



Shire of
Serpentine
Jarrahdale

Audit, Risk and Governance Committee

Confirmed Minutes

Monday, 9 December 2019

5.30pm

Ordinary Council Meeting – 16 December 2019
OCM276/12/19

Contact Us

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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, 9 December 2019.

The Presiding Member, Councillor Byas declared the meeting open at 5.36pm 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.

Minutes

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

Councillors: Cr M Byas Presiding Member
Cr R Coales
Cr M Rich
Cr L Strange

Independent Members: Ms E Newby
Mr S Casilli

Officers: Mr P Martin Chief Executive Officer
Ms H Sarcich Deputy CEO / Director Community Services
Mr F Sullivan Director Corporate Services
Mr A Trosic Director Development Services
Mr S Harding Director Infrastructure Services
Dr K Parker Manager Governance
Mr R Gallagher Internal Auditor
Ms A Liersch Agendas and Minutes Officer (Minute Taker)

Auditors (in attendance via telephone): Mr Kevin Ng, Assistant Director, Office of the Auditor General;
Mr Greg Godwin, Partner, Chartered Accountants, Moore Stephens.

Apologies: Cr McConkey

Observers: Cr Strautins

2. Public question time:

2.1 Response to previous public questions taken on notice

Nil.

2.2 Public questions

No public questions were submitted prior to the meeting.

The Presiding Member, Councillor Byas asked if there were any questions from the floor. No questions were asked.



3. Public statement time:

No public statements were submitted prior to the meeting.

There were no members of the public in the gallery.

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 – 4 November 2019

ARG018/12/19

AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION

Moved Cr Rich, seconded Ms Newby

That the minutes of the Audit, Risk and Governance Committee Meeting held on 4 November 2019 be CONFIRMED (E19/14136).

CARRIED UNANIMOUSLY 6/0



6.2 Reports for consideration:

The Presiding Member, Councillor Byas invited Mr Kevin Ng, Assistant Director, Office of the Auditor General and Mr Greg Godwin, Partner, Chartered Accountants, Moore Stephens to provide an overview of the Shire's Annual Financial Statements and the Audit Management Report for the 2018 / 2019 Financial Year.

Mr Ng and Mr Godwin briefed the meeting on the Audit that was conducted, and responded to questions from Committee Members.

6.2.1 – Annual Financial Statements and Audit Report 2018 - 2019 (SJ800)	
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

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

This report presents the audited Annual Financial Statements and Audit Management Report for the period ended 30 June 2019. The Shire's Auditor, The Office of the Auditor General, has provided the Audit Report and Management Report for the financial year ended 30 June 2019.

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

Not Applicable.



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 includes the following emphasis of matter:

Basis of Preparation

We draw attention to Note 1 to the financial report, which describes the basis of preparation. The financial report has been prepared for the purpose of fulfilling the Shire’s financial reporting responsibilities under the Act. Regulation 16 of the Local Government (Financial Management) Regulations 1996, does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. Our opinion is not modified in respect of this matter.

Audit Management Report

In their Management Report for the financial year ended 30 June 2019, the Office of the Auditor General did not identify any management control issues. Two matters that were identified during the interim audit were resolved prior to finalisation of the Annual Financial Statements and no further matters were raised.



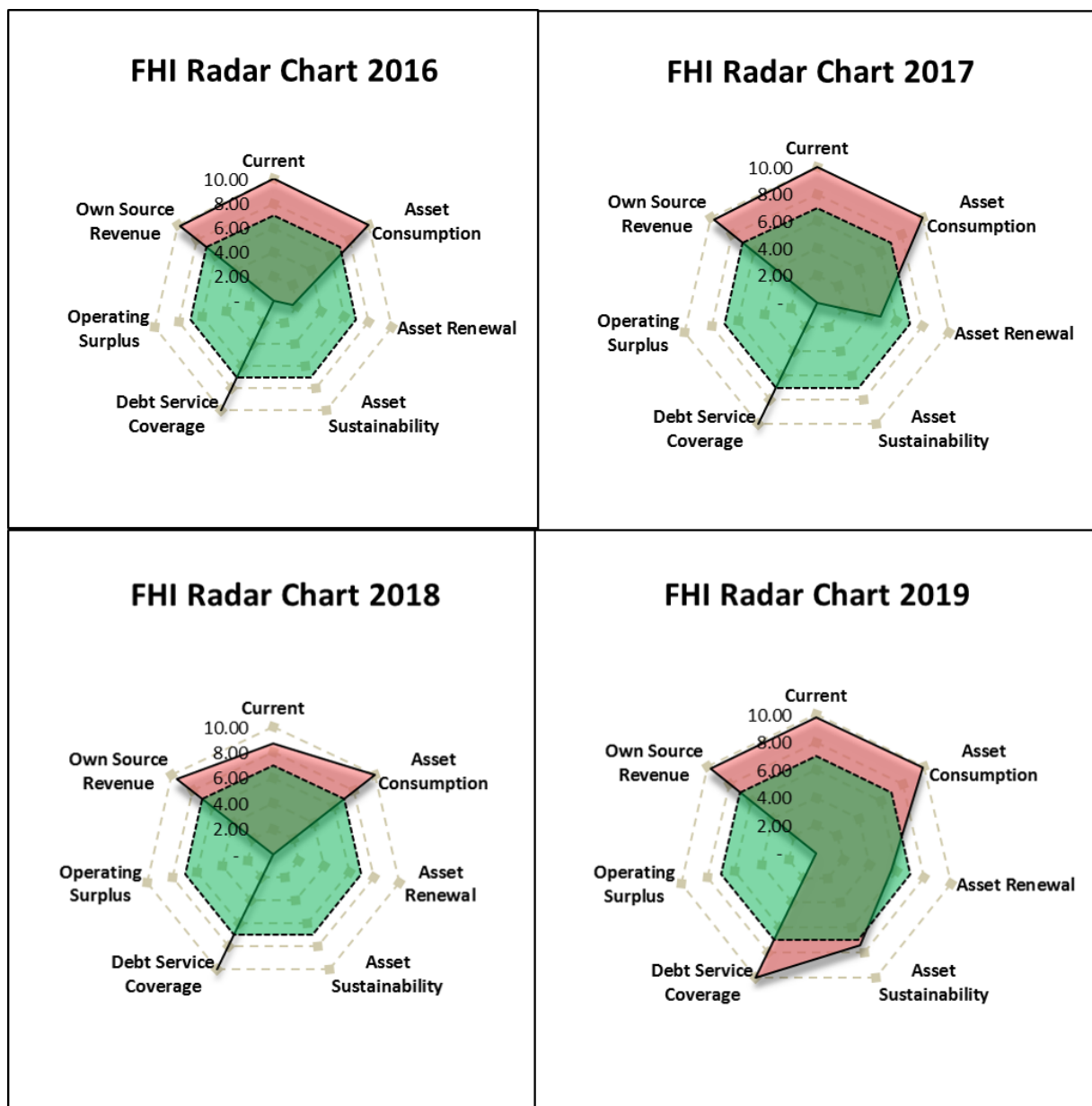
Officer Comment

Last year's audit report included a significant adverse trend in the financial position of the Shire with regard to the following ratios:

- i) The Operating Surplus Ratio, the Asset Sustainability Ratio and the Asset Renewal Funding Ratio had been below the DLGSCI standard for the past 3 years; and
- ii) The Current Ratio for 2017-18 was below DLGSCI standard, below its level for the 2 prior years and was more than 10% below last year's ratio.

In the current period there was no such issue in this regard, and year on year there was an overall improvement in the corresponding ratios. However, the Operating Surplus Ratio still sits below the DLGSCI standard of 0 being (0.05) and indicates that Council needs to increase the amount of funds expended on its assets.

Information regarding these ratios are displayed graphically and in a table below.





Description	OAG Benchmark	2019	2018	2017	2016
Current Ratio	1.00	1.46	1.28	1.73	1.55
Asset Consumption Ratio	0.45	0.74	0.77	0.96	0.98
Asset Renewal Funding Ratio	0.60	0.70	0.46	0.67	0.56
Asset Sustainability Ratio	0.80	0.94	0.66	0.64	0.71
Debt Service Cover Ratio	1.90	9.94	7.18	12.25	8.90
Operating Surplus Ratio	0.00	(0.05)	(0.10)	0.00	(0.06)
Own Source Revenue Coverage Ratio	0.35	0.86	0.82	0.86	0.87
Financial Health Indicator Score	40	73	60	66	64

The above ratios are calculated as follows:

Current ratio	$\frac{\text{current assets minus restricted assets}}{\text{current liabilities minus liabilities associated with restricted assets}}$
Asset consumption ratio	$\frac{\text{depreciated replacement costs of depreciable assets}}{\text{current replacement cost of depreciable assets}}$
Asset renewal funding ratio	$\frac{\text{NPV of planned capital renewal over 10 years}}{\text{NPV of required capital expenditure over 10 years}}$
Asset sustainability ratio	$\frac{\text{capital renewal and replacement expenditure}}{\text{depreciation}}$
Debt service cover ratio	$\frac{\text{annual operating surplus before interest and depreciation}}{\text{principal and interest}}$
Operating surplus ratio	$\frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$
Own source revenue coverage ratio	$\frac{\text{own source operating revenue}}{\text{operating expense}}$



Whilst there is a clear improvement in these indicators, it must be noted that this improvement, particularly with regard to Asset Renewals and Asset Sustainability, is being funded through a combination of Shire's operational savings, reserves and borrowings.

Key infrastructure projects include:

Project	Reserve Funds Utilised (18-19)	Loan Funds Utilised (18-19)
Abernethy Road	\$3,574,955	\$517,737
Briggs Park Upgrade	\$354,000	\$620,864

The Shire's Reserve funds are being significantly depleted, with a year on year decrease in available Reserve funds of \$4,679,819.

Additionally, Shire borrowings have increased by \$2,463,391 from \$3,717,363 to \$6,180,754 in the year ended 30 June 2019.

The Shire will need to diversify funding sources moving forward to ensure that the Shire can continue to fund the requirements of the community.

It is the Shire's intention that this issue will be dealt with during the current Corporate Business Plan review process.

Attachments

- [Attachment 1](#) – Annual Financial Report – 30 June 2019 (IN19/26348)
- [Attachment 2](#) – Audit Management Report – 30 June 2019 (IN19/26350)

Alignment with our Strategic Community Plan

Outcome 4.1	A resilient, efficient and effective organisation
Strategy 4.1.1	Provide efficient, effective, innovative, professional management of Shire operations to deliver the best outcome for the community within allocated resources.

Financial Implications

Budget provision has been included in the 2019/2020 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.

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 not adopt the Annual Financial Report	Unlikely (2)	Insignificant (1)	Low (1-4)	Compliance - 3 Moderate - Non-compliance with significant regulatory requirements imposed	Accept Officer Recommendation

Risk Matrix

Consequence		Insignificant	Minor	Moderate	Major	Catastrophic	
		1	2	3	4	5	
Likelihood	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 **2** has been determined for this item.



ARG019/12/19

AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION

Moved Cr Rich, seconded Cr Strange

That Standing Orders 9.5, 9.6, 10.7 and 10.13 be suspended at 5.40pm in order to further discuss item 6.2.1.

CARRIED UNANIMOUSLY 6/0

There being no further questions from Members of the Audit, Risk and Governance Committee to Mr Ng, Assistant Director, Office of the Auditor General and Mr Godwin, Partner, Chartered Accountants, Moore Stephens, the Presiding Member, Councillor Byas thanked Mr Ng and Mr Godwin for their time.

Mr Ng and Mr Godwin left the meeting at 6.10pm.

ARG020/12/19

AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION

Moved Rich, seconded Ms Newby

That Standing Orders be reinstated at 6.12pm.

CARRIED UNANIMOUSLY 6/0

Voting Requirements: Absolute Majority

ARG021/12/19

AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION / Officer Recommendation

Moved Mr Casilli, seconded Cr Coales

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

- 1. ADOPTS the 2018/2019 Annual Financial Report including Independent Audit Report from the Office of the Auditor General as per attachment 1, in accordance with Section 7.2 of the *Local Government Act 1995*.**
- 2. RECEIVES the Office of the Auditor General Audit Management Report as per attachment 2.**

CARRIED BY ABSOLUTE MAJORITY 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 6.13pm, and thanked all Committee Members for their attendance.

I certify that these minutes were confirmed at the
Audit, Risk and Governance Committee Meeting held on 24 February 2020.


.....
Presiding Member – Cr Morgan Byas.

24 / 02 / 20 Date