



Shire of
YILGARN

“good country for hardy people”

*Audit
Committee
Meeting
Minutes*

2nd May 2019

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1. DECLARATION OF OPENING

The Chairperson declared the meeting open at 5:00pm

2. ATTENDANCE

Cr O Truran	Member	(Chair)
Cr B Close	Member	
Cr G Guerini	Member	
Cr P Nolan	Member	
Cr D Pasini	Member	
Mrs. J Della Bosca	Community Member	
Mr. P Clarke	Chief Executive Officer	
Mr. C Watson	Executive Manager Corporate Services	
Mrs. N Mwale	Finance Manager	
Apologies:	Cr S Shaw	Member
	Cr W Della Bosca	Member
Observers:	Nil	
Leave of Absence:	Nil	

3. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

3.1 Audit Committee Meeting, Friday 21st February 2019 - (Minutes Attached)

AC4/2019

Moved Cr Guerini/Seconded Cr Close

That the minutes from the Audit Committee Meeting held on the 21st February 2019 be confirmed as a true record of proceedings.

CARRIED (5/0)

4 PRESENTATIONS

Council's appointed Auditor Mr Wen-Shien Chai joined the Committee meeting at 5:02pm via teleconference to explain the purpose of the Audit Entrance Meeting with the committee. Mr Chai indicated the Audit Entrance Meeting is intended to formalise and promote effective communication between Councils Audit Committee and Councils Auditor in a more structured process, which is the Office of Auditor Generals preferred method.

Mr Chai went on to briefly discuss the contents of the Audit Strategy Memorandum document that was to be presented to the Committee. Mr Chai highlighted the additional work that will

be required with the implementation of several new accounting standards and went on to mention amendments to the Local Government Act 1995 and associated Regulations that could impact Councils financial reporting, these included fair value reporting being increased from 3 years to 5 years for each asset category.

Finally, Mr Chai discussed the process for the auditors signing off on the annual financial report. This included that the Audit Exit Meeting will discuss the draft audit reports with the Auditor and Chief Executive Officer signing off on the reports once the Audit Committee has discussed them. It was highlighted that this will require several Audit Committee meetings to get to a point of presenting the final report to Council and as a result, early completion of the audit process is necessary.

Mr Wen-Shien Chai left the meeting at 5:20pm.

5. Officers Report - Executive Manager Corporate Services

5.1 2018/19 Annual Financial Audit – Audit Strategy Memorandum

File Reference	8.2.2.1
Disclosure of Interest	Nil
Voting Requirements	Simple Majority
Attachments	Confidential Attachment 1 – 2018/2019 Audit Strategy Memorandum.

Purpose of Report

The purpose of this report is to provide the Audit Committee details of the Audit Strategy Memorandum as provided by the Shire's Auditors, Moore Stephens WA.

Background

As Council's current audit agreement with Moore Stephens Pty Ltd will be in force until the completion of the 2020/2021 audit, the requirements of Regulation 7 of the Local Government (Audit) Regulations 1996 are currently complied with. These requirements are:

7. Agreements with auditors, contents of

An agreement between a local government and an auditor is to include —

- (a) the objectives of the audit; and
- (b) the scope of the audit; and
- (c) a plan for the audit; and
- (d) details of the remuneration and expenses to be paid to the auditor; and
- (e) the method to be used by the local government to communicate with, and supply information to, the auditor.

Comment

Moore Stephens Pty Ltd have requested that the Audit Committee review and note the attached *Audit Strategy Memorandum* as part of the familiarisation and preparation process for when Council is audited by the Office of the Auditor General (OAG).

Once Council transitions to being audited by the AOG, it is anticipated that there will be an audit agreement with the OAG to satisfy the requirements of Regulation 7 of the Local Government (Audit) Regulations 1996, but this is expected to be on an annual basis and include an Audit Strategy as evidenced by the following excerpt for the AOG's "*Audit Practice Statement*".

The audit process

All of the audits we perform have similar elements, as demonstrated by the following table.

Phase	Level of activity	Financial statement audit	Performance audit
Planning	Preliminary planning	Establish the terms of engagement and agency service requirements. Select the audit team. Generally we refer to the <i>Financial Management Act 2006</i> .	Topic selection process identifies priority topics. This process is further explained on page 14. Select the audit team. Proposal and plan for preliminary audit developed and approved.
		Assess and respond to engagement risk. Assess and respond to entity risk. Assess and respond to system risk. Understand the agency's business, control environment and accounting process. Perform preliminary analytical procedures and determine planning materiality.	Agency CEO notified of preliminary audit and lines of inquiry. Communication protocols agreed. Gather and analyse evidence to determine scope, lines of inquiry, criteria and availability and reliability of audit evidence.
	Develop audit plan	Assess audit risk at the financial statement and assertion level and determine the audit strategy and audit plan including: • specific risk identification • reliance on control activities • level of substantive testing including analytical review procedures and other substantive procedures. Discuss audit strategy and plan, timetable and estimated cost with agency's audit committee/management at entrance interview.	Deliver preliminary audit report to confirm benefits of proceeding with audit now. Quality threshold 1 hot review and approval to proceed. Develop audit plan and program.
Execution	Perform audit plan	Perform tests of controls (if applicable) and substantive tests, and evaluate results. Perform information systems reviews and evaluate results. Perform financial statement and performance indicator audits, and evaluate results.	Conduct fieldwork, collect and progressively analyse evidence. Keep agency informed of progress and emerging findings.
Agency reporting	Conclude and report	Perform subsequent events review, obtain management and solicitors representations, and prepare audit summary memorandum. Form audit opinion and report findings to agency in draft management letter. Form final audit opinion and report findings to agency in final management letter and at an exit interview with agency's audit committee/management. Provide audit opinion for inclusion in agency's annual report, for tabling in Parliament by the Minister within 90 days of agency's end of financial year. Advise Minister of management letter items raised with the agency.	Develop and test findings, conclusions and recommendations. Deliver indicative findings report (IFR). Quality threshold 2 hot review. Approval to proceed to draft summary of findings Discuss IFR/management letter findings with CEO or senior management in each agency reviewed.

Statutory Environment

There are no statutory requirements requiring the Audit Committee to consider an "Audit Strategy Memorandum" at this time.

Strategic Implications

There are no strategic implications as a result of this report.

Policy Implications

There are no policy implications as a result of this report.

Financial Implications

There are no financial implications as a result of this report.

Officer Recommendation

AC5/2019

Moved Cr Nolan/Seconded Cr Close

That the Audit Committee note the Audit Strategy Memorandum as provided by the Shire's Auditors, Moore Stephens WA as detailed in the Confidential Attachment.

CARRIED (5/0)

5. Officers Report - Executive Manager Corporate services

5.2 2018/19 Fraud and Error Assessment

File Reference	8.2.3.1
Disclosure of Interest	Nil
Voting Requirements	Simple Majority
Attachments	Attachment 1 – Fraud & Error Assessment by the Audit Committee.

Purpose of Report

The Audit Committee is requested to endorse the 2018/2019 Fraud and Error Assessment.

Background

Australian Audit Standards, ASA 240 - *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report (as amended to 30 May 2017)*, requires Councils appointed auditor to make enquiries of both management and those charged with governance of the Shire as to their assessment of the risk that the financial report may be materially misstated due to fraud and or error.

Comment

The Local Government Act 1995, s7.10 – Power of Auditor, s7.11 – Power to Demand Production of Books Etc. and s7.12A Duties of a Local Government with Respect to Audits requires Council and management to supply or make available all information requested by Councils auditor. The requirement to provide an assessment of possible fraud or error as required by ASA 240 would fall within the requirements of these sections of the Act.

Statutory Environment

Local Government Act 1995

7.10. Powers of auditor

- (1) An auditor —
 - (a) has a right of access at all reasonable times to such books, accounts, documents and assets of the local government as are, in the opinion of the auditor, necessary to allow the audit to be conducted; and
 - (b) may require from a member or an employee of the local government —
 - (i) any book, account, document or asset of the local government; or
 - (ii) any information, assistance or explanation, necessary for the performance of the duty of the auditor in relation to the audit; and

- (c) may, at the expense of the local government obtain and act upon a legal opinion on a question arising in the course of an audit.
- (2) In this section and in section 7.11 **employee** includes a person who has a contract for services with the local government.

7.11. Power to demand production of books etc.

For the purpose of an audit, inspection or inquiry, an auditor has authority at all reasonable times and without notice to demand from the local government and its employees, the production of books, accounts, vouchers, papers, documents, records, assets and cash in hand, belonging to the local government or being in the custody or control of it or any of its employees.

7.12A. Duties of local government with respect to audits

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

by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.

[Section 7.12A inserted by No. 49 of 2004 s. 8.]

Auditing Standard ASA 240 - The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report

Management and Others within the Entity

18. The auditor shall make enquiries of management regarding:

- (a) Management's assessment of the risk that the financial report may be materially misstated due to fraud, including the nature, extent and frequency of such assessments; (Ref: Para. A13-A14)
- (b) Management's process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist; (Ref: Para. A15)
- (c) Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; and
- (d) Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.

19. The auditor shall make enquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. (Ref: Para. A16-A18)

Those Charged with Governance

- 21. Unless all of those charged with governance are involved in managing the entity, the auditor shall obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. (Ref: Para. A20-A22)
- 22. Unless all of those charged with governance are involved in managing the entity, the auditor shall make enquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. These enquiries are made in part to corroborate the responses to the enquiries of management.

Strategic Implications

There are no strategic implications as a result of this report.

Policy Implications

There are no policy implications as a result of this report.

Financial Implications

There are no financial implications as a result of this report.

Officer Recommendation

AC6/2019

Moved Cr Guerini/Seconded Cr Pasini

That the Audit Committee:

- **believe that the current policies and procedures adopted by Council are adequate to minimise the risk of fraud.**
- **is not aware of any occasions where these policies and procedures have not been adhered to resulting in fraud.**
- **is not aware of any occasion when fraud has occurred during the past year.**
- **does not have at this time any issues that it would like the auditors to consider over and above the current audit process.**

CARRIED (5/0)

6 CLOSURE

With there being no further business to discuss the Chairperson declared the meeting closed at 5:26pm.