



## 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 6 December 2016.

**Rob Stewart**  
**CHIEF EXECUTIVE OFFICER**

### Committee Members

*Cr K Clements, Cr L Handasyde, Cr J Moir and Cr C Pavlovich (Council 223/15)*

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**TABLE OF CONTENTS**

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<b>ITEM</b>	<b>SUBJECT</b>	<b>PAGE NO</b>
1	DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS	3
2	RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE	3
3	CONFIRMATION OF MINUTES	3
4	DISCLOSURE OF INTEREST	3
5	MEETING WITH AUDITOR – 2015/2016 ANNUAL REPORT	3
6	REPORTS OF COMMITTEE MEMBERS AND OFFICERS	4
6.1	AUDIT REPORT - YEAR ENDING 30 JUNE 2016	4
6.2	ANNUAL REPORT - YEAR ENDING 30 JUNE 2016	8
7	ORGANISATIONAL RISK MANAGEMENT	11
8	SALEYARDS - OPERATIONAL AUDIT	11
9	NEXT MEETING	11
10	CLOSURE OF MEETING	11

**Membership**

Cr K Clements

Cr L Handasyde

Cr J Moir

Cr C Pavlovich (Presiding Member)

Cr J Hamblin (Deputy for any member)

## 1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

10.04am 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 L Handasyde  
Cr J Moir

### Visitors

Cr M O'Dea

### Staff

Mr R Stewart - Chief Executive Officer  
Mr J Fathers - Deputy Chief Executive Officer

## 3 CONFIRMATION OF MINUTES

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

**That the Minutes of the Meeting of the Audit and Risk Management Committee, held on 8 November 2016 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

## 5 MEETING WITH AUDITOR – 2015/2016 ANNUAL REPORT

*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 generally very good, with no reportable issues raised. As new auditors for the Shire, additional work was done to get abreast of the Shire's current processes and review 2014/2015 results.*

*Mr Tomasi discussed the results of the statutory ratios, which were all either in the orange or red category and some trending downwards. It was recommended that the Council continue to monitor its performance in respect to ratios, and comparison to state and regional averages are useful.*

*It was advised that increased depreciation on roads infrastructure was the major factor causing ratios to deteriorate. Work to verify depreciation and improve ratios will require improved data (and reduction in assumptions in the RAMM 2 database) and reviews of condition and remaining useful lives of assets.*

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## 6 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

### 6.1 AUDIT REPORT - YEAR ENDING 30 JUNE 2016

<b>File Ref:</b>	<b>N39574</b>
<b>Attachment:</b>	<a href="#">2015/2016 End of Year Audit Report</a>
<b>Responsible Officer:</b>	<b>Rob Stewart</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>6 December 2016</b>

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#### PURPOSE

The purpose of this report is to present the Annual Financial Audit and Management Report for the year ending 30 June 2016.

#### BACKGROUND

In October 2016, representatives of Moore Stephens attended the Shire office to conduct an end of year audit for 2015/2016. 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 19. 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
Current Ratio	0.771	0.650	1.020	0.792
Asset Sustainability Ratio	0.928	1.178	0.487	0.491
Debt Service Cover Ratio	6.857	4.250	6.921	3.562
Operating Surplus Ratio	-0.210	-0.258	-0.319	-0.590
Own Source Revenue Coverage Ratio	0.646	0.677	0.579	0.547
Asset Consumption Ratio	0.122	0.188	0.620	0.466
Asset Renewal Funding Ratio	1.024	0.970	0.783	0.656

- **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 2016 result of 0.792 is lower than the standard of 1.0, due mainly to storm damage payments of almost \$450,000.00 which had not been recouped. In comparing to the 2015 result, it should be noted that commonwealth financial assistance grants were prepaid in the previous year but not this year.

- **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. The standard is met if the ratio is greater than 1.1.

The Shire's 2016 result of 0.491 continues the trend whereby a relatively high proportion (25% in 2015/2016) of capital expenditure was associated with new or upgrade projects, such as \$196,772.00 on the Administration Building, \$50,937.00 on CCTV and \$274,985.00 on parks and recreation ground improvements. 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 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 3.562 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 2016 result of (0.590) is well below ideal.

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.

All local governments are going through the revaluation exercise and presumably, most will reflect this trend. 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 2016 result of 0.547 is acceptable.

- 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 2016 result is 0.466.

The figures used to calculate this ratio now reflect updated valuation and depreciation values across all assets and can be considered a more reliable measure than past values. This result would indicate that care needs to be exercised as the Shire is in danger of slipping into the level where it will have difficulty maintaining the 'aged' condition of its assets. As indicated by the auditor, the Council needs to update asset condition and RUL assessments, 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 2016 result is 0.656 lower than desirable. This ratio requires further work 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. Further work is required on those plans to ensure that, in the long term, the Shire has adequate information to ensure that its plans are robust and that assets are maintained in a responsible and sustainable manner.

## VOTING REQUIREMENTS

Simple Majority

*During discussion at the Audit and Risk Management Committee meeting held on 6 December 2016, members noted that the Shire's level of Annual Leave and Long Service Leave provisions have a big impact on the Current Ratio. Members were of the view that the administration should continue to work towards developing plans and proposals that will reverse the general downward trend of the statutory ratios, noting that this will require improved data and reviews of remaining useful lives of assets. Members also requested that, in future the report should cover in more detail matters which impact on the ratios and how these can be managed into the future.*

## OFFICER RECOMMENDATION

**Moved Cr L Handasyde, seconded Cr J Moir:**

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

**That the Annual Financial Audit and Management Report for the year ending 30 June 2016 as issued by Mr David Tomasi of Moore Stephens be received.**

**CARRIED**



**6.2 ANNUAL REPORT - YEAR ENDING 30 JUNE 2016**

<b>File Ref:</b>	<b>N39573</b>
<b>Attachment:</b>	<a href="#">Draft Annual Report – Year End 30 June 2016 (Separate Attachment)</a>
<b>Responsible Officer:</b>	<b>Rob Stewart Chief Executive Officer</b>
<b>Author:</b>	<b>John Fathers Deputy Chief Executive Officer</b>
<b>Proposed Meeting Date:</b>	<b>6 December 2016</b>

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**PURPOSE**

The purpose of this report is to accept the Shire of Plantagenet's 2015/2016 Annual Report.

**BACKGROUND**

The annual financial audit for 2015/2016 was conducted by representatives of the Council's auditors, Moore Stephens in October 2016.

At its meeting held on 8 November 2016, the Council resolved *'That subject to the timely receipt of the Shire's audit report, a General Meeting of Electors be held at 6.30pm on 6 December 2016 to receive the 2015/2016 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 2015/2016, including:

- \$2.7 million capital road works program;
- Air conditioning of the Administration Building;
- Installation of photovoltaic cells on the Administration Building;
- Expansion of the CCTV network in Mount Barker;
- Kendenup Agricultural Grounds Redevelopment;
- Commencement of the roof over northern dirt pens at the Saleyards; and
- Purchase of a new 12M Caterpillar grader, Bomag roller and Caterpillar 444F2 backhoe.

Following on from the completion of Stages 2 and 3 of the redevelopment of Sounness Park, the Mount Barker Hockey Club held a carnival on 10-12 July 2015 which attracted 27 teams, involving approximately 300 players from regional WA. The Shire was also very pleased that Sounness Park was selected to host an AFL preseason game between the Fremantle Dockers and Adelaide Crows, which was held on 28 February 2016.

The Shire made good progress with the Kendenup Agricultural Grounds this year, having established a working group to develop plans for the refurbishment of the Agricultural Hall, ablutions block and the development of a nature based camping area.

In terms of the Shire's financial situation, rate revenue increased from \$6.03 million in 2014/2015 to \$6.22 million in 2015/2016. Outstanding borrowings reduced from \$3.04 million in 2014/2015 to \$2.99 million in 2015/2016.

The Council spent \$706,105.00 on land and buildings and \$178,987.00 on parks and ovals infrastructure. A total of \$2,727,027.00 was spent on roads and footpaths with \$857,805.00 on purchases of plant, furniture and equipment.

The level of reserve funds increased from \$1,541,227.00 in 2014/2015 to \$1,662,354.00 in 2015/2016. The level of unrestricted cash at year end fell from \$1,733,244.00 to minus \$25,971.00 (due mainly to storm damage payments of almost \$450,000.00 which had not been recouped and prepaid commonwealth financial assistance grants in the previous year).

The Council received grants and contributions for the development of assets of \$2.7 million in 2015/2016. Total grants and contributions received was \$4.58 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 J Moir, seconded Cr L Handasyde:**

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

**That the Annual Report for the year ended 30 June 2016 as attached, be accepted.**

**CARRIED**

## 7 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.

*During discussion at the Audit and Risk Management Committee meeting held on 6 December 2016, the following amendments to the Strategic Risk Register were noted:*

- *Natural Disaster - Discussions are occurring with Chief Bush Fire Control Officer and Town Bush Fire Brigade regarding planning of strategic controlled burns and GIS maps to support this. Identified bushfire risks around Mount Barker are Muirs Highway and to the north and the Water Corporation reserve.*
- *Disruption of waste disposal operations – The asbestos risk may potentially impact at any of the Shire's Waste Facilities, not just Porongurup.*

## 8 SALEYARDS - OPERATIONAL AUDIT

*During discussion at the Audit and Risk Management Committee meeting held on 6 December 2016, a query was raised as to whether the Saleyards should be subject to an operational audit, to ensure that the facility is operating to industry standards. It was agreed to request the Saleyards Advisory Committee to consider this.*

### COMMITTEE DECISION

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

**That the Saleyards Advisory Committee be asked to consider undertaking an operational audit of the facility.**

**CARRIED**

## 9 NEXT MEETING

To be advised.

## 10 CLOSURE OF MEETING

11.30am The Presiding Member declared the meeting closed.

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