDEPENDENT AUDITOR'S REPORT

To the Councillors of the Shire of Manjimup

Report on the Audit of the Financial Report

Opinion

I have audited the annual financial report of the Shire of Manjimup which comprises the Statement of Financial Position as at 30 June 2020, and the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and Rate Setting Statement for the year then ended, as well as notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.

In my opinion the annual financial report of the Shire of Manjimup:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2020 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Shire in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the annual financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Basis of Accounting

I draw attention to Notes 1 and 9 to the annual financial report, which describe the basis of accounting. The annual financial report has been prepared for the purpose of fulfilling the Shire's annual financial reporting responsibilities under the Act, including the Local Government (Financial Management) Regulations 1996 (Regulations). My opinion is not modified in respect of these matters:

- (i) Regulation 17A requires a local government to measure vested improvements at fair value and the associated vested land at zero cost. This is a departure from AASB 16 Lease which would have required the entity to measure the vested improvements also at zero cost.
- (ii) In respect of the comparatives for the previous year ended 30 June 2019, Regulation 16 did not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report.

Responsibilities of the Chief Executive Officer and Council for the Financial Report

The Chief Executive Officer (CEO) of the Shire is responsible for the preparation and fair presentation of the annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal control as the CEO determines is necessary to enable the preparation of the annual financial report that is free from material misstatement, whether due to fraud or error. In preparing the annual financial report, the CEO is responsible for assessing the Shire's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State Government has made decisions affecting the continued existence of the Shire.

The Council is responsible for overseeing the Shire's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Report

The objectives of my audit are to obtain reasonable assurance about whether the annual financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual financial report. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

A further description of my responsibilities for the audit of the annual financial report is located on the Auditing and Assurance Standards Board website at https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of my auditor's report.

Report on Other Legal and Regulatory Requirements

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

- (i) In my opinion, the following material matter indicate a significant adverse trend in the financial position of the Shire:
 - a. The Operating Surplus Ratio has been below the Department of Local Government, Sport and Cultural Industries' standard for the past 3 years. The financial ratios are reported in Note 33 of the annual financial report.
- (ii) The following material matters indicating non-compliance with Part 6 of the *Local Government Act 1995*, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law were identified during the course of my audit:
 - a. A list of accounts paid from the municipal and trust fund was not presented at the next ordinary meeting of the Council as required by Regulation 13(3) of the Local Government (Financial Management) Regulations 1996 for the months of July 2019 to January 2020. The accounts were presented 2 to 3 meetings late.
 - b. A statement of financial activity was not presented to Council within 2 months of month end as required by Regulation 34(4) of the Local Government (Financial Management) Regulations 1996 for the months of February 2020 to June 2020. The statements were presented between 1 to 2 months late.
 - c. Formal bank reconciliations for the municipal and trust accounts were not completed for the majority of the financial year. This increased the risk of misstatements, fraud and error not being detected in a timely manner. However there were no material unreconciled items at year end.

- d. Formal monthly reconciliations of key balance sheet accounts (cash, sundry debtors, rates debtors, sundry creditors, fixed assets) were not completed between July 2019 and May 2020. This increased the risk of misstatements, fraud and error not being detected in timely manner.
 - e. Changes made to the suppliers, debtors, payroll and rate assessment masterfiles were not independently reviewed and authorised. This increased the risk of unauthorised changes to key information, although our audit sampling did not identify any.
- (iii) All required information and explanations were obtained by me.
 - (iv) All audit procedures were satisfactorily completed.
 - (v) In my opinion, the Asset Consumption Ratio included in the annual financial report was supported by verifiable information and reasonable assumptions.

Other Matter

The annual financial report of the Shire for the year ended 30 June 2019 was audited by another auditor who expressed an unmodified opinion on that annual financial report. The financial ratios for 2018 and 2019 in Note 33 of the audited annual financial report were included in the supplementary information and/or audited annual financial report for those years.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of the Shire of Manjimup for the year ended 30 June 2020 included on the Shire's website. The Shire's management is responsible for the integrity of the Shire's website. This audit does not provide assurance on the integrity of the Shire's website. The auditor's report refers only to the annual financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this annual financial report. If users of the annual financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited annual financial report to confirm the information contained in this website version of the annual financial report.

ALOHA MORRISSEY
ASSISTANT AUDITOR GENERAL FINANCIAL AUDIT
Delegate of the Auditor General for Western Australia
Perth, Western Australia
May 2021

SHIRE OF MANJIMUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Monthly Statement of Financial Activity	✓		
2. GST Reconciliation		✓	
3. Overdue Rate Debtors and Sundry Debtor Request Form		✓	
4. Excessive Leave Balances		✓	
5. Leave Provisions			✓
6. Bank Reconciliation			✓

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.

SHIRE OF MANJIMUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

1. Monthly Statement of Financial Activity

Finding

Statement of financial activity was not presented to Council within two months after month end as required by Regulation 34(4) of the Local Government (Financial Management) Regulations 1996 for the following months:

Month	Date list of accounts presented to Council
March 2020	25 June 2020
April 2020	16 July 2020
May 2020	13 August 2020
June 2020	3 September 2020

We also noted that after the 26 March 2020 ordinary Council meeting, the next meeting held was only on 4 June 2020 due to the Covid-19 pandemic.

Rating: Significant Implication

Actions or decisions required as a result of information in these reports may not be carried out in a timely manner and non-compliance with Regulation 34(4) of Local Government (Financial Management) Regulation 1996.

Recommendation

Monthly financial activity statements should be presented at the ordinary council meeting in a time consistent with those prescribed in the Local Government (Financial Management) Regulations 1996.

Management Comment

The periods in question were during the COVID-19 Pandemic when the Shire Council did not meet. Since Council has recommenced meetings, requirements under Regulation 34(4) have been met.

Responsible Officer: Greg Lockwood, Director of Business
Completion Date: Ongoing

SHIRE OF MANJIMUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

2. GST Reconciliation

Finding

Our review of GST identified:

- An amount of \$166,335 has been identified by the Shire as an outstanding amount owed to the Australian Taxation Office ('ATO') and which has not been paid (2019: \$166,335); and
- Accrued expenses have been recorded including GST.

Rating: Moderate**Implication**

- Risk of audit action and penalties and interest charges being raised by the ATO for unpaid amounts; and
- Overstatement of accrued expenses.

Recommendation

We recommend:

- GST reports be reconciled to the general ledger accounts quarterly to ensure the correct amounts are remitted/refunded to the ATO;
- The outstanding balance be paid to the ATO as soon as possible; and
- Accrued expenses be recorded excluding GST.

Management Comment

GST is reconciled and paid monthly to the Australian Taxation Office via the Business Portal. Outstanding amount to the Australian Taxation Office to be finalised before 30 June 2021. Accrued expense process did create a GST transaction however this does not appear in the BAS process until the Creditor invoice is received and finalised. As part of the 2021/2022 officers will ensure Accrued Expenses do not contain GST.

Responsible Officer:

Greg Lockwood, Director of Business

Completion Date:

30 June 2021

SHIRE OF MANJIMUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

3. Overdue Rate Debtor and Sundry Debtor Request Form**Finding**

Our review of debtors identified the following:

- A significant number of rates debtors are overdue; and
- One invoice request form could not be located to support invoice number 2277.

Rating: Moderate**Implication**

- Increased risk rate debtor balances are not collectible; and
- Risk invoices are being raised in Datascape without appropriate authority.

Recommendation

We recommend:

- A review of rate debtor balances older than one year be analysed and considered for presentation to Council for write off; and
- Invoice request forms be completed to support raising of invoices in accordance with stated procedures.

Management Comment

Rate debts follow Council policy for debt collection. Rate debts are a debt on the land and as such collectable on the sale of the property. The Shire has further powers under the Local Government Act to sell the property if rates are unpaid for a period of 3 years. Whilst an assessment will be made to ensure rates are not exceeding property values, this type of debt is low risk.

Invoice request forms typically have strong supporting documentation, this appears to be an anomaly, however a review will be undertaken to ensure compliance.

Responsible Officer:

Craig Martyn, Coordinator of Finance and Administration Services

Completion Date:

Ongoing

SHIRE OF MANJIMUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

4. Excessive Leave Balances

Finding

We found four employees with annual leave balances greater than eight weeks, nine employees with long service leave balances greater than 500 hours, and three employees with greater than 100 hours banked (time off in lieu).

Rating: Moderate**Implication:**

In the absence of monitoring and control of accrued leave entitlements, there is an increased risk that internal controls will be weakened because of the absence of rotation of duties. Further, unbudgeted cash outflows may be required in the future if leave entitlements are required to be paid out.

Recommendation:

The Shire to monitor employees leave balances and actively establish leave management plans for staff with a view to clearing these large and long outstanding leave balances.

Management Comment

Leave balance reports are sent out to all Managers and Directors each fortnight. Efforts are being made to reduce these leave balances to acceptable levels.

Responsible Officer: All Managers/Directors

Completion Date: Ongoing

SHIRE OF MANJIMUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

5. Leave Records

Finding

Our review of leave provisions and transactions highlighted the following:

- Leave forms could not be located for two employees. One for 38 hours annual leave taken during the pay period ended 26 May 2020 and another for two days annual leave taken on 23 and 24 December 2019;
- Approved leave forms for an employee for the dates 24 December 2019 to 1 January 2020 and 25 June to 26 June 2020 were filed however, the leave was not recorded in the employee's annual leave entitlement record: and
- Inconsistency noted between the actual leave form and Datapay report. A leave form completed for an employee had start date of 23 December 2019 to 3 January 2020 and returning on 6 January 2020. This totals to seven days however the form noted as four days annual leave only. Furthermore, Datapay recorded three days annual leave taken on 31 December 2019, and 2 and 3 January 2020 only.

Rating: Minor

Implication

- Risk of material misstatement or omission within accounting records; and
- Risk of inaccurate recording of employee entitlements.

Recommendation

We recommend:

- Approved leave forms be filed in employee files to support the leave taken; and
- Changes to approved leave forms be recorded in the employee file.

Management Comment

Agreed. A review of the leave form administration process to be undertaken.

Responsible Officer:

Craig Martyn, Coordinator of Finance and Administration Services

Completion Date:

Ongoing

SHIRE OF MANJIMUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2020

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

6. Bank Reconciliation

Finding

Our review of the bank reconciliation at 30 June 2020 for municipal and trust accounts identified there were long outstanding unpresented cheques ("legacy") of \$2,344.20 and \$130 respectively.

**Rating: Minor
Implication**

Long outstanding unpresented cheques that have not been adequately resolved, increases the risk of errors and omissions remaining undetected, which in turn could lead to misstatements in the Shire's financial statements.

Recommendation

The Shire should review the long outstanding unpresented cheques listed on the reconciliation and resolve them.

Management Comment

Agreed, a review of outstanding cheques will be undertaken for any cheques that are deemed stale. These cheques are to be reviewed and reissued or reversed.

Responsible Officer: Craig Martyn, Coordinator of Finance and Administration Services
Completion Date: 30 June 2021