



## AUDIT AND RISK MANAGEMENT COMMITTEE MEETING

# MINUTES

SECTION 5.9(2)(a) LGA 1995

### Committee Brief

1. *Provide guidance and assistance to the local government -*
  - a) *as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and*
  - b) *as to the development of a process to be used to select and appoint a person to be an auditor; and*
2. *May provide guidance and assistance to the local government as to -*
  - a) *matters to be audited; and*
  - b) *the scope of audits; and*
  - c) *its functions under Part 6 of the Act; and*
  - d) *the carrying out of its functions relating to other audits and other matters related to financial management; and*
3. *Is to review a report given to it by the CEO under Regulation 17(3) (the CEO's report) and is to -*
  - a) *report to the Council the results of that review; and*
  - b) *give a copy of the CEO's report to the Council.*

A meeting of the Audit and Risk Management Committee was held in the Committee Room, Lowood Road, Mount Barker WA 6324, at 5.00pm Tuesday 21December 2021.

  
Cameron Woods  
CHIEF EXECUTIVE OFFICER

### Committee Members

C Pavlovich, Cr A Fraser, Cr M O'Dea and Cr K Woltering (Council 171/21)

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**Membership**

C Pavlovich (Presiding Member)

Cr A Fraser

Cr M O'Dea

Cr K Woltering

Cr J Oldfield (Deputy for any member)

## 1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

5.00 pm The Presiding Member declared the meeting open.

## 2 RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE

### Members Present

Cr C Pavlovich – Presiding Member  
Cr M O’Dea  
Cr K Woltering

### Members on Leave of Absence

Cr M O’Dea

### Staff

Mr C Woods – Chief Executive Officer  
Mr J Fathers – Deputy Chief Executive Officer  
Mrs D Marsh – Senior Finance Officer

### Apologies

Cr A Fraser

## 3 CONFIRMATION OF MINUTES

Moved Cr C Pavlovich, seconded Cr K Woltering:

**That the Minutes of the Ordinary meeting of the Audit and Risk Management Committee, held on 23 February 2021 as circulated, be taken as read and adopted as a correct record.**

**CARRIED**

## 4 DISCLOSURE OF INTEREST

Part 5 Division 6 Local Government Act 1995

Nil

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## 5 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

### 5.1 ANNUAL REPORT - YEAR ENDING 30 JUNE 2021

<b>File Ref:</b>	<b>N56276</b>
<b>Attachment:</b>	<u>Annual Report – Year End 30 June 2021</u> (Separate Attachment)
<b>Responsible Officer:</b>	<b>Cameron Woods</b> <b>Chief Executive Officer</b>
<b>Author:</b>	<b>John Fathers</b> <b>Deputy Chief Executive Officer</b>
<b>Proposed Meeting Date:</b>	<b>21 December 2021</b>

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#### **PURPOSE**

The purpose of this report is to accept the Shire of Plantagenet's 2020/2021 Annual Report.

#### **BACKGROUND**

The annual financial audit for 2020/2021 was conducted by representatives of the Council's auditors, Lincolns (on behalf of the Office of the Auditor General) in October 2021.

#### **STATUTORY ENVIRONMENT**

Local Government Act 1995

Section 5.54 (1) states '*subject to subsection (2) the Annual Report for a financial year is to be accepted by the local government no later than 31 December after that financial year.*' (Absolute Majority required).

#### **EXTERNAL CONSULTATION**

Not applicable.

#### **FINANCIAL IMPLICATIONS**

There are no financial implications for this report.

#### **BUDGET IMPLICATIONS**

There are no budget implications for this report.

#### **POLICY IMPLICATIONS**

There are no policy implications for this report.

#### **LEGAL IMPLICATIONS**

There are no legal implications for this report.

#### **ASSET MANAGEMENT IMPLICATIONS**

There are no asset management implications as no assets are being created or acquired.

## **STRATEGIC IMPLICATIONS**

The Shire of Plantagenet Strategic Community Plan 2017-2026 provides at Outcome 4.2 (Effective engagement with the community and stakeholders) the following Strategy:

Strategy 4.2.1:

*'Keep the community well informed on Council initiatives'*

Accordingly, the recommended outcome for this report aligns with the Strategic Community Plan.

## **STRATEGIC RISK IMPLICATIONS**

There are no strategic risk implications for this report.

## **REGIONAL IMPLICATIONS**

There are no regional implications for this report.

## **OFFICER COMMENT**

The Annual Report notes that a number of key items of infrastructure and plant were progressed during 2020/2021, including:

- Capital roadworks and drainage improvements totalling \$3.14 million as well as footpath renewals totalling approximately \$64,000.00.
  - Additions to the Dr Christopher Bourke Medical Centre building, including six doctor consulting rooms, one physiotherapy room, one allied health professional room as well as internal alterations to the foyer and waiting room areas.
  - Construction started on a raised steel boardwalk on Mount Barker Hill. This attraction will provide views for walkers and stargazers from the south-western side of the hill.
  - Construction of a new toilet facility at Frost Park, comprising separate universal access male and female toilets in the existing tote room.
  - Replacement of the box gutter along the front of the CRC and construction of a short section of walkway on the roof.
  - Initiated by the Plantagenet Historical Society, a fire resistant archive repository was built at the museum complex, attached to the Second Police Station/Student Hostel building.
  - Following a series of assessments of the condition of Mount Barker Memorial Swimming Pool, works began on Stage 1A of the swimming pool upgrade, which will provide a new administration and changeroom building and associated earthworks, retaining walls and hard landscape.
  - New playgrounds were installed at the Kendenup Hall and in Bonnyup Park, Mount Barker.
  - Work continued on the Water Strategy 2020 recommendations, with work being completed on the pipework and electrical conduit to allow pumping from Frost Dam into the Training Track Dam.
  - Works also began on a refurbishment of the CEO staff house.
  - A Croner truck UD PK 18 280 and Isuzu 3 tonne tipper NPR75-190 were purchased, as well as six light vehicles being changed over.
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Some notable events held during the year were:

- Recognising the history and heritage of our past, the 150th Anniversary luncheon was held for past and present Councillors and CEOs. The event brought together many generations of leaders that had a hand in shaping the Shire with many stories to be told.
- On 13 February 2021, the Shire held the Thank a Volunteer Sundowner with approximately 150 volunteers in attendance representing 39 community groups. The evening was held to thank all volunteers for their hard work and selfless commitment throughout the year.
- To celebrate Seniors Week 2020, the Shire together with Empowering Plantagenet Seniors (EPS) held another successful Seniors Expo on Friday 20 November 2020. The Expo took place at the newly established EPS Hub at the Lesser Hall with 15 exhibitors and approximately 60 seniors in attendance throughout the morning.

In line with projects identified in the Shire's Corporate Business Plan, planning of a number of major projects was progressed, including:

- Developing plans to upgrade the pull in bay on Albany Highway as well as signage, fencing and tree planting on the highway and streets leading to the CBD.
- Fabrication and erection of a mural art wall, viewing platform and parking bay on Albany Highway, which will feature a mural painted by the Walldogs when their next visit from the USA can be scheduled.
- In April 2021 an evidence base for a Shire of Plantagenet Housing Strategy was presented to the Council. This document combined significant community and industry consultation with data analysis on issues that impact housing in Plantagenet.
- At its meeting held on 14 July 2020, the Council agreed to enter into a contract for the replacement of a corporate software system with IT Vision. The implementation started in November 2020 and the finance modules were implemented on 1 July 2021.

In terms of the Shire's financial situation, rate revenue increased from \$6.801 million in 2019/2020 to \$6.805 million in 2020/2021. Outstanding borrowings reduced from \$2.12 million in 2019/2020 to \$1.86 million in 2020/2021.

The Council spent \$530,804 on buildings and \$407,624 on parks and ovals and other infrastructure. The amount spent on roads, drainage and footpaths was \$3,207,962 with \$437,883 on purchases of plant, furniture and equipment.

The level of reserve funds increased from \$3,596,265 in 2019/2020 to \$3,807,376 in 2020/2021. The level of unrestricted cash at year end increased from \$1,519,153 to \$2,338,128.

The Council received grants and contributions for the development of assets of \$2.62 million in 2020/2021. Total grants and contributions received was \$6.76 million.

The level of year end rates debtors decreased from \$452,663 to \$340,959.

The Council granted the Mount Barker Golf Club Inc a self-supporting loan of \$70,000.00 to finance the replacement of a synthetic bowling carpet, over a three year term.

Other activities carried out throughout the year have been reported on extensively within the Annual Report.

The General Meeting of Electors has been scheduled for 6.00pm on Tuesday 21 December 2021.

**VOTING REQUIREMENTS**

Absolute Majority

**RECOMMENDATION / COMMITTEE DECISION**

Moved Cr M O'Dea, seconded Cr K Woltering:

That it be a recommendation to the Council that:

That the Annual Report for the year ended 30 June 2021 as attached, be accepted.

**CARRIED**

**Absolute Majority**



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## 5.2 AUDIT REPORT AND REPORT ON SIGNIFICANT ADVERSE TRENDS - YEAR ENDING 30 JUNE 2021

<b>File Ref:</b>	<b>N56727</b>
<b>Attachment:</b>	<u>2020/2021 Final Audit Opinion</u> <u>Interim Audit Report</u> <u>Draft Report on Significant Adverse Trends in</u> <u>Financial Position – 2020/2021</u>
<b>Responsible Officer:</b>	<b>Cameron Woods</b> <b>Chief Executive Officer</b>
<b>Author:</b>	<b>John Fathers</b> <b>Deputy Chief Executive Officer</b>
<b>Proposed Meeting Date:</b>	<b>21 December 2021</b>

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### PURPOSE

The purpose of this report is to present the Annual Financial Audit and Interim Management Report for the year ending 30 June 2021 and to endorse a report to the Minister for Local Government advising what action has and will be taken in respect to matters raised within the audit report in terms of significant adverse trends.

### BACKGROUND

In October 2021, representatives of Lincolns (on behalf of the Office of the Auditor General) attended the Shire office to conduct an end of year audit for 2020/2021. It should be noted that the audit is designed primarily to enable the auditors to form an opinion on the financial statements and therefore does not extend to all of the Council's systems and procedures.

### STATUTORY ENVIRONMENT

Local Government Act 1995

Section 7.12A (3) and (4) of the Act states the following:

- (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 taken 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(5) further requires that:

*'Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.'*

**EXTERNAL CONSULTATION**

Consultation has occurred with the Shire's auditors in regard to this report.

**FINANCIAL IMPLICATIONS**

There are no financial implications for this report.

**BUDGET IMPLICATIONS**

The 2020/2021 budget includes a sum of \$45,000.00 for end of year and interim audit costs.

**POLICY IMPLICATIONS**

There are no policy implications for this report.

**LEGAL IMPLICATIONS**

There are no legal implications for this report.

**ASSET MANAGEMENT IMPLICATIONS**

There are no asset management implications as no assets are being created or acquired.

**STRATEGIC IMPLICATIONS**

The Shire of Plantagenet Strategic Community Plan 2017-2026 provides at Outcome 4.6 (Effective and efficient corporate and administrative services) the following Strategy:

Strategy 4.6.1:

*'Provide a full range of financial services to support Shire's operations and to meet planning, reporting and accountability requirements.'*

Accordingly, the recommended outcome for this report aligns with the Strategic Community Plan.

**STRATEGIC RISK IMPLICATIONS**

The Strategic Risk Register provides for a number of key controls in order to fulfil statutory and regulatory compliance requirements. Those controls are rated as either effective or adequate.

**REGIONAL IMPLICATIONS**

There are no regional implications for this report.

**OFFICER COMMENT**

A copy of the audit report and management reports (interim and final) are attached. The management report focuses on the Shire's current position with respect to two of the statutory financial ratios in Note 33. The trend in regard to the ratios is shown in the table below (Note that some 2020 ratios have been amended due to recognition of accrued storm damage grant income):

<b>Financial Ratios</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Current Ratio	0.79	0.96	0.74	1.33	1.36 0.89	1.81
Asset Sustainability Ratio	0.49	0.68	0.48	0.60	0.76	0.71

Debt Service Cover Ratio	3.56	7.25	3.85	9.59	4.38 <del>3.38</del>	7.91
Operating Surplus Ratio	-0.59	-0.29	-0.47	-0.18	-0.20 <del>-0.28</del>	-0.19
Own Source Revenue Coverage Ratio	0.55	0.60	0.58	0.62	0.62	0.65
Asset Consumption Ratio	0.47	0.52	0.54	0.69	0.68	0.66
Asset Renewal Funding Ratio	0.66	0.92	1.02	0.88	0.86	0.89

### Interim Audit

The following finding was made in the interim audit, conducted by Lincolns in June 2021.

#### *Finding*

*It was noted during payroll testing that while the audit trail report for payroll master file amendments for pay periods ended 9<sup>th</sup> December 2020, 17<sup>th</sup> March 2021 and 9<sup>th</sup> June 2021 were printed and saved with the payroll batch reports, there was no clear evidence of review by an appropriate person. Additionally, the audit trail reports for pay periods ended 3<sup>rd</sup> February 2021 and 28<sup>th</sup> April 2021 were not printed, reviewed or filed with the payroll reports.*

*Rating: Moderate*

#### *Implication*

*Review of the audit trail report for the payroll master file is an important step in the payroll process as it allows any unauthorised changes to the payroll master file to be identified and followed up.*

#### *Recommendation*

*The payroll master file amendments audit trail report should be produced for all payroll runs, reviewed for any unauthorised changes, signed as reviewed by the reviewer and filed with the relevant payroll batch reports.'*

#### Management Comment:

It is acknowledged that during 2020/2021, there were some occasions where staff did not produce the audit trail at the time of the payroll and these were not followed up by a reviewing officer. Most of the instances referred to above were in a period where the former Senior Finance Officer (SFO) left on long term sick leave in November 2020 and a replacement SFO was appointed in March 2021. The audit trail reports produced by the Shire's business system during 2020/2021 were also somewhat deficient in their ease of use and understanding.

From July 2021, we have implemented a new business system, which produces the audit trail reports in a much better format. It is our practice now for these reports to be printed along with other payroll reports which are reviewed and signed off prior to payroll authorisation.

### Final Audit

A key audit requirement requires the auditor to identify any financial trends which it considers adverse and of concern. For the 30 June 2021 year, the auditor has raised the following significant matters.

*'Emphasis of Matter - Restatement of comparative balances*

*I draw attention to Note 29 to the financial statements which states that the amounts reported in the previously issued 30 June 2020 financial report have been restated and disclosed as comparatives in this financial report. My opinion is not modified in respect of this matter.'*

This comment relates to an amendment to the 2019/2020 figures to recognise additional income of \$794,811 which had been expended on storm damage rectification and therefore accrued as at 30 June 2020. This has resulted in an improvement to three of the 2020 statutory ratios (current ratio, debt service cover ratio and operating surplus ratio).

The auditor further notes that:

*'In my opinion, the following material matters indicate a significant adverse trend in the financial position of the Shire:*

- a) *The Operating Surplus Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the last 3 financial years.*
- b) *The Asset Sustainability Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the last 3 financial years.'*

In regard to the matters raised by the auditor with respect to ratios, the following comments are made.

- Asset Sustainability Ratio 
$$\frac{\text{capital renewal and replacement expenditure}}{\text{depreciation expense}}$$

This ratio indicates that to what degree the Shire is replacing or renewing existing assets at the same rate that its overall asset stock is wearing out. A basic standard is met if the ratio is greater than 0.9 and the Standard is 'Advanced if the ratio is above 1.1.

The 2020/2021 Asset Sustainability Ratio of 0.71 is marginally lower than in 2019/2020 of 0.76. That result was the highest result in the preceding five years and in the last three years, had trended upwards. As expected, capital renewal expenditure trends upwards in the long term but can be reduced in years where the Shire spends comparatively more on new or upgraded assets.

The total depreciation amount was reduced from \$6.06 million in 2018/2019 to \$5.29 million in 2019/2020, as part of the efforts to verify condition and depreciation data (\$5.28 million in 2020/2021).

The ratio would not be considered within acceptable limits in the long term. It has been recognised for some time that more work needs to be done to verify road infrastructure depreciation values.

- Operating Surplus Ratio 
$$\frac{\text{operating revenue minus operating expense}}{\text{own source operating revenue}}$$

This ratio indicates an ability to cover operational costs and have revenues available for capital funding or other purposes. A basic standard is met between 0.01 and 0.15. An advanced standard is met over 0.15.

The Shire's 2020/2021 result is (0.19). This figure is better than the adjusted 2019/2020 result of (0.20) but slightly worse than the 2018/2019 result of (0.18). A two year rolling average shows gradual improvement over the last six years.

Accounting guidelines indicate that a sustained period of deficits will erode the local government's ability to maintain both its operational service level and asset base. The consistent negative values are mainly due to levels of asset depreciation, which the Shire increased markedly several years ago with the advent of fair value accounting.

- Report on Significant Adverse Trends

A draft report has been prepared which explains how the ratios are formulated, the reasons why the ratios are below the Department of Local Government, Sport and Cultural Industries standards and actions that have and are proposed to be taken to improve them.

In summary, the Shire has been aware for some time that an improvement of these and other ratios influenced by asset values was dependent on verification of asset condition and depreciation data. By far, road depreciation is the major contributor to the sub-standard ratios.

A condition assessment was done on the sealed road network in 2018/2019. The fresh data realised a reduction in the accumulated depreciation on roads of about \$38 million and substantially improved the Asset Consumption Ratio (from a basic to intermediate level).

A review of depreciation for Buildings, Infrastructure - Parks and Infrastructure - Other has also now been carried out. The annual depreciation in these categories reduced from 2018/2019 levels by \$720,423.00 (36%). The 2019/2020 and 2020/2021 ratios have improved (from what they otherwise would have been) as a result.

The Shire is continuing to verify the condition and remaining useful life of unsealed road infrastructure to ensure depreciation rates are reliable. There are many factors which could influence this and work will be ongoing for some time before decisions on significant changes to depreciation can be justified.

Nevertheless, the Shire's current and previous auditor had advised that interpretation of this Asset Sustainability Ratio should not be considered in isolation and in this regard should be looked at in conjunction with the Asset Consumption Ratio (ACR) and the Asset Renewal Funding Ratio (ARFR). The ACR of 0.66 is now sitting at an intermediate level indicating the Council's assets are in an acceptable condition and the ARFR of 0.89 is consistently above its target of 0.75, indicating the planned renewal and replacement expenditure over the next 10 years is sufficient to meet the required renewal and replacement expenditure.

It is also considered that, to some degree, the Operating Surplus Ratio does not accurately represent the local government scenario, whereby a significant proportion of infrastructure renewal (expensed via depreciation) is met by capital grant income.

For recurring capital expenditure, there is a likelihood that traditional grant funding sources will continue and therefore perhaps should be included.

Finally, the current ratio benchmarks are a 'one size fits all' approach. It is understood that the majority of rural local governments have not had an Operating Surplus Ratio that met the standards, and there has been an indication by the Auditor General that this benchmark may need review.

**VOTING REQUIREMENTS**

Simple Majority

**RECOMMENDATION / COMMITTEE DECISION**

Moved Cr M O'Dea, seconded Cr K Woltering:

That it be a recommendation to the Council that:

That:

1. The Annual Financial Audit Opinion and Interim Management Report for the year ending 30 June 2021 as issued by the Office of the Auditor General be received.
2. In accordance with Section 7.12A of the Local Government Act 1995, the attached report addressing matters identified as significant by the Shire's auditor in the 2020/2021 Audit Report, stating what action has and will be taken with respect to those matters, be endorsed.
3. The report in clause 2 above be forwarded to the Minister for Local Government and be published on the Shire of Plantagenet website.

**CARRIED**

**6 GENERAL BUSINESS**

Risk Register - During discussion, members raised the need to consider emerging risks such as management of increasing costs on construction projects, potential staff shortages, reserves for adverse events and ongoing fair value assessments as part of any forthcoming review of the Strategic Risk Register.

**7 NEXT MEETING**

To be advised.

**8 CLOSURE OF MEETING**

5.22 pm        The Presiding Member declared the meeting closed.

CONFIRMED: PRESIDING MEMBER \_\_\_\_\_ DATE: \_\_\_\_ / \_\_\_\_ / \_\_\_\_