



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 10.30am Tuesday 5 December 2017.

John Fathers
ACTING CHIEF EXECUTIVE OFFICER

Committee Members

Cr J Moir, Cr M O'Dea, Cr J Oldfield and Cr C Pavlovich (Council 222/17)

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Membership

Cr J Moir

Cr M O'Dea

Cr J Oldfield

Cr C Pavlovich

Cr B Lang (Deputy for any member)

1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

10.30am The Acting Chief Executive Officer declared the meeting open.

2 RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE

Members Present

Cr M O'Dea
Cr J Oldfield
Cr C Pavlovich
Cr B Lang (Deputy)

Apologies

Cr J Moir

Staff

Mr J Fathers - Acting Chief Executive Officer

3 ELECTION OF PRESIDING MEMBER

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

Cr M O'Dea was nominated for the position of Presiding Member and she indicated her willingness to accept the position. There being no further nominations, the Acting Chief Executive Officer declared Cr O'Dea elected unopposed to the position of Presiding Member.

4 CONFIRMATION OF MINUTES

Moved Cr J Oldfield, seconded Cr C Pavlovich:

That the Minutes of the Meeting of the Audit and Risk Management Committee, held on 15 August 2017 as circulated, be taken as read and adopted as a correct record.

CARRIED

5 DISCLOSURE OF INTEREST

Nil

6 TELECONFERENCE WITH AUDITOR – DAVID TOMASI

A conference call was held with the Shire's auditor, Mr David Tomasi.

Mr Tomasi outlined the scope of the audit, the content of the audit report and his audit findings, which were very good, with no compliance issues and good financial practices in place.

It was advised that the financial ratios were similar to last year, with some stabilisation and improvement. Some ratios are still in the red, but there are also some mitigating factors. It was advised that the Council should consider ways to improve the underlying position of the budget, through an examination of operating income and expenditure.

It was acknowledged that this is not easy, with funding reductions and increasing expectations for service delivery. Many local governments are facing similar challenges and most local governments in regional areas have below par operating surplus ratios.

Local government is still coming to grips with the full ramifications of depreciation and it will take time to fully filter through and for the figures to reflect the reality. It was noted that the Council should be aware of the trends and take them into consideration, ensuring that service delivery decisions do not compromise the financial position going forward.

Mr Tomasi spoke about the future of local government auditing with the Office of the Auditor General (OAG) taking over from 2020/2021. Moore Stephens has met with the OAG and is not envisioning much change initially, with the current process being reasonably robust.

7 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

7.1 AUDIT REPORT - YEAR ENDING 30 JUNE 2017

File Ref:	N43459
Attachment:	2016/2017 End of Year Audit Report
Responsible Officer:	John Fathers Acting Chief Executive Officer
Author:	John Fathers Acting Chief Executive Officer
Proposed Meeting Date:	5 December 2017

PURPOSE

The purpose of this report is to present the Annual Financial Audit and Management Report for the year ending 30 June 2017.

BACKGROUND

In November 2017, representatives of Moore Stephens attended the Shire office to conduct an end of year audit for 2016/2017. 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.

POLICY IMPLICATIONS

There are no policy implications for this report.

STRATEGIC IMPLICATIONS

The Shire of Plantagenet Strategic Community Plan 2013-2023 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’ Report is attached. The audit letter focuses on the Shire’s current position with respect to the statutory financial ratios in Note 18. A comment in regard to the results is as follows:

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

Financial Ratios	2013	2014	2015	2016	2017
Current Ratio	0.771	0.650	1.020	0.792	0.962
Asset Sustainability Ratio	0.928	1.178	0.487	0.491	0.684
Debt Service Cover Ratio	6.857	4.250	6.921	3.562	7.248
Operating Surplus Ratio	-0.210	-0.258	-0.319	-0.590	-0.294
Own Source Revenue Coverage Ratio	0.646	0.677	0.579	0.547	0.602
Asset Consumption Ratio	0.122	0.188	0.620	0.466	0.524
Asset Renewal Funding Ratio	1.024	0.970	0.783	0.656	0.919

- **Current Ratio**

$$\frac{\text{Current assets minus restricted assets}}{\text{Current liabilities minus liabilities associated with restricted assets}}$$

This ratio gives an indication of short term liquidity, or the ability to meet financial obligations when they fall due. The standard is met if the ratio is greater than 1. The Shire’s 2017 result of 0.962 is marginally lower than the standard of 1.0, although has been inflated by the prepayment of 50% of the 2017/2018 commonwealth financial assistance grants. The relatively high level of reserve funds worsens this ratio.

- **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 ‘Improving’ if the ratio is between 0.9 and 1.1. The Shire’s 2017 result of 0.684 is an improvement on the 2015/2016 result. The ratio also reflects the increased depreciation identified as a result of adjustments to asset fair values.

The ratio would not be considered within acceptable limits in the long term. This ratio needs to be considered in determining future asset management programs and more work needs to be done to verify road infrastructure depreciation values.

- Debt Service Cover Ratio
$$\frac{\text{annual operating surplus before interest and depreciation}}{\text{principal and interest}}$$

This ratio indicates an ability to service debt out of general purpose funds available for operations. A ratio greater than 2 is desirable at a basic level and an advanced standard is met if the ratio is greater than 5. The Shire's 2016 result of 7.248 is acceptable, acknowledging however that the Shire's debt load, including self supporting loans, needs careful attention.

- 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 and 0.15. An advanced standard is met over 0.15. The Shire's 2017 result of (0.294) is well below ideal but is an improvement over the 2015 and 2016 results.

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. This worsening situation is mainly due to increasing depreciation due to asset revaluations. 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.

Ideally, future long term plans should achieve a reversal of this trend. This will involve work on, in particular verifying the remaining useful life (RUL) of infrastructure and ensuring depreciation rates are reliable.

- Own Source Revenue Coverage Ratio
$$\frac{\text{own source operating revenue}}{\text{operating expense}}$$

This ratio indicates an ability to cover costs through own source revenue efforts. A basic standard is met between 0.4 and 0.6. An intermediate standard is met between 0.6 and 0.9. An advanced standard is met over 0.9. Given that asset valuations and the depreciation figure that is thereby created have impacted on this ratio, the Shire's 2017 result of 0.602 is acceptable and an improvement over the 2016 result.

- Asset Consumption Ratio
$$\frac{\text{depreciated replacement cost of assets}}{\text{current replacement cost of depreciable assets}}$$

This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost. The standard is met if the ratio is greater than 0.5. The standard is improving if the ratio is between 0.6 and 0.75. The Shire's 2017 result is 0.524 which is an improvement over the 2016 result.

The Council needs to update asset condition and RUL assessments on its road network, to ensure inputs to this ratio are based on reliable and verifiable data.

- Asset Renewal Funding Ratio $\frac{\text{NPV of planned capital renewals over 10 years}}{\text{NPV of required capital expenditure over 10 years}}$

This ratio measures an ability to fund projected asset renewal and replacements in the future. The standard is met if the ratio is between 0.75 and 0.95. The standard is improving if the ratio is between 0.95 and 1.05. The Shire's 2017 result is 0.919 is acceptable and an improvement over the last two years. This ratio has improved as a result of further work undertaken on the LTFP and Asset Management Plan to achieve a better level of confidence.

These final two ratios have only been audited to the extent that the values are accurately represented in the Shire's Asset Management Plan and LTFP. There has been no additional effort in auditing the veracity of those plans or the figures used to determine the ratios.

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr J Oldfield, seconded Cr B Lang:

That it be a recommendation to the Council:

That the Annual Financial Audit and Management Report for the year ending 30 June 2017 as issued by Mr David Tomasi of Moore Stephens be received.

CARRIED

7.2 ANNUAL REPORT - YEAR ENDING 30 JUNE 2017

File Ref:	N43458
Attachment:	Annual Report – Year End 30 June 2017 (Separate Attachment)
Responsible Officer:	John Fathers Acting Chief Executive Officer
Author:	John Fathers Acting Chief Executive Officer
Proposed Meeting Date:	5 December 2017

PURPOSE

The purpose of this report is to accept the Shire of Plantagenet's 2016/2017 Annual Report.

BACKGROUND

The annual financial audit for 2016/2017 was conducted by representatives of the Council's auditors, Moore Stephens in November 2017.

In line with convention and Delegation 1.1, the General Meeting of Electors will be held at 6.30pm on Tuesday 5 December 2017 to receive the 2016/2017 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.

POLICY IMPLICATIONS

There are no policy implications for this report.

STRATEGIC IMPLICATIONS

The Shire of Plantagenet Strategic Community Plan 2013-2023 provides at Outcome 4.2 (Effective engagement with the community and stakeholders) the following Strategy:

Strategy 4.2.1:

'Have a well informed community.'

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 2016/2017, including:

- \$3.3 million capital road works program;
- Stage Two of the Plantagenet District Hall Upgrade has been completed, including the installation of air conditioning, cycloramas, retractable seating and carpet in the main hall, and ablution upgrades including disability access toilet;
- Stage 1 of the Frost Pavilion improvements including new ceiling, re-lining and painting walls, new carpet, stainless steel bar top and ablution privacy screens;
- Continuation of the Kendenup Agricultural Grounds redevelopment;
- A number of improvements in the Rec.Centre including new flooring and painting in the gym, new cardio and strength equipment, a purpose built Group Fitness Studio and fit out and paint for the crèche;
- Major improvements at the Mount Barker Regional Saleyards including the roofing of the northern dirt pens, a 250,000 litre water tank, modifications to dispersal ramp 1 and a new generator;
- Implementation of a new electronic notice board at the front of the administration building;
- Purchase of two new computer servers for the administration building; and
- Purchase of a tandem axle skel trailer for the Shire's refurbished hook lift truck, a Hino FS2848 truck, a Lombardi tri-axle side tipper and a Broons Graderoll duo rubber tyre roller.

In terms of the Shire's financial situation, rate revenue increased from \$6.22 million in 2015/2016 to \$6.48 million in 2016/2017. Outstanding borrowings reduced from \$2.99 million in 2015/2016 to \$2.66 million in 2016/2017.

The Council spent \$544,397.00 on land and buildings and \$493,034.00 on parks and ovals and other infrastructure. A total of \$3,318,299.00 was spent on roads and footpaths with \$1,400,569.00 on purchases of plant, furniture and equipment.

The level of reserve funds increased from \$1,662,354.00 in 2015/2016 to \$2,134,522.00 in 2016/2017. The level of unrestricted cash at year end rose from minus \$25,971.00 to \$749,557.00.

The Council received grants and contributions for the development of assets of \$2.61 million in 2016/2017. Total grants and contributions received was \$5.86 million. Other activities carried out throughout the year have been reported on extensively within the Annual Report.

VOTING REQUIREMENTS

Absolute Majority

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr C Pavlovich, seconded Cr J Oldfield:

That it be a recommendation to the Council:

That the Annual Report for the year ended 30 June 2017 as attached, be accepted.

CARRIED

8 ORGANISATIONAL RISK MANAGEMENT

In line with a previous Committee request, this item is listed as a permanent fixture on the agenda. The current Organisational Risk Register is attached for information.

9 GENERAL BUSINESS

9.1 BUDGET PROCESS

Members raised some of the recent issues regarding come inaccuracies in the budget. It was suggested that the capital budget process should be supporting by pricing and quotations where possible.

COMMITTEE DECISION

That the Chief Executive Officer be requested to provide more rigour and an evidence based approach to the capital budget process.

CARRIED

10 NEXT MEETING

27 February 2018

11 CLOSURE OF MEETING

11.28am The Presiding Member declared the meeting closed.

CONFIRMED: PRESIDING MEMBER _____ **DATE:** ____ / ____ / ____