



# Shire of Pingelly

## Minutes

Audit Committee Meeting  
19 July 2017

## SHIRE OF PINGELLY

Minutes of the Audit Committee Meeting of the Shire of Pingelly held in the Council Chambers, 17 Queen Street, Pingelly on 13 December 2017 at 11am.

### Contents

1.	DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS .....	3
1.1	Welcome to Country .....	3
2.	RECORD OF ATTENDANCE / APOLOGIES / APPROVED LEAVE OF ABSENCE .....	3
3.	RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE.....	3
4.	PUBLIC QUESTION TIME .....	3
5.	APPLICATIONS FOR LEAVE OF ABSENCE .....	3
6.	DISCLOSURES OF INTEREST .....	4
7.	CONFIRMATION OF MINUTES AND REPORTS.....	4
7.1	Audit Committee Meeting – 19 July 2017.....	4
8.	ANNOUNCEMENTS BY THE PRESIDING PERSON WITHOUT DISCUSSION .....	4
9.	PETITIONS / DEPUTATIONS / PRESENTATIONS / SUBMISSIONS .....	4
10.	BUSINESS .....	5
10.1	Audited Annual Financial Report 2017.....	5
10.2	Audit Management Letter .....	10
10.3	Audit Committee – Terms of Reference.....	14
11.	CLOSURE OF MEETING .....	14

**MEMBERS PRESENT**

Cr WV Mulroney                      President  
Cr DI Freebairn                     Deputy President  
Cr LN Steel  
Cr EJ Hodges  
Cr JM Walton-Hassell  
Cr BW Hotham  
Cr J McBurney

**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 P Wood

**OBSERVERS & VISITORS**

Mr Tim Partridge via telephone.

**1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS**

The Chairman declared the meeting open at 11am.

**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 Special Meeting of Council held on 1 November 2017 the following was approved:

**12296 Moved: Cr Walton-Hassell Seconded: Cr McBurney**

**That Council approve Cr Wood taking leave from 12<sup>th</sup> to 13<sup>th</sup> December 2017 inclusive.**

**Carried 7:0**

**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 – 19 July 2017**

#### **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

**12323 Moved: Cr Hodges**

**Seconded: Cr McBurney**

#### **Recommendation and Council Decision:**

**That the Minutes of the Audit Committee of the Shire of Pingelly held in the Council Chambers on 19 July 2017 be confirmed.**

Carried 7:0

## **8. ANNOUNCEMENTS BY THE PRESIDING PERSON WITHOUT DISCUSSION**

Nil

## **9. PETITIONS / DEPUTATIONS / PRESENTATIONS / SUBMISSIONS**

Nil

Telephone call with Tim Partridge ended at 11.23am.

## **10. BUSINESS**

### **10.1 Audited Annual Financial Report 2017**

**File Reference:** ADM0074  
**Location:** Shire of Pingelly  
**Applicant:** Stuart Billingham, Director Corporate & Community Services  
**Author:** Stuart Billingham, Director Corporate & Community Services  
**Date:** 8 December 2017  
**Disclosure of Interest:** Nil  
**Attachments:** Annual Financial Report 2017 (Attachment 1 following green cover sheet)

#### **Summary:**

Council is required to receive the Annual Financial Report for the Financial Year ending 30<sup>th</sup> June 2017.

#### **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 9<sup>th</sup> October to 11<sup>th</sup> October 2017. 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 2016/2017 has now been completed and is included as an attachment to this document. (See separate attachment submitted under a separate cover)  
This Report will be available to the Public and Electors prior to the Annual Electors Meeting, subject to its acceptance by Council.

Two (2) statutory or non-compliance matters were raised in the Auditor's Report to the Shire President of the Shire of Pingelly.

- a. The Shire was due to have a review completed by 31 December 2016 as required by Local Government (Audit) Regulations 1996, however this timeframe was not met. We have since been engaged to complete a Regulation 17 review for the Shire and our onsite review procedures commenced 20 November 2017; and
- b. In accordance with the requirements of Regulation 33 of the Local Government (Financial Management) Regulations, Council's annual budget is to be submitted to the Department of Local Government within 30 days after Council acceptance. The Shire's budget for 30 June 2017 was adopted by Council on 12 August 2016 however was not submitted to the Department until 28 September 2016;

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 – 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 raises commentary regarding the Shire's financial ratios.

*"A review of Council's financial ratios as included within Note 19 of the financial report indicates that four of the seven ratios were within the recommended guidelines provided by the Department of Local Government and Communities, with the exceptions noted below:*

- *The operating surplus ratio as at 30 June 2017 is calculated at -0.60 (recommended to be between 0.01 and 0.15).*
- *The debt service ratio as at 30 June 2017 is calculated at 0.25 (a basic standard is achieved if the ratio is greater than or equal to 2, an advance standard is achieved if the ratio is greater than 5).*
- *The asset renewal funding ratio as at 30 June 2017 is calculated at 0.73 (recommended to be between 0.75 and 0.95).*

*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."*

These concerns need to be taken into account when reviewing the Shire's Annual Budget, Integrated Planning Documents including Asset Management Plans, Corporate Business Plan and Long Term Financial Plan.

#### **Voting Requirements:**

Simple Majority

**12324      Moved: Cr Steel                      Seconded: Cr Walton-Hassell**

**Recommendation and Council Decision:**

**That the Audit Committee recommends to Council that it:**

- 1. receives the minutes of the Audit Committee dated 19 July 2017.**
- 2. accepts the Shire of Pingelly Annual Report for the Financial Year ended 30<sup>th</sup> June 2017;**
- 3. receives the Audit Report for 2016/17 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 6 February 2018 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 7:0

## **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:** 8 December 2017  
**Disclosure of Interest:** Nil  
**Attachments:** Audit Management Letter 2017 (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 30<sup>th</sup> June 2017.

### **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;

### **7.0 Financial Ratio Performance Measures**

*“A review of Council’s financial ratios as included within Note 19 of the financial report indicates that four of the seven ratios were within the recommended guidelines provided by the Department of Local Government and Communities, with the exceptions noted below:*

- *The operating surplus ratio as at 30 June 2017 is calculated at -0.60 (recommended to be between 0.01 and 0.15).*
- *The debt service ratio as at 30 June 2017 is calculated at 0.25 (a basic standard is achieved if the ratio is greater than or equal to 2, an advance standard is achieved if the ratio is greater than 5).*
- *The asset renewal funding ratio as at 30 June 2017 is calculated at 0.73 (recommended to be between 0.75 and 0.95).*

*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.”*

Basic	Intermediate	Advanced
Not Achieved/Met		Achieved/Met

	2017	2016	2015	2014	2013
<b>Current Ratio</b>	2.03	1.05	3.89	5.35	4.43
<b>Debt Service Ratio</b>	0.25	(0.07)	1.12	0.53	13.07
<b>Operating Surplus Ratio</b>	(0.60)	(0.72)	(0.47)	(0.91)	0.28
<b>Own Source Revenue Coverage Ratio</b>	0.42	0.48	0.48	0.42	0.47
<b>Asset Consumption Ratio</b>	0.71	0.62	0.99	0.80	0.62
<b>Asset Sustainability Ratio</b>	2.23	1.60	0.31	1.03	2.25
<b>Asset Renewal Funding Ratio</b>	0.75	0.77	0.89	1.00	1.00

**Current Ratio** 
$$\frac{\text{current assets minus restricted assets}}{\text{current liabilities minus liabilities associated with restricted assets}}$$

- Standard met is achieved if the ratio is greater than 1;

**Asset Sustainability Ratio** 
$$\frac{\text{capital renewal and replacement expenditure}}{\text{Depreciation expenses}}$$

- Basic standard is achieved if greater than 0.9; improving between 0.9-1.10.

**Debt service Cover Ratio** 
$$\frac{\text{annual operating surplus before interest and depreciation}}{\text{principal and interest}}$$

- Basic standard is achieved if the ratio is greater than or equal to 2. *An advance standard is achieved if the ratio is greater than 5).*

**Operating Surplus Ratio** 
$$\frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$$

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

**Own Source Revenue Coverage Ratio** 
$$\frac{\text{own source operating revenue}}{\text{operating expenses}}$$

- Basic standard is achieved if between 0.4-0.6; Intermediate 0.6-0.9, advanced greater than 0.9.

**Asset Consumption Ratio** 
$$\frac{\text{Depreciated Replacement Cost of Depreciable Assets}}{\text{Current Replacement Cost of Depreciable Assets}}$$

- Basic standard is achieved if greater than 0.50 or greater and improving between 0.60 and 0.75.

**Asset Renewal Funding Ratio** 
$$\frac{\text{NPV of Planned Capital Renewals over 10 years}}{\text{NPV of Required Capital Expenditure over 10 years}}$$

- Standard is met if between 0.75-0.95, improving between 0.95-1.05.

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

## **1. ANNUAL COMPLIANCE RETURN**

### ***Finding Rating: Moderate***

We note Council's annual compliance return was not submitted to the Department of Local Government by 31 March 2017 as required by Regulation 15 of the Local Government (Audit) Regulations 1996 (submitted 4 April 2017).

#### **Implication**

Risk of non compliance with Regulation 15 of the Local Government (Audit) Regulations 1996.

#### **Recommendation**

We recommend Council's annual compliance return was not submitted to the Department of Local Government by 31 March 2017 as required by Regulation 15 of the Local Government (Audit) Regulations 1996.

#### **Management Comment**

Due to a Department of Local Government Portal logon issue being encountered, we were unable to submit the return by the due date.

## **2. ASSET MANAGEMENT PLAN**

### ***Finding Rating: Moderate***

We noted the Shire's Asset Management Plan currently only includes projections for eight years to 2024/25 and therefore does not include data for the ten year projection of required renewal/replacement expenditure used to calculate the asset renewal funding ratio. The asset renewal funding ratio has been calculated using an average of the available data.

#### **Implication**

Risk of material misstatement or omission within accounting records.

#### **Recommendation**

We recommend the Asset Management Plan is updated annually.

#### **Management Comment**

The Shire of Pingelly Asset Management Plan (AMP) is currently under review along with all other Integrated Planning & Reporting (IPR) documents that will be updated, adopted by Council and be in place by April 2018 as per the IPR cycle.

## **3. LOSS ON PRIVATE WORKS**

### ***Finding Rating: Minor***

We noted a loss was made on private works of \$6,157 for the 2016/17 financial year, representing 20% of total private works expenditure. We understand the loss was due to the write-off of prior year private works debtors.

#### **Implication**

Risk of under allocation of private works.

#### **Recommendation**

We recommend private works charge out rates and allocations be regularly reviewed and adjusted accordingly throughout the year to ensure private works expenditure is recovered.

#### **Management Comment**

Several debtors were written off by Council on 21 June 2017, resolution 12216 totalling \$10,035. NB: SynergySoft raises 'write off' sundry debtor journal (debit) back to Income account (credit) it was originally raised in , causing balances raised in the year to be reduced by \$10,035 in this case private works Income reduced \$8,180.

Deliver WA	\$7,665
Mark Ramon Edwards	\$ 375
Mark Ramon Edwards	\$ 140
Total	\$8,180

If this write off figure was excluded from Private works Income account, it is in fact in profit by \$2,023.

**Consultation:**

AMD Chartered Accountants  
Chief Executive Officer  
Bob Waddell – Local Government Consultant

**Statutory Environment:**

*Local Government Act 1995 and Associated Regulations*

**12325      Moved: Cr Hodges                      Seconded: Cr Freebairn**

**Recommendation and Council Decision:**

**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.**

Carried 7:0

**10.3 Audit Committee – Terms of Reference**

**File Reference:** ADM0074  
**Location:** Shire of Pingelly  
**Applicant:** Stuart Billingham, Director Corporate & Community Services  
**Author:** Stuart Billingham, Director Corporate & Community Services  
**Date:** 8 December 2017  
**Disclosure of Interest:** Nil  
**Attachments:** Draft Audit Committee – Terms of Reference (Attachment 3 following yellow cover sheet)

**Summary:**

To provide the Shire of Pingelly Audit Committee with a draft Terms of Reference for consideration of endorsement.

**Background:**

Council staff have been unable to locate the Shire of Pingelly Audit Committee Charter or Terms of Reference. The recent Reg 17 Risk review conducted by AMD Chartered Accountants identified that the Shire of Pingelly Audit Committee should develop and endorse and regularly review an Audit Committee Charter/Terms of Reference based on Local Government Operational Guideline Number 9 ( see copy attached for information).

**Officer Comment:**

A draft Audit Committee – Terms of Reference has been prepared based on the Department of Local Governments Guideline with minor optional clauses deleted – (See attached Draft Shire of Pingelly Audit Committee Terms of Reference)

**Consultation:**

AMD Chartered Accountants  
Chief Executive Officer

**Statutory Environment:**

*Local Government Act 1995 and Associated Regulations*  
Department of Local Government Operational Guideline Number 9

**12326 Moved: Cr McBurney Seconded: Cr Hodges**

**Recommendation and Council Decision:**

**That the Audit Committee endorses the Shire of Pingelly Audit Committee Terms of Reference as submitted.**

Carried 7:0

**11. CLOSURE OF MEETING**

The Chairman declared the meeting closed at 11.56am.

These minutes were confirmed by Council at the Audit Committee Meeting held on

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