



Shire of
Serpentine
Jarrahdale

Audit, Risk and Governance Committee

Minutes

Monday 4 February 2019

5.30pm

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In Person

Shire of Serpentine Jarrahdale

6 Paterson Street, Mundijong WA 6123

Open Monday to Friday 8.30am-5pm (closed public holidays)



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Minutes of the Audit, Risk and Governance Committee Meeting held in the Council Chambers, Civic Centre, 6 Paterson Street, Mundijong on Monday 4 February 2019.

The Presiding Member, Councillor See declared the meeting open at 5.32pm 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 her respects to their Elders past and present.

Minutes

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

Councillors: Cr J See Presiding Member
Cr M Byas
Cr R Coales
Cr K McConkey

Independent Members: Ms E Newby
Mr S Casilli

Officers: Mr F Sullivan Director Corporate Services
Mr L Kosova Acting Director Development Services (arrived 5.35pm)
Mr A Bowman Manager Governance (until 5.46pm)
Mr R Gallagher Internal Auditor
Ms A Liersch Agendas and Minutes Officer (Minute Taker)

Apologies: Councillor M Rich
Mr K Donohoe, Chief Executive Officer
Ms H Sarcich, Deputy CEO / Director Community Services

Members of the Public: Nil

2. Public question time:

2.1 Response to previous public questions taken on notice

Nil.

2.2 Public questions

Nil.

3. Public statement time:

Nil.

4. Petitions and deputations:

Nil.

5. Declaration of Councillors and Officers interest:

Nil.



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

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

6.1.1 Audit, Risk and Governance Committee Meeting – 20 November 2018

ARG000/02/19 Audit, Risk & Governance Committee Resolution

Moved Cr Coales, seconded Cr McConkey

That the minutes of the Audit, Risk and Governance Committee Meeting held on 20 November 2018 be confirmed (E18/13392).

CARRIED 6/0

6.2 Reports for consideration:

ARG001/02/19 – Compliance Audit Return 2018 (SJ2484)	
Responsible Officer:	Manager Governance
Senior Officer:	Director Corporate Services
Disclosure of Officers Interest:	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

Authority / Discretion

Legislative	Includes adopting local laws, local planning schemes and policies.
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Report Purpose

For Council to adopt the Shire's 2018 Compliance Audit Return (CAR) prior to it being submitted to the Department of Local Government, Sport and Cultural Industries.

Relevant Previous Decisions of Council

ARG001/03/18 - The 2017 Compliance Audit Return was presented to Council for endorsement on 26 March 2018.

Background

The compliance programs of a local government are a strong indication of attitude towards meeting legislative requirements. A function of the Audit, Risk and Governance Committee in regards to monitoring compliance programs typically includes monitoring compliance with legislation and regulations, reviewing the Annual compliance audit return and reporting to Council the results of that review.



In accordance with Regulation 14 of the *Local Government (Audit) Regulations 1996*, the Shire is required to carry out an annual audit of statutory compliance for the period 1 January to 31 December in each year. After carrying out a compliance audit, the local government is to prepare a compliance audit return in the form determined by the Department of Local Government, Sport and Cultural Industries. The Audit, Risk and Governance Committee is to review the return before it is presented to Council for adoption.

The Audit, Risk and Governance Committee's role includes the requirement to review the appropriateness and effectiveness of the local government's systems and procedures in relation to risk management, internal control and legislative compliance.

Community / Stakeholder Consultation

Managers were required to complete the Compliance Audit Return (CAR) questions relevant to their business unit with approval and sign off by the Director responsible for the functions prior to being amalgamated into the final CAR.

The Shire's Internal Auditor reviewed the completeness, coordination and generation of the CAR. Observations were discussed and documented with relevant management.

Statutory Environment

Local Government (Audit) Regulations 1996 refer:-

"14 Compliance Audit Returns by local Governments

- (1) A local Government is to carry out a compliance audit for the period 1 January to 31 December each year.*
- (2) After Carrying out a compliance audit, the local government is to prepare a compliance audit return in a form approved by the minister.*
- (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*
- (3) After the audit committee has reported to the council under sub-regulation (3A), the compliance audit return is to be-*
 - a. Presented to the council as a meeting of council; and*
 - b. Adopted by the council; and*
 - c. Recorded in the minutes of the meeting at which it was adopted."*

Comment

The 2018 Compliance Audit Return contains the following compliance categories:

- Commercial Enterprise by Local Governments;
- Delegation of Power / Duty;
- Disclosure of interest;
- Disposal of Property;
- Elections;
- Finance;



- Integrated Planning;
- Local Government Employees;
- Official Conduct; and
- Tenders for Providing Goods and Services.

Council should note that there was nil incidences of non-compliance identified in the CAR.

Overall, based on the limited testing performed on responses, there was no areas identified where management responses to the CAR questions contradicted the supporting evidence tested on the current processes for the Shire.

Options and Implications

Option 1

That Council adopt the Compliance Audit Return 2018 for submission to the Department of Local Government, Sport and Cultural Industries. (compliant)

Option 2

That Council does not adopt the Compliance Audit Return 2018 for submission to the Department of Local Government, Sport and Cultural Industries. (non-compliant)

Option 1 is recommended.

Conclusion

The 2018 Compliance Audit Return is completed and continues to identify further improvement being made in the area of governance and compliance.

Attachments

- [ARG001.1/02/19](#) – Serpentine – Jarrahdale – Compliance Audit Return 2018 (E19/818)

Alignment with our Strategic Community Plan

Outcome 4.2	A strategically focused Council
Strategy 4.2.2	Ensure appropriate long term strategic and operational planning is undertaken and considered when making decisions
Strategy 4.2.3	Provide clear strategic direction to the administration

Financial Implications

Nil



Risk Implications

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

Risk	Risk Likelihood (based on history and with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That Council does not adopt the Compliance Audit Return 2018	Unlikely (2)	Moderate (3)	Moderate (5-9)	Compliance - 3 Moderate - Non-compliance with significant regulatory requirements imposed	Accept Officer Recommendation

Risk Matrix

Consequence / Likelihood		Consequence				
		Insignificant	Minor	Moderate	Major	Catastrophic
Likelihood		1	2	3	4	5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Medium (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Medium (6)	Medium (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Medium (5)

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: Simple Majority

Officer Recommendation

That the Audit, Risk and Governance Committee recommends to Council:



1. That Council **ADOPTS** the Department of Local Government, Sport and Cultural Industries Compliance Audit Return 2018 for the period 1 January 2018 to 31 December 2018, as contained in ARG001.1/02/19.
2. That Council **AUTHORISES** the certification to be jointly completed by the Shire President and Chief Executive Officer in accordance with Regulation 15 of the *Local Government (Audit) Regulations 1996* and **SUBMITS** the completed 2018 Compliance Audit Return to the Department of Local Government, Sport and Cultural Industries.

ARG001/02/19 AUDIT, RISK & GOVERNANCE COMMITTEE RESOLUTION

Moved Mr Casilli, seconded Ms Newby

That the Audit, Risk and Governance Committee recommends to Council:

1. **That Council ADOPTS** the Department of Local Government, Sport and Cultural Industries Compliance Audit Return 2018 for the period 1 January 2018 to 31 December 2018, as contained in ARG001.1/02/19.
2. **That Council AUTHORISES** the certification to be jointly completed by the Shire President and Chief Executive Officer in accordance with Regulation 15 of the *Local Government (Audit) Regulations 1996* and **SUBMITS** the completed 2018 Compliance Audit Return to the Department of Local Government, Sport and Cultural Industries.
3. **That the Compliance Audit Return Internal Audit Report is provided to Audit, Risk & Governance Committee Members in the next 7 days.**

CARRIED UNANIMOUSLY 6/0

Reason for difference to Officers Recommendation

To provide assurances to the Audit, Risk & Governance Committee Members over the generation and completeness of the Compliance Audit Return.

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.



ARG002/02/19 - Minister's Report	
Responsible Officer:	Manager Finance
Senior Officer:	Director Corporate Services
Disclosure of Officers Interest:	No officer involved in the preparation of this report has an interest to declare in accordance with the provisions of the <i>Local Government Act 1995</i> .

Authority / Discretion

Information	For the Council / Committee to note.
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Report Purpose

Report to the Minister regarding significant adverse trend noted by the external auditor during the audit of the June 2018 Annual Financial Report.

Relevant Previous Decisions of Council

OCM135/11/18 of 26 November 2018.

Background

Council adopted the Annual Financial Statements and Moore Stephens independent external Audit Report for the year ending June 2018 on 26 November 2018 (ARG002.1/02/19). Section 7.12A (4)(a) of the *Local Government Act 1995* dictates the submission of a report to the Minister regarding the significant adverse trends noted by Moore Stephens in the June 2018 external auditors report. The report submission date to the Minister must be within three months of the Shire receiving the Independent Auditors Report.

Moore Stephens identified the Current, Asset Renewal Funding, Asset Sustainability and Operating Surplus ratio's as indicating adverse trends in not meeting the required Department Local Government, Sport and Cultural Industries standard.

The Shire has identified a need to increase its own source revenue, decrease operating expenditure and to direct these funds toward asset renewal spending. To this end, Council's current budget has already directed \$500,000 of the rates income to a reserve to fund future asset renewal and upgrade spending and approximately \$1,000,000 of operating costs savings has been redirected to asset renewal in the form of a new fully integrated Enterprise Resource Planning system. These two initiatives are expected to significantly alleviate the adverse trend identified by the Auditor in the short term.

Further, in next year's budget, Council is confident of seeing a significant increase in the level of grant funding for road renewal and upgrade over what it has usually enjoyed and will be able to recoup its investment in the development of numerous Developer Contribution Plans which, it is anticipated, will be redirected into asset renewal spending.

The table below demonstrates the expected movement in the ratios highlighted in the auditor's report following the above course of action.



Ratio	2017/2018	2018/2019	2019/2020	Comment
Operating Surplus Ratio	-0.1	-0.05	0	Achieved by additional rates and operating cost savings redirected to asset renewal.
Asset Sustainability Ratio	0.66	0.9	1.14	Achieved by additional rates and operating cost savings redirected to asset renewal.
Asset Renewal Ratio	0.46	0.75	0.95	Achieved by additional rates and operating cost savings redirected to asset renewal.
Current Ratio	0.9	1	1	The current ratio does not allow recognition of long-term investments, if these were recognised Council's ratio would be within acceptable limits.

Finally, the Council recently adopted its inaugural 10-year financial plan, which provides for a focus on the continued investment in Asset renewal, which will continue to drive improvement in financial performance and sustainability.

Community / Stakeholder Consultation

Policy Concept Forum

Not Applicable.

Statutory Environment

Local Government Act 1995 Section 7.12A (4) & (5) refer. Section 4 of the legislation state that the report should address *matters identified as significant by the auditor* and the actions taken or planned regarding this matter. A copy of the report must be send to the *Minister within 3 months of receipt* of the external auditors report.

The Department Local Government, Sport and Cultural Industries, confirmed the obligation to submit a report regarding the significant adverse trends identified in the external auditors report for the Shire of Serpentine Jarrahdale.

Comment

The Director Corporate Services presented the 10 Year Financial plan at the Annual Electors Meeting.



Option One

Endorse the report to the Minister, Local Government, Sport and Cultural Industries.

Option Two

Not endorse the report to the Minister, Local Government, Sport and Cultural Industries.

Option One is recommended.

Conclusion

The external auditor identified items of significant adverse trends during the external audit for the year ending 30 June 2018. This reported financial performance indicators, activated the Shire's legal obligation to send a report to the Minister detailing plans to rectify the situation. It is the Shire's responsibility to submit the report to the Minister within 3 months of receiving the external auditors report.

Attachments

- [ARG002.1/02/19](#) – Minister's Report (E19/1008)

Alignment with our Strategic Community Plan

Outcome 4.2	A strategically focused Council.
Strategy 4.2.2	Ensure appropriate long term strategic and operational planning is undertaken and considered when making decisions.

Financial Implications

Execution of the plans explained in the Ministers Report will result in renewal of assets as per the Long Term Financial Plan. It will result in the improvement of the Shire's financial performance indicators.

Risk Implications

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



Risk	Risk Likelihood (based on history and with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
The Shire is in breach of legislation.	Unlikely (2)	Moderate (3)	Moderate (5-9)	Compliance - 3 Moderate - Non-compliance with significant regulatory requirements imposed	Manage by submitting report on time

Risk Matrix

Consequence / Likelihood		Consequence				
		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	5
Almost Certain	5	Medium (5)	High (10)	High (15)	Extreme (20)	Extreme (25)
Likely	4	Low (4)	Medium (8)	High (12)	High (16)	Extreme (20)
Possible	3	Low (3)	Medium (6)	Medium (9)	High (12)	High (15)
Unlikely	2	Low (2)	Low (4)	Medium (6)	Medium (8)	High (10)
Rare	1	Low (1)	Low (2)	Low (3)	Low (4)	Medium (5)

A risk rating of 6 has been determined for this item.

Voting Requirements: Simple Majority

ARG002/02/19 AUDIT, RISK & GOVERNANCE COMMITTEE RESOLUTION / Officers Recommendation

Moved Mr Casilli, seconded Cr Coales

That the Audit, Risk and Governance Committee recommends to Council:

That Council ENDORSES the submission and SENDS the Report to the Minister of Local Government, Sport and Cultural Industries as per ARG002.1/02/19.

CARRIED UNANIMOUSLY 6/0

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.



7. Motions of which notice has been given:

Nil.

8. Urgent business:

Nil.

9. Closure:

There being no further business, the Presiding Member declared the meeting closed at 6.04pm.

I certify that these minutes were confirmed at the
Audit, Risk & Governance Committee Meeting held on 6 May 2019.

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Presiding Member – Councillor J See

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Date