



Shire of Pingelly

Minutes

Audit Committee Meeting
12 December 2018

SHIRE OF PINGELLY

Minutes of the Audit Committee Meeting of the Shire of Pingelly held in the Council Chambers, 17 Queen Street, Pingelly on 12 December 2018 at 11.50am.

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MEMBERS PRESENT

Cr DI Freebairn Deputy President
Cr EJ Hodges
Cr JM Walton-Hassell
Cr BW Hotham
Cr J McBurney
Cr K Hastings

STAFF IN ATTENDANCE

Mr G Pollock Chief Executive Officer
Mr S Billingham Director Corporate & Community Services
Mr B Gibbs Director Technical Services
Mrs L Boddy Executive Assistant

APOLOGIES

Cr WV Mulroney President
Cr P Wood

OBSERVERS & VISITORS

Nil.

1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

The Chairman declared the meeting open at 11.50am.

1.1 Welcome to Country

I respectfully acknowledge the past and present traditional owners of this land on which we are meeting, the Noongar people. It is a privilege to be standing on Noongar country. I also acknowledge the contributions of Aboriginal Australians and non-Aboriginal Australians to the security and wellbeing of all the people of this country where we live and that we share together – Australia.

2. RECORD OF ATTENDANCE / APOLOGIES / APPROVED LEAVE OF ABSENCE

At the Ordinary Council Meeting held on 21 November 2018 the following leave was granted:

**12557 Moved: Cr Walton-Hassell Seconded: Cr McBurney
That Cr Wood be granted leave from 11th and 12th December 2018 inclusive.
That Cr Hotham be granted leave from to 7th to 15th December 2018 inclusive.**

Carried 8:0

3. RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE

Nil

4. PUBLIC QUESTION TIME

No public present.

5. APPLICATIONS FOR LEAVE OF ABSENCE

Nil

6. DISCLOSURES OF INTEREST

The *Local Government Act* (Section 5.60 – 5.62) provides that it is the Councillor’s obligation to declare an interest if they believe that they have a financial interest, proximity interest, closely associated persons interest or an interest affecting impartiality in a matter being discussed by Council.

The Act provides that the interest may be declared in writing to the Chief Executive Officer prior to the meeting or declared prior to discussion of the agenda item at the meeting. Forms for this purpose are available to Councillors.

The Act further provides that the extent of the interest needs to be declared if the Councillor seeks to remain in the Chamber during the discussion, debate or voting on the item.

A Councillor declaring a financial or proximity interest must leave the meeting prior to the matter being discussed or voted on (including the question as to whether they are permitted to remain in the Chamber). Councillors remaining in the Chamber may resolve to allow the member to return to the meeting to participate in the proceedings.

7. CONFIRMATION OF MINUTES AND REPORTS

7.1 Audit Committee Meeting – 2 May 2018

Statutory Environment:

Section 5.22 of the *Local Government Act* provides that minutes of all meeting to be kept and submitted to the next ordinary meeting of the council or the committee, as the case requires, for confirmation.

Voting Requirements:

Simple Majority

12574 Moved: Cr Hodges Seconded: Cr Walton-Hassell

Recommendation and Council Decision:

That the Minutes of the Audit Committee of the Shire of Pingelly held in the Council Chambers on 2 May 2018 be confirmed.

Carried 5:0

8. ANNOUNCEMENTS BY THE PRESIDING PERSON WITHOUT DISCUSSION

Nil

9. PETITIONS / DEPUTATIONS / PRESENTATIONS / SUBMISSIONS

Nil

10. BUSINESS

The audit committee met with Mr Tim Partridge from AMD Chartered Accountants and discussed the final audit, management letter and audit report.

10.1 Audited Annual Financial Report 2018

File Reference:	ADM0074
Location:	Shire of Pingelly
Applicant:	Stuart Billingham, Director Corporate & Community Services
Author:	Stuart Billingham, Director Corporate & Community Services
Date:	5 December 2018
Disclosure of Interest:	Nil
Attachments:	Annual Financial Report 2018 (Attachment 1 following green cover sheet)

Summary:

Council is required to receive the Annual Financial Report for the Financial Year ending 30th June 2018.

Background:

Section 7.9 of the *Local Government Act 1995* requires an audit to be undertaken and, on its completion, submitted to the Shire President and Chief Executive Officer of the Local Government, and to the Minister for Local Government.

It is a requirement that the Annual Audit be completed by 31 December following the close of the financial year. The audit was commenced on-site by AMD Chartered Accountants on 19th November to 21st November 2018. The Statutory Report and Management letter has been completed by AMD Chartered Accountants and received by the Shire President, Chief Executive Officer and Director Corporate & Community Services. The Auditor's Management Report is submitted to the Shire of Pingelly Audit Committee for further consideration. (See separate attachment submitted under a separate cover)

Comment:

The Statutory Annual Financial Report for 2017/2018 has now been completed and is included as an attachment to this document. (See separate attachment submitted under a separate cover)
This Annual Report will be available to the Public and Electors prior to the Annual Electors Meeting, subject to its acceptance by Council.

The Auditors report under the heading 'Report on Other Legal and Regulatory Requirements' raised the following:

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

- (i) In our opinion, the following matters indicate significant adverse trends in the financial position of the Shire of Pingelly:
 - a. Operating surplus ratio as reported in Note 31 of the financial report is below the below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of zero for the last three years (2016: -0.719, 2017: -0.596 and 2018: -0.47).

AMD's auditors indicated that procedures and controls in respect to the Shire of Pingelly internal controls, processes, procedures and financial reporting framework are adequately designed and have been maintained to adequate standards throughout the audit period subject to the comments and recommendations within the Management Review Report.

Consultation:

AMD Chartered Accountants

Chief Executive Officer

Bob Waddell & Associates Pty Ltd – Local Government Consultant

Statutory Environment:

Local Government Act 1995 and Regulations

7.12A. Duties of local government with respect to audits

- (1) A local government is to do everything in its power to —
 - (a) assist the auditor of the local government to conduct an audit and carry out his or her other duties under this Act in respect of the local government; and
 - (b) ensure that audits are conducted successfully and expeditiously.
- (2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.
- (3) A local government is to examine the report of the auditor prepared under section 7.9(1), and any report prepared under section 7.9(3) forwarded to it, and is to -
 - (a) determine if any matters raised by the report, or reports, require action to be taken by the local government; and
 - (b) ensure that appropriate action is taken in respect of those matters.
- (4) A local government is to -
 - (a) prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
 - (b) forward a copy of that report to the Minister, by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.

[Section 7.12A inserted by No. 49 of 2004 s. 8.]

7.13. Regulations as to audits

- (1) Regulations may make provision —
 - (aa) as to the functions of the CEO and the audit committee in relation to audits carried out under this Part and reports made on those audits;
 - (ab) as to the functions of audit committees, including the selection and recommendation of an auditor;
 - (ac) as to the procedure to be followed in selecting an auditor;
 - (ad) as to the contents of the annual report to be prepared by an audit committee;
 - (ae) as to monitoring action taken in respect of any matters raised in a report by an auditor;
 - (a) with respect to matters to be included in agreements between local governments and auditors;
 - (b) for notifications and reports to be given in relation to agreements between local governments and auditors, including any variations to, or termination of such agreements;
 - (ba) as to the copies of agreements between local governments and auditors being provided to the Department;
 - (c) as to the manner in which an application may be made to the Minister for approval as an auditor;

- (d) in relation to approved auditors, for —
 - (i) reviews of, and reports on, the quality of audits conducted;
 - (ii) the withdrawal by the Minister of approval as an auditor;
 - (iii) applications to the State Administrative Tribunal for the review of decisions to withdraw approval;
- (e) for the exercise or performance by auditors of their powers and duties under this Part;
- (f) as to the matters to be addressed by auditors in their reports;
- (g) requiring auditors to provide the Minister with such information as to audits carried out by them under this Part as is prescribed;
- (h) prescribing the circumstances in which an auditor is to be considered to have a conflict of interest and requiring auditors to disclose in their reports such information as to a possible conflict of interest as is prescribed;
- (i) requiring local governments to carry out, in the prescribed manner and in a form approved by the Minister, an audit of compliance with such statutory requirements as are prescribed whether those requirements are —
 - (i) of a financial nature or not; or
 - (ii) under this Act or another written law.

(2) Regulations may also make any provision about audit committees that may be made under section 5.25 in relation to committees.

[Section 7.13 amended by No. 64 of 1998 s. 40; No. 49 of 2004 s. 9; No. 55 of 2004 s. 700.]

Local Government (Financial Management) Regulations 1996

51. Annual financial report to be signed etc. by CEO and given to Department

- (1) After the annual financial report has been audited in accordance with the Act the CEO is to sign and append to the report a declaration in the form of Form 1.
- (2) A copy of the annual financial report of a local government is to be submitted to the Departmental CEO within 30 days of the receipt by the local government's CEO of the auditor's report on that financial report.

[Regulation 51 amended in Gazette 18 Jun 1999 p. 2639; 20 Jun 2008 p. 2726.]

Local Government (Administration) Regulations 1996

Part 3 — Electors' meetings

[Heading inserted in Gazette 26 Aug 2011 p. 3482.]

15. Matters to be discussed at general meeting (Act s. 5.27(3))

For the purposes of section 5.27(3), the matters to be discussed at a general electors' meeting are, firstly, the contents of the annual report for the previous financial year and then any other general business.

16. Request for special meeting, form of (Act s. 5.28(2))

A request for a special meeting of the electors of a district is to be in the form of Form 1.

17. Voting at meeting (Act s. 5.31)

- (1) Each elector who is present at a general or special meeting of electors is entitled to one vote on each matter to be decided at the meeting but does not have to vote.
- (2) All decisions at a general or special meeting of electors are to be made by a simple majority of votes.
- (3) Voting at a general or special meeting of electors is to be conducted so that no voter's vote is secret.

18. Procedure at meeting (Act s. 5.31)

Subject to regulations 15 and 17, the procedure to be followed at a general or special meeting of electors is to be determined by the person presiding at the meeting.

5.27. Electors' general meetings

- (1) A general meeting of the electors of a district is to be held once every financial year.
- (2) A general meeting is to be held on a day selected by the local government but **not more than 56 days** after the local government accepts the annual report for the previous financial year.
- (3) The matters to be discussed at general electors' meetings are to be those prescribed.

If Council adopts the Annual Report at its Council Meeting 13 December 2017, then in accordance with statutory requirements, Council must give a minimum of 14 days' local public notice in calling the Annual Electors Meeting following acceptance of the Annual Report. It must also hold the AEM not more than 56 days from Council accepting the Annual Report. It is recommended that the Electors General Meeting be held on the evening of Tuesday 6 February 2017 in the Council Chambers, 17 Queen Street, Pingelly, commencing at 7:00 pm.

Policy Implications:

Nil

Financial Implications:

Nil

Strategic Implications:

While there are no direct strategic implications in receiving the Shire of Pingelly Statutory Annual Financial Report, the Auditors Management Report point 7 raises commentary regarding the Shire's financial ratios.

7. Financial Ratio Performance Measures

We note Council's Asset Management Plan currently only includes projections for seven years to 2024/25 and therefore does not include data for the ten year projection of renewal/ replacement expenditure required for the calculation of the asset renewal funding ratio. As a result, Council's asset renewal funding ratio has been calculated as at 30 June 2018 based on the 7 year expenditure forecast to 2024/25, and an average of the 7 year capital expenditure forecasts for the subsequent 3 years.

We also noted Council's Long Term Financial Plan was still in draft stage at the time of our November 2018 visit and therefore had not been adopted by Council.

A review of Council's financial ratios as included within Note 31 of the financial report indicates that 6 of the 7 ratios were within the recommended guidelines provided by the Department of Local Government and Communities for the past 3 financial years, with the exceptions noted below:

- The operating surplus ratio as at 30 June 2018 is calculated at -0.472 (2017: -0.596, 2016: 0.719 recommended to be between 0.01 and 0.15); and

We recommend Council continue to consider the impact on ratios and long term sustainability when making decisions regarding asset renewal, additional borrowings and setting rates for future years.

Risk Implications:

Risk	Low (3)
Risk Likelihood (based on history and with existing controls)	Low (3)
Risk Impact / Consequence	Low (3)
Risk Rating (Prior to Treatment or Control)	Low (3)
Principal Risk Theme	Low (3)
Risk Action Plan (Controls or Treatment Proposed)	Low (3)

Risk Matrix

Consequence Likelihood		Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 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 is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating of 1 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

12575 Moved: Cr Walton-Hassell Seconded: Cr McBurney

Recommendation and Council Decision:

That the Audit Committee recommends to Council that it:

- 1. receives the minutes of the Audit Committee dated 2 May 2018;**
- 2. accepts the Shire of Pingelly Annual Report for the Financial Year ended 30th June 2018;**
- 3. receives the Audit Report for 2017/18 from AMD Chartered Accountants;**
- 4. advertises and holds its Annual Electors Meeting in the Council Chambers, 17 Queen Street, Pingelly to be held on Tuesday 5 February 2019 at 7:00pm;**
- 5. submits a copy of the Shire of Pingelly Statutory Annual Financial Report to the Director General of the Department of Local Government, Sport and Cultural Industries as required by Local Government (Financial Management) Regulations clause 51(2).**

Carried 5:0

10.2 Audit Management Letter

File Reference: ADM0074
Location: Shire of Pingelly
Applicant: Stuart Billingham, Director Corporate & Community Services
Author: Stuart Billingham, Director Corporate & Community Services
Date: 5 December 2018
Disclosure of Interest: Nil
Attachments: 30 June 2018 Management Report (Attachment 2 following blue cover sheet)

Summary:

Audit Committee is required to consider the contents of the Annual Management Report for the Financial Year ending 30th June 2018.

Background:

As part of the Annual Final Audit the Auditor's Management Report is submitted to the Shire of Pingelly Audit Committee for further consideration.

Matters raised by the auditor are as follows;

Point 7. Financial Ratio Performance Measures

We note Council's Asset Management Plan currently only includes projections for seven years to 2024/25 and therefore does not include data for the ten year projection of renewal/ replacement expenditure required for the calculation of the asset renewal funding ratio. As a result, Council's asset renewal funding ratio has been calculated as at 30 June 2018 based on the 7 year expenditure forecast to 2024/25, and an average of the 7 year capital expenditure forecasts for the subsequent 3 years.

We also noted Council's Long Term Financial Plan was still in draft stage at the time of our November 2018 visit and therefore had not been adopted by Council.

A review of Council's financial ratios as included within Note 31 of the financial report indicates that 6 of the 7 ratios were within the recommended guidelines provided by the Department of Local Government and Communities for the past 3 financial years, with the exceptions noted below:

- The operating surplus ratio as at 30 June 2018 is calculated at -0.472 (2017: -0.596, 2016: 0.719 recommended to be between 0.01 and 0.15); and

We recommend Council continue to consider the impact on ratios and long term sustainability when making decisions regarding asset renewal, additional borrowings and setting rates for future years.

Operating Surplus Ratio

$$\frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$$

- Basic standard is achieved if the ratio is between 0.01-0.15; advanced greater than 0.15.

Copy of the Department of Local Government and Communities Operational Guidelines No18 for Financial Ratios is submitted as a separate attachment for further information.

Point 9 Audit Recommendations

Please refer to Appendix 1 for comments and recommendations arising from our 30 June 2018 audit. We provide these comments and recommendations to suggest improvements to the Shire of Pingelly's internal controls and procedures.

Our management report is on an exception basis, and therefore we have not commented on the various internal controls in place within your accounting systems.

APPENDIX 1 Audit Recommendations for the year ended 30 June 2018

GUIDANCE TO FINDINGS RATING / IMPLICATION

Findings identified during the final audit have been weighted in accordance with the following scale:

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

Moderate: Those findings which are of sufficient concern to warrant action being taken by the entity as soon as possible.

Minor: Those findings that are not of primary concern however still warrant action being taken.

AUDIT FINDINGS

EXCESSIVE ANNUAL LEAVE BALANCES

Finding Rating: Minor

From our review of the annual leave listing at 30 June 2018, we noted 2 employees who have accrued in excess of 6 weeks annual leave.

Implication

The cost to Council is greater if annual leave is not paid out on a regular basis due to the cumulative effect of salary increases over a period of time;
Recreational leave enhances employee performance; and
It is a fundamental principle of good internal control that all employees take regular holidays.

Recommendation

We recommend excessive leave balances be reviewed by management regularly.

Management Comment

Management to review Annual Leave and Long Service Leave accrued balances with the Shire of Pingelly Audit Committee.

It should be noted the Chief Executive Officer (CEO) accrues 6 weeks Annual Leave every year of employment as per his employment contract. With the CEO clearing some Annual leave over the Christmas /New Year in 2018 this should help reduce this outstanding annual leave down.

Furthermore the Director of Technical Services (DTS) accrues 5 weeks annual leave each year as per his employment contract, his position has accumulated annual leave due to clearing Long Service Leave recently in place of clearing Annual Leave and this should be resolved in coming financial years

Comment

For a breakdown of Staff Leave Accruals please refer to the extract of Annual Leave and Long Service Leave spreadsheets as at 30 June 2018 tabled at the Audit Committee meeting.

Consultation:

AMD Chartered Accountants
 Chief Executive Officer
 Bob Waddell & Associates Pty Ltd – Local Government Consultant

Statutory Environment:

Local Government Act 1995 and Associated Regulations

Risk Implications:

Risk	Low (3)
Risk Likelihood (based on history and with existing controls)	Low (3)
Risk Impact / Consequence	Low (3)
Risk Rating (Prior to Treatment or Control)	Low (3)
Principal Risk Theme	Low (3)
Risk Action Plan (Controls or Treatment Proposed)	Low (3)

Risk Matrix

Consequence Likelihood		Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 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)
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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 is often specified in terms of an event or circumstance and the consequences that may flow from it. An effect may be positive, negative or a deviation from the expected and may be related to the following objectives; occupational health and safety, financial, service interruption, compliance, reputation and environment. A risk matrix has been prepared and a risk rating of 1 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

Moved: Cr Hastings

Seconded: Cr McBurney

Recommendation:

That the Audit Committee recommends to Council that it notes the comments on the Audit Management Letter by management with no further actions required to be undertaken by the Chief Executive Officer.

Amendment:

Moved: Cr Walton-Hassell

Seconded: Cr Hodges

That the Audit Committee recommends to Council that it notes the comments on the Audit Management Letter by management with further actions required to be undertaken by the Chief Executive Officer.

Note: the word “no” was removed from “with no further actions” to read “with further actions”.

COUNCIL DECISION:

12576 Moved: Cr Walton-Hassell Seconded: Cr Hodges

That the Audit Committee recommends to Council that it notes the comments on the Audit Management Letter by management with further actions required to be undertaken by the Chief Executive Officer.

Note: the word “no” was removed from “with no further actions” to read “with further actions”.

Carried 5:0

11. CLOSURE OF MEETING

The Chairman declared the meeting closed at 11.57am.

These minutes were confirmed by Council at the Audit Committee Meeting held on 20 February 2019.

Signed.....
Presiding Person at the meeting at which the minutes were confirmed.