



Audit Committee

MINUTES

Held on the 2nd August 2019 at 4:04pm in the Shire of Dundas
Council Chambers

Shire of Dundas**Audit Committee****Delegated Duties and Responsibilities**

The following duties and responsibilities are delegated to the Audit Committee by the Council at the Ordinary Meeting of the Council held on the 21st October 2014:-

1. Provide guidance and assistance to the Council in carrying out the functions of the Shire in relation to audits which includes risk management, internal controls and legislative compliance.
2. Develop and recommend to the Council an appropriate process for the selection and appointment of a person as the Shires auditor.
3. Develop and recommend to the Council a written format for the proposal to tender for the Shires audit. The proposal is to include –
 - the objectives of the audit;
 - the scope of the audit;
 - a plan of the audit;
 - details of the remuneration and expenses to be paid; and
 - the method of communication to be used between the auditor and the Shire.
- 4 Recommend to the Council the person or persons to be appointed as auditor.
- 5 Liaise with the CEO to ensure that the Shire does everything in its power to:
 - assist the auditor to conduct the audit and carry out his or her other duties under the Local Government Act 1995; and
 - ensure that audits are conducted successfully and expeditiously.
- 6 Examine the reports of the auditor after receiving a report from the CEO on the matters and –
 - determine if any matters raised require action to be taken by the Shire; and
 - ensure that appropriate action is taken in respect of those matters.
- 7 Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and present the report to the Council for adoption prior to the end of the next financial year or 6 months after the last report prepared by the auditor is received, whichever is the latest in time.
- 8 Review the relevant audit process annually to ensure that it is effective and meets the objectives of the Shires “Internal Audit and Risk Management Policy”.
- 9 Oversee the Shires Risk Management Plan and
 - support the implementation of the risk management and culture development program throughout the Shire;
 - make recommendation of the risk tolerance level for the Council to consider and adopt as appropriate;
 - bring to the attention of the Council the high to extreme identified risks and their recommended treatment;
 - establish the risk management plan which is aligned with the strategic planning process; and
 - actively promote risk management throughout the Shire.
- 10 To meet with the auditor at least once in every year in accordance with Section 7.12A(2) of the Local Government Act 1995.

Delegation reviewed and adopted without amendment at Ordinary Meeting of Council held 21ST October 2014

**Agenda for the Audit Committee Meeting to be held on the 2nd August 2019 in
the Council Chamber, Shire of Dundas Administration Office, meeting to
commence at 4:00pm.**

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1 Declaration of Opening

The Chairperson welcomed all those in attendance and declared the meeting open at

1.1 Attendance at meeting by Councillor AR Patupis.

The Shire President has been advised that Cr Patupis will be in Perth, Western Australia when the meeting is held and have requested attendance by way of instantaneous telephone connection with other Councillors present at the meeting in accordance with Administration Regulation 14A.

Cr Patupis will be at 33 The Strand, Applecross Western Australia 6153.

The Council must approve of the place that Cr Patupis is located as a “suitable place” that must be in a town site or other residential area at least 150 kilometres from where the meeting is being held.

Recommendation

That Cr Patupis be permitted to attend this meeting by way of instantaneous telephone connection from Applecross, Western Australia, on the basis that she is in a “suitable place” for the purpose of Administration Regulation 14A.

Moved: Cr Warner

Seconded: Cr Wyatt

Resolution

That Cr Patupis be permitted to attend this meeting by way of instantaneous telephone connection from Applecross, Western Australia, on the basis that she is in a “suitable place” for the purpose of Administration Regulation 14A.

Carried by: Absolute Majority

For: 4

Against: 0

2 Declarations of Financial, Proximity and Impartiality Interests

Nil

3 Records of Attendance / Officers / Apologies

Present:

Cr L Bonza	Shire President
Cr R Patupis	Deputy Shire President
Cr P Hogan	
Cr V Wyatt	
Cr S Warner	

P Fitchat	Chief Executive Officer
G Kohobange	Deputy Chief Executive Officer
M Crawford	Senior Administration Officer

Apologies:

Nil

4 Confirmation of Minutes of Previous Meeting**Recommendation**

That the minutes of the Audit Committee meeting held on 19th February 2019 be confirmed as a true and accurate record.

Moved Cr: Hogan
Seconded Cr: Wyatt

Resolution

That the minutes of the Audit Committee meeting held on 19th February 2019 be confirmed as a true and accurate record.

Carried by: Simple Majority For: 5 Against: 0

5 Reports of Officers

Agenda Reference & Subject	
5.1 – Local Government (Audit) Regulations 1996 Regulation 17 and Financial Management Reviews	
Location / Address	Norseman
File Reference	FM.AD
Author	Gihan Kohobange
Date of Report	29 July 2019
Disclosure of Interest	Nil

Summary

That the Audit Committee review and approve the CEO's report given in papers relating in relation to the review conducted in line with the Local Government (Audit) Regulations 1996 Regulation 17 and the financial management review conducted as required by Local Government Financial Management Regulation 5(2)(c).

Background

The CEO is required to undertake a review on the appropriateness and effectiveness of the Shire's risk management, internal controls and legislative compliance systems and procedures as required by the Local Government (Audit) Regulations 1996 Regulation 17.

In addition, the CEO is required to review the financial management systems to assess the appropriateness and effectiveness of these systems and procedures, as required by Local Government Financial Management Regulation 5(2)(c).

The CEO needs to have performed these reviews not less than once in every 3 financial years.

The results of the Audit Regulation 17 review are to be reported by the CEO to the Audit Committee. The Audit Committee is required to review the CEO's report and on-report to the Council. The report from the Audit Committee to the Council is required to have attached a copy of the CEO's initial report to the Audit Committee.

Statutory Environment

Local Government (Audit) Regulations 1996 Regulation 17
Local Government Financial Management Regulation 5(2)(c).

Policy Implications

Policy A.8 – Internal Audit and Risk Management Policy

Financial Implications

The cost of this review is covered by the 2015/16 Budget.

Strategic Implications

Nil

Consultation

CEO and Moore Stephens (WA) Pty Ltd

Comment

The CEO has decided to engage Moore Stephens (WA) Pty Ltd to perform these reviews on his behalf considering the wealth of experience Moore Stephens has in conducting similar reviews for other local governments in WA. The involvement of Moore Stephens (WA) Pty has provided a more objective assessment of the Shire's risk management, internal controls and legislative compliance systems and procedures, and the financial management system, enhancing the transparency of the review processes.

Have summarised below review comments mentioned in the report compiled by Moore Stephens (WA) Pty Ltd as given in papers relating.

Financial Management

Subject to the further development and application of financial management systems and processes, as well as refinement to existing practices being implemented throughout the organisation as highlighted throughout this report, financial management processes and procedures are considered effective.

Risk Management

The current risk management policy reflects the Shire's commitment to organisation wide risk management principles, systems and processes aimed at ensuring consistent, effective and efficient application of risk management through planning, decision making and operational processes. Elements of risk management processes, such as updating and review of the risk register and documented risk assessments, are not consistently applied. Development and application of risk management systems and processes are required to be implemented throughout the organisation in order for risk management processes and procedures to be considered effective.

Internal Control

Weaknesses were identified where internal controls are not considered effective, specifically where a degree of trust is currently placed on employees with limited review and verification of transactions.

Considering the overall results of monitoring and compliance practices undertaken by the Shire of Dundas, the current internal control framework, procedures and systems (where documented and routinely tested) may be considered effective. Our assessment as to effectiveness is subject to the implementation of the improvements detailed in the framework implementation section of this report.

Legislative Compliance

Maintaining legislative compliance is heavily reliant on the knowledge, experience and commitment of senior staff, to identify and prevent breaches of legislation. As a consequence, staff turnover, competing priorities and variations in workloads can have a significant negative impact on legislative compliance. Therefore, one of the most effective controls in maintaining legislative compliance is a motivated, stable, experienced and knowledgeable senior management group.

Instances of non-compliance with legislative requirements were identified during our review. Apart from the noted breaches of legislation, and in the instances where the effectiveness was able to be assessed, the current legislative compliance control procedures and systems, were considered effective.

Details of the CEO's assessment of the review comments and proposed actions to further enhance the effectiveness of the financial management, risk management, internal controls and legislative compliance are given in papers relating.

Voting Requirements

Simple majority

Recommendation

That the Audit Committee review and approve the CEO's report given in papers relating in relation to the review conducted in line with the Local Government (Audit) Regulations 1996 Regulation 17 and the financial management review conducted as required by Local Government Financial Management Regulation 5(2)(c) and refer the matter to the Ordinary Meeting of Council for adoption.

Moved Cr: Wyatt
Seconded Cr: Hogan

Resolution

That the Audit Committee review and approve the CEO's report given in papers relating in relation to the review conducted in line with the Local Government (Audit) Regulations 1996 Regulation 17 and the financial management review conducted as required by Local Government Financial Management Regulation 5(2)(c) and refer the matter to the Ordinary Meeting of Council for adoption.

Carried by: Simple Majority

For: 5

Against: 0

Agenda Reference & Subject	
5.2 Significant Adverse Trends in the Financial Position	
Location / Address	Shire of Dundas
File Reference	FM.AD
Author	Gihan Kohobange
Date of Report	29 July 2019
Disclosure of Interest	Nil

Summary

For the Audit Committee to review actions that the Shire has already initiated and intends to take concerning matters highlighted in the 2017-18 Audit report.

Background

The CEO's comments on the Audit Report to the audit committee held on 16th October 2018 were as follows:

The Independent Audit Report again identifies that the Shire's financial affairs are in good order and do not indicate any significant adverse trends in the financial position or the financial management practices of the Shire apart from operating surplus and asset sustainability ratios are not meeting the minimum benchmarks.

Operating Surplus Ratio (Benchmark >0.01)

This is an indicator of the extent to which revenues raised cover operational expenses only or are available for capital funding purposes. This is measured as:

$$\text{Operating surplus ratio} = \frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$$

Average operating revenue of the Shire is \$4.5 million. Including depreciation expenses of \$2.4 million on non-current assets, total average operating expenses of the Shire is \$5.5 million. Under these circumstances, it is very unlikely that the Shire will ever be able to achieve an operating surplus, thus operating surplus ratio benchmark.

Accounting guidelines indicate that a sustained period of deficits will erode the local government's ability to maintain both its operational service level and asset base. This worsening situation is mainly due to increasing depreciation due to asset revaluations. To some degree, this ratio does not accurately represent the Shire's scenario, whereby a significant proportion of infrastructure renewal (expensed via depreciation) is met by capital grant income.

However, the Shire needs to closely monitor the trend of operating surplus ratio and take every possible effort to achieve operating cost savings. Considering the significance of the new capital projects the Shire has undertaken in the recent past, a healthy operating surplus is a paramount importance for future financial sustainability of the Shire.

Excluding the impact of early receipt of Financial Assistance Grant and other one-off revenue items (e.g. accounting profit on Eucla community hall fire damage)

Ratio	Standard	2017/18	2016/17	2015/16
Operating surplus ratio	≥ 0.01	(0.40)	(0.38)	(0.32)

Asset Sustainability Ratio (Benchmark >0.90)

This is an indicator of the extent to which assets managed by a local government are being replaced as they reach the end of their useful lives. This is measured as:

$$\text{Asset sustainability ratio} = \frac{\text{capital renewal and replacement expenditure}}{\text{depreciation expenses}}$$

To achieve this benchmark, at the current level of depreciation expenses, the Shire needs to spend in excess of \$2.1 on capital renewal projects.

To some degree, this ratio also does not accurately represent the Shire's scenario. Increase in depreciation expenses associated with asset revaluations does not necessarily reflect exact capital asset renewal requirements of the Shire. Further, in the recent past very high proportion of capital expenditure was associated with new or upgrade projects (Norseman airport upgrade, parks upgrade etc.). Road

capital renewal projects have been rescheduled to future years due to the Shire's involvement with the airport upgrade project.

The downward trend in the ratio amidst significant new capital projects raises the level of uncertainty about the Shire's ability to meet capital renewal requirements in medium to long term.

Asset management plan of the Shire needs to be further rationalised to achieve a better level of confidence.

Ratio	Standard	2017/18	2016/17	2015/16
Asset Sustainability Ratio	≥ 0.90	0.35	0.65	1.72

Statutory Environment

As per Sections 7.12A(4) and 7.12A(5) of the Local Government Act 1995.

- (4) A local government must —
- (a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and
 - (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.
- (5) Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.

Policy Implications

Nil

Financial Implications

Nil

Strategic Implications

Nil

Consultation

CEO

Comment

Though the Shire has reported to the audit committee and then at the ordinary council meeting about not meeting minimum benchmark set by the department in relation to operating surplus and asset sustainability ratios, the Shire was under the impression that this would not warrant reporting under the section 7.12A(4) of the LG Act as the auditors have not either qualified the opinion or included this matter under the "Emphasis of Matter".

The Shire has received a letter from the department dated 28 June 2019 as given in papers relating, requesting the Shire to remedy this non-compliance within 60 days from the date of the letter. The Shire has replied to the department seeking more clarity over this matter and waiting for a response.

As previously reported to the audit committee, under the current circumstances (predominately mining based town with a plummeting population) it is very unlikely that the Shire will ever be able to achieve an operating surplus, thus operating surplus ratio benchmark. As a result, the Shire is not able to give a specific commitment about achieving the benchmark set by the department about the operating surplus ratio.

In recent years, the Shire's capital expenditure was mainly associated with new or upgrade projects which created a backlog of capital renewal projects. During the year 2018/19, the Shire has been able to clear the majority of outstanding capital renewal projects and that has resulted in a positive impact on the Assets Sustainability Ratio. Based on the unaudited financial results for the year **2018/19, the Assets Sustainability Ratio for 2018/19 is 0.82.**

Summarised below are actions the Shire has already initiated and intends to take to improve the financial position of the Shire;

1. Rationalise/optimize the Shire's infrastructure assets;
2. Development of a comprehensive asset management plan;
3. Continue with the current strategy of reducing operational cost through various initiatives (service level reviews, cost savings through natural staff attrition, renegotiate contracts, etc.);
4. Infrastructure use agreements with mining companies as an additional contribution (other than rates) towards operational cost associated with infrastructure assets used by mining companies;
5. Agree on an operating model with DFES to minimise the Shire's financial contribution towards fire emergency management covering an area of 93,179 km².

Voting Requirements

Simple majority

Recommendation

That the Audit Committee consider and recommend to Council for adaptation the following actions the Shire has already initiated and intends to take to improve the financial position of the Shire;

- 1. Rationalise/optimize the Shire's infrastructure assets;**
- 2. Development of a comprehensive asset management plan;**
- 3. Continue with the current strategy of reducing operational cost through various initiatives (service level reviews, cost savings through natural staff attrition, renegotiate contracts, etc.);**
- 4. Infrastructure assets user agreements with mining companies as an additional contribution (other than rates) towards operational cost associated with infrastructure assets used by mining companies;**
- 5. Agree on an operating model with DFES to minimise the Shire's financial contribution towards fire emergency management covering an area of 93,179 km².**

Moved Cr: Hogan

Seconded: Wyatt

Resolution

That the Audit Committee consider and recommend to Council for adaptation the following actions the Shire has already initiated and intends to take to improve the financial position of the Shire;

- 1. Rationalise/optimize the Shire's infrastructure assets;**
- 2. Development of a comprehensive asset management plan;**
- 3. Continue with the current strategy of reducing operational cost through various initiatives (service level reviews, cost savings through natural staff attrition, renegotiate contracts, etc.);**

4. **Infrastructure assets user agreements with mining companies as an additional contribution (other than rates) towards operational cost associated with infrastructure assets used by mining companies;**
5. **Agree on an operating model with DFES to minimise the Shire's financial contribution towards fire emergency management covering an area of 93,179 km².**

Carried by: Simple Majority

For: 5

Against: 0

6 Next Meeting

The next meeting of the Audit Committee will be called as required.

7 Closure of Meeting

There being no further matters for discussion the Chairperson closed the meeting at 4:39pm.