



Shire of
Serpentine
Jarrahdale

Special Audit, Risk and Governance Committee

Confirmed Minutes

Monday, 1 February 2021

4.30pm

[Rescheduled Monday, 8 February 2021 – 6.00pm]

Purpose: To consider the Annual Financial Report

Received by Council
15/02/21 – OCM004/02/21

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In Person

Shire of Serpentine Jarrahdale

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



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Minutes of the Special Audit, Risk and Governance Committee Meeting held in the Council Chambers, Civic Centre, 6 Paterson Street, Mundijong on Monday, 8 February 2021.

This meeting was originally scheduled to occur on 1 February 2021, however due to COVID-19 Public Health Directives, the meeting was rescheduled to occur on Monday, 8 February 2021.

The Presiding Member, Councillor Byas declared the meeting open at 6.00pm 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 the Traditional Owners, Elders Past, Present and Emerging.

Minutes

1. Attendances and apologies (including leave of absence)

Councillors: Cr M Byas Presiding Member
Cr M Rich
Cr R Coales
Cr B Denholm
Cr K McConkey

Independent Members: Ms E Newby
Mr S Casilli

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

Auditor (in attendance via telephone): Mr Greg Godwin, Partner, Moore Australia
(WA). (In attendance 6.00pm – 6.15pm)

Apologies: Nil.

Observers: Councillor D Atwell.

2. Petitions and deputations:

Nil.



3. Declaration of Councillors and Officers interest:

Nil.

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

4.1 Reports for consideration:

4.1.1 – Annual Financial Statements and Audit Report 2019 - 2020 (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 2020. 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 2020.

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.”*

In addition to the statutory requirements, the Department of Local Government, Sport and Cultural Industries set targets for the financial ratios in the Regulation 50 of the *Local Government (Financial Management) Regulations 1996*. The targets are established in Financial Ratios Local Government Operational Guideline and not legislation. As noted in the Operational Guideline, the purpose of these benchmarks is to:

“Provide users of annual financial reports with a clearer interpretation of the performance and financial results of a local government and a comparison of trends over a number of years.”

Comment

Interim Management Report

In their Interim Management Report for the financial year ended 30 June 2020, the Office of the Auditor General identified the following matters:

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Revenue not recognised in accordance with new accounting standards	<input checked="" type="checkbox"/>		
2. General journals not authorised and independently reviewed	<input checked="" type="checkbox"/>		



INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
3. Timesheet not reviewed by manager or supervisor			<input checked="" type="checkbox"/>
4. Inventory reconciliations not independently reviewed			<input checked="" type="checkbox"/>

Significant – Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.

Moderate - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable

Minor - Those findings that are not of primary concern but still warrant action being taken.

Officer Comment

In relation to the specific matters raised, below is a summary of these matters and how they were addressed by management:

1. Revenue not recognised in accordance with new accounting standards

Finding

New accounting standards AASB 15 *Revenue from contracts with customers* and AASB 1058 *Income of not-for-profit entities* came into effect for the Shire on 1 July 2019 superseding previous accounting standards.

During the interim audit, our sample testing of revenue transactions (rates, grants and fees and charges) noted that:

- waste collection fees have not been recognised in accordance with AASB 15; and
- 2 instances out of a total of 15 grant revenue transactions tested (14%) have not been recognised in accordance with the requirements of AASB 1058 in relation to capital grants.

Management Comment and Action

Following ongoing discussions internally and with our auditors, and due to the complexity of the new standards and the significant work required in their application, Officers had not initially applied the new interpretation pending confirmation that the proposed treatment was correct.

Officers have subsequently amended the treatment to comply with the new standards following this consultation, and additionally our processes have been adjusted to cater for the increased requirements of the new standards moving forward.



2. General journals not authorised and independently reviewed

Finding

Sample testing of general journals processed in the old accounting system from July 2019 to January 2020 did not note any evidence of authorisation and independent review.

Management Comment and Action

This risk has been addressed by virtue of the implementation of the new Onecomm ERP system, all journals require dual authorisation before posting can occur, ensuring independent review of each journal transaction occurs.

With regard to journals posted prior to the transition, subsequent to the completion of interim testing in June the Manager Finance reviewed all journals posted between July 2019 to January 2020 in SynergySoft and signed them off.

3. Timesheet not reviewed by manager or supervisor

Finding

Sample testing of payroll transactions noted 1 instance out of a total of 12 transactions tested where the timesheet was not reviewed by the employee's manager or supervisor.

Management Comment and Action

This was an oversight. As the Shire moves away from manual timesheets to digital timesheets with workflows dictating the approval process within the ERP system (Onecomm), the Shire will further mitigate this risk. Officers are confident that this was the exception rather than the rule and believe a larger sample would have confirmed this.

The timesheet in question was subsequently authorised.

4. Inventory reconciliations not independently reviewed

Finding

Whilst reconciliations between the general ledger and the inventory system were performed, there is no evidence of them being reviewed by a senior officer independent of preparation.

Management Comment and Action

The reconciliation is prepared by the Administration Officer – Operations, who completes the manual fuel dips and provides the usage information.

The reconciliation back to stock receipts and the GL is then performed by the Financial Accountant.

The reconciliation performed by the Financial Accountant is reviewed by another senior member of the finance team.



Audit Management Report - Final

In their final Management Report for the financial year ended 30 June 2020, the Office of the Auditor General referenced the four matters raised during the interim audit.

Officer Comment

All four matters that were identified during the interim audit were resolved prior to finalisation of the Annual Financial Statements as outlined above, and no further matters were raised.

Audit Opinion

The Audit Report for the year ended 30 June 2020 included an unmodified opinion.

The opinion did note the following matter to be reported in accordance with Regulation 10(3) of the *Local Government (Audit) Regulations 1996*:

Report on Other Legal and Regulatory Requirements

In accordance with the Local Government (Audit) Regulations 1996 I report that:

- i) *In my opinion, the following material matter indicates a significant adverse trend in the financial position of the Shire:*

The Operating Surplus Standard Ratio as reported in Note 34 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries basic standard for the past three financial years.

Officer Comment

The Office of the Auditor General (“OAG”) in its Audit Results Report for the year ended 30 June 2019 noted that for that period, the OAG reported 106 ratios at 72 local governments which indicated adverse trends. This represents 52% of the sector.

Whilst the Operating Surplus Ratio has remained under the Department’s standard, it has trended positively from (0.10) in 2018 to (0.05) in 2019 and 2020 and in fact last year’s ratio was better than, or equal to, performance specific to this ratio in four of the past five years as indicated in the extract below:

Financial Year Ended 30 June	2020	2019	2018	2017	2016
Operating Surplus Ratio	(0.05)	(0.05)	(0.10)	0.00	(0.06)

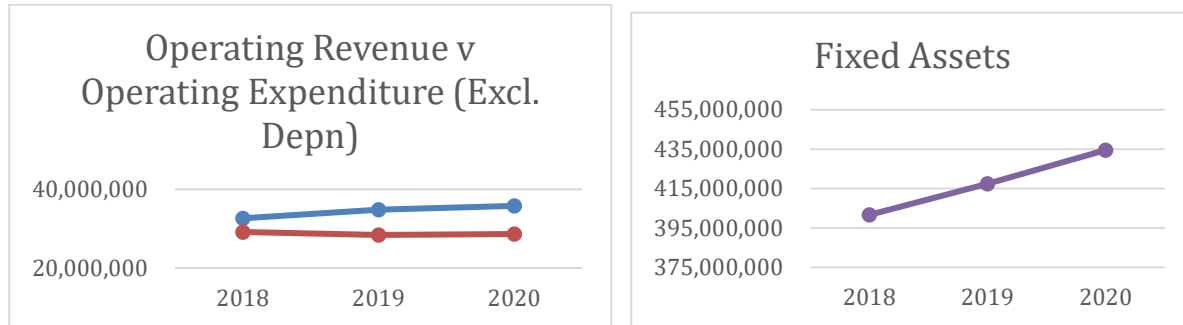
To provide additional context, for the Financial Year ended 30 June 2018 the Shire undertook an Infrastructure Revaluation which resulted in a Revaluation Increment of \$138,691,450. This had the effect of increasing Depreciation from 2018 to 2019 financial year by \$1,570,916, significantly impacting this ratio.

Additionally, the Shire’s growth rate and creation and ownership of new asset (both built and gifted) is resulting in approximately \$20,000,000 - \$30,000,000 dollars of new asset being taken on each year with a corresponding increase in depreciation of approximately \$400,000 - \$600,000 annually.



The Shire has also seen an increase of 9.64% in operating revenue over the past 2 financial years, along with an 8.20% increase in the value of Fixed Assets.

In contrast, the Shire has been able to deliver a reduction in costs of 1.89% in relation to operating expenditure (excluding depreciation) over the same period.



*Blue = Revenue; Red = Expenditure

Further to the above the Shire's Long Term Financial Plan seeks to address this issue over the course of the next 10 years by reducing proportionately the amount of operating expenditure which is funded from untied revenue.

This is to be achieved through economies of scale, as the Shire continues to embrace technology and drive continuous improvement, efficiencies realized as a result of these initiatives will drive the Shire's ability to service a greater population and asset base whilst managing its cost base.

Summary of Overall Financial Performance

The year ended 30 June 2020 has seen the Shire continue to consolidate its financial position.

The FHI is a measurement of a local government's overall financial health and calculated based on allocating a score for each ratio against which all local governments are measured to provide an overall score.

This provides a more holistic measure of a local government's financial performance, in comparison to individual ratios viewed in isolation.



The stabilisation of the Shire’s financial position is reflected in the Shire’s Financial Health Indicator (“FHI”) score, and in the applicable ratios which inform this score, which are presented below.

Description	OAG Benchmark	2020	2019	2018	2017	2016
Current Ratio	1.00	1.45	1.46	1.28	1.73	1.55
Asset Consumption Ratio	0.45	0.73	0.74	0.77	0.96	0.98
Asset Renewal Funding Ratio	0.60	0.93	0.70	0.46	0.67	0.56
Asset Sustainability Ratio	0.80	0.85	0.94	0.66	0.64	0.71
Debt Service Cover Ratio	1.90	10.61	9.94	7.18	12.25	8.90
Operating Surplus Ratio	0.00	(0.05)	(0.05)	(0.10)	0.00	(0.06)
Own Source Revenue Coverage Ratio	0.35	0.85	0.86	0.82	0.86	0.87
Financial Health Indicator Score	40	72	72	60	66	64

*Achievement of the benchmark is where the ratio is greater than the benchmark contained in the first column.

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	$\frac{\text{own source operating revenue}}{\text{operating expense}}$



The Shire's FHI for the year ended 30 June 2020 was 72. By way of comparison the state average for local governments last year (the year ended 30 June 2019) as per the MyCouncil website was 60.

Additionally, when viewed against other Local Governments in the Peel Region, the Shire had the highest FHI score of all local governments which constitute the Peel Region for the year ended 30 June 2019, as detailed in the table below.

Local Government	FHI Score
Shire of Serpentine Jarrahdale	72
Shire of Murray	66
Shire of Waroona	63
City of Mandurah	58
Shire of Boddington	55

The Shire has again delivered a FHI score of 72 in the current year. Comparative information is not yet available on MyCouncil for the current year.

The Shire will need to continue to diversify funding sources into the future to ensure that the Shire can continue to fund the requirements of the community as we continue to experience significant growth.

The Shire's overall financial performance is sound, with last year's FHI putting the Shire in the top third of councils state-wide with reference to this metric. A similar result would be expected this year given the FHI score has remained the same in what has been a difficult and challenging year.

Ongoing consideration is required to ensure that operating costs are managed, and Council continues to allocate sufficient funds to renewing assets.

There is a council workshop to be held in the first quarter of the current calendar year to discuss and consider these matters further as part of ongoing management of the Shire's finances through the Shire's integrated reporting framework including the Long Term Financial Plan and Corporate Business Plan.

Options and Implications

Option 1

That the Audit, Risk and Governance Committee recommends that Council RECEIVES the 2019/2020 Annual Financial Report including Independent Audit Report from the Office of the Auditor General as contained within attachment 1, in accordance with Section 7.2 of the *Local Government Act 1995*, and the Office of the Auditor General Audit Management Report as contained within attachment 2.

Option 2

That the Audit, Risk and Governance Committee recommends that Council DOES NOT RECEIVE the 2019/2020 Annual Financial Report including Independent Audit Report from the Office of the Auditor General as contained within attachment 1, in accordance



with Section 7.2 of the *Local Government Act 1995*, and the Office of the Auditor General Audit Management Report as contained within attachment 2.

Option 1 is recommended.

Attachments (available under separate cover)

- 4.1.1 - attachment 1 – Annual Financial Report – 30 June 2020 (E21/276)
- 4.1.1 - attachment 2 – Audit Management Report – 30 June 2020 (E21/448)
- 4.1.1 - attachment 3 – Interim Management Report – 30 June 2020 (IN20/15102)

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 2020/2021 budget to accommodate the expenses associated with carrying out the external audit.

Risk Implications

Risk has been assessed on the Officer Options and Implications:

Officer Option	Risk Description	Controls	Principal Consequence Category	Risk Assessment			Risk Mitigation Strategies (to further lower the risk rating if required)
				Likelihood	Consequence	Risk Rating	
1	<i>There is no significant risk with the Audit, Risk and Governance Committee receiving the 2019/2020 Annual Financial Report.</i>						



2	<i>That the Audit, Risk and Governance Committee does not receive the 2019/2020 Annual Financial Report leading the Shire to not comply with Section 7.2 of the Local Government Act.</i>	<i>Provision of sufficient information and records to support the recommendation.</i>	Financial	Unlikely	Insignificant	LOW	<i>Accept Officer Recommendation</i>
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Voting Requirements: Absolute Majority – s5.54(1) Local Government Act 1995

ARG001/02/21

AUDIT, RISK AND GOVERNANCE COMMITTEE RESOLUTION / Officer Recommendation

Moved Ms Newby, seconded Cr Rich

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

- 1. RECEIVES the 2019/ 2020 Annual Financial Report including Independent Audit Report from the Office of the Auditor General as contained within 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 contained within attachment 2.**

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.

5. Motions of which notice has been given:

Nil.

6. Urgent business:

Nil.



7. Closure:

There being no further business, the Presiding Member declared the meeting closed at 6.33pm.

I certify that these minutes were confirmed at the Audit, Risk and Governance Committee
Meeting held on 22 February 2021.

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Presiding Member – Councillor M Byas

24 . 05 . 21

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Date