



AUDIT COMMITTEE MEETING

MINUTES

Committee Brief

- *Recommend the appointment of the auditor to the Council;*
- *Assist the auditor to ensure audits are conducted successfully and timely;*
- *Examine the audit report and ensure appropriate action is taken;*
- *Prepare reports on actions taken and forward to the Minister;*
- *Meet with the auditor at least once a year; and*
- *Review enhanced scope of audit.*

A meeting of the Audit Committee was held in the Council Chamber, Lowood Road, Mount Barker WA 6324, 11.00am Tuesday 12 April 2011.

Rob Stewart
CHIEF EXECUTIVE OFFICER

Committee Members

Cr K Clements, Cr M Skinner, Cr B Bell, Cr J Moir

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1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

11.20am Cr Skinner declared the meeting open.

2 RECORD OF ATTENDANCE / APOLOGIES

Members Present

Cr M Skinner – Presiding Member

Cr K Clements

Cr B Bell

Cr J Moir

Visitors

Cr L Handasyde

Cr G Messmer

Staff

Mr R Stewart - Chief Executive Officer

Mr J Fathers - Deputy Chief Executive Officer

Mr D Le Cerf – Manager Works and Services

Ms N Selesnew – Manager Community Services

Mr B Webb - Accountant/Office Manager

Mr V Jenkins – Planning Officer

3 CONFIRMATION OF MINUTES

Minutes, as circulated, of the meeting of the Audit Committee held on 22 November 2010.

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr B Bell, seconded Cr K Clements:

That the minutes of the meeting of the Audit Committee held on 22 November 2010, as circulated, be taken as read and adopted as a correct record.

CARRIED

4 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

4.1 OUTCOME FROM AUDITOR'S REPORT AND MANAGEMENT REPORT – 30 JUNE 2010

File No: N18156
Responsible Officer: Rob Stewart
Chief Executive Officer
Author: John Fathers
Deputy Chief Executive Officer
Proposed Meeting Date: 12 April 2011

PURPOSE

The purpose of this report is to consider a letter from the Department of Local Government dated 17 March 2011, in which the Shire's Audit Committee has been requested to consider strategies, policies and procedures proposed to minimise issues raised by the Shire's auditor in relation to the Current Ratio and the Untied Cash to Unpaid Trade Creditors Ratio.

STATUTORY ENVIRONMENT

There are no statutory implications for this report.

POLICY IMPLICATIONS

There are no policy implications for this report.

FINANCIAL IMPLICATIONS

Ratios less than 1.0 can indicate potential end of year current asset deficiencies and cash flow problems. Nevertheless, there are no direct financial implications as a result of this report.

STRATEGIC IMPLICATIONS

There are no strategic implications for this report.

OFFICER COMMENT

The auditor's comment in relation to the Shire's financial position as at 30 June 2010 was as follows:

- (a) *The Current Ratio disclosed at Note 18 to the Financial Report, which indicates short term solvency or liquidity, is shown to be .989 at 30 June 2010 (.649 at 30 June 2009). A current ratio of less than 1.0 indicates that current assets are insufficient to meet current liabilities. We note in this regard, that your Rate Setting Statement for the current year indicates that Council has sufficient liquidity to meet debt requirements for the 2010/11 financial year.*
- (b) *The Untied Cash to Unpaid Trade Creditors Ratio was minus .021 at 30 June 2010 (.026 at 30 June 2009). A ratio of less than 1.0 indicates that short term cash issues may arise in meeting creditor payment liabilities.*

It should be noted that there has been an improvement from prior years of these key financial ratios.'

In recent years, the Council has recognised the financial status of the Shire and in 2009 completed Stage One of a ten year Long Term Financial Plan (LTFFP). The LTFFP provides a number of broad goals, directions and guidelines for achieving long term financial sustainability, responsibly matched with the Council's capacity to deliver the improved financial outcomes including appropriate debt levels and financial ratios.

In adopting its 2009/2010 budget, the Council operated a deficit budget in the order of \$200,000 to ensure necessary works were undertaken and to shelter the ratepayer from higher rate increases, given to the global financial crisis and potential district wide issues relating collapse of managed tree farms. In order to cater for these factors, the Council increased rate income by only 5.0%. This decision caused the problem with the current ratio, although it must be said that 0.989 is not that far below 1.0 (1.1%).

As mentioned above, the Untied Cash to Unpaid Trade Creditors Ratio was impacted by the inability to collect rates from managed tree farm properties. However, in terms of ability to meet creditor payments, the Council had access to \$750,304 in restricted funds and a \$500,000 overdraft at the end of the year, which was more than sufficient to meet the requirements, prior to 2010/2011 rates and other income being received.

The Audit Committee will recall discussing these issues with the auditor at its meeting held on 25 November 2010, when at that meeting come scenarios were discussed for mitigating these problems.

Since then, the outstanding rates on managed tree farms have been received and a balanced 2010/2011 budget has been adopted. In fact the current level of outstanding rates is 6%, which is good for this time of year, the benchmark for the end of June being 5%.

In 2010, the Government announced that it would deliver on a major election commitment and invest \$21.5 million towards developing and modernising three key regional saleyards. The announcement stated the Government will provide \$2.3 million to the Shire to clear debt from its saleyards and provide a solid business basis for the yard's future. That money has now been received and the three loans for the saleyards have been paid off, the principal amount being \$2.03 million. As at 30 June 2010, the current (payable with 12 months) portion of those loans was \$143,363. The elimination of this more than halves the Shire's current loan liability. This in itself would increase the Current Ratio from 0.989 to 1.08.

Given these factors and with adequate financial controls in place, both ratios should be above 1.0 at the end of this financial year.

It is worth noting that the Chief Executive Officer wrote to the Department of Local Government in July 2009 and August 2009 (see attached) advising of the potential problems associated with the financial difficulties of Timbercorp and Great Southern Plantations, seeking an advance on the Country Local Government Fund so that the need for borrowing or other methods of covering this shortfall could be obviated. The Department responded in July 2009 stating that the CLGF funds could not be used for this purpose.

The Chief Executive Officer also informally discussed this situation with the Department's Principal Project Officer, Vern McKay, informing him that we had now got out of difficulties with the receipt of tree farm rates and impending receipt of the

State Government contribution. It is disappointing that the Department felt compelled to write this latest letter.

It is recommended that the Department be advised that the Shire considers that the situation regarding these ratios has been resolved.

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr K Clements, seconded Cr B Bell:

That the Department of Local Government be advised that the Shire considers that the actions and circumstances that have taken place since 30 June 2010 will improve the Shire of Plantagenet's financial position such that the Current Ratio and the Untied Cash to Unpaid Trade Creditors Ratio will be above benchmark levels at 30 June 2011.

CARRIED

4.2 ADDITIONAL AUDIT SCOPE

File No: N18178
Responsible Officer: Rob Stewart
Chief Executive Officer
Author: John Fathers
Deputy Chief Executive Officer
Proposed Meeting Date: 12 April 2011

PURPOSE

The purpose of this report is to consider the additional audit scope proposed for the Shire's auditors over the next five years.

STATUTORY ENVIRONMENT

Section 5(2)(c) of the Local Government (Financial Management) Regulations 1996 states that:

'The CEO is to undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 4 financial years) and report to the local government the results of those reviews.'

POLICY IMPLICATIONS

There are no policy implications for this report.

FINANCIAL IMPLICATIONS

There are no financial implications for this report.

STRATEGIC IMPLICATIONS

The Council's Strategic Plan Key Results Area 1, New Initiative provides the following:

'1.2 Ensure organisational practices reflect professional and legal standards and enable internal and external customers to access and retrieve information appropriately and with a high level of confidence.'

To achieve this we will:

- *Engage external consultants/auditors to examine existing practices and advise relating to standards, appropriateness and risk management;'*

The Shire's Plan for the Future provides as follows with regard to the Audit Function:

- *Objective: To obtain an opinion on the financial position and the results of the operations of the Shire and to identify any material matters that indicate significant adverse trends in the financial position or the financial management practices of the Shire or any matters indicating non-compliance with relevant legislation.*
 - *Key Result Area: Undertake expanded scope activities with regard to management and accounting functions.*
-

OFFICER COMMENT

Lincolns Accountants and Business Advisors have been appointed as the Shire's auditors for the next five years. In line with the previous practice of engaging the auditors to undertake expanded scope activities with regard to management and accounting functions, the following focus areas are proposed for the five mid-year audit reviews:

Yr	Area of Focus	Detail
1	Month End Sub Ledger Reconciliation	Trust
		Debtors
		Creditors
		Rates Debtors
		Rates Valuations
2	Four year Financial Management Review -	
	Local Government (Financial Management) Regulations 1996 5(2)(c)	
3	Procedures	Purchasing
		Payments
		Debt Collection
		Payroll
4	Legislative Requirements	Annual Return
		Primary Returns
		Minutes
		Record Keeping
		Budget Adoption
5	Bank Reconciliations	Municipal
		Trust
		Other

The four year Financial Management Review will be due to be undertaken by June 2012. Some previous discussion has taken place with regard to operating the Great Southern Regional Cattle Saleyards as a stand alone business from a financial perspective. It is envisaged that a recent report on the truck wash activities and a forthcoming report on long term financial view of the Saleyards will assist in this regard. In any case, these issues may be better pursued internally or by Lincolns as a separate exercise, with a more definitive brief.

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION / COMMITTEE DECISION

Moved Cr K Clements, seconded Cr J Moir:

That the following focus areas for the five mid-year audit reviews, be adopted:

Yr	Area of Focus	Detail
1	Month End Sub Ledger Reconcillation	Trust
		Debtors
		Creditors
		Rates Debtors
		Rates Valuations
2	Four year Financial Management Review -	
	Local Government (Financial Management) Regulations 1996 5(2)(c)	
3	Procedures	Purchasing
		Payments
		Debt Collection
		Payroll
4	Legislative Requirements	Annual Return
		Primary Returns
		Minutes
		Record Keeping
		Budget Adoption
5	Bank Reconciliations	Municipal
		Trust
		Other

CARRIED

FURTHER MOTION / COMMITTEE DECISION

Moved Cr K Clements, seconded Cr B Bell:

That the Great Southern Regional Cattle Saleyards Advisory Committee be requested to meet with the Shire's auditors to discuss the implementation of a business plan which would ensure that the saleyards enterprise is successful and self sustaining.

CARRIED

4.3 LONG TERM FINANCIAL PLAN

File No: N18157
Responsible Officer: Rob Stewart
Chief Executive Officer
Author: John Fathers
Deputy Chief Executive Officer
Proposed Meeting Date: 12 April 2011

PURPOSE

The purpose of this report is to progress the preparation of stage 2 of the Long Term Financial Plan and discuss a number of issues relevant to forthcoming budget deliberations.

STATUTORY ENVIRONMENT

There are no statutory implications for this report.

POLICY IMPLICATIONS

This report recommends the adoption of a new Budget Preparation Policy.

FINANCIAL IMPLICATIONS

There are many financial implications, as discussed further in the Officer Comment.

STRATEGIC IMPLICATIONS

There are no strategic implications for this report.

OFFICER COMMENT

This report is presented to a meeting of the Audit Committee in conjunction with members from the Long Term Financial Planning Working Group. A summary of the outcomes from this Working Group to date is as follows:

- The Council adopted Stage 1 of the Long Term Financial Plan on 13 October 2009.
- The Council made changes to Policy A/PA/15 Asset Management and adopted Business Case Guidelines for New Buildings on 27 July 2010.
- The Working Group requested that a detailed report on the rationalisation of Shire halls and other buildings to be presented at a workshop to enable decisions to be made that are financially prudent and in accordance with the Long Term Financial Plan. The report was to present viable options to community groups/organisations that may be affected by building rationalisation. Community consultation has taken place and workshops have been held in this regard. A report was presented to the Council at its meeting held on 18 March 2011 and a policy position was adopted.
- In regard to capital requirements for alternative waste site(s), the Committee was advised in March 2010 that the Shire had made several attempts at contacting the administrators of the preferred Quangellup site but had yet to receive any response. This has stalled any further progress on this matter. Earlier this year, the property was transferred to New Forests Asset Management Pty Ltd.

A similar communication has been sent to the new owner, and some discussions have commenced.

- The Council rationalised its reserve funds and established guidelines for initial annual budget allocations to reserves.
- The Working Group has, over time, endorsed a Budget Preparation Policy comprising fees and charges and works program. The final element to be considered is the provisions relating to rating (see attached draft policy).
- The Long Term Financial Plan (LTFP) and Forward Capital Works Plan (FCWP) are documents that the Council should maintain and review each year. This commitment has been given to the Department of Regional Development in regard to the FCWP. Given the financial focus of the Audit Committee and the similar membership of the Audit Committee and the Long Term Financial Planning Working Group, it is recommended that the Council be requested to expand the role of the Audit Committee to include the development and review of the Shire's LTFP and FCWP.

Since the adoption of Phase 1, a number of things have occurred or evolved which impact on the finalisation of the LTFP:

- The State Government has provided \$2.3 million to the Shire to clear debt from its saleyards and provide a solid business basis for the yard's future. The end result is a windfall amount to the saleyards in the region of \$145,000.00. In terms of ongoing savings, approximately \$280,000.00 per year will be saved in principal and interest repayments on the three loans. Workshops were held on 1 March 2011, which dealt with a number of issues coming out of this.
- The Shire has developed a Forward Capital Works Plan, as a requirement to secure future Country Local Government (Royalties for Regions) funding. The FCWP (as amended with additional information on allocation of CLGF funds) has now been endorsed by the Department of Regional Development and Lands.
- Discussions have been held in regard to the commencement of recycling for domestic properties on the current bin collection route. A sum of around \$46,000.00 has been included in the draft budget for transfer to a Recycling Bin Reserve, with a view to implementing a service in 2012/2013 financial year. The income would be received from a new 'Recycle Bin Charge' levy. It would be implemented for two years at say \$40 per year.
- A comment was made at the recent budget workshop that we will need approximately \$100k for railway station roof, which would possibly be funded from the Shire Development and Building Improvements Reserve.
- Adoption of a surplus budget of say \$100-200,000 would be ensure that the Council has sufficient unrestricted cash from July to when rates start being received each year. In theory, this would only have to be done once, assuming tight financial controls are in place to ensure that a budgeted surplus is in place at the end of the year.
- The Council has previously held a workshop in regard to the purchase of the land known as Demon Downs from the Mount Barker Bulls Football Club. The outcome was that the Shire should progress with negotiations to purchase the amount of land required for the extension of Sounness Park for ball sports activities, being approximately 65% of the club's land. It was agreed that a

negotiation starting point be a 50% down payment, with the balance to be paid over 1-5 years, so that the Shire could avoid borrowing money for this purpose. There is currently \$280,000.00 in the Shire Development and Building Improvements Reserve and the up front payment for this site could be sourced from this reserve.

- The TIRES program will cease in its current form after 2011/2012 in favour of commodity specific funding. The Shire is unlikely to receive anywhere near the extent of funding under the current arrangements due to a much greater pool of local governments involved.
- A letter has been received from the Northern Country Zone of WALGA seeking local governments to make a contribution to the No. 3 State barrier fence, given its importance to the State's agricultural industry (see attached). The Chief Executive Officer intends to put this request to the other VROC members, with a view to a possible joint contribution to this project. Comment is sought on this application.
- At a recent Council workshop relating to the Frost / Sounness Parks improvement plans, Councillors noted a number of different possible funding sources for elements of this project over the next few years. However, the first commitment would be to develop detailed design plans, which would cost in the order of \$190,000.00. The administration was requested to determine how this might be funded. A review of the current financial year's progress against budget has been undertaken and at this stage a surplus from a number of different areas could be reallocated to this project.
- A Council workshop was held on 1 March 2011 on gravel road standards. At this stage an additional \$150,000.00 has been included in the draft budget for maintenance work on gravel roads and gravel pushing/reinstatement. It is also intended that gravel road re-sheeting projects be the focus of Roads to Recovery funding. The Manager Works and Services will be on hand to discuss these issues further.

Workshop Points

- Create new D Class Road
- Suckers come out of drains
- Drains cleaned with back slopes on A and B Class Roads
- C Class to separate and form new class
- Maintainers of existing roads
- Gravel sheeting program
- Spraying of drains regularly – more frequent
- Incremental increases to funds
- Roads are for transport
- Become the maintainer
- Cost out a maintenance plan over a 10 year period
- Frequency of gravel sheeting
- Are some bitumen roads needed or do they need to be returned to gravel
- No new roads – maintain existing first with Council staff – contract out new constructions

Standards

- Two lanes for B Class Roads
- 150mm compacted for B Class Roads
- Eight year cycle for re-sheeting
- 6m vertical
- Up to date signs
- Culvert widths and guide posts that pop back up

What resources are needed

- Cost comparison Beverley Road with contractors
- Meeting of rural road committee
- Memo to inform Council – workshop with draft Policy for road maintenance standards – budget impact

It is likely that not all of the above initiatives will be able to be funded in the next year or two, even given the additional funds available as a result of the State Government's contribution to the saleyards. Following guidance on the priority of these matters, a revised LTFP can be developed for further consideration by the Committee.

VOTING REQUIREMENTS

Simple Majority

OFFICER'S RECOMMENDATION

That it be a recommendation to the Council:

That:

1. The attached Budget Preparation Policy F/FM/10 be adopted.
2. The role of the Audit Committee be expanded to include the development and review of the Shire's Long Term Financial Plan and Forward Capital Works Plan.

During discussion, the Committee called for a workshop to be held on the background to the current investigations for a new landfill site at Quangellup Road. In addition, Councillors advised that they were not inclined to support the request from the Northern Country Zone of WALGA seeking a contribution to the No. 3 State barrier fence.

COMMITTEE DECISION

Moved Cr K Clements, seconded Cr B Bell:

That it be a recommendation to the Council:

That the role of the Audit Committee be expanded to include the development and review of the Shire's Long Term Financial Plan and Forward Capital Works Plan.

CARRIED

Moved Cr J Moir, seconded Cr K Clements:

That it be a recommendation to the Council:

That the membership of the Audit Committee be amended such that it is a committee of the whole.

CARRIED

Moved Cr K Clements, seconded Cr B Bell:

That it be a recommendation to the Council:

That the attached Budget Preparation Policy F/FM/10 be adopted.

CARRIED

5 GENERAL BUSINESS / MATTERS ARISING

6 NEXT MEETING

TBA

7 MEETING CLOSURE

12.40pm The Presiding Member declared the meeting closed.

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