



MISSION AND VALUES OF COUNCIL

"A Sustainable Community that is inclusive, attractive, healthy and pleasant to live in, that uses our land so as to preserve our history and environment, respects the rights and equality of our citizens and manages our future growth wisely."

MINUTES

AUDIT COMMITTEE MEETING

MONDAY 8 DECEMBER 2008

COMMENCING AT 11.00AM

In the Shire Committee Room

8 DECEMBER 2008

OUR MISSION

"To provide a quality range of affordable and sustainable services to our community with a strong commitment to customer focus so that our citizens and visitors enjoy a quality lifestyle."

CORE VALUES OF THE SHIRE

The core values that underpin the achievement of the mission will be based on a strong customer service focus and a positive attitude:

Communication

Respect

Integrity

Transparency

Courtesy

DISCLAIMER

The purpose of Council Meetings is to discuss, and where possible, make resolutions about items appearing on the agenda. Whilst Council has the power to resolve such items and may in fact, appear to have done so at the meeting, no person should rely on or act on the basis of such decision or on any advice or information provided by a Member or Officer, or on the content of any discussion occurring, during the course of the meeting.

Persons should be aware that the provisions of the Local Government Act 1995 (Section 5.25 (e)) establish procedures for revocation or rescission of a Council decision. No person should rely on the decisions made by Council until formal advice of the Council decision is received by that person. The Shire of Broome expressly disclaims liability for any loss or damage suffered by any person as a result of relying on or acting on the basis of any resolution of Council, or any advice or information provided by a Member or Officer, or the content of any discussion occurring, during the course of the Council meeting.

These minutes are unconfirmed.

NOTICE OF MEETING

Dear Council Member

The next meeting of the Audit Committee will be held on Monday 8 December 2008, at the Shire of Broome Committee Room, corner Weld and Haas Street Broome, commencing at 11am.

Regards

A handwritten signature in black ink, appearing to read 'Donohoe', with a horizontal line underneath.

K R DONOHOE
Chief Executive Officer

1 December 2008

SHIRE OF BROOME

**AUDIT COMMITTEE MEETING
8 DECEMBER 2008**

**HELD IN THE SHIRE COMMITTEE ROOM
COMMENCING AT 11:12 AM**

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1. OFFICIAL OPENING

The Chairperson declared the meeting open at 11:12am

2. ATTENDANCE AND APOLOGIES

Attendance:	Cr Graeme Campbell	Chairperson
	Cr Peter Matsumoto	
	Cr Robert Lander	
Apologies:	Nil	
Officers:	Kenn Donohoe	Chief Executive Officer;
	Ingrid Bishop	Director Corporate Services
	Les Mainwaring	Manager Financial Services

3. CONFIRMATION OF PREVIOUS MINUTES

Moved: Cr Matsumoto

Seconded: Cr Lander

That the Minutes of the Audit Committee meeting held on 26 August 2008 be confirmed as a true and accurate record of that meeting.

CARRIED UNANIMOUSLY

4. ITEMS FOR DISCUSSION

4.1 ANNUAL FINANCIAL AUDIT 2007/2008

LOCATION/ ADDRESS:	N/A
APPLICANT:	N/A
FILE:	FRE 02
AUTHOR:	Manager Financial Services
CONTRIBUTOR/S:	
RESPONSIBLE OFFICER:	Director Corporate Services
DISCLOSURE OF ANY INTEREST:	Nil
DATE OF REPORT:	28 November 2008

SUMMARY: The Audit Committee is required to consider and recommend adoption of the annual financial report, examine the auditor and management reports, and review the report prepared by the CEO.

BACKGROUND

Previous Considerations

Nil

The Audit Committee is required to examine the reports of the auditor after receiving a report from the CEO on the matters and:

- Determine if any matters raised require action to be taken by the local government; and
- Ensure that appropriate action is taken in respect of those matters.

The Audit Committee will review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and present the report to Council for adoption prior to the end of the next financial year or 6 months after the last report prepared by the auditor is received, whichever is the latest in time.

The Audit Committee will consider and recommend adoption of the annual financial report.

COMMENT

CEO Report

Following is the CEO's report to the Audit Committee on matters arising from the audit and management reports. Extracts from the audit and management reports are indented in italics.

Audit Report

Council has received a qualified audit report with one matter of statutory non-compliance reported during 2007/2008.

Differential Rates

Council imposed differential rates that differed from those set forth in the local public notice. The details of those rates set forth in the local public notice and the reasons for these differences were not included by Council in its annual budget, rate notice of information accompanying the rate notice as required by Financial Management Regulation 23(b) and 56(4)(b).

The information brochure to ratepayers for 2007/2008 included the statement that "The general rate increase was reduced by 2%, to 9.95%, after completion of the advertised period for public submissions. Below is a comparison of (advertised rates in the \$) and those imposed by Council."

Dampier Pastoral (8.5364)	6.8830
Dampier Mining (9.3562)	9.1891
Dampier Coconut Well (0.4020)	0.2165
Dampier Twelve Mile (0.4120)	0.2389
Dampier Short Stay Accommodation (3.6636)	3.2713
Dampier Commercial/Pearling (3.5569)	2.5075
Dampier Horticulture/Wattle Downs (1.4228)	0.9606
Dampier Skuthorpe (0.5709)	0.3772
Broome Residential (9.4823)	9.3130
Broome Commercial (9.7662)	9.5917
Broome Tourism (10.6681)	10.4775

The Local Government (Financial Management) Regulations 1996 state that:

23. Rates information

The annual budget is to include —

- details of the rate or payment set forth in the public notice; and*
- reasons for the difference;*

56. Contents of rate notice — s. 6.41

(4) The following information is to accompany or be included in the rate notice —

(b) if a differential general rate or minimum payment differs from the proposed rate or payment set forth in the local public notice given under section 6.36, reasons for the difference;

For the 2008/2009 Information Brochure to Ratepayers we have included the following statement that should now comply with the relevant regulations. "The general rate increase for 2008/2009 is 8.75 %. Properties rated on an unimproved value basis were re-valued after completion of the advertised period for public submissions and the rate in the dollar reduced to reflect increased valuations. Below are the rates in the dollar imposed for Gross Rental Value properties & Unimproved Value properties. Where rates in the dollar have decreased the advertised rates are indicated in brackets."

Below is the CEO's response to matters raised in the audit management report:

Management Report

Electronic Payments

Whilst we commend the efforts made by management to implement controls, we noted insufficient controls over the loading of EFT payments and changing of staff and creditors bank account details. Evidence suggests adequate preventative controls have not yet been established or implemented. To ensure all payments made are bona fide and appropriately authorized, we recommend further investigation and implementation of appropriate higher level control measures that are preventative (rather than detective) in nature be implemented. The system should be structured to allow for risk areas to be easily reviewed and these reviews should be routinely conducted by staff independent of the payment process.

Our first course of action has been to contact our software supplier seeking increased controls available from our software functions.

The response we have received from the software supplier follows "We have been notified by a number of councils that their auditors have raised the issue of general users having access to the aba files. These are the files generated by the system for transferring monies from Council's bank accounts. These files are generated by the Payment Processing function within the Creditors module and the Pay Processes within the Payroll module. We are reviewing the benefit of making a software change to allow these files to be 'moved' to an area of the system not accessible by general users, but this will not be possible as a part of our next general release of SynergySoft."

We have engaged IT Vision to write a customised audit trail report to detect changes in bank account fields for payroll and creditors, and we are exploring the IT solution of limiting modify access over files to our banking software authorised officers.

In a recent discussion with IT Vision management, they had suggested that a preventative program could be developed to match bank account numbers on the aba file with bank account fields within payroll or creditors to detect any anomalies at the time of EFT payment authorisation. Used in conjunction with an audit trail check, any bank account changes prior to and after aba file creation would be detectable.

Financial Report

The annual report for the 2006/2007 financial year was not accepted by Council before 31 December 2007 as required by Section 5.54(1) of the Act. The annual report should be adopted before 31 December unless the Auditors report is too late to enable the annual report to be adopted before 31 December, in which case, the report should be adopted within two months of the date of the Auditors Report.

The audit report was received 10 December 2007 and the financial report was presented to the Audit Committee 17 December 2007 and as a late item to full Council 18 December 2007, however the item was deferred to the next full Council meeting that wasn't scheduled until 14 February 2008. The elapsed period from audit was greater than two months.

For 2007/2008 the Finance team had all books of account and reconciliations completed and in a state of readiness for audit by 26 September 2008, the annual report will be bought before council in December 2008, and the annual electors meeting will be held on a date to be determined that will comply with regulation.

Tender Register

Tender numbered 07/35 could not be traced to the council meeting. However, there was evidence of the award of the work. All tenders in excess of the award limit specified in the purchasing policy should be submitted to council for approval before award as required by Functions and General Regulation 17.

Tender 07/35 was a tender inviting applications for preferred general building maintenance contractors. Sixteen contractors, covering a range of industries, were accepted as preferred suppliers.

Administration processes have been reviewed and procedures developed to ensure all documentation required for the tender register is captured. This has been implemented with the 2008 register.

In accordance with the requirements of Australian Auditing Standards (ASA260), we are also obliged to inform Council (those charged with governance of the Shire) of the following:

Corrected Misstatements

We advise we have informed Shire management of certain misstatements which were corrected during the course of our audit and are reflected in the financial report. These corrected misstatements are attached at Appendix 1 to this letter.

Account Description	Debit	Credit
Public Open Space Reserve	\$4,704	
Municipal Capital Accumulation Account	\$4,704	
Accumulated – Trust Credit Public Open Space Reserve	\$4,704	
Accumulated Surplus Public Open Space Reserves		\$4,704
POS Developer Contributions Rec'd Op Inc – Parks & Ovals		\$4,704
Trust Creditors Bank		\$4,704
POS Developer Contributions Rec'd Op Inc – Parks & Ovals	\$84,000	
Municipal Bank Account		\$84,000
Correction of Transfer of Public Open Space from Reserves to Trust		
Finance & Borrowings Debtors – Current Asset	\$41,844	
Other Debtors – Current Asset		\$41,844

Account Description	Debit	Credit
Being reversal & correction of incorrect Journal \$20,922		
FBT Liability – Staff Salary Packaging FBT Payable	\$11,445	\$3,408
Other No GST Reimbursements from Others Operating Income – Corp Gov		\$8,037
Being transfer of FBT recovery from staff salary packaging Apr-Jun 2008		

\$4,704 relates to calculated interest earnings added to the \$84,000 developer contribution transferred from municipal reserve to trust in accordance with planning statute.

\$84,000 relates to developer contributions for POS held in municipal reserve that were transferred to trust in accordance with current planning statute.

\$41,844 relates to a reversal and correction of a \$20,922 self supporting loan debt balance being transferred within current asset categories from Other Debtors to Finance & Borrowings.

\$11,445 relates to an accumulation of salary deducted in the fourth quarter from staff to cover FBT arising from salary packaging arrangements. The accumulated salary deduction was subsequently recognised in the accounts as a recovery of costs at 30th June.

Uncorrected Misstatements

We advise that we have informed Shire management of certain uncorrected misstatements above \$5,000 noted by us during the course of our audit that were determined to be immaterial both individually and in total, to the financial report taken as a whole. These uncorrected misstatements are attached at Appendix 1 to this letter.

Account Description	Debit	Credit
S/Creditors – Excess rates Rates – Operating Income Transfer of Rates in Advance to Operating Income	\$30,818	\$30,818

\$30,818 relates to the accumulation of credits held on Rates accounts for payments in advance of the following year's rates raising. Auditors have determined that the amount is immaterial however they would have preferred that the amount was brought to account as revenue in the previous year even though rates have not been raised.

Financial Ratios

Financial Ratios provide a good indication of trends over a number of years and are designed to provide users of annual financial statements with a clearer interpretation of the performance and financial results of a local government that may not be as apparent with other data.

Current Ratio; a modified commercial ratio designed to focus on the liquidity position of a local government that has arisen from past years transactions. Loan borrowings are excluded as they focus on future transactions that fall due in the next twelve months recognised as a current liability.

A ratio greater than 1:00 is preferred, and the trend of Broome's ratio has been upward over the past three years and is now 0.84 which is a good sign.

Untied Cash to Trade Creditors Ratio; provides an indication of whether a local government has sufficient cash to pay its trade creditors.

A ratio greater than 1:00 is preferred, and Broome has enjoyed a significant trend upward in the past three years with an existing ration of 0.94 compared to 0.28 three years ago.

Debt Ratio: measure of total liabilities to total assets and examines the financial strength of a local governments balance sheet.

The lower the ratio the stronger is the financial position and Broome has a ration of 0.09 which is relatively low and has remained relatively constant over the past three years.

Debt Service Ratio: measures a local governments ability to service debt (principal and interest) out of its available operating revenue.

A ratio less than 0.10 is desirable and Broome has a ratio of 0.05 which has been steady over the past three years.

Gross Debt to Revenue Ratio: measures a local government's ability to service debt in any given year out of total revenue.

A ratio less than 0.60 is desirable and Broome's ratio of 0.28 has reduced in the past year which indicates a strong position for the repayment of current debt.

Gross Debt to Economically Realisable Asset Ratio: a measure of whether a local government has sufficient realisable assets to cover its total borrowings.

A ratio less than 0.30 is desirable and Broome's ratio of 0.15 has remained steady over the past three years indicating a strong position of sufficient realisable assets to cover total borrowings.

Rate Coverage Ratio: measure the dependency on rates to fund operations. The higher the ratio the less dependant the local government is on grants and external sources to fund its operations. There is no desirable figure, as ratios will vary from high ratios in developed inner city urban areas to lower ratios in developing or remote Shires heavily dependant on grants, however the trends over a number of years indicate in which direction a local government is travelling.

Broome's ratio of 0.44 is on an increasing trend which is a healthy direction.

Outstanding rates Ratio: measures the effectiveness of a local government with the collection of rates, a lower ratio indicates the local government is collecting rates effectively to improve its cash position and cash flow.

A ratio of less than 0.05 is desirable and Broome has maintained a steady ratio of 0.01 over the past three years which is an outstanding result.

Auditor

The Audit Committee declined the invitation to speak directly with the Principal Auditor as all queries and questions were satisfactorily answered by staff, however David Tomasi will visit the Shire during interim audit June 2009.

CONSULTATION

Nil

STATUTORY ENVIRONMENT6.4. *Financial report*

- (1) A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed.
- (2) The financial report is to —
 - (a) be prepared and presented in the manner and form prescribed; and
 - (b) contain the prescribed information.
- (3) By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor —
 - (a) the accounts of the local government, balanced up to the last day of the preceding financial year; and
 - (b) the annual financial report of the local government for the preceding financial year.

7.12A. *Duties of local government with respect to audits*

- (1) A local government is to do everything in its power to —
 - (a) assist the auditor of the local government to conduct an audit and carry out his or her other duties under this Act in respect of the local government; and
 - (b) ensure that audits are conducted successfully and expeditiously.
- (2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.
- (3) A local government is to examine the report of the auditor prepared under section 7.9(1), and any report prepared under section 7.9(3) forwarded to it, and is to —
 - (a) determine if any matters raised by the report, or reports, require action to be taken by the local government; and
 - (b) ensure that appropriate action is taken in respect of those matters.
- (4) A local government is to —
 - (a) prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
 - (b) forward a copy of that report to the Minister, by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.

5.54. *Acceptance of annual reports*

- (1) Subject to subsection (2), the annual report for a financial year is to be accepted* by the local government no later than 31 December after that financial year.
* Absolute majority required.
- (2) If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.

POLICY IMPLICATIONS

Nil

FINANCIAL IMPLICATIONS

Nil

STRATEGIC IMPLICATIONS**Place**

Ensure the Shire's infrastructure and assets are strategically planned and managed.

Prosperity

Build the Shire's organisational capacity to service the needs of a growing community.

VOTING REQUIREMENTS

Absolute Majority

COMMITTEE RESOLUTION
(REPORT RECOMMENDATION)

Moved: Cr R J Lander

Seconded: Cr P D Matsumoto

- 1. The Audit Committee recommends that Council receives the CEO's report relating to the audit.**
- 2. The Audit Committee recommends that Council receives the audit report and audit management report dated 24 November 2008.**
- 3. The Audit Committee recommends that Council adopts the annual financial report.**

CARRIED BY ABSOLUTE MAJORITY

[Attachment: 48 pages](#)

5. NEXT MEETING

The next meeting will be convened to coincide with the half yearly review in February 2009 held in the Committee Room of the Shire Offices.

6. MEETING CLOSURE

There being no further business, the Chairperson declared the meeting closed at 12:05pm.