



Audit and Risk Management Committee Meeting

Minutes

Tuesday 23 July 2019

commencing at 12.30pm

Venue: Council Chambers,
9 Lynch Street Corrigin

TERMS OF REFERENCE

Regulation 16 of the Local Government (Audit) Regulations 1996 states that:

“An audit committee —

- a) is to provide guidance and assistance to the local government —
 - i. as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and
 - ii. as to the development of a process to be used to select and appoint a person to be an auditor; and
- b) may provide guidance and assistance to the local government as to —
 - i. matters to be audited; 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; and
- c) is to review a report given to it by the CEO under regulation 17(3) (the CEO’s report) and is to —
 - i. report to the council the results of that review; and
 - ii. give a copy of the CEO’s report to the council.”

1.0 INTRODUCTION

The Council of the Shire of Corrigin (hereinafter called the "Council") hereby establishes a committee under the powers given in Section 5.8 and Section 7.1 A of the Local Government Act 1995, Local Government Amendment Act 2004 and Audit Regulations, such committee to be known as the Audit and Risk Management Committee, (hereinafter called the "Committee"). The Council appoints to the Committee those persons whose names appear in Section 4.0 below.

Membership of the Committee shall, unless otherwise specified, be for a term ceasing at the date of the Local Government election in the year the Shire's local government elections are held, after which time the Council may appoint members for a further term. The Committee shall act for and on behalf of Council in accordance with provisions of the Local Government Act 1995, the Local Government Amendment Act 2004 and the Local Government (Audit) Amendment Regulations 2005, local laws and policies of the Shire of Corrigin and this Instrument.

2.0 NAME

The name of the Committee shall be the Audit and Risk Management Committee.

3.0 ROLE

The Committee's role is to report to Council and provide appropriate advice and recommendations on matters relevant to its objectives in order to facilitate decision-making by Council in relation to the discharge of its responsibilities.

4.0 OBJECTIVES OF THE COMMITTEE

- 4.1 To provide guidance and assistance to the Council in:
 - a) carrying out its audit functions under Part 7 of the Local Government Act;
 - b) the development of a process to be used to select and appoint an auditor;
 - c) determining the scope and content of the external and internal audit and advising on the general financial management of the Shire;
 - d) overseeing the audit process and meeting with the external auditor after each visit to discuss management issues and monitoring administration's actions on, and responses to, any significant matters raised by the auditor;

- e) evaluating and making recommendations to Council on internal and external audit reports prior to them being presented to Council;
- f) receiving and verifying the annual Local Government Statutory Compliance Return;
- g) review reports provided by the CEO on the Shire's systems and procedures in relation to:
 - i. risk management;
 - ii. internal control; and
 - iii. legislative compliance;
- h) at least once every 3 years and report to Council the results of that review. Ref: Functions of Audit Committees (Audit Regulations).

- 4.2 To advise Council on significant high level strategic risk management issues related to the Shire of Corrigin including issues involving:
- a) the community;
 - b) the workforce;
 - c) vehicles and plant;
 - d) buildings and similar property;
 - e) revenue streams;
 - f) legal liability;
 - g) electronically stored information;
 - h) environmental impact;
 - i) fraud; and
 - j) reputation.

5.0 MEMBERSHIP

The Committee shall consist of all Councillors. Additionally up to two independent consultants with expertise in financial or legal matters will be called upon as required to provide additional independent external advice to the Committee. The external independent persons will have senior business, legal or financial management/reporting knowledge and experience, and be conversant with the financial and other reporting requirements.

Appointments of external consultants shall be made by the CEO following a decision of Council and the allocation of sufficient funds to provide consultation fees using relevant professional fee schedules. No member of staff including the CEO is to be a member of the Committee, but the CEO may participate as Council's principal advisor, unless expressly excluded by resolution of the Committee.

6.0 PRESIDING MEMBER

The President will take the role of Presiding Member and Deputy President the role of Deputy Presiding Member to conduct its business. The Presiding Member shall ensure that minutes of the proceedings are kept and that business is conducted in accordance with the Shire of Corrigin Standing Orders (Local Law). The Local Government Act 1995 places responsibility for speaking on behalf of Council with the President, or the CEO if the President agrees. The Presiding Member if different from the President is to refrain from speaking publicly on behalf of the committee or Council, or to issue any form of written material purporting to speak on behalf of the committee or Council without the prior approval of the President.

7.0 CONDUCT OF MEETINGS

The Committee shall meet at least three times per year. A schedule of meetings will be developed and agreed to by the members. As an indicative guide, meetings would be arranged to coincide with relevant Council reporting deadlines, for example in February to discuss the Statutory Compliance Return, in July to discuss the year's financial performance and to discuss the annual audit program and in November to discuss the Annual Financial Report. Additional meetings shall be convened at the discretion of the Presiding Member.

Any three members of the Committee collectively or the internal or external auditor themselves may request the Presiding Member to convene a meeting. From a time management point of view, urgent matters which may arise should be referred directly to Council through the bi-monthly meetings or to a Special Council meeting.

- 7.1 Notice of meetings shall be given to members at least 3 days prior to each meeting.
- 7.2 The Presiding Member shall ensure that detailed minutes of all meetings are kept and shall, not later than 5 days after each meeting, provide Council with a copy of such minutes. Council shall provide secretarial and administrative support to the Committee.
- 7.3 All members of the Committee shall have one vote. If the vote of the members present is equally divided, the person presiding must cast a second vote.
- 7.4 The Chief Executive Officer should attend all meetings, except when the Committee chooses to meet in camera with the exclusion of the CEO.
- 7.5 Representatives of the external auditor should be invited to attend at the discretion of the Committee but must attend meetings either in person or by telephone link up considering the draft annual financial report and results of the external audit.
- 7.6 The internal auditor or representative shall be invited to attend meetings, at the discretion of the Committee, to consider internal audit matters.

8.0 QUORUM

Quorum for a meeting shall be at least 50% of the number of officers, whether vacant or not. A decision of the Committee does not have effect unless a simple majority has made it.

9.0 DELEGATED POWERS

The Committee has no delegated powers under the Local Government Act and is to advise and make recommendations to Council only. The Audit and Risk Management Committee is a formally appointed committee of Council and is responsible to that body. The Audit and Risk Management Committee does not have executive powers or authority to implement actions in areas over which management has responsibility and does not have any delegated financial responsibility. The Committee does not have any management functions and is therefore independent of management.

The following guidelines are to provide further direction from Council for the operation of the Committee:

9.1 *The External Audit*

The Committee shall:

- Develop the process of appointment of the external auditor and recommend a suitable Auditor for appointment by Council. Prior to appointment, discuss the scope of the audit and any additional procedures required from the external auditor. Invite the external auditor to attend audit committee meetings to discuss the audit results and consider the implications of the external audit findings.
- Inquire of the auditor if there have been any significant disagreements with management and whether they have been resolved.
- Monitor management responses to the auditor's findings and recommendations.
- Review the progress by management in implementing audit recommendations and provide assistance on matters of conflict.
- Provide a report and recommendations to Council on the outcome of the external audit.

9.2 *Co-ordination of Auditors*

The Committee shall:

- Oversee the work of the internal audit function to facilitate co-ordination with the external auditor.
- Meet periodically with the Chief Executive Officer, senior management staff and internal and external auditors to understand the organisation's control environment and processes.

9.3 Duties and Responsibilities

The following duties and responsibilities of the Committee will include:

- i. To review the scope of the internal audit plan and program and the effectiveness of the function. This review should consider whether, over a period of years the internal audit plan systematically addresses:
 - internal controls over significant areas of risk, including non-financial management control systems;
 - internal controls over revenue, expenditure, assets and liability processes;
 - the efficiency, effectiveness and economy of significant Council programs; and
 - compliance with regulations, policies, best practice guidelines, instructions and contractual arrangements.
- ii. Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or Chief Executive Officer.
- iii. Review the level of resources allocated to internal audit and the scope of its authority.
- iv. Review reports of internal audit and the extent to which Council and management react to matters raised by internal audit, by monitoring the implementation of recommendations made by internal audit.
- v. Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs.
- vi. Critically analyse and follow up any internal or external audit report that raises significant issues relating to risk management, internal control, financial reporting and other accountability or governance issues, and any other matters relevant under the Committee's terms of reference.
- vii. Review management's response to, and actions taken as a result of the issues raised.
- viii. Monitor the risk exposure of Council by determining if management has appropriate risk management processes and adequate management information systems.
- ix. Monitor ethical standards and related party transactions by determining whether the systems of control are adequate.
- x. Review Council's draft annual financial report, focusing on:
 - accounting policies and practices;
 - changes to accounting policies and practices;
 - the process used in making significant accounting estimates;
 - significant adjustments to the financial report (if any) arising from the audit process;
 - compliance with accounting standards and other reporting requirements;
 - significant variances from prior years.
- xi. Recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the financial report is signed.
- xii. Discuss with the external auditor the scope of the audit and the planning of the audit.
- xiii. Discuss with the external auditor issues arising from the audit, including any management letter issued by the auditor and the resolution of such matters.
- xiv. Review tendering arrangements and advise Council.
- xv. Review the annual performance statement and recommend its adoption to Council.
- xvi. Review issues relating to national competition policy, financial reporting by Council business units and comparative performance indicators.
- xvii. Identify and refer specific projects or investigations deemed necessary through the Chief Executive Officer, the internal auditor and the Council if appropriate. Oversee any subsequent investigation, including overseeing of the investigation of any suspected cases of fraud within the organisation.
- xviii. Monitor the progress of any major lawsuits facing the Council.
- xix. Address issues brought to the attention of the Committee, including responding to requests from Council for advice that are within the parameters of the Committee's terms of reference.
- xx. Report to Council after each meeting, in the form of minutes or otherwise, and as necessary and provide an annual report to Council summarising the activities undertaken during the year.

- xxi. The Committee in conjunction with Council and the Chief Executive Officer should develop the Committee's performance indicators.
- xxii. The Committee, through the Chief Executive Officer and following authorisation from the Council, and within the scope of its responsibilities, may seek information or obtain expert advice on matters of concern.
- xxiii. Advise Council on significant risk management issues related to the Shire of Corrigin including major issues involving:
 - The Community;
 - The Workforce;
 - Vehicles and Plant;
 - Buildings and Similar Property;
 - Revenue Streams;
 - Legal Liability;
 - Electronically Stored Information;
 - Environmental Impact;
 - Fraud; and
 - Reputation.
- xxiv. Review reports on the appropriateness and effectiveness of the Shire's systems and procedures in relation to:
 - risk management;
 - internal control; and
 - legislative compliance and report to Council.

9.4 Reporting Powers

The Committee:

- Shall report to Council and provide recommendations on matters pertaining to its terms of reference by assisting elected members in the discharge of their responsibilities for oversight and corporate governance of the local government.
- Does not have executive powers or authority to implement actions in areas that management has responsibility.
- Is independent of the roles of the Chief Executive Officer and his senior staff as it does not have any management functions.
- Does not have any role pertaining to matters normally addressed by the Local Emergency Management Committee and Council in relation to financial management responsibilities in relation to budgets, financial decisions and expenditure priorities.
- Is a separate activity and does not have any role in relation to day-to-day financial management issues or any executive role or power.
- Shall after every meeting forward the minutes of that meeting to the next Ordinary meeting of the Council, including a report explaining any specific recommendations and key outcomes.
- Shall report annually to the Council summarising the activities of the Committee during the previous financial year.

10.0 TERMINATION OF COMMITTEE

Termination of the Committee shall be:

- a) in accordance with the Local Government Act 1995; or
- b) at the direction of the Council.

11.0 AMENDMENT TO THE INSTRUMENT OF APPOINTMENT AND DELEGATION

This document may be altered at any time by the Council.

12.0 COMMITTEE DECISIONS

The Committee recommendations are advisory only and shall not be binding on Council

1. DECLARATION OF OPENING

The Chairperson, Cr L Baker opened the meeting at 12.35pm.

2. ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE

Shire President
Deputy Shire President

Cr. L Baker
Cr. D L Hickey
Cr. M A Weguelin
Cr. F R Gilmore
Cr. S G Hardingham
Cr. M B Dickinson

Chief Executive Officer
Executive Support Officer

N A Manton
K L Biglin

APOLOGIES

NIL

LEAVE OF ABSENCE

Cr. J A Mason

3. DECLARATIONS OF INTEREST

NIL

4. CONFIRMATION AND RECEIPT OF MINUTES

That the minutes of the Shire of Corrigin Audit and Risk Management Committee meeting held in the Council Chambers on 11 June 2019 (Attachment 4.1) be confirmed as a true and correct record.

COMMITTEE'S RESOLUTION

Moved: Cr Gilmore Seconded: Cr Weguelin

That the minutes of the Shire of Corrigin Audit and Risk Management Committee meeting held in the Council Chambers on 11 June 2019 (Attachment 4.1) be confirmed as a true and correct record.

Carried 5/0

5. MATTERS ARISING FROM MINUTES

NIL

6. REPORTS

7. MATTERS REQUIRING A COMMITTEE DECISION

7.1 REPORT OF AUDIT MANAGEMENT LETTER

Applicant:	Shire of Corrigin
Date:	11/07/2019
Reporting Officer:	Natalie Manton, Chief Executive Officer
Disclosure of Interest:	NIL
File Ref:	FM.0182
Attachment Ref:	NIL

SUMMARY

The Audit and Risk Management Committee is asked to consider the Audit Management letter for the year 30th June 2018 together with the comments provided by the Chief Executive Officer in response to significant findings.

BACKGROUND

The 2017/18 audited financial statement and management report was received by the Audit and Risk Management Committee on 18 December 2018. The meeting was attended by the Auditor Mr Greg Godwin of Moore Stephens by telephone and an overview of the audit and management report was provided.

The Shire of Corrigin has received correspondence from the Department of Local Government, Sport and Cultural Industries requesting a report on the significant adverse trend in the financial position whereby the Operating Surplus Ratio has been below the Department of standard for the last three years.

Significant matters raised in the interim report and management comments were provided to Council however a report on significant issues raised in the final audit was not completed or forwarded to the Minister at the time.

The Audit and Risk Management Committee is required to examine the report of the Auditor and prepare a report on the actions the Shire of Corrigin has taken or intends to take in relation to matters raised.

COMMENT

The Audit and Risk Management Committee is required to examine the report of the Auditor and prepare a report on the actions the Shire of Corrigin has taken or intends to take in relation to matters raised.

STATUTORY ENVIRONMENT

Local Government Act 1995,

7.9 Audit to be conducted

7.12A. Duties of local government with respect to audits

- (4) 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.
- (5) 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.

POLICY IMPLICATIONS

8.11 Audit and Risk Management Committee

FINANCIAL IMPLICATIONS

NIL

COMMUNITY AND STRATEGIC OBJECTIVES

Shire of Corrigin Strategic Community Plan 2017-2027 and Corporate Business Plan 2017-2021:

Objective: Leadership

Strong Governance and leadership

Outcome 4.1 - A strategically focussed dynamic Council serving the community

Strategic Community Plan		Corporate Business Plan	
Outcome	Strategies	Action No.	Actions
4.1.3	Maintain accountability and financial responsibility to ensure the stability of the Shire	4.1.3.1	Council maintain financial stability
		4.1.3.3	Provide Council adequate and appropriate financial information on a timely basis

NB: Cr Dickinson entered the room at 12.46pm

VOTING REQUIREMENT

Simple Majority

COMMITTEE'S RESOLUTION

Moved: Cr Weguelin Seconded: Cr Hickey

That Committee recommend that Council:

- 1. Receives the Report on Audit Management Letter for the year ended 30th June 2018:
and*
- 2. Forward a copy of the report to the Minister for Local Government, Sport and Cultural Industries.*

Carried 6/0



Report on Significant Findings from the Management Letter Accompanying the 2017-18 Audit

1. Finding

A significant adverse trend was noted in the Operating Surplus Ratio.

2. Management Comment

The statement of comprehensive income shows that the main reason the ratio is below the target range is due to the operating income being less than operating expense.

A significant contributor to the negative Operating Surplus Ratio in 2017/18 and 2018/19 was the flood damage repairs which were shown in the Statement of Comprehensive Income as an operating maintenance expense but funded externally. The grant funding from WA Natural Disaster Relief and Recovery Arrangements (WANDRRA) was received to cover the cost of road repairs which would not be been required in a normal year. This revenue is excluded from the ratio calculation.

The following actions have been taken, or are intended to be taken, to address the adverse trend in the Operating Surplus Ratio.

Long Term Asset and Financial Planning

In September 2018 Council adopted the Strategic Resource Plan which encompasses the Asset Management and Long Term Financial Plans. This plan provides the Shire of Corrigin with a management tool to consider and analyse the impact of decision making on the overall financial position of the local government over time.

As part of the long term financial strategy the Shire of Corrigin will continue to maximise use of operating and non-operating funding opportunities as they become available.

Operating Income Rates

The ability of the Shire of Corrigin to increase revenue from rates is limited due to the relatively low number of rateable properties and a limited scope for increased Unimproved Value (UV), Gross Rental Value (GRV), commercial or mining rates to generate additional income. The long term financial plan includes planned rates increases slightly higher than the anticipated rise in the Consumer Price Index (CPI) to address backlog of renewals and assist in the financial stability of the shire while maintaining the level of service to the community. Rates of approximately \$2.5m were raised 2018-19 and are expected to increase to \$4.4m in 2032-33.

Fees and Charges

With a projected relatively stable population of 1150 people, the Shire of Corrigin has a limited ability to generate additional income from fees and charges. The fees and charges were reviewed as part of the 2018/19 budget deliberations and items that had not been increased for some years were increased including: annual rental charges, cemetery fees and recreation usage fees. There is no real opportunity to generate additional income from commercial rents, parking etc.

Investment income

Investment income was increased by \$18,000 during the 2018/19 financial year by investing municipal funds in a term deposit and overnight cash deposit facility with WA Treasury.

Proceeds

Additional income from profit on disposal of assets -Reduced number of plant items to reduce overall expenditure over ten year period.

Expenditure

The Shire of Corrigin is responsible for assets valued at approximately \$150million, of which roads and buildings make up the largest component. The Long Term Financial Plan forecasts the operating expenditure to remain relatively stable over the next ten years with depreciation and materials and contracts being the dominant operating expenditure items.

During 2018/19 Management and Council have reviewed and analysed several large expenditure areas and have developed the following ten year plans:

- Capital and operations plan for Corrigin outdoor and indoor heated pools.
- Buildings capital and maintenance plans.
- Plant replacement plan.
- Road capital and maintenance plan

Reduced Operating Expenditure

Rationalised plant and equipment items to reduce ongoing cost of replacement program. Reviewed fair value and useful lives in an effort to reduce depreciation over the next 10 years. Management will continue to identify savings on operating expenditure wherever possible.

Roads

The maintenance and renewal of the road network is a key priority for the Shire of Corrigin and one of the major expenditure items. The renewal of strategic grain haulage roads to a standard capable of carrying the forecast traffic loads is expected to be a significant financial challenge and well beyond the Shire's capacity if external renewal funding is not received.

No Forecast Borrowings

The Shire has not forecast the need for any additional borrowings over the next ten years to allow flexibility to respond to sudden or unexpected expenditure requirements or the loss of anticipated external grant funding.

Reserves

In order to remain financially sustainable the Shire of Corrigin long term financial plan includes the use of cash backed reserves to accumulate funds for significant future renewals of key assets.

Conclusion

The operating ratio highlights the Shire of Corrigin's reliance on external funding to fund renewals of assets. An analysis of neighbouring shires indicates that this is a common issue in the Wheatbelt region.

Council and management will continue to monitor income and expenditure as well as identifying ways to improve the operating position to increase the ratio above the acceptable target of 0.01. However this ratio is likely to remain below the benchmark in the coming years.

7.2 INTERIM AUDIT 2018-19 FINDINGS AND MANAGEMENT COMMENT

Applicant:	Shire of Corrigin
Date:	11/07/2019
Reporting Officer:	Natalie Manton, Chief Executive Officer
Disclosure of Interest:	NIL
File Ref:	FM.0210
Attachment Ref:	NIL

SUMMARY

Audit and Risk Management Committee is to consider the feedback from the interim audit conducted at the Shire of Corrigin office on 22 to 24 May 2019.

BACKGROUND

Moore Stephens conducted the interim audit on behalf of the Office of the Auditor General from 22 to 24 May 2019. The Shire of Corrigin administration staff have responded to numerous requests for information at the time of the audit.

The auditors provided feedback on findings from the interim audit that will require attention prior to the final audit in October 2019 including:

1. Fixed Assets below \$5,000
2. IT Access
3. Fixed Assets Reconciliations
4. Trust Reconciliations
5. Reserve Bank Reconciliations
6. Borrowings Reconciliations
7. Journal Entries review

COMMENT

Items 3 to 7 have already been addressed and items 1 and 2 will be addresses prior to the final audit.

STATUTORY ENVIRONMENT

Local Government Act 1995, 7.12A – Duties of a Local Government in respect to the Audit.

POLICY IMPLICATIONS

3.1 Risk Management Policy

FINANCIAL IMPLICATIONS

NIL

COMMUNITY AND STRATEGIC OBJECTIVES

Shire of Corrigin Strategic Community Plan 2017-2027 and Corporate Business Plan 2017-2021:

Objective: Leadership

Strong Governance and leadership

Outcome 4.1 - A strategically focussed dynamic Council serving the community

Strategic Community Plan		Corporate Business Plan	
Outcome	Strategies	Action No.	Actions
4.1.3	Maintain accountability and financial responsibility to ensure the stability of the Shire	4.1.3.1	Council maintain financial stability
		4.1.3.3	Provide Council adequate and appropriate financial information on a timely basis

VOTING REQUIREMENT

Simple Majority

COMMITTEE'S RESOLUTION

Moved: Cr Gilmore

Seconded: Cr Dickinson

That the Audit and Risk Management Committee recommend that Council receive the Interim Audit findings from Moore Stephens and notes the areas that have been addressed and issues to be completed prior to the final audit.

Carried 6/0



Report on Significant Findings from the Management Letter Accompanying the 2018-19 Interim Audit

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
Matters identified during the current year			
1. Fixed Assets Below \$5,000	<input type="checkbox"/>		
2. IT Access	<input type="checkbox"/>		
3. Fixed Assets Reconciliations		<input type="checkbox"/>	
4. Trust Reconciliations		<input type="checkbox"/>	
5. Reserve Bank Reconciliations		<input type="checkbox"/>	
6. Borrowings Reconciliations			<input type="checkbox"/>
Matter outstanding from previous year			
7. Journal Entries review	<input type="checkbox"/>		

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

1. Fixed Assets Below \$5,000

Finding

From 1 July 2018, Regulation 17A(5) of the Local Government (Financial Management) Regulations 1996 requires assets with a fair value at the date of acquisition under \$5,000 to be excluded from the assets of a local government entity.

From discussion with management and review of the fixed assets register, we noted the Shire has recognised a number of assets with a value at date of acquisition below \$5,000 in its fixed assets register.

Rating: Significant

Implication

If these assets are not removed from the fixed asset register it will result in non-compliance with Regulation 17A(5) of the Local Government (Financial Management) Regulations 1996. Additionally, assets may be materially misstated in the financial report.

Recommendation

Management should review the fixed assets register and ensure any assets acquired with a fair value at date of acquisition under \$5,000 are excluded from the register prior to 30 June 2019.

Management Comment

Management is aware of the need to review the fixed assets register and ensure that any assets with a value at date of acquisition below \$5,000 are removed from the fixed assets register.

Responsible Person: Manager of Finance

Completion Date: 30 July 2019

2. IT Access

Finding

Whilst reviewing the IT procedures, we noted the following:-

- a) Non-financial staff have access to the Synergy accounting software; and
- b) Access to the modules in the accounting software are not restricted based on their staff's position.

Rating: Significant

Implication

A lack of IT security controls may result in unauthorised access or data entry to the accounting software. Additionally this may result in issues with the security and confidentiality of data.

Recommendation

Access to the accounting software should be restricted to finance staff. In addition, access to the various modules in the accounting software should be restricted based on job descriptions.

Management Comment

The SynergySoft Software used by the Shire of Corrigin is an integrated program. In addition to the accounting elements of the program the software includes modules for rates, dog and cat registrations, debtors, creditors, payroll, cemeteries, etc.

Access to the accounting functions of the software is required for administration, governance and community services staff. For example the Customer Service Officer, while not a member of the finance team, is responsible for processes payments of fees and charges over the

counter and issuing a receipt. This requires access to the receipting modules of the accounting software.

The Customer Service, Administration, Environmental Health and Governance staff are responsible for issuing purchase orders for goods and services in their areas of responsibility and therefore require access to the accounting software. For example an Environmental Health Officer may issue a purchase order for water sampling or the Pool Manager may need to order cleaning products and an Administration Officer may issue a purchase order for catering for the Council meetings.

Access to the financial software also allows officers to monitor and review expenditure in their area of responsibility.

The Shire of Corrigin has a small number of office staff who are often required to provide support and relief during periods of leave, illness or when someone leaves the Shire of Corrigin and before a new employee is engaged. All position descriptions include provision for administration employees to perform other duties as required. It is not practical to increase and decrease the level of access frequently however it is recognised that the current Super User setting requires revision and a reduction to a lower level of access for some employees.

The only staff with access to the payroll module are the CEO, Deputy CEO, Manager of Finance and Payroll Officer. All other administration, customer service and regulatory staff have been barred from accessing this module.

Responsible Person: Deputy CEO (currently advertising the position)
Completion Date: December 2019

3. Fixed Assets Reconciliations

Finding

Whilst reviewing fixed asset procedures, we noted the reconciliation between the fixed assets register and the general ledger had not been prepared on a regular basis. There was no reconciliation prepared between 30 June 2018 and 31 March 2019.

Rating: Moderate

Implication

If this reconciliation is not prepared and reviewed, significant errors may go undetected. This could have various consequences, including misreporting to Council and in the annual financial report.

Recommendation

The general ledger control accounts should be reconciled to the fixed assets register at least on a quarterly basis. Once prepared the reconciliations should be reviewed by a senior staff member independent of preparation. The independent review should seek to confirm the accuracy of the reconciliation and be evidenced accordingly.

Management Comment

While the general ledger is rolled over to the new financial year the asset system remains untouched until the Annual Report is finalised and adopted by Council in December each year. No changes are made to the asset system between July and December until after the auditors have confirmed that the fair values, depreciation calculations are correct. The reason for this is that it is very difficult to amend the calculated depreciation and fair value for each asset in each month if a change is required at the conclusion of the audit.

The asset system was rolled over to the new financial year in mid-March 2019 and the reconciliation between the general ledger and the asset register was completed as part of the March end of month processes, additions and disposals can only be processed once the asset system has also been rolled over.

It is recognized that if the reconciliation is not prepared and reviewed regularly that significant errors may go undetected however there were no transactions for the period that the accounts were not reconciled.

From the commencement of the 2019/20 financial year the Manager of Finance will reconcile the general ledger to the asset register monthly to confirm that there are no errors.

Responsible Person: Manager of Finance
Completion Date: July 2019

4. Trust Reconciliations

Finding

Whilst reviewing the trust reconciliation procedures, we noted the total of the trust sub ledgers in the trial balance do not reconcile to the trust bank balances.

Rating: Moderate

Implication

If this reconciliation is not performed and reviewed, significant errors may go undetected. This could have various consequences, including misreporting to Council and in the annual financial report.

Recommendation

To help ensure all transactions in the trust ledgers are correctly recorded and complete, reconciliations between the Trust sub ledgers and the trust bank accounts should be completed and reviewed on at least a monthly basis.

Management Comment

The reconciliation of the trust general ledger and the trust bank account has been performed every month and balanced.

The CEO identified historical problems with the reconciliation of the trust sub ledgers to the trust general ledger. This was largely due to income being receipted directly to the trust general ledger account instead of the individual trust sub ledger. A consultant was engaged in December 2018 to conduct a thorough and detailed analysis of the transactions and provide advice on how to rectify the matter.

The trust sub ledgers have been reconciled to the trust general ledger as well as the trust bank account at the end of the 2018/19 financial year and will continue to form part of the monthly reconciliations in future.

Responsible Person: Finance Officer
Completion Date: June 2019

5. Reserve Bank Reconciliations

Finding

Our review of bank reconciliations noted the reconciliation for the reserves bank accounts was not prepared every month.

Rating: Moderate

Implication

Infrequent reconciliation of bank accounts increases the risk of errors, omissions or fraud remaining undetected. In turn, this could lead to misstatements in financial reporting.

Recommendation

Bank reconciliations should be consistently prepared on a monthly basis and should be independently reviewed.

Management Comment

A reconciliation of the reserve account balance (note 9) to the reserve cash at bank (note 3) is reported in the monthly financial report to Council each month.

The reserve bank account is a term deposit that was invested for 3- 6 month periods during 2018/19. The funds were invested in July 2018 and matured in September 2018 at which point the interest was applied to the reserve sub accounts and the account was reconciled.

The funds were then invested for a further period to January 2019 and on maturity the interest was applied to reserve sub accounts and the account was reconciled.

The final term deposit for the 2018/19 financial year matured in June 2019 and the interest was applied and the account reconciled.

From June 2019 the reserve account will be reconciled on a monthly basis and will continue to be reported in the monthly report to Council. The reconciliation will confirm that there are no changes to the balance of the account during the months where there are no transactions.

Responsible Person: Manager Finance
Completion Date: monthly from June 2019

6. Borrowings Reconciliations

Finding

Whilst reconciliations between the general ledger and the borrowings schedule were performed, there is no evidence of them being reviewed by a senior officer independent of preparation.

Rating: Minor

Implication

Lack of review by an independent senior officer may lead to erroneous or unusual reconciling items not being detected and investigated in a timely manner.

Recommendation

We recommend that the borrowing reconciliations are reviewed by an independent senior officer and evidence of the review is retained.

Management Comment

The reconciliation of the general ledger to the borrowings schedule is included in the Manager of Finance End of Month Checklist and is to be reviewed by CEO on a monthly basis.

Responsible Person: Manager of Finance

Completion Date: July 2019

7. Journal Entries Review**Finding**

Whilst reviewing journal processes, we noted both manual and automated journals are being posted in the accounting software. Manual journals are processed by the Shire's finance staff and automated journals are created by the accounting system based on certain options being selected in the software.

Update 2019

We noted automated journal entries are printed but are not being reviewed by a senior staff member. In addition, there are no supporting documents attached to automated journal entries.

Rating: Significant**Implication**

If journals are not independently reviewed and approved, there is a risk that erroneous or fraudulent transactions may pass undetected. Accounting journals can represent significant adjustments to previously approved accounting transactions, and should therefore be appropriately reviewed and approved.

Recommendation

We recommend that a person more senior than the preparer authorises all automated journal entries and evidence of authorisation is retained.

Management Comment

The supporting calculations and documents for the payroll automated journals are reviewed by a senior staff member fortnightly prior to processing the pay run.

Automated journals for depreciation, plant auto recoveries and administration allocations are reviewed by a senior staff member at the commencement of the new financial year and the supporting documentation is included in the budget working papers.

Following confirmation of any changes the automatic journals with the new budget changes are made to the parameters in the Synergyssoft accounting software and remain the same for the rest of the year.

The printed copies of the automatic journal are filed to confirm the system is operating as per the parameters set at the beginning of the financial year.


In future the Shire of Corrigin will ensure that the supporting documents are authorised by a senior staff member.

Responsible Person: Manager of Finance

Completion Date: July 2019

8. MEETING CLOSURE

The Chairperson, Cr L Baker closed the meeting at 1.07pm.

President:  Date: 17-12-2019