



Shire of  
Serpentine  
Jarrahdale

## **Audit Committee Meeting Minutes**

**Tuesday, 2 December 2014**

## Notice of Meeting

Minutes of the Audit Committee Meeting held in the Council Chambers, 6 Patterson Street, Mundijong on Tuesday 2 December 2014. The Shire President declared the meeting open at 5.30pm and welcomed those present.

### 1. Nomination of Presiding Member:

There is no need for a new nomination as presiding member nominated at previous meeting.

### 2. Attendances and Apologies:

#### In Attendance:

**Councillors:** K Ellis ..... Presiding Member  
S Piipponen  
J Erren  
J Rossiter

**Officers:** Mr R Gorbunow ..... Chief Executive Officer  
Mr A Hart ..... Director Corporate and Community  
Mr B Gleeson..... Director Planning  
Mr G Allan ..... Director Engineering  
Ms K Peddie ..... Executive Assistant to CEO

**Apologies:** Mr G Godwin ..... UHY Haines Norton Chartered Accountants  
B Urban

**Observer:** S Hawkins  
J Kirkpatrick

Members of the Public - Nil  
Members of the Press - Nil

### 3. Public Question Time:

Nil

### 4. Public Statement Time:

Nil

### 5. Petitions and Deputations:

Nil

### 6. President's Report:

Nil

### 7. Declarations of Councillors and Officers Interest:

Nil

## 8 Motion of which notice has been given:

<b>AC001/12/14</b>	<b>2013/2014 Financial Statements and Audit</b>
Author:	Kelli Hayward – Contract Financial Accountant
Senior Officer:	Alan Hart – Director Corporate and Community Services
Date of Report:	24 November 2014
Disclosure of Officers Interest:	No officer involved in the preparation of this report is required to declare an interest in accordance with the provisions of the <i>Local Government Act</i>

### Introduction:

Council's Auditor, UHY Haines Norton, has provided Council with the Audit Report and Management Report for the financial year ended 30 June 2014.

### Background:

Pursuant to Sections 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 Council audited by an auditor appointed by the local government.

### Relevant Previous Decisions of Council:

There is no previous Council decision relating to this matter.

### Community / Stakeholder Consultation:

No community consultation was undertaken / required.

### Comment:

At the completion of the audit, UHY Haines Norton advised that there were no non-compliance issues.

UHY Haines Norton has advised that there was three management issue in their Management Report for the financial year ended 30 June 2014. The point brought to Councils attention is regarding Ratios:

#### 1. Debt Service Cover Ratio

This ratio is below the target level and trending downwards.

This ratio measures Council's ability to service debt out of its uncommitted or general purpose funds available from its operations.

The main reasons for this ratio's weaknesses are the significant repayments in excess of budgeted repayments in the current year together with the weak operating surplus (see comments below for the Operating Surplus Ratio). Had early repayments of \$1,765,242 not been effected, the ratio would be 1.38.

Whilst this ratio has been below target levels for the last 3 years, we note the 2014/15 budget indicates an improvement. Should the budgeted operating surplus for 2014/15 be achieved and the budgeted debt repayments occur, the ratio would be 9.67 for the 2014/15 financial year.

Comment: Council repaid the loans that were taken out from Developer Contribution projects in previous years when the Developer Contribution Plan was approved by the Minister and funds were reimbursed for administration costs in previous years. Shire officers are aware of the borrowing capacity of the Shire and have recommended to Council to limit borrowings in future years, to be in line with industry benchmarks.

## 2. Operating Surplus Ratio

This ratio is below the target level and trending downwards.

The Operating Surplus Ratio measures Council's financial sustainability having regard to asset management and the community's service level needs.

A negative ratio indicates the local government is experiencing an operating deficit. A sustained period of deficits will erode Council's ability to service debt and maintain both its operational service level and asset base over the longer term whilst a positive ratio which is consistently above 0.15 provides the Shire with greater flexibility in meeting operational service levels and asset management requirements.

Analysis of the Shire's Statement of Comprehensive Income indicates the main reason for the downward trend of the ratio to be the increase in operating expenditure whilst operating revenue remains at a similar level to the prior year.

To help alleviate the continued erosion of this ratio, Council and Management should consider ways to improve the operating result.

## 3. Asset Renewal Funding Ratio

This ratio indicates whether Council's planned capital renewal expenditure over the next 10 years per its Long Term Financial Plan is sufficient to meet the required capital renewal expenditure over the next 10 years per its Asset Management Plans.

Interpretation of this ratio should be considered together with the Asset Sustainability Ratio (ASR) (Low risk at 1.22) and the Asset Consumption Ratio (ACR) (Low risk at 0.78).

Whilst both the ASR and ACR for the year suggest the Council is currently replacing or renewing its existing assets at about the same rate they are wearing out, the Council should consider 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.

Comment: All of these ratios are new and it may take some time for their implication to be understood. However it is advised that they become a part of the overall management of the Shire and are monitored to ensure the Shire's scarce resources are managed effectively.

There was also one uncorrected misstatement, which related to the recognition of a grant received for 2014/15 in the 30 June 2013 financial year. This misstatement has been noted, however is immaterial both individually and in aggregate to the financial report as a whole.

The financial performance of the Shire has improved from previous years. Below is a table of the 2013/2014 and previous financial years for comparisons. As detailed below the net result, reserve balance, and cash and cash equivalents are improving in performance and there is a positive trend. Rates raised, operating and capital expenditure, operating and non-operating (capital) income, are also increasing and this is a result of growth in the Shire.

Minutes – Audit Committee Meeting

	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014
Rates Raised	6,605,973	7,836,850	8,946,043	10,220,714	11,527,614	12,976,751	14,492,919
Operating Expenditure	15,664,215	16,934,642	17,490,523	19,064,617	21,524,499	22,460,557	24,352,565
Operating Revenue	12,817,460	15,119,671	17,220,430	18,593,130	21,498,379	23,529,257	23,490,214
Non-Operating Revenue	2,746,383	4,394,758	3,246,791	3,501,419	4,893,664	3,967,341	5,192,179
Actual Net Result	(100,372)	2,579,787	2,976,698	3,009,932	4,867,544	5,036,041	4,102,201
Capital Expenditure	4,159,367	2,661,691	6,123,534	3,289,577	5,098,768	9,119,851	6,433,078
Loan Borrowing Balance	3,363,064	4,599,606	5,704,816	4,411,103	4,486,292	5,787,337	2,796,675
Reserve Balance	1,214,305	1,250,596	1,661,942	1,949,015	2,101,206	2,617,973	4,841,087
Cash & Cash Equivalents Balance (excluding restricted & reserve cash)	(78,368)	557,428	748,225	713,018	2,841,460	3,010,059	2,989,651

**Attachments:**

- [AC001.1/12/14](#) - Management Audit Report (E14/5495)
- [AC001.2/12/14](#) – 2013/2014 Annual Financial Report including Independent Audit Report (E14/5493)
- [AC001.3/12/14](#) - 2013/2014 Concise Annual Financial Report including Independent Audit Report (E14/5494)

**Alignment with our Strategic Community Plan:**

Objective 2.1	Responsible Management
Key Action 2.1.1	This report is a tool for evaluating performance against service delivery to ensure efficiency, effectiveness and meets the needs of the community, elected members, management and staff.

**Statutory Environment:**

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:

- The Mayor or President;
- The Chief Executive Officer of the local government; and
- The Minister.”

**Financial Implications:**

A budget provision has been included in the 2014/2015 budget to accommodate the expenses associated with carrying out an audit.

**Voting Requirements: Absolute Majority**

**AC001/12/14 COUNCIL DECISION / Officer Recommendation:**

**Moved Cr Erren, seconded Cr Rossiter**

**That the Audit Committee:**

- 1. Adopt the Independent Audit Report and the Concise Independent Audit Report from UHY Haines Norton for the financial year ended 30 June 2014.**
- 2. Receive the Management Report.**
- 3. Receive the Audited Financial Report and the Concise Audited Financial Report for the Shire of Serpentine Jarrahdale for the financial year ended 30 June 2014.**
- 4. Adopt that the Annual Report will include the Concise Financial Report and that the full Financial Report will be available to the public, in person, or via the website.**

**CARRIED BY ABSOLUTE MAJORITY 4/0**

**9. Urgent Business:**

Nil

**10. Councillors' questions of which notice has been given:**

Nil

**11. Closure:**

There being no further business the Presiding Member declared the meeting closed at 5.41pm.

I certify that these minutes were confirmed at the Ordinary Council Meeting held on 8 December 2014.

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Presiding Member

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Date