



## **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 11.00am Tuesday 8 December 2015.

**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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**Membership**

Cr K Clements

Cr L Handasyde

Cr J Moir

Cr C Pavlovich

Cr J Hamblin (Deputy for any member)

## **1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS**

11.04am The meeting was declared open.

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

### Members Present

Cr Len Handasyde

Cr Jeff Moir

Cr Chris Pavlovich

### Apologies

Cr Ken Clements

### Staff

Mr Rob Stewart - Chief Executive Officer

Mr John Fathers - Deputy Chief Executive Officer

## **3 ELECTION OF PRESIDING MEMBER**

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

Cr C Pavlovich was nominated for the position of Presiding Member and he indicated his willingness to accept the position. There being no further nominations, the Chief Executive Officer declared Cr Pavlovich elected unopposed to the position of Presiding Member.

## **4 CONFIRMATION OF MINUTES**

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

**That the Minutes of the Meeting of the Audit and Risk Management Committee, held on 23 June 2015 as circulated, be taken as read and adopted as a correct record.**

**CARRIED**

## **5 DISCLOSURE OF INTEREST**

Nil

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## 6 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

### 6.1 AUDIT REPORT - YEAR ENDING 30 JUNE 2015

<b>File Ref:</b>	<b>N35732</b>
<b>Attachment:</b>	<a href="#">2014/2015 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>8 December 2015</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 2015.

#### **BACKGROUND**

In October 2015, representatives of Lincolns Accountants and Business Advisors attended the Shire office to conduct an end of year audit for 2014/2015. 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.

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## 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 Lincolns’ Audit and Management 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	2012	2013	2014	2015
Current Ratio	1.489	0.771	0.650	1.020
Asset Sustainability Ratio	1.085	0.928	1.178	0.487
Debt Service Cover Ratio	10.368	6.857	4.250	6.921
Operating Surplus Ratio	-0.156	-0.210	-0.258	-0.319
Own Source Revenue Coverage Ratio	0.680	0.646	0.677	0.579
Asset Consumption Ratio	N/A	0.122	0.188	0.620
Asset Renewal Funding Ratio	N/A	1.024	0.970	0.783

- 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 2015 result of 1.020 is within acceptable limits, but has been assisted by financial assistance grants received in advance.

- 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 0.9. The Shire’s 2015 result of 0.487 reflects the unusual situation whereby a large proportion of the 2014/2015 capital expenditure was associated with new projects. It would not be considered within acceptable limits in the long term. This ratio needs to be considered in determining future asset management programs.

- 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 2015 result of 6.921 and trending upwards 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 2015 result of (0.319) 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.

- 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 2015 result of 0.579 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 2015 result is 0.620.

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 the Shire has been undertaking a sustained capital investment program sufficient to renew assets at a level equal to maintain the average 'aged' condition of the assets.

- 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 2015 result is 0.783 acceptable but it is lower than predicted by the Long Term Financial Plan (LTFP). 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.

The management letter has raised one minor issue as detailed below:

	<b>Present Procedure Finding</b>	<b>Recommendation</b>	<b>Administration Comment</b>
Creditors	The creditors ledger records creditors exclusive of GST. Accounting policy notes and generally accepted accounting principles require that the creditors balance be reported inclusive of GST. We note that this anomaly does not impact on the current ratio because the GST liability is similarly understated.	Whilst we did not consider that the variance was material, we recommend that the creditors and debtors ledger report payables and receivables inclusive of GST.	It was noted last year that the payables and receivables should be inclusive of GST, however unfortunately this was not communicated to the relevant staff member until after the process had been completed. We are now well aware of it for future reports.

## VOTING REQUIREMENTS

Simple Majority

*During discussion at the Audit and Risk Management Committee meeting held on 8 December 2015, there was considerable discussion in regard to the Operating Surplus Ratio and some of the reasons why it is not necessarily a good indicator for local government. Members discussed the need to review the Long Term Financial Plan in conjunction with a review of the Asset Management Plan (AMP) and that a revised AMP would focus on the difference between 'core' Shire assets and those assets which the Shire does not necessarily maintain or receives funding to renew.*

*It was also suggested that a policy be developed which would aim to revert some non-core building assets to the relevant community groups at the conclusion of their respective leases so that, eventually the Shire's asset register would more accurately reflect those assets which it is responsible for.*



**OFFICER RECOMMENDATION / COMMITTEE DECISION**

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

**That it be recommended to the Council:**

**That the Annual Financial Audit and Management Report for the year ending 30 June 2015 as issued by Mr Russell Harrison of Lincolns Accountants and Business Advisors be received.**

**CARRIED**

**6.2 ANNUAL REPORT - YEAR ENDING 30 JUNE 2015**

<b>File Ref:</b>	<b>N35722</b>
<b>Attachment:</b>	<a href="#">Draft Annual Report – Year End 30 June 2015 (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>8 December 2015</b>

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**PURPOSE**

The purpose of this report is to accept the Shire of Plantagenet's 2014/2015 Annual Report.

**BACKGROUND**

The annual financial audit for 2014/2015 was conducted by representatives of the Council's auditors, Lincolns Accountants and Business Advisors in October 2015.

At its meeting held on 10 November 2015, 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 8 December 2015 to receive the 2014/2015 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**

There are no strategic implications for this report.

**OFFICER COMMENT**

The Annual Report notes that a number of key items of infrastructure and plant were progressed during 2014/2015, including:

- \$2.25 million capital road works program.
  - Completion of Sounness Park Hockey Ground (\$1.75 million) and Cricket Oval (\$540,000).
  - Continuation of additional holding pens at the saleyards.
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- Continuation of refurbishment of Shire houses.
- Commencement of air-conditioning in the administration building.
- Completion of the Mount Barker war memorial.
- Installation of a net curtain barrier at the Rec.Centre.
- Upgrade of the Shire's geographical information system.
- The Shire's 2004 Bomag Roller was replaced with another Bomag Roller and the 12H Caterpillar grader was upgraded to a 12M Caterpillar grader.

Stage One of the Sounness Park Recreation Development was officially opened on 9 May 2015. At the end of the 2014/2015 year, construction of Stages Two and Three comprising a second oval and a synthetic hockey field was largely complete. The second oval which will be used primarily for cricket and soccer has been planted with grass and is now in the growing phase. Stage Three (hockey facilities) was completed on budget and schedule on 30 June 2015.

Stage 1 of the Mount Barker War Memorial was completed ready for the 100th Anniversary of World War 1 and the ANZAC landings at Gallipoli. ANZAC Day 2015 was held at the upgraded site and was one of the largest and most memorable ceremonies ever held at the War Memorial.

In terms of the Shire's financial situation, the Shire's operating net result was \$378,285.00 in 2014/2015. Rate revenue increased from \$5.74 million in 2013/2014 to \$6.03 million in 2014/2015. Outstanding borrowings reduced from \$3.33 million in 2013/2014 to \$3.04 million in 2014/2015.

The Council spent \$211,065.00 on land and buildings and \$2,398,012.00 on parks and ovals infrastructure, a significant part of this being the Sounness Park hockey ground and cricket oval. A total of \$2,251,989.00 was spent on roads and footpaths with \$1,167,474.00 on purchases of plant, furniture and equipment.

The level of reserve funds increased from \$1,291,674.00 in 2013/2014 to \$1,543,537.00 in 2014/2015. The level of unrestricted cash at year end rose from \$412,914 to \$1,728,624.00 (due mainly to prepaid commonwealth financial assistance grants) and unspent grant funds on hand increased from \$10,432.00 to \$162,102.00.

The Council received grants and contributions for the development of assets of \$3.05 million in 2014/2015. Total grants and contributions received was \$6.45 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 recommended to the Council:**

**That the Annual Report for the year ended 30 June 2015 as attached, be accepted.**

**CARRIED**

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## 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, the Committee was of the view that the residual risk score for Human Resources Risks / Occupational Health and Safety should be medium instead of high, due to the significant internal controls and organisational focus on these matters.*

## 8 GENERAL BUSINESS

Nil

## 9 NEXT MEETING

To be advised.

## 10 CLOSURE OF MEETING

12.02 pm      The Presiding Member declared the meeting closed.

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