Audit, Risk and Governance Committee

Minutes

Tuesday 5 December 2017
5.30pm
Table of Contents

1. Attendances and apologies (including leave of absence): .......................................................... 3
2. Election of Presiding and Deputy Presiding Members: ............................................................ 3
   2.1 Election of Presiding Member ...................................................................................... 3
   2.2 Declaration of Presiding Member ................................................................................... 4
   2.3 Election of Deputy Presiding Member .......................................................................... 4
   2.4 Declaration of Deputy Presiding Member ...................................................................... 4
3. Public question time: ........................................................................................................... 4
   3.1 Response to previous public questions taken on notice ................................................ 4
   3.2 Public questions ............................................................................................................ 5
4. Public statement time: ......................................................................................................... 5
5. Petitions and deputations: ................................................................................................... 5
6. Declaration of Committee Members interest: ..................................................................... 5
7. Receipt of minutes or reports and consideration of adoption of recommendations from Committee meetings held since the previous Council meetings: .......................................................... 5
   7.1 Minutes of previous Audit, Risk and Governance Committee Meeting: ......................... 5
   7.2 Reports for consideration: ............................................................................................. 6
       ARG010/12/17 – Annual Financial Statements and Audit Report 2016-2017 (SJ800) ...... 6
       ARG011/12/17 – Significant Accounting Policies (SJ526) .................................................. 13
       ARG012/12/17 – Quarterly Status Reports ........................................................................ 16
       ARG013/12/17 - Adoption of Audit, Risk & Governance Committee Meeting Dates for 2018 (SJ2195) ................................................................................................................. 24
8. Motions of which notice has been given: .............................................................................. 28
9. Urgent business: .................................................................................................................. 28
10. Closure: ............................................................................................................................ 30
Minutes of the Audit, Risk and Governance Committee Meeting held in the Council Chambers, 6 Paterson Street, Mundijong on Tuesday 5 December 2017.

The Chief Executive Officer declared the meeting open at 5.30pm and welcomed Councillors, Committee Members and staff and acknowledged that the meeting was being held on the traditional land of the Noongar People and paid his respects to their Elders past and present.

The Chief Executive Officer, Mr Donohoe advised that he would be presiding over the meeting until the office of the Presiding Member was elected. An outline of the election process was provided.

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**Minutes**

1. **Attendances and apologies (including leave of absence):**

   **Councillors:**
   - Cr J See ...................................... Presiding Member (following Election)
   - Cr Byas
   - Cr Coales
   - Cr McConkey
   - Cr M Rich

   **Independent Members:**
   - Ms E Newby
   - Mr S Casilli

   **Officers:**
   - Mr K Donohoe ...................................... Chief Executive Officer
   - Mr P Kocian................................. Acting Director Corporate and Community
   - Mrs K Bartley................................. Manager Corporate Services
   - Mr A Schonfeldt................................. Director Development Services
   - Mr P Balley ................................... Acting Director Infrastructure Services
   - Ms K Shailer....... PA to Director Corporate Services (Minute Taker)

   **Apologies:**
   - Nil

   **Observers:**
   - Mr L Mainwaring, Manager Finance
   - Mr J O’Neill, Manager Economic Development, Tourism and Marketing
   - Mr G Godwin, Moore Stephens (WA) Pty Ltd

   **Members of the Public:**
   - Nil

2. **Election of Presiding and Deputy Presiding Members:**

   **2.1 Election of Presiding Member**

   The Chief Executive Officer called for nominations for the position of Presiding Member for the ensuing two year term.

   Two written nominations were received, one from Councillor Jacqui See and the second nomination from Councillor Keira McConkey.

   **Attachments:**
   - Nomination for Presiding Member – Cr Jacqui See – ARG051217.1 (E17/12063)
   - Nomination for Presiding Member – Cr Keira McConkey – ARG051217.2 (E17/12081)
Chief Executive Officer adjourned the Meeting as Presiding Person for a period of 15 minutes.

The Audit, Risk and Governance Committee adjourned at 5.34pm to allow for the preparation of Ballot Papers.

The Audit, Risk and Governance Committee reconvened at 5.49pm.

A draw was conducted for the order of names on the ballot paper.

Position No. 1 on the ballot paper is Councillor Jacqui See.
Position No. 2 on the ballot paper is Councillor Keira McConkey.

Councillor See and Councillor McConkey each made a short statement in support of their respective nominations.

A ballot paper was prepared and issued to Committee members with the back of the ballot paper being initialed by the Chief Executive Officer.

All Committee members completed their ballot paper behind a secluded booth and lodged their ballot paper in a sealed ballot box.

The Chief Executive Officer counted the votes, overseen by Mrs Kellie Bartley, Manager Corporate Services.

The result of the Presiding Member Election was:

Councillor Jacqui See  4 votes
Councillor Keira McConkey  3 votes

2.2 Declaration of Presiding Member

The Chief Executive Officer declared Councillor Jacqui See as Presiding Member of the Audit, Risk and Governance Committee until the next Ordinary Local Government Elections in October 2019.

Councillor See assumed the Chair as the Presiding Member.

2.3 Election of Deputy Presiding Member

Councillor See called for nominations for the position of Deputy Presiding Member for the ensuing two year term.

One written nomination was received from Councillor Keira McConkey.

No further nominations were forthcoming, therefore Councillor Keira McConkey was elected unopposed to the position of Deputy Presiding Member.

Attachments:

- Nomination for Deputy Presiding Member – Cr Keira McConkey – ARG051217.3 (E17/12082).

2.4 Declaration of Deputy Presiding Member

The Presiding Member, Councillor See declared Councillor Keira McConkey as Deputy Presiding Member of the Audit, Risk and Governance Committee until the next Ordinary Local Government Elections in October 2019.

3. Public question time:

3.1 Response to previous public questions taken on notice

Nil
3.2 Public questions
Nil

4. Public statement time:
Nil

5. Petitions and deputations:
Nil

6. Declaration of Committee Members interest:
Nil

7. Receipt of minutes or reports and consideration of adoption of recommendations from Committee meetings held since the previous Council meetings:

7.1 Minutes of previous Audit, Risk and Governance Committee Meeting:

7.1.1 Audit, Risk and Governance Committee Meeting – 12 September 2017

AUDIT, RISK & GOVERNANCE COMMITTEE DECISION
Moved Cr Rich, seconded Cr Byas
That the minutes of the Audit, Risk and Governance Committee Meeting held on 12 September 2017 be confirmed (E17/8895).

CARRIED UNANIMOUSLY 7/0
7.2 Reports for consideration:

<table>
<thead>
<tr>
<th>ARG010/12/17 – Annual Financial Statements and Audit Report 2016-2017 (SJ800)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Author:</strong> Les Mainwaring – Manager Finance</td>
</tr>
<tr>
<td><strong>Senior Officer/s:</strong> Peter Kocian – Acting Director Corporate and Community</td>
</tr>
<tr>
<td><strong>Date of Report:</strong> 20 November 2017</td>
</tr>
<tr>
<td><strong>Disclosure of Officers Interest:</strong> No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the Local Government Act 1995.</td>
</tr>
</tbody>
</table>

Introduction

This report presents the audited Annual Financial Statements and Audit Management Report for the period 2016/2017. The Shire’s Auditor, Moore Stephens, has provided the Audit Report and Management Report for the financial year ended 30 June 2017.

Relevant Previous Decisions of Council

There is no previous Council decision relating to this matter.

Background

Pursuant to Sections 6.4, 7.2, 7.3 and 7.9 of the Local Government Act 1995, Local Governments are required each year to have the accounts and annual financial report of the Shire audited by an auditor appointed by the local government.

Community / Stakeholder Consultation

Nil

Statutory Environment

Section 6.4 of the Local Government Act 1995 states that, “the local government is to prepare an annual financial report for the preceding financial year, and submit to its auditor by 30 September following each financial year, including the accounts of the local government balanced up to the last day of the preceding financial year.

Section 7.2 of the Local Government Act 1995 states that, “the accounts and financial statements of a local government for each financial year are to be audited by an auditor appointed by the local government.”

Section 7.3 of the Local Government Act 1995 states, “A local government is to, from time to time whenever such an appointment is necessary or expedient, appoint a person, on the recommendation of the Audit Committee, to be its auditor”.

Section 7.9 (1) of the Local Government Act 1995 states, “An auditor is required to examine the accounts and annual financial report submitted for audit and, by 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of the report to:

a) The Mayor or President;
b) The Chief Executive Officer of the local government; and
c) The Minister.

Comment

Audit Report

The Audit Report highlighted non-compliance with regulatory requirements. The Annual Financial Report for the year ended 30 June 2016 was not sent to the Department of Local Government and Communities (the Department) within 30 days of receiving the audit report as required by Local Government (Financial Management) Regulation 51(2).

The report was sent after 35 days due to an administrative oversight. Improvement has occurred in this current year whereby the Annual Financial Report was forwarded to the Department within one (1) day of receiving the audit report.

Audit Management Report

In their Management Report for the financial year ended 30 June 2017, Moore Stephens would like to bring to Council’s attention to the following matters relating to ratios.

Ratios provide useful information when compared to industry and internal benchmarks and assist in identifying trends. Whilst not conclusive in themselves, understanding ratios, their trends and how they interact is beneficial for the allocation of scarce resources and planning for the future.

Asset Sustainability Ratio

The Asset Sustainability Ratio (ASR) expresses capital expenditure on renewal and replacement of existing assets as a percentage of depreciation costs. This ratio is used to identify any potential decline or improvement in asset conditions. A percentage of less than 100% on an ongoing basis indicates assets may be deteriorating at a greater rate than spending on renewal or replacement. This ratio is below target levels and is trending downwards.

The 2017 ratio (0.64) shows a decrease from the 2016 ratio (0.71). This suggests Council is currently replacing or renewing its existing assets at a lower rate than they are wearing out. The reason for the deterioration in this ratio is a combination of the increase in depreciation expense and capital renewal and replacement expenditure being under budget during the year ended 30 June 2017.

Interpretation of this ratio should be considered together with the Asset Consumption Ratio (ACR) (above target at 0.96) and the Asset Renewal Funding ratio (ARF) (below target at 0.67).

The downward trend should prompt a review of the depreciation calculations along with reviewing the Shire’s long term capital investment program to help ensure asset renewal is maintained at an appropriate level with sufficient funding support in the future.

Operating Surplus Ratio

The adjusted Operating Surplus Ratio represents the percentage by which the operating surplus (or deficit) differs from the Shire’s own source revenue which includes rates and operating grants. This ratio has declined in the current year and is trending marginally downwards over the last five years. Whilst it is below the target level, it appears to be better than the 5 year Regional and State averages which have deteriorated on previous years.

In order to progress towards a positive ratio, both Council and Management will need to consider ways to improve the operating surplus position either via increasing revenue or by decreasing expenditure (or a combination of both). Once again, this will be dependent upon the Council and
Managements understanding of the Shire’s circumstances and the interaction operating surplus has on other ratios and operations in general.

**Asset Renewal Funding Ratio**

The Asset Renewal Funding ratio indicates whether the Shire’s planned capital renewal expenditure over the next 10 years as per its Long Term Financial Plan (LTFP) is sufficient to meet the required capital renewal expenditure over the next 10 years as per its Asset Management Plans (AMPs).

Whilst this ratio is below the target level and both Regional and State 5 year averages, it is trending upwards over the longer term.

Interpretation of this ratio should be considered together with the Asset Sustainability Ratio (ASR) (below target at 0.64) and the Asset Consumption Ratio (ACR) (above target at 0.96).

Council should identify the reasons why its Asset Management Plans require more renewal expenditure than is provided for in its Long Term Financial Plan. Council should also consider a review of the Shire’s long term capital investment program to help ensure asset renewal is maintained at an appropriate level with sufficient funding support in the future.

**Summary**

Whilst some ratios are below the accepted industry benchmark, given the strength of the other ratios and the Shire’s balance sheet, lower ratios may be expected and accepted in the short term, provided other measures/strategies are maximised.

Notwithstanding this, three of the ratios do appear to be trending downwards over the longer term and this should be considered moving forward. In particular, some attention should be paid to the asset ratios to determine if changes are required or if the ratios are reflective of the current short to medium term asset management approach of the Shire(based on condition assessments).

**Officer Comment**

Fair value assessment has resulted in a valuation increment of $185m since 2013. This has resulted in an increase in depreciation expense of $2.94m or 211% which is the main explanation for the deterioration in ratios.

It is now incumbent on the quality of preparation of Long Term Financial Plan (LTFP) funding information to develop improving trends in the areas of asset management within the forward financial capacity of the Shire. The Long Term Financial Plan and Asset Management Plan are to be continually improved as an essential priority of the Shire each and every year. Ratios will continue to be monitored as part of the overall financial management of the Shire to ensure the Shire’s scarce resources are managed effectively.

The adverse trends in the Asset Sustainability Ratio and the Asset Renewal Funding ratio are consistent with the funding gaps identified in the existing asset management plans. This indicates that the Shire will need to allocate an increasing proportion of revenue to the asset renewal functions in the LTFP and future budgets.

The 2017/18 Budget sets a target Asset Renewal Funding ratio of 80% compared to a ratio of 67% for the 2016/17 financial year. The draft Long Term Financial Plan sees this ratio decrease to 60% in 2018/19 and steadily increasing back to 80% by 2026/27.
The Shire has a small range of options to increase growth in revenue through rates or fees and charges, otherwise net revenue can also be released by improving efficiency and effectiveness. These matters should be a continuing focus of the revised Strategic Community Plan and Long Term Financial Plan to mitigate future financial shocks or failure to meet the level of service that the community expects.

The summary table below provided by Moore Stephens indicates that there is a mix of trends over 5 years, some trending downwards, but a relative strength in other ratios, however the trend is the important interpretive aspect rather than the one off result at a particular point in time. That said, the enduring message given our mix of ratios is to focus our attentions on condition assessments to determine if the asset ratios are reflective of our current short/medium term asset management approach.

Moore Stephens also advised that three of the ratios in the below table were distorted by an item of significant revenue relating to the early payment of 2017/18 Financial Assistance Grants (FAGs) totalling $1,334,613 received before 30 June 2017. The early payment of the grant increased operating revenue in 2017, therefore is considered “one-off” in nature and was adjusted when calculating the ratios in the below table (as shown by *) as were relevant comparative year ratios (which had been affected by similar “one-off” items).

<table>
<thead>
<tr>
<th></th>
<th>Target Ratio</th>
<th>Actual 2017</th>
<th>Council's Adjusted Ratios</th>
<th>Council's 5 Year Trend</th>
<th>5 Year Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio</td>
<td>≥ 1</td>
<td>1.73</td>
<td>1.41*</td>
<td>1.55</td>
<td>1.46</td>
</tr>
<tr>
<td>Asset Sustainability Ratio</td>
<td>≥ 1.1</td>
<td>0.64</td>
<td>0.64</td>
<td>0.71</td>
<td>0.84</td>
</tr>
<tr>
<td>Debt Service Cover Ratio</td>
<td>≥ 10</td>
<td>12.25</td>
<td>9.43*</td>
<td>11.50*</td>
<td>4.89</td>
</tr>
<tr>
<td>Operating Surplus Ratio</td>
<td>≥ 0.15</td>
<td>0.00</td>
<td>(0.04)*</td>
<td>(0.01)*</td>
<td>0.04*</td>
</tr>
<tr>
<td>Own Source Revenue Coverage Ratio</td>
<td>≥ 0.9</td>
<td>0.86</td>
<td>0.86</td>
<td>0.87</td>
<td>0.90</td>
</tr>
<tr>
<td>Asset Consumption Ratio</td>
<td>≥ 0.75</td>
<td>0.96</td>
<td>0.96</td>
<td>0.98</td>
<td>0.74</td>
</tr>
<tr>
<td>Asset Renewal Funding Ratio</td>
<td>≥ 1.05</td>
<td>0.67</td>
<td>0.67</td>
<td>0.56</td>
<td>0.44</td>
</tr>
</tbody>
</table>

Financial Performance

The financial performance of the Shire continues to improve from previous years. Below is a table of the 2016/2017 and previous financial years for comparisons. As detailed below, the operating expenditure is keeping pace with operating revenue. The future trend should be looking to grow operating revenue in excess of operating expenditure growth, which will result in more funding to be dedicated to asset renewal purposes. This position is generally confirmed by the interpretation of the key ratios.

This performance will need to continue to improve to enable the Shire to meet the asset management requirements for a rapidly growing community.
## Delegations Register

The annual review of the delegations register was not carried out by 30 June 2017 as required by section 5.46(2) of the Local Government Act.

### Officer Comment

Due to the organisational restructure, the annual review of delegations was delayed and will be presented to Council at the Ordinary Council Meeting on 18 December 2017.

### Options and Implications

Nil

### Conclusion

The attached Annual Financial Report and Audit Report is presented to the Audit, Risk and Governance Committee for recommendation to Council for adoption and acceptance.

## Attachments

- [ARG010.1/12/17](#) - Annual Financial Report – 30 June 2017 (E17/10742)
- [ARG010.2/12/17](#) - Audit Management Report – 30 June 2017 (IN17/23355)

## Alignment with our Strategic Community Plan

<table>
<thead>
<tr>
<th>Outcome 4.1</th>
<th>A resilient, efficient and effective organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy 4.1.1</td>
<td>Provide efficient, effective, innovative, professional management of Shire operations to deliver the best outcome for the community within allocated resources.</td>
</tr>
</tbody>
</table>

## Financial Implications

Budget provision has been included in the 2017/2018 budget to accommodate the expenses associated with carrying out the external audit.

## Risk Implications

Risk has been assessed on the basis of the Officer's Recommendation.

---

Reference: E17/12163
<table>
<thead>
<tr>
<th>Risk Description</th>
<th>Risk Likelihood (based on history and with existing controls)</th>
<th>Risk Impact / Consequence</th>
<th>Risk Rating (Prior to Treatment or Control)</th>
<th>Principal Risk Theme</th>
<th>Risk Action Plan (Controls or Treatment proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>That Council not adopt the Annual Financial Report</td>
<td>Unlikely (2)</td>
<td>Moderate (3)</td>
<td>Moderate (5-9)</td>
<td>Compliance - 3 Non-compliance with significant regulatory requirements imposed</td>
<td>Accept Officer Recommendation</td>
</tr>
</tbody>
</table>

**Risk Matrix**

<table>
<thead>
<tr>
<th>Consequence</th>
<th>Insignificant</th>
<th>Minor</th>
<th>Moderate</th>
<th>Major</th>
<th>Catastrophic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Almost Certain</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Likely</td>
<td>Low (4)</td>
<td>Medium (8)</td>
<td>High (12)</td>
<td>High (16)</td>
<td>Extreme (20)</td>
</tr>
<tr>
<td>Possible</td>
<td>Low (3)</td>
<td>Medium (6)</td>
<td>Medium (9)</td>
<td>High (12)</td>
<td>High (15)</td>
</tr>
<tr>
<td>Unlikely</td>
<td>Low (2)</td>
<td>Low (4)</td>
<td>Medium (6)</td>
<td>Medium (8)</td>
<td>High (10)</td>
</tr>
<tr>
<td>Rare</td>
<td>Low (1)</td>
<td>Low (2)</td>
<td>Low (3)</td>
<td>Low (4)</td>
<td>Medium (5)</td>
</tr>
</tbody>
</table>

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating of 6 has been determined for this item. Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk rating over 17 will require a specific risk treatment plan to be developed.

**Voting Requirements:** Absolute Majority

**ARG010/12/17**

**AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION / Officer Recommendation:**

Moved Cr Coales, seconded Ms Newby

That the Audit, Risk and Governance Committee:


2. Receives the Moore Stephens Audit Management Report as per attachment ARG010.2/12/17.

CARRIED BY ABSOLUTE MAJORITY 7/0
Please note that the Audit Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit Risk and Governance Committee are presented to Council for ratification.
ARG011/12/17 – Significant Accounting Policies (SJ526)

<table>
<thead>
<tr>
<th>Author:</th>
<th>Les Mainwaring – Manager Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Officer/s:</td>
<td>Peter Kocian – Acting Director Corporate and Community</td>
</tr>
<tr>
<td>Date of Report:</td>
<td>20 November 2017</td>
</tr>
<tr>
<td>Disclosure of Officers Interest:</td>
<td>No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <em>Local Government Act 1995</em>.</td>
</tr>
</tbody>
</table>

Introduction

This report presents the Significant Accounting Policies that are used to compose the Annual Budget and the Annual Financial Report. They are also relied upon for guidance in the treatment of accounting transactions during the financial year.

Relevant Previous Decisions of Council

There is no previous Council decision relating to this matter.

Background

In deciding whether a particular accounting policy shall be disclosed, management considers whether disclosure will assist users in understanding how transactions, other events and conditions are reflected in the reported financial position of the organisation. Accounting policies shall be disclosed for all material components.

The summary of significant accounting policies is a section of the notes that accompany an entity’s financial statements, describing the key policies being followed by the finance section. This summary is usually placed at or near the beginning of the notes.

The policy summary is mandated by the applicable accounting framework Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). These frameworks require an entity to disclose its most important policies, the appropriateness of those policies, and how they impact the reported financial position of the entity.

The policy summary can include policies from a broad range of operational and financial areas, including cash, receivables, intangible assets, asset impairment, depreciation, inventory costing, types of liabilities, revenue recognition, and capitalised costs.

Community / Stakeholder Consultation

Nil

Statutory Environment

AASB 101 – Presentation of Financial Statements 10(e) - A complete set of financial statements comprises notes including a summary of significant accounting policies and other explanatory information.

*Local Government Act 1995*

*Local Government (Financial Management) Regulations 1996*
Comment
Council is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the Local Government Act 1995 and the Local Government (Financial Management) Regulations 1996 (as amended). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Significant accounting policies are reviewed annually, after consultation and advice from external auditors, and disclosed in Note 1 of every adopted annual budget and annual financial report. The accounting policies in this report are relevant for the period 2017/2018, whereas the annual report 2016/2017 is based on policies adopted in the previous year’s budget.

In the interests of continuously improving good governance practices, it is considered good practice to adopt significant accounting policies as a separate part of the budget process.

Options and Implications
Nil

Conclusion
Significant Accounting Policies should be reviewed and adopted at least annually.

Attachments
- ARG011.1/12/17 - Significant Accounting Policies (E17/11449)

Alignment with our Strategic Community Plan

<table>
<thead>
<tr>
<th>Outcome 4.1</th>
<th>A resilient, efficient and effective organisation</th>
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</thead>
<tbody>
<tr>
<td>Strategy 4.1</td>
<td>Provide efficient, effective, innovative, professional management of Shire operations to deliver the best outcome for the community within allocated resources.</td>
</tr>
</tbody>
</table>

Financial Implications
Nil

Risk Implications
Risk has been assessed on the basis of the Officer’s Recommendation.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Likelihood (based on history and with existing controls)</th>
<th>Risk Impact / Consequence</th>
<th>Risk Rating (Prior to Treatment or Control)</th>
<th>Principal Risk Theme</th>
<th>Risk Action Plan (Controls or Treatment proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>That Council do not adopt the Significant</td>
<td>Unlikely (2)</td>
<td>Minor (2)</td>
<td>Low (1-4)</td>
<td>Compliance - 2 Minor - Regular noticeable temporary</td>
<td>Accept Officer Recommendation</td>
</tr>
</tbody>
</table>
Minutes – Audit, Risk & Governance Committee 5 December 2017

Risk Matrix

<table>
<thead>
<tr>
<th>Likelihood</th>
<th>Insignificant</th>
<th>Minor</th>
<th>Moderate</th>
<th>Major</th>
<th>Catastrophic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Almost Certain</td>
<td>Medium (5)</td>
<td>High (10)</td>
<td>High (15)</td>
<td>Extreme (20)</td>
<td>Extreme (25)</td>
</tr>
<tr>
<td>Likely</td>
<td>Low (4)</td>
<td>Medium (8)</td>
<td>High (12)</td>
<td>High (16)</td>
<td>Extreme (20)</td>
</tr>
<tr>
<td>Possible</td>
<td>Low (3)</td>
<td>Medium (6)</td>
<td>Medium (9)</td>
<td>High (12)</td>
<td>High (15)</td>
</tr>
<tr>
<td>Unlikely</td>
<td>Low (2)</td>
<td>Low (4)</td>
<td>Medium (6)</td>
<td>Medium (8)</td>
<td>High (10)</td>
</tr>
<tr>
<td>Rare</td>
<td>Low (1)</td>
<td>Low (2)</td>
<td>Low (3)</td>
<td>Low (4)</td>
<td>Medium (5)</td>
</tr>
</tbody>
</table>

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating of 4 has been determined for this item. Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk rating over 17 will require a specific risk treatment plan to be developed.

Voting Requirements: Simple Majority

ARG011/12/17 AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION / Officer Recommendation:

Moved Cr Byas, seconded Cr McConkey

That the Audit Risk and Governance Committee recommends the Significant Accounting Policies to Council for adoption, as per attachment ARG011.1/12/17, in accordance with Section 7.2 of the Local Government Act 1995.

CARRIED UNANIMOUSLY 7/0

Please note that the Audit Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit Risk and Governance Committee are presented to Council for ratification.
ARG012/12/17 – Quarterly Status Reports

<table>
<thead>
<tr>
<th>Author:</th>
<th>Kellie Bartley – Manager Corporate Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Officer/s:</td>
<td>Peter Kocian – Acting Director Corporate and Community</td>
</tr>
<tr>
<td>Date of Report:</td>
<td>16 November 2017</td>
</tr>
<tr>
<td>Disclosure of Officers Interest:</td>
<td>No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the Local Government Act 1995.</td>
</tr>
</tbody>
</table>

**Introduction**

The purpose of this report is to provide the Audit, Risk and Governance Committee (ARG) with a progress status reports in relation to the following:

- Audit Regulation 17 Improvement Plan Progress (Reg 17)
- Capital Works Program
- Department of Local Government Report
- Financial Management Review (FMR)
- Governance Health Review (GHR)
- Statutory Compliance Calendar (SCC)

**Relevant Previous Decisions of Council**

ARG007/09/17 – Audit Regulation 17 Improvement Plan Progress Report  
ARG008/09/17 – Status Reports on Statutory Compliance Calendar, Financial Management Review and Governance Health Review

**Background**

**Audit Regulation 17 Improvement Plan Progress Report**

The Regulation 17 review audit produced a comprehensive “Improvement Plan” sanctioned into the following main compliance areas:

- Risk Management (RM)  
- Legislative Compliance (LC)  
- Internal Controls (IC)

A cumulative total of 61 framework components and actions items were identified to increase procedural and system effectiveness in accordance with legislative requirements.

**Capital Works Program**

Council have assigned the Chief Executive Officer a Key Performance Indicator to achieve a 80% clearance rate of budgeted capital works for the 2017/18 financial year.

A capital works program totalling $22,094,978 for investment in infrastructure, land and buildings, plant and equipment, and furniture and equipment was adopted by Council in the 2017/2018 financial year.
Budget. Major project spends include roads ($18.4m), land and buildings ($1.4m), footpaths ($476k), parks and reserves ($372k) and drainage ($340k).

Financial Management Review
Moore Stephens (WA) Pty Ltd was engaged to conduct a limited assurance review of the appropriateness and effectiveness of the Shire of Serpentine Jarrahdale's financial management systems and procedures. The objective of the review is to assist the Chief Executive Officer discharge responsibilities in respect to Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996.

Governance Health Review (GHR) & Department of Local Government Report
The GHR and the Department’s report intends to capture the recommendations and actions that were received by Council at the Ordinary Council meeting on the Monday 28 August 2017 (ARG004/07/17) and (ARG005/07/17) respectively. Presenting the GHR and the Department’s reports to Council, and consequently the wider community having access to the report, endorses transparency and accountability.

Statutory Compliance Calendar (SCC)
The SCC has been sourced from the Western Australia Local Government Association (WALGA). It is a tool to assist the Shire identify yearly compliance activities. The objective is to assist responsible Officers to review the relevant activities requiring compliance and accountability across a various legislative components on a monthly basis.

Community / Stakeholder Consultation
There has been no community consultation in the undertaking of these reports. Internal stakeholder consultation has occurred with Responsible Officers as designated in the status reports attached to this item.

Statutory Environment
Audit Regulation 17
Regulation 17 of the Local Government (Audit) Regulations 1996 requires the Chief Executive Officer to review the appropriateness and effectiveness of the local government's systems and procedures in relation to Risk Management, Internal Control and Legislative Compliance separately or all at the one time, on the provision that each matter is reviewed at least once every two years.

Capital Works Program
The Local Government Act 1995 establishes the requirements for determining budgets and the establishment of the Plan for the Future.

Financial Management Review
Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 requires the Chief Executive Officer of the Local Government 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.
Department of Local Government Report, Governance Health Review & Statutory Compliance Calendar

Whilst there are many provisions in the Local Government Act 1995 and associated Regulations regarding the auditing of financial records, assessment of risk management, internal control and legislative compliance, the undertaking of the SCC and GHR is not bound by legislative requirements. The legislative imperative for each action is noted in the SCC.

Comment

Audit Regulation 17 Improvement Plan Progress Report

The Improvement Plan provides the organisation with a comprehensive overview of business practices and continuous improvement methodologies that work towards increasing best practice standards across all Shire business units.

There are a number of actions that are partially completed or in progress. Full details are contained in attachment ARG012.1/12/17.

The following action items have been completed in accordance with the Regulation 17 Review.

<table>
<thead>
<tr>
<th>No.</th>
<th>Framework Component Improvements (Completed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM1.3</td>
<td>Management Procedure – OHS procedures – reviewed and to be presented to OCM Dec 2017</td>
</tr>
<tr>
<td>RM1.10</td>
<td>Insurance – Fair Value completed building &amp; Land</td>
</tr>
<tr>
<td>RM1.14</td>
<td>Audit &amp; Risk Committee – TOR and activated ARG committee</td>
</tr>
<tr>
<td>RM1.16</td>
<td>Council Agendas &amp; Minutes – Organisational Risk Implications to agenda template completed August 2017</td>
</tr>
<tr>
<td>IC1.2</td>
<td>Code of Conduct for Elected Members and Staff – completed by CEO Nov 2017</td>
</tr>
<tr>
<td>IC2.3</td>
<td>Staff Training – completed with performance appraisals process</td>
</tr>
<tr>
<td>IC2.5</td>
<td>Council Policy G003 Councillor Entitlements – reviewed by Council May 2017</td>
</tr>
<tr>
<td>IC2.8</td>
<td>Council Policy PC102 Financial Assistance to Community – review completed June 2017</td>
</tr>
<tr>
<td>IC2.9</td>
<td>Council Policy G006 Investment of Surplus Funds – review completed June 2017</td>
</tr>
<tr>
<td>IC2.14</td>
<td>Council Policy G917 Corporate Purchasing Cards – review completed August 2017</td>
</tr>
<tr>
<td>IC3.2</td>
<td>Ordinary Council Meetings – reviewed by Council on consist reporting</td>
</tr>
<tr>
<td>IC3.3</td>
<td>Executive Management Group – Financial reporting on a monthly basis completed</td>
</tr>
<tr>
<td>IC3.4</td>
<td>Effective Management Group – Statutory Compliance Calendar reviewed and report Dec 2017</td>
</tr>
<tr>
<td>LC2.6</td>
<td>Access to information – Staff emailed relevant changes/information – completed and ongoing</td>
</tr>
<tr>
<td>LC2.10</td>
<td>Code of Conduct &amp; complaints register – training completed by CEO Nov 2017</td>
</tr>
<tr>
<td>LC3.2</td>
<td>Annual Compliance Return – Completed March 2017</td>
</tr>
<tr>
<td>LC3.3</td>
<td>Audit &amp; Risk Committee – CAR completed March 2017</td>
</tr>
<tr>
<td>LC3.4</td>
<td>Effective Management Group – Legislative Compliance – Statutory Compliance Calendar Completed and reviewed Dec 2017</td>
</tr>
<tr>
<td>LC4.1</td>
<td>Monitoring Compliance – Risk Template completed for OCM</td>
</tr>
</tbody>
</table>
The following action items have been progressed in accordance with the Regulation 17 review pending Council consideration:

<table>
<thead>
<tr>
<th>No.</th>
<th>Framework Component Improvements (In Progress)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM1.1</td>
<td>Council Policy – Risk Management Policy</td>
</tr>
<tr>
<td>RM1.2</td>
<td>Risk Management Framework</td>
</tr>
<tr>
<td>RM1.4</td>
<td>Management Plan – Emergency Evacuation Plan</td>
</tr>
<tr>
<td>RM1.5</td>
<td>Business Continuity Plan/Disaster Recovery Plan</td>
</tr>
<tr>
<td>RM1.6</td>
<td>LEMA – Draft Local Emergency Management Arrangements</td>
</tr>
<tr>
<td>RM1.7</td>
<td>Staff Knowledge – Staff Induction</td>
</tr>
<tr>
<td>RM1.8</td>
<td>Entity Risk Register</td>
</tr>
<tr>
<td>RM1.12</td>
<td>Workforce Risk Assessment</td>
</tr>
<tr>
<td>RM1.13</td>
<td>Project Management &amp; risk assessment training</td>
</tr>
<tr>
<td>RM1.15</td>
<td>Executive Management Group – Organisational Risk Register</td>
</tr>
<tr>
<td>RM1.19</td>
<td>Ongoing Improvement Plan – Risk Management Framework</td>
</tr>
<tr>
<td>LC2.2</td>
<td>Management Procedure – Reporting Legislative Breaches</td>
</tr>
<tr>
<td>LC2.3</td>
<td>Management Procedure – Staff Inductions</td>
</tr>
<tr>
<td>LC2.7</td>
<td>Management Procedure – Statutory Environment in Council Agendas</td>
</tr>
<tr>
<td>LC2.8</td>
<td>Council Policy – G009 - Depreciation</td>
</tr>
<tr>
<td>LC4.2</td>
<td>Complaints Handling</td>
</tr>
<tr>
<td>IC2.1</td>
<td>Communications of Modifications – Policy &amp; BOP’s</td>
</tr>
<tr>
<td>IC2.2</td>
<td>Experienced Staff – refer to LC4.2</td>
</tr>
<tr>
<td>IC2.4</td>
<td>Council Policy – G814 – Process for review of Policies</td>
</tr>
<tr>
<td>IC2.10</td>
<td>Council Policy – G903 – Rates Collection and General Debtors Policy</td>
</tr>
<tr>
<td>IC2.11</td>
<td>Council Policy – New policy for self supporting loans</td>
</tr>
<tr>
<td>IC2.12</td>
<td>Council Policy – G001 – Purchasing Amounts Under $150,000</td>
</tr>
<tr>
<td>IC2.13</td>
<td>Council Policy – G002 – Procurement of goods or services through Public Tendering</td>
</tr>
</tbody>
</table>

All relevant policies identified will be completed through the review process with Executive Management Group and relevant Responsible Officers and is proposed to be presented to Council by December 2017.

In summary, 61 areas have been assessed to date. The majority of areas audited have substantial effective systems and procedures in place. More specifically, 17 controls have been assessed as being high priority with 6 items completed.

Of the 28 controls identified as being medium priority, 11 items are now completed and of the 16 controls being low priority, 4 have now been finalised.

Therefore, 21 items have now been completed of the 61 items. It is envisaged that the majority of items will be completed by the end of the 2017/2018 financial year.

The report in ARG012.1/12/17 outlines recommendations for improvements to increase all identified partially effective and ineffective controls to completion status.

**Capital Works Program**

A fully itemised capital works budget has been developed giving due regard to asset renewal requirements. The Shire’s asset renewal ratio has steadily improved, increasing from 44% in 2014/15 to 67% in 2016/17. The Shire’s 2017/18 Budget targets an asset renewal ratio of 80%. Notwithstanding an increase in asset renewal expenditure over the last 4 years, there is a significant infrastructure backlog due to a historical recurrent funding gap. Council will need to consider a
funding strategy in its asset management plans to address this infrastructure backlog, otherwise the serviceability of assets will become reduced into the future.

For the month ending October 2017, $4,372,617 had been expended on capital works against a full-year budget of $22,094,978. This equates to 19.8% of Budget. The Abernethy Road project is the most significant project that the Shire will complete during the 2017/18 financial year, with a total budget of $13,649,220 (62% of the total capital works budget). This project has commenced and is expected to be fully completed this financial year. The status report for Capital Works is as attachment ARG012.2/12/17.

Financial Management Review
A FMR was undertaken by Moore Stephens (WA) Pty Ltd in April 2017. The review included a number of findings that were noted for improvement. The findings and status of progress is outlined in attachment ARG012.3/12/17.

Governance Health Review
The scope of the GHR concentrated on governance, financial and compliance aspects of the Shire’s operations, including: local laws, delegations, disclosure of interests, credit card control, risk management, tendering, procurement, compliance and internal control, policies, financial management systems, primary and annual returns.

The actions taken to implement the key recommendations of the GHR is to be recorded and reported to the ARG Committee. The key recommendations and status of progress is outlined in attachment ARG012.4/12/17.

Department of Local Government Report
In order to monitor the recommendations made, the Department has requested that the Shire provide the Department with evidence of the progress made towards implementing the recommendations within three months.

The actions taken to implement the key recommendations of the Department's report is to be recorded and reported to the ARG Committee. The key recommendations and status of progress is outlined in attachment ARG012.5/12/17.

Statutory Compliance Calendar
The SCC is based on the template from WALGA and is presented for consideration by the ARG Committee. It aims to provide a corporate calendar for all compliance requirements over the course of a year, including the next due date where an item is not carried out at least once per year.

The calendar's actions have been recorded and report from Responsible Officers, populating the relevant details as outlined in attachment ARG012.6/12/17.

Conclusion
In summary, the status reports provide the organisation with a comprehensive overview of business practices and continuous improvement activities that work towards increasing best practice standards across all Shire business units.

Attachments
- ARG012.1/12/17 – Audit Regulation 17 Improvement Plan – December 2017 (E17/11485)
Alignment with our Strategic Community Plan

<table>
<thead>
<tr>
<th>Outcome 4.1</th>
<th>A resilient, efficient and effective organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy 4.1.1</td>
<td>Provide efficient, effective, innovative, professional management of Shire operations to deliver the best outcome for the community within allocated resources.</td>
</tr>
<tr>
<td>Strategy 4.1.2</td>
<td>Maximise the Shire's brand and reputation in the community</td>
</tr>
<tr>
<td>Outcome 4.2</td>
<td>A strategically focused Council</td>
</tr>
<tr>
<td>Strategy 4.2.1</td>
<td>Build and promote strategic relationships in the Shire’s interest</td>
</tr>
<tr>
<td>Strategy 4.2.3</td>
<td>Provide clear strategic direction to the administration</td>
</tr>
</tbody>
</table>

Financial Implications

There are financial implications associated with some of the key recommendations in the GHR, Capital Works Program & Audit Regulation 17. These costs have been identified and are part of the 2017/18 Budget.

There are no financial implications associated with the status reports for SCC, FMR or the Department of Local Government report.

Risk Implications

Risk has been assessed on the basis of the Officer’s Recommendation.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Likelihood (based on history and with existing controls)</th>
<th>Risk Impact / Consequence</th>
<th>Risk Rating (Prior to Treatment or Control)</th>
<th>Principal Risk Theme</th>
<th>Risk Action Plan (Controls or Treatment proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not proceeding with key recommendations for the individual status reports</td>
<td>Unlikely (2)</td>
<td>Minor (2)</td>
<td>Low (1-4)</td>
<td>Compliance - 2 Minor - Regular noticeable temporary non-compliances</td>
<td>Control through improvements as identified in each status report</td>
</tr>
</tbody>
</table>
Risk Matrix

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives: occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating of 4 has been determined for this item. Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk rating over 17 will require a specific risk treatment plan to be developed.

Voting Requirements: Simple Majority

ARG012/12/17 Officer Recommendation:

That the Audit, Risk and Governance Committee:

1. Receives the Audit Regulation 17 status report as contained in attachment ARG012.1/12/17 on the risk management, legislative compliance and internal controls.

2. Receives the Capital Works Program status report as contained in attachment ARG012.2/12/17.


4. Receives the Governance Health Review Status report as contained in attachment ARG012.4/12/17.

5. Receives the Department of Local Government Review status report as contained in attachment ARG012.5/12/17.

6. Receives the Statutory Compliance Calendar status report as contained in attachment ARG012.6/12/17.
ARG012/12/17  AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION / Alternate Recommendation

Moved Cr Rich, seconded Cr Byas

That the Audit, Risk and Governance Committee:

1. Receives the Capital Works Program status report as contained in attachment ARG012.2/12/17.


3. Receives the Governance Health Review Status report as contained in attachment ARG012.4/12/17.

4. Receives the Department of Local Government Review status report as contained in attachment ARG012.5/12/17.

5. Receives the Statutory Compliance Calendar status report as contained in attachment ARG012.6/12/17.

CARRIED UNANIMOUSLY 7/0

Reason for difference to Officer Recommendation

The alternate motion deleted the Officers recommendation No. 1. as Cr Rich highlighted that 3 line items within the Audit Regulation 17 Status Report required updating as Council will be considering Policy amendments at the December 2017 Ordinary Council Meeting.

Please note that the Audit, Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit, Risk and Governance Committee are presented to Council for ratification.
Introduction

Regulation 12(1) of the *Local Government (Administration) Regulations 1996* requires local public notice to be given of the dates, time and place of Committee Meetings that are being held in the next 12 months.

The last publicly advertised Audit, Risk & Governance Committee date is 5 December 2017. The meeting schedule for 2018 needs to be adopted.

**Relevant Previous Decisions of Council**

AC002/03/17 Audit, Risk & Governance Committee – Adopt Terms of Reference

**Background**

Audit, Risk and Governance (ARG) Committee Meetings have previously been held every three months on the first Tuesday of the month.

**Community / Stakeholder Consultation**

Nil

**Statutory Environment**

*Local Government Act 1995*

5.25. Regulations about council and committee meetings and committees

(1) Without limiting the generality of section 9.59, regulations may make provision in relation to —

(a) the matters to be dealt with at ordinary or at special meetings of councils; and

(b) the functions of committees or types of committee; and

(ba) the holding of council or committee meetings by telephone, video conference or other electronic means; and

(c) the procedure to be followed at, and in respect of, council or committee meetings; and

(d) methods of voting at council or committee meetings; and

(e) the circumstances and manner in which a decision made at a council or a committee meeting may be revoked or changed (which may differ from the manner in which the decision was made); and
(f) the content and confirmation of minutes of council or committee meetings and the
keeping and preserving of the minutes and any documents relating to meetings; and

(g) the giving of public notice of the date and agenda for council or committee meetings; and

(h) the exclusion from meetings of persons whose conduct is not conducive to the
proper conduct of the meetings and the steps to be taken in the event of persons
refusing to leave meetings; and

(i) the circumstances and time in which the unconfirmed minutes of council or
committee meetings are to be made available for inspection by members of the
public; and

(j) the circumstances and time in which notice papers and agenda relating to any
council or committee meeting and reports and other documents which could be —
   (i) tabled at a council or committee meeting; or
   (ii) produced by the local government or a committee for presentation at a
council or committee meeting,
are to be made available for inspection by members of the public.

Local Government (Administration) Regulations 1996

12. Meetings, public notice of (Act s. 5.25(1)(g))

(1) At least once each year a local government is to give local public notice of the dates on
which and the time and place at which —
   (a) the ordinary council meetings; and
   (b) the committee meetings that are required under the Act to be open to members of
the public or that are proposed to be open to members of the public,
are to be held in the next 12 months.

(2) A local government is to give local public notice of any change to the date, time or place of
a meeting referred to in subregulation (1).

(3) Subject to subregulation (4), if a special meeting of a council is to be open to members of
the public then the local government is to give local public notice of the date, time, place
and purpose of the special meeting.

(4) If a special meeting of a council is to be open to members of the public but, in the CEO’s
opinion, it is not practicable to give local public notice of the matters referred to in
subregulation (3), then the local government is to give public notice of the date, time, place
and purpose of the special meeting in the manner and to the extent that, in the CEO’s
opinion, is practicable.

The Local Government Act 1995 requires the giving of public notice of the date and time for
Committee meetings and Regulation 12(1) and (2) of the Local Government (Administration)
Regulations 1996 requires that at least once in every year the local government is to give local public
notice of the dates, time and place of Committee Meetings that are open to the public.
Comment
The Audit, Risk & Governance Committee meeting schedule has been set to comply with legislative requirements, the Committee’s Terms of Reference and the Ordinary Council Meeting Schedule.

The Audit, Risk and Governance Committee does not have delegated authority, therefore all recommendations from the Committee are to be presented to Council for ratification.

Options and Implications
Option One
That the Audit, Risk and Governance Committee adopt the suggested meeting schedule dates for 2018 as contained in attachment ARG013.1/12/17, and that if the meeting dates need to be changed, local public notice is given as required by Legislation.

Option Two
That the Audit, Risk and Governance Committee set their next meeting date at each meeting, but in compliance with Standing Orders 6.2, where the ARG Committee shall meet every three (3) months or more regularly as required at the discretion of the Presiding Member of the ARG Committee, the Shire President or the CEO.

Option One is recommended.

Conclusion
The Schedule of Meetings for the Audit, Risk and Governance Committee is contained in attachment ARG013.1/12/17 which complies with the Committees Terms of Reference, Legislative requirements and the OCM Meeting Schedule. These dates can be amended by the Presiding Member, Shire President or CEO if required.

Attachments
- ARG013.1/12/17 – Draft Public Notice –Audit, Risk & Governance Committee Meeting dates 2018 (E17/11521)

Alignment with our Strategic Community Plan

<table>
<thead>
<tr>
<th>Outcome 4.1</th>
<th>A resilient, efficient and effective organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy 4.1.1</td>
<td>Provide efficient, effective, innovative, professional management of Shire operations to deliver the best outcome for the community within allocated resources</td>
</tr>
</tbody>
</table>

Financial Implications
Local public notice is required to be given by which an advertisement will be placed in the local newspaper. The 2017/18 Budget contains an allocation for such advertising.
**Risk Implications**

Risk has been assessed on the basis of the Officer's Recommendation.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Likelihood (based on history and with existing controls)</th>
<th>Risk Impact / Consequence</th>
<th>Risk Rating (Prior to Treatment or Control)</th>
<th>Principal Risk Theme</th>
<th>Risk Action Plan (Controls or Treatment proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>That ARG Committee Meetings for 2018 be held as per the schedule which meets Shire requirements.</td>
<td>Possible (3)</td>
<td>Insignificant (1)</td>
<td>Low (1-4)</td>
<td>Reputation - 1 Insignificant - Unsubstantiated, localised low impact on key stakeholder trust, low profile or no media item</td>
<td>Accept Officer Recommendation</td>
</tr>
</tbody>
</table>

**Risk Matrix**

<table>
<thead>
<tr>
<th>Consequence</th>
<th>Insignificant</th>
<th>Minor</th>
<th>Moderate</th>
<th>Major</th>
<th>Catastrophic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Likelihood</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Almost Certain</td>
<td>5</td>
<td>Medium (5)</td>
<td>High (10)</td>
<td>High (15)</td>
<td>Extreme (20)</td>
</tr>
<tr>
<td>Likely</td>
<td>4</td>
<td>Low (4)</td>
<td>Medium (8)</td>
<td>High (12)</td>
<td>High (16)</td>
</tr>
<tr>
<td>Possible</td>
<td>3</td>
<td>Low (3)</td>
<td>Medium (6)</td>
<td>Medium (9)</td>
<td>High (12)</td>
</tr>
<tr>
<td>Unlikely</td>
<td>2</td>
<td>Low (2)</td>
<td>Low (4)</td>
<td>Medium (6)</td>
<td>Medium (8)</td>
</tr>
<tr>
<td>Rare</td>
<td>1</td>
<td>Low (1)</td>
<td>Low (2)</td>
<td>Low (3)</td>
<td>Low (4)</td>
</tr>
</tbody>
</table>

A risk is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating of 3 has been determined for this item. Any items with a risk rating over 10 (considered to be high or extreme risk) will be added to the Risk Register, and any item with a risk rating over 17 will require a specific risk treatment plan to be developed.

**Voting Requirements:** Simple Majority

ARG013/12/17 AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION / Officer Recommendation:

Moved Cr Rich, seconded Mr Casilli

That the Audit, Risk and Governance Committee:

1. Adopts the Meeting Schedule dates as contained in attachment ARG013.1/12/17 and holds the Committee Meetings for 2018 on Tuesdays at 5.30pm in the Council Chambers.
2. In accordance with Regulation 12 of the Local Government (Administration) Regulations 1996, advertises by local public notice, the 2018 Audit, Risk and Governance Committee Meeting dates as:

- 6 March 2018
- 15 May 2018
- 21 August 2018
- 20 November 2018

CARRIED UNANIMOUSLY 7/0

Please note that the Audit Risk and Governance Committee does not have delegated authority to make decisions. All recommendations of the Audit Risk and Governance Committee are presented to Council for ratification.

8. Motions of which notice has been given:

Nil

9. Urgent business:

AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

Moved Cr Rich, seconded Cr Coales

That Standing Orders be suspended at 6.11pm to allow the Auditor to present the Audit Report and Management Report 2016/2017.

CARRIED UNANIMOUSLY 7/0

9.1 The Shire’s Auditor, Greg Godwin, representing Moore Stephens (WA) Pty Ltd made a presentation to the Committee on:

2. Management Report (included as attachment to Annual Financial Report item with particular discussion on the financial ratios)
3. Audit methodology

AUDIT, RISK AND GOVERNANCE COMMITTEE DECISION

Moved Cr Coales, seconded Cr McConkey

That the Audit, Risk and Governance Committee return to Standing Orders at 6.34pm.

CARRIED UNANIMOUSLY 7/0

9.2 Ms Eileen Newby provided comment with regards to the Corporate Business Plan and other status reports provided to the Committee. Where items had not been started or had not been completed, an update on all these items should be provided at every meeting. This update may simply be something along the lines of “this item will not be actioned because …………” or “this item will be commencing ……….. and has an anticipated completion date of …..”. This would provide the Committee with a full picture on all items within the plan and how they are moving along.
Officer Comment
Acting Director Corporate and Community advised through the Chair that number of status reports are presented to the ARG Committee on a periodic basis. The status reports do report action against items listed. Officer's will provide further detail in the status reports which will support the progress completed.

It is intended to present a status report against the Corporate Business Plan on a bi-annual basis. This will be an exceptions report and will only detail items that are yet to commence, have been deferred, or have been removed.

Committee Members are encouraged to ask questions with regards to items listed in the status reports. Officers will be generally able to provide comment at the meeting with regards to the implementation of items.

9.3 Ms Eileen Newby made suggestion for all the Accounting Standards to be listed and then information provided on the adoption of the standard within the Significant Accounting Policies document. For example the accounting standard on the accrual of employee benefits, the methodology for the accrual should be stated. The method adopted will always be subjective, and the Committee and thus Council should understand the basis for the accrual. Do not need to review the calculation, merely the assumptions and method used.

Officer Comment
Acting Director Corporate and Community advised through the Chair that the financial statements are prepared in accordance with the Local Government Act 1995, Regulations and Accounting Standards. The Audit Report provides an audit opinion stating that the financial report complies with Australian Accounting Standards.

Officers will endeavour to cross reference the Significant Accounting Policies to the relevant Accounting Standard.

9.4 Ms Eileen Newby highlighted reporting on how the low spend on asset reinvestment is to be addressed as it is a serious and significant issue. The large increase in the reserve funds (by around $12m) needs to be managed. An explanation of “we are taking this into account with budget preparation” is not adequate.

Officer Comment
Acting Director Corporate and Community advised through the Chair that the Shire’s 2017/18 Budget is premised on an asset renewal ratio of 80%. This is a significant improvement on the last 5 year average of circa 55%.

The draft Long Term Financial Plan maps the Shire’s financial ratios over a ten year life. There remains a significant funding gap on asset renewals which is contributing to a cumulative infrastructure backlog. The Shire needs to improve its operating surplus position to provide more cash for capital activities.

The Shire has also drafted a Reserves Policy which reinforces the importance of Asset Management Reserves. Target balances of up to 2.5% of the asset replacement value of assets has been sit in the Policy to ensure adequate future funds for the renewal of assets.

9.5 Mr Santo Casilli asked how the Internal Audit Charter was progressing.
Officer Comment

Acting Director Corporate and Community advised through the Chair that the Internal Audit Charter has been finalised. This Charter identifies a work plan that is over and above statutory requirements. The Charter has yet to be presented to the Committee as the Shire has not assessed a resource plan to implement the Charter.

10. Closure:  

There being further business, the Presiding Member declared the meeting closed at 6.45pm.

I certify that these minutes were confirmed at the Audit, Risk and Governance Committee Meeting held on 6 March 2018

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Presiding Member

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