



AUDIT COMMITTEE MEETING

MINUTES

Committee Brief

- *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.*

Meeting of the Audit Committee
held in the Board Room of Lincolns Accountants
70-74 Frederick Street, Albany
at 8.30am Monday 22 November 2010

Rob Stewart
CHIEF EXECUTIVE OFFICER

Committee Members

Cr K Clements, Cr M Skinner, Cr B Bell, Cr J Moir

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1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

12.30pm Cr Skinner declared the meeting open.

2 RECORD OF ATTENDANCE / APOLOGIESMembers Present

Cr M Skinner – Presiding Member

Cr K Clements

Cr B Bell

Apologies

Cr J Moir

Visitors

Mr R Harrison – Partner - Lincoln's Accountants (Until 9.25am)

Mr C Harrison – Auditor - Lincoln's Accountants (Until 9.25am)

Staff

Mr R Stewart - Chief Executive Officer

Mr J Fathers - Deputy Chief Executive Officer

Mr B Webb - Accountant/Office Manager

3 CONFIRMATION OF MINUTES

Minutes, as circulated, of the meeting of the Audit Committee held on 25 May 2010.

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr K Clements, seconded Cr M Skinner:

That the minutes of the meeting of the Audit Committee held on 25 May 2010, as circulated, be taken as read and adopted as a correct record.

CARRIED

4 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

4.1 DRAFT ANNUAL REPORT – YEAR ENDING 30 JUNE 2010

File No:	N16664
Attachments: (1)	Draft Annual Report – Year End 30 June 2010
Responsible Officer:	Rob Stewart Chief Executive Officer
Author:	John Fathers Deputy Chief Executive Officer
Proposed Meeting Date:	22 November 2010

Purpose

The purpose of this report is to receive the Shire of Plantagenet's 2009/2010 Annual Report.

Background

The annual financial audit for 2009/2010 was conducted by representatives of the Council's auditors, Lincoln's Accountants and Business Advisors in September 2010.

At its meeting held on 9 November 2010, the Council resolved that subject to the timely receipt of the Shire's audit report, a General Meeting of Electors be held at 6.30pm on 7 December 2010 to receive the 2009/2010 Annual Report.

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.*' (Absolute Majority required)

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 this year has been another exciting and challenging year for everyone involved in the Council's operations. A number of key items of infrastructure have been carried out, including:

- Completion of new Plantagenet Medical Centre.
- Construction of Shed to House New Fire Truck - Rocky Gully Bush Fire Brigade.
- Commencement of extension to the Mount Barker cemetery.

- Re-roofing of a portion of the Plantagenet District Hall.
- Upgrade of flooring in the Lesser Hall.
- New blanket for the swimming pool.
- Installation of security door to Recreation Centre gym to enable after hours access.
- New playground equipment in Narrikup.
- Progression of Frost / Sounness Parks and Centenary / Wilson Parks improvement plans.
- Commencement of the transformation of the library building (old Recreation Centre) into a Community Resource Centre.
- \$2.85 million capital roadworks program with the improvement of the Lowood Road / Mondurup Street intersection and the continuation of the Spencer Road Bypass being the highlights.
- Installation of chlorination facility at the saleyards, to enable waste water to be used for wash down purposes.
- Further progress was made with the decontamination the old depot site in Menston Street.

The Shire's operating net result was \$2.86 million in 2009/2010. Rate revenue increased from \$3.88 million in 2008/2009 to \$4.09 million in 2009/2010. Outstanding borrowings decreased from \$5.04 million in 2008/2009 to \$4.77 million in 2009/2010. The Council expended \$1,568,530 on land and buildings, \$2,848,095 on infrastructure capital works and \$824,330 on purchases of plant, and equipment.

The Council received grants and contributions for the development of assets of \$2.62 million in 2009/2010. Total grants and contributions received was \$5.00 million. The level of reserve funds increased from \$431,308 to \$683,267 in 2009/2010.

Many of the statutory financial ratios are outside preferred benchmarks, however they largely demonstrate good trends and are within expected levels. The performance of the Outstanding Rates Ratio this year has been impacted by the inability to collect rates from managed tree farm properties.

Voting Requirements

Absolute Majority

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr B Bell, seconded Cr M Skinner:

That it be a recommendation to the Council:

That the Draft Annual Report for the year ended 30 June 2010 as attached, be accepted.

CARRIED

4.2 AUDIT REPORT - YEAR ENDING 30 JUNE 2010

File No:	N16665
Attachments: (1)	Draft 2009/2010 End of Year Audit Report
Responsible Officer:	Rob Stewart Chief Executive Officer
Author:	John Fathers Deputy Chief Executive Officer
Proposed Meeting Date:	22 November 2010

Purpose

The purpose of this report is to present the Annual Financial Audit and Management Report for the year ending 30 June 2010.

Background

On 14-17 September 2010, representatives of Lincolns Accountants and Business Advisors attended the Shire office to conduct an end of year audit for 2009/2010. 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.'*

External Consultation

Consultation has occurred with the Shire's auditors in regard to this report.

Financial Implications

There are no direct 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

A copy of the Lincolns' draft Audit and Management Report has been enclosed. Responses to the matters raised within that report are as follows:

Comment on Financial Position

The auditors noted that:

"We make comment below in relation to the Shire's financial position. Our comments follow:

- (a) The Current Ratio disclosed at Note 18 to the Financial Report, which indicates short term solvency or liquidity, is shown to be .989 at 30 June 2010 (.649 at 30 June 2009). A current ratio of less than 1.0 indicates that current assets are insufficient to meet current liabilities. We note in this regard, that your Rate Setting Statement for the current year indicates that Council has sufficient liquidity to meet debt requirements for the 2010/11 financial year.*
- (b) The Untied Cash to Unpaid Trade Creditors Ratio was minus .021 at 30 June 2010 (.026 at 30 June 2009). A ratio of less than 1.0 indicates that short term cash issues may arise in meeting creditor payment liabilities.*

It should be noted that there has been an improvement from prior years of these key financial ratios."

In recent years, the Council has recognised the financial status of the Shire and last year completed Stage One of a ten year Long Term Financial Plan (LTFP). The LTFP provides a number of broad goals, directions and guidelines for achieving long term financial sustainability, responsibly matched with the Council's capacity to deliver the improved financial outcomes including appropriate debt levels and financial ratios.

Unfortunately, this year, a number of cash based ratios have been impacted by the inability to collect rates from managed tree farm properties and the Council will be considering options to deal with this, including the adoption of a surplus budget, in its forthcoming budget deliberations. In terms of ability to meet creditor payments, the Council had access to \$750,304 in restricted funds and a \$500,000 overdraft at the end of the year, which was more than sufficient to meet the requirements, prior to 2010/2011 rates and other income being received.

Other Matters

"We refer you to the attached audit observations and comments schedule."

SHIRE OF PLANTAGENET

AUDIT OBSERVATIONS AND COMMENTS SCHEDULE
FOR THE YEAR ENDED 30 JUNE 2010

Matter	Present Procedure	Recommendation	Shire's Comments
Rate Debtors Listing	The Rates Debtors Listing provided for audit was a supplementary report printed following July entries being recorded. This resulted in additional audit work to reconcile the Rates Debtors Listing to the General Ledger at 30 June 2010.	We recommend that a final Rates Debtors listing be produced following the processing of all year end entries.	This list is produced as part of the Shire's end of year procedures.
Rate Valuation Reconciliations	Audit testing of the Landgate Valuer General GRV and UV revaluation reports to final values for 2009/10 rates noted unidentified property adjustments that had not been recorded on the reconciliation schedule.	We recommend that the full reconciliation records of final rate valuations be maintained to clearly identify amendments and corrections to Landgate reported valuations.	A full list of property amendments is being maintained and signed off, however a revised spreadsheet is being developed to clearly identify property amendment details and correct the property count information.
Asset Register	Audit testing of the Asset Register and General Ledger control accounts noted unreconciled items. Management were advised and corrections processed to reconcile the subsidiary ledger with the financial report.	We recommend that the General Ledger control accounts are reconciled to the Asset Register at year end prior to preparation of the financial report	An instruction has been issued to satisfy this request. Already, this full reconciliation is being done on a monthly basis.
Asset Register Depreciation Rates	Council depreciation rates were benchmarked to the WA Local Government Accounting Manual sample listing. Please	We recommend that the asset register depreciation rates are reviewed and updated to	This review will be carried out in the near future and the depreciation rates will be

	<p>refer to our email containing specific details. Whereas most were within the broad range the following exceptions were noted;</p> <p>(i) Radio communication equip (#10412) (ii) Telephone system (#10750) (iii) Fire Trucks(#10338, #10716, #10736, #10755, #10776, #10780). The fire trucks are not being depreciated. The depreciation charge on the above items would not materially effect the financial report so no adjusting journal was requested.</p>	<p>incorporate industry accepted rates</p>	<p>corrected on applicable assets for the 2010/2011 financial year. In regard to fire trucks, while there is some inconsistency in the Shire's treatment of their depreciation, our former auditors advised that depreciation should not apply to these vehicles. The Shire agrees with the Lincolns that depreciation should apply and will correct this for the 2010/2011 financial year.</p>
<p>Revaluation of Plant Item</p>	<p>Validation testing of asset sales noted that a plant item had been revalued from nil Written down Value to \$30,000. This was booked as an asset disposal profit consequently inflating the Net Result on the Statement of Comprehensive Income. Accounting Standard AASB 116 – Property, Plant and Equipment states “if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued”. As the values involved do not materially effect the net results correcting journals were not requested</p>	<p>We recommend that revaluation be reversed to conform with Accounting Standard AASB 116</p>	<p>This matter related to the internal sale of a skid steer loader from the Works and Services Department to the Saleyards. As a result of the auditor's advice, the relevant internal transactions and revaluations have been reversed for the 2009/2010 annual financial report.</p>
<p>Long Overdue Unpresented Cheques</p>	<p>Follow-up testing of bank reconciliations noted two February 2010 dated cheques (#40794 \$67.13 and #40848 \$71.93) were still outstanding at 14 September 2010.</p>	<p>It is recommended that cheques remain outstanding for no longer than three months after date of issue.</p>	<p>The Shire's Accountant will implement a process which follows up on outstanding cheques after three months.</p>

		Follow-up procedure should be in place as part of the review process	
Annual Leave Provision	Audit testing noted the Annual Leave Provision was understated by \$3,379 due to a computation error in a supporting schedule. This was corrected and incorporated into the Financial Statements during our audit	We recommend procedures be implemented to review credibility values of provision schedules.	The provision schedules will be reviewed in detail by the Deputy Chief Executive Officer in future.
Financial Report	Accounting disclosures and technical issues including amendments to the Rate Setting Statement were corrected with our accounting assistance during the course of the audit.	We will provide our correction workpapers for your future use.	Additional non-cash items were included in the Rate Setting Statement and a slightly different methodology was used to calculate the balance carried forward, consistent with the budget format. The Shire concurs with these changes.

Voting Requirements

Simple Majority

During discussion, Mr Russell Harrison advised that the audit report was unqualified and showed a clean bill of health for the Shire's financial statements. The Deputy Chief Executive Officer, Mr Fathers made some comments in relation to the items contained in the management letter, which were relatively minor and being dealt with. Mr Harrison advised that the operating surplus was healthy and the Shire appeared to be in a sustainable position, particularly give the levels of capital investment.

Discussion ensued in regard to the significant rates outstanding by a plantation timber company, which is presently in receivership. The Chief Executive Officer, Mr Stewart provided some advice on the current status with this matter and Mr Harrison offered some guidance on how the Council may fund the cash shortfall. It was agreed to provide a note in the account to the effect that in light of advice received by the Council, this sum, plus interest accruing on it is considered to be collectible within 12 months. In addition, the Council has contingency plans in place for creditor payments and will continue to monitor this situation with a view to considering the need for ongoing budget and cash flow strategies.

Finally, members agreed that the Shire would continue to engage the auditors to carry out additional audit checks on key functions and processes.

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr K Clements, seconded Cr B Bell:

That it be a recommendation to the Council:

That the Annual Financial Audit and Management Report for the year ending 30 June 2010, as issued by Mr Russell Harrison of Lincolns Accountants and Business Advisors, be received.

CARRIED

5 NEXT MEETING

To be advised.

6 MEETING CLOSURE

9.40am The Presiding Member declared the meeting closed.

CONFIRMED: PRESIDING MEMBER _____ **DATE:** ____ / ____ / ____