



Shire of  
**Chapman Valley**  
*Love the Rural Life*

# AGENDA

**FINANCE & AUDIT COMMITTEE MEETING  
MONDAY 2<sup>ND</sup> FEBRUARY 2015  
COUNCIL CHAMBERS NABAWA  
9.00AM**

The Finance and Audit Committee is comprised of:-

Cr John Collingwood  
Cr Pauline Forrester  
Cr Ian Maluish  
Cr Kirrilee Warr

Chief Executive Officer	(Advisor)
Manager Finance & Corporate Services	(Advisor)
Accountant	(Advisor)
Executive Assistant	(Minute Taker)
Greg Godwin - UHY Haines Norton	(Auditor)

## DISCLAIMER



No responsibility whatsoever is implied or accepted by the Shire of Chapman Valley for any act, omission or statement or intimation occurring during Council Meeting. The Shire of Chapman Valley disclaims any liability for any loss whatsoever and howsoever caused arising out of reliance by any person or legal entity on any such act, omission or statement or intimation occurring during Council or Committee Meetings.

Any person or legal entity who acts or fails to act in reliance upon any statement, act or omission made in a Council Meeting does so at that person's or legal entity's own risk.

The Shire of Chapman Valley warns that anyone who has any application or request with the Shire of Chapman Valley must obtain and should rely on

### WRITTEN CONFIRMATION

Of the outcome of the application or request of the decision made by the Shire of Chapman Valley.

A handwritten signature in black ink, appearing to read "M. Battilana". The signature is stylized with large loops and a long horizontal stroke at the end.

Maurice Battilana  
**CHIEF EXECUTIVE OFFICER**

# AGENDA

## FINANCE & AUDIT COMMITTEE MEETING TO BE HELD IN THE COUNCIL CHAMBERS, NABAWA MONDAY 2<sup>ND</sup> FEBRUARY 2015 AT 9.00AM

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### ORDER OF BUSINESS

1.0 Declaration of Opening / Announcements of Visitors

2.0 Record of Attendance

2.1 Present

Please note that Mr Greg Goodwin from UHY Haines Norton will be attending the meeting via phone link.

2.2 Apologies

3.0 Applications for Leave of Absence

4.0 Disclosure of Interest

5.0 Petitions / Deputations / Presentations

6.0 Confirmation of Minutes from previous meetings Page 4

Finance and Audit Committee Meeting held on Thursday 6<sup>th</sup> February 2014

'Recommend that the minutes of the Finance and Audit Committee of the Shire of Chapman Valley held on Thursday 6<sup>th</sup> February 2014 be confirmed as a true and accurate record of proceedings.'

7.0 Agenda Items

7.1 Management Report 30 June 2014 Page 31

7.2 Audit Report 30 June 2014 Page 37

7.3 Compliance Audit Return 2014 Page 40

7.4 Internal Control Audit Page 48

8.0 Information Items

9.0 General Business

10.0 Closure



Shire of  
**Chapman Valley**  
*Love the Rural Life*

# UNCONFIRMED MINUTES

**FINANCE & AUDIT COMMITTEE MEETING  
THURSDAY 6<sup>TH</sup> FEBRUARY 2014  
COUNCIL CHAMBERS NABAWA  
2.00PM**

The Finance and Audit Committee is comprised of:-

Cr John Collingwood  
Cr Pauline Forrester  
Cr Ian Maluish  
Cr Kirrilee Warr

Chief Executive Officer	(Advisor)
Office Manager	(Advisor)
Mid-West Regional Council	(Advisor)
Executive Assistant	(Minute Taker)
Greg Godwin - UHY Haines Norton	(Auditor)

## DISCLAIMER



No responsibility whatsoever is implied or accepted by the Shire of Chapman Valley for any act, omission or statement or intimation occurring during Council Meeting. The Shire of Chapman Valley disclaims any liability for any loss whatsoever and howsoever caused arising out of reliance by any person or legal entity on any such act, omission or statement or intimation occurring during Council or Committee Meetings.

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### WRITTEN CONFIRMATION

Of the outcome of the application or request of the decision made by the Shire of Chapman Valley.

A handwritten signature in black ink, appearing to read 'M. Battilana', written over a large, light-colored circular scribble.

Maurice Battilana  
**CHIEF EXECUTIVE OFFICER**

**UNCONFIRMED MINUTES FINANCE & AUDIT COMMITTEE MEETING HELD IN  
THE COUNCIL CHAMBERS, NABAWA THURSDAY 6<sup>TH</sup> FEBRUARY 2014 AT  
2.06PM**

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**ORDER OF BUSINESS**

**1.0 Election of Presiding Member and Deputy Presiding Member of Shire of Chapman Valley Finance and Audit Committee (S5.12 Local Government Act)**

Mr Battilana opened the meeting and called for nominations for Presiding Member.

Cr Collingwood nominated himself and there being no further nominations was elected unopposed as Presiding Member of the Shire of Chapman Valley's Finance and Audit Committee.

Cr Collingwood took the Chair and a decision was made not to have a Deputy Presiding Member.

**2.0 Declaration of Opening / Announcements of Visitors**

Cr Collingwood welcomed Elected Members and staff to the Finance and Audit Committee meeting.

**3.0 Record of Attendance**

**3.1 Present**

a. Councillors

Member	Ward
Cr John Collingwood - President	North East Ward
Cr Ian Maluish	South West Ward
Cr Kirrilee Warr	North East Ward

b. Staff

Officer	Position
Mr Maurice Battilana	Chief Executive Officer
Mrs Karen McKay	Executive Assistant (Minute Taker)
Mrs Dianne Raymond	Office Manager

c. Visitors

Name	
Mr Greg Godwin	UHY Haines Norton – Auditor (via phone link)
Mrs Kristy Williams	Mid West Regional Council

**3.2 Apologies**

Member	Ward
Cr Pauline Forrester	North East Ward

**4.0 Applications for Leave of Absence**

Nil

**5.0 Petitions / Deputations / Presentations**

Nil

**6.0 Confirmation of Minutes from previous meetings**

Finance and Audit Committee Meeting held on Wednesday 10<sup>th</sup> July 2013

'Recommend that the minutes of the Finance and Audit Committee of the Shire of Chapman Valley held on Wednesday 10<sup>th</sup> July 2013 be confirmed as a true and accurate record of proceedings.'

**COMMITTEE RECOMMENDATION**

**MOVED: CR WARR                      SECONDED: CR MALUISH**

**That the minutes of the Finance and Audit Committee of the Shire of Chapman Valley held on Wednesday 10<sup>th</sup> July 2013 be confirmed as a true and accurate record of proceedings.**

**CARRIED**  
Voting 3/0  
Minute Reference FAC 02/14-2

*Mr Godwin joined the meeting via teleconference at 2.10pm.*

Mr Godwin explained various items within the Audit & Management Reports with Committee members asking question during this presentation.

When questioned on the state of the Shire's financial and management position Mr Godwin stated the Shire is in the top half of all local governments in regards reaching a compliant position i readiness for audit to be completed. Also the Shire is about average in regards to the industry standards for Ratio linked to the financial position of local government authorities across the State.

*Mr Godwin departed the meeting via teleconference at 2.50pm.*

# **Chief Executive Officer February 2014**

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## **Contents**

### **7.0 AGENDA ITEMS**

- 7.1 Management Report 30 June 2013
- 7.2 Audit Report 30 June 2013
- 7.3 Compliance Audit Report



AGENDA ITEM:	7.1
SUBJECT:	MANAGEMENT REPORT 30 JUNE 2013
PROPONENT:	FINANCE & AUDIT COMMITTEE
SITE:	COUNCIL CHAMBERS
FILE REFERENCE:	305.05
PREVIOUS REFERENCE:	N/A
DATE:	6 FEBRUARY 2014
AUTHOR:	MAURICE BATTILANA & KRISTY WILLIAMS

#### DISCLOSURE OF INTEREST

Nil

#### BACKGROUND

The Shire of Chapman Valley has received the Management Report from its Auditors UHY Haines Norton. (Please refer to Management Report Letter submitted as **Attachment 2**).

The following Management Issues were raised:

- Debt Service Cover Ratio
- Operating Surplus Ratio
- Own Resource Revenue Coverage Ratio
- Revaluation of Road Infrastructure Assets

#### COMMENT

Below is an extract from the Management Report and Staff Comments associated with each issue raised:

- Debt Service Cover Ratio

*"This ratio measures Council's ability to service debt out of its uncommitted or general purpose funds available from its operations.*

*The Debt Service Cover Ratio for the year ending 30 June 2013 is 7.00 (2012: 5.744, 2011: 11,753), however, if the Debt Service Cover Ratio did not include the effect of the initial recognition of Land under the Shire's control as required by the Local Government (Financial Management) Regulations, 1996, and the expense relating to the reduction in fair value of the Shire's plant and equipment, the debt service cover ratio would be 1.219, below the industry benchmark of 5. In addition, we noted the Shire has budgeted to borrow an additional \$160,000 in the budget for the year ended 30 June 2014.*

*This may indicate debt management to be an issue and should be considered in the context of overall financial position of Council."*

- Operating Surplus Ratio

*"The Operating Surplus Ratio measures Council's financial sustainability having regard to the asset management and community's service level needs.*

*The Operating Surplus Ratio for the year ended 30 June 2013 has been reported as 0.069 (2012: 0.111, 2011: 0528), however, if Council's operating revenue and operating expenses did not include the items mentioned above, the Operating Surplus Ratio for the year ending 30 June 2013 would be -0.373, a deterioration from prior years and below the industry benchmark of 0.000.*

*A negative ratio indicates the local government is experiencing an operating deficit. A sustained period of deficits will erode Council's ability to maintain both its operating service level and asset base over the longer term, whilst a positive ratio which is consistently above*

0.15 provides the Shire with greater flexibility in meeting operational service levels and asset management requirements.

Council and management should monitor this ratio and take corrective action as deemed necessary”

- **Own Resource Revenue Coverage Ratio**

“The Own Resource Revenue Coverage Ratio measures the Shire’s ability to cover operating expenses from its own resource revenue. The higher the ratio, the more self –reliant the Shire is.

The Own Resource Revenue Coverage Ratio for the year ended 30 June 2013 is 0.434 (2012: 0.470, 2011: 0.794), however, if Council’s operating expenses did not include the item mentioned above, the Own Resource Revenue Coverage Ratio for the year ended 30 June 2013 would be 0.506.

As the ratio is below the industry benchmark of 0.6, Council needs to examine the level of its own source revenue given current levels of operating expenses in order to maintain and/or improve the current service level of its asset base.”

“We suggest it prudent for Council and management to monitor the levels and trends of all ratios as they strive to manage the scarce resources of the Shire”

- **Revaluation of Road Infrastructure Assets**

“For the year ending 30 June 2013, the Shire of Chapman Valley has elected to maintain roas assets carried at a previous revalued amount.

This matter was raised in our management report for the year ending 30 June 2012 and it is acknowledges management have planned a revaluation of roads for the year ending 30 June 2015 when all infrastructure assets are planned to be valued in accordance with new regulations.

Whilst compliance with the Australian Accounting Standards would require the revaluation of the Shire’s road infrastructure to occur within 5 years of the last revaluation, given the current valuation is within materiality guidelines, this approach has been considered acceptable by us”

#### **STATUTORY ENVIRONMENT**

Part 7 Local Government Act 1995 and the Local Government (Audit) Regulations 1996

#### **POLICY IMPLICATIONS**

None applicable

#### **FINANCIAL IMPLICATIONS**

The long term financial viability of the Shire is of importance for future service delivery levels provided to the Shire’s constituents.

#### **STRATEGIC IMPLICATIONS**

None applicable

#### **VOTING REQUIREMENTS**

Simple Majority

**COMMITTEE / STAFF RECOMMENDATION**

**MOVED: CR WARR      SECONDED: CR MALUISH**

The Finance and Audit Committee recommends to Council the Management Report for year ending 30 June 2013 be received and, other than monitoring the levels and trends of all ratios, there are no actions required out of the report.

**CARRIED**  
Voting 3/0  
Minute Reference FAC 02/14 - 3

**Kristy's Comments**

	2013	2012	Impact on adjusting 2012	
Operating Surplus	1,258,124	1,087,560	1,087,560	
Add back Interest	25,584	32,045	32,045	
Add back Depn	1,157,518	679,984	679,984	
Less Non-Op Grants	-2,204,838	-817,797	-817,797	
			-855,000	Flood damage grant funding
			-300,000	Royalties for Regions grant funding
Net	236,388	981,792	-173,208	Is the expense in there or was it capitalised?
Principal	168,367	138,878	138,878	
Interest	25,584	32,045	32,045	
Total	193,951	170,923	170,923	
<b>Debt Service Ratio</b>	<b>1.219</b>	<b>5.744</b>	<b>-1.013</b>	

**Benchmark 5**

This ratio is well below the benchmark indicates Council's debt levels are too high when comparing to the industry. I would recommend Council re-evaluate the decision to raise a new loan for \$160,000 as budgeted.

*(CEO's Comments: The only other option if a loan is not taken out is to increase rate next year and fund from Municipal Funds resources (i.e. cash) or not replace the plant until Debt Ratio is improved. The latter option will result in older plant and higher maintenance costs)*

	2013	2012	Impact on adjusting 2012	
Operating Revenue	6,276,271	6,257,383	6,257,383	
Operating Expenses	-5,018,147	-5,169,823	-5,169,823	
Less specific purpose grants	-2,204,838	-817,797	-817,797	
			-855,000	Flood damage grant funding
			-300,000	Royalties for Regions grant funding
Net	-946,714	269,763	-885,237	Is the expense in there or was it capitalised?
Own Source Revenue	2,540,983	2,428,081	2,428,081	
<b>Operating Surplus Ratio (Benchmark 0)</b>	<b>-0.373</b>	<b>0.111</b>	<b>-0.365</b>	

The operating surplus ratio is below the benchmark. Operating expenses are however affected by depreciation which is a non-cash item.

Control measures are in place to reduce operating expenditure so I should expect to see an improvement in this ratio in 13/14.

A rate increase would also improve this ratio.

The own source revenue coverage ratio is below the benchmark. A rate increase would improve this ratio as too would a reduction in operating expenditure.

Comparison to previous year

In comparing to the previous year the most noticeable difference was that \$855,000 of flood damage funding and \$300,000 of Royalties for Regions funding was included in the operating grants. If these items are excluded from last year the ratios have not deteriorated as they currently indicate. This may or may not be a classification error; it depends where the cost was allocated for the grants – capital or operating. It is a mismatch if the revenue went in operating and the cost went in capital and will impact on the ratios.

Regardless of the answer, the ratios for 12/13 are a concern. My recommendation is that every effort needs to be made to reduce operating costs or Council will be left with no alternative than to increase rates.

4 December 2013

Cr J Collingwood  
 The Shire President  
 Shire of Chapman Valley  
 PO Box 1  
 NABAWA WA 6532

Dear Cr Collingwood


**MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2013**

We advise that we have completed our audit procedures for the year ended 30 June 2013 and enclose our Audit Report.

We are required under the Local Government Audit Regulations to report certain compliance matters in our audit report. Other matters which arise during the course of our audit that we wish to bring to Council's attention are raised in this management report.

It should be appreciated that our audit procedures are designed primarily to enable us to form an opinion on the financial statements and therefore may not bring to light all weaknesses in systems and procedures which may exist. However, we aim to use our knowledge of the Shire's organisation gained during our work to make comments and suggestions which, we hope, will be useful to you.

**COMMENTS ON RATIOS**

Due to legislative changes, this year saw the introduction of six new ratios in the financial report. Seven of the eight reported in previous years were removed with only the current ratio remaining.

Whilst we accept it may take some time for the implication of these newer ratios to be fully understood, we thought we would take this opportunity to highlight those ratios which are currently outside industry benchmarks.

**Debt Service Cover Ratio**

This ratio measures Council's ability to service debt out of its uncommitted or general purpose funds available from its operations.

The Debt Service Cover Ratio for the year ended 30 June 2013 is 7.000 (2012: 5.744, 2011: 11.753), however, if the Debt Service Cover Ratio did not include the effect of the initial recognition of Land under the Shire's control as required by the Local Government (Financial Management) Regulations 1996 and the expense relating to the reduction in the fair value of the Shire's plant and equipment, the debt service cover ratio would be 1.219, below the industry benchmark of 5. In addition, we noted the Shire has budgeted to borrow an additional \$160,000 in the budget for the year ended 30 June 2014.

This may indicate debt management to be an issue and should be considered in the context of the overall financial position of Council.

**Operating Surplus Ratio**

The Operating Surplus Ratio measures Council's financial sustainability having regard to asset management and the community's service level needs.

COMMENTS ON RATIOS (CONTINUED)

**Operating Surplus Ratio (Continued)**

The Operating Surplus Ratio for the year ended 30 June 2013 has been reported as 0.069 (2012: 0.111, 2011: 0.528), however, if Council's operating revenue and operating expenses did not include the items mentioned above, the Operating Surplus Ratio for the year ended 30 June 2013 would be -0.373, a deterioration from prior years and below the industry benchmark of 0.000.

A negative ratio indicates the local government is experiencing an operating deficit. A sustained period of deficits will erode Council's ability to maintain both its operational service level and asset base over the longer term, whilst a positive ratio which is consistently above 0.15 provides the Shire with greater flexibility in meeting operational service levels and asset management requirements.

Council and management should monitor this ratio and take corrective action as deemed necessary.

**Own Source Revenue Coverage Ratio**

The Own Source Revenue Coverage Ratio measures the Shire's ability to cover operating expenses from its own source revenue. The higher the ratio, the more self-reliant the Shire is.

The Own Source Revenue Coverage Ratio for the year ended 30 June 2013 is 0.434 (2012: 0.470, 2011: 0.794), however, if Council's operating expenses did not include the item mentioned above, the Own Source Revenue Coverage Ratio for the year ended 30 June 2013 would be 0.506.

As this ratio is below the industry benchmark of 0.6, Council needs to examine the level of its own source revenue given current levels of operating expenses in order to maintain and/or improve the current service level of its asset base.

We suggest it prudent for Council and management to monitor the levels and trends of all ratios as they strive to manage the scarce resources of the Shire.

**REVALUATION OF ROAD INFRASTRUCTURE ASSETS**

For the year ended 30 June 2013, the Shire of Chapman Valley has elected to maintain road assets carried at a previously revalued amount.

This matter was raised in our management report for the year ended 30 June 2012 and it is acknowledged management have planned a revaluation of roads for the year ended 30 June 2015 when all infrastructure assets are planned to be valued in accordance with new regulations.

Whilst compliance with the Australian Accounting Standards would require the revaluation of the Shire's road infrastructure to occur within 5 years of the last revaluation, given the current valuation is within materiality guidelines, this approach has been considered acceptable by us.

There were no other matters we wish to bring to your attention.

**UNCORRECTED MISSTATEMENTS**

We advise there were no uncorrected misstatements noted during the course of our audit.

We take this opportunity to thank the Chief Executive Officer, the manager of finance & administration and all staff for the assistance provided during the audit.

Should you wish to discuss any matter relating to the audit or any other matter, please do not hesitate to contact us.

Yours faithfully



GREG GODWIN  
PARTNER  
Encl.



<b>AGENDA ITEM:</b>	7.2
<b>SUBJECT:</b>	AUDIT REPORT 30 JUNE 2013
<b>PROPONENT:</b>	FINANCE & AUDIT COMMITTEE
<b>SITE:</b>	COUNCIL CHAMBERS
<b>FILE REFERENCE:</b>	403.05 & 305.12
<b>PREVIOUS REFERENCE:</b>	N/A
<b>DATE:</b>	6 FEBRUARY 2014
<b>AUTHOR:</b>	MAURICE BATTILANA

**DISCLOSURE OF INTEREST**

Nil

**BACKGROUND**

The Shire of Chapman Valley has received the Final Audit Report from its Auditors UHY Haines Norton. (Please refer to Final Audit Report submitted as **Attachment 3**).

**COMMENT**

As the Final Audit Report didn't highlight any issues there is nothing to report on or bring to Council attention for further action.

**STATUTORY ENVIRONMENT**

Part 7 *Local Government Act 1995* and the Local Government (Audit) Regulations 1996

**POLICY IMPLICATIONS**

Nil

**FINANCIAL IMPLICATIONS**

Nil

**STRATEGIC IMPLICATIONS**

Nil

**VOTING REQUIREMENTS**

Simple Majority

**STAFF RECOMMENDATION**

The Finance and Audit Committee recommends to Council the Final Audit Report of the Chief Executive Officer the year ending 30 June 2013 be received and it be noted there are no further actions required from the report.

**COMMITTEE / STAFF RECOMMENDATION**

**MOVED: CR COLLINGWOOD                      SECONDED: CR MALUISH**

The Finance and Audit Committee recommends to Council the Final Audit Report of the Chief Executive Officer the year ending 30 June 2013 be received and it be noted there are no further actions required from the report.

**CARRIED**  
Voting 3/0  
Minute Reference FAC 02/14 - 4

**INDEPENDENT AUDITOR'S REPORT  
TO THE ELECTORS OF THE SHIRE OF CHAPMAN VALLEY**

**REPORT ON THE FINANCIAL REPORT**

We have audited the accompanying financial report of the Shire of Chapman Valley, which comprises the statement of financial position as at 30 June 2013, statement of comprehensive income by nature or type, statement of comprehensive income by program, statement of changes in equity, statement of cash flows and the rate setting statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the statement by Chief Executive Officer.

**MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL REPORT**

Management is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended) and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Shire's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Shire's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial report.

We believe the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

**AUDITOR'S OPINION**

In our opinion, the financial report of the Shire of Chapman Valley is in accordance with the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended), including:

- a. giving a true and fair view of the Shire's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
- b. complying with Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

**INDEPENDENT AUDITOR'S REPORT  
TO THE ELECTORS OF THE SHIRE OF CHAPMAN VALLEY (CONTINUED)**

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- a) There are no matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Shire.
- b) No other matters indicating non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law were noted during the course of our audit.
- c) In relation to the Supplementary Ratio Information presented at page 60 of this report, we have reviewed the calculations as presented and nothing has come to our attention to suggest they are not:
  - i) reasonably calculated; and
  - ii) based on verifiable information.
- d) All necessary information and explanations were obtained by us.
- e) All audit procedures were satisfactorily completed in conducting our audit.

UHY HAINES NORTON  
CHARTERED ACCOUNTANTS

  
GREG GODWIN  
PARTNER

Date: 4 December 2013  
Perth, WA

<b>AGENDA ITEM:</b>	7.3
<b>SUBJECT:</b>	COMPLIANCE AUDIT RETURN (2013)
<b>PROPONENT:</b>	FINANCE & AUDIT COMMITTEE
<b>SITE:</b>	COUNCIL CHAMBERS
<b>FILE REFERENCE:</b>	403.05 & 305.12
<b>PREVIOUS REFERENCE:</b>	N/A
<b>DATE:</b>	6 FEBRUARY 2014
<b>AUTHOR:</b>	MAURICE BATTILANA

**DISCLOSURE OF INTEREST**

Nil

**REPORT PURPOSE**

To present the 2013 Compliance Audit Return to the Audit Committee first then Council for adoption, and then forward a certified copy to the Department of Local Government.

**BACKGROUND**

Every Local Government Authority in Western Australia is required to complete the Compliance Audit Return (CAR) each year.

**COMMENT**

A Draft copy of the Shire of Chapman Valley 2013 Compliance Audit Return has been provided to Councillors as an **Attachment 4**.

**STATUTORY ENVIRONMENT**

Local Government Act 1995

**POLICY IMPLICATIONS**

Nil

**FINANCIAL IMPLICATIONS**

Nil

**STRATEGIC IMPLICATIONS**

Nil

**VOTING REQUIRMENTS**

Simple Majority

**COMMITTEE / STAFF RECOMMENDATION**

**MOVED: CR WARR            SECONDED: CR MALUISH**

That the Finance and Audit Committee Recommends to Council that:

- The 2013 Compliance Audit Return be signed by the CEO and Shire President
- The 2013 Compliance Audit Return be received and recorded in the minutes of Council
- The 2013 Compliance Audit Return be submitted to the Department of Local Government.

**CARRIED**  
Voting 3/0  
Minute Reference FAC 02/14 - 5

Department of Local Government - Compliance Audit Return



Government of Western Australia  
Department of Local Government

### Chapman Valley - Compliance Audit Return 2013

Commercial Enterprises by Local Governments					
No	Reference	Question	Response	Comments	Respondent
1	s3.59(2)(a)(b)(c) F&G Reg 7,9	Has the local government prepared a business plan for each major trading undertaking in 2013.	N/A		Maurice Battilana
2	s3.59(2)(a)(b)(c) F&G Reg 7,10	Has the local government prepared a business plan for each major land transaction that was not exempt in 2013.	N/A		Maurice Battilana
3	s3.59(2)(a)(b)(c) F&G Reg 7,10	Has the local government prepared a business plan before entering into each land transaction that was preparatory to entry into a major land transaction in 2013.	N/A		Maurice Battilana
4	s3.59(4)	Has the local government given Statewide public notice of each proposal to commence a major trading undertaking or enter into a major land transaction for 2013.	N/A		Maurice Battilana
5	s3.59(5)	Did the Council, during 2013, resolve to proceed with each major land transaction or trading undertaking by absolute majority.	N/A		Maurice Battilana

1 of 8



Delegation of Power / Duty					
No	Reference	Question	Response	Comments	Respondent
1	s5.16, 5.17, 5.18	Were all delegations to committees resolved by absolute majority.	Yes		Maurice Battilana
2	s5.16, 5.17, 5.18	Were all delegations to committees in writing.	No	No record of written delegation to Landcare Committee. Now addressed.	Maurice Battilana
3	s5.16, 5.17, 5.18	Were all delegations to committees within the limits specified in section 5.17.	Yes		Maurice Battilana
4	s5.16, 5.17, 5.18	Were all delegations to committees recorded in a register of delegations.	Yes		Maurice Battilana
5	s5.18	Has Council reviewed delegations to its committees in the 2012/2013 financial year.	Yes		Maurice Battilana
6	s5.42(1), 5.43 Admin Reg 18G	Did the powers and duties of the Council delegated to the CEO exclude those as listed in section 5.43 of the Act.	Yes		Maurice Battilana
7	s5.42(1)(2) Admin Reg 18G	Were all delegations to the CEO resolved by an absolute majority.	Yes		Maurice Battilana
8	s5.42(1)(2) Admin Reg 18G	Were all delegations to the CEO in writing.	Yes		Maurice Battilana
9	s5.44(2)	Were all delegations by the CEO to any employee in writing.	Yes		Maurice Battilana
10	s5.45(1)(b)	Were all decisions by the Council to amend or revoke a delegation made by absolute majority.	Yes		Maurice Battilana
11	s5.46(1)	Has the CEO kept a register of all delegations made under the Act to him and to other employees.	Yes		Maurice Battilana
12	s5.46(2)	Were all delegations made under Division 4 of Part 5 of the Act reviewed by the delegator at least once during the 2012/2013 financial year.	Yes		Maurice Battilana
13	s5.46(3) Admin Reg 19	Did all persons exercising a delegated power or duty under the Act keep, on all occasions, a written record as required.	No	No evidence of written record. Now addressed.	Maurice Battilana

  

Disclosure of Interest					
No	Reference	Question	Response	Comments	Respondent
1	s5.67	If a member disclosed an interest, did he/she ensure that they did not remain present to participate in any discussion or decision-making procedure relating to the matter in which the interest was disclosed (not including participation approvals granted under s5.68).	Yes		Maurice Battilana
2	s5.68(2)	Were all decisions made under section 5.68(1), and the extent of participation allowed, recorded in the minutes of Council and Committee meetings.	Yes		Maurice Battilana



No	Reference	Question	Response	Comments	Respondent
3	s5.73	Were disclosures under section 5.65 or 5.70 recorded in the minutes of the meeting at which the disclosure was made.	Yes		Maurice Battilana
4	s5.75(1) Admin Reg 22 Form 2	Was a primary return lodged by all newly elected members within three months of their start day.	Yes		Maurice Battilana
5	s5.75(1) Admin Reg 22 Form 2	Was a primary return lodged by all newly designated employees within three months of their start day.	Yes		Maurice Battilana
6	s5.76(1) Admin Reg 23 Form 3	Was an annual return lodged by all continuing elected members by 31 August 2013.	Yes		Maurice Battilana
7	s5.76(1) Admin Reg 23 Form 3	Was an annual return lodged by all designated employees by 31 August 2013.	Yes		Maurice Battilana
8	s5.77	On receipt of a primary or annual return, did the CEO, (or the Mayor/President in the case of the CEO's return) on all occasions, give written acknowledgment of having received the return.	Yes		Maurice Battilana
9	s5.88(1)(2) Admin Reg 28	Did the CEO keep a register of financial interests which contained the returns lodged under section 5.75 and 5.76	Yes		Maurice Battilana
10	s5.88(1)(2) Admin Reg 28	Did the CEO keep a register of financial interests which contained a record of disclosures made under sections 5.65, 5.70 and 5.71, in the form prescribed in Administration Regulation 28.	Yes		Maurice Battilana
11	s5.88 (3)	Has the CEO removed all returns from the register when a person ceased to be a person required to lodge a return under section 5.75 or 5.76.	Yes		Maurice Battilana
12	s5.88(4)	Have all returns lodged under section 5.75 or 5.76 and removed from the register, been kept for a period of at least five years, after the person who lodged the return ceased to be a council member or designated employee.	Yes		Maurice Battilana
13	s5.103 Admin Reg 34C & Rules of Conduct Reg 11	Where an elected member or an employee disclosed an interest in a matter discussed at a Council or committee meeting where there was a reasonable belief that the impartiality of the person having the interest would be adversely affected, was it recorded in the minutes.	Yes		Maurice Battilana
14	s5.70(2)	Where an employee had an interest in any matter in respect of which the employee provided advice or a report directly to the Council or a Committee, did that person disclose the nature of that interest when giving the advice or report.	Yes		Maurice Battilana



No	Reference	Question	Response	Comments	Respondent
15	s5.70(3)	Where an employee disclosed an interest under s5.70(2), did that person also disclose the extent of that interest when required to do so by the Council or a Committee.	Yes		Maurice Battilana
16	s5.103(3) Admin Reg 34B	Has the CEO kept a register of all notifiable gifts received by Council members and employees.	Yes		Maurice Battilana

#### Disposal of Property

No	Reference	Question	Response	Comments	Respondent
1	s3.58(3)	Was local public notice given prior to disposal for any property not disposed of by public auction or tender (except where excluded by Section 3.58(5)).	Yes		Maurice Battilana
2	s3.58(4)	Where the local government disposed of property under section 3.58(3), did it provide details, as prescribed by section 3.58(4), in the required local public notice for each disposal of property.	Yes		Maurice Battilana

#### Elections

No	Reference	Question	Response	Comments	Respondent
1	Elect Reg 30G (1)	Did the CEO establish and maintain an electoral gift register and ensure that all 'disclosure of gifts' forms completed by candidates and received by the CEO were placed on the electoral gift register at the time of receipt by the CEO and in a manner that clearly identifies and distinguishes the candidates.	Yes		Maurice Battilana

#### Finance

No	Reference	Question	Response	Comments	Respondent
1	s7.1A	Has the local government established an audit committee and appointed members by absolute majority in accordance with section 7.1A of the Act.	Yes		Maurice Battilana
2	s7.1B	Where a local government determined to delegate to its audit committee any powers or duties under Part 7 of the Act, did it do so by absolute majority.	N/A		Maurice Battilana
3	s7.3	Was the person(s) appointed by the local government to be its auditor, a registered company auditor.	Yes		Maurice Battilana
4	s7.3	Was the person(s) appointed by the local government to be its auditor, an approved auditor.	Yes		Maurice Battilana
5	s7.3, 7.6(3)	Was the person or persons appointed by the local government to be its auditor, appointed by an absolute majority decision of Council.	Yes		Maurice Battilana

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No	Reference	Question	Response	Comments	Respondent
6	Audit Reg 10	Was the Auditor's report for the financial year ended 30 June 2013 received by the local government within 30 days of completion of the audit.	Yes		Maurice Battilana
7	s7.9(1)	Was the Auditor's report for 2012/2013 received by the local government by 31 December 2013.	Yes		Maurice Battilana
8	S7.12A(3), (4)	Where the local government determined that matters raised in the auditor's report prepared under s7.9 (1) of the Act required action to be taken by the local government, was that action undertaken.	N/A	No matters raised in Audit Report	Maurice Battilana
9	S7.12A(3), (4)	Where the local government determined that matters raised in the auditor's report (prepared under s7.9 (1) of the Act) required action to be taken by the local government, was a report prepared on any actions undertaken.	N/A	No matters raised in Audit Report	Maurice Battilana
10	S7.12A(3), (4)	Where the local government determined that matters raised in the auditor's report (prepared under s7.9 (1) of the Act) required action to be taken by the local government, was a copy of the report forwarded to the Minister by the end of the financial year or 6 months after the last report prepared under s7.9 was received by the local government whichever was the latest in time.	N/A	No matters raised in Audit Report	Maurice Battilana
11	Audit Reg 7	Did the agreement between the local government and its auditor include the objectives of the audit.	Yes		Maurice Battilana
12	Audit Reg 7	Did the agreement between the local government and its auditor include the scope of the audit.	Yes		Maurice Battilana
13	Audit Reg 7	Did the agreement between the local government and its auditor include a plan for the audit.	Yes		Maurice Battilana
14	Audit Reg 7	Did the agreement between the local government and its auditor include details of the remuneration and expenses to be paid to the auditor.	Yes		Maurice Battilana
15	Audit Reg 7	Did the agreement between the local government and its auditor include the method to be used by the local government to communicate with, and supply information to, the auditor.	Yes		Maurice Battilana



Local Government Employees					
No	Reference	Question	Response	Comments	Respondent
1	Admin Reg 18C	Did the local government approve the process to be used for the selection and appointment of the CEO before the position of CEO was advertised.	Yes		Maurice Battilana
2	s5.36(4) s5.37(3), Admin Reg 18A	Were all vacancies for the position of CEO and other designated senior employees advertised and did the advertising comply with s.5.36(4), 5.37(3) and Admin Reg 18A.	Yes		Maurice Battilana
3	Admin Reg 18F	Was the remuneration and other benefits paid to a CEO on appointment the same remuneration and benefits advertised for the position of CEO under section 5.36(4).	Yes		Maurice Battilana
4	Admin Regs 18E	Did the local government ensure checks were carried out to confirm that the information in an application for employment was true (applicable to CEO only).	Yes		Maurice Battilana
5	s5.37(2)	Did the CEO inform council of each proposal to employ or dismiss a designated senior employee.	Yes		Maurice Battilana

Official Conduct					
No	Reference	Question	Response	Comments	Respondent
1	s5.120	Where the CEO is not the complaints officer, has the local government designated a senior employee, as defined under s5.37, to be its complaints officer.	N/A	CEO is designated Complaints Officer	Maurice Battilana
2	s5.121(1)	Has the complaints officer for the local government maintained a register of complaints which records all complaints that result in action under s5.110(6)(b) or (c).	Yes		Maurice Battilana
3	s5.121(2)(a)	Does the complaints register maintained by the complaints officer include provision for recording of the name of the council member about whom the complaint is made.	Yes		Maurice Battilana
4	s5.121(2)(b)	Does the complaints register maintained by the complaints officer include provision for recording the name of the person who makes the complaint.	Yes		Maurice Battilana
5	s5.121(2)(c)	Does the complaints register maintained by the complaints officer include provision for recording a description of the minor breach that the standards panel finds has occurred.	Yes		Maurice Battilana
6	s5.121(2)(d)	Does the complaints register maintained by the complaints officer include the provision to record details of the action taken under s5.110(6)(b) (c).	Yes		Maurice Battilana

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Tenders for Providing Goods and Services					
No	Reference	Question	Response	Comments	Respondent
1	s3.57 F&G Reg 11	Did the local government invite tenders on all occasions (before entering into contracts for the supply of goods or services) where the consideration under the contract was, or was expected to be, worth more than the consideration stated in Regulation 11(1) of the Local Government (Functions & General) Regulations (Subject to Functions and General Regulation 11(2)).	Yes	This was based upon expenditure within the Financial Year, not over an infinite period as is being advocated by the DLG&C Probity Auditors. Otherwise everything would need to go to tender.	Maurice Battilana
2	F&G Reg 12	Did the local government comply with F&G Reg 12 when deciding to enter into multiple contracts rather than inviting tenders for a single contract.	Yes		Maurice Battilana
3	F&G Reg 14(1)	Did the local government invite tenders via Statewide public notice.	Yes		Maurice Battilana
4	F&G Reg 14, 15 & 16	Did the local government's advertising and tender documentation comply with F&G Regs 14, 15 & 16.	Yes		Maurice Battilana
5	F&G Reg 14(5)	If the local government sought to vary the information supplied to tenderers, was every reasonable step taken to give each person who sought copies of the tender documents or each acceptable tenderer, notice of the variation.	N/A	No variations sought.	Maurice Battilana
6	F&G Reg 18(1)	Did the local government reject the tenders that were not submitted at the place, and within the time specified in the invitation to tender.	N/A		Maurice Battilana
7	F&G Reg 18 (4)	In relation to the tenders that were not rejected, did the local government assess which tender to accept and which tender was most advantageous to the local government to accept, by means of written evaluation criteria.	Yes		Maurice Battilana
8	F&G Reg 17	Did the information recorded in the local government's tender register comply with the requirements of F&G Reg 17.	Yes	Register included consideration of all tenders, not just the successful tender.	Maurice Battilana
9	F&G Reg 19	Was each tenderer sent written notice advising particulars of the successful tender or advising that no tender was accepted.	Yes		Maurice Battilana
10	F&G Reg 21 & 22	Did the local governments's advertising and expression of interest documentation comply with the requirements of F&G Regs 21 and 22.	N/A		Maurice Battilana
11	F&G Reg 23(1)	Did the local government reject the expressions of interest that were not submitted at the place and within the time specified in the notice.	N/A		Maurice Battilana



No	Reference	Question	Response	Comments	Respondent
12	F&G Reg 23(4)	After the local government considered expressions of interest, did the CEO list each person considered capable of satisfactorily supplying goods or services.	N/A		Maurice Battilana
13	F&G Reg 24	Was each person who submitted an expression of interest, given a notice in writing in accordance with Functions & General Regulation 24.	N/A		Maurice Battilana
14	F&G Reg 24E	Where the local government gave a regional price preference in relation to a tender process, did the local government comply with the requirements of F&G Reg 24E in relation to the preparation of a regional price preference policy (only if a policy had not been previously adopted by Council).	N/A		Maurice Battilana
15	F&G Reg 11A	Does the local government have a current purchasing policy in relation to contracts for other persons to supply goods or services where the consideration under the contract is, or is expected to be, \$100,000 or less.	Yes		Maurice Battilana

COPY ONLY

**8.0 Information Items**

Nil

**9.0 General Business**

Nil

**10.0 Closure**

The Chairman thanked Elected Members and Staff for their attendance and closed the meeting at 3.11pm

# Chief Executive Officer February 2015

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## Contents

### 7.0 AGENDA ITEMS

- 7.1 Management Report 30 June 2014
- 7.2 Audit Report 30 June 2014
- 7.3 Compliance Audit Report
- 7.4 Internal Audit

<b>AGENDA ITEM:</b>	<b>7.1</b>
<b>SUBJECT:</b>	<b>MANAGEMENT REPORT 30 JUNE 2014</b>
<b>PROPONENT:</b>	<b>FINANCE &amp; AUDIT COMMITTEE</b>
<b>SITE:</b>	<b>COUNCIL CHAMBERS</b>
<b>FILE REFERENCE:</b>	<b>305.05</b>
<b>PREVIOUS REFERENCE:</b>	<b>N/A</b>
<b>DATE:</b>	<b>2<sup>nd</sup> FEBRUARY 2015</b>
<b>AUTHOR:</b>	<b>MAURICE BATTILANA &amp; KRISTY WILLIAMS</b>

## DISCLOSURE OF INTEREST

Nil

## BACKGROUND

The Shire of Chapman Valley has received the Management Report from its Auditors UHY Haines Norton. (Please refer to Management Report Letter submitted as **Attachment 2**).

The following Management Issues were raised:

- Debt Service Cover Ratio
- Asset Renewal Funding Ratio
- Revaluation of Road Infrastructure Assets
- Tender Register

## COMMENT

Below is an extract from the Management Report and Staff Comments associated with each issue raised:

- Debt Service Cover Ratio

This ratio is below the target level but is trending upwards, however, this ratio is budgeted to trend downwards in 2014-15.

This ratio measures Council's ability to service debt out of its uncommitted or general purpose funds available from its operations.

Whilst the reduction in the ratio is due to a reduction in the operating surplus rather than an increase in debt repayments, Council should consider all required uses of its operating funds when making decisions on acceptable debt levels.

### Comments

As stated in the Management Report the Department of Local Government & Community (DLG&C) Target for *Debt Service Cover Ratio* is  $\geq 5$ .

UHY Haines Norton recommends this Target should be  $\geq 15$  (based on their experience).

No action is considered necessary as the Shire's current *Debt Service Cover Ratio* is 5.449, which is consistent with the Target set by the DLG&C.

Situation will continue to be monitored.

- Asset Renewal Funding Ratio

This ratio is below the target level but is trending upwards.

This ratio indicates whether Council's planned capital renewal expenditure over the next 10 years per its Long Term Financial Plan is sufficient to meet the required capital renewal expenditure over the next 10 years per its Asset Management Plans.

Interpretation of this ratio should be considered together with the Asset Sustainability Ratio (ASR) (Low risk at 2.146) and the Asset Consumption Ratio (ACR) (Low risk at 0.785).

Whilst both the ASR and ACR for the year suggest Council is currently replacing or renewing its existing assets at an acceptable rate, Council should identify the reasons why its Asset Management Plans require more renewal expenditure than is provided for in its Long Term Financial Plan.

Comments

As this Ratio is trending in the right direction no immediate action is considered necessary.

A review of the Shire's Long Term Financial Plan may also have a positive effect on this ratio.

Situation will continue to be monitored.

- Revaluation of Road Infrastructure Assets

Council has adopted a policy of re-valuing roads with sufficient regularity to ensure the carrying amount of each road asset is fairly stated at reporting date. We note the last revaluation was carried out in 2007.

This matter was raised in our prior year management report and it was noted the matter has been deferred further to allow for it to be performed with the mandatory requirement to adopt fair value accounting for infrastructure in 2014-15.

Comments

Funding has been allocated in the 14/15 Financial Year to undertake the revaluation.

- Tender Registration

For tenders 3-2013/14, 4/2013/14, 5-2013/14 and 6-2013/14, the following items were not included in the register:

- i) The amount of the consideration or a summary of the amounts of consideration sought in the tender accepted by Council; and
- ii) The name of the successful tenderer.

To help ensure compliance with Local Government (Function and General) Regulation 17, a process should be implemented to help ensure the tender register is promptly updated and these requirements are correctly addressed.

Comments

Internal procedures have been introduced to ensure the Tender Register complies with legislation



**STATUTORY ENVIRONMENT**

Part 7 *Local Government Act 1995* and the Local Government (Audit) Regulations 1996

**POLICY IMPLICATIONS**

None applicable

**FINANCIAL IMPLICATIONS**

The long term financial viability of the Shire is of importance for future service delivery levels provided to the Shire's constituents.

**STRATEGIC IMPLICATIONS**

None applicable

**VOTING REQUIREMENTS**

Simple Majority

**STAFF RECOMMENDATION**

The Finance and Audit Committee recommends to Council the Management Report for year ending 30 June 2014 be received and, other than monitoring the levels and trends of all ratios, there are no actions required out of the report.

1 December 2014

Cr J Collingwood  
The Shire President  
Shire of Chapman Valley  
PO Box 1  
NABAWA WA 6532



Dear Cr Collingwood

**MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2014**

We advise that we have completed our audit procedures for the year ended 30 June 2014 and enclose our Audit Report.

We are required under the Local Government Audit Regulations to report certain compliance matters in our audit report. Other matters which arise during the course of our audit that we wish to bring to Council's attention are raised in this management report.

It should be appreciated that our audit procedures are designed primarily to enable us to form an opinion on the financial statements and therefore may not bring to light all weaknesses in systems and procedures which may exist. However, we aim to use our knowledge of the Shire's organisation gained during our work to make comments and suggestions which, we hope, will be useful to you.

**COMMENT ON RATIOS**

Last year (the year ended 30 June 2013) saw the introduction of new financial reporting ratios for local governments in Western Australia.

This year (the year ended 30 June 2014) is the second year of these new ratios and the information relating to these ratios is summarised below:

	Target Ratio <sup>1</sup>	Council's Actual Ratios			3 Year Trend <sup>2</sup>
		2014	2013	2012	
Current Ratio	≥ 1	1.563	1.844	1.160	↑
Asset Sustainability Ratio	≥ 1.1	2.146	1.467	2.801	↑
Debt Service Cover Ratio	≥ 15	5.449	1.219*	5.744	↑
Operating Surplus Ratio	≥ 0.15	0.013	(0.373)*	0.111	↑
Own Source Revenue Coverage Ratio	≥ 0.9	0.819	0.506*	0.470	↑
Asset Consumption Ratio	≥ 0.75	0.785	0.825	N/A	↓
Asset Renewal Funding Ratio	≥ 1.05	0.705	0.686	N/A	↑

**Key**

Above target as per guidelines	Within acceptable banding as per guidelines	Below acceptable banding as per guidelines
--------------------------------	---------------------------------------------	--------------------------------------------

<sup>1</sup> Target ratios per Department of Local Government and Communities Guidelines (DLGC) except the Debt Service Cover Ratio which is a target devised by UHY Haines Norton (and based on experience). For information, DLGC Guidelines establish a target Debt Service Cover Ratio of 5.

<sup>2</sup> The 3 year trend compares the 2014 ratio to the average of the last 3 years (except for the Asset Consumption and Asset Renewal Funding Ratios which are the 2 year trend).

\* Adjusted for "one-off" non-cash items.

#### COMMENT ON RATIOS (CONTINUED)

Ratios provide useful information when compared to industry and internal benchmarks and assist in identifying trends. Whilst not conclusive in themselves, understanding ratios, their trends and how they interact is beneficial for the allocation of scarce resources and planning for the future.

We provide commentary on specific ratios that are below target (identified as red in the table above) as follows:

##### **Debt Service Cover Ratio**

This ratio is below the target level but is trending upwards, however, this ratio is budgeted to trend downwards in 2014-15.

This ratio measures Council's ability to service debt out of its uncommitted or general purpose funds available from its operations.

Whilst the reduction in the ratio is due to a reduction in the operating surplus rather than an increase in debt repayments, Council should consider all required uses of its operating funds when making decisions on acceptable debt levels.

##### **Asset Renewal Funding Ratio**

This ratio is below the target level but is trending upwards.

This ratio indicates whether Council's planned capital renewal expenditure over the next 10 years per its Long Term Financial Plan is sufficient to meet the required capital renewal expenditure over the next 10 years per its Asset Management Plans.

Interpretation of this ratio should be considered together with the Asset Sustainability Ratio (ASR) (Low risk at 2.146) and the Asset Consumption Ratio (ACR) (Low risk at 0.785).

Whilst both the ASR and ACR for the year suggest Council is currently replacing or renewing its existing assets at an acceptable rate, Council should identify the reasons why its Asset Management Plans require more renewal expenditure than is provided for in its Long Term Financial Plan.

##### **Summary**

Whilst all ratios (with the exception of the Current Ratio) are new and it may take some time for their implication to be fully understood, they should be duly considered in the context of the Shire's particular circumstances as part of its overall financial management.

We will continue to monitor the ratios in future financial years and suggest it is prudent for Council and management to do so also as they strive to manage the scarce resources of the Shire.

#### REVALUATION OF ROAD INFRASTRUCTURE ASSETS

Council has adopted a policy of re-valuing roads with sufficient regularity to ensure the carrying amount of each road asset is fairly stated at reporting date. We note the last revaluation was carried out in 2007.

This matter was raised in our prior year management report and it was noted the matter has been deferred further to allow for it to be performed with the mandatory requirement to adopt fair value accounting for infrastructure in 2014-15.

**TENDER REGISTER**

For tenders 3-2013/14, 4/2013/14, 5-2013/14 and 6-2013/14, the following items were not included in the register:

- i) The amount of the consideration or a summary of the amounts of consideration sought in the tender accepted by Council; and
- ii) The name of the successful tenderer.

To help ensure compliance with Local Government (Function and General) Regulation 17, a process should be implemented to help ensure the tender register is promptly updated and these requirements are correctly addressed.

There were no other matters we wish to bring to your attention.

**UNCORRECTED MISSTATEMENTS**

We advise there were no uncorrected misstatements noted during the course of our audit.

We take this opportunity to thank the Chief Executive Officer, the manager of finance & corporate services and all staff for the assistance provided during the audit.

Should you wish to discuss any matter relating to the audit or any other matter, please do not hesitate to contact us.

Yours faithfully



GREG GODWIN  
PARTNER

Encl.

<b>AGENDA ITEM:</b>	<b>7.2</b>
<b>SUBJECT:</b>	<b>AUDIT REPORT 30 JUNE 2014</b>
<b>PROPONENT:</b>	<b>FINANCE &amp; AUDIT COMMITTEE</b>
<b>SITE:</b>	<b>COUNCIL CHAMBERS</b>
<b>FILE REFERENCE:</b>	<b>403.05 &amp; 305.12</b>
<b>PREVIOUS REFERENCE:</b>	<b>N/A</b>
<b>DATE:</b>	<b>2<sup>nd</sup> FEBRUARY 2015</b>
<b>AUTHOR:</b>	<b>MAURICE BATTILANA</b>

#### **DISCLOSURE OF INTEREST**

Nil

#### **BACKGROUND**

The Shire of Chapman Valley has received the Final Audit Report from its Auditors UHY Haines Norton. (Please refer to Final Audit Report submitted as **Attachment 3**).

#### **COMMENT**

As the Final Audit Report didn't highlight any issues there is nothing to report on or bring to Council attention for further action.

#### **STATUTORY ENVIRONMENT**

Part 7 *Local Government Act 1995* and the Local Government (Audit) Regulations 1996

#### **POLICY IMPLICATIONS**

Nil

#### **FINANCIAL IMPLICATIONS**

Nil

#### **STRATEGIC IMPLICATIONS**

Nil

#### **VOTING REQUIREMENTS**

Simple Majority

#### **STAFF RECOMMENDATION**

The Finance and Audit Committee recommends to Council the Final Audit Report of the Chief Executive Officer the year ending 30 June 2014 be received and it be noted there are no further actions required from the report.

**INDEPENDENT AUDITOR'S REPORT  
TO THE ELECTORS OF THE SHIRE OF CHAPMAN VALLEY**

**REPORT ON THE FINANCIAL REPORT**

We have audited the accompanying financial report of the Shire of Chapman Valley, which comprises the statement of financial position as at 30 June 2014, statement of comprehensive income by nature or type, statement of comprehensive income by program, statement of changes in equity, statement of cash flows and the rate setting statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the statement by Chief Executive Officer.

**MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL REPORT**

Management is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended) and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Shire's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Shire's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report.

We believe the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

**AUDITOR'S OPINION**

In our opinion, the financial report of the Shire of Chapman Valley is in accordance with the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended), including:

- a) giving a true and fair view of the Shire's financial position as at 30 June 2014 and of its financial performance and its cash flows for the year ended on that date; and
- b) complying with Australian Accounting Standards (including Australian Accounting Interpretations).

**INDEPENDENT AUDITOR'S REPORT  
TO THE ELECTORS OF THE SHIRE OF CHAPMAN VALLEY (CONTINUED)**

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- a) There are no matters that in our opinion indicate significant adverse trends in the financial position or financial management practices of the Shire.
- b) No matters indicating non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law were noted during the course of our audit.
- c) In relation to the Supplementary Ratio Information presented at page 63 of this report, we have reviewed the calculation as presented and nothing has come to our attention to suggest it is not:
  - i) reasonably calculated; and
  - ii) based on verifiable information.
- d) All necessary information and explanations were obtained by us.
- e) All audit procedures were satisfactorily completed in conducting our audit.

UHY HAINES NORTON  
CHARTERED ACCOUNTANTS

  
GREG GODWIN  
PARTNER

Date: 1 December 2014  
Perth, WA

<b>AGENDA ITEM:</b>	<b>7.3</b>
<b>SUBJECT:</b>	<b>COMPLIANCE AUDIT RETURN (2014)</b>
<b>PROPONENT:</b>	<b>FINANCE &amp; AUDIT COMMITTEE</b>
<b>SITE:</b>	<b>COUNCIL CHAMBERS</b>
<b>FILE REFERENCE:</b>	<b>403.05 &amp; 305.12</b>
<b>PREVIOUS REFERENCE:</b>	<b>N/A</b>
<b>DATE:</b>	<b>2<sup>nd</sup> FEBRUARY 2015</b>
<b>AUTHOR:</b>	<b>MAURICE BATTILANA</b>

#### **DISCLOSURE OF INTEREST**

Nil

#### **REPORT PURPOSE**

To present the 2014 Compliance Audit Return to the Audit Committee first then Council for adoption, and then forward a certified copy to the Department of Local Government.

#### **BACKGROUND**

Every Local Government Authority in Western Australia is required to complete the Compliance Audit Return (CAR) each year.

#### **COMMENT**

A Draft copy of the Shire of Chapman Valley 2014 Compliance Audit Return has been provided to Councillors as an ***Attachment 4***.

#### **STATUTORY ENVIRONMENT**

Local Government Act 1995

#### **POLICY IMPLICATIONS**

Nil

#### **FINANCIAL IMPLICATIONS**

Nil

#### **STRATEGIC IMPLICATIONS**

Nil

#### **VOTING REQUIRMENTS**

Simple Majority

#### **STAFF RECOMMENDATION**

That the Finance and Audit Committee Recommends to Council that:

- The 2014 Compliance Audit Return be signed by the CEO and Shire President
- The 2014 Compliance Audit Return be received and recorded in the minutes of Council
- The 2014 Compliance Audit Return be submitted to the Department of Local Government.



Department of Local Government and Communities - Compliance Audit Return



Government of Western Australia  
Department of Local Government and Communities

### Chapman Valley - Compliance Audit Return 2014

Commercial Enterprises by Local Governments					
No	Reference	Question	Response	Comments	Respondent
1	s3.59(2)(a)(b)(c) F&G Reg 7,9	Has the local government prepared a business plan for each major trading undertaking in 2014.	N/A		Maurice Battilana
2	s3.59(2)(a)(b)(c) F&G Reg 7,10	Has the local government prepared a business plan for each major land transaction that was not exempt in 2014.	N/A		Maurice Battilana
3	s3.59(2)(a)(b)(c) F&G Reg 7,10	Has the local government prepared a business plan before entering into each land transaction that was preparatory to entry into a major land transaction in 2014.	N/A		Maurice Battilana
4	s3.59(4)	Has the local government given Statewide public notice of each proposal to commence a major trading undertaking or enter into a major land transaction for 2014.	N/A		Maurice Battilana
5	s3.59(5)	Did the Council, during 2014, resolve to proceed with each major land transaction or trading undertaking by absolute majority.	N/A		Maurice Battilana
Delegation of Power / Duty					
No	Reference	Question	Response	Comments	Respondent
1	s5.16, 5.17, 5.18	Were all delegations to committees resolved by absolute majority.	Yes		Maurice Battilana
2	s5.16, 5.17, 5.18	Were all delegations to committees in writing.	N/A		Maurice Battilana
3	s5.16, 5.17, 5.18	Were all delegations to committees within the limits specified in section 5.17.	N/A		Maurice Battilana
4	s5.16, 5.17, 5.18	Were all delegations to committees recorded in a register of delegations.	N/A		Maurice Battilana
5	s5.18	Has Council reviewed delegations to its committees in the 2013/2014 financial year.	Yes		Maurice Battilana
6	s5.42(1),5.43 Admin Reg 18G	Did the powers and duties of the Council delegated to the CEO exclude those as listed in section 5.43 of the Act.	Yes		Maurice Battilana
7	s5.42(1)(2) Admin Reg 18G	Were all delegations to the CEO resolved by an absolute majority.	Yes		Maurice Battilana
8	s5.42(1)(2) Admin Reg 18G	Were all delegations to the CEO in writing.	Yes		Maurice Battilana
9	s5.44(2)	Were all delegations by the CEO to any employee in writing.	Yes		Maurice Battilana

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10	s5.45(1)(b)	Were all decisions by the Council to amend or revoke a delegation made by absolute majority.	Yes	Maurice Battilana
11	s5.46(1)	Has the CEO kept a register of all delegations made under the Act to him and to other employees.	Yes	Maurice Battilana
12	s5.46(2)	Were all delegations made under Division 4 of Part 5 of the Act reviewed by the delegator at least once during the 2013/2014 financial year.	Yes	Maurice Battilana
13	s5.46(3) Admin Reg 19	Did all persons exercising a delegated power or duty under the Act keep, on all occasions, a written record as required.	Yes	Maurice Battilana

Disclosure of Interest					
No	Reference	Question	Response	Comments	Respondent
1	s5.67	If a member disclosed an interest, did he/she ensure that they did not remain present to participate in any discussion or decision-making procedure relating to the matter in which the interest was disclosed (not including participation approvals granted under s5.68).	Yes		Maurice Battilana
2	s5.68(2)	Were all decisions made under section 5.68(1), and the extent of participation allowed, recorded in the minutes of Council and Committee meetings.	Yes		Maurice Battilana
3	s5.73	Were disclosures under section 5.65 or 5.70 recorded in the minutes of the meeting at which the disclosure was made.	Yes		Maurice Battilana
4	s5.75(1) Admin Reg 22 Form 2	Was a primary return lodged by all newly elected members within three months of their start day.	Yes		Maurice Battilana
5	s5.75(1) Admin Reg 22 Form 2	Was a primary return lodged by all newly designated employees within three months of their start day.	Yes		Maurice Battilana
6	s5.76(1) Admin Reg 23 Form 3	Was an annual return lodged by all continuing elected members by 31 August 2014.	Yes		Maurice Battilana
7	s5.76(1) Admin Reg 23 Form 3	Was an annual return lodged by all designated employees by 31 August 2014.	Yes		Maurice Battilana
8	s5.77	On receipt of a primary or annual return, did the CEO, (or the Mayor/ President in the case of the CEO's return) on all occasions, give written acknowledgment of having received	Yes		Maurice Battilana



			the return.		
9	s5.88(1)(2) Admin Reg 28	Admin	Did the CEO keep a register of financial interests which contained the returns lodged under section 5.75 and 5.76	Yes	Maurice Battilana
10	s5.88(1)(2) Admin Reg 28	Admin	Did the CEO keep a register of financial interests which contained a record of disclosures made under sections 5.65, 5.70 and 5.71, in the form prescribed in Administration Regulation 28.	Yes	Maurice Battilana
11	s5.88 (3)		Has the CEO removed all returns from the register when a person ceased to be a person required to lodge a return under section 5.75 or 5.76.	Yes	Maurice Battilana
12	s5.88(4)		Have all returns lodged under section 5.75 or 5.76 and removed from the register, been kept for a period of at least five years, after the person who lodged the return ceased to be a council member or designated employee.	Yes	Maurice Battilana
13	s5.103 Admin Reg 34C & Rules of Conduct Reg 11	Admin	Where an elected member or an employee disclosed an interest in a matter discussed at a Council or committee meeting where there was a reasonable belief that the impartiality of the person having the interest would be adversely affected, was it recorded in the minutes.	Yes	Maurice Battilana
14	s5.70(2)		Where an employee had an interest in any matter in respect of which the employee provided advice or a report directly to the Council or a Committee, did that person disclose the nature of that interest when giving the advice or report.	Yes	Maurice Battilana
15	s5.70(3)		Where an employee disclosed an interest under s5.70(2), did that person also disclose the extent of that interest when required to do so by the Council or a Committee.	Yes	Maurice Battilana
16	s5.103(3) Admin Reg 34B	Admin	Has the CEO kept a register of all notifiable gifts received by Council members and employees.	Yes	Maurice Battilana

**Disposal of Property**

No	Reference	Question	Response	Comments	Respondent
1	s3.58(3)	Was local public notice given prior to disposal for any property not disposed of by public auction or tender (except where excluded by Section 3.58(5)).	Yes		Maurice Battilana
2	s3.58(4)	Where the local government disposed of property under section 3.58(3), did it provide details, as prescribed by section 3.58(4), in the required local public notice for each disposal of property.	Yes		Maurice Battilana



<b>Elections</b>					
<b>No</b>	<b>Reference</b>	<b>Question</b>	<b>Response</b>	<b>Comments</b>	<b>Respondent</b>
1	Elect Reg 30G (1)	Did the CEO establish and maintain an electoral gift register and ensure that all 'disclosure of gifts' forms completed by candidates and received by the CEO were placed on the electoral gift register at the time of receipt by the CEO and in a manner that clearly identifies and distinguishes the candidates.	Yes		Maurice Battilana
<b>Finance</b>					
<b>No</b>	<b>Reference</b>	<b>Question</b>	<b>Response</b>	<b>Comments</b>	<b>Respondent</b>
1	s7.1A	Has the local government established an audit committee and appointed members by absolute majority in accordance with section 7.1A of the Act.	Yes		Maurice Battilana
2	s7.1B	Where a local government determined to delegate to its audit committee any powers or duties under Part 7 of the Act, did it do so by absolute majority.	N/A		Maurice Battilana
3	s7.3	Was the person(s) appointed by the local government to be its auditor, a registered company auditor.	Yes		Maurice Battilana
4	s7.3	Was the person(s) appointed by the local government to be its auditor, an approved auditor.	Yes		Maurice Battilana
5	s7.3, 7.6(3)	Was the person or persons appointed by the local government to be its auditor, appointed by an absolute majority decision of Council.	Yes		Maurice Battilana
6	Audit Reg 10	Was the Auditor's report for the financial year ended 30 June 2014 received by the local government within 30 days of completion of the audit.	Yes		Maurice Battilana
7	s7.9(1)	Was the Auditor's report for 2013/2014 received by the local government by 31 December 2014.	Yes		Maurice Battilana
8	S7.12A(3), (4)	Where the local government determined that matters raised in the auditor's report prepared under s7.9(1) of the Act required action to be taken by the local government, was that action undertaken.	N/A		Maurice Battilana
9	S7.12A(3), (4)	Where the local government determined that matters raised in the auditor's report (prepared under s7.9(1) of the Act) required action to be taken by the local government, was a report prepared on any actions undertaken.	N/A		Maurice Battilana
10	S7.12A(3), (4)	Where the local government	N/A		Maurice Battilana



		determined that matters raised in the auditor's report (prepared under s7.9(1) of the Act) required action to be taken by the local government, was a copy of the report forwarded to the Minister by the end of the financial year or 6 months after the last report prepared under s7.9 was received by the local government whichever was the latest in time.		
11	Audit Reg 7	Did the agreement between the local government and its auditor include the objectives of the audit.	Yes	Maurice Battilana
12	Audit Reg 7	Did the agreement between the local government and its auditor include the scope of the audit.	Yes	Maurice Battilana
13	Audit Reg 7	Did the agreement between the local government and its auditor include a plan for the audit.	Yes	Maurice Battilana
14	Audit Reg 7	Did the agreement between the local government and its auditor include details of the remuneration and expenses to be paid to the auditor.	Yes	Maurice Battilana
15	Audit Reg 7	Did the agreement between the local government and its auditor include the method to be used by the local government to communicate with, and supply information to, the auditor.	Yes	Maurice Battilana

**Local Government Employees**

No	Reference	Question	Response	Comments	Respondent
1	Admin Reg 18C	Did the local government approve the process to be used for the selection and appointment of the CEO before the position of CEO was advertised.	N/A		Maurice Battilana
2	s5.36(4) s5.37(3), Admin Reg 18A	Were all vacancies for the position of CEO and other designated senior employees advertised and did the advertising comply with s.5.36(4), 5.37(3) and Admin Reg 18A.	N/A		Maurice Battilana
3	Admin Reg 18F	Was the remuneration and other benefits paid to a CEO on appointment the same remuneration and benefits advertised for the position of CEO under section 5.36(4).	N/A		Maurice Battilana
4	Admin Regs 18E	Did the local government ensure checks were carried out to confirm that the information in an application for employment was true (applicable to CEO only).	N/A		Maurice Battilana
5	s5.37(2)	Did the CEO inform council of each proposal to employ or dismiss a designated senior employee.	N/A		Maurice Battilana



Official Conduct					
No	Reference	Question	Response	Comments	Respondent
1	s5.120	Where the CEO is not the complaints officer, has the local government designated a senior employee, as defined under s5.37, to be its complaints officer.	N/A		Maurice Battilana
2	s5.121(1)	Has the complaints officer for the local government maintained a register of complaints which records all complaints that result in action under s5.110(6)(b) or (c).	Yes		Maurice Battilana
3	s5.121(2)(a)	Does the complaints register maintained by the complaints officer include provision for recording of the name of the council member about whom the complaint is made.	Yes		Maurice Battilana
4	s5.121(2)(b)	Does the complaints register maintained by the complaints officer include provision for recording the name of the person who makes the complaint.	Yes		Maurice Battilana
5	s5.121(2)(c)	Does the complaints register maintained by the complaints officer include provision for recording a description of the minor breach that the standards panel finds has occurred.	Yes		Maurice Battilana
6	s5.121(2)(d)	Does the complaints register maintained by the complaints officer include the provision to record details of the action taken under s5.110(6)(b)(c).	Yes		Maurice Battilana

Tenders for Providing Goods and Services					
No	Reference	Question	Response	Comments	Respondent
1	s3.57 F&G Reg 11	Did the local government invite tenders on all occasions (before entering into contracts for the supply of goods or services) where the consideration under the contract was, or was expected to be, worth more than the consideration stated in Regulation 11(1) of the Local Government (Functions & General) Regulations (Subject to Functions and General Regulation 11(2)).	Yes		Maurice Battilana
2	F&G Reg 12	Did the local government comply with F&G Reg 12 when deciding to enter into multiple contracts rather than inviting tenders for a single contract.	N/A		Maurice Battilana
3	F&G Reg 14(1)	Did the local government invite tenders via Statewide public notice.	Yes		Maurice Battilana
4	F&G Reg 14, 15 & 16	Did the local government's advertising and tender documentation comply with F&G Regs 14, 15 & 16.	Yes		Maurice Battilana



5	F&G Reg 14(5)	If the local government sought to vary the information supplied to tenderers, was every reasonable step taken to give each person who sought copies of the tender documents or each acceptable tenderer, notice of the variation.	Yes	Maurice Battilana
6	F&G Reg 18(1)	Did the local government reject the tenders that were not submitted at the place, and within the time specified in the invitation to tender.	Yes	Maurice Battilana
7	F&G Reg 18 (4)	In relation to the tenders that were not rejected, did the local government assess which tender to accept and which tender was most advantageous to the local government to accept, by means of written evaluation criteria.	Yes	Maurice Battilana
8	F&G Reg 17	Did the information recorded in the local government's tender register comply with the requirements of F&G Reg 17.	Yes	Maurice Battilana
9	F&G Reg 19	Was each tenderer sent written notice advising particulars of the successful tender or advising that no tender was accepted.	Yes	Maurice Battilana
10	F&G Reg 21 & 22	Did the local governments's advertising and expression of interest documentation comply with the requirements of F&G Regs 21 and 22.	Yes	Maurice Battilana
11	F&G Reg 23(1)	Did the local government reject the expressions of interest that were not submitted at the place and within the time specified in the notice.	Yes	Maurice Battilana
12	F&G Reg 23(4)	After the local government considered expressions of interest, did the CEO list each person considered capable of satisfactorily supplying goods or services.	Yes	Maurice Battilana
13	F&G Reg 24	Was each person who submitted an expression of interest, given a notice in writing in accordance with Functions & General Regulation 24.	Yes	Maurice Battilana
14	F&G Reg 24E	Where the local government gave a regional price preference in relation to a tender process, did the local government comply with the requirements of F&G Reg 24E in relation to the preparation of a regional price preference policy (only if a policy had not been previously adopted by Council).	Yes	Maurice Battilana
15	F&G Reg 11A	Does the local government have a current purchasing policy in relation to contracts for other persons to supply goods or services where the consideration under the contract is, or is expected to be, \$100,000 or less.	Yes	Maurice Battilana

<b>AGENDA ITEM:</b>	<b>7.4</b>
<b>SUBJECT:</b>	<b>INTERNAL AUDIT</b>
<b>PROPONENT:</b>	<b>FINANCE &amp; AUDIT COMMITTEE</b>
<b>SITE:</b>	<b>COUNCIL CHAMBERS</b>
<b>FILE REFERENCE:</b>	<b>305.00</b>
<b>PREVIOUS REFERENCE:</b>	<b>N/A</b>
<b>DATE:</b>	<b>2<sup>nd</sup> FEBRUARY 2015</b>
<b>AUTHOR:</b>	<b>MAURICE BATTILANA</b>

## **DISCLOSURE OF INTEREST**

Nil

## **REPORT PURPOSE**

To comply with the requirements the *Local Government (Audit) Regulations, 1996* for an internal control audit to be undertaken at least once every two years.

## **BACKGROUND**

The State Government gazetted new legislation in February 2013 under Clause 17 of the *Local Government (Audit) Regulations, 1996*, which requires a local government authority to undertake internal control audit at least once every two years, with the first of these audits to be completed by the 31<sup>st</sup> December 2014.

An Agenda Item was presented to the December 2014 OCM with the following being resolved:

*“Council receives the Internal Audit Report as presented and request the Chief Executive Officer present this to the Finance & Audit Committee in accordance with Clause 17 (3) of the Local Government (Audit) Regulations, 1996 for review, comments and recommendations to back to Council for consideration.”*

## **COMMENT**

The Local Government Act 1995 (the Act) requires that all local governments establish an audit committee. An audit committee plays a key role in assisting a local government to fulfil its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, legislative compliance, ethical accountability and the internal and external audit functions.

The CEO is required to provide biennial reviews of the appropriateness and effectiveness of the Shire's systems and procedures in regard to risk management, internal control and legislative compliance to the Audit Committee, who will review this along with the results of the annual Compliance Audit Return.

The biennial review will require an internal audit carried out by a person who is not involved in the operational management of the Shire or the functions being audited. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The attached reporting tool has been developed by an external local government consultant (in good faith) to assist local governments in addressing the legislative requirements of Regulation 17 of *Local Government (Audit) Regulations, 1996*.

The reporting tool will assist local governments to assess and report on their internal environment, functions and procedures for inclusion in the CEO biennial review, and to support organisational development and continuous improvement.



After discussions with the local government consultant it was agreed Kristy Williams was far enough removed from the Shire of Chapman Valley's operational management and functions as well as being familiar with the Shire to be able to independently undertake the audit.

The intention of this Agenda Item is to present the Internal Audit Report to the Finance & Audit Committee for review, comments and recommendations back to Council for consideration.

## **STATUTORY ENVIRONMENT**

### Local Government (Audit) Regulations, 1996

17. CEO to review certain systems and procedures
- (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —
    - (a) risk management; and
    - (b) internal control; and
    - (c) legislative compliance.
  - (2) The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.
  - (3) The CEO is to report to the audit committee the results of that review.

[Regulation 17 inserted in Gazette 8 Feb 2013 p. 868.]

## **POLICY IMPLICATIONS**

No existing policy/procedure affected.

## **FINANCIAL IMPLICATIONS**

Nil affect

### Long Term Financial Plan (LTFP):

Nil affect

## **STRATEGIC IMPLICATIONS**

It is sound practice to undertake an internal review of operations to ensure maximum compliance and efficiencies are in place and adhered to.

### Strategic Community Plan/Corporate Business Plan:

Nil affect

## **VOTING REQUIREMENTS**

Simple Majority

## **STAFF RECOMMENDATION**

The Committee recommends Council receives the Internal Audit Report as presented and request the Chief Executive Officer implement necessary actions to address items identified in the Report requiring attention.

Internal Audit - Addressing WA Local Government (Audit) Regulations 1996		Audit Start Date: 20th November 2014	Auditor : Kristy Williams	Audit End Date: 20th November 2014
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The Local Government Act 1995 (the Act) requires that all local governments establish an audit committee. An audit committee plays a key role in assisting a local government to fulfil its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, legislative compliance, ethical accountability and the internal and external audit functions. The CEO is required to provide Biennial reviews of the appropriateness and effectiveness of the Shire's systems and procedures in regard to risk management, internal control and legislative compliance to the Audit Committee, who will review this along with the results of the annual CEOs report and Compliance Audit Return. The biennial review will require an internal audit carried out by a person who is not involved in the operational management of the Shire or the functions being audited. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. This tool has been developed in good faith, addressing Appendix 3 of the Local Government Operational Guidelines - Number 9 - Audit in Local Government. This will assist local governments to assess and report on their internal environment, functions and procedures for inclusion in the CEO biennial review, and to support organisational development and continuous improvement. This tool is to be used in conjunction with Section 7 (Internal Control Framework) of the Western Australian Local Government Accounting Manual which provides guidelines on specific areas of controls to review.

### Risk Management

#### Risk Management Systems and Processes

Internal control and risk management systems and programs are a key expression of a local government's attitude to effective controls. Good audit committee practices in monitoring internal control and risk management programs	Unsure	Not in place	Planned	Progressing	Not yet Implemented	Partially Implemented	In place and embedded	Annually reviewed	Comments
Does the Shire have a Risk Management Policy, with formal risk appetite and tolerance levels included?							✓		Adopted June 2014.
Does the Shire have an organisational wide risk management framework in place?							✓		
Does the Shire have a risk register that is regularly reviewed to ensure that risks are addressed and closed out?							✓	✓	Implemented in April 2014 and reviewed every 6 months.
Is this policy communicated to all current staff, and included in induction processes with responsibility assigned?				✓					Council and management staff are aware of the policy. Responsibility has been assigned to management but it has not yet been communicated to remaining staff adequately or included in the induction process.
Are strategic risks considered, evaluated and reviewed in annual planning processes?							✓		This is a process included in the review of Council's strategic plan.
Are material operating risks appropriately considered in the Shire?							✓		
Does risk management form part of the Council agenda item requirements?		✓							To be considered.
Is risk management an agenda item at staff or stakeholder meetings?			✓						Not currently an agenda item, however it is being considered to include at future project management meetings.
Is risk management a key performance indicator on all senior management position descriptions?	✓								To be considered in future position description reviews.
Does the Shire have a regular risk identification, review and reporting process overseen by senior management?				✓					Review and reporting process is in place for existing areas, however there is not a process in place for identifying risks relating to new projects. This is to be considered as part of the project management meetings.
Does the Shire have a business continuity plan?			✓						May 2015 - CEO.
Is the Business Continuity Plan tested from time to time?		✓							Plan is not yet in place to test.
Does the Shire have a disaster recovery plan?							✓		Local Emergency Management Arrangements.
Is the Disaster Recovery Plan tested from time to time?							✓		As an example: Corronation Beach Evacuation Plan.
<b>Determining and Managing Material Operating Risks</b>									
Does the Shire have a system or processes to ensure compliance with Legislation, regulations, Standards and Shire Policies?							✓		A "Dates to Remember" list for all reoccurring legislative and policy requirements.
Does the Shire have a process to address accounting judgements or estimates that prove to be wrong?							✓		This is not formally written however it is addressed as part of the required budget review process.
Does the Shire have a formal process to deal with claims and litigations?		✓							No formal process is in place. The CEO has a delegation to issue infringements and commence any proceedings with budget constraints.
Is there a process in place to identify misconduct, fraud or theft risks that includes monitoring, review and a treatment plan should they eventuate?							✓		Complaints and Grievance Procedure, Sexual Harrassment Policy, Bullying Policy. There is a segregation of accounting procedures to reduce theft risk. Fuel cards and flow meters are used to reduce fuel theft risk. CEO to determine if all vessels used to transport fuel are marked "Shire of Chapman Valley".
Does the Shire have systems and processes to prevent or uncover misconduct, fraud and theft?							✓	✓	This is set out in the risk register as per the template supplied by LGIS.
Does the Shire have systems in place to address Occupational Safety and Health risks?							✓	✓	Service provided by LGIS.
Does the Shire have systems in place to address environmental risks?							✓		Eg: environmental clearances for roadworks plans; bunding around fuel and waste oil; and transfer stations.
Does the Shire have systems and processes in place to address business risks?							✓		Set in the risk register.
Does the Shire have a process to manage insurable risks and ensure the adequacy of insurance?							✓	✓	Set in the risk register and reviewed annually with the insurance review.
Does the Shire have formal processes to review the effectiveness of the internal control systems with management, internal and external auditors?							✓		Regulations require a four-yearly internal audit of financial management procdures. The Audit Committee meets with the external auditor once per year and discusses the audit.

Does management have controls in place for unusual types of transactions or transactions that may carry more than acceptable degrees of risk?							✓		This is covered with the procurements policy. The electronic purchase order system also ensures staff do not spend outside the authorised budget.
Does the Shire have a formal tenders and procurement system and process in place with a focus on probity and transparency of policies and procedures?							✓		Procurement Policy is in place and the WALGA tender process is used.
Does the Shire have a process / checklist approach to ensure the tenders and procurements policies and processes are being applied at all times?							✓		Creditors clerk checks purchase orders however a checklist needs to be included with the purchase order to ensure compliance with the the entire procurement policy. Eg if the purchase is for more than \$3,000 purchasing staff should be signing off on getting the requirement number of quotes and reasons for chosing a particular supplier.

## Internal Control

Internal control is a key component of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Strategies to maintain sound internal controls are based on risk analysis of the internal operations of a local government. An

effective and transparent internal control environment is built on the following key areas:

- integrity and ethics.
- policies and delegated authority.
- levels of responsibilities and authorities.
- audit practices.
- information system access and security.
- management operating style.
- human resource management and practices.

Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government.

	Unsure	Not in place	Planned	Progressing	Not yet implemented	Partially implemented	In place and embedded	Annually reviewed	Comments
Does the Shire have a formal delegation of authority system and process.							✓		
<b>Does the Shire have documented policies and procedures?</b>							✓	✓	<b>Procedures are not complete for all processes and need to be located in a central place and part of the induction process.</b>
Is there an effective process in place for policy and procedure reviews?			✓				✓		Policy review is formal. Procedure review is less formal, suggest to incorporate as part of annual performance reviews for all staff.
Are all Shire staff qualified and trained in the areas of their principal responsibility?							✓		
Are there controls on all formal systems and processes?							✓		
Are regular internal audits carried out?							✓		
Are risk identification and assessments activities documented?							✓		Carried out by LGIS.
Does the Shire have regular liaison with the Shire Auditors?							✓		
Does the Shire have regular liaison with legal advisors?					✓				Carried out on an as-needs-basis.
Is there a process to review the effectiveness of internal controls?							✓		Four-yearly financial management review.
Is there a process for ensuring separation of roles and functions in processing and authorisation							✓		
Is there a process in place for control of approval of documents, letters and financial records?							✓		Financial reconciliations are signed monthly. Only management sign outgoing correspondence.
<b>Is there a process for comparison of internal data with other external sources of information?</b>							✓		<b>Roads register requires updating and is scheduled to be completed in 2014/15. Land recorded for rating purposes is reconciled to the Valuer General records. More work is required to verify charges for refuse removal with the contractor charges.</b>
Is direct physical access to assets and records limited?							✓		Payroll records are locked. Keys to property are locked and permission is needed to access them.
Are controls in place relating to computer applications and information system standards?							✓		Covered by the IT policies and procedures.
Is access limited to make changes in data files and systems?							✓		Some folders in the shared G drive are limited. Certain modules in Synergy are also limited.
Is there regular maintenance and review of financial control accounts and trial balances?							✓		Reconciliations signed and reviewed on a monthly basis.
Is there a process to regularly comparison and analysis of financial results with budgeted amounts?							✓		
Is there a process to review the arithmetical accuracy and content of records?					✓				Carried out as part of the budget review.
Is there a process to review and report on approval of financial payments and reconciliations?							✓		
Is there a process to compare the result of physical cash and inventory counts with accounting records?							✓		

## Legislative Compliance

The compliance programs of a local government are a strong indication of attitude towards meeting legislative requirements. Audit committee practices in regard to monitoring compliance programs typically include the following that should be audited.

	Unsure	Not in place	Planned	Progressing	Not yet implemented	Partially implemented	In place and embedded	Annually reviewed	Comments
Is there a process in place for monitoring compliance with legislation and regulations?							✓		"Dates to Remember" list and also the statutory section of all agenda items.
Is there a process in place to review the annual Compliance Audit Return and report to Council the results of that review?							✓		
Is there a process for the audit committee to stay informed on how management is monitoring the effectiveness of its compliance and making recommendations for change as necessary?							✓		Audit Committee meetings and discussions with the auditors annually.
Does the Shire have procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints?							✓		Customer Complaints Policy and the Complaints Register. Grievance procedure for internal issues.
Is there a process that gives the Audit Committee assurance that adverse trends are identified and reviews management's plans to deal with these?							✓		The Audit Committee meet after the audit to discuss issues, including trends, with the external auditor and finance staff.
Is there a process to for the Audit committee review management disclosures in financial reports of the effect of significant compliance issues?							✓		Annual meeting of the Audit Committee and external auditor.
Is there a process to review whether the internal and / or external auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee?			✓						To be reviewed for next re-appointment of auditors.
Is there a process to determine the internal auditor's role in assessing compliance and ethics risks in their plan?			✓						To be reviewed for next re-appointment of auditors.
Is there a process to monitor the Shire's compliance frameworks dealing with relevant external legislation and regulatory requirements?							✓		Internal and external auditors meet with Audit Committee.
Is there a process in place to ensure Audit Committee members are complying with legislative and regulatory requirements imposed on them, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the Shire, and disclosing conflicts of interest?			✓						It is in place that in every agenda item Councillors are prompted to consider if they have any disclosures to make or conflicts of interest. Councillors are offered training regularly however it is suggested that Council set for themselves a minimum standard of training. Without adequate training members of Council will not know if they are complying with legislative and regulatory requirements imposed on them.