



SHIRE OF NORTHAM

**NOTICE FOR
AUDIT COMMITTEE MEETING
COMMENCING AT
5:00 PM
WEDNESDAY
14 AUGUST 2013**

Councillors:

Please be advised that the next Audit Committee Meeting will be held as above.

**D R Gobbart
EXECUTIVE MANAGER CORPORATE SERVICES
9 August 2013**

SHIRE OF NORTHAM

SUMMARY OF AGENDA TO BE PRESENTED TO THE AUDIT COMMITTEE MEETING TO BE HELD ON 14 AUGUST 2013 AT 5:00 PM

	Page
1. DECLARATION OF OPENING AND WELCOME	1
2. DECLARATION OF INTEREST.....	1
3. ATTENDANCE	2
4. APOLOGIES	2
5. LEAVE OF ABSENCE.....	2
6. CONFIRMATION OF MINUTES	2
7. AGENDA ITEMS	3
7.1 APPOINTMENT OF AUDITOR.....	3
7.2 INTERIM AUDIT REPORT	6
8. CLOSURE OF MEETING	18

SHIRE OF NORTHAM

Notice and Agenda of an Audit Committee Meeting of Council to be held in the Council Chambers on WEDNESDAY, 14 August 2013 at 5:00pm

DISCLAIMER

No responsibility whatsoever is implied or accepted by the Shire of Northam for any act, omission or statement or intimation occurring during Council/Committee meetings or during formal/informal conversations with staff. The Shire of Northam 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/Committee meetings or discussions. Any person or legal entity who acts or fails to act in reliance upon any statement does so at that person's or legal entity's own risk.

In particular and without derogating in any way from the broad disclaimer above, in any discussion regarding any planning application or application for a licence, any statement or limitation of approval made by a member or officer of the Shire of Northam during the course of any meeting is not intended to be and is not taken as notice or approval from the Shire of Northam. The Shire of Northam warns that anyone who has an application lodged with the Shire of Northam must obtain and only should rely on **WRITTEN CONFIRMATION** of the outcome of the application, and any conditions attaching to the decision made by the Shire of Northam in respect of the application.

1. **DECLARATION OF OPENING AND WELCOME**

2. **DECLARATION OF INTEREST**

Parts of Division 6 Subdivision 1 of the Local Government Act 1995 requires Council members and employees to disclose any direct or indirect financial interest or general interest in any matter listed in this agenda.

The Act also requires the nature of the interest to be disclosed in writing before the meeting or immediately before the matter being discussed.

NB A Council member who makes a disclosure must not preside or participate in, or be present during, any discussion or decision making procedure relating to the disclosed matter unless the procedures set out in Sections 5.68 or 5.69 of the Act have been complied with.

3. ATTENDANCE

COUNCIL

President	Cr S B Pollard
Councillors	T M Little
	U Rumjantsev
	R W Tinetti
	D G Beresford
	J E Williams
	A W Llewellyn
Executive Manager Corporate Services	D R Gobbart

4. APOLOGIES

5. LEAVE OF ABSENCE

Cr R Head has been granted leave of absence between the following dates:
5 July 2013 to 30 September 2013

Cr K Saunders has been granted leave of absence between the following dates:
25 July 2013 to 20 August 2013

Cr D Hughes has been granted leave of absence between the following dates:
03 August 2013 to 18 August 2013

6. CONFIRMATION OF MINUTES

That the Minutes of the Audit Committee Meeting held on Wednesday, 13 March 2013 be confirmed as a true and correct record of that meeting.

7. AGENDA ITEMS

7.1 APPOINTMENT OF AUDITOR

Name of Applicant:	Internal Report
File Ref:	8.2.7.1
Officer:	Denise Gobbart
Officer Interest:	N/A
Policy:	Local Government Act 1995
Voting:	Absolute Majority
Date:	30/07/2013

PURPOSE

For Council to appoint Mr Wen-Shien Chai, registered company audit number 299761.

BACKGROUND

The drafting of the Local Government Act means individuals are appointed as the Shire’s auditor and are required to sign off the independent auditor report on the annual financial report in their own right.

Effective from 1 July 2013, Wen-Shien Chai has been appointed as a Partner of UHY Haines Norton. To provide greater flexibility and assist with the advancement of Mr Wen-Shien Chai, it is requested that Council resolve by absolute majority to add Mr Wen-Shien Chai as an auditor for the Shire of Northam.

The Shire of Northam currently has Mr D J Tomasi and Mr G Godwin as appointed auditors, on behalf of UHY Haines Norton.

STATUTORY REQUIREMENTS

Local government Act 1995 Section 7.3 Appointment of Auditors.

CONFORMITY WITH THE PLAN FOR THE FUTURE

N/A

BUDGET IMPLICATIONS

N/A

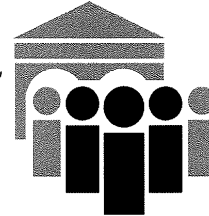
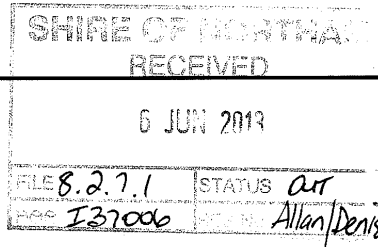
OFFICER’S COMMENT

Appointing Mr Wen-Shien Chai as an auditor for the Shire adds greater flexibility for signing off the Shire of Northam's audit report. This is particularly important when unforeseen circumstances occur.

RECOMMENDATION

That Council;

- 1. Appoint Mr When-Shien Chai, registered company auditor number 299761 as an auditor for the Shire of Northam.**



4 June 2013

Mr Allan Middleton
 Chief Executive Officer
 Shire of Northam
 PO Box 613
 NORTHAM WA 6401

Dear Allan,

**APPOINTED AUDITOR
 SHIRE OF NORTHAM**

We are pleased to announce, effective from 1 July 2013, Wen-Shien Chai (Chai) will join us as a Partner of the firm.

As you are aware the drafting of the Local Government Act means individuals are appointed as the Shire's auditor and are required to sign off the independent audit report on the annual financial report in their own right.

Currently, the Shire's appointed auditors are as follows:

ENGAGEMENT PARTNER (EITHER)	REGISTERED COMPANY AUDITOR NUMBER
Mr D J Tomasi	15724
Mr G Godwin	310219

To provide greater flexibility and to conform with the advancement of Chai to audit and engagement partner status as at 1 July 2013, we would ask you have Council resolve (by absolute majority) to add Chai as an auditor of the Shire.

Chai's details are as follows:

ENGAGEMENT PARTNER	REGISTERED COMPANY AUDITOR NUMBER
Mr Wen-Shien Chai	299761

It would be appreciated if you could provide us with a copy of the minute once the resolution has been passed.

Should you have any queries or would like to discuss this matter further, please contact me.

Kind regards


 GREG GODWIN
 PARTNER

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 f: +61 (0)8 9444 3430

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7.2 INTERIM AUDIT REPORT

Name of Applicant:	Internal Report
File Ref:	8.2.7.1
Officer:	Denise Gobbart
Officer Interest:	N/A
Policy:	N/A
Voting:	Absolute Majority Vote Required
Date:	10 March 2013

PURPOSE

For the Audit Committee to acknowledge the interim audit report that was conducted by the Shire’s auditor, UHY Haines Norton.

BACKGROUND

Interim Audit was undertaken on the 17 and 18 June 2013. UHY Haines Norton has been engaged by Council to conduct audit services for the Shire of Northam. As part of the audit process UHY Haines Norton conducted an interim audit that is mainly focused on administrative issues and governance compliance whereas the final audit is mainly focused on financial matters.

This report is to provide Council the information and action that is contained within the interim audit report.

STATUTORY REQUIREMENTS

Local Government Act (1995) Section 7.12A

CONFORMITY WITH THE PLAN FOR THE FUTURE

Key Result Area: The Shire Organisation.

Outcome: To operate in a sustainable manner.

BUDGET IMPLICATIONS

Nil

OFFICER'S COMMENT

The Auditor has raised a number of issues within the interim report that need to be addressed before the final audit is conducted.

The interim audit is not part of the formal audit reporting process and is for information purposes. If issues have not been addressed at the time of the final audit then items may be noted on the formal audit report or management letter.

Compliance

- 1.1 Investment Policy – the policy was reviewed and endorsed by Council at the ordinary meeting held 17 July 2013

Systems & Procedures

- 2.1 Purchases, Payments and Payables – On checking with the Auditors, some of the purchase orders relate to contracts that are in place. Staff have been instructed to create a standing order for a 12 month period, an example is Avon Waste rubbish collection. Debt Collection is another that the purchase orders are created after the invoice is received as we are not sure what actions are incurring charges after files are submitted to the collection agency. Issues were being had with Engineering, Building and Recreation.
- 2.2 Salaries and Wages – The reconciliation of salaries and wages was completed prior to the group certificates being run. The Executive Manager Corporate Services is ensuring that payroll is being reconciled after each pay run. This had stopped after a change in staff.
- 2.3 Electronic Fund Transfer – Our computer consultants have been contacted to ensure that the folder where the system created bank file is created can only be accessed by the Executive Manager and Accountant.
- 2.4 Rate Installment Notice – IT Vision have been contacted to change the system setting for the Installment notice. This is the first year that this has occurred all other notices generated correctly from the system.

Readiness to Adopt Fair Value Accounting

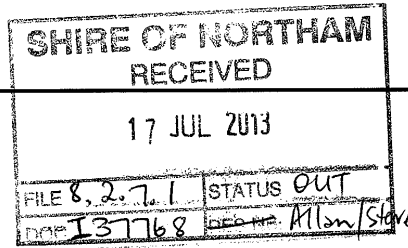
Significant work is being undertaken during the last few months with the Asset Register. Particular attention has been given to plant and equipment as Fair Value is to be reported as at 30 June 2013. We have engaged a heavy equipment dealer to value the heavy plant and equipment and are obtaining a Red Book Value certification for the light vehicles in the fleet.

We have a listing of easements within the shire and we are currently considering these to be reported as Intangible Assets. There are a significant number of easements within the shire.

Assessment of crown land is to be finalised in relation to sporting or recreational facilities of State or regional significance. The major concern here is the harness racing facility at Burwood Park. Serious consideration is needed as to the worth of having the land vested with the harness racing club as opposed to the shire. Currently we don't have the major buildings at this location recorded in our Asset Register.

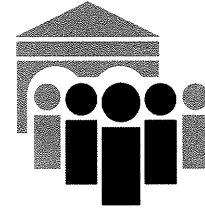
RECOMMENDATION

That the interim audit report for 2012-2013 as attached, be noted.



15 July 2013

Cr S B Pollard
The Chair
Audit Committee
Shire of Northam
Fitzgerald Street
NORTHAM WA 6401



Dear Cr Pollard

INTERIM AUDIT VISIT

We have completed our onsite procedures in respect of our interim audit visit on 17 to 18 June 2013 and attach a list of matters raised with management during our exit meeting.

Please note, we will follow these up during our final visit later in the year to help ensure appropriate action has been implemented.

This letter, together with the attached matters are provided for the purposes of general information only and are not part of our formal audit reporting process. Our audit and management reports will be formally issued at the conclusion of our audit in respect of the year ended 30 June 2013.

If you have any queries regarding these or other matters, please contact me.

Yours sincerely


GREG GODWIN
PARTNER

cc: Mr Alan Middleton – Acting Chief Executive Officer

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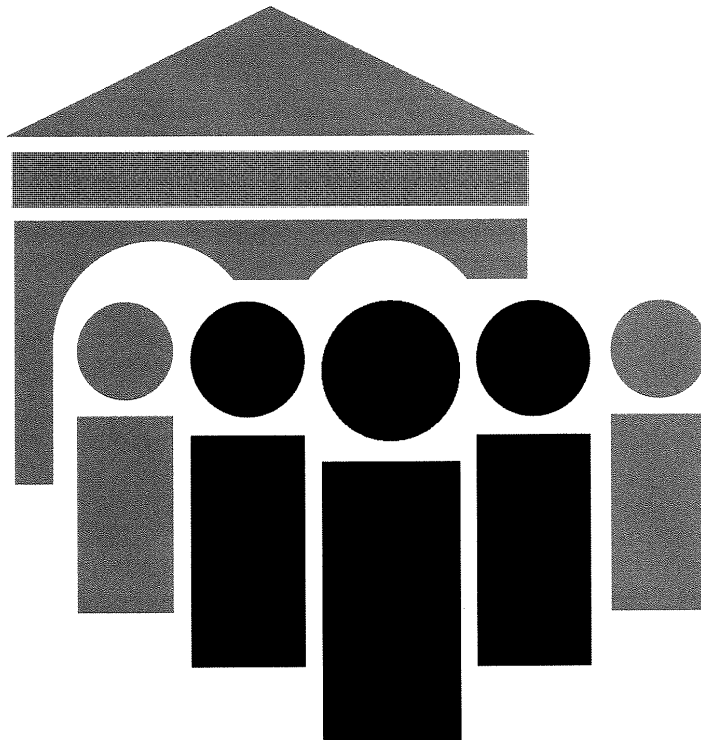
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SHIRE OF NORTHAM

INTERIM AUDIT VISIT
YEAR ENDED 30 JUNE 2013
MATTERS NOTED & REQUIRING FOLLOW UP



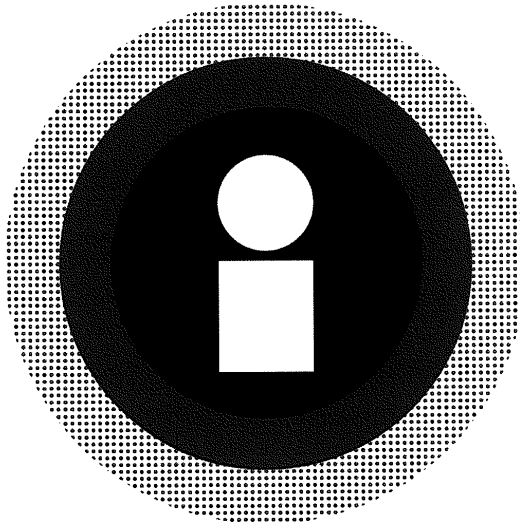
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CONTENTS

PAGE

1.0 Compliance	3
2.0 Systems and Procedures	4
3.0 Readiness to Adopt Fair Value Accounting	6



1.0 COMPLIANCE

1.1 INVESTMENT POLICY

OBSERVATION

Our review of Council's investment Policy noted the policy has not been reviewed or amended following the amendment of Local Government (Financial Management) Regulation 19C in which the types of investments a Council may invest in have been restricted.

COMMENT

To help ensure compliance with statutory provisions the investment policy should be reviewed and updated, as applicable, for the requirements of Financial Management Regulation 19C.

Note: This document is for audit purposes only to document matters discussed with management and is not intended to express nor imply any opinion or assurance. It should be read in conjunction with our covering letter in respect of our interim audit visit.

UHY HAINES NORTON
CHARTERED ACCOUNTANTS



2.0 SYSTEMS AND PROCEDURES

2.1 PURCHASES, PAYMENTS AND PAYABLES

OBSERVATION

We noted instances where purchase orders were raised after the goods or services were received.

COMMENT

All authorised officers should be “reminded” of the need to ensure purchase orders are raised prior to the time of authorising works/services or ordering goods. This will help to ensure goods/services have been appropriately ordered and authorised, and also helps ensure budget responsibility.

Purchases made without orders may commit the Shire to unauthorised expenditure. It is important for all purchasing to follow a documented procedure to control expenditure and ensure the dollar value limits set for staff are not exceeded.

Whilst we acknowledge compensating controls exist whereby the relevant expenditure is controlled by budgets and spending limits, ensuring purchase orders are written out and matched to invoices provides a higher level of control.

2.2 WAGES AND SALARIES

OBSERVATION

Reconciliations of salaries and wages as per the general ledger to payroll reports have not been performed since January 2013.

COMMENT

To help ensure salaries and wages are complete and correctly posted to the general ledger, salaries and wages reconciliations should be prepared on a more regular basis.

The reconciliations should also be reviewed by a senior staff member independent of preparation. The independent review should seek to confirm the accuracy of the reconciliation and should be evidenced accordingly.

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UHY HAINES NORTON
 CHARTERED ACCOUNTANTS



2.0 SYSTEMS AND PROCEDURES (CONTINUED)

2.3 ELECTRONIC FUNDS TRANSFER

OBSERVATION

We noted the system for the changing of staff and creditors banking details is not adequately supervised.

The current system allows the employee who prepares EFT payments to change bank account details at various stages of the payment process without adequate supervisory control.

This may result in unauthorised changes to the banking details used for EFT payments causing losses to Council if not detected at the point of authorisation.

COMMENT

To help ensure all payments made are bona fide and appropriately authorised, further investigation and implementation of appropriate higher level control measures that are preventive (rather than detective) in nature should be implemented.

The system should be amended so that any changes to banking details can only be made by staff independent of the payment preparation process. All changes made to the creditors'/employees' details in Synergy should be supported by written authority for the change from the creditors/employees.

In addition, any changes made to bank account details should be reported by the system (i.e. audit trail report) on a regular basis. An independent officer should verify changes made to supporting documentation.

A procedure whereby bank account details are randomly verified at the point of payment would also be considered good practice.

2.4 RATE INSTALMENT NOTICE

OBSERVATION

Whilst reviewing the rate instalment notice we noted the wrong financial year was printed on the notice.

COMMENT

To help ensure the integrity of rate instalment notices sent to ratepayers a review process with a suitable checklist should be utilized prior to notices being sent to ratepayers.

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3.0 READINESS TO ADOPT FAIR VALUE ACCOUNTING

OBSERVATION

As mandated by Financial Management Regulation 17A, a local government in Western Australia must show all of the assets in its financial report at fair value by 30 June 2015.

Implementation is to be phased in over three years from 1 July 2012 and commences with all plant and equipment being reported at fair value for the financial year ending 30 June 2013. During our interim audit visit, we made observations and held discussions with a view to assessing the Shire’s readiness for meeting the requirements and noted the following:

MAJOR TASK REQUIRED	OBJECTIVE	STATUS
Design of an overall strategy and plan.	To ensure resources are available and organised for proper implementation and hence compliance with regulations in respect to fair value reporting. This also helps to ensure external services are scoped properly.	Staff indicated the Shire will implement this mandatory requirement over three years starting with valuation of plant and equipment in accordance with Financial Management Regulation 17A(3). Staff have considered the process and plan to utilise internal resources for valuation of plant and equipment. For other classes of assets, a mixture of internal resources and external services will be used. The plan is yet to be documented.
Selection of the valuation method (including fair value hierarchy) for different classes or segmentation of assets.	To ensure the most appropriate approach and hierarchy of fair value inputs for valuation techniques are applied.	Staff have considered this for valuation of plant and equipment and will do so for all other classes of assets in due course.
Consideration and application of Highest and Best Use valuation principles	To help ensure proper disclosure in accordance with paragraph 93 of AASB 13 “Fair Value Measurement” i.e. need to disclose fact and why an asset is being used in a manner different from its highest and best use.	Staff will consider for valuation of plant and equipment where applicable. All other classes of assets will be considered in due course.
Review of accounting policies in respect of fair value reporting and disclosure requirements.	To ensure fair value accounting and relevant disclosure requirements are properly incorporated and adopted for financial reporting purposes.	Staff have just started to consider this for plant and equipment and will do this for all other classes of assets in due course. The UHY Haines Norton Shire of Somewhere template will be considered in this regard.

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3.0 READINESS TO ADOPT FAIR VALUE ACCOUNTING (CONTINUED)

OBSERVATION (CONTINUED)

MAJOR TASK INVOLVED	OBJECTIVE	STATUS
Review of Assets Capitalisation Policy for fair value reporting purposes.	To help ensure capitalisation thresholds for different classes of assets are reasonable in term of materiality and practicality.	Staff has started to consider this for plant and equipment and will do this for all other classes of assets in due course. Applicable rates per the Local Government Accounting Manual will be considered for this purpose.
Review of current fixed assets system and records for fair value reporting purposes.	To help ensure the asset system and records are up-to-date and complete with all information required (including asset hierarchy with appropriate segmentation, condition, initial cost, previous revaluation increment and etc), prior to the commencement of the valuation. Also, this helps to ensure detailed information (i.e. initial cost recognised, fair value, annual useful life & residual value, basis and support of valuation etc) for each individual asset is adequately maintained post revaluation.	Staff has started to consider this for plant and equipment and will do this for all other classes of assets in due course.
Identification and recognition (at fair value) of Crown land or other land not owned but operated by the Council either as a golf course, showground, racecourse or any other sporting or recreational facility of State or regional significance.	To help ensure proper compliance with Financial Management Regulation 16(a) and fair value accounting.	Staff are yet to consider this and will do so for the year ending 30 June 2013 as required by Financial Management Regulation 16.
Identification and recognition (at fair value) of easements within the Shire as intangible assets.	To help ensure proper compliance with AASB 138 "Intangible Assets", Financial Management Regulation 16(b)(ii) and hence proper financial reporting.	Staff are yet to consider this and will do so for the year ending 30 June 2013 as required by Financial Management Regulation 16.

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UHY HAINES NORTON
 CHARTERED ACCOUNTANTS



3.0 READINESS TO ADOPT FAIR VALUE ACCOUNTING (CONTINUED)

OBSERVATION (CONTINUED)

In summary, staff are aware of the mandated requirements and the timing involved in adopting fair value for reporting different classes of assets. At the time of our visit, staff have started considering the process for revaluation of plant and equipment and indicated internal services will be utilised.

This process will commence with a review of asset records and capitalisation thresholds.

In addition, staff will commence the process of identifying land and easements as required by Financial Management Regulation 16.

For other classes of assets, staff will consider and deal with the tasks as identified above in due course.

COMMENT

We will follow up at year end with a view to ensuring fair value accounting for plant and equipment has been addressed and adequate progress has been made in respect of other classes of assets.

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UHY HAINES NORTON
 CHARTERED ACCOUNTANTS



8. CLOSURE OF MEETING