



AUDIT COMMITTEE MEETING

MINUTES

Committee Brief

The duties of the Audit Committee be to:

- *Recommend the appointment of the auditor to the Council;*
- *Assist the auditor to ensure audits are conducted successfully and timely;*
- *Examine the audit report and ensure appropriate action is taken;*
- *Prepare reports on actions taken and forward to the Minister;*
- *Meet with the auditor at least once a year; and*
- *Review enhanced scope of audit.*

An Ordinary Meeting of the Audit Committee was held in the Council Chambers, Lowood Road, Mount Barker WA 6324, 10.00am Tuesday 12 February 2008.

Rob Stewart
CHIEF EXECUTIVE OFFICER

Committee Members

Cr K Forbes; Cr M Skinner; Cr J Mark

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Chairperson:

Cr M Skinner

Membership

Cr K Forbes - Rocky Gully / West Ward - Shire President

Cr J Mark - Town Ward

Cr M Skinner - East Ward

1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

10.07am The Chairperson declared the meeting open.

2 RECORD OF ATTENDANCE / APOLOGIESMembers Present

Cr M Skinner (Chairperson)

Cr K Forbes

Cr J Mark

Staff

Rob Stewart

John Fathers

Cherie Delmage

Observer

Cr B Hollingworth

3 CONFIRMATION OF MINUTES

Minutes, as circulated, of the Audit Committee of the Shire of Plantagenet, held on 7 December 2007.

Moved by: Cr J Mark

Seconded by: Cr K Forbes

THAT the Minutes of the Audit Committee Meeting of the Shire of Plantagenet, held on 7 December 2007 as circulated, be taken as read and adopted as a correct record.

CARRIED

4 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

4.1 ANNUAL REPORT – YEAR ENDING 30 JUNE 2007

File No:	FM/103/1
Attachments:	Draft 2006/2007 Annual Report
Responsible Officer:	John Fathers Deputy Chief Executive Officer
Author:	John Fathers Deputy Chief Executive Officer
Proposed Meeting Date:	1 February 2008

Purpose

The purpose of this report is to receive the Shire of Plantagenet's 2006 / 2007 Annual Report.

Background

The annual financial audit has now been conducted by representatives of the Council's auditors, Mr D Tomasi and Mr W Chai of UHY Haines Norton.

Statutory Environment

Section 5.54 of the Local Government Act 1995 governs the acceptance of annual reports.

Section 5.54 (1) states '*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.*'

Due to the timing of the audit and the difficulties in finalising the annual financial report again this year, the audit report was not completed by Haines Norton until late January 2008. A special dispensation was received from the Department of Local Government and Regional Development for this.

Consultation

Officers across the organisation have provided input into the Annual Report of the operations of the organisation during 2006 / 2007. The Council's auditors consulted with staff during their on-site audit in November 2007 and since then.

Financial Implications

There are no financial implications for this report.

Policy Implications

There are no policy implications for this report.

Strategic Implications

There are no strategic implications for this report.

Officer Comment

The draft Annual Report notes that 2006/07 was a very busy year with quite a few major projects in progress and issues for consideration, including:

- Cemetery Expansion - Mount Barker.
- Great Southern Regional Cattle Saleyards - Environmental initiatives.
- Proposed sale of the Library Building.
- Proposed subdivision of Lot 337 Martin Street.
- New Medical Centre.
- Northern by-pass.
- Sale of the Old Station House.
- Town Planning Scheme Review.
- Development of a new Signs Policy.
- Visitor Centre / Library - Proposed Co-location.
- Lowood Road Redevelopment.
- New HACC Building.
- Investigations for a new waste disposal facility.
- Sounness Park – South Mount Barker Football Club negotiations.

The Shire of Plantagenet's 2006/07 Income Statement shows a net result (increase in equity) of \$481,770.00, which is \$1,355,908.00 less than budgeted due to a number of reasons. Whilst actual operating revenue was only \$68,640.00 less than budget, actual operating expenditure was \$1,291,070.00 more than budget. This shows up clearly in 'Other Property and Services' where there was an unbudgeted sum of \$721,819.00 in private works mainly done on behalf of Main Roads WA). There was also an under allocation in plant costs (\$91,368.00) and depreciation (\$155,983.00) and a greater than budgeted loss on disposal of plant.

The Shire's debt service ratio is stable at 6.9%. The outstanding rates ratio has reduced from 9.9% in 2005/06 to 7.3% in 2006/07. However, the Shire has experienced a marked downward trend in both the Current Ratio and the Untied Cash to Trade Creditors Ratio. These ratios are measures of the Shire's ability to meet its short term liabilities and whether the Shire has untied cash in excess of its immediate obligations to creditors. The Current Ratio has moved from 1.671 to 0.77 and the Untied Cash to Trade Creditors Ratio has moved from 53.6% to 0.9%.

A key influencing factor on the Shire's financial position and audit comments relate to staffing in the Financial Services area. Our auditors have emphasised in their report that some positions are critical to the Council's operations, especially finance staff. Difficulties in attracting suitably qualified staff have been addressed, but an unfortunate legacy has been inherited, identified by the auditors, that has

left the Council in a position where opening and closing balances have been inadvertently misstated.

Voting Requirements

Simple Majority

OFFICER RECOMMENDATION

Moved by: Cr K Forbes

Seconded by: Cr J Mark

That it be a recommendation to the Council:

That the Shire of Plantagenet's 2006 / 2007 Annual Report be accepted.

CARRIED

4.2 AUDIT REPORT – YEAR ENDING 30 JUNE 2007

File No:	FM/103/1
Attachments:	Letter UHY Haines Norton Management Report Appendix 1
Responsible Officer:	John Fathers Deputy Chief Executive Officer
Author:	John Fathers Deputy Chief Executive Officer
Proposed Meeting Date:	1 February 2008

Purpose

The purpose of this report is to present the Annual Financial Audit and Management Report for the year ending 30 June 2007.

Background

The Annual Financial Audit was performed on 6 and 7 November 2007 by Mr W Chai of the Council's appointed auditors, UHY Haines Norton. The audit was finalised in January 2008 with the assistance of UHY Haines Norton's manager of remote services.

It should be noted that the audit is designed primarily to enable the auditors to form an opinion on the financial statements and therefore does not extend to all of the Council's systems and procedures.

Statutory Environment

Section 7.12A (3) and (4) of the Local Government Act (1995) states the following:

- (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 taken 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.*

Consultation

There has been consultation with the Shire's auditors in regard to this report.

Financial Implications

The Management Report issued by UHY Haines Norton notes that rates debtors decreased from \$321,829.00 (9.9%) in 2006 to \$283,970 (7.5%), which is pleasing. However, the Shire has experienced a marked downward trend in both the Current Ratio and the Untied Cash to Trade Creditors Ratio. These ratios are measures of the Shire's ability to meet its short term liabilities and whether the Shire has untied cash in excess of its immediate obligations to creditors.

Policy Implications

There are no policy implications for this report.

Strategic Implications

There are no strategic implications for this report.

Officer Comment

The Council has been aware for some time of the problems with regard to the Shire's financial management over the 2006/07 year. The problems have been predominantly staff related but also, the implementation of Civica without any additional resources exacerbated the situation. These problems have manifested themselves in a number of areas. The problems placed pressure on staff who were and still are relatively inexperienced and unqualified to perform the specialised accounting role. Comments in relation to specific points raised by the auditors are dealt with below, but in the main stem from these issues.

Financial Position.

Comments have been made in the Financial Implications section of this report. The administration accepts that there was a breakdown in some proper accounting processes, particularly regular and accurate bank reconciliations. The formulation of the budget was also problematic with a number of errors contained within the budget, most notably the opening balance being some \$285,487 lower than anticipated. This will certainly have an impact on the Council's budget deliberations for the 2008/09 financial year. It will also be recommended that the 2008/09 budget be adopted on 1 July 2008 with a view to raising rates as soon as possible.

The issues experienced in 2006/07 have somewhat been resolved, with several staffing changes within the financial services team. Nevertheless, some key staff members are still relatively inexperienced. Management has and will continue to focus on this area to ensure that there is not a recurrence of these problems and that the proper processes are maintained. Whilst a lot has been learnt over the last six months, it is likely that we will continue to require specialised accounting support to finalise the 2007/08 financial accounts.

In accordance with the Auditors' recommendations, a full budget review will be done in February 2008. The Auditors also recommend that urgent action be taken

to alleviate the staffing problem experienced in the key finance role currently designated as 'Accountant'. In response, the Shire's new Accountant has recently attended the Finance Professionals Conference, she has undertaken UHY Haines Norton's Nuts and Bolts Accounting workshop and recently attended the City of Armadale to gain some additional exposure to financial processes at a Civica site. We will continue to provide whatever support and training is required to enable the Accountant to perform the role in an appropriate and professional manner.

Bank Reconciliations

This was a matter of concern during the interim audit and was supposed to be rectified. There were a number of factors complicating the ability to reconcile the bank reconciliations, arising out of the 2005/06 financial year. There is no doubt that this was done very badly during the year and had to be completely re-done after year end. This is now a major focus although there has been some problems getting the Civica Authority automated bank reconciliation to work properly. As a result, they are still being done manually and being signed off by the deputy CEO on a monthly basis.

Month End Procedures

We have attempted to focus on the following month end reconciliations:

- Payroll.
- Rates debtors and rates valuation amendments.
- Debtors and Creditors.

Most of these have been done on a regular basis, however the rates reconciliations were more sporadic due in part to Civica implementations pressures. The correct process and sign-off has been reinstated.

Depreciation of Infrastructure

The auditors have suggested that the current method of recording and depreciating road infrastructure be reviewed with a view to implementing a system that will allow each road to be dissected into its component parts. Essentially they consider that the ROMAN system should be used as a basis for providing depreciation information. This issue will require further investigation in terms of the extent of detail and accuracy of current data in that system.

Fire and Emergency Services Authority (FESA) Liability

The reconciliation of FESA liability has not previously been raised as an audit query in the recent past. This has been found to be quite difficult and time consuming to undertake. As noted in the audit report, staff have liaised with FESA to ascertain the current actual outstanding balance.

Provision for Staff Entitlements – Annual Leave and Long Service Leave

There were minor deficiencies with the spreadsheets used to calculate these provisions. These have now been corrected.

Plan for the Future

The Council would be aware that it has not yet formalised a new Plan for the Future. The version adopted in the 2006/07 budget was a simple extrapolation of budget figures. Following adopted of the budget, local public notice was not given in accordance with Section 19D(1) of the Local Government (Administration) Regulations.

Voting Requirements

Simple Majority

OFFICER RECOMMENDATION

Moved by: Cr K Forbes

Seconded by: Cr J Mark

That it be a recommendation to the Council:

That the Annual Financial Audit and Management Report for the year ending 30 June 2007 as issued by Mr David Tomasi of UHY Haines Norton be received.

CARRIED

4.3 BUDGET TIMETABLE

Members believed that before the Road Works Program is set by the Manager Works and Services meetings should be held with Ward Councillors to discuss proposed program. Members also believed that the Road trip should go for one day only and be very focused.

5 NEXT MEETING

6 MEETING CLOSURE

10.40am The Chairperson declared the meeting closed.

CONFIRMED: CHAIRPERSON_____DATE:...../...../.....