



## 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 1.30pm Tuesday 23 February 2021.

**Paul Sheedy**  
**ACTING CHIEF EXECUTIVE OFFICER**

### Committee Members

*Cr Oldfield, Cr Clements, Cr O'Dea and Cr C Pavlovich (Council 202/19 and 247/19)*

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**Membership**

Cr K Clements

Cr M O'Dea

Cr J Oldfield

Cr C Pavlovich

Cr K Woltering (Deputy for any member)

## 1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

1.40 pm The Presiding Member declared the meeting open.

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

### Members Present

Cr C Pavlovich – Presiding Member  
Cr K Clements  
Cr J Oldfield  
Cr K Woltering (Deputy for Cr O’Dea)

### Members on Leave of Absence

Cr M O’Dea

### Staff

Mr P Sheedy – Acting Chief Executive Officer  
Mr J Fathers – Deputy Chief Executive Officer

## 3 CONFIRMATION OF MINUTES

Moved Cr J Oldfield, seconded Cr K Clements:

That the Minutes of the Ordinary meeting of the Audit and Risk Management Committee, held on 1 December 2020 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 REPORT ON SIGNIFICANT ADVERSE TRENDS IN FINANCIAL POSITION 2019-2020

<b>File Ref:</b>	<b>N53996</b>
<b>Attachments:</b>	<u>2019/2020 Audit Report</u> <u>Draft Report on Significant Adverse Trends in</u> <u>Financial Position – 2019/2020</u>
<b>Responsible Officer:</b>	<b>Paul Sheedy</b> <b>Acting Chief Executive Officer</b>
<b>Author:</b>	<b>John Fathers</b> <b>Deputy Chief Executive Officer</b>
<b>Proposed Meeting Date:</b>	<b>23 February 2021</b>

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#### PURPOSE

The purpose of this report is 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

Under the Local Government Act 1995, the Shire of Plantagenet is required to prepare an audited Annual Financial Report each financial year.

The Shire's 2019/2020 audit report was received from the Shire's auditor, David Tomasi of Moore Australia Audit (WA) on 27 November 2020 and is attached to this document.

#### STATUTORY ENVIRONMENT

Local Government Act 1995

Section 7.12A(4) of the Act requires that a local government must:

- '(a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and*
- (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.'*

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.'*

#### FINANCIAL IMPLICATIONS

There are no immediate financial implications for this report.

#### BUDGET IMPLICATIONS

There are no budget implications for this report.

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**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 direct 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**

There are no direct strategic risk implications for this report, although it is noted that the Strategic Risk Register incorporates key controls on asset sustainability practices. These include having an asset management plan and long term financial plan linked to that plan. It is noted that these documents both require more rigour.

**REGIONAL IMPLICATIONS**

There are no regional implications for this report.

**OFFICER COMMENT**

A key audit requirement requires the auditor to identify any financial trends which it considers adverse and of concern. For the 30 June 2020 year, the Auditor has raised the following significant matters.

- ‘a) In our opinion, the following matters indicate a significant adverse trend in the financial position of the Shire:*
- i. The Asset Sustainability Ratio has been below the DLGSCI standard for all 3 years reported in the annual financial report.*
  - ii. The Operating Surplus Ratio has been below the DLGSCI standard for all 3 years reported in the annual financial report. ‘*

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 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.

Nevertheless, the Shire's auditor has advised that interpretation of this Asset Sustainability Ratio should be considered together with the Asset Consumption Ratio (ACR) and the Asset Renewal Funding Ratio (ARFR). The ACR of 0.68 is now sitting at an intermediate level indicating the Council's assets are in an acceptable condition and the ARFR of 0.86 is consistently above its target of 0.750, 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.

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

## **OFFICER RECOMMENDATION / COMMITTEE DECISION**

**Moved Cr K Clements, seconded Cr J Oldfield:**

**That it be a recommendation to the Council:**

**That:**

- 1. 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 2019/2020 Audit Report, stating what action has and will be taken with respect to those matters, be adopted.**
- 2. The report in clause 1 above be forwarded to the Minister for Local Government and be published on the Shire of Plantagenet website.**

**CARRIED**

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## 5.2 COMPLIANCE AUDIT RETURN 2020

<b>File Ref:</b>	<b>N54260</b>
<b>Attachment:</b>	<u>Compliance Audit Report 2020</u>
<b>Responsible Officer:</b>	<b>John Fathers</b> <b>Deputy Chief Executive Officer</b>
<b>Author:</b>	<b>Donna Fawcett</b> <b>Human Resources Coordinator</b>
<b>Proposed Meeting Date:</b>	<b>23 February 2021</b>

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### PURPOSE

The purpose of this report is to recommend to the Council the adoption of the Compliance Audit Return for the calendar year 1 January 2020 to 31 December 2020.

### BACKGROUND

A Compliance Audit is required to be completed once in each calendar year.

### STATUTORY ENVIRONMENT

The Compliance Audit is required pursuant to Section 7.13 of the Local Government Act 1995. The Local Government (Audit) Regulations 1996 includes the following sub regulations in Regulation 14:

- '(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 sub regulation (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.'*

After the Compliance Audit Return has been presented to the Council, a certified copy of the return together with:

- (a) A copy of the relevant section of the minutes referred to in the regulations; and
- (b) any additional information explaining or qualifying the Compliance Audit is to be submitted to the Department of Local Government, Sport and Cultural Industries by 31 March 2021.

### EXTERNAL CONSULTATION

Not applicable.

### FINANCIAL IMPLICATIONS

There are no financial implications for this report.

### BUDGET IMPLICATIONS

There are no budget implications for this report.

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**POLICY IMPLICATIONS**

Policy implications do not apply for this report and it is the opinion of the author that policy development is not required.

**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 provide accurate recording, management, security and reporting functions.'*

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

The Shire of Plantagenet Corporate Business Plan 2016/2017 – 2020/2021 includes Action 4.6.1.2 – Ensure the Audit function is carried out in accordance with legislative requirements.

**STRATEGIC RISK IMPLICATIONS**

A key element of the Strategic Risk Register relates to 'Failure to Fulfil Compliance Requirements (Statutory, Regulatory)'. This section of the register contains a number of key controls, one of them being the Compliance Audit Return. Currently, the overall control rating is assessed as adequate.

**REGIONAL IMPLICATIONS**

There are no regional implications for this report.

**OFFICER COMMENT**

The completed Compliance Audit Return is attached to the report. The 2020 Compliance Audit revealed one area of non-compliance and one area of improvement. Under Local Government (Functions and General) Regulation 17, information recorded in the Shire's tender register complied with the requirements of that regulation and the tenders register was available for public inspection. However, the register was not published on the Shire's website as required. This has now been rectified.

Pursuant to Section 5.128(1) of the Local Government Act 1995, the Shire was required to prepare and adopt (by absolute majority) a policy in relation to the continuing professional development of council members.

Provisions for non-compulsory elected member training were included in existing policy 'Elected members - Expenses to be Reimbursed', rather than being in a stand alone

policy. This resolution was carried by an absolute majority, although the report was not done on the basis of requiring an absolute majority.

While the action taken is considered to be compliant with the above provision, the next report reviewing that policy after the 2021 election should note that it requires an absolute majority decision.

#### **VOTING REQUIREMENTS**

Simple Majority

#### **OFFICER RECOMMENDATION / COMMITTEE DECISION**

**Moved Cr K Woltering, seconded Cr K Clements:**

**That it be a recommendation to the Council:**

**That the Compliance Audit Return for the calendar year 1 January 2020 to 31 December 2020 be adopted and submitted to the Department of Local Government, Sport and Cultural Industries.**

**CARRIED**

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## 6 ORGANISATIONAL RISK MANAGEMENT

In line with a previous Committee request, this item is listed as a permanent fixture on the agenda. The Shire of Plantagenet Risk Register is attached. In accordance with the request from the Committee at its meeting held on 1 December 2020, the rating of the following key controls has been reviewed:

- Asset Sustainability Practices - Routine maintenance schedule: buildings.
- Business and Community Disruption - CCTV in CBD and some other locations.
- Engagement Practices - Social media platforms (Website, Facebook, etc).
- Project / Change Management - Formal project management procedures.
- Supplier and Contract Management - Supervision of contractors on site.

*During discussion at the meeting held on 23 February 2021, members noted the changes made to the register. Further, it was considered that the significant delay in storm damage recoups and the possibility that DFES will decline to recoup a proportion of the works undertaken is a considerable financial risk.*

## 7 GENERAL BUSINESS

## 8 NEXT MEETING

To be advised.

## 9 CLOSURE OF MEETING

2.02 pm The Presiding Member declared the meeting closed.

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