

Shire of Tammin



DECLARATION

I declare that the minutes of the:

Audit Committee Meeting held on 13th December 2021 was confirmed at the Audit Committee Meeting held on 23rd February 2022.

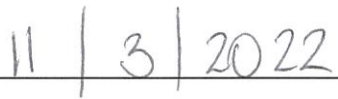
Name: Glenice Batchelor

Signed: _____



Being the person presiding at the meeting at which these minutes were confirmed.

Date: _____



Shire of Tammin

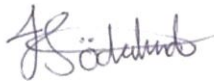
AUDIT COMMITTEE MEETING

CONFIRMED MINUTES



1 Donnan Street, Tammin
PO Box 53, Tammin WA 6409
Telephone: 9637 0300 Facsimile: 9637 1117
Email: shire@tammin.wa.gov.au

A meeting of the Audit Committee of the Shire of Tammin was held on Monday 13 December 2021 Council Chambers, 1 Donnan Street Tammin, commencing at 5:00pm.



Joanne Soderlund
Chief Executive Officer

13 December 2021

CHARTER

The role of the Audit Committee is to provide an independent oversight of the financial systems of a local government on behalf of Council. The Council (unless delegated to the Audit Committee) is required to meet a minimum of once per year with the Auditor (which may be by video or telephone).

Members of the Audit Committee are Cr's, G. Batchelor, T. Nicholls, C (Charmaine) Thomson, C (Courtney) Thomson & B. Leslie.

ORDER OF BUSINESS & TABLE OF CONTENTS

1. Declaration of opening
- 1.1 Acknowledgment to Country
- 1.2 Election of Committee Chairperson
2. Record of attendance
3. Response to Previous Questions taken on Notice
4. Public Question Time
5. Declarations of Interest
6. Confirmation of previous minutes
- 6.1 Audit Committee Meeting Minutes – 24 June 2021
7. Agenda Items
- 7.1 Annual Report 2020/21 Financial Year
8. Closure of meeting

1. DECLARATION OF OPENING

The Chief Executive Officer declared the meeting open at 5:00pm.

1.1 ACKNOWLEDGEMENT TO COUNTRY

We begin today by acknowledging the Ballardong Noongar People as traditional custodians of the land and skies on which we gather, and we pay our respects to their Elders, past, present and emerging.

1.2 ELECTION OF COMMITTEE CHAIRPERSON

Members are requested to put forward their nominations to the CEO in writing prior to the Meeting or when called for at the meeting.

The Chief Executive Officer called for nominations, Cr Thomson nominated Cr Batchelor for Chairperson.

There being no further nominations, Cr Batchelor was declared elected unopposed for a two year term from December 2021 to October 2023.

The CEO vacated the Chair and the newly Elected Chairperson, Cr Batchelor assumed the same.

2. RECORD OF ATTENDANCE

Present:

Cr G Batchelor	Member
Cr T Nicholls	Member
Cr Thomson	Member
Cr Leslie	Member

In Attendance:

Joanne Soderlund	Chief Executive Officer
Morgan Ware	Manager of Finance & Corporate Services

Leave of Absence:

Nil

Apologies:

Cr C Thomson

3. RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE

Nil

4. PUBLIC QUESTION TIME

Nil

5. DECLARATIONS OF INTEREST

Nil

6. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

Minutes of the previous Audit Committee meeting, held on 24 June 2021 are included as an attachment to this Agenda.

6.1 Audit Committee Meeting Minutes – 24 June 2021

STATUTORY IMPLICATIONS

Section 5.22 (2) of the *Local Government Act 1995* Section 5.22 (2) requires minutes of all council and committee meetings to be submitted to the next meeting of the council or the committee, as the case requires, for confirmation

TAC 08/21 MOTION

That the minutes of the Audit Committee meeting held on 24 June 2021 be confirmed as a true and accurate record of proceedings.

Moved: Cr Nicholls

Seconded: Cr Thomson

Vote: Simple Majority

Carried: 4/0

7. AGENDA ITEMS

7.1 Annual Report 2020/21 Financial Year

Location:	Shire of Tammin
Applicant:	Manager of Finance and Administration
Date:	6 December 2021
Author:	Morgan Ware
Item Approved by:	Chief Executive Officer
Disclosure of Interest:	Nil
File Reference:	Nil
Attachments:	Attachment Item 7.1 – Independent Auditors Report 30 June 2021 Attachment Item 7.1 – Transmittal letter to President 30 June 2021 Attachment Item 7.1 - Annual Financial Statement 30 June 2021 Attachment Item 7.1 - Management Letter 30 June 2021 Attachment Item 7.1 – Annual Report 30 June 2021

PROPOSAL / SUMMARY

The Audit Committee review and makes recommendation to Council to adopt the:

1. 2020/21 Annual Financial Statements;
2. 2020/21 Annual Report inclusive of the Auditors Report; and,
3. The accompanying Management Letter.

BACKGROUND

Section 7.12A, clause 2, of the *Local Government Act 1995* requires that a local government is to meet with the auditor as least once in each financial year. MACRI Partners were engaged to conduct the 2020/21 audit to present to the Office of Auditor General (OAG).

The 2020/21 Annual Financial Report and Independent Auditors Report for the 2020/21 financial year have been circulated to all Council members. The Audit Committee representatives Cr Batchelor and Cr Nicholls alongside Executive team Joanne Soderlund and Morgan Ware met with representatives of MACRI and the Office of the Auditor General (OAG) for the exit meeting on Thursday 2 December 2021 to discuss the Audit Closing Report and Annual Financial Statement.

Notwithstanding, the Auditor's Report noted the following matters, although they will not require any modification to the audit opinion, are of such importance to require additional communication in the report as per below;

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

- In my opinion, the following material matter indicates a significant adverse trend in the financial position of the Shire:*
 - The Operating Surplus Ratio as reported in Note 31 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries basic standard for all 3 years reported in the annual financial report.*
- 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) For approximately 50% of purchase transactions we sampled, same officer raised and approved the purchase order, receipted goods/services then also approved the associated supplier invoice. Lack of segregation of duties increases the risk of unauthorised purchases occurring without detection, resulting in financial loss.

COMMENT

The adverse trend in the Operating Surplus Ratio has been reported in previous Audit Reports and has been the subject of a previous report from management, namely:

1. Significant Matter Identified by OAG – Operating Surplus Ratio

“Significant adverse trend in the financial position: Operating Surplus Ratio as reported in Note 31 of the annual financial report has been below the Department of Local Government, Sport & Cultural Industries standard for the last three financial years.

Where the Operating Surplus Ratio is calculated as:

Operating revenue (AAS) LESS Contributions to capital outlays LESS operating expense (AAS) DIVIDED BY Own Source Revenue (FR50)

Department Standard - Basic Standard between 0% and 15% and advanced with ratio greater than 15%.

Implication

DLGSC Guidelines on Financial Ratios offers the following comment:

The ‘Operating Surplus Ratio’ is a measure of the Shire’s financial performance. A positive operating surplus ratio indicates the percentage of total own source revenue available to help fund proposed capital expenditure, transfer to cash reserves or to reduce debt. A negative ratio indicates the percentage increase in total own source revenue (principally rates) that would have been required to achieve a break-even operating result.

Management Comment

It is typical of a local government similar to the Shire of Tammin to have an operating surplus ratio that does not meet the department standard, with some 110 of 137 local governments failing to meet the required standard for the 2017/18 financial year.

This result reflects a reliance on sources of funding other than Councils own source revenue such as rates, service charges, reimbursements, interest income and profit on disposal of assets. Additionally factors such as recognition of Federal Assistance Grants being inconsistent from year to year and the impact of non-cash depreciation directly influence the results of the Operating Surplus Ratio.

Irrespective of the views on the adequacy of this performance indicator, the legislation requires the Shire to calculate and report this ratio in its annual financial report.

Considering the net operating: (before capital contributions and after adjustment for FAG’s) the results over the past three years is \$ (1,121,590), \$(1,121,536) and \$1,122,118).

In responding to the Departmental enquiry, it should be noted that the trend for this ratio remains steady, from -51%, -50% to -\$-51% in the last three years. The operations of the Shire have not materially changed; indeed, the operations of the Shire have not changed over many decades.

Action Taken or Intended to be Taken

The Shire of Tammin has noted that whilst the Ratio has been below the required standard over the past three years, it remains steady.

The Shire will continue to monitor the Ratio results and identify factors within its control that can be addressed with a view to improving the Ratio outcome. The recent Local Government reform released in November 2021 proposes that the financial ratios will be reviewed in detail, building on work already underway by the DLGSC and the ensure that the methods of calculating ratios and indicators are accurate and useful.

2. Significant Matter Identified by OAG – Material matter indicating non -compliance

For approximately 50% of purchase transactions we sampled, same officer raised and approved the purchase order, receipted goods/services then also approved the associated supplier invoice.

Implication

Lack of segregation of duties increases the risk of unauthorised purchases occurring without detection, resulting in financial loss.

Management Comment & Action Taken

Following the identification of a lack of segregation and control deficiency at the Interim audit, the process of authorising payments and purchase orders has been rectified.

Officers are ensuring goods purchased or services provided are checked and authorised by two people within the management team. This procedural addition limits the risk of fraudulent activity and meets compliance controls.

MACRI and the OAG noted that this control deficiency after being identified has been actioned by the executive team following the interim audit. No cases of this compliance risk was found in the final audit.

CONSULTATION

Nil

STATUTORY ENVIRONMENT

Local Government Act 1995

5.53. Annual reports

- (1) *The local government is to prepare an annual report for each financial year.*
- (2) *The annual report is to contain —*
 - (a) *a report from the mayor or president; and*
 - (b) *a report from the CEO; and*

[(c), (d)deleted]

- (e) an overview of the plan for the future of the district made in accordance with section 5.56, including major initiatives that are proposed to commence or to continue in the next financial year; and*
- (f) the financial report for the financial year; and*
- (g) such information as may be prescribed in relation to the payments made to employees; and*
- (h) the auditor's report prepared under section 7.9(1) or 7.12AD(1) for the financial year; and*
- (ha) a matter on which a report must be made under section 29(2) of the Disability Services Act 1993; and*
- (hb) details of entries made under section 5.121 during the financial year in the register of complaints, including —*
 - (i) the number of complaints recorded in the register of complaints; and*
 - (ii) how the recorded complaints were dealt with; and*
 - (iii) any other details that the regulations may require;**and*
 - (i) such other information as may be prescribed.*

5.54. Acceptance of annual reports

- (1) Subject to subsection (2), the annual report for a financial year is to be accepted* by the local government no later than 31 December after that financial year.*

** Absolute majority required.*

- (2) If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.*

5.55. Notice of annual reports

The CEO is to give local public notice of the availability of the annual report as soon as practicable after the report has been accepted by the local government.

5.55A. Publication of annual reports

The CEO is to publish the annual report on the local government's official website within 14 days after the report has been accepted by the local government.

Local Government (Administration) Regulations 1996

19B. Information about numbers of certain employees to be included (Act s. 5.53(2)(g))

For the purposes of section 5.53(2)(g) the annual report of a local government for a financial year is to contain the following information —

- (a) the number of employees of the local government entitled to an annual salary of \$100 000 or more;*
- (b) the number of those employees with an annual salary entitlement that falls within each band of \$10 000 over \$100 000.*

5.27. Electors' general meetings

- (1) A general meeting of the electors of a district is to be held once every financial year.*

- (2) *A general meeting is to be held on a day selected by the local government but not more than 56 days after the local government accepts the annual report for the previous financial year.*
- (3) *The matters to be discussed at general electors' meetings are to be those prescribed.*

Local Government Act 1995

7.1A. Audit committee

- 1) *A local government is to establish an audit committee of 3 or more persons to exercise the powers and discharge the duties conferred on it.*
 - 2) *The members of the audit committee of a local government are to be appointed* by the local government and at least 3 of the members, and the majority of the members, are to be council members.*
- * Absolute majority required.**
- 3) *A CEO is not to be a member of an audit committee and may not nominate a person to be a member of an audit committee or have a person to represent the CEO as a member of an audit committee.*
 - 4) *An employee is not to be a member of an audit committee.*

7.1B. Delegation of some powers and duties to audit committees

- 1) *Despite section 5.16, the only powers and duties that a local government may delegate* to its audit committee are any of its powers and duties under this Part other than this power of delegation.*
- *Absolute majority required.**
- 2) *A delegation to an audit committee is not subject to section 5.17.*

7.1C. Decisions of audit committees

Despite section 5.20, a decision of an audit committee is to be made by a simple majority.

7.12A. Duties of local government with respect to audits

- 1) *A local government is to do everything in its power to —*
 - a) *assist the auditor of the local government to conduct an audit and carry out his or her other duties under this Act in respect of the local government; and*
 - b) *ensure that audits are conducted successfully and expeditiously.*
- 2) *Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year*

Local Government (Audit) Regulations 1996

16. Audit committee, functions of

An audit committee —

- (a) *is to provide guidance and assistance to the local government —*
 - (i) *as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and*
 - (ii) *as to the development of a process to be used to select and appoint a person to be an auditor; and*
- (b) *may provide guidance and assistance to the local government as to —*
 - (i) *matters to be audited; and*
 - (ii) *the scope of audits; and*
 - (iii) *its functions under Part 6 of the Act; and*

(iv) the carrying out of its functions relating to other audits and other matters related to financial management; ...

POLICY IMPLICATIONS

Nil

FINANCIAL IMPLICATIONS

Nil

STRATEGIC IMPLICATIONS

Nil

TAC 09/21 MOTION

That the Audit Committee recommend to Council:

1. That it, pursuant to *Section 5.54 of the Local Government Act 1995*, accepts the 2020/21 Annual Report inclusive of the audited Financial Statements;
2. That it, pursuant to *Section 7.12A (3) of the Local Government Act 1995*, receive the "Unqualified" Independent Audit Report and Management Letter from the Office of the Auditor General for the 2020/21 financial year
3. That it, pursuant to *Section 5.55 of the Local Government Act 1995*, authorise the Chief Executive Officer to give local public notice of the availability of the Annual Report;
4. That it, pursuant to *Section 5.55A of the Local Government Act 1995*, publish the Annual Report on the Shire's official website.
5. That it, pursuant to *Section 7.12A (2) of the Local Government Act 1995*, recognises the exit meeting held with the Office of the Auditor General and MACRI partners on the 2nd of December 2021 as a meeting with the auditor of the Local Government.

Moved: Cr Leslie

Seconded: Cr Nicholls

Vote: Absolute Majority

Carried: 4/0

8. CLOSURE OF MEETING

There being no further business, the Chairperson will declare the meeting closed at 5:10pm.