



## 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;*
- *Review enhanced scope of audit; and*
- *Development and review of the Shire's Long Term Financial Plan and Forward Capital Works Plan.*

A meeting of the Audit Committee was held in the Committee Room, Lowood Road, Mount Barker WA 6324, at 10.00am Tuesday 28 February 2012.

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

### Committee Members

*Cr K Clements, Cr L Handasyde, Cr J Moir, Cr Skinner*

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

10.00am Cr Skinner declared the meeting open.

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

Cr M Skinner (Presiding Member)

Cr K Clements

Cr L Handasyde

Cr J Moir

Staff

Mr Rob Stewart - Chief Executive Officer

Mr John Fathers - Deputy Chief Executive Officer

Mr Brendan Webb - Accountant / Office Manager

**3 CONFIRMATION OF MINUTES**

Minutes, as circulated, of the meeting of the Audit Committee held on 29 November 2011.

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

**That the minutes of the meeting of the Audit Committee held on 29 November 2011, as circulated, be taken as read and adopted as a correct record.**

**CARRIED**

**MATTERS ARISING FROM THE MINUTES**

*The Committee noted the progress being made by the Saleyards Committee in regard to the request of the Audit Committee, at its meeting held on 12 April 2011, 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.*

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

**That the Committee notes the progress of the Saleyards Committee in regard to the preparation of a business plan for the saleyards and that the Saleyards Committee be requested to finalise the business plan by 30 September 2012.**

**CARRIED**

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## 4 REPORTS OF COMMITTEE MEMBERS AND OFFICERS

### 4.1 COMPLIANCE AUDIT RETURN 2011

**File No:** N21390  
**Attachments:** [Compliance Audit Return 2011](#)  
**Responsible Officer:** John Fathers  
Deputy Chief Executive Officer  
**Author:** Donna Jo McDonald  
Senior Administration/Human Resources  
Officer  
**Proposed Meeting Date:** 28 February 2012

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#### PURPOSE

The purpose of this report is to enable the Council to fulfil its statutory obligations with regard to the Compliance Audit.

#### BACKGROUND

A Compliance Audit is required to be completed once in each calendar year.

#### STATUTORY ENVIRONMENT

Local Government Act 1995

Local Government (Audit) Regulations 1996

The Compliance Audit is required pursuant to Section 7.13 of the Local Government Act 1995. An amendment has been made to the Local Government (Audit) Regulations 1996 to include the following subregulation in Regulation 14:

*'(3A) The local government's audit committee is to review the compliance audit return and is to report to the council the results of that review.'*

Section 3 of those regulations has also been amended to read as follows:

*'(3) After the audit committee has reported to the council under subregulation (3A), the compliance audit return is to be —*

- (a) presented to the council at a meeting of the council; and*
- (b) adopted by the council; and*
- (c) recorded in the minutes of the meeting at which it is adopted.'*

In view of this, another report has been prepared for the Council meeting to be held on 28 February 2012, to recommend that the role of the Audit Committee be expanded to include the review of the Shire's annual compliance audit return and to report to the Council on the results of that review. In the meantime, there is no impediment to the Audit Committee considering this matter now.

After the compliance audit return has been presented to the Council, a certified copy of the return together with:

(a) A copy of the relevant section of the minutes referred to in the regulations and;

- (b) Any additional information explaining or qualifying the Compliance Audit is to be submitted to the Director General by 31 March next following the period to which the return relates.

**FINANCIAL IMPLICATIONS**

There are no financial implications for this report.

**POLICY IMPLICATIONS**

There are no policy implications for this report.

**STRATEGIC IMPLICATIONS**

The Compliance Report helps to ensure that appropriate organisation practices are maintained in financial management, administration, information technology and trading undertakings (Key Result Area 1).

**OFFICER COMMENT**

The completed Compliance Audit return is attached to this report. The 2011 Compliance Audit revealed no areas of non-compliance.

**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 Compliance Audit Return for the calendar year 1 January 2011 to 31 December 2011 be adopted and submitted to the Director General of the Department of Local Government.**

**CARRIED**

**4.2 FAIR VALUE – FINANCIAL REPORTING**

**File No:** N21392  
**Attachment:** Policy Paper - Application of Fair Value to WA Local Government Financial Reporting  
**Responsible Officer:** Rob Stewart  
Chief Executive Officer  
**Author:** John Fathers  
Deputy Chief Executive Officer  
**Proposed Meeting Date:** 28 February 2012

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**PURPOSE**

The purpose of this report is to advise the Committee of proposed changes to the Local Government (Financial Management) Regulations 1996 to mandate the implementation of fair value accounting of local government assets.

**BACKGROUND**

The Council's current Significant Accounting Policies provide that all assets are initially recognised at cost. Certain asset classes may be revalued on a regular basis such that the carrying values are not materially different from fair value. If the Council decides to revalue a class of assets, that class of assets would have to be revalued regularly. Due to the administrative workload involved, this practice has not previously been adopted.

A circular has been received from the Minister for Local Government advising that fair value accounting of local government assets will be phased in over three years commencing on 1 July 2012 (see attached). The Minister states that:

*'The use of fair value in local government general purpose financial statements is considered essential to provide a more accurate measure of the value of community assets and liabilities than "historical cost" (the original monetary value of an economic item). It is also essential to good asset management practices and robust long term financial planning for a local government to report the value of assets and their associated maintenance, renewal or replacement costs at fair value so that the long term sustainability of that local government can be addressed.'*

**STATUTORY ENVIRONMENT**

Local Government (Financial Management) Regulations 1996.

**EXTERNAL CONSULTATION**

The Shire's auditor, Russell Harrison has been contacted, but was not fully aware of the proposals. Mr Harrison has been requested to review the Ministerial circular and advise if there is anything the Council should consider in terms of Australian Accounting Standard requirements.

**FINANCIAL IMPLICATIONS**

This proposal will be likely involve a greater cost to the Council in terms of professional valuation fees, although this cannot be quantified at this stage. There is also an opportunity cost due to the greater administrative burden in ensuring that

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assets are regularly re-valued. A budget item for 2012/2013 will be required for the valuation of plant and equipment.

### **POLICY IMPLICATIONS**

The following Council policies apply:

- Significant Accounting Policies - Financial Statements.
- Significant Accounting Policies - Budgets.

### **STRATEGIC IMPLICATIONS**

There are no strategic implications for this report.

### **OFFICER COMMENT**

The advent of better asset management and long term financial planning in local government across Australia and the desire for greater consistency in reporting of asset values has brought about this proposal.

The administration has some philosophical objections in spending a lot of time and effort obtaining valuations for assets that we never intend to sell and which are used for community purposes rather than profit making activities. This is a waste of our finite resources for no discernible benefit. Nevertheless, other States have gone down the path set out in the policy paper and this seems to be a good enough reason for the State Government to follow suit.

Historical cost obviously has its disadvantages. However, from an asset management point of view, it's the maintenance, replacement and timing of replacement that is important. We do not account for profit or distribution to shareholders.

It is being argued that fair value is essential for good asset management practice and a robust long term financial plan. Plans which incorporate renewal or replacement of assets at fair value will assist in addressing long term sustainability.

It is true that asset management models such as WAAMI and Nams Plus require asset value at fair value, not historical cost. Sustainability indicators such as the Asset Consumption Ratio, which use depreciation or depreciated replacement cost measures, would also be better indicators if these measures were more accurate.

The benefits of fair value accounting for local government are debatable. Nevertheless, the Department of Local Government has advised that the legislation will be mandated, so the Council needs to start planning for this. Local governments are advised to speak to their auditors and agree on (and document) the proposed methodologies and calculations.

Valuations of land and buildings will require formal valuations. This can be done in conjunction with insurance valuations. AVP Valuers has developed a simple valuation form which can be provided to the Shire to support fair value requirements. The current proposal is to include crown land under the care control and management of local governments, although it is understood this is still under discussion amongst industry groups.

The valuation of infrastructure can be done from unit costs in the Roman 2 database. The Department has advised that the valuation of plant and equipment could be done using industry guides. It is suggested that the only robust method (from an audit point of view) would be to engage a qualified valuer. Some work will be required to better document and identify the assets prior to this phase.

**VOTING REQUIREMENTS**

Simple Majority

**OFFICER RECOMMENDATION / COMMITTEE DECISION**

**Moved Cr K Clements, seconded Cr L Handasyde:**

**That the proposed changes to the Local Government (Financial Management) Regulations 1996 to mandate the implementation of fair value accounting of local government assets, be noted.**

**CARRIED**



**5 GENERAL BUSINESS / MATTERS ARISING**

**6 NEXT MEETING**

TBA

**7 MEETING CLOSURE**

10.54am      The Presiding Member declared the meeting closed.

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