

AC1.	OPENING	2
AC2.	PRESENT	2
AC3.	APOLOGIES	2
AC4.	ELECTION OF CHAIRPERSON	2
AC5.	QUESTION TIME	2
AC6.	CONFIRMATION OF MINUTES	3
AC7.	BUSINESS ARISING FROM MINUTES	3
AC8.	2021/2022 ANNUAL REPORT	4
AC9.	CLOSURE	19

AC1. OPENING

The President Cr Sudlow welcomed attendees and acknowledged the two new Audit Committee members in Cr Horstman and Cr Hay and thanked Cr Stewart for his contribution to the Audit Committee.

There being no elected Chairperson the President declared the meeting open at 10.30 am.

AC2. PRESENT

Cr L Sudlow (President)	Northampton Ward
Cr R Horstman (Deputy President)	Northampton Ward
Cr R Suckling	Northampton Ward
Mr Grant Middleton (minutes)	Deputy Chief Executive Officer
Mr Maurice Battilana (observer)	Acting Chief Executive Officer

AC3. APOLOGIES

Cr T Hay	Northampton Ward
Cr P Stewart	Kalbarri Ward

AC4. ELECTION OF CHAIRPERSON

Due to the resignation of Cr Stewart and the nomination of new Audit Committee members at the Council Meeting held on the 16th October 2022 the Chairperson position is vacant. Accordingly, the President called for nominations for the position of Chairperson.

Cr Sudlow nominated Cr Suckling for the position of Chairperson, Cr Suckling accepted the nomination.

There being no further nominations Cr Suckling was elected to the position of Chairperson of the Audit Committee. The President handed the meeting to Cr Suckling

AC5. QUESTION TIME

Nil

AC6. CONFIRMATION OF MINUTES

Moved Cr SUDLOW, seconded Cr SUCKLING

That the minutes of the Audit Committee Meeting held on the 18th
November 2022 be received as a true and correct record.

CARRIED 3/0

AC7. BUSINESS ARISING FROM MINUTES

Nil

AC8. 2021/2022 ANNUAL REPORT

FILE REFERENCE:	1.1.1
CORRESPONDENT:	Office of Auditor General, Dry Kirkness
DATE OF REPORT:	9 December 2022
REPORTING OFFICER:	Grant Middleton
APPENDICES:	1. Independent Audit Report. 2. Management Report - Audit Findings 3. Audit Committee Meeting Minutes from 18th November 2022 (provided under separate cover) 4. Annual Report (provided under separate cover) including the Financial Report and Audit Report.

SUMMARY:

Formal receipt of the Annual Report by the Audit Committee, including the Annual Financial Statements and Audit Report is required.

The Independent Audit Report and Management Letter (Report) are presented in appendices 1 & 2 respectively. The Audit Committee Meeting Minutes from 18th November 2022 and the "Annual Report" have been provided under separate cover.

BACKGROUND:

The Acting Chief Executive Officer (Maurice Battilana), Deputy Chief Executive Officer (Grant Middleton), President Liz Sudlow, attended an Audit Exit Meeting with Katie MacLachlan from the Office of Auditor General (OAG) Western Australia and Robert Hall from Dry Kirkness on Tuesday 6th December 2022.

This meeting concluded the audit process and provided the opportunity for Robert (Dry Kirkness) and Katie (OAG) to discuss key audit matters and audit findings with staff and the audit committee.

Members have been provided with a copy of the Annual Report 2021/2022 via Councils dropbox format.

The Annual Report is to be formally adopted by Council and once adopted an electors meeting can be held but no more than 56 days after the adoption of the report as per section 5.27 of the Local Government Act 1995.

COMMENT:

Independent Auditors Report

Whilst the Auditor General has issued an unqualified opinion the following matters (Audit Findings) were raised in the Management Letter (Report).

Management Report (Letter) - Audit Findings

There 2021/2022 Management Letter refers to one significant finding, two moderate findings and one minor finding identified during the current years audit process. Also, the Management Letter refers to one significant finding and one minor finding as matters outstanding from the prior year audit process.

The significant finding from this year's audit process relates to "Fair value of infrastructure assets" while the significant matters outstanding from the prior year's audit process relates to purchasing and payment procedures.

The information provided in appendix 2 (Audit Findings) lists the steps to be taken to resolve the identified issues.

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
Findings identified in the current year			
1. Fair value of infrastructure assets - frequency of valuations	✓		
2. Supplier masterfile amendments		✓	
3. Leave forms not completed for annual leave		✓	
4. Employees not provided pay increment letters			✓
Matters outstanding from prior year			
5. Inadequate purchasing procedures	✓		
6. Excessive annual leave		✓	

Findings identified in the current year

1. Fair Value of Infrastructure Assets (Significant)

Management Comment

Management is comfortable with the Infrastructure asset valuations for 2021/2022 as stated in the annual financial report. A full revaluation process for infrastructure assets will be conducted by external consultants for the 2022/2023 financial year.

Additional Comment

The “Annual Audit Completion Report” and “Audit Findings” refer to the completion of a robust fair value process to evaluate the fair value of Infrastructure assets. It was considered that the only way this could have completed would have been for the Shire to engage a suitably qualified external consultant to undertake the evaluation as staff don’t have the skill set or qualifications to compete the work.

2. Supplier Master File Maintenance (Moderate)

Management Comment

The imbedded procedure for changing master file details (bank account) involves the supporting information being provided along with the audit trail report to the DCEO for independent verification. Management have reviewed the amendment process and will verify all master file amendments as the changes are made rather than via the end of month process.

Additional Comment

The audit finding in relation to the supply master file was unexpected as all amendments are signed off per the process however staff have gone above and beyond normal requirements and amendments are now independently authorised immediately as they occur in SynergySoft.

3. Leave forms not completed for annual leave (Moderate)

Management Comment

Leave forms will be completed for all leave occurrences.

Additional Comment

Staff have being diligent in relation to ensuring that forms are completed for all leave occurrences.

4. Employees not provided pay increment letters (Moderate)

Management Comment

Employees will be provided with a letter in future for pay increases including increments, annual increases, and any other pay rate changes.

Additional Comment

This will be implemented for the 2023/2024 annual pay rate process. Letters are currently provided for all ad-hoc and other pay rate increases.

Matters outstanding from prior year

5. Inadequate purchasing procedures (Significant)

Management Comment

The Shire will progress to implementing the SynergySoft Purchasing module as soon as possible pending funding and service provider availability. The implementation of the Purchasing module plus a more rigorous approach from staff will ensure our performance improves in this area.

Additional Comment

Staff will present a budget review item at the December meeting and pending Council approval the Purchasing Module will be implemented early in 2023.

6. Excessive annual leave

Management Comment

It is anticipated that there will be further reductions in our annual and long service leave liability during 2022/2023. Staff will be encouraged to schedule leave and ensure they are working towards clearing any excessive leave balances within our operational capacity.

Additional Comment

Staff will re-access all leave balances and encourage any employees with excessive leave balances to take additional or extended leave notwithstanding that the Shire needs to continue operating and the costs associated with backfilling key positions.

STATUTORY IMPLICATIONS:

State: Local Government Act 1995 – Regulation 14 Local Government (Audit) Regulations 1996

VOTING REQUIREMENT:

Simple Majority Required:

OFFICER RECOMMENDATION - ITEM AC8

Moved Cr SUDLOW, seconded Cr HORSTMAN

That it be recommended to Council that the 2021/2022 Annual Report including the Annual Financial Statements and Audit Report as presented be received.

Voting 3/0

APPENDIX 1



Auditor General

**INDEPENDENT AUDITOR'S REPORT
2022
Shire of Northampton**

To the Councillors of the Shire of Northampton

Opinion

I have audited the financial report of the Shire of Northampton (Shire) which comprises:

- the Statement of Financial Position at 30 June 2022, the Statement of Comprehensive Income by Nature or Type, Statement of Changes in Equity, and Statement of Cash Flows and Rate Setting Statement for the year then ended
- Notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial report is:

- based on proper accounts and records
- presents fairly, in all material respects, the results of the operations of the Shire for the year ended 30 June 2022 and its financial position at the end of that period
- in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Basis for opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial report section below.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

The Chief Executive Officer (CEO) is responsible for the preparation and the Council for overseeing the other information. The other information is the information in the entity's annual report for the year ended 30 June 2022, but not the financial report and my auditor's report.

My opinion on the financial report does not cover the other information and, accordingly, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I did not receive the other information prior to the date of this auditor's report. When I do receive it, I will read it and if I conclude that there is a material misstatement in this information, I am required to communicate the matter to the CEO and Council and request them to correct the misstated information. If the misstated information is not corrected, I may need to retract this auditor's report and re-issue an amended report.

Responsibilities of the Chief Executive Officer and Council for the financial report

The Chief Executive Officer of the Shire is responsible for:

- preparation and fair presentation of the financial report in accordance with the requirements of the Act, the Regulations and Australian Accounting Standards
- managing internal control as required by the CEO to ensure the financial report is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the CEO is responsible for:

- assessing the Shire's ability to continue as a going concern
- disclosing, as applicable, matters related to going concern
- using the going concern basis of accounting unless the State Government has made decisions affecting the continued existence of the Shire.

The Council is responsible for overseeing the Shire's financial reporting process.

Auditor's responsibilities for the audit of the financial report

As required by the *Auditor General Act 2006*, my responsibility is to express an opinion on the financial report. The objectives of my audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

A further description of my responsibilities for the audit of the financial report is located on the Auditing and Assurance Standards Board website. This description forms part of my auditor's report and can be found at https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

My independence and quality control relating to the report on the financial report

I have complied with the independence requirements of the *Auditor General Act 2006* and the relevant ethical requirements relating to assurance engagements. In accordance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, the Office of the Auditor General maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Matters relating to the electronic publication of the audited financial report

This auditor's report relates to the financial report of the Shire of Northampton for the year ended 30 June 2022 included in the annual report on the Shire's website. The Shire's management is responsible for the integrity of the Shire's website. This audit does not provide assurance on the integrity of the Shire's website. The auditor's report refers only to the financial report. It does not provide an opinion on any other information which may have been hyperlinked to/from the annual report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to contact the Shire to confirm the information contained in the website version.

A handwritten signature in blue ink, appearing to read "E. Samaras".

Efthalia Samaras
Senior Director Practice Manager Financial Audit
Delegate of the Auditor General for Western Australia
Perth, Western Australia
9 December 2022

APPENDIX 2

ATTACHMENT

**SHIRE OF NORTHAMPTON
PERIOD OF AUDIT: 1 JULY 2021 TO 30 JUNE 2022
FINDINGS IDENTIFIED DURING THE AUDIT**

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
Findings identified in the current year			
1. Fair value of infrastructure assets - frequency of valuations	✓		
2. Supplier masterfile amendments		✓	
3. Leave forms not completed for annual leave		✓	
4. Employees not provided pay increment letters			✓
Matters outstanding from prior year			
5. Inadequate purchasing procedures	✓		
6. Excessive annual leave		✓	

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

ATTACHMENT

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: 1 JULY 2021 TO 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE AUDIT

1. Fair value of infrastructure assets - frequency of valuations

Finding

The Shire has not performed an assessment to determine whether its infrastructure assets represent fair value.

Rating: Significant

Implication

Without a robust assessment of fair value of the Shire's infrastructure assets there is a risk that the fair value of infrastructure assets may not have been assessed adequately and in compliance with *AASB 13 Fair Value Measurement*, as well as Regulation 17A(4)(b) of the Local Government (Financial Management) Regulations 1996 (the Regulations).

Recommendation

The Shire considers implementing as part of the preparation of financial statements a formal robust process to determine whether indicators exist annually, that would trigger a requirement to perform a formal revaluation of Infrastructure Assets. Where indicators exist, a robust fair value assessment should be performed capturing the requirements of *AASB 13 Fair Value Movements*. This process is to ensure that the Shire's infrastructure assets are recorded at fair value in compliance with *AASB 13 Fair Value Measurement* and the Regulations.

This may entail obtaining relevant input from an independent valuer as to whether or not they consider there are any prevailing market factors which may indicate that the fair value of relevant assets are likely to have been impacted to any significant / material extent from the prior year. Where a fair value assessment has been performed internally the LG entity may consider having this assessment peer reviewed by an independent valuer to obtain assurance over the valuation methodology applied, inputs and the reasonableness of the valuation model applied.

Management comment

Management is comfortable with the infrastructure asset valuations for 2021/2022 as stated in the annual financial report. A full revaluation process for infrastructure assets will be conducted by external consultants for the 2022/2023 financial year.

Responsible person:

DCEO

Completion date:

30 June 2023

ATTACHMENT

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: 1 JULY 2021 TO 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE AUDIT

2. Supplier masterfile amendments

Finding

We noted that no supplier master file amendment form is completed to evidence changes to supplier master files. Supporting documentation from suppliers is obtained and verified to affect changes to the supplier master files. An audit trail is generated from the accounting system each month which details all supplier master file amendments.

From our sample of 12 master file amendments, we noted that the accompanying audit trail was not reviewed on 4 occasions.

Rating: Moderate

Implication

This may result in unauthorised or inaccurate supplier information being processed to the supplier module giving rise to the risk of payments not being made to the appropriate supplier.

Recommendation

Management should review each monthly audit trail for changes to supplier master files to confirm that they were valid.

Management Comment

The imbedded procedure for changing master file details (bank account) involves the supporting information being provided along with the audit trail report to the DCEO for independent verification. Management have reviewed the amendment process and will verify all master file amendments as the changes are made rather than via the end of month process.

Responsible Officer: DCEO
Completion Date: Immediate (In Place)

ATTACHMENT

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: 1 JULY 2021 TO 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE AUDIT

3. Leave forms not completed for annual leave

Finding

We found that leave forms in respect of annual leave were not completed on 2 occasions for the sample of 14 leave applications tested.

Rating: Moderate

Implication

When leave processed within the system is not supported by an authorised leave form, there is a risk that leave recorded is not valid, resulting in inaccurate leave balances and incorrect payments to employees.

Recommendation

We recommend that leave forms are completed for all forms of leave and that they are duly authorised by the appropriate manager before the leave is processed in the payroll system.

Management's comments

Leave forms will be completed for all leave occurrences.

Responsible Person: Finance Officer
Completion Date: Immediate/Ongoing

ATTACHMENT

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: 1 JULY 2021 TO 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE AUDIT

4. Employees not provided pay increment letters

Finding

We noted that annual employee increments are approved by management and provided to the Finance Officer for processing however letters are not prepared and provided to employees as confirmation of the increments.

Rating: Minor

Implication

Without formal annual increment letters, disputes could occur in relation to employment entitlements and pay rates. There is also an increased risk that errors may occur within payroll transactions which could go undetected.

Recommendation

To help ensure the accuracy and validity of payroll transactions, all employees should be presented with an increment letter which details all necessary pay rate movements as and when these occur. These increment letters should be retained within the employee personnel files.

Management Comment

Employees will be provided with a letter in future for pay increases including increments, annual increases, and any other pay rate changes.

Responsible Person: Finance Officer
Completion Date: Immediate/Ongoing

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: 1 JULY 2021 TO 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE AUDIT

Matters outstanding from prior year

5. Inadequate purchasing procedures

2021 Finding

The Shire's finance policy section 2.3.6 Purchasing Thresholds requires quotations to be obtained for purchases greater than \$5,000. Our testing of purchases made on a sample basis identified instances whereby there was insufficient documentation to indicate that the required number of quotations had been obtained.

From our sample of 50 purchases tested the following was noted:

- 2 purchases in the range of \$5,001 to \$19,999 had no evidence of two verbal quotes being obtained. Our inquiries indicated that for 1 of these purchases, there was no other suitable supplier to complete the works in the region, however there was no documented evidence to support this;
- 2 purchases in the range of \$20,000 to \$149,999 only had one written quote obtained. Our inquiries indicated that for 1 of these purchases, there was no other suitable supplier to complete the works in the region, however there was no documented evidence to support this. and
- 1 purchase in the range of \$20,000 to \$149,999 had no evidence of 2 written quotes obtained.

2022 Update

From our sample of 50 purchases tested the following was noted:

- 7 purchases in the range of \$5,001 to \$19,999 had no evidence of two verbal quotes being obtained, as required by the Shire's policies. Our inquiries indicated that the suppliers engaged were local suppliers and that there were no other suitable suppliers to complete the works in the region. However there was no documented evidence to either support this or to confirm that quotes from outside the Shire were obtained per section 2.1.1(a) of the finance policy;
- 1 purchase in the range of \$20,000 to \$249,999 only had one written quote obtained. Our inquiries indicated that there was no other suitable supplier to complete the works in the region, however there was no documented evidence to support this;
- 2 purchase orders were not on file;
- 1 purchase order was not signed as evidence of approval; and
- 1 purchase invoice was not signed as evidence of approval.

Discussions with management also indicate purchase orders do not always state the dollar amount.

Rating: Significant (2021 Rating: Significant)

Implication

- Non-compliance with Shire's finance policy section 2.1.1(a) and 2.3.6;
- No evidence that the ordering of goods was approved prior to the order being placed;
- Risk of favouritism of suppliers and not obtaining value for money; and
- Risk that the Shire may commit to expenditure which has not been appropriately authorised and may not represent valid business-related expenditure of the Shire which may potentially result in financial loss to the Shire;

ATTACHMENT

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: 1 JULY 2021 TO 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE AUDIT

Recommendation

We recommend:

- The Finance policy be communicated to all employees to ensure the required minimum number of quotations are obtained prior to purchase;
- Where there is no other supplier who can fulfill the required works, supporting evidence be obtained by way of an email by alternate suppliers asked to quote or by way of notation on the purchase order documentation; and
- That the Purchasing Policy be amended to include a preferred local supplier list with details of conditions where the requirement to obtain quotes or a purchase order up to a predetermined dollar value limit is not required for those suppliers. We further recommend that the preferred local supplier list be endorsed by the Council and reviewed annually to ensure that the Shire continues to receive value for money from the local suppliers.

2021 Management Comment

There has been a general improvement in our procurement compliance however this is an area that will require ongoing attention to ensure all policies are adhered to in future.

Staff will be instructed to note on the Purchase Order when there are situations that are contrary to our Purchasing Policy

Responsible Officer: CEO
Completion Date: Ongoing

2022 Management Comment

The Shire will progress to implementing the SynergySoft Purchasing module as soon as possible pending funding and service provider availability. The implementation of the Purchasing module plus a more rigorous approach from staff will ensure our performance improves in this area.

Responsible Officer: DCEO/Finance Officer
Completion Date: 30 June 2022

ATTACHMENT

SHIRE OF NORTHAMPTON

PERIOD OF AUDIT: 1 JULY 2021 TO 30 JUNE 2022

FINDINGS IDENTIFIED DURING THE AUDIT

6. Excessive annual leave

2021 Finding

During our testing on employee leave provisions, we noted two of the 41 staff employed at the Shire have accrued annual leave balances in excess of 8 weeks at year end.

2022 Finding

During our review we identified one employee who has an annual leave accrued balance in excess of 300 hours as at 30 June 2022.

We note management have processes in place to identify and monitor staff that have accrued excessive annual leave balances and have taken appropriate action.

Rating: Moderate (2021 Rating: Moderate)

Implication

Excessive accrued annual leave balances increases the risk of an adverse impact through excessive financial liabilities and may also indicate over-reliance on key individuals. As well as managing leave liabilities, it is important for staff to take regular leave for their health and wellbeing, and to develop staff to perform the tasks of others. In addition, fraud can be more easily concealed by staff who do not take leave.

Recommendation

The Shire should continue to monitor and manage excessive leave balances to reduce the financial liability, risk of business interruption and fraud.

2021 Management Comment

There has been a reduction in both our annual leave and long service leave liability. Staff are regularly reminded about their leave balances and several key personnel have taken leave or have leave planned in the next 6-12 months.

The CEO will re-access all leave balances and encourage any employees with excessive leave balances to take additional or extended leave notwithstanding that the Shire needs to continue operating and the costs associated with backfilling key positions.

Responsible Officer: CEO
Completion Date: Ongoing

2022 Management Comment

It is anticipated that there will be further reductions in our annual and long service leave liability during 2022/2023. Staff will be encouraged to schedule leave and ensure they are working towards clearing any excessive leave balances within our operational capacity.

Responsible Officer: CEO
Completion Date: Ongoing

AC9. CLOSURE

There being no further business, the Chairperson thanked all present for their attendance and declared the meeting closed at 10.50am.