



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 9 December 2014.

John Fathers
ACTING CHIEF EXECUTIVE OFFICER

Committee Members

Cr K Clements, Cr L Handasyde, Cr J Moir and Cr C Pavlovich (Council 244/13)

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1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

10.00am The Presiding Member declared the meeting open.

2 RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE

Members Present

Cr K Clements
Cr L Handasyde
Cr J Moir
Cr C Pavlovich

Visitors

Mr Russell Harrison - Auditor

Staff

Mr John Fathers - Acting Chief Executive Officer
Mr Brendan Webb – Accountant / Office Manager

3 CONFIRMATION OF MINUTES

Minutes, as circulated, of the meeting of the Audit and Risk Management Committee held on 11 November 2014.

Moved Cr J Moir, seconded Cr C Pavlovich:

That the Minutes of the Meeting of the Audit and Risk Management Committee, held on 11 November 2014 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 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

5.1 DRAFT ANNUAL REPORT - YEAR ENDING 30 JUNE 2014

File No:	N32113
Attachment:	Draft Annual Report – Year End 30 June 2014 (Separate Attachment)
Responsible Officer:	Rob Stewart Chief Executive Officer
Author:	John Fathers Deputy Chief Executive Officer
Proposed Meeting Date:	9 December 2014

PURPOSE

The purpose of this report is to accept the Shire of Plantagenet's 2013/2014 Annual Report.

BACKGROUND

The annual financial audit for 2013/2014 was conducted by representatives of the Council's auditors, Lincolns Accountants and Business Advisors in October 2014.

At its meeting held on 11 November 2014, 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 9 December 2014 to receive the 2013/2014 Annual Report.

STATUTORY ENVIRONMENT

Local Government Act 1995 - Section 5.54 governs the acceptance of annual reports. 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).

POLICY IMPLICATIONS

There are no policy implications for this report.

FINANCIAL IMPLICATIONS

There are no financial implications for this report.

STRATEGIC IMPLICATIONS

There are no strategic implications for this report.

OFFICER COMMENT

The draft Annual Report notes that a number of key items of infrastructure and plant were progressed during 2013/2014, including:

- \$2.53 million capital road works program.
 - Completion of the redevelopment of Sounness Park (\$3.75 million in 2013/2014).
 - Completion of the nature playground at Wilson Park.
 - Significant upgrades were undertaken at four waste disposal / transfer station sites.
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- Installation of soft floor matting in all selling pens at the saleyards.
- Continuation of additional holding pens at the saleyards.
- Continuation of refurbishment of Shire houses.
- The refurbishment of the Mount Barker war memorial was begun.
- Construction of a half court basketball court in the Kendenup Rail Reserve (this project was driven by the Kendenup Community Development Association and largely funded by Lotterywest).
- Construction of a new cat pound at the Shire Depot.

The Shire's operating net result was \$3,876,555.00 in 2013/2014. Rate revenue increased from \$5.46 million in 2012/2013 to \$5.74 million in 2013/2014. Outstanding borrowings reduced from \$3.72 million in 2012/2013 to \$3.33 million in 2013/2014. At the request of the Bendigo Community Bank, the interest free loan (remaining principal of \$120,000.00) was repaid in full during the year.

The Council spent \$ 3,296,688.00 on land and buildings, a significant part of this being the Sounness Park clubrooms and change rooms. A total of \$3,807,670.00 was spent on infrastructure capital works and \$1,947,564.00 on purchases of plant, furniture and equipment.

The level of reserve funds increased from \$1,194,770.00 in 2012/2013 to \$1,291,674.00 in 2013/2014. The level of unrestricted cash at year end fell from \$964,976.00 to \$412,914.00 and unspent grant funds on hand decreased from \$695,483.00 to \$10,432.00.

The Council received grants and contributions for the development of assets of \$5.98 million in 2013/2014. Total grants and contributions received was \$7.56 million.

The report notes that a significant issue dealt with in this financial year was the impact of changes implemented by the State Government regarding the Country Local Government Fund (CLGF), which have created a situation such that the final payment (allocated for Stage One of Sounness Park) in the amount of \$593,798.00 was not made.

As these funds had already been committed as part of the contractual obligations for the completion of Stage One of Sounness Park, the funds needed to be raised elsewhere. In an already tight budget situation, there was some difficulty in finding such a large amount of money through reallocation and without borrowing. The money was eventually found from reductions in some capital works projects, other unbudgeted income and from reserve funds (for which a formal change of use of reserve funds was required).

Regardless of this funding issue, Stage One of the Sounness Park Recreation Development was completed on 16 March 2014. This project is one of the biggest undertaken by the Shire in its history and is a fitting tribute to the Sounness family who gifted the Sounness Park land to Shire for the purpose of *'the prime facility for sport and recreation'*.

Stage One comprises new clubrooms and change rooms and the refurbishment and lighting of Sounness Oval. The \$6.2 million budget was supported with funding from commonwealth and state government programs and also Lotterywest for part of the fitout. The total grant funding component was over \$4.8 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 L Handasyde, seconded Cr C Pavlovich:

That it be a recommendation to the Council:

That the Annual Report for the year ended 30 June 2014 as attached, be accepted.

CARRIED

5.2 AUDIT REPORT - YEAR ENDING 30 JUNE 2014

File No:	N32112
Attachment:	2013/2014 End of Year Audit Report
Responsible Officer:	Rob Stewart Chief Executive Officer
Author:	John Fathers Deputy Chief Executive Officer
Proposed Meeting Date:	9 December 2014

PURPOSE

The purpose of this report is to present the Annual Financial Audit and Management Report for the year ending 30 June 2014.

BACKGROUND

In October 2014, representatives of Lincolns Accountants and Business Advisors attended the Shire office to conduct an end of year audit for 2013/2014. 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 direct 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

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	2014	2013	2012
Current Ratio	0.650	0.771	1.489
Asset Sustainability Ratio	1.178	0.928	1.085
Debt Service Cover Ratio	4.250	6.857	10.368
Operating Surplus Ratio	-0.258	-0.210	-0.156
Own Source Revenue Coverage Ratio	0.677	0.646	0.680
Asset Consumption Ratio	0.188	0.122	N/A
Asset Renewal Funding Ratio	0.970	1.024	N/A

- 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 2014 result of 0.650 is below the standard and is on a downward trend. Large creditor bills for Sounness Park influenced the current result. As loans are paid off and the Shire's Employee Entitlements Reserve increases, this ratio will improve.

- 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 2014 result of 1.178 is well above the standard ratio, which reflects the major expenditure associated with Sounness Park. Ordinarily, the Shire's ratio should exceed the standard ratio.

- 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 2014 result of 4.25 is a good result, however, the Shire needs to continue to exercise caution around its debt management to help ensure its longer term financial position.

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- 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 2014 result of -0.258 is well below ideal. A sustained period of deficits will erode the Shire's ability to maintain both its operational service level and asset base. This result should be taken in the context of currently unproven depreciation figures. As the Shire continues to develop robust asset values, depreciation values and asset management plans, the accuracy and reliability of this measure will improve.

- 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. The Shire's 2014 result of 0.677 is satisfactory.

The following ratios cannot be measured retrospectively:

- 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 2014 result is 0.188.

This result would indicate that the Shire has not been undertaking a sustained capital investment program sufficient to renew assets at a level equal to maintain the average 'aged' condition of the assets. Again the figures used to calculate this ratio need to be updated with revised values over the next couple of years in order for this to be a reliable measure.

- 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 2014 result is 0.970 indicates that this part of the Long Term Financial Plan is sound in that long term projections for investment in asset renewal more than offset the current consumption of assets and provide for the effect of inflation.

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 Long Term Financial Plan. 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 some other minor issues as detailed below:

Matter	Present Procedure Finding	Recommendation	Administration Comment										
Rate Debtors	<p>A detailed report of rates receivable as at year end reconciled to the general ledger was not available for audit. We understand that the Civic Authority software does not enable this report to be run at a later date, as numerous adjustments are made as at year end. The rates trial balance subsidiary ledger as at 30 June 2014 shows \$276,791.01.</p> <p>The general ledger shows:</p> <table> <tr> <td>Current Rates</td> <td>\$228,077.21</td> </tr> <tr> <td>Current ESL</td> <td>\$ 5,358.55</td> </tr> <tr> <td>Non Current Rates</td> <td>\$ <u>42,789.03</u></td> </tr> <tr> <td>Total Rates</td> <td>\$276,224.79</td> </tr> <tr> <td>Variance</td> <td>\$ 566.22</td> </tr> </table> <p>We undertook alternative testing to support the asserted balance of rate debtors in the general ledger.</p>	Current Rates	\$228,077.21	Current ESL	\$ 5,358.55	Non Current Rates	\$ <u>42,789.03</u>	Total Rates	\$276,224.79	Variance	\$ 566.22	<p>Whilst we did not consider that the variance was material, we recommend that the final rates general ledger balance at close off be reconciled to the rates trial balance to ensure accuracy of the ledger. All reports are to be retained.</p>	<p>As part of future year end processes, the relevant detailed rates outstanding report will be run and kept in electronic format to ensure that the reconciliation to General Ledger balances can be verified.</p>
Current Rates	\$228,077.21												
Current ESL	\$ 5,358.55												
Non Current Rates	\$ <u>42,789.03</u>												
Total Rates	\$276,224.79												
Variance	\$ 566.22												
Creditors	<p>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.</p>	<p>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.</p>	<p>As part of future annual report preparation, an adjustment will be made to reflect creditor and debtor figures inclusive of GST.</p>										
Non Current Rates	<p>In accordance with Accounting Standards AASB 101 para 66, Council is required to classify as non current any rates which are not considered to be collectible within twelve months. Prior to making any adjustment in this regard we need to consider the amount and likelihood of collection within 12 months of year end.</p>	<p>We recommend that at year end, for financial reporting purposes, Council make an informed estimate of what portion of rates outstanding are considered collectible within twelve months. We request that we then be contacted to make a determination as to materiality.</p>	<p>As part of future annual report preparation, an estimate of what portion of rates outstanding can be collected within twelve months will be made. The Audit Team will be advised in order to determine materiality.</p>										

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr C Pavlovich, 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 2014 as issued by Mr Russell Harrison of Lincolns Accountants and Business Advisors be received.

CARRIED

6 GENERAL BUSINESS

6.1 MEETING WITH AUDITOR – 2013/2014 AUDIT REPORT

Mr Harrison outlined the scope of the audit, the content of the audit report and his audit findings, which were generally very good, with only three minor issues. The financial systems of the Shire were also found to be good in the mid term audit. Mr Harrison advised that the detail behind the asset revaluation reserve needs to be kept up to date.

He advised that his team had been pleased with the quality of reporting and the efforts put in by the Shire's finance team, given the additional workloads associated with the new Integrated Planning and Reporting Framework and fair value reporting of assets.

Mr Harrison discussed the results of the statutory ratios, which have their limitations, but still can serve as useful benchmarks to compare local government performance. Mr Harrison discussed the negative operating surplus ratio, which was not ideal, but as it excludes non-operating grants is of limited benefit.

The longer term, strategic ratios will be able to be used more effectively when revaluations have been completed on infrastructure. The Acting Chief Executive Officer advised that the Council had engaged Opus Engineering consultants to assist in updating the Roman 2 roads database and determine unit rates.

The Committee discussed whether some indexation could be used rather than formal revaluations each year. Mr Harrison agreed this could be used as long as the indexation could be shown to be reliable.

Finally, after some discussion, the Committee agreed to seek advice from the Saleyards Advisory Committee if there needs to be any special audit emphasis on the operations of the Saleyards.

6.2 RISK MANAGEMENT

The Committee requested that this item be a permanent fixture on the Committee agenda.

7 NEXT MEETING

To be advised.

8 CLOSURE OF MEETING

9 MEETING CLOSURE

10.55am The Presiding Member declared the meeting closed.

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