



Shire of
Serpentine
Jarrahdale

Audit Committee Meeting Minutes

Monday, 26 October 2015

Minutes of the Ordinary Council Meeting held in the Council Chambers, 6 Paterson Street, Mundijong on Monday 26 October 2015. The Chief Executive Officer declared the meeting open at 6.00pm and welcomed Councillors and staff.

1. Nomination of Presiding Member:

The Chief Executive Officer called for nominations for the position of Presiding Member of the Audit Committee until October 2017. Councillor Ellis nominated Councillor Erren. There were no further nominations.

AUDIT COMMITTEE DECISION:

Moved Cr Ellis, seconded Cr Hawkins

That Cr Erren be appointed as Presiding Member of the Audit Committee until October 2017.

CARRIED 5/0

2. Attendances and Apologies:

In Attendance:

Councillors: J Erren
K Ellis
S Hawkins
M Rich
J See

Officers: Mr R GorbunowChief Executive Officer
Mr A HartDirector Corporate and Community
Mr G Allan Director Engineering
Mr D van der LindeActing Director Planning
Ms K PeddieExecutive Assistant to the CEO (Minute Taker)

Leave of Absence: Nil

Apologies: Nil

Observers: Mr Greg Godwin (via teleconference)
Cr B Urban
Cr D Gossage

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:

AC006/10/15	2014/2015 Financial Statements and Audit
Author:	Megan Hodgson – Accountant
Senior Officer:	Alan Hart – Director Corporate and Community
Date of Report:	23 October 2015
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, Moore Stephens, has provided Council with the Audit Report and Management Report for the financial year ended 30 June 2015.

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, Moore Stephens advised of the following instances where the council did not comply with the Local Government (Financial Management) Regulations 1996:

Payments presented to Council

The monthly list of accounts paid in relation to the months of October 2014 to January 2015 (inclusive) were not prepared and presented to Council as required by Local Government (Financial Management) Regulation 13.

Monthly Statements of Financial Activity

The Monthly Statement of Financial Activity for the month of November was not presented to Council within the timeframe required by Local Government (Financial Management) Regulation 34(4)(a).

Annual Financial Report

The Annual Financial Report for the year ended 30 June 2014 was not submitted to the Director General of the Department within 30 days of the auditors report becoming available as required by Financial Management Regulation 51 (2).

In their Management Report for the financial year ended 30 June 2015 Moore Stephens would also like to bring to Council's attention a few 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.

1. Asset Sustainability Ratio

This ratio is below target levels and is trending downwards. This ratio measures the extent to which assets are being renewed/replaced compared to the amount consumed (depreciation). A ratio less than 0.90 indicates the local government is having difficulty undertaking a sustained capital investment program sufficient to renew/replace assets while also negating the effect of inflation on purchasing power over time.

The 2015 ratio (0.84) shows a decrease from the 2014 ratio (1.22) and is below the acceptable banding provided in DLG guidelines. In addition the four year average is trending downwards. This suggests Council is currently replacing or renewing its existing assets at a lower rate than they are wearing out. When this ratio is below 0.90, it should prompt a review of depreciation rates and asset valuations to ensure they are reasonable and are generating reliable representative depreciation expenditure. Depending on the outcome of the depreciation and asset valuation reviews, it may also prompt a review of operations with a view to assessing the revenue raising capacity necessary to support the ongoing asset base.

Interpretation of this ratio should be considered together with the Asset Consumption Ratio (ACR) (marginally below target at 0.74) and the Asset Renewal Funding Ratio (ARF) (below target banding at 0.44). Council and management should continue to monitor this ratio in the future as it attempts to fully understand the trend.

2. Debt Service Cover Ratio

This ratio is below target levels but is trending upwards. The Debt Service Cover Ratio measures the Shire's ability to service debt out of its uncommitted or general purpose funds available from its operations.

Whilst we acknowledge the overall level of borrowings has decreased, the increase in the ratio has occurred mainly as a result the net result being \$7.4m higher in 2015 contributing to the higher ratio from 2014. Within the higher net result is an increase in operating grants, subsidies and contributions which includes a pre-payment of 25% the 2015/16 Financial Assistance Grants (FAGs) amounting to \$1,229,318. If this portion of revenue were excluded from the debt service cover ratio calculation, the adjusted ratio would be 4.886, resulting in a marginally downward trend although an improvement on 2014.

3. Asset Renewal Funding Ratio

This ratio is below target levels and is trending downwards. This 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). Interpretation of this ratio should be considered together with the Asset Sustainability Ratio (ASR) (High risk at 0.84) and the Asset Consumption Ratio (ACR) (Medium risk at 0.74).

We note that during the year ended 30 June 2015 the building and roads asset management plans were updated, contributing to the downward trend in the ARF ratio when compared to prior years. 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.

Comment:

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

The financial performance of the Shire has improved from previous years. Below is a table of the 2014/2015 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.

	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015
Rates Raised	8,946,043	10,220,714	11,527,614	12,976,751	14,492,919	16,389,803
Operating Expenditure	17,490,523	19,064,617	21,524,499	22,460,557	24,352,565	26,072,294
Operating Revenue	17,220,430	18,593,130	21,498,379	23,529,257	23,490,214	28,381,374
Non-Operating Revenue	3,246,791	3,501,419	4,893,664	3,967,341	5,192,179	9,355,608
Actual Net Result	2,976,698	3,009,932	4,867,544	5,036,041	4,102,201	11,553,109
Capital Expenditure	6,123,534	3,289,577	5,098,768	9,119,851	6,433,078	8,081,375
Loan Borrowing Balance	5,704,816	4,411,103	4,486,292	5,787,337	2,796,675	2,116,790
Reserve Balance	1,661,942	1,949,015	2,101,206	2,617,973	4,841,087	5,860,863
Cash & Cash Equivalents Balance (excluding restricted & reserve cash)	748,225	713,018	2,841,460	3,010,059	2,989,651	3,797,859

Attachments:

- [AC006.1/10/15](#) - Moore Stephens Management Letter Report (E15/5384)
- [AC006.2/10/15](#) - 2014/2015 Annual Financial Report including Independent Audit Report (E15/5383)
- [AC006.3/10/15](#) - 2014/2015 Concise Annual Financial Report including Independent Audit Report (E15/5382)

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:

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

Financial Implications:

A budget provision has been included in the 2015/2016 budget to accommodate the expenses associated with carrying out an audit.

Voting Requirements: Absolute Majority

AC006/10/15 AUDIT COMMITTEE DECISION / Officer Recommendation:

Moved Cr Hawkins, seconded Cr See

That the Audit Committee:

- 1. Adopt the Independent Audit Report and the Concise Independent Audit Report from Moore Stephens for the financial year ended 30 June 2015.**
- 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 2015.**
- 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 5/0

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 6.15pm.

I certify that these minutes were confirmed at the Ordinary Council Meeting held on 9 November 2015.

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Presiding Member

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Date