

Audit Committee Meeting Minutes 16 December 2021

Minutes of the Manjimup Audit Committee held at **Council Chambers** on **Monday 16 December 2021**.

1. DECLARATION OF OPENING OF MEETING

The meeting was opened by Chairperson, Cr Omodei at 1.15pm

2. ATTENDANCE / APOLOGIES

Present:

- Cr Paul Omodei
- Cr Denise Jenkins
- Cr Robert Taylor
- Cr Cliff Winfield

Apologies

- Cr Murray Ventris

Observers:

- Andrew Campbell – Chief Executive Officer (CEO)
- Greg Lockwood - Director Business (DB)

3. DECLARATION OF FINANCIAL INTERESTS

Nil.

4. CONFIRMATION OF MINUTES OF THE MEETING HELD 8 JULY 2021

ATTACHMENT : 1

Moved Cr Jenkins / Seconded Cr Taylor

“That the minutes of the Audit Committee meeting held on 8 July 2021 be adopted as a true and correct record.”

Carried 4/0

5. MATTERS ARISING FROM THE MEETING HELD 8 JULY 2021

Nil.

6. RISK MANAGEMENT

Nil

7. PRESENTATION OF ANNUAL FINANCIAL AUDIT REPORT 2021

The Director of Business presented the Office of Auditor General (OAG) Audit Report and Management Letter to the Audit Committee. It should be noted the OAG and Moore Australia presented this report to the Chair of the Audit Committee via Microsoft Teams on 22 November 2021.

Within the Audit Report there were two items raised identifying adverse trends being, the Current Ratio and Asset Sustainability Ratio, as discussed this triggered

ATTACHMENT: 1

Section 7.12A(4) of the Local Government Act which required a report to be prepared with actions to address (See section 8 of minutes).

A further two items were raised in the Management Report requiring attention, being reconciliation of the Asset Register and Payroll transactions. DB explained both items had been addressed since the audit had been complete.

ATTACHMENT : 2

Moved Cr Taylor / Seconded Cr Winfield

The Audit Committee receive the 2021 Annual Financial Audit Report and subsequent recommendations.

Carried 4/0

**8. PRESENTATION OF REPORT – SIGNIFICANT ADVERSE TREND 2020/2021
AUDIT REPORT**

The Director of Business presented the report to the Audit Committee with regards to actions to arrest the significant adverse trend raised as part of the 2019/20 Annual Financial Report audit.

It was noted that the issue with the Current Ratio has been raised on previous audit reports. The Current Ratio measures Own Source Review against Operating Expenditure. Any Local Government reliant on grants will struggle to meet the Department of Local Government, Sport and Cultural Industries standard of greater than zero.

The second item noted as a significant adverse trend is the Asset Sustainability Ratio. This ratio measures Asset Renewable Expenditure against the level of Depreciation. The Shire has had 2 years where the ratio is below the Department of Local Government standard. To arrest this ratio the review of the Long Term Financial Plan will need to focus capital expenditure towards asset renewal rather than asset creation.

ATTACHMENT : 3

Moved Cr Winfield / Seconded Cr Jenkins

The Audit Committee endorse the report “Significant Matter Raised in Audit Report” and subsequent recommendations.

Carried 4/0

9. EFFECTIVENESS OF COMPLIANCE

The Director of Business presented the action running sheet from previous audits, being: Financial Management Systems Review, Regulation 17 and 2020/21 Interim Audit.

ATTACHMENT : 4

Moved Cr Taylor / Seconded Cr Jenkins

The Audit Committee receive the progress report as presented.

Carried 4/0

10. GENERAL BUSINESS

DB advised the Audit Committee that the Financial Systems Review and Regulation 17 Review were due.

It was noted the Regulation 17 Review was overdue.

AMD Chartered Accountants have been requested to supply a quote to carry out the review on behalf of the Chief Executive Officer.

11. NEXT MEETING

The next meeting is scheduled for February 2022

12. MEETING CLOSURE

The meeting was closed at 1.21pm.



ATTACHMENT: 1

F170379

Audit Committee Meeting Minutes 8 July 2021

Minutes of the Manjimup Audit Committee held at **Council Chambers** on **Monday 8 July 2021**.

1. DECLARATION OF OPENING OF MEETING

The meeting was opened by Chairperson, Cr Omodei at 1.15pm

2. ATTENDANCE / APOLOGIES

Present:

- Cr Paul Omodei
- Cr Denise Jenkins
- Cr Murray Ventris

Apologies

- Cr Robert Taylor
- Cr Cliff Winfield

Observers:

- Andrew Campbell – Chief Executive Officer (CEO)
- Greg Lockwood - Director Business (DB)
- Cr David Tapley
- Cr Ken Lawrence

3. DECLARATION OF FINANCIAL INTERESTS

Nil.

4. CONFIRMATION OF MINUTES OF THE MEETING HELD 10 MAY 2021

Moved Cr Jenkins / Seconded Cr Ventris

“That the minutes of the Audit Committee meeting held on 10 May 2021 be adopted as a true and correct record.”

Carried 3/0

5. MATTERS ARISING FROM THE MEETING HELD 10 MAY 2021

Nil.

6. RISK MANAGEMENT

Nil

7. PRESENTATION OF REPORT – SIGNIFICANT ADVERSE TREND 2019/2020 AUDIT REPORT

The Director of Business presented the report to the Audit Committee with regards to actions to arrest the significant adverse trend raised as part of the 2019/20 Annual Financial Report audit.

ATTACHMENT: 1

It was noted that this issue (Current Ratio) has been raised on previous audit reports. The Current Ratio measures Own Source Review against Operating Expenditure. Any Local Government reliant on grants will struggle to meet the Department of Local Government, Sport and Cultural Industries standard of greater than zero.

The Audit Committee endorse the report “Significant Matter Raised in Audit Report” and subsequent recommendations.

Carried 3/0

8. EFFECTIVENESS OF COMPLIANCE

The Director of Business presented the action running sheet from previous audits, being: Financial Management Systems Review, Regulation 17, 2019/20 Annual Financial Compliance Audit Return 2020 and progress on the actions from those audits.

The Audit Committee receive the progress report as presented.

Carried 3/0

9. GENERAL BUSINESS

Shire Officers received the 2020/21 Interim Audit the day before the meeting and as such this was presented in general business.

The Director of Business presented the Interim Audit Report and findings received from the Officer of Auditor General.

The Audit Committee received the 2020/21 Interim Audit Report

Carried 3/0

10. NEXT MEETING

The next meeting is scheduled for September 2021

11. MEETING CLOSURE

The meeting was closed at 1.50pm.



NOTICE OF MEETING

Notice is given that a Meeting of the Manjimup Audit Committee will be held at **JC Rose Room** (Committee Room) on **Thursday 8 July 2021** commencing at 1.15 pm.

Andrew Campbell
CHIEF EXECUTIVE OFFICER
 5 July 2021

AGENDA

1. DECLARATION OF OPENING OF MEETING

2. ATTENDANCE / APOLOGIES

3. DECLARATION OF FINANCIAL INTERESTS

Any committee member who has a financial interest in any matter to be considered by the committee must declare that interest and the nature of that interest in writing immediately before the matter is discussed.

4. CONFIRMATION OF MINUTES OF THE MEETING HELD 10 May 2021 ATTACHMENT: 1

5. MATTERS ARISING FROM THE MEETING HELD May 2021 Nil

6. RISK MANAGEMENT Nil

7. PRESENTATION OF REPORT – SIGNIFICANT ADVERSE TREND 2019/20 AUDIT REPORT ATTACHMENT: 2 Presentation of report to be endorsed by Audit Committee

8. THE EFFECTIVENESS OF COMPLIANCE Review on going action list from Regulation 17, Financial Management Systems Review, Compliance Audit Return 2020 and Interim Audit 2019/20 (2020/21 if available at meeting time)

ATTACHMENT: 3

9. GENERAL BUSINESS

10. NEXT MEETING The next meeting is scheduled for September 2021

11. MEETING CLOSURE

Distribution List: Cr Omodei, Cr Jenkins, Cr Taylor, Cr Winfield, Cr Ventris, CEO, DB



ATTACHMENT: 1

F170379

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 Perumal and Tim Partridge presented various elements of the audit process, being;

1. Audit Approach
2. Variations to Audit Plan

ATTACHMENT: 1

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.

ATTACHMENT: 2

To : Audit Committee

RE: Significant Matter Raised in Audit Report



Background

As part of the 2019/20 Audit Report the Shire of Manjimup's Auditors, being the Office of Auditor General deemed a matter to be significant in nature. The following comment was included in the Shire's Audit 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.

Due to the Auditor highlighting a matter that they deem to be significant in the 2019/20 Audit Report, the Shire is statutorily required to follow the process set out in the section below:

Section 7.12A(4) of the Local Government Act 1995 states that a local government must:

- (a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and*
- (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.*

Section 7.12A(5) of the Local Government Act 1995 also states:

Within 14 days after a local government gives a report to the Minister under subsection(4)(b), the CEO must publish a copy of the report on the local government's official website.

The Operating Surplus Ratio in Detail (extracted from DLGSCI guidelines)

Calculation: (Operating Revenue MINUS Operating Expense)

Own Source Operating Revenue

Purpose: This ratio is a measure of a Local Government's ability to cover its operational costs and have revenues available for capital funding of other purposes.

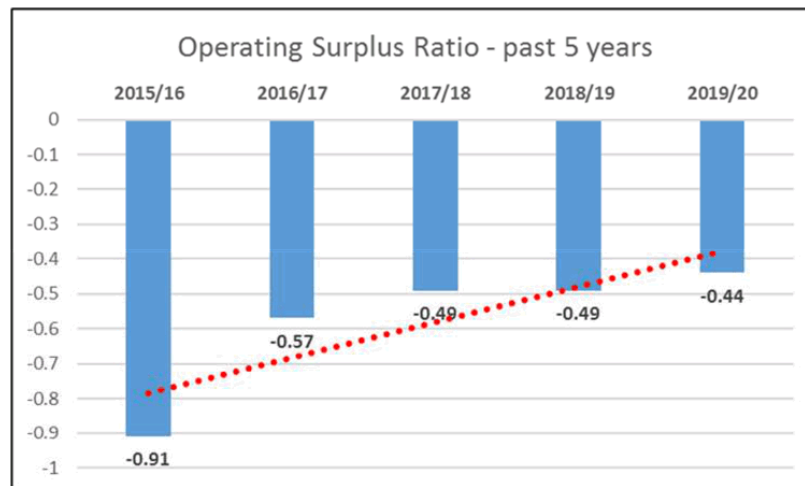
Standard: **Basic** standard (0.01 and 0.15) **Advanced** standard (>0.15)

The Operating Surplus ratio for the Shire of Manjimup in the last 4 years is:

- 2015/16: -0.91
- 2016/17: -0.57
- 2017/18: -0.49
- 2018/19: -0.49
- 2019/20: -0.44

Comment

The Shire of Manjimup's Operating Surplus Ratio has been under the DLGCI's standards since the ratio was introduced in the 2013/14 financial year. The Operating Surplus Ratio for any Local Government that heavily relies on grant funding would always be below the DLGCI's standard for this ratio, as it assesses own source revenue against operating expenditure (inclusive of depreciation and grant funded expenditure). It is acknowledged that the Auditor General believed the ratio indicated a "significant adverse trend" due only to the fact that it was not within the DLGCI's benchmarks, as the trend for the previous 5 years shows an improving trend rather than an adverse trend.



Like several of the ratios specifically applied to Local Government in Western Australia by DLGCI, there are considerable anomalies that arise during the calculation of the Operating Surplus Ratio that significantly weaken the interpretive usefulness of the outcome when judging the sustainability of a Local Government. Specific issues that affect the Shire of Manjimup when calculating this ratio are:

- The Shire is very grant reliant and receives substantial financial assistance grants each year. Unless significant population growth, economic growth, significant increases (70%+) in existing rates or the ability to rate additional land occurs, the Shire will continue to be heavily reliant on grant funding into the future;

- The Shire has a 1,358km road asset base arising from being the largest Local Government district land mass in the South West. This means that a substantial non-cash depreciation expense forms a significant part of the base calculation. The depreciation expense of road infrastructure is highly subjective that is open to manipulation and as it exists as a non-cash item should be reconsidered for its worth in contributing the Operating Surplus Ratio;
- The Shire auspices many operating grant programs like the Commonwealth Home Care Programs, NDIS services etc. As these programs are grant related the grant is removed from the Operating Surplus calculation, however the expenditure must remain in the operating expense portion. In most cases if this grant money was not received the programs would not go ahead which equates to approximately \$4.5M per year in Shire expenses and therefore should not be included in the Operating Surplus Ratio calculation; and
- When Council has any form of a carry forward, the carried forward expense from a previous year affects the ratio, however the funding for that expense is not recognised.

The Shire of Manjimup look forward to the outcomes from the Local Government Financial Ratios Sector Working Group's findings and recommendations which should see a significant improvement in the calculation of the financial ratios taking into account the differences experienced from one Local Government to another.

Proposed Action

1. The Operating Surplus Ratio trend at the Shire is continuing to improve. This should be continued to be monitored and consideration given to further action if required if declines occur in future years;
2. Due to the effects of COVID-19 the Shire's income has been impacted reducing the ability of Council to increase funding for capital renewal. Once the economy has restabilised the Shire of Manjimup's Long Term Financial Plan initiative of contributing an additional \$100,000 to \$150,000 in capital renewal will recommence; and
3. The Shire will continue to review operating costs as part of regular reviews and budget processes to control costs, but maintain levels of service expected by ratepayers.



Greg Lockwood
Director of Business
Shire of Manjimup

2020 Annual Report Management Letter and Non Compliance Matters

Recommendation	Recommendations	Completion	Comment
1 Monthly Statement of Financial Activity	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.	Complete	To date all Monthly Financial Activity Statement Reports have been presented to Council within the legislated timeframes
2 GST Reconciliation	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.	Complete	GST is reconciled monthly. All GST has been paid to the ATO as per their determined processes. A new accrued expense process has been used for 2020/21 so as not to include GST
3 Overdue Rate Debtor and Sundry Debtor Request Form	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.	Complete	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. The missing invoice request form was an anomaly however ongoing review for compliance is being undertaken.

2020 Annual Report Management Letter and Non Compliance Matters

Recommendation	Recommendations	Completion	Comment
4 Excessive Leave Balances	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.	Complete	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.
5 Leave Records	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.	Complete	A review of the leave form administration process to be undertaken
6 Bank Reconciliation	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.	Complete	All stale cheques have been cleared
Non Compliance Matters - Auditors Report			
a. List of Accounts to Council	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.	Complete	Periods in question were during COVID-19 Pandemic when the Shire Council did not meet. All reports for the 2020/21 financial year have been presented within the legislated timeframes.
b. Monthly Financial Activity Statement to Council	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.	Complete	Periods in question were during COVID-19 Pandemic when the Shire Council did not meet. All reports for the 2020/21 financial year have been presented within the legislated timeframes.

2020 Annual Report Management Letter and Non Compliance Matters

Recommendation	Recommendations	Completion	Comment
c. Bank Reconciliation	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.	Complete	Changeover of software caused a delay with formal bank reconciliations. Due to the manner in which all bank transactions are downloaded direct from the bank there was very little risk of error. Bank reconciliations are now being completed.
d. Reconciliations	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.	Complete	Changeover of software caused a delay in the production of reconciliation reports for all subsidiary ledgers. This has now been completed and run as part of end of month procedures.
e. Masterfile Changes	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.	Complete	Software providers have since developed a report identifying master file changes in all key modules. This is run monthly and changes signed off.

Shire of Manjimup
2019 FMSR Recommendations

Recommendation	FMSR Recommendation	Completion	Comment
2.2.1 Petty Cash Reconciliations	We recommend petty Cash is reconciled on a regular basis and any variances identified be investigated in a timely manner	Ongoing	No incidences of variances since FMSR review
3.2.1 End of Day Receipt Reconciliation and Banking	Independent verification of receipting function and banking	No Action	Area's identified involved isolated employees without a second financial person for verification. Ongoing support and monitoring of sites
3.2.2 Security of Cash Takings - Waste Management Site	Review and enhance controls over cash control. Investigate possibility of overnight deposits.	No Action	Isolated site have had no incidents of cash issues. Contractor takes cash home each night for security.
4.2.1 IT Key Performance Indicators / User Satisfaction Surveys	Give consideration to develop and implement specific IT department KPI's	No Action	ICT performance is tested everyday by users and issues logged direct to IT. IT maintain KPI's on overall system performance and failures.
5.2.1 Investment Policy	Investment policy is due for review	Complete	Reviewed and adopted 4 June 2020
6.2.1 Fixed Asset Register	At the time of the review the fixed asset register had not been balanced	Complete	Asset Register balance as at 30 June 2019
6.2.2 Credit Card Policy	Review Credit Card policy and compare with LG Guideline Number 11	Complete	Management Policy completed and signed off by SMT 21/5/2020 with Credit Card listing and acknowledgement by holders to follow policy.
7.2.1 Fuel Usage Analysis	No overall reconciliation of fuel statements to fuel receipts, not all vehicles have GPS fitted and staff are not required to fill in log books	No Action	Current system and auditing in place identifies issues as they occur. No further action required
7.2.2 Probation Review Process	Issues with finalisation of probation process	Ongoing	Believed identified items were isolated incidences.

2019 FMSR Recommendations

Recommendation	FMSR Recommendation	Completion	Comment
7.2.3 HR/OHS Policies and Procedures	Several policies requiring review	Complete	Policies reviewed and updated
7.2.4 Performance Review Process	Ensure all performance reviews are undertaken	Ongoing	Ongoing process. HR supplying regular updates to Managers and Coordinators when reviews are due.
7.2.5 Excessive Annual Leave Balances / Leave Form Practices	Review of balances showed staff with excessive leave as well as some leave forms not on payroll files.	Ongoing	SMT Review leave balances regularly and Managers and Coordinators receive regular leave balance reports.
7.2.6 Store Card	Procedure to be created for staff using Coles store card in line with purchasing policy	Complete	Store cards now have procedure with users signing an acknowledgment of conditions of use
7.2.7 Termination Checklist	Recommend mandatory termination checklist to be completed	Ongoing	Not always possible however key component of exit process for HR

2019 Regulation 17 Audit Recommendations

Recommendation	Interim Audit Recommendation	Completion	Comment
Risk Management			
2.2.1 Business Continuity and Emergency Risk Management	There is currently no organisational-wide Business Continuity Plan in place. In addition, the current IT Disaster Recovery Plan does not take into account the new accounting system and changes to the IT infrastructure.	In Progress	In progress Development and Regulation Directorate working through process for documentation.
2.2.2 Lease Management	No formal procedure in place to monitor lessee compliance with terms of the Council leased properties.	In Progress	Commercial Leases are managed through Real Estate Agent management contracts. NFP building related leases are insured through the Shire's insurance company and passively monitored through building maintenance inspections. Senior Properties Officer will maintain a register to monitor insurance compliance.
2.2.3 Risk Management Policies and Procedures	No documented policies and procedures are in place to deal with a number of risks applicable to the Shire i.e. litigation/claims, environmental management, whistle-blower etc.	In Progress	The Shire has been undertaking a rolling review of the whole Risk Management Framework and processes with a view to have the review completed by December 2020.
2.2.4 Code of Conduct	The current Code of conduct does not address the reporting mechanisms available in the event of a breach.	Complete	Review and adoption of Code of Conduct 2019 occurred on 23 January 2020

2019 Regulation 17 Audit Recommendations

Recommendation	Interim Audit Recommendation	Completion	Comment
Internal Controls			
3.2.1 Procurement and Contract Management	Our discussions with management identified that although there is a range of contractor management documents that mainly address engaging contractors, there is no documented contract management framework in place articulating an approach to be followed nor is a contract compliance checklist utilised by the Shire representative when managing contracts.	In Progress	Agreed. Review in place of contractor management system including compliance with insurance, Occupational Health and Safety as well as inductions. Formalised framework to follow.
3.2.2 Grant Funding Plan	No holistic grant funding summary plan in place.	In Progress	At present all grants are recorded within the Shire's financial management system however a complete summary is to be created with Milestones, expiry dates etc
Legislative Compliance			
4.2.1 Integrated Strategy Planning	IT Strategic Plan and Long Term Financial Plan due for review.	In Progress	Working through LTFP spreadsheets to reflect 2020/21 budget with new direction towards Recreation and Culture
4.2.2 Audit Advisory Committee	Areas of further enhancement identified with respect to the terms of reference and "the effectiveness of compliance" be listed as a standing agenda item for the meetings.	Complete	Included in agenda and seen as opportunity to review progress of findings from various audits carried out. Regulation 17, Interim Audits, Financial management Systems Review and Compliance Audit Return.
4.2.3 Internal Audit	There is currently no formal internal audit function in place.	Outstanding	To be discussed at future audit committee meeting.

Shire of Manjimup

2019 Regulation 17 Audit Recommendations

Recommendation	Interim Audit Recommendation	Completion	Comment
4.2.4 Complaints Handling	No documented complaints handling procedure in place relating to Councillors.	Complete	Proposed Policy adopted at Council meeting 25 June 2020 and is published on Council's official website

2020 Interim Audit Recommendations

Recommendation	Interim Audit Recommendation	Completion	Comment
1 Payments Presented to Council	It was noted payments on occasion were not presented to Council the following Council meeting after month end	Complete	Reviewing regularly, some difficulty dealing with Credit Card transactions
2 Monthly Reconciliations	No formal monthly reconciliations of key balances - Debtors, Rates, and Creditors	Complete	Currently working with Datacom to establish appropriate end of month reporting
3 Bank Reconciliation	Listing of unreconciled bank transactions as at 30 April 2020.	Ongoing	Item relates to automatic bank reconciliation program. Items present in accounts but not reconciled in BR program. Working with Datacom to resolve
4 Review Master File Changes	On transition to new software system should have an independent review of master file changes	Ongoing	Now have the ability to produce audit reports in each module to show what changes have been made and by which officer
5 Timeliness Recording Asset Transactions	Property Plant and Equipment not recorded in Financial Asset Management System	Ongoing	Module for the Financial Asset Register was released 25 June 2020. Register in process of being updated.
6 New Accounting Standards	The Shire has not completed sufficient assessment for the implementation of new accounting standards	Complete	Completed as part of finalisation of the 2019/20 Annual Financial Accounts
7 Overdue Debtors and Provisions	Audit identified a number of outstanding debtors	Ongoing	Some debtors were written off late in financial year. Ongoing process of working through debtors.
8 Employee Terminations	Whilst reviewing termination payments, calculations did not receive an independent review.	Complete	All fortnightly pay cycles are reviewed by the SOM HR Officer. Actual calculation sheets will be signed off to confirm process
9 Monthly Variance Analysis	On review of report explanations of variances are at a department level not a program level	Complete	Commentary within Monthly Financial Activity Report now notes variance by Program as per the requirement.



Our Ref: 8630

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469 Wellington Street, Perth

Mr Andrew Campbell
Chief Executive Officer
Shire of Manjimup
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MANJIMUP WA 6258

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PERTH WA 6849

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Dear Sir

**ANNUAL FINANCIAL REPORT
INTERIM AUDIT RESULTS FOR THE YEAR ENDING 30 JUNE 2021**

We have completed the interim audit for the year ending 30 June 2021. We performed this phase of the audit in accordance with our audit plan. The focus of our interim audit was to evaluate your overall control environment, but not for the purpose of expressing an opinion on the effectiveness of internal control, and to obtain an understanding of the key business processes, risks and internal controls relevant to our audit of the annual financial report.

Management Control Issues

I would like to draw your attention to the attached listing of deficiencies in internal control and other matters that were identified during the course of the interim audit. These matters have been discussed with management and their comments have been included on the attachment. The matters reported are limited to those deficiencies that were identified during the interim audit that we have concluded are of sufficient importance to merit being reported to management. Some of the matters may be included in our auditor's report in accordance with section 7.9(2) of the *Local Government Act 1995* or regulation 10(3)(a) and (b) of the *Local Government (Audit) Regulations 1996*. If so, we will inform you before we finalise the report.

This letter has been provided for the purposes of your local government and may not be suitable for other purposes.

We have forwarded a copy of this letter to the President. A copy will also be forwarded to the Minister for Local Government when we forward our auditor's report on the annual financial report to the Minister on completion of the audit.

Feel free to contact me on 6557 7544 if you would like to discuss these matters further.

Yours faithfully

PUNITHA PERUMAL
ASSISTANT DIRECTOR
FINANCIAL AUDIT
8 July 2021

Attach

SHIRE OF MANJIMUP**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021****FINDINGS IDENTIFIED DURING THE INTERIM AUDIT**

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Revenue Recognition	✓		
2. Payroll Reconciliation	✓		
3. Fixed Assets Reconciliation	✓		
4. Employee's Pay Review Letter		✓	
5. Purchase Order		✓	
Matter outstanding from prior year			
6. Bank Reconciliations		✓	

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 2021****FINDINGS IDENTIFIED DURING THE INTERIM AUDIT****FINDINGS****1. Revenue Recognition****Finding**

Australian accounting standards, AASB 15 Revenue from contracts with customers and AASB 1058 Income of not-for-profit entities, came into effect on 1 July 2019 superseding previous accounting standards. Our sample testing of revenue transactions (grants, rates and fees and charges) noted waste collection revenue has not been recognised in accordance with the requirements of AASB 15.

Rating: Significant**Implication**

Non-compliance with AASB 15. This has resulted in the Shire incorrectly recognising and reporting its revenue during the financial year. Monthly financial information used by management, Council and the readers of financials disclosed in Council minutes has not been prepared in accordance with the new accounting standards.

Recommendation

The Shire should update their revenue recognition policies to ensure waste collection revenue is recognised over time for proper monthly financial reporting in accordance with the requirements of AASB 15.

Management comment

Acknowledge and understand requirement, future account/report preparation will take this into account.

Responsible person: Greg Lockwood, Director of Business

Completion date: Ongoing

SHIRE OF MANJIMUP**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021****FINDINGS IDENTIFIED DURING THE INTERIM AUDIT****2. Payroll Reconciliation****Finding**

Reconciliation of the payroll system to the corresponding general ledger control accounts has not been performed since June 2020.

Rating: Significant**Implication**

Reconciliations are a key control for ensuring financial data is complete and accurate within the general ledger from which financial statements are prepared. Without this reconciliation being performed on a regular basis there is an increased risk for fraud and or errors to go undetected and not be identified in a timely manner, leading to misstatements in the financial statements.

Recommendation

To help ensure the Shire's payroll is complete and accurate within the general ledger, payroll reconciliation should be duly performed at end of each month. This reconciliation should be reviewed by a senior officer independent of preparation and evidenced accordingly.

Management comment

Acknowledge, process will form part of payroll fortnightly function.

Responsible person: Craig Martyn, Coordinator of Finance and Administration Services
Completion date: Ongoing

SHIRE OF MANJIMUP**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021****FINDINGS IDENTIFIED DURING THE INTERIM AUDIT****3. Fixed assets Reconciliation****Finding**

Reconciliation of the fixed asset register to corresponding general ledger control accounts for fixed assets has not been performed since September 2020.

Rating: Significant**Implication**

Reconciliations are a key control for ensuring the completeness and accuracy of financial data within the general ledger from which financial statements are prepared. Without this reconciliation being performed on a regular basis there is an increased risk for fraud and or errors to go undetected and not be identified in a timely manner. This could result in significant variances at year end.

Recommendation

To help ensure the Shire's fixed assets are complete and accurate within the general ledger, fixed asset reconciliation should be duly performed at the end of each month. This reconciliation should be reviewed by a senior officer independent of preparation and evidenced accordingly.

Management comment

The system error that prevented the reconciliation of the asset register has since been fixed and monthly reconciliations are again being completed.

Responsible person: Jasmine Bamess, Senior Administration and Properties Officer
Completion date: July 2021

SHIRE OF MANJIMUP**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021****FINDINGS IDENTIFIED DURING THE INTERIM AUDIT****4. Employee's Pay Review Letter****Finding**

Our testing of payroll noted one instance (out of twelve employees tested) where an employee's signed/approved pay review letter was not kept on file.

Rating: Moderate**Implication**

Without proper documentation of employee pay rates, there is an increased risk that employees are not paid at the correct rates. Also, there is an increased risk that errors within payroll transactions could occur and go undetected.

Recommendation

The Shire should make sure that any pay rate changes are documented and kept on each employee's personal file.

Management comment

This instance related to an employee undertaking duties outside of their standard employment conditions. Initial engagement letters have been changed to include possible extra duties with regards to the AquaCentre where needed.

Responsible person: Peta Edwards, Finance Officer - Payroll

Completion date: July 2021

SHIRE OF MANJIMUP**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021****FINDINGS IDENTIFIED DURING THE INTERIM AUDIT****5. Purchase Order****Finding**

Our sample testing of expense transactions noted one instance (out of twelve transactions tested) where the purchase order was dated after the date of the corresponding supplier invoice was received.

Rating: Moderate**Implication**

Purchases made without authorised purchase orders increases the risk of unauthorised purchases being made.

Recommendation

All purchase orders are to be raised prior to the authorising of works/services or ordering goods. This will help to ensure works/services or goods have been appropriately authorised, which will assist with budget monitoring and responsibility.

Management comment

The Finance Department acknowledge the findings. Purchasing is carried out by approximately 70 staff members across the whole Shire, as such the Finance Department regularly review compliance with the purchasing policy. Any breaches are dealt with the offending officer, or their line manager if multiple occasions arise.

Responsible person: Craig Martyn, Coordinator of Finance and Administration Services

Completion date: Ongoing

SHIRE OF MANJIMUP**PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021****FINDINGS IDENTIFIED DURING THE INTERIM AUDIT****Matters outstanding from prior year****6. Bank Reconciliations****Finding****2020-21**

During our review of the Shire's municipal bank reconciliation, we noted the reconciling items included un-presented cheques dating back to 2018. We also noted that there is a \$100 variance between the reconciliation bank balance and the corresponding general ledger control account balance.

2019-20

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

Rating: Moderate**Implication**

The bank reconciliations are a key reconciliation for the Shire and is a primary control that is a catalyst for many transactions in other ledger accounts. If reconciling items are long outstanding and are not followed up on a timely basis and if variances are left unrectified, fraud, errors or omissions can occur which can lead to misstatements in the financial statements.

Recommendation

Reconciling items should be reviewed on a monthly basis, including ensuring all transactions requiring processing are completed and any long outstanding transactions are followed up or cleared as required.

The variance between the bank balance and the general ledger balance should be investigated and rectified as soon as practicable.

Management comment

Dealt with as part of 2020/21 end of year clean-up.

Responsible person:

Michelle Ellis, Finance Officer

Completion date:

June 2021



Auditor General

INDEPENDENT AUDITOR'S REPORT 2021 Shire of Manjimup

To the Councillors of the Shire of Manjimup

Report on the audit of the annual financial report

Opinion

I have audited the financial report of the Shire of Manjimup (Shire) which comprises:

- the Statement of Financial Position at 30 June 2021, 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
- Notes comprising a summary of significant accounting policies and other explanatory information
- the Statement by the Chief Executive Officer.

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

- is based on proper accounts and records
- fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2021 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 section below. I am independent of the Shire in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to my audit of the 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.

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 financial report in accordance with the requirements of the Act, the Regulations and Australian Accounting Standards. The CEO is also responsible for managing internal control (as required by the CEO) to ensure the financial report is free from material misstatement, whether due to fraud or error.

In preparing the 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

As required by the *Auditor General Act 2006*, my responsibility is to express an opinion on the financial report. The objectives of my audit are to obtain reasonable assurance about whether the 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 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 financial report is located on the Auditing and Assurance Standards Board website. This description forms part of my auditor's report and can be found at https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

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 matters indicates 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 and the Asset Sustainability Ratio has been below the Department of Local Government, Sport and Cultural Industries' standard for the past 2 years. The financial ratios are reported in Note 32 of the annual financial report.
- (ii) The following material matter indicating non-compliance with Part 6 of the Act, the Regulations or applicable financial controls of any other relevant written law were identified during the course of my audit:
 - a) Monthly reconciliations of fixed assets and payroll were not completed for the majority of the financial year. This increased the risk of misstatements, fraud and errors not being detected in a timely manner.
- (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 and the Asset Renewal Funding Ratio included in the financial report were supported by verifiable information and reasonable assumptions.

Other information

The other information is the information in the entity's annual report for the year ended 30 June 2021, but not the financial report and my auditor's report. The CEO is responsible for the preparation and the Council for overseeing the other information.

My opinion does not cover the other information and, accordingly, I do not express any form of assurance conclusion thereon.

Matters relating to the electronic publication of the audited financial report

This auditor's report relates to the financial report of the Shire of Manjimup for the year ended 30 June 2021 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 financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of the 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 financial report to confirm the information contained in this website version of the financial report.



Grant Robinson
Assistant Auditor General Financial Audit
Delegate of the Auditor General for Western Australia
Perth, Western Australia
29 November 2021

SHIRE OF MANJIMUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Long Service Leave Calculation		✓	
2. Accrued Expenses		✓	

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.

SHIRE OF MANJIMUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

FINDINGS

1. Long Service Leave (LSL) Calculation

Finding

We noted the Shire's calculation of LSL provision did not accrue the long service hours using years of employment since the start dates as per the Long Service Leave Act but rather based on actual hours worked. Furthermore, the calculation did not reconcile to the payroll system as the payroll system only provides a leave balance report per employee based on their anniversary date.

We noted that the projected variance (below our trivial threshold) did not represent a material misstatement.

**Rating: Moderate
Implication**

The current approach does not calculate the employee entitlement accurately and hence misstates the Shire's liabilities. Furthermore, there is additional risk of non-compliance with the LSL Act

Recommendation

The Shire should review their methodology for the calculation of the provision so that it provides a more accurate reflection of the Shire's LSL liability.

Management comment

It is difficult to maintain one system with calculations from start date, due the varying methods of employment and calculations required. In particular long term employees employed over multiple payroll system, staff members that move from casual to part-time to full-time, or staff that have had multiple maternity breaks.

The Shire will review the current methodology and look to develop a system to better capture all the varying employment statuses at the Shire and subsequent calculations required to set aside an appropriate and auditable provision.

Responsible person: Greg Lockwood – Director of Business
Completion date: March 2022

SHIRE OF MANJIMUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

2. Accrued Expenses**Finding**

We noted the listing of accrued expenses included transactions from the past couple of financial years. Upon discussion with management, some of these transactions may have been subsequently invoiced but not removed from the listing.

The projected variance did not represent a material misstatement.

Rating: Moderate**Implication**

Overstatement of accrued expenses as some have already been invoiced and paid through the creditors system.

Recommendation

Management should perform an analysis of the accrual balance and any that have been invoiced should be removed accordingly.

Management comment

Agreed. A review will be undertaken to assess all current accrued expenses for likelihood of future invoicing and those that are assessed to be redundant will be reversed in the 2021/22 financial year operating accounts.

Responsible person:

Craig Martyn – Coordinator of Finance and Administration

Completion date:

February 2022



To : Audit Committee

RE: Significant Matter Raised in Audit Report

Background

As part of the 2020/21 Audit Report the Shire of Manjimup's Auditors, being the Office of Auditor General deemed a matter to be significant in nature. The following comment was included in the Shire's Audit 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 matters 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. And the Asset Sustainability Ratio has been below the Department of Local Government, Sport and Cultural Industries' standard for the past 2 years. The financial ratios are reported in Note 32 of the annual financial report.

Due to the Auditor highlighting matters that they deem to be significant in the 2020/21 Audit Report, the Shire is statutorily required to follow the process set out in the section below:

Section 7.12A(4) of the Local Government Act 1995 states that a local government must:

- (a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and*
- (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.*

Section 7.12A(5) of the Local Government Act 1995 also states:

Within 14 days after a local government gives a report to the Minister under subsection(4)(b), the CEO must publish a copy of the report on the local government's official website.

The Operating Surplus Ratio in Detail (extracted from DLGSCI guidelines)

Calculation:
$$\frac{\text{(Operating Revenue MINUS Operating Expense)}}{\text{Own Source Operating Revenue}}$$

Purpose: This ratio is a measure of a Local Government's ability to cover its operational costs and have revenues available for capital funding and other purposes.

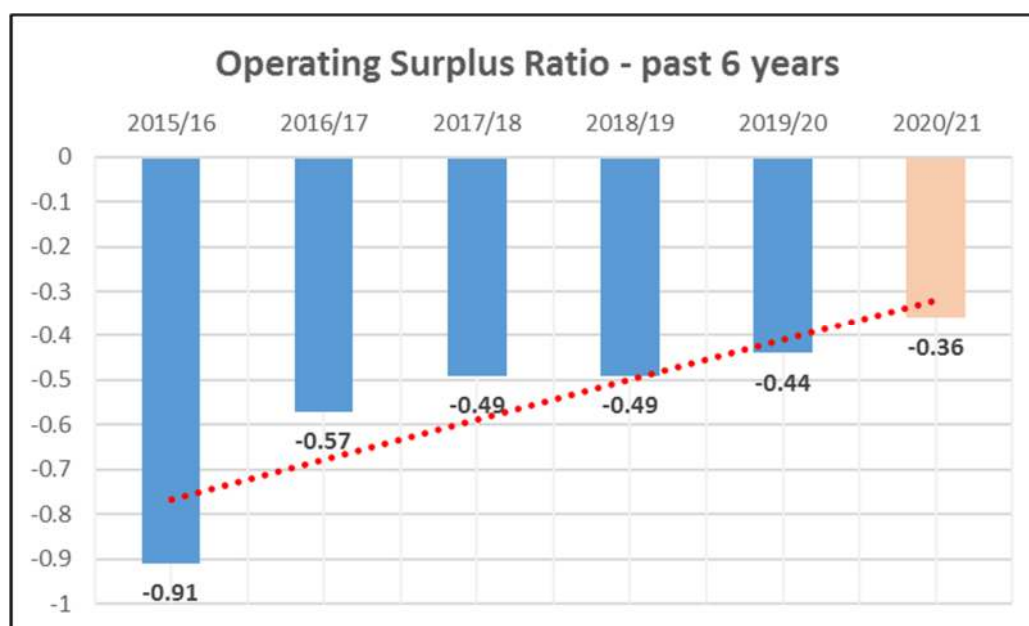
Standard: **Basic** standard (0.01 and 0.15) **Advanced** standard (>0.15)

The Operating Surplus ratio for the Shire of Manjimup in the last 6 years is:

- 2015/16: -0.91
- 2016/17: -0.57
- 2017/18: -0.49
- 2018/19: -0.49
- 2019/20: -0.44
- 2020/21: -0.36

Comment

The Shire of Manjimup's Operating Surplus Ratio has been under the DLGCI's standards since the ratio was introduced in the 2013/14 financial year. The Operating Surplus Ratio for any Local Government that heavily relies on grant funding would always be below the DLGCI's standard for this ratio, as it assesses own source revenue against operating expenditure (inclusive of depreciation and grant funded expenditure). It is acknowledged that the Auditor General believed the ratio indicated a "significant adverse trend" due only to the fact that it was not within the DLGCI's benchmarks, as the trend for the previous 6 years shows an improving trend rather than an adverse trend.



Like several of the ratios specifically applied to Local Government in Western Australia by DLGCI, there are considerable anomalies that arise during the calculation of the Operating Surplus Ratio that significantly weaken the interpretive usefulness of the outcome when judging the sustainability of a Local Government. Specific issues that affect the Shire of Manjimup when calculating this ratio are:

- The Shire is very grant reliant and receives substantial financial assistance grants each year. Unless significant population growth, economic growth, significant increases (70%+) in existing rates or the ability to rate additional land occurs, the Shire will continue to be heavily reliant on grant funding into the future;

- The Shire has a 1,358km road asset base arising from being the largest Local Government district land mass in the South West. This means that a substantial non-cash depreciation expense forms a significant part of the base calculation. The depreciation expense of road infrastructure is highly subjective that is open to manipulation and as it exists as a non-cash item should be reconsidered for its worth in contributing the Operating Surplus Ratio;
- The Shire auspices many operating grant programs like the Commonwealth Home Care Programs, NDIS services etc. As these programs are grant related the grant is removed from the Operating Surplus calculation, however the expenditure must remain in the operating expense portion. In most cases if this grant money was not received the programs would not go ahead which equates to approximately \$4.5M per year in Shire expenses and therefore should not be included in the Operating Surplus Ratio calculation; and
- When Council has any form of a carry forward, the carried forward expense from a previous year affects the ratio, however the funding for that expense is not recognised.

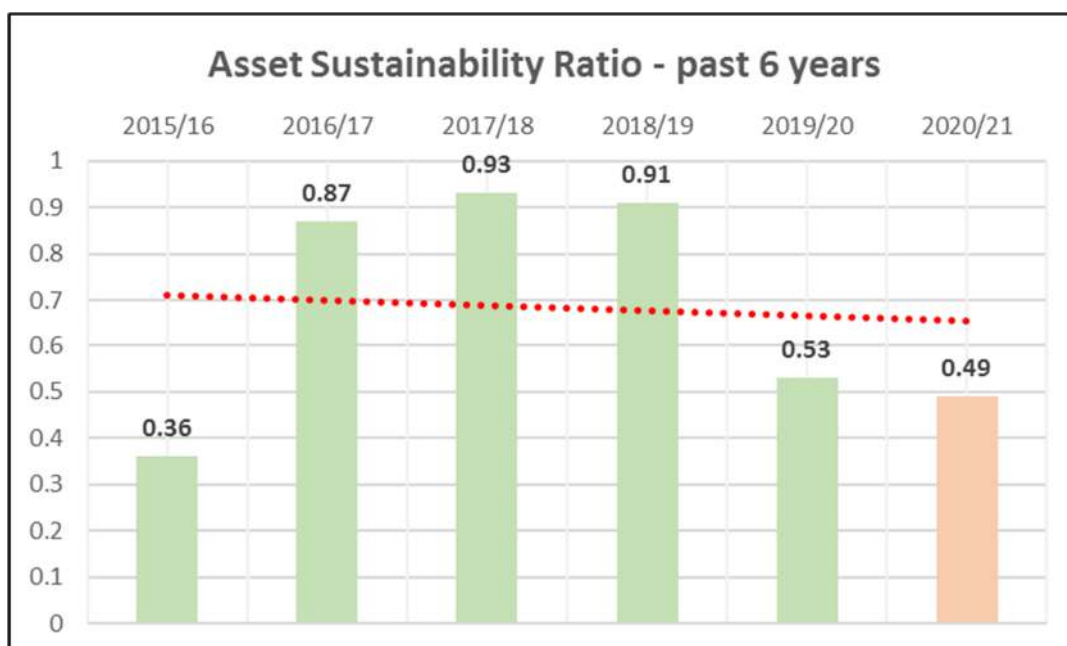
The Asset Sustainability Ratio in Detail (extracted from DLGSCI guidelines)

Calculation:
$$\frac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation}}$$

Purpose: This ratio indicates whether a local government is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.

Standard: Standard is met at 0.90, Standard is improving between 0.90 - 1.10

The graph below tracks the performance of the Shire's Asset Sustainability Ratio since 2015/16. The ratio varies from year to year depending on what projects have been completed and the nature of those projects, being renewal, upgrade or new.



The Asset Sustainability Ratio is heavily influenced by the level of assets a Local Government has under their control (\$564,295,808). The Shire of Manjimup has one of the longest road networks, highest number of bridges and due to the number of towns, replicates key public service buildings across other Shire towns.

To offset such a large asset base and subsequent depreciation, the Shire would typically rate money to fund the asset renewal. The Shire of Manjimup is in the difficult position where only 15% of the Shire's land mass is rateable with the other 85% unable to generate income.

There are two primary components of the ratio that the Shire can influence to affect the overall outcome. Firstly review depreciation rates to ensure that they reflect the reducing condition of assets, and secondly, prioritise renewal expenditure over expenditure for creating new assets.

Whilst a review of depreciation rates can be carried out with the support of an appropriate consultant, the spending of available funding solely on renewing assets is problematic given community pressure to upgrade current assets or replace existing assets with fit for purpose facilities.

The Shire of Manjimup look forward to the outcomes from the Local Government Financial Ratios Sector Working Group's findings and recommendations which should see a significant improvement in the calculation of the financial ratios taking into account the differences experienced from one Local Government to another.

Proposed Action

1. The Operating Surplus Ratio trend at the Shire is continuing to improve. This should be continued to be monitored and consideration given to further action if required if declines occur in future years;
2. Through the review of the Long Term Financial Plan consider the recommencement of the increase to municipal infrastructure funding by \$100,000 per year to increase asset renewal spending;
3. Undertake a review of depreciation rates and residual asset values in 2021/22; and
4. The Shire will continue to review operating costs as part of regular reviews and budget processes to control costs, but maintain levels of service expected by ratepayers.



Greg Lockwood
Director of Business
Shire of Manjimup

2019 FMSR Recommendations

Recommendation	FMSR Recommendation	Completion	Comment
2.2.1 Petty Cash Reconciliations	We recommend petty Cash is reconciled on a regular basis and any variances identified be investigated in a timely manner	Ongoing	No incidences of variances since FMSR review
3.2.1 End of Day Receipt Reconciliation and Banking	Independent verification of receipting function and banking	No Action	Area's identified involved isolated employees without a second financial person for verification. Ongoing support and monitoring of sites
3.2.2 Security of Cash Takings - Waste Management Site	Review and enhance controls over cash control. Investigate possibility of overnight deposits.	No Action	Isolated site have had no incidents of cash issues. Contractor takes cash home each night for security.
4.2.1 IT Key Performance Indicators / User Satisfaction Surveys	Give consideration to develop and implement specific IT department KPI's	No Action	ICT performance is tested everyday by users and issues logged direct to IT. IT maintain KPI's on overall system performance and failures.
5.2.1 Investment Policy	Investment policy is due for review	Complete	Reviewed and adopted 4 June 2020
6.2.1 Fixed Asset Register	At the time of the review the fixed asset register had not been balanced	Complete	Asset Register balance as at 30 June 2019
6.2.2 Credit Card Policy	Review Credit Card policy and compare with LG Guideline Number 11	Complete	Management Policy completed and signed off by SMT 21/5/2020 with Credit Card listing and acknowledgement by holders to follow policy.
7.2.1 Fuel Usage Analysis	No overall reconciliation of fuel statements to fuel receipts, not all vehicles have GPS fitted and staff are not required to fill in log books	No Action	Current system and auditing in place identifies issues as they occur. No further action required
7.2.2 Probation Review Process	Issues with finalisation of probation process	Ongoing	Believed identified items were isolated incidences.

2019 FMSR Recommendations

Recommendation	FMSR Recommendation	Completion	Comment
7.2.3 HR/OHS Policies and Procedures	Several policies requiring review	Complete	Policies reviewed and updated
7.2.4 Performance Review Process	Ensure all performance reviews are undertaken	Ongoing	Ongoing process. HR supplying regular updates to Managers and Coordinators when reviews are due.
7.2.5 Excessive Annual Leave Balances / Leave Form Practices	Review of balances showed staff with excessive leave as well as some leave forms not on payroll files.	Ongoing	SMT Review leave balances regularly and Managers and Coordinators receive regular leave balance reports.
7.2.6 Store Card	Procedure to be created for staff using Coles store card in line with purchasing policy	Complete	Store cards now have procedure with users signing an acknowledgment of conditions of use
7.2.7 Termination Checklist	Recommend mandatory termination checklist to be completed	Ongoing	Not always possible however key component of exit process for HR

2019 Regulation 17 Audit Recommendations

Recommendation	Interim Audit Recommendation	Completion	Comment
Risk Management			
2.2.1 Business Continuity and Emergency Risk Management	There is currently no organisational-wide Business Continuity Plan in place. In addition, the current IT Disaster Recovery Plan does not take into account the new accounting system and changes to the IT infrastructure.	In Progress	In progress Development and Regulation Directorate working through process for documentation.
2.2.2 Lease Management	No formal procedure in place to monitor lessee compliance with terms of the Council leased properties.	In Progress	Commercial Leases are managed through Real Estate Agent management contracts. NFP building related leases are insured through the Shire's insurance company and passively monitored through building maintenance inspections. Senior Properties Officer will maintain a register to monitor insurance compliance.
2.2.3 Risk Management Policies and Procedures	No documented policies and procedures are in place to deal with a number of risks applicable to the Shire i.e. litigation/claims, environmental management, whistle-blower etc.	In Progress	The Shire has been undertaking a rolling review of the whole Risk Management Framework and processes with a view to have the review completed by December 2020.
2.2.4 Code of Conduct	The current Code of conduct does not address the reporting mechanisms available in the event of a breach.	Complete	Review and adoption of Code of Conduct 2019 occurred on 23 January 2020
Internal Controls			
3.2.1 Procurement and Contract Management	Our discussions with management identified that although there is a range of contractor management documents that mainly address engaging contractors, there is no documented contract management framework in place articulating an approach to be followed nor is a contract compliance checklist utilised by the Shire representative when managing contracts.	In Progress	Agreed. Review in place of contractor management system including compliance with insurance, Occupational Health and Safety as well as inductions. Formalised framework to follow.

2019 Regulation 17 Audit Recommendations

Recommendation	Interim Audit Recommendation	Completion	Comment
3.2.2 Grant Funding Plan	No holistic grant funding summary plan in place.	In Progress	At present all grants are recorded within the Shire's financial management system however a complete summary is to be created with Milestones, expiry dates etc
Legislative Compliance			
4.2.1 Integrated Strategy Planning	IT Strategic Plan and Long Term Financial Plan due for review.	In Progress	Working through LTFP spreadsheets to reflect 2020/21 budget with new direction towards Recreation and Culture
4.2.2 Audit Advisory Committee	Areas of further enhancement identified with respect to the terms of reference and "the effectiveness of compliance" be listed as a standing agenda item for the meetings.	Complete	Included in agenda and seen as opportunity to review progress of findings from various audits carried out. Regulation 17, Interim Audits, Financial management Systems Review and Compliance Audit Return.
4.2.3 Internal Audit	There is currently no formal internal audit function in place.	Outstanding	To be discussed at future audit committee meeting.
4.2.4 Complaints Handling	No documented complaints handling procedure in place relating to Councillors.	Complete	Proposed Policy adopted at Council meeting 25 June 2020 and is published on Council's official website

2021 Interim Audit Recommendations

Recommendation	Interim Audit Recommendation	Completion	Comment
1 Revenue Recognition	The Shire should update their revenue recognition policies to ensure waste collection revenue is recognised over time for proper monthly financial reporting in accordance with the requirements of AASB 15.	Complete	Monthly accounts now produced with Waste Collection Revenue recognised as the service is delivered.
2 Payroll Reconciliation	To help ensure the Shire's payroll is complete and accurate within the general ledger, payroll reconciliation should be duly performed at end of each month. This reconciliation should be reviewed by a senior officer independent of preparation and evidenced accordingly.	Complete	Now forms part of fortnightly reconciliation
3 Fixed Asset Reconciliation	To help ensure the Shire's fixed assets are complete and accurate within the general ledger, fixed asset reconciliation should be duly performed at the end of each month. This reconciliation should be reviewed by a senior officer independent of preparation and evidenced accordingly.	Complete	The system error that prevented the timely reconciliation has now been corrected.
4 Employee's Pay Review Letter	The Shire should make sure that any pay rate changes are documented and kept on each employee's personal file.	Ongoing	This instance related to an employee undertaking duties outside of their standard employment conditions. Initial engagement letters have been changed to include possible extra duties with regards to the AquaCentre where needed.
5 Purchase Order	All purchase orders are to be raised prior to the authorising of works/services or ordering goods. This will help to ensure works/services or goods have been appropriately authorised, which will assist with budget monitoring and responsibility.	Ongoing	The Finance Department acknowledge the findings. Purchasing is carried out by approximately 70 staff members across the whole Shire, as such the Finance Department regularly review compliance with the purchasing policy. Any breaches are dealt with with the offending officer, or their line manager if multiple occasions arise.
Outstanding Prior Year			

2021 Interim Audit Recommendations

Recommendation	Interim Audit Recommendation	Completion	Comment
Bank Reconciliations	Reconciling items should be reviewed on a monthly basis, including ensuring all transactions requiring processing are completed and any long outstanding transactions are followed up or cleared as required. The variance between the bank balance and the general ledger balance should be investigated and rectified as soon as practicable.	Complete	Completed as part of finalisation of the 2019/20 Annual Financial Accounts
