

**MINUTES OF AN AUDIT COMMITTEE MEETING HELD IN THE COUNCIL  
CHAMBERS ON TUESDAY 20<sup>th</sup> May 2009**

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1.    **OPENING:**                    Meeting opened at 11.09pm
2.    **ATTENDANCE:**            Cr P J Blight  
   Cr I C Cumming  
   Cr G R Ball  
   Cr A D Dohle
- STAFF:**                    Mr L J Calneggia        Acting Chief Executive Officer  
   Mr A Pieterse            Mgr Finance & Corporate Services  
   Mr B A Roderick        Senior Finance Officer
- APOLOGIES:**            Cr D K Morgan
- VISITORS:**                Greg Godwin – UHY Haines Norton

3.    **PUBLIC QUESTION TIME**

Nil

4.    **PUBLIC FORUM (PETITIONS/DEPUTATIONS/PRESENTATIONS)**

Greg Godwin – Auditor UHY Haines Norton

Councils external Auditor, Greg Godwin, explained to the Audit Committee the Shire of Wagin’s financial performance for the 2007/2008 year, including the Auditors opinion, statutory compliance and management issues. The auditor also expressed some of his views regarding the financial management of the Shire of Wagin and the industry in general.

**Committee Recommendation**

**Moved CR DOHLE**

**Seconded CR BALL**

That Council receive the Audit report for the 2007/2008 financial year and note the explanations from Council’s Auditor – Greg Godwin.

**CARRIED**  
Vote 4/0

5.    **DECLARATION OF INTEREST**

Nil

6.    **CONFIRMATION OF PREVIOUS MEETING MINUTES**

**Committee Recommendation**

**Moved CR BALL**

**Seconded CR CUMMING**

That the minutes of the Audit Committee Meeting held 25<sup>th</sup> March 2008.be accepted as a true and correct record.

**CARRIED**  
Vote 4/0

**7. CORRESPONDENCE AND REPORTS**

Nil

**8. URGENT BUSINESS**

Nil

**9. CLOSURE**

The meeting closed at 12.20pm

These Minutes were confirmed at a meeting held on \_\_\_\_\_

Signed \_\_\_\_\_

Presiding Member at the meeting at which the Minutes were confirmed.

Dated \_\_\_\_\_

18 NOV 2008

RECEIVED

18 November 2008

Mr J Hunter  
Chief Executive Officer  
Shire of Wagin  
PO Box 200  
WAGIN WA 6315

Dear John

**AUDIT OF SHIRE OF WAGIN  
FOR THE YEAR ENDED 30 JUNE 2008**

We advise that we have completed the audit of your Shire for the year ended 30 June 2008 and enclose our Audit Report and a copy of the Management Report.

A copy of the Audit Report and Management Report has also been sent directly to the President and Chairman of the audit committee as is required by the Act.

We would like to take this opportunity to thank you and the staff for the assistance provided during the audit.

Please contact us if you have any queries.

Yours sincerely



**GREG GODWIN  
PARTNER**

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**INDEPENDENT AUDIT REPORT  
TO THE ELECTORS OF THE SHIRE OF WAGIN**

***Report on the Financial Report***

We have audited the accompanying financial report of the Shire of Wagin, which comprises the balance sheet as at 30 June 2008 and the income statement by nature or type, income statement by program, statement of changes in equity, cash flow statement and rate setting statement for the year ended on that date and a summary of significant accounting policies and other explanatory notes.

***Council's Responsibility for the Financial Report***

Council is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***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 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 judgment, 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 entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial report.

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

**Independence**

In conducting our audit, we have complied with the independence requirements of Australian professional ethical pronouncements.

**Auditor's Opinion**

In our opinion, the financial report of the Shire of Wagin 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 2008 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

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**INDEPENDENT AUDIT REPORT  
TO THE ELECTORS OF THE SHIRE OF WAGIN (continued)**

**Statutory Compliance**

During the course of the audit we became aware of the following instance where the Council did not comply with the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

**Submission of Financial Report**

The accounts and financial report for the year ended 30 June 2008 were not submitted to the auditor by 30 September 2008 as required by section 6.4(3) of the Act.

**Monthly Creditors Payment Listing**

The monthly creditors payment listing (list of accounts) for March 2008, April 2008 and May 2008 was not recorded in (attached to) the minutes of the meeting at which it was presented as required by Financial Management Regulation 13 (3) (b).

**Monthly Financial Reports**

The monthly financial reports for each month of the year were presented to Council as required by Financial Management Regulation 34. However, for the full year to June 2008, they did not contain the following information:

- i) Material variances between the year to date actual and budgeted income and expenditure as required by Financial Management Regulation 34 (1) (d); and
- ii) An explanation of each of the variances referred to in i) above as required by Financial Management Regulation 34 (2) (b).

**Other Matters**

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) Except as detailed above, 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) All necessary information and explanations were obtained by us.
- d) All audit procedures were satisfactorily completed in conducting our audit.

UHY HAINES NORTON  
CHARTERED ACCOUNTANTS



GREG GODWIN  
PARTNER

Date: 18 November 2008  
Perth, WA

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18 November 2008

The Shire President  
Shire of Wagin  
PO Box 200  
WAGIN WA 6315

Dear Cr Blight

**MANAGEMENT REPORT FOR THE YEAR ENDED 30TH JUNE 2008**

We advise that we have completed our audit procedures for the year ended 30th June 2008 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 Financial Position**

Whilst we do not consider the Shire has experienced an adverse trend in its financial position, we would like to make a comment with respect to the *current ratio*, the *united cash to trade creditors ratio* and the *rate coverage ratio*.

• **Current Ratio**

Council's current ratio at 30 June 2008 was 0.63 (63%) (2007: 1.08). A ratio of greater than one (100%) is normally regarded as the norm as it indicates Council has more current assets than current liabilities.

The main reasons why Council's current ratio declined this year are, in the main, threefold:

- Trade payables increased by \$183,000 over 2007. Shire staff indicated this was due to staffing vacancies experienced by Council late in the financial year resulting in trade payables not being managed.
- Unexpended grants increased by \$225,000 over 2007. This impacted Council's available unrestricted cash negatively.
- During the year Council bought a new grader. The net cash outflow to Council after taking into account the trade value received for the old grader and using plant replacement reserve funds of \$50,000 was \$96,000. This reduced available unrestricted cash significantly.

In summary, the three major causes of the decline in the current ratio would appear to be non-recurring in nature (ie unique to 2008) and not likely to repeat themselves in 2009.

**Comment on Financial Position (Continued)**

• **United Cash to Trade Creditors Ratio**

The untied cash to trade creditors ratio measures Council's ability to pay trade creditors in accordance with its normal trading terms and conditions. As at 30 June 2008, the ratio was 0.12 (12%) (2007:0.00) which indicates there were insufficient unrestricted short term funds to pay creditors.

Like the current ratio, a ratio greater than one (100%) indicates unrestricted funds (free cash) is in excess of short term creditor obligations.

Three items are mainly responsible for the ratio being below 100 % :

- Relatively low bank balance which is unrestricted;
- The abnormally high creditors at 30 June 2008 (see above); and
- The negative impact on municipal funds caused by the purchase of the grader (see above).

It is noted last year the untied cash ratio was zero. At that date Council had negative untied cash funds of \$43,511 as opposed to positive untied cash funds this year at \$52,710. This equates to a year on year swing of \$96,000 which indicates Council's cash balances have improved year on year.

• **Rate Coverage Ratio**

This ratio measures Council's dependence on rate revenue to fund operations.

The higher the ratio, the higher the dependency on rates, and the lower the dependency on government grants and other funding sources.

Typically Shire's of similar size to the Shire of Wagin should operate in the 0.35 to 0.45 (35% - 45%) range and even then can still experience difficulties depending on circumstances.

The Shire had a rate coverage ratio of 0.29 (29%) at 30 June 2008. The ratio has now steadily improved over the past few years from 24% in 2006 to the current 29% and we commend council on this achievement. However, the ratio is still considered low and may partially have contributed to past and current cash shortages at year end and is an indication Council remains reliant on external funding sources which are becoming less reliable.

Rate revenue is one of the few income areas upon which Council can expect some influence or level of control.

The challenge every Council faces is to continue to increase this ratio in the face of ever decreasing alternative funding sources (i.e. financial assistance grants).

We note Council increased rates by 6% for the 2008/09 year. This is at the same level as for the 2007/08 year.

Whilst this is in line with the official CPI, the "basket of goods" acquired by the Shire does not necessarily fit into the same category as those used to measure CPI. Consequently, by merely adopting CPI as a guide to rate rises, the Shire, in real terms, may be going backwards with respect to revenue growth. Council should again consider this matter when setting the 2009/10 budget.

In summary then, whilst we believe that Council's overall financial position is in reasonable shape, the short term liquidity position remains under pressure, particularly at year end. An added challenge for the Shire of Wagin is to increase its rates to levels which will balance the needs of the community with Council's need to improve the historically low rate coverage ratio.

We believe management and Council are aware of these challenges and will seek ways to address them in the years ahead.

**Road Infrastructure - Depreciation**

As in previous years, the calculation of depreciation on roads for the year ended 30 June 2008 was performed using a weighted average method.

From our testing and review, the depreciation expense arrived at appeared to be reasonable and no adjustment to the calculation was required.

However, we recommend that Council review the current method of recording and depreciating road infrastructure with a view to implementing a system which will allow each road to be dissected into its component parts. This will enable a more reliable record of Council's road network to be maintained as well as helping to ensure depreciation is correctly reflected.

**Electronic Payments**

As discussed in our financial management review report, we noted insufficient controls over the loading of EFT payments and changing of staff and creditors banking details.

Evidence suggests adequate preventative controls have not yet been established or implemented.

To ensure all payments made are bona fide and appropriately authorised, 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.

**Fixed Assets**

We noted that for three fixed asset categories the fixed asset register does not tie in to the general ledger.

In each case the general ledger is higher than the fixed asset register which could point to assets acquired not entered into the register, or to assets physically disposed of but not accounted for in the ledger.

We recommend this imbalance be investigated and corrected. This will help ensure Council maintains an accurate record of its fixed assets.

We advise that the effect on the depreciation for the year is not material.

We noted no other matters we wish to draw to Council's attention.



**Corrected and Uncorrected Misstatements**

We advise there was one corrected misstatement and two uncorrected misstatements noted by us during the course of our audit. This is shown in Appendix I to this letter

We take this opportunity to thank the Chief Executive Officer 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

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**SHIRE OF WAGIN  
APPENDIX 1  
FORMING PART OF THE MANAGEMENT REPORT  
FOR THE YEAR ENDED 30TH JUNE 2008**

**Corrected Misstatements**

	Dr (\$)	Cr (\$)
Restricted Cash Balance	224,809	
Unrestricted Cash Balance		224,809
Incorrect balance sheet disclosure		

**Uncorrected Misstatements**

	Dr (\$)	Cr (\$)
Unrestricted Cash Balance	2,860	
Sundry Income		2,860
Stale cheques to be reversed		
Fixed Assets	1,682	
Sundry Income		1,682
Imbalance between general ledger and fixed assets register		

**MINUTES OF THE STRUCTURAL REFORM PROJECT TEAM  
HELD ON MONDAY 19<sup>th</sup> MAY 2009 AT 6.00PM**

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**1) PRESENT:**

Cr P J Blight (Shire President)  
Cr G R Ball (Deputy Shire President)  
Cr JP Reed  
Cr J L C Ballantyne  
Cr G K B West

STAFF: Mr L J Calneggia Acting Chief Executive Officer

**2) Opened**

The meeting opened at 6.00pm

**3) Business**

**3.1 Item: Structural Review Project**

**Proponent:** Minister for Local Government  
**Reporting Officer:** Acting Chief Executive Officer

**Summary**

To consider the next phase of the reform process to determine matters relating to merger proposals for the Shire of Wagin and others.

**Background**

Following the Minister for Local Government announcement regarding reform the Project Team has completed the checklist and submitted it together with a covering letter was sent to the Local Government Reform Steering Committee on the 1<sup>st</sup> May 2009.

A reply was received by them as was a letter from the Honourable Premier (copies of correspondence is attached)

The 4WD VROC has met to discuss the issue and have sent a letter to the Minister advising that Council's do not want to amalgamate, but prefer to continue on the "joint sharing" path.

**Comment**

The author attended a Reform Strategy Workshop in Perth (see attached report) and came away from it thinking how difficult it will be to process the matter further. Councils are being asked to now:

- Determine appropriate elected member.
- Representation and methods for ensuring appropriate
- Community representation
- Consider Local Government Regional Groupings
- Community consultation with each affected Local
- Government and record comments
- Seek Local Government Funding Assistance for
- Preparation of reform submissions.
- Project team to start developing reform submissions.

## **Discussion**

The A/CEO suggested that the way forward and to maybe break the impasse that exists with other 4WD members is to undertake an exercise to develop financial projections for a “new” Local Government incorporating all or most of the WD councils. The projections will need to take into account assumptions for maintaining service delivery as currently exists amongst the current structure (e.g.: services such as number of ovals, library’s etc) and the staffing required to fulfil all the duties associated with the “umbrella” Local Authority. The resultant figures can then be compared say to each of the individual Local Authority projections to determine savings (if any) by such a merger of councils. This report could also form the basis on which council forms its submission to the reform steering committee. The aim of this exercise would be to also demonstrate to the Minister any benefit or otherwise of such a proposal.

To undertake this task would take up a large amount of staff time and it is suggested that the grant currently being offered from the Department of Local Government could be used for this purpose. Currently the 4WD council have agreed to each individually apply to the Department for these funds for their own individual or group use. The A/CEO advised that this approach could be mentioned at the next WD meeting which will be held in Dumbleyung on 26 May 2009.

It was suggested also that the Shire President should contact other 4 WD shire President’s as well, of other neighbouring councils to commence dialogue in respect to this matter.

It was also suggested that Wagin commence looking at its preferred position in relation to amalgamations/Mergers should the above actions not come to any fruition.

## **Statutory Environment**

N/A

## **Policy Implications**

N/A

## **Budget Implications**

May have some impact. \$10,000 available from DLGRD to undertake submission work.

## **Committee’s Recommendation**

By Consensus

- That the A/CEO propose at the next 4WD meeting that a financial projection report be undertaken to compare any benefits (or otherwise) of merging all or some of the member councils into one Local authority compared with the existing structures and that funding offered by the Department of Local Government be used for this purpose.
- That the Shire President commence dialogue with counterparts in neighbouring Local Authorities to determine each councils position regarding possible mergers.
- That the Wagin Shire Council looks at a preferred position regarding this issue notwithstanding any of the above actions.

## **CLOSURE**

The meeting closed at 8.15 pm.