



SHIRE OF NORTHAM

**MINUTES OF THE
AUDIT COMMITTEE MEETING
HELD
WEDNESDAY
11 JUNE 2014**

SHIRE OF NORTHAM

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 11 JUNE 2014 AT 7:05 PM

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SHIRE OF NORTHAM

Minutes of the Audit Committee Meeting of Council to be held in the Council Chambers on WEDNESDAY, 11 June 2014 at 7:05pm

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1. DECLARATION OF OPENING AND WELCOME

The Presiding Member declared the meeting open at 7:05 pm

Minute: AU.043

Moved: Cr T M Little

That the Audit Committee Meeting be suspended at 7:06pm until the forum meeting is concluded.

CARRIED 6/0

The Presiding Member declared the meeting re-open at 7:52pm

2. DECLARATION OF INTEREST

Parts of Division 6 Subdivision 1 of the Local Government Act 1995 requires Council members and employees to disclose any direct or indirect financial interest or general interest in any matter listed in this agenda.

The Act also requires the nature of the interest to be disclosed in writing before the meeting or immediately before the matter being discussed.

NB A Council member who makes a disclosure must not preside or participate in, or be present during, any discussion or decision making procedure relating to the disclosed matter unless the procedures set out in Sections 5.68 or 5.69 of the Act have been complied with.

3. ATTENDANCE

COUNCIL

President	S B Pollard
Councillors	T M Little
	D A Hughes
	D G Beresford
	J E Williams
	A W Llewellyn
Chief Executive Officer	J B Whiteaker
Executive Manager Corporate Services	D R Gobbart
Executive Manager Development Services	P B Steven
Executive Manager Engineering Services	C D Kleynhans
Executive Manager Community Services	J McGready
Project Manager Community Infrastructure	C B Hunt

4. APOLOGIES

Cr RM Head
 Cr KD Saunders
 Cr U Rumjanstev

5. LEAVE OF ABSENCE

Cr RW Tinetti has been granted a leave of absence for the period 28 May 2014 to 20 June 2014.

6. CONFIRMATION OF MINUTES

That the Minutes of the Audit Committee Meeting held on Wednesday, 12 March 2014 be confirmed as a true and correct record of that meeting.

Minute: AU.045

Moved: Cr D G Beresford

That the Minutes of the Audit Committee Meeting held on Wednesday, 12 March 2014 be confirmed as a true and correct record of that meeting.

CARRIED 6/0

7. AGENDA ITEMS

7.1 INTERIM AUDIT REPORT - MAY 2014

Name of Applicant:	Internal Report
File Ref:	1.6.1.6
Officer:	Denise Gobbart
Officer Interest:	N/A
Policy:	Local Government Act 1995
Voting:	Simple Majority
Date:	11 June 2014

PURPOSE

For the Audit Committee to acknowledge the interim audit report that was conducted by the Shire's auditor, UHY Haines Norton.

BACKGROUND

Interim Audit was undertaken on the 14 and 15 April 2014. UHY Haines Norton has been engaged by Council to conduct audit services for the Shire of Northam. As part of the audit process UHY Haines Norton conducted an interim audit that is mainly focused on administrative issues and governance compliance whereas the final audit is mainly focused on financial matters.

This report is to provide Council the information and action that is contained within the interim audit report.

STATUTORY REQUIREMENTS

Local Government Act (1995) Section 7.12A

- (1) *A local government is to do everything in its power to —*
 - (a) *assist the auditor of the local government to conduct an audit and carry out his or her other duties under this Act in respect of the local government; and*
 - (b) *ensure that audits are conducted successfully and expeditiously.*
- (2) *Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.*
- (3) *A local government is to examine the report of the auditor prepared under section 7.9(1), and any report prepared under section 7.9(3) forwarded to it, and is to —*
 - (a) *determine if any matters raised by the report, or reports, require action to be taken by the local government; and*
 - (b) *ensure that appropriate action is taken in respect of those matters.*

- (4) *A local government is to —*
- (a) *prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and*
 - (b) *forward a copy of that report to the Minister,*

by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.

[Section 7.12A inserted by No. 49 of 2004 s. 8.]

CONFORMITY WITH THE COMMUNITY STRATEGIC PLAN

Key Result Area: The Shire Organisation.

Outcome: To operate in a sustainable manner.

BUDGET IMPLICATIONS

Nil

OFFICER'S COMMENT

The Auditor has raised a number of issues within the interim report that need to be addressed before the final audit is conducted.

The interim audit is not part of the formal audit reporting process and is for information purposes. If issues have not been addressed at the time of the final audit then items may be noted on the formal audit report or management letter.

Compliance

- 1.1 The Annual Financial Report for 30 June 2013 was not submitted to the Department of Local Government and Communities within 30 days of the audit report being signed as required by Local Government (Financial Management) Regulation 51(2).

The audit report was dated 13 December 2013 and received electronically on the same day. The report was sent to the Department of Local Government and Communities on the 13 January 2014.

- 1.2 Financial Interest Register (Including Annual & Primary Returns), it is noted that some sections are being left blank; and some administrative errors were noted.

These matters will be taken into consideration when the returns are next due, to assist with compliance.

- 1.3 Strategic Community Plan, they have reflected the comments made by the Department of Local Government and Communities in relation to the compliance of the Strategic Community Plan.

A revised Strategic Community Plan is currently before Council for consideration, which will address these matters.

Systems & Procedures

- 2.1 Purchases, Payments and Payables – Noted instances where purchase orders were raised after the invoice was received.

We regularly have discussions regarding our purchasing requirements and officers are becoming more mindful of procedures.

- 2.2 Monthly Reconciliations – The following reconciliations have not been reviewed by an independent person;
- Manual rolling reconciliation
 - Fixed Assets reconciliation

These reconciliations are now being reviewed by the Accountant.

The fixed assets had only just been bought up to date for the financial year after the completion of the audit in December. Prior to this it was being signed off monthly. The manual rolling reconciliation is for the rating valuations; this was being prepared and reconciled by the Rates Officer, after a valuation schedule was received. It had not been independently checked until year end, it is now included in the monthly rates reconciliations.

Readiness to Adopt Fair Value Accounting

Significant work is being undertaken with the Asset Register. Particular attention is being given to Furniture & Equipment and Land and Buildings as Fair Value is to be reported as at 30 June 2013. We have now engaged Griffin Valuation Advisory to undertake the Fair Value assessment of our land and buildings to the 30 June 2014. When undertaking these valuations consideration will be made to the required hierarchy and the highest and best use principles. It is my belief that when the valuations of land and buildings are undertaken, we will meet the required considerations for the fair value reporting.

RECOMMENDATION

That the interim audit report for 2013-2014 as attached, be noted.

Cr Beresford left the meeting at 8:11pm, the meeting adjourned due to lack of a quorum and returned at 8:13pm when the meeting resumed.

Minute: AU.046

Moved: Cr D G Beresford

That the interim audit report for 2013-2014 as attached, be noted.

CARRIED 6/0



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21 May 2014

Cr Steve Pollard
The Chair
Audit Committee
Shire of Northam
PO Box 613
NORTHAM WA 6401



Dear Cr Pollard

INTERIM AUDIT VISIT

We completed our onsite procedures in respect of our interim audit visit on the 14th and 15th of April 2014 and attach a list of matters raised with management during our exit meeting.

Please note, we will follow these up during our final visit later in the year to help ensure appropriate action has been implemented.

This letter, together with the attached matters noted are provided for the purposes of general information only and are not part of our formal audit reporting process. Our audit and management reports will be formally issued at the conclusion of our audit in respect of the year ended 30 June 2014.

If you have any queries regarding these or other matters, please contact me.

Yours sincerely


GREG GODWIN
PARTNER

cc: Mr Jason B Whiteaker - Chief Executive Officer

SHIRE OF NORTHAM

INTERIM AUDIT VISIT
YEAR ENDED 30 JUNE 2014
MATTERS NOTED & REQUIRING FOLLOW UP



*Powerful insights
Astute advice*

An independent member of UHY Haines Norton and UHY International



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UHY HAINES NORTON
CHARTERED ACCOUNTANTS

1.0 COMPLIANCE

1.1 ANNUAL FINANCIAL REPORT

OBSERVATION

The Annual Financial Report for 30 June 2013 was not submitted to the Department of Local Government and Communities within 30 days of the audit report being signed as required by Local Government (Financial Management) Regulation 51(2).

COMMENT

To help ensure compliance with statutory provisions, this requirement should be correctly addressed in the future.

As the above matter raised represents non-compliance with Financial Management Regulations, it may be carried forward to our audit report for the year ended 30 June 2014.

1.2 FINANCIAL INTEREST REGISTER (INCLUDING ANNUAL & PRIMARY RETURNS)

OBSERVATION

During our review of the Financial Interest Register, we noted the following matters:

- Certain Annual Returns reviewed contained sections which had been left blank (3 councilors and 5 designated staff members); and
- The following administrative errors were noted on various individual returns:
 - Lodged after due date;
 - No receipt issued;
 - Return not signed;
 - Incorrect form completed;
 - Incorrect date or no date inserted; and
 - Page missing from return.

COMMENT

- To help ensure compliance with Departmental Circular 18-2005 and to help ensure returns submitted are not at risk of being amended, all sections should be completed. We note it is acceptable to record N/A, Nil or No Change or to rule a clear line through a N/A section whilst leaving sections blank is not recommended practice.
- To help ensure compliance with Section 5.75, 5.76 and 5.77 of the Local Government Act, those requirements should be correctly addressed in the future.

Whilst we note the CEO or any other Shire staff are not responsible for the content of returns submitted, we note it is acceptable, and quite common, for the content to be reviewed prior to receipt being acknowledged.

Note: This document is for audit purposes only to document matters discussed with management and is not intended to express nor imply any opinion or assurance. It should be read in conjunction with our covering letter in respect of our interim audit visit.

UHY HAINES NORTON
CHARTERED ACCOUNTANTS



1.0 COMPLIANCE (CONTINUED)

1.3 STRATEGIC COMMUNITY PLAN

OBSERVATION

We noted the Strategic Community Plan did not include the following:

- A strategic review is to be scheduled for 2 years from when it is adopted;
- A full review is to be scheduled for 4 years from when it was adopted;
- The capacity of current resources and the anticipated capacity of future resources; and
- Strategic performance indicators and ways of measuring strategic performance by the application of those indicators,

as required by Local Government (Administration) Regulation 19C and the Advisory Standard for Integrated Planning and Reporting Compliance.

COMMENT

To help ensure compliance with statutory regulations, these requirements should be correctly addressed.

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UHY HAINES NORTON
CHARTERED ACCOUNTANTS



2.0 SYSTEMS AND PROCEDURES

2.1 PURCHASING, PAYMENTS AND PAYABLES

OBSERVATION

We noted instances where purchase orders were raised after the invoice was received.

COMMENT

To help ensure adequate control over the Shire's purchases, authorised officers should be reminded to raise purchase orders at the time of authorising works/services or ordering goods.

2.2 MONTHLY RECONCILIATIONS

OBSERVATION

Our review of month end procedures revealed the following reconciliations have not been reviewed by an independent person:-

- Manual rolling reconciliation; and
- Fixed assets reconciliation.

COMMENT

To help ensure all sub-ledgers balance to the general ledger, all end of month reconciliations should be reviewed by a person more senior than the preparer and signed and dated as evidence of review.

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UHY HAINES NORTON
 CHARTERED ACCOUNTANTS



3.0 STATUS OF ADOPTION OF FAIR VALUE ACCOUNTING

OBSERVATION

As mandated by Financial Management Regulation 17A, a local government in Western Australia must show all of the assets in its financial report at fair value by 30 June 2015.

Implementation is to be phased in over three years from 1 July 2012 with the following minimum requirements:

- 30 June 2013 - Plant and Equipment
- 30 June 2014 – Land and buildings or Infrastructure and
- 30 June 2015 – all assets not previously fair valued during the prior two years.

Plant and equipment assets were revalued during the year ended 30 June 2013. Management intends to revalue Land and buildings during the current financial year and will revalue infrastructure assets during the year ended 30 June 2015.

During our interim audit visit, we made observations and held discussions with a view to assessing the Shire’s status in meeting the requirements and noted the following:

MAJOR TASK REQUIRED	OBJECTIVE	STATUS
Design of an overall strategy and plan.	To ensure resources are available and organised for proper implementation and hence compliance with regulations in respect to fair value reporting. This also helps to ensure external services are scoped properly.	Management has designed an overall strategy and plan for the application of FM Reg 17A and is in the process of engaging the services of an external valuer to perform a valuation of Land and Buildings for the year ended 30 June 2014.
Selection of the valuation method (including fair value hierarchy) for different classes or segmentation of assets.	To ensure the most appropriate approach and hierarchy of fair value inputs for valuation techniques are applied.	At this stage, the Shire has not engaged an external valuer.
Consideration and application of Highest and Best Use valuation principles	To help ensure proper disclosure in accordance with paragraph 93 of AASB 13 “Fair Value Measurement” i.e. If applicable, need to disclose why an asset is being used in a manner different from its highest and best use.	At this stage, the shire has not engaged an external valuer.
Review of accounting policies in respect of fair value reporting and disclosure requirements.	To ensure fair value accounting and relevant disclosure requirements are properly incorporated and adopted for financial reporting purposes.	Review of accounting policies has taken place and where necessary relevant amendments will be made.

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UHY HAINES NORTON
 CHARTERED ACCOUNTANTS



3.0 STATUS OF ADOPTION OF FAIR VALUE ACCOUNTING (CONTINUED)

OBSERVATION (CONTINUED)

MAJOR TASK INVOLVED	OBJECTIVE	STATUS
Review of Assets Capitalisation Policy for fair value reporting purposes.	To help ensure capitalisation thresholds for different classes of assets are reasonable in terms of materiality and practicality.	Asset Capitalisation Policy for fair value purposes is being continually assessed and where necessary relevant changes will be submitted to Council for consideration and approval.
Review of current fixed assets system and records for fair value reporting purposes.	To help ensure the asset system and records are up-to-date and complete with all information required (including asset hierarchy with appropriate segmentation, condition, initial cost, previous revaluation increment and etc), prior to the commencement of the valuation. Also, this helps to ensure detailed information (i.e. initial cost recognised, fair value, annual useful life & residual value, basis and support of valuation etc) for each individual asset is adequately maintained post revaluation.	Management is in the process of reviewing the fixed assets system and records for fair value reporting purposes.

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UHY HAINES NORTON
 CHARTERED ACCOUNTANTS



3.0 STATUS OF ADOPTION OF FAIR VALUE ACCOUNTING (CONTINUED)

OBSERVATION (CONTINUED)

In summary, Management is aware of the mandated requirements and the timing involved in adopting fair value for reporting different classes of assets. At the time of our visit, management had commenced the process for revaluation of land and buildings and indicated the services of an external valuer will be utilised.

For other classes of assets not yet revalued, management will consider and deal with the tasks as identified above in due course.

COMMENT

Whilst the Management decided to rely on the valuer's expertise in selecting the valuation methodology for the Shire's land & buildings, it is important to take note that it is still the Management's responsibility to carefully consider the appropriateness of the methodology used in the context of AASB 13 and the Shire's circumstances.

It is also important to ensure relevant valuation data is readily available post valuation for the Shire to calculate the depreciation of the revalued assets in the future.

We will follow up at year end with a view to ensuring fair value accounting in relation to the Shire's land and buildings has been properly addressed and recorded. We will also monitor whether adequate progress has been made in respect of other classes of assets.

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UHY HAINES NORTON
CHARTERED ACCOUNTANTS



4.0 REMINDERS

- FBT Return to be lodged by 21 May 2014.
- The minutes for July 2013 need to be signed by the President.
- Fraud and Risk assessment letter to be completed and signed by the CEO and returned to ourselves by 31 May 2014 as it is required for us to complete our audit planning process.
- As required by Audit Regulation 17, the CEO is to review and report to the audit committee on the appropriateness and effectiveness of systems and procedures relating to:
 - Risk Management;
 - Internal Controls; and
 - Legislative Compliance.

The deadline for the first report is 31 December 2014.

Note: This document is for audit purposes only to document matters discussed with management and is not intended to express nor imply any opinion or assurance. It should be read in conjunction with our covering letter in respect of our interim audit visit.

UHY HAINES NORTON
CHARTERED ACCOUNTANTS



8. CLOSURE OF MEETING

There being no further business the Presiding Officer declared the meeting closed at 8:15pm.

"I certify that the Minutes of the Audit Committee Meeting held on 11 June 2014 have been confirmed as a true and correct record."

_____ President

_____ Date