



## AUDIT COMMITTEE MEETING

# MINUTES

SECTION 5.9(2)(a) LGA 1995

### 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 Meeting Room A  
2.00pm Tuesday 15 December 2009

**John Fathers**  
**ACTING CHIEF EXECUTIVE OFFICER**

### Committee Members

*Cr K Clements; Cr M Skinner; Cr J Moir; Cr B Bell*

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

2.00pm Mr Rob Stewart, Chief Executive Officer declared the meeting open.

**2 ELECTION OF PRESIDING MEMBER**

Mr Stewart called for nominations for the position of Presiding Member.

Cr Skinner was nominated for the position of Presiding Member and indicated his willingness to accept the position.

There being no further nominations, Mr Stewart declared Cr Skinner elected unopposed to the position of Presiding Member.

**3 RECORD OF ATTENDANCE / APOLOGIES**Members Present

Cr M Skinner (Chairperson)  
Cr K Clements

Apologies

Cr B Bell  
Cr J Moir

Observer

Cr L Handasyde

Staff

Mr Rob Stewart, Chief Executive Officer  
Mr John Fathers, Deputy Chief Executive Officer

**4 CONFIRMATION OF MINUTES**

Minutes, as circulated, of the Meeting of the Audit Committee held on 14 July 2009.

**OFFICER RECOMMENDATION / COMMITTEE DECISION**

**Moved Cr M Skinner, seconded Cr K Clements:**

**That the Minutes of the Meeting of the Audit Committee, held on 14 July 2009 as circulated, be taken as read and adopted as a correct record.**

**CARRIED**

## 5 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

### 5.1 DRAFT ANNUAL REPORT – YEAR ENDING 30 JUNE 2009

<b>File No:</b>	<b>N13477</b>
<b>Attachments: (1)</b>	<b>Draft Annual Report – Year End 30 June 2009</b>
<b>Responsible Officer:</b>	<b>John Fathers</b> <b>Deputy Chief Executive Officer</b>
<b>Author:</b>	<b>Cherie Delmage</b> <b>Accountant</b>
<b>Proposed Meeting Date:</b>	<b>15 December 2009</b>

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#### **Purpose**

The purpose of this report is to receive the Shire of Plantagenet's 2008/2009 Annual Report.

#### **Background**

The annual financial audit for 2008/2009 was conducted by representatives of the Council's auditors, Mr W Chai and Mr P Zhao of UHY Haines Norton in October 2009.

#### **Statutory Environment**

Section 5.54 of the Local Government Act 1995 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)

#### **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 draft Annual Report notes that 2008/2009 was a very busy year with quite a few major projects in progress and issues for consideration, including:

- Local Government Structural Reform;
- Creation of Voluntary Regional Organisation Of Councils (VROC) consisting of Shire of Plantagenet, Shire of Kojonup, Shire of Cranbrook and Shire of Broomehill-Tambellup;
- Continuing construction and development of new Medical Centre;
- Continuing construction and development of the new Mount Barker Cemetery;
- Continuing of environmental initiatives and future ownership discussions in relation to the Great Southern Regional Cattle Saleyards;

- Continuation of Lowood Road redevelopment/beautification program;
- Continuation of capital roadworks program;
- Completion and opening of new HACC day centre building;
- Continuing investigations for a new waste disposal facility;
- Completion of strategic recreation plan;
- Demolition of old Sounness Park clubrooms;
- Continuing investigations into decontamination of old depot site; and
- Start of construction and development on the existing library building to create the Mount Barker Community Centre and co-located library facility.

Rate revenue increased from \$3.62 million in 2007/2008 to \$3.88 million in 2008/2009. Outstanding borrowings increased from \$4.88 million in 2007/2008 to \$5.04 million in 2008/2009 due to the new \$200,000 loan for the Plantagenet Medical Centre and \$187,000 self supporting loan for the Mount Barker Golf Club.

A sum of \$88,587 remains unspent on Loan 89 – Remedial Works – Saleyards.

Grants and contributions for the development of assets increased from \$2.20 million in 2007/2008 to \$2.91 million in 2008/2009. Total grants and contributions increased from \$3.92 million to \$5.23 million. This increase was largely due to the \$1.07 million Royalties for Regions funding and early payment of a portion of 2009/2010 Financial Assistance Grants. The level of reserve funds reduced from \$481,397 in 2007/2008 to \$431,308 in 2008/2009.

The final surplus carried forward figure for 2008/2009 was \$321,452.00 which is \$39,977.00 more than the \$281,475.00 (\$1,697,965.00 less restricted funds of \$1,416,490.00) provided for in the 2009/2010 budget.

A date/time for the Annual Meeting of Electors of 9 February 2010 at 8.00pm has been recommended.

### **Voting Requirements**

Absolute Majority

### **OFFICER RECOMMENDATION / COMMITTEE DECISION**

**Moved Cr K Clements, seconded Cr M Skinner:**

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

**That:**

- 1. The Draft Annual Report for the year ended 30 June 2009, as attached, be accepted.**
- 2. The Annual Meeting of Electors be held on 9 February 2010 at 8.00pm to receive the 2008/2009 Annual Report and provide an update to the community on key projects.**

**CARRIED**

**5.2 AUDIT REPORT - YEAR ENDING 30 JUNE 2009**

<b>File No:</b>	<b>N13478</b>
<b>Attachments: (1)</b>	<b>2008/2009 End Of Year Audit Report</b>
<b>Responsible Officer:</b>	<b>John Fathers Deputy Chief Executive Officer</b>
<b>Author:</b>	<b>Cherie Delmage Accountant</b>
<b>Proposed Meeting Date:</b>	<b>15 December 2009</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 2009.

**Background**

On 28-29 October 2009, Mr W Chai and Mr P Zhao of UHY Haines Norton attended the Shire office to conduct an end of year audit for 2008/2009 and to follow-up on matters raised during the interim audit report. 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**

Section 7.12A (3) and (4) of the Local Government Act (1995) 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.

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## Officer Comment

A copy of the UHY Haines Norton Management Report has been enclosed. Responses to the matters raised within that report are as follows:

### Comment On Financial Position & Financial Management Practices

The auditors noted an adverse trend in two key ratios as shown below, although there are a number of mitigating factors:

	2009	2008	2007	2006	2005
<i>Current Ratio</i>	0.649	0.885	0.682	1.671	1.149
<i>Untied Cash to Untied Trade Creditors Ratio</i>	0.026	0.565	0.009	0.536	1.085

The Current Ratio gives an indication of short term liquidity. That is the ability to meet financial obligations when they fall due. It is calculated by:

Current assets minus restricted current assets

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Current liabilities minus liabilities associated with restricted assets

The Untied Cash to Trade Creditors Ratio indicates the ability to meet immediate obligations to creditors with unrestricted / untied cash. It is calculated by:

Untied cash

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Unpaid trade creditors

A value greater than 1 is desirable for both of these ratios and both are currently below this value. In 2007/2008 the likelihood that these ratios would worsen again was acknowledged as most of the Council's committed capital funds would be spent on the HACC building and medical centre project.

The auditors also advise that there are several other negative indicators in respect of the financial position of the Shire, particularly relating to deficit budgeting, reserve levels being relatively low for a Shire of this size, gross debt being at the higher end of acceptable levels and provision of a large overdraft. The auditors recommend that it is imperative for the Council to monitor this situation into the future and takes steps to improve these areas, which will improve the balance sheet position of the Shire and help to restore the current ratio.

Management has advised the auditors that over the past three to four years, the Council's budget deliberations have been a difficult balance between the cost of providing major new facilities, maintaining operating service levels and allocating sufficient money to the Council's reserve funds.

Four years ago, the Council had to replace its administration building as the former building was literally falling down. A sum of \$2.7 million was borrowed on top of borrowings of \$2.8 million (largely for the Great Southern Regional Cattle Saleyards). In 2008/2009 the Council took advantage of an interest free loan of \$200,000 from the local Bendigo Community Bank as part of a funding strategy for a new state of the art medical centre for the Shire. Whilst it is acknowledged that the debt levels are comparatively high, they are considered to be within an acceptable range.

Over the past couple of years, the Council has decided to operate a deficit budget to ensure necessary works are undertaken and to shelter the ratepayer from higher rate increases. 2009/2010 was projected to be a difficult year for ratepayers due to the global financial crisis and the failure of managed investment scheme tree farms which had the capacity to affect many local landowners and businesses.

Nevertheless, the Council has recognised the effect of these (and other) matters on the financial status of the Shire and has recently completed Stage One of a ten year Long Term Financial Plan (LTFP). The LTFP 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 following outcomes:

- Maintenance of current service levels;
- A capital works program that meets adequate asset renewal requirements;
- Optimal plant replacement program;
- Balanced budget (by 2010/2011);
- Appropriate debt levels and financial ratios; and
- Adequate reserve funds.

#### Depreciation Of Infrastructure

The Auditors have again raised the matter of the methodology of depreciation of infrastructure. The calculation of depreciation on roads for the year ended 30 June 2009 was again performed using a weighted average methodology (as was the case in previous years).

However, as in past years, the auditors recommend that the Council review the current method of recording and depreciating road infrastructure with a view to implementing a system that will allow each road to be dissected into its component parts. This will enable a more reliable record of Council's road network to be maintained as well as helping to ensure depreciation is correctly reflected.

During the 2008/2009 year, staff consulted with UHY Haines Norton representatives and various local governments with a view to determining an appropriate way to proceed with this matter. A lot of work was done to split roads into component parts however staff are still investigating the best way to incorporate this into the Council's business systems. This will continue to be progressed in 2009/2010.

Nevertheless, from their testing and review, the depreciation expense arrived at was seen to be reasonable and no adjustment to the calculation was required.

#### Statutory Compliance

In the Auditor's Report, it was noted that the Shire did not comply with the Local Government Act 1995 and the Local Government (Financial Management) Regulations 1996 by not providing a Form 2 and Form 3 to the landowner when the Council disposed of land due to non-payment of rates. This related to one block in Rocky Gully and several in the Valley View Strata tree farm.

This matter was raised in the Interim Audit Report conducted in May 2009. Forms 2 and 3 were not provided to the ratepayers during the process of land repossession (due to non-payment of rates) as staff incorrectly interpreted the provisions of the Local Government Act 1995 at the time. Staff are now aware of the correct procedures to follow in the future.



Corrected Misstatement

There were two areas within the draft annual financial report provided to the auditors that required correction above \$3,000.00. These related to Provision for Doubtful Debts and Current Outstanding Rates (due to rates received in advance). These have now been corrected in the final financial report.

**Voting Requirements**

Simple Majority

**OFFICER RECOMMENDATION / COMMITTEE DECISION**

**Moved Cr K Clements, seconded Cr M Skinner:**

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

**That the Annual Financial Audit and Management Report for the year ending 30 June 2009 as issued by Mr David Tomasi of UHY Haines Norton be received.**

**CARRIED**

**6 GENERAL BUSINESS / MATTERS ARISING****6.1 TELECONFERENCE WITH AUDITOR**

The Committee held a teleconference with the Shire's auditor, Mr David Tomasi. Mr Tomasi clarified certain elements within the audit report and confirmed that whilst two of the financial ratios were not ideal, he noted and accepted the reasons for this occurring and that the Shire was taking affirmative action to correct this situation. Mr Tomasi also noted that the audit report was the cleanest for many years and represented good financial management.

**6.2 LONG TERM FINANCIAL PLAN – STAGE 2**

Discussion ensued in relation to the preparation of the next stage of the Long Term Financial Plan, which would take into consideration the Recreation Plan timeline and future roadworks plans. Stage 2 would involve some decisions on capital works priorities and a degree of financial discipline by the Council.

**7 NEXT MEETING**

To be advised.

**8 MEETING CLOSURE**

2.37 pm The Presiding Member declared the meeting closed.

**CONFIRMED: CHAIRPERSON** \_\_\_\_\_ **DATE:** \_\_\_\_ / \_\_\_\_ / \_\_\_\_