

# SHIRE OF KENT



## AUDIT COMMITTEE MINUTES (UNCONFIRMED)

**DATE:** Wednesday 16 March 2022

**TIME:** 4.00pm

**VENUE:** Council Chambers,  
Richmond Street, Nyabing WA 6341

**ADAM MAJID  
CHIEF EXECUTIVE OFFICER**

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**Adam Majid**

CHIEF EXECUTIVE OFFICER

# AUDIT COMMITTEE MINUTES

MARCH 2022

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## 1. DECLARATION OF OPENING AND ANNOUNCEMENT OF VISITORS

The meeting was opened at 4:00pm by the Shire President.

## 2. RECORD OF ATTENDANCE/APOLOGIES AND APPROVED LEAVE OF ABSENCE

### Audit Committee Members

Cr SR Crosby	Shire President
Cr KV Johnston	Deputy Shire President
Cr TD Borgward	Member
Cr JN Germain	Member
Cr DP Gray	Member
Cr WD Tapscott	Member
Cr GW Hobley	Member
Cr RA Jury	Member

### Staff

AL Majid	Chief Executive Officer
CJ Smith	Manager Corporate
PE Spencer	Manager Infrastructure

### Members of the Public

Nil

### Apologies

### Members on Approved Leave of Absence

## 3. DISCLOSURES OF INTEREST

Nil

## 4. PUBLIC QUESTION TIME

Nil

## 5. APPLICATIONS FOR LEAVE OF ABSENCE

Section 5.25 *Local Government Act 1995*

Nil

## 6. CONFIRMATION AND RECEIVING OF MINUTES/BUSINESS ARISING

### 6.1 Audit Committee Meeting held Wednesday 17 March, 2021

<b>COMMITTEE RESOLUTION (Officer Recommendation)</b>
------------------------------------------------------

MOVED Cr KV Johnston / Cr JN Germain

That the minutes of the Audit Committee Meeting held at the Council Chambers, on Wednesday 17 March, 2021 be **CONFIRMED**.

**CARRIED 8/0**  
**By Simple Majority**

## 7. OFFICER REPORTS

### 7.1.1 ADOPTION OF 2021 COMPLIANCE AUDIT RETURN

<b>PROPOSED MEETING DATE:</b>	16 March 2022
<b>PROPONENT:</b>	N/A
<b>LOCATION:</b>	N/A
<b>AUTHOR:</b>	Christie Smith – Manager Corporate
<b>REPORTING OFFICER:</b>	Christie Smith – Manager Corporate
<b>FILE NO:</b>	GOV.110
<b>ASSESSMENT NO:</b>	N/A
<b>ATTACHMENTS:</b>	Attachment 1 - 2021 Compliance Audit Return
<b>DISCLOSURE OF INTEREST:</b>	Nil

#### **PURPOSE**

Submission of Compliance Audit Return 2021 (CAR) to the Audit Committee for recommendation to Council for consideration of adoption, signing and submission to the Department of Local Government, Sport and Cultural Industries (DLGSCI).

#### **BACKGROUND**

Under the Local Government Audit Regulations 1996, Local Government is required to carry out a Compliance Audit for the period 1 January 2021 to 31 December 2021. The certified return must be submitted to the Director General, Department of Local Government, Sport and Cultural Industries by 31 March 2022.

#### **COMMENT**

Annual Compliance Audit Return 2021 submitted for consideration of review by the Audit Committee. In carrying out the compliance return for 2021 there were no areas of non-compliance identified.

#### **STATUTORY IMPLICATIONS**

**Regulation 14 of the Local Government (Audit) Regulations 1996 provides:**

- (1) A local government is to carry out a compliance audit for the period 1 January to 31 December in each year.
- (2) After carrying out a compliance audit the local government is to prepare a compliance audit return in a form approved by the Minister.
- (3A) The local government's audit committee is to review the compliance audit return and is to report to the council the results of that review.

(3) After the audit committee has reported to the council under subregulation (3A), the compliance audit return is to be —

- (a) presented to the council at a meeting of the council; and
- (b) adopted by the council; and
- (c) recorded in the minutes of the meeting at which it is adopted.

**Regulation 15 provides that:**

(1) After the compliance audit return has been presented to the council in accordance with regulation 14(3) a certified copy of the return together with —

- (a) a copy of the relevant section of the minutes referred to in regulation 14(3)(c); and
- (b) any additional information explaining or qualifying the compliance audit,
- (c) is to be submitted to the Executive Director by 31 March next following the period to which the return relates.

(2) In this regulation —

certified in relation to a compliance audit return means signed by —

- (a) the mayor or president; and
- (b) the CEO.

**POLICY IMPLICATIONS**

Nil

**FINANCIAL IMPLICATIONS**

Nil

**STRATEGIC IMPLICATIONS**

Community Strategic Plan 2017-2027

Civic Leadership Objective - Continually enhance the Shire's organisational capacity to service the needs our community

Outcome 4.1 An efficient and effective organisation

4.1.1 Continually improve operational efficiencies and provide effective services.

4.1.2 Continue to enhance communication and transparency.

**RISK IMPLICATIONS**

Nil

**VOTING REQUIREMENT**

Simple Majority

<b>COMMITTEE RESOLUTION (Officer Recommendation)</b>
------------------------------------------------------

**MOVED Cr KV Johnston / Cr DP Gray**

**That the Audit Committee recommends that Council:**

- 1. adopts the Compliance Audit Return 2021, as presented;**
- 2. The Chief Executive Officer and the Shire President be authorised to sign the Compliance Audit Return 2021;**
- 3. The Compliance Audit Return 2021 be submitted to the Department of Local Government, Sport and Cultural Industries by the 31 March 2022 deadline.**

**CARRIED 8/0  
By Simple Majority**

**7.1.2 REPORT TO THE AUDIT COMMITTEE FOR THE YEAR ENDED 30 JUNE 2021**

<b>PROPOSED MEETING DATE:</b>	16 March 2022
<b>PROPONENT:</b>	N/A
<b>LOCATION:</b>	N/A
<b>AUTHOR:</b>	Christie Smith – Manager Corporate
<b>REPORTING OFFICER:</b>	Christie Smith – Manager Corporate
<b>FILE NO:</b>	FIN.109
<b>ASSESSMENT NO:</b>	N/A
<b>ATTACHMENTS:</b>	Attachment 1 - 2020/2021 Audit Report Attachment 2 – Management Letter
<b>DISCLOSURE OF INTEREST:</b>	Nil

**PURPOSE**

The Audit Committee to formally receive and accept the Shire of Kent report to the Audit Committee for the year ended 30 June 2021.

**BACKGROUND**

Lincolns conducted an independent audit on behalf of the Office of the Auditor General (OAG) for the year ended 30 June 2021. The audit is completed and this report summarises significant audit findings and matters, which have arisen during the audit process.

**COMMENT**

An exit meeting was held Monday 14 March 2022 with representatives from the OAG, Lincolns Accountants, Adam Majid (CEO), Christie Smith (Manager Corporate), Scott Crosby (Shire President and Chairperson of Audit Committee) and Kate Johnston (Deputy Shire President).

There were no significant adverse trends reported, two moderate management findings relating to Masterfile control enhancement and backdating postings. Several corrected audit misstatements is reported in relation to adjustments in accrued income, contract assets and contract liabilities.

**STATUTORY IMPLICATIONS**

*Local Government (Audit) Regulations 1996*

***Section 7.12A (3) & (4) Duties of local government with respect to audits***

(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,*

**POLICY IMPLICATIONS**

Nil

**FINANCIAL IMPLICATIONS**

Nil

**STRATEGIC IMPLICATIONS**

Community Strategic Plan 2017-2027

Civic Leadership Objective - Continually enhance the Shire's organisational capacity to service the needs our community

Outcome 4.1 An efficient and effective organisation

4.1.1 Continually improve operational efficiencies and provide effective services.

4.1.2 Continue to enhance communication and transparency.

**RISK IMPLICATIONS**

Nil

**VOTING REQUIREMENT**

Simple Majority

<b>COMMITTEE RESOLUTION (Officer Recommendation)</b>
------------------------------------------------------

**MOVED Cr WD Tapscott / Cr TD Borgward****That the Audit Committee:****Receives and accepts the Shire of Kent report to the Audit Committee for the year ended 30 June 2021.****CARRIED 8/0  
By Simple Majority****8. MEETING CLOSED**

There being no further business the Chairperson, Cr Scott Crosby, closed the meeting at 4:03pm.





# Shire of Kent

REPORT TO THE AUDIT COMMITTEE  
FOR THE YEAR ENDED 30 JUNE 2021

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## 1. EXECUTIVE SUMMARY

<b>Purpose</b>	<p>This report summarises significant audit findings and matters which have come to our attention during our audit of the financial statements of the Shire of Kent for the financial year ended 30 June 2021.</p> <p>This report is provided to enable the Audit Committee to clarify outstanding issues with us and discuss key audit findings. It includes only those audit matters of governance interest that have come to our attention as a result of the performance of our audit. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not usually identify all such matters.</p>
<b>Audit status</b>	<p>We have completed our audit for the year ended 30 June 2021 except for:</p> <ul style="list-style-type: none"><li>• Sign off on the financial statements</li><li>▪ Receipt of signed Management Representation Letter to Lincolns and to Office of Auditor General</li><li>▪ Process for issuing of audit opinion</li></ul> <p>We expect to recommend to the Office of the Auditor General an unmodified audit report after these matters are completed.</p>
<b>Audit misstatements</b>	<p>A list of corrected and uncorrected misstatements is included in Section 5. Additionally, corrected and uncorrected misstatements in presentations and disclosures are discussed in this section.</p>
<b>Disclaimer</b>	<p>This report is provided solely for the benefit of the Shire of Kent and is not to be copied, quoted or referred to without prior written consent. The Auditor General and Lincolns accepts no responsibility to anyone other than the parties identified in the Local Government Act for the information contained in this report.</p>

## 2. AUDIT SCOPE

Lincolns conducted an independent audit on behalf of the Office of the Auditor General (OAG) in order to enable the Auditor General to express an opinion to the Council on the financial report of Shire of Kent for the year ended 30 June 2021. Our audit was conducted 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 whether the financial report is free from material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We perform procedures to assess whether in all material respects the financial report presents fairly, in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the Local Government Act 1995 and the Local Government (Financial Management) Regulations 1996, a view which is consistent with our understanding of the Shire of Kent's financial position and of its performance as represented by the results of its operations, changes in equity and cash flows.

Our audit procedures included;

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- evaluating the appropriateness of accounting policies and disclosures used, the reasonableness of accounting estimates

We considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures.

An audit is not deigned to identify all matters that may be relevant to the accountable authority and management, nor to relieve management or those in charge of governance of their responsibilities. Accordingly, this report includes only those significant matters that have come to our attention as a result of performing our audit.

### 3. AUDIT FOCUS

We refer to our audit plan where we identified areas for potential for increased audit risk and our planned responses in the audit.

The following presents our audit findings in these areas.

Area of Risk	Audit Outcomes
Grant Funding and Other Revenue	<ul style="list-style-type: none"> <li>• Significant grant revenue was agreed to third party documentation.</li> <li>• Audit included additional analysis of revenue allocation in accordance with AASB 15 Revenue from Contracts with Customers and AASB 1058 Income for Not For Profit Entities.</li> <li>• Risk of fraud in the revenue cycle was also considered including testing of key controls and analytical review Audit procedures undertaken rebutted the risk of fraud to an acceptable level.</li> <li>• We also reviewed related party transactions. The financial statements adequately disclose related party transactions for Councillors and Key Management Personnel.</li> </ul>
Rates	<p>Audit work included the following:</p> <ul style="list-style-type: none"> <li>• Rateable values agreed to the Valuer General rates.</li> <li>• We checked control procedures for the transfer of rates from Valuer General to Internal Software system.</li> <li>• Testing of rates notices was undertaken both on a sample basis and analytically.</li> </ul> <p>Results supported the rate revenue and financial statement disclosures.</p>
Expenses	<p>Our audit of expenses included testing of key financial controls over the recognition of expenses, vouching significant expenses and analytical reviews.</p> <p>Expenditure as disclosed in the financial statements is materially correct.</p>
Payroll/Provisions	<p>Audit sampling tested payroll records to the following:</p> <ul style="list-style-type: none"> <li>• Employee awards</li> <li>• Employee contracts</li> <li>• Check calculation of superannuation and tax</li> <li>• Check authority to deduct salary sacrifice</li> <li>• Check the control procedures in payroll department in line with internal policies</li> <li>• Our audit of provisions included reviewing the reasonableness of assumptions used to calculate annual leave and long service leave</li> <li>• Analytical review</li> </ul> <p>Results of audit procedures indicate employee costs are materially correct and disclosed correctly in the financial statements.</p>

Management's monitoring of the control environment	<p>We reviewed council minutes for the following:</p> <ul style="list-style-type: none"> <li>• Process for reviewing internal control procedures including evidence of periodic review of policy manual.</li> <li>• Management's implementation and monitoring of new control procedures.</li> <li>• Management's implementation and monitoring for amending current control procedures.</li> <li>• Impact of COVID 19 on the control environment</li> </ul> <p>We are satisfied that management is applying effective controls and that Council are aware of the control environment.</p>
Management Override of Controls	<p>Audit processes were undertaken to:</p> <ul style="list-style-type: none"> <li>• Sample test and judgementally review general journals</li> <li>• Understand and test the adequacy and effectiveness of division of duties</li> <li>• Controls testing</li> <li>• Substantive procedures</li> </ul> <p>Sufficient audit evidence was obtained to support the view that controls are operating effectively.</p>
Fixed Assets	<p>Council did not undertake any revaluation process in the 2021 financial year.</p> <p>Audit Processes were undertaken to:</p> <ul style="list-style-type: none"> <li>• Sample test additions and disposals</li> <li>• Check profit/loss on sale of assets</li> <li>• Confirm ownership and existence of assets</li> <li>• Recalculate depreciation</li> </ul>
Restricted Reserve Accounts	<ul style="list-style-type: none"> <li>• We reviewed movements within the restricted reserve accounts to ensure they were approved by Council and transfers out were used in accordance with the intended purpose of the respective reserve.</li> </ul> <p>Review noted no use of reserve funds that were not approved or for a purpose other than the purpose of the reserve.</p>
Accounting Estimates	<ul style="list-style-type: none"> <li>• We reviewed the method and underlying data that management use when determining critical accounting estimates. This included considering the reasonableness of assumptions and corroborating representations.</li> <li>• For infrastructure, property, plant and equipment we reviewed Management's assessment of the useful lives and existence of assets. Where reviewed managements monitoring of impairment and determined that such process exists.</li> </ul>
AASB 1059 Service Concession Arrangements: Grantors	<ul style="list-style-type: none"> <li>• We reviewed the assessment of contracts undertaken by the Shire.</li> <li>• Reviewed major expenditure items.</li> <li>• Outcome of review discussed with SFO.</li> </ul> <p>Review noted that no arrangements under AASB 1059 that require disclosure.</p>

## 4. AUDIT & ACCOUNTING ISSUES

### 4.1 Significant Adverse Trends

- There were no significant adverse trends.

### 4.2 Audit Report

The audit report will have an unqualified opinion, and the following matters of non-compliance with the Local Government Act 1995 will be reported:

- The Asset Renewal Funding Ratio was not reported in the 2018/19 and 2019/20 financial years due to the required information from the Asset Management Plan being unavailable.

### 4.3 Management Letter Findings

- Receivables month end procedures – Moderate
- Creditors and payroll Masterfile control enhancement - Moderate

## 5. ACCOUNTING MISSTATEMENTS

### 5.1 Uncorrected Audit Misstatements

	<b>Financial Statements Accounts Impacted</b>	<b>Statement of Financial Position Adjustment</b>	<b>Effect on Operating Surplus</b>	<b>Effect on Other Comprehensive Income</b>	<b>Comment</b>
1.	Nil				

## 5.2 Corrected Audit Misstatements

	<b>Financial Statements Accounts Impacted</b>	<b>Statement of Financial Position Adjustment</b>	<b>Effect on Operating Surplus</b>	<b>Effect on Other Comprehensive Income</b>	<b>Comment</b>
1.	Contract Liabilities Contract Assets Trade & Other Receivables	\$1,222,964 DR \$60,588 DR \$1,283,552 CR			Being correction of year end grant accruals.
2.	Contract Asset Accrued Income	\$640,207 DR \$640,207 CR			Being reclassification of accrued income
3.	Contract Asset Non-Operating Grants	\$193,113 DR	\$193,113 CR		Being adjustment to contract asset
4.	Property, Plant & Equipment Profit on Sale Depreciation	\$47,272 DR	\$55,105 DR \$102,378 CR		Being correction of depreciation and resulting adjustment to profit on sale.

## 6. OTHER MATTERS

### 6.1 Actions/Issues for Next Year's Audit

The Shire last completed a review of its financial management systems and procedures, as required by Local Government (Financial Management) Regulations 5(2)(c), in 2018-19. The review is required to be completed once every 3 financial years. The next review is due to be completed in 2021-22.

### 6.2 Future Accounting Standards

New accounting standards will have application in future years. A brief discussion of the impact of these follows.

- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current. Applies to the financial year ended 30 June 2024.

- This is not expected to impact the financial report.



- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018 – 2020 and Other Amendments. Applies to the financial year ended 30 June 2023.

- Specific impacts have not been identified.

-AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies or Definition of Accounting Estimates. Applies to the financial year ended 30 June 2024.

- This is not expected to impact the financial report.