



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 10.00am Tuesday 3 December 2019.

Andrus Budrikis
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

10.00am The Acting Chief Executive Officer declared the meeting open.

2 ELECTION OF PRESIDING MEMBER

The Acting Chief Executive Officer invited nominations for the position of Presiding Member.

Cr Ken Clements nominated Cr Chis Pavlovich. There being no further nominations, Cr Chris Pavlovich was declared unopposed to the position of Presiding Member. Cr Pavlovich then assumed the Chair.

3 RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE

Members Present

Cr C Pavlovich – Presiding Member
Cr K Clements
Cr M O’Dea
Cr J Oldfield

Visitors

Cr K Woltering

Staff

Mr A Budrikis – Acting Chief Executive Officer
Mr J Fathers - Executive Manager Corporate Services
Ms A Kendrick – Senior Finance Officer

4 CONFIRMATION OF MINUTES

Moved Cr J Oldfield, seconded Cr M O’Dea:

That the Minutes of the Ordinary meeting of the Audit and Risk Management Committee, held on 10 September 2019 as circulated, be taken as read and adopted as a correct record.

CARRIED

5 DISCLOSURE OF INTEREST

Part 5 Division 6 Local Government Act 1995

Nil

6 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

6.1 ANNUAL REPORT - YEAR ENDING 30 JUNE 2019

File Ref:	N50053
Attachment:	Annual Report – Year End 30 June 2019 (Separate Attachment)
Responsible Officer:	Rob Stewart Chief Executive Officer
Author:	John Fathers Executive Manager Corporate Services
Proposed Meeting Date:	3 December 2019

PURPOSE

The purpose of this report is to accept the Shire of Plantagenet's 2018/2019 Annual Report.

BACKGROUND

The annual financial audit for 2018/2019 was conducted by representatives of the Council's auditors, Moore Stephens in October 2019.

In line with convention and Delegation 1.1, the General Meeting of Electors will be held at 6.00pm on Tuesday 3 December 2019 to receive the 2018/2019 Annual Report.

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).

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.

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.

OFFICER COMMENT

The Annual Report notes that a number of key items of infrastructure and plant were progressed during 2018/2019, including:

- Completion of a major roadworks program totalling \$3.0 million;
- Continuation of the upgrades to Frost Park pavilion with the installation of reverse cycle air conditioning and rewiring the main switchboard.
- Repairs to the Mount Barker Skate Park as a result of major damage from a car set on fire in the bowl.
- New eaves were installed to the rear and the side of the Mount Barker Community Resource Centre.
- The Shire has carried out a number of upgrades at the Saleyards including a new receival ramp, modification of an out loading ramp bugle, bitumen repairs and replacement of lamps in several light towers. A program of applying protective coating was also started for the steel roofs and walkways.
- Plant purchases included an Isuzu FRR 107-210 Tipper, HD Condor UD tipper and two Isuzu GIGA side tippers.

In terms of the Shire's financial situation, rate revenue increased from \$6.74 million in 2017/2018 to \$6.86 million in 2018/2019. Outstanding borrowings decreased from \$2.81 million in 2017/2018 to \$1.97 million in 2018/2019. A \$500,000 short term liquidity facility to cover storm damage payments was repaid.

The Council spent \$113,685.00 on land and buildings and \$264,083.00 on parks and ovals and other infrastructure. The amount spent on roads, drainage and footpaths was \$2,972,105.00 with \$919,266.00 on purchases of plant, furniture and equipment.

The level of reserve funds increased from \$2,336,867.00 in 2017/2018 to \$2,506,993.00 in 2018/2019. The level of unrestricted cash at year end decreased marginally from \$906,696.00 to \$896,018.00.

The Council received grants and contributions for the development of assets of \$1.25 million in 2018/2019. Total grants and contributions received was \$5.17 million. Other activities carried out throughout the year have been reported on extensively within the Annual Report.

VOTING REQUIREMENTS

Absolute Majority

During discussion, as requested in 2018, the intention to include information on the staff structure and employee length of service in future annual reports was noted.

OFFICER RECOMMENDATION / COMMITTEE DECISION

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

That it be a recommendation to the Council:

That the Annual Report for the year ended 30 June 2019 as attached, be accepted.

CARRIED

6.2 AUDIT REPORT - YEAR ENDING 30 JUNE 2019

File Ref:	N50052
Attachment:	2018/2019 End of Year Audit Report and Management Report
Responsible Officer:	Rob Stewart Chief Executive Officer
Author:	John Fathers Executive Manager Corporate Services
Proposed Meeting Date:	3 December 2019

PURPOSE

The purpose of this report is to present the Annual Financial Audit and Management Report for the year ending 30 June 2019.

BACKGROUND

In October 2019, representatives of Moore Stephens attended the Shire office to conduct an end of year audit for 2018/2019. 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.'*

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 2019/2020 budget includes a sum of \$26,000.00 for end of year and interim audit costs.

POLICY IMPLICATIONS

There are no policy implications for this report.

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.

OFFICER COMMENT

A copy of the Moore Stephens' Reports are attached. The management report focuses on the Shire's current position with respect to two of the statutory financial ratios in Note 31.

The trend in regard to the ratios is shown in the table below:

Financial Ratios	2014	2015	2016	2017	2018	2019
Current Ratio	0.650	1.020	0.792	0.962	0.741	1.328
Asset Sustainability Ratio	1.178	0.487	0.491	0.684	0.484	0.604
Debt Service Cover Ratio	4.250	6.921	3.562	7.248	3.851	9.593
Operating Surplus Ratio	-0.258	-0.319	-0.590	-0.294	-0.473	-0.177
Own Source Revenue Coverage Ratio	0.677	0.579	0.547	0.602	0.581	0.620
Asset Consumption Ratio	0.188	0.620	0.466	0.524	0.538	0.692
Asset Renewal Funding Ratio	0.970	0.783	0.656	0.919	1.022	0.878

The audit report has pointed out that *'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.'*

In regard to the matters raised by the auditor within the management report, 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 2018/2019 Asset Sustainability Ratio of 0.604 is higher than the 2017/2018 figure of 0.484, but similar to the 2016/2017 result.

The main difference in 2017/2018 was the reduced expenditure on road construction (renewal) due to the effort on storm damage rectification (maintenance), amounting to approximately \$1.4 million.

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

Further, the auditor has previously advised that interpretation of this ratio should be considered together with the Asset Consumption Ratio (ACR) and the Asset Renewal Funding Ratio (ARFR). The ACR of 0.692 is now sitting at an intermediate level indicating the Council's assets are in an acceptable condition and the ARFR of 0.878 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.

- 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 2018/2019 result is (0.177). This figure is better than the 2017/2018 and 2016/2017 values of (0.473) and (0.294) respectively. However, it is well below the Basic standard of 0.01.

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.

To some degree, this 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. However, ideally, future long term plans should achieve a reversal of this trend.

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 condition and depreciation data. By far, road depreciation is the major contributor to the sub-standard ratios.

The Shire is implementing an Asset Management Improvement Plan and undertaking other activities to verify the remaining useful life of infrastructure and ensure depreciation rates are reliable.

The Shire has completed a condition assessment on its sealed road network. The fresh data has been uploaded into the RAMM Database and this has 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).

The Shire has now appointed a staff member to a new Asset Management Planning position. A large part of his role will be to continue this work, with a focus on verifying depreciation values and assessments of useful life. It is conceivable that, like condition, the depreciation values could be significantly overstated. In anticipation of this, the 2019/2020 budget has been adopted with some lower levels of depreciation in the infrastructure and buildings asset classes.

The Audit and Risk Committee has previously supported the probability that the asset ratios reporting below standard are likely to be mainly attributable to data integrity than legitimate financial management weaknesses. It is anticipated that the work being done to verify data will result in an improvement in the asset based ratios.

VOTING REQUIREMENTS

Simple Majority

During discussion, it was noted that further work was required on a review of the value and verification of depreciation on the sealed road network as well as a review of non-essential assets. Further, it was requested that a Council workshop be held to assist in understanding of statutory ratios.

OFFICER RECOMMENDATION / COMMITTEE DECISION

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

That it be a recommendation to the Council:

That the Annual Financial Audit and Management Report for the year ending 30 June 2019 as issued by Mr David Tomasi of Moore Stephens be received.

CARRIED

7 GENERAL BUSINESS

Nil

8 NEXT MEETING

25 February 2020.

9 CLOSURE OF MEETING

10.33am The Presiding Member declared the meeting closed.