



Shire of  
Serpentine  
Jarrahdale

# Special Audit, Risk and Governance Committee Meeting

## Agenda

**Monday, 8 May 2023**

**5:30pm**

**Purpose:** To consider the Annual Financial Statements and Audit Report 2021 – 2022.

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#### In Person

Shire of Serpentine Jarrahdale

6 Paterson Street, Mundijong WA 6123

Open Monday to Friday 8.30am-5pm (closed public holidays)



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Dear Committee Member

A Special Audit, Risk and Governance Committee Meeting of the Shire of Serpentine Jarrahdale will be held on Monday, 8 May 2023 in the Council Chambers, Civic Centre, 6 Paterson Street, Mundijong – commencing at 5:30pm.

Paul Martin

**Chief Executive Officer**

28 April 2023

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## Agenda

1. **Attendances and apologies (including leave of absence):**
2. **Public Questions:**
3. **Deputations:**
4. **Declaration of Committee Members and Officers interest:**
5. **Receipt of minutes or reports and consideration of adoption of recommendations from Committee meetings held since the previous Council meetings:**



## 6. Reports for consideration:

<b>6.1 – Annual Financial Statements and Audit Report 2021 – 2022 (SJ800)</b>	
<b>Responsible Officer:</b>	Manager Finance
<b>Senior Officer:</b>	Director Corporate Services
<b>Disclosure of Officer's Interest:</b>	No Officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

### Authority / Discretion

Legislative	Includes adopting local laws, local planning schemes and policies.
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### Report Purpose

The purpose of this report is to present the audited Annual Financial Report (**attachment 1**), Audit Report (**attachment 2**), Interim Audit Management Report (**attachment 3**) and Final Audit Management Report (**attachment 4**) for the period ended 30 June 2022. The Shire's Auditor and The Office of the Auditor General has provided the Audit Report and Management Report for the financial year ended 30 June 2022.

### Relevant Previous Decisions of Council

There are no previous Council decisions relating to this matter.

### Background

Pursuant to Sections 6.4, 7.2, 7.3 and 7.9 of the *Local Government Act 1995*, local governments are required each year to have the accounts and annual financial report of the Shire audited by an auditor appointed by the local government.

### Community / Stakeholder Consultation

Nil.

### Statutory Environment

Section 6.4 (1) of the *Local Government Act 1995* states that:

*"A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed."*

Section 7.2 of the *Local Government Act 1995* states that:

*"the accounts and annual financial report of a local government for each financial year are to be audited by an auditor appointed by the local government."*



Section 7.3 of the *Local Government Act 1995* states:

*“A local government is to, from time to time whenever such an appointment is necessary or expedient, appoint a person, on the recommendation of the Audit Committee, to be its auditor”.*

Section 7.9 (1) of the *Local Government Act 1995* states:

*“An auditor is required to examine the accounts and annual financial report submitted for audit and, by 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of the report to:*

- a) The Mayor or President;*
- b) The Chief Executive Officer of the local government; and*
- c) The Minister.”*

## **Comment**

### Audit Report

The Shire’s Auditors have completed their processes and issued an unqualified Audit Opinion (contained in **attachment 2**), in respect of the Shire’s Annual Financial Report (contained in **attachment 1**).

Given the difficult working conditions caused through significant staff turnover in the Finance team and the relative inexperience within the new team this is a pleasing result.

Importantly the Audit report contains no significant matters that require remedial action and subsequent reporting to the Minister as has been the case in recent prior years.

Essentially this means the Annual Financial Report is fit for purpose and is free of material errors further it follows that the financial control processes performed by the Shire are effective and adhered to by Shire Officers.

However, the Auditors have provided some suggests for improvement within an Interim Audit Management Report and a Final Audit Management Report which are addressed below.

### Interim Audit Management Report

In their Interim Audit Management Report for the financial year ended 30 June 2022 (contained in **attachment 3**), the Office of the Auditor General identified the following matters:

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
<b>Findings unresolved from the prior year</b>			
1. Daily banking reconciliations and banking	✓		
2. Key balance sheet reconciliations		✓	
<b>Findings identified during the current year</b>			
3. Sundry debtor charges			✓
4. Policies and procedures review			✓



## KEY TO RATINGS

**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. Daily banking reconciliations and banking

#### Auditor Comment

##### **2021**

We identified that all 21 sampled daily banking reconciliations tested were not signed by the reviewer as evidence of an independent review.

- The front counter till is not counted at the end of the day if no cash is received or cash was received in the exact amount and change was not given to the customer; and
- Cash is held on the premises for an extended period of time (sometimes greater than 7 days, one instance identified 13 days) as the Shire does not complete banking on a frequent basis.

##### **2022**

During our testing of a sample of 21 daily banking reconciliations during the year, we noted the following:

- 7 instances identified whereby the daily banking reconciliations were not signed by the reviewer as evidence of independent review; and
- Cash is held on the premises for an extended period of time (sometimes greater than 7 days) as the Shire does not complete banking on a frequent basis.

#### Management Comment and Action

##### **2021**

Whilst daily reconciliations were being completed by Customer Service and reviewed by the Supervisor, these reconciliations were not signed by the reviewer. Daily banking reconciliations to be signed by the reviewer moving forward.

With regard to cash deposits, the delay was in large part due to impacts of COVID and requirement for work from home for a majority of staff, as well as staff illness however, we now have multiple staff able to make regular deposits regardless of such instances to reduce this risk.

##### **2022**

The team have taken on board the comments from last year and daily reconciliations are completed by the Customer Service team.

However, this year due to Covid pressures the team had been working remotely which meant there were some instances only one staff member was in the office at the time of closure.



We have now implemented a process for Finance to be the secondary signature in the above-mentioned circumstances.

Daily banking is not currently completed as there are times when no cash has been taken and the banking is currently taken by the Community Safety Team. A weekly pick-up collection service has now been implemented by a cash collection agency.

## **2. Key balance sheet reconciliations**

### Auditor Comment

#### **2021**

Our review of the month end reconciliation procedures identified key balance sheet reconciliations are being completed and independently reviewed. However, the key balance sheet reconciliations are not being signed off by both the preparer and independent reviewer.

#### **2022**

Our review of the month end reconciliation procedures identified key balance sheet reconciliations are being completed and independently reviewed. However, the key balance sheet reconciliations are not consistently being signed off by both the preparer and independent reviewer throughout the 2022 audit period.

### Management Comment and Action

#### **2021**

All month end reconciliations are to be signed off individually, in addition to the current process whereby Officers complete and initial the end of month checklist and senior staff and management review and initial to indicate their satisfaction that the reconciliations have been done appropriately.

#### **2022**

Due to 3 of 4 senior finance management positions within the team being vacant simultaneously for over 5 months, the identified processes had not always been completed in a timely fashion.

The new Manager Finance has since implemented a new automated month end timetable with responsibilities clearly outlined for both preparer and reviewer and automated reminders to ensure deadlines are kept.

## **3. Sundry debtor charges**

### Auditor Comment

Our sampled testing of sundry debtors raised identified one instance where there was no support available for the electricity charges invoiced to the debtor.

### Management Comment and Action

The Financial Accounts team will no longer accept Debtor Request forms without supporting documentation.

The supporting documentation will be added to OneComm when raising the debtor invoice.

A global communication will be sent across the organisation to ensure the updated procedure has been communicated.





#### 4. Policies and procedures review

##### Auditor Comment

On enquiries and review of the Shire's policy listing ('Council Policy Manual') indicated a number of policies and procedures that are currently overdue for review and may not be current.

##### Management Comment and Action

As at the June 2022 Ordinary Council Meeting, Council adopted a 'Council Policy Review Forward Calendar' to set out a timeline for the review of policies that aligns to need and organisational capacity. This is now in place and underway as a matter of course. Under the Calendar, policies will be reviewed at least once every six years.

##### Final Audit Management Report

In their Final Audit Management Report for the financial year ended 30 June 2022 (**attachment 4**), the Office of the Auditor General identified the following matters:

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Fair value of infrastructure assets	✓		
2. Recognition of gifted assets		✓	
3. Expense accruals		✓	
4. Fixed asset reconciliations		✓	
5. Excess leave management		✓	

In relation to the specific matters raised, below is a summary of these matters and how they were addressed by management:

##### **1. Fair value of infrastructure assets**

##### Auditor Comment

The Shire of Serpentine Jarrahdale has not performed an assessment to determine whether its infrastructure assets represent fair value for the year ended 30 June 2022.

Furthermore, the unit cost rates used to value gifted assets received during the year ended 30 June 2022 were based on the 2018 valuation report. While these unit cost rates were based on the most recent infrastructure asset valuation completed by the Shire in 2018, no assessment has been carried out on whether these unit cost rates are still applicable and represent current fair value as at 30 June 2022.

##### Management Comment and Action

This is in line with the principal of accounting conservatism. Officers recognise there has possibly been an increase in valuation of infrastructure since 2018 but this is not certain – this potential increase could only be truly quantified by a new qualified expert valuation to take account of the Shire's total infrastructure asset portfolio; this would be a significant annual cost burden on the Shire in the order of \$65,000 each year but would produce in practise no significant decision useful information.

In accordance with the abovementioned AASB 13 Fair Value Measurement, as well as Regulation 17A(4)(b) of the *Local Government (Financial Management) Regulations 1996* (the Regulations) and best practice the Shire conducts a rolling 5-year asset revaluation





program. At a cost of \$42,000 Land and Buildings were revalued as part of this 2021-22 Annual Financial Report and at a cost of approximately \$135,000 a full Infrastructure valuation will be undertaken in 2022-23.

Notwithstanding the above, Officers will complete an annual position paper to assess the carrying value is not materially different from fair value.

In relation to the unit cost rates for gifted assets, new unit rates will be applied following the coming years revaluation.

Officers have sought indicative quotes to provide an annual review of construction rates in order to enable an annual review which would cost an additional \$10,000 a year.

More research is required to ascertain a suitable go forward position.

## **2. Recognition of gifted assets**

### Auditor Comment

During our testing of gifted assets, we identified 3 instances where newly gifted assets were not added to the asset register based on their practical completion date which resulted in an understatement of the depreciation expense for 2021-22.

### Management Comment and Action

The abovementioned assets have been brought into account as at 30 June 2022 instead of at practical completion date within the financial year. This has resulted in an immaterial understatement of depreciation.

Officers have set in place enhancements in internal procedures for documenting gifted assets as the Shire receives them and are exploring additional process and system enhancements for data entry to comply with the above recommendation.

## **3. Expense accruals**

### Auditor Comment

We noted that the Shire's process for assessing and reviewing year-end accruals of expenditure is inadequate. During our review of supplier invoices received subsequent to year-end, we identified \$184,651 of 2021-22 expenses had not been recognised as an accrued expense.

### Management Comment and Action

Currently the Shire applies a cut-off period mid-July to enable a completion of year end actuals and to ensure the Shire can progress with financial reporting in a timely manner.

Due to staff turnover across the organisation, year-end processes were delayed in relation to goods receipts which caused some expenses not being recognised as an accrued expense.

Staff turnover and inexperience within the Finance team, familiarising themselves with year-end processes also contributed to this finding.

Officers will be more diligent when reviewing payment runs post cut-off to ensure any material invoices are recognised in the correct period.



#### **4. Fixed asset reconciliations**

##### Auditor Comment

We identified that not all intangible assets were originally recorded within the fixed asset register which resulted in variances between the asset register and general ledger at year end.

Furthermore, we were not initially provided with a reconciliation of the Land and Buildings revaluation report to the Shire's fixed assets register and general ledger.

##### Management Comment and Action

During the year-end process, it was discovered that the intangible assets had not been initially recorded correctly. As a result, Officers took corrective action, but this led to an error in the depreciation calculation. This error was also subsequently rectified.

Officers conducted a full reconciliation of the Land and Buildings revaluation report to the Shire's fixed asset register and general ledger upon request and provided sufficient documentation to reconcile the required documentation.

Officers will conduct a full reconciliation between the formal valuation report, asset register and general ledger during revaluation years as part of our end-of-year process. This will ensure that all relevant information is properly documented, providing greater transparency and accountability in our financial reporting.

#### **5. Excess leave management**

##### Auditor Comment

During our testing on employee leave provisions, we noted that 17 employees have annual leave balances in excess of 8 weeks (40 days) at year end.

##### Management Comment and Action

The effect of the Covid-19 pandemic made it difficult for many of our employees to take leave due to travel restrictions and health concerns which contributed to the accumulation of excess leave.

The Shire has been experiencing a high turnover rate of staff. In 2021-22, 55 people terminated employment with the Shire which is approximately 28% of total staff. This results in a consistently high workload for our remaining employees, making it difficult for them to take their allocated leave.

The Shire recognises the importance of managing excess leave to ensure that it does not become a financial liability for the organisation. We will continue to encourage staff members to take their leave in a timely manner. In addition, and in accordance with the Award, employees with excess of eight weeks leave can be directed to take leave however, the Shire will always seek to engage with employees in a collaborative manner in this regard.



## **Summary of Overall Financial Performance 2021-2022**

The year ended 30 June 2022 has seen the Shire continue to deal with the impacts of being a fast-growing local government. This is reflected in the Financial Health indicator (FHI) and ratio information presented below.

<b>Description</b>	<b>OAG Benchmark</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Current Ratio	1.00	1.80	2.72	1.45	1.46	1.28
Asset Consumption Ratio	0.45	0.75	0.75	0.73	0.74	0.77
Asset Renewal Funding Ratio	0.6	0.71	1.02	0.93	0.70	0.46
Asset Sustainability Ratio	0.8	0.95	0.55	0.85	0.94	0.66
Debt Service Cover Ratio	1.9	6.21	5.92	10.61	9.94	7.18
Operating Surplus Ratio	0.00	(0.12)	(0.11)	(0.05)	(0.05)	(0.10)
Own Source Revenue Coverage Ratio	0.35	0.80	0.82	0.85	0.86	0.85
<b>Financial Health Indicator Score</b>	<b>40</b>	<b>73</b>	<b>69</b>	<b>72</b>	<b>73</b>	<b>60</b>

These ratios indicate that the Shire has been able to significantly improve its financial sustainability in the 2021-22 financial year despite facing increasing inflationary pressures. At the beginning of the 2021-22 financial year CPI was 4.2%, however at end of the reporting period CPI was 7.4%. This indicates, that despite growing economic pressures, through sound financial management the Shire has not only been successful in maintaining its financial health, but it has also improved.

The biggest influence in the significant improvement in the Shire's financial health indicator comes from the Asset Sustainability ratio. This is the result of the Shire undertaking significantly more renewal and replacement capital works than in previous years, with the Shire undertaking \$10,048,954 of renewal works in 2021-22, a significant amount which was funded through grants such as LRCI and Roads to Recovery. This means for the Shire to maintain the Asset Sustainability ratio going forward, it is critical to continue to advocate and seek grant funding for future renewal projects.

The Shire needs to continue to focus on reversing a trend of a declining Operating Surplus ratio, which reflects the amount of municipal funds used to fund Operational activities and ultimately how much is left to fund asset renewal activity.

With the costs associated with the undertaking of the operational functions of the Shire expected to continue to rise in coming financial years (CPI at 8.3% at the end of December 2022), improving this ratio will continue to be challenging.



## Options and Implications

### Option 1

That the Audit, Risk and Governance Committee RECOMMENDS that Council:

1. RECEIVES the 2021/22 Annual Financial Report (**attachment 1**) and the Audit Report (**attachment 2**) from the Office of the Auditor General as per **attachment 1**, in accordance with Section 7.2 of the *Local Government Act 1995*.
2. NOTES the Office of the Auditor General Interim Audit Management Report (**attachment 3**) and Final Audit Management Report (**attachment 4**).

### Option 2

That the Audit, Risk and Governance Committee RECOMMENDS that Council:

1. DOES NOT RECEIVE the 2021/2022 Annual Financial Report including the Audit Report from the Office of the Auditor General as per **attachment 1**, in accordance with Section 7.2 of the *Local Government Act 1995*.
2. DOES NOT RECEIVE the Office of the Auditor General Final Audit Management Report as per **attachment 4**.
3. DOES NOT RECOMMEND that Council AUTHORIZES the Shire President to write to the Minister for Local Government addressing the action the local government has taken in respect to the matters identified as significant by the Auditor as described in this report in accordance with section 7.12A of the *Local Government Act 1995*.

Option 1 is recommended

## Conclusion

The 2021-22 Audit Report demonstrates the overall sound finance and governance controls that exist within the Shire. Officers believe that the Audit findings provide a strong basis for continual improvement and quality assurance.

## Attachments (available under separate cover)

- 6.1 – **attachment 1** – Annual Financial Report – 30 June 2022 (E23/5111)
- 6.1 – **attachment 2** – Audit Report (E23/5174)
- 6.1 – **attachment 3** – Interim Audit Management Report – 30 June 2022 (E23/5113)
- 6.1 – **attachment 4** – Final Audit Management Report – 30 June 2022 (E23/5112)

## Alignment with our Strategic Community Plan

<b>Outcome 4.1</b>	A resilient, efficient and effective organisation
<b>Strategy 4.1.1</b>	Provide efficient, effective, innovative, professional management of Shire operations to deliver the best outcome for the community within allocated resources



## Financial Implications

Budget provision has been included in the 2022/23 budget to accommodate the expenses associated with carrying out the external audit.

## Risk Implications

Risk has been assessed on the Officer Options and Implications:

Officer Option	Risk Description	Controls	Principal Consequence Category	Risk Assessment			Risk Mitigation Strategies (to further lower the risk rating if required)
				Likelihood	Consequence	Risk Rating	
1	There is no significant risk with the Audit, Risk and Governance Committee receiving the 2021/22 Annual Financial Report.						
2	That the Audit, Risk and Governance Committee does not receive the 2021/2022 Annual Financial Report leading the Shire to not comply with Section 7.2 of the <i>Local Government Act 1995</i> .	Provision of sufficient information and records to support the recommendation	Financial	Unlikely	Insignificant	LOW	Accept Officer recommendation

**Voting Requirements:** Simple Majority

## Officer Recommendation

**That the Audit, Risk and Governance Committee RECOMMENDS that Council:**

- RECEIVES** the 2021/22 Annual Financial Report (attachment 1) and the Audit Report (attachment 2) from the Office of the Auditor General as per attachment 1, in accordance with Section 7.2 of the *Local Government Act 1995*.
- NOTES** the Office of the Auditor General Interim Audit Management Report (attachment 3) and Final Audit Management Report (attachment 4).

*Please note that the Audit, Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit, Risk and Governance Committee are presented to Council for ratification.*



**7. Motions of which notice has been given:**

**8. Urgent business:**

**9. Closure:**