

Notice of Meeting



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Dear Councillor

A meeting of the Shire of Pingelly Audit Committee will be held on Wednesday 17 July 2019 in the Council Chambers, 17 Queen Street, Pingelly commencing at 1.30pm.

Mark Dacombe
Acting Chief Executive Officer

12 July 2019

DISCLAIMER

No responsibility whatsoever is implied or accepted by the Shire of Pingelly for any act, omission or statement or intimation occurring during Council or Committee meetings or during formal/informal conversations with staff. The Shire of Pingelly disclaims any liability for any loss whatsoever and howsoever caused arising out of reliance by any person or legal entity on any such act, omission or statement or intimation occurring during Council or Committee meetings or discussions. Any person or legal entity that act or fails to act in reliance upon any statement does so at the person's or legal entity's own risk.

In particular and without derogating in any way from the broad disclaimer above, in any discussion regarding any planning application or application for a licence, any statement or limitation of approval made by a member or officer of the Shire of Pingelly during the course of any meeting is not intended to be and is not taken as notice of approval from the Shire of Pingelly. The Shire of Pingelly warns that anyone who has an application lodged with the Shire of Pingelly must obtain and only should rely on WRITTEN CONFIRMATION of the outcome of the application, and any conditions attaching to the decision made by the Shire of Pingelly in respect of the application.

AGENDA

Shire of Pingelly
Audit Committee Meeting
17 July 2019

MISSION STATEMENT

To enhance the quality of life for the people of Pingelly through the provision of leadership, services and infrastructure.

DISCLAIMER

INFORMATION FOR PUBLIC ATTENDING COUNCIL MEETINGS

PLEASE NOTE:

The recommendations contained in this agenda are officer's recommendations only and should not be acted upon until Council has resolved to adopt those recommendations.

The resolutions of Council should be confirmed by perusing the minutes of the Council meeting at which these recommendations were considered.

Members of the public should also note that they act at their own risk if they enact any resolution prior to receiving official written notification of Councils decision.

MARK DACOMBE
ACTING CHIEF EXECUTIVE OFFICER

COUNCIL MEETING INFORMATION NOTES

Your Council generally handles all business at Ordinary or Special Council Meetings.

From time to time Council may form a Committee to examine subjects and then report to Council.

Generally all meetings are open to the public; however, from time to time Council will be required to deal with personal, legal and other sensitive matters. On those occasions Council will generally close that part of the meeting to the public. Every endeavour will be made to do this as the last item of business of the meeting.

Public Question Time. It is a requirement of the Local Government Act 1995 to allow at least fifteen (15) minutes for public question time following the opening and announcements at the beginning of the meeting. Should there be a series of questions the period can be extended at the discretion of the Chairman.

Written notice of each question should be given to the Chief Executive Officer fifteen (15) minutes prior to the commencement of the meeting. A summary of each question and response is included in the Minutes.

When a question is not able to be answered at the Council Meeting a written answer will be provided after the necessary research has been carried out. Council staff will endeavour to provide the answers prior to the next meeting of Council.

Councillors may from time to time have a financial interest in a matter before Council. Councillors must declare an interest and the extent of the interest in the matter on the Agenda. However, the Councillor can request the meeting to declare the matter trivial, insignificant or in common with a significant number of electors or ratepayers. The Councillor must leave the meeting whilst the matter is discussed and cannot vote unless those present agree as above.

Members of staff, who have delegated authority from Council to act on certain matters, may from time to time have a financial interest in a matter on the Agenda. The member of staff must declare that interest and generally the Chairman of the meeting will advise the Officer if he/she is to leave the meeting.

Agendas, including an Information Bulletin, are delivered to Councillors within the requirements of the Local Government Act 1995, i.e. seventy-two (72) hours prior to the advertised commencement of the meeting. Whilst late items are generally not considered there is provision on the Agenda for items of an urgent nature to be considered.

Should an elector wish to have a matter placed on the Agenda the relevant information should be forwarded to the Chief Executive Officer in time to allow the matter to be fully researched by staff. An Agenda item, including a recommendation, will then be submitted to Council for consideration. The Agenda closes the Monday week prior to the Council Meeting (i.e. ten (10) days prior to the meeting).

The Information Bulletin produced as part of the Agenda includes items of interest and information, which does not require a decision of Council.

Agendas for Ordinary Meetings are available in the Shire of Pingelly Office, on the website and the Pingelly Library seventy-two (72) hours prior to the meeting and the public are invited to secure a copy.

Agenda items submitted to Council will include a recommendation for Council consideration. Electors should not interpret and/or act on the recommendations until after they have been considered by Council. Please note the Disclaimer in the Agenda (page 3).

Public Inspection of Unconfirmed Minutes (Reg 13)

A copy of the unconfirmed Minutes of Ordinary and Special Meetings will be available for public inspection from the Shire of Pingelly Office and the Shire of Pingelly website within ten (10) working days after the Meeting.

NOTE:

Unopposed Business

Upon a motion being moved and seconded, the person presiding may ask the meeting if any member opposes it.

If no member signifies opposition to the motion the person presiding may declare the motion in sub clause (1) carried without debate and without taking a vote on it,

A motion carried under sub clause (2) is to be recorded in the minutes as a unanimous decision of the Council or committee.

If a member signifies opposition to a motion the motion is to be dealt with according to this Part.

This clause does not apply to any motion or decision to revoke or change a decision which has been made at a Council or committee meeting.

Question Time

This Policy provides guidance to the Presiding Member (noting the provisions of the *Local Government (Administration) Regulation 7*).

- Question time is for the asking of questions. General comments, issues for debate etc. are to be progressed through the normal procedure for submitting Agenda items for Council's consideration. Tabled correspondence will not be accepted.
- Unless the person is known to all other persons in the Chamber, the Questioner is to state their name and address prior to asking the question.
- The Questioner is to stand to address the Presiding Member, unless illness or a physical or other disability prevents him/her from doing so. All questions are to be addressed to the Presiding Member.
- The question must be immediately put and may be followed by a brief statement related to the question.
- The Presiding Member may respond to the question or may nominate a Councillor or an Officer to respond.
- Debate between the Questioner or public and a Councillor or Officer is not permitted.
- Questions may not be put by Councillors to the Questioner or other members of the public except for the purpose of clarification.
- If the Presiding Member determines that a full and complete answer is unable to be given at that time, the question may be taken on notice. In that case, an answer will be given in writing to the Questioner within 7 days and the response tabled at the next Ordinary Council meeting.
- A summary of the question and the response only is to be recorded in the minutes of the meeting.

QUESTION TIME FOR THE PUBLIC

(Please write clearly)

DATE: _____

NAME: _____

TELEPHONE : _____

ADDRESS: _____

QUESTIONS TO THE PRESIDENT:

GENERAL QUESTION / QUESTION RELATED TO THE AGENDA *(strike out which is not applicable)*

ITEM NO	PAGE NO	QUESTION

PLEASE PASS TO THE CHIEF EXECUTIVE OFFICER FOR REFERRAL TO THE PRESIDENT BY 9.45AM ON THE DAY OF THE MEETING AT THE SHIRE OF PINGELLY OFFICE, 17 QUEEN STREET, PINGELLY.

Public Question Time – Statutory Provisions – Local Government Act 1995

Time is to be allocated for questions to be raised by members of the public and responded to at: every ordinary meeting of a council; and

Such other meetings of councils or committees as may be prescribed.

Procedures and the minimum time to be allocated for the asking of and responding to questions raised by members of the public at council or committee meetings are to be in accordance with regulations.

9A. Question Time for the Public at Certain Meetings – s5.24 (1) (b)

Local Government (Administration) Regulations 1996

Reg 5 For the purpose of section 5.24(1)(b), the meetings at which time is to be allocated for questions to be raised by members of the public and responded to are:

every special meeting of a council; and

every meeting of a committee to which the local government has delegated a power or duty.

Minimum Question Time for the Public – s5.24 (2)

Reg 6 (1) The minimum time to be allocated for the asking of and responding to questions raised by members of the public at ordinary meetings of councils and meetings referred to in regulation 5 is fifteen (15) minutes.

(2) Once all the questions raised by members of the public have been asked and responded to at a meeting referred to in sub regulation (1), nothing in these regulations prevents the unused part of the minimum question time period from being used for other matters.

Procedures for Question Time for the Public – s5.24 (2)

Local Government (Administration) Regulations 1996

Reg 7 (1) Procedures for the asking of and responding to questions raised by members of the public at a meeting referred to in regulation 6 (1) are to be determined:

by the person presiding at the meeting; or

in the case where the majority of members of the council or committee present at the meeting disagree with the person presiding, by the majority of members, having regard to the requirements of sub regulations (2) and (3).

The time allocated to the asking and responding to questions raised by members of the public at a meeting referred to in regulation 6(1) is to precede the discussion of any matter that requires a decision to be made by the council or the committee, as the case may be.

Each member of the public who wishes to ask a question at a meeting referred to in regulation 6(1) is to be given an equal and fair opportunity to ask the question and receive a response.

Nothing in sub regulation (3) requires:

A council to answer a question that does not relate to a matter affecting the local government;

A council at a special meeting to answer a question that does not relate to the purpose of the meeting; or

A committee to answer a question that does not relate to a function of the committee.

SHIRE OF PINGELLY

DISCLOSURE OF INTERESTS

TO THE CHIEF EXECUTIVE OFFICER:

Under the Provisions of Division 6 of Part 5 of the Local Government Act 1995, I hereby disclose a Financial Interest/s in the matter/s listed on this form, which is/are scheduled for consideration at the meeting of Council to be held on:

17 July 2019

(Print Name)

(Signature)

(Date)

NOTE: Members of Council are asked to deliver this completed form to the Chief Executive Officer on the day of the Council Meeting as required by the Act. Where this is not practicable the Disclosure/s may be telephoned to the Council Office on 9887 1066 and/or the form subsequently passed to the Chief Executive Officer prior to the meeting.

ITEM NO	PAGE NO	TYPE	REASON

DISCLOSURE OF FINANCIAL INTEREST, PROXIMITY INTEREST AND/OR INTEREST AFFECTING IMPARTIALITY

Chief Executive Officer, Shire of Pingelly

In accordance with Section 5.60-5.65 of the *Local Government Act* and Regulation 34(B) and 34(C) of the *Local Government (Administration) Regulations* and Regulation 11 of the *Local Government (Rules of Conduct) Regulations*, I advise you that I declare a (appropriate box):

- financial interest (Section 5.60A)

A person has a financial interest in a matter if it is reasonable to expect that the matter will, if dealt with by the local government, or an employee or committee of the local government or member of the council of the local government, in a particular way, result in a financial gain, loss, benefit or detriment for the person.

- proximity interest (Section 5.60B)

A person has a proximity interest in a matter if the matter concerns a proposed —
(a) change to a planning scheme affecting land that adjoins the person's land;
(b) change to the zoning or use of land that adjoins the person's land; or
(c) development (as defined in section 5.63(5)) of land that adjoins the person's land.

- interest affecting impartiality (Regulation 11). I disclose that I have an association with the applicant. As a consequence, there may be a perception that my impartiality on the matter may be affected. I declare that I will consider this matter on its merits and vote accordingly.

An interest that could, or could reasonably be perceived to, adversely affect the impartiality of the person having the interest and includes an interest arising from kinship, friendship or membership of an association but does not include a financial or proximity interest as referred to in section 5.60.

SHIRE OF PINGELLY

Agenda for the Shire of Pingelly Audit Committee meeting to be held in the Council Chamber, 17 Queen Street, Pingelly on Wednesday, 17 July 2019 – commencing at 1.30pm.

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1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

The Chairman to declare the meeting open.

1.1. ACKNOWLEDGEMENT OF COUNTRY

We acknowledge the Noongar people of this area and recognise their continuing connection to land, waters and community. We pay respect to both the Aboriginal and non-Aboriginal people past and present.

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

3. RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE

Nil

4. PUBLIC QUESTION TIME

5. APPLICATIONS FOR LEAVE OF ABSENCE

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 – 20 February 2019

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

Recommendation:

That the Minutes of the Audit Committee of the Shire of Pingelly held in the Council Chambers on 20 February 2019 be confirmed.

Moved: _____ Seconded: _____

8. ANNOUNCEMENTS BY THE PRESIDING PERSON WITHOUT DISCUSSION

9. PETITIONS / DEPUTATIONS / PRESENTATIONS / SUBMISSIONS

Nil

10. BUSINESS

10.1 Office of the Auditor General Interim Management Letter June 2019

File Reference: ADM0074
Location: Shire of Pingelly
Applicant: Office of the Auditor General
Author: Stuart Billingham, Director Corporate & Community Services
Date: 4 July 2019
Disclosure of Interest: Nil
Attachments: OAG Interim Management Letter Report for Year ending 30 June 2019 (Attachment 1 following red sheet at the end of this document)

Summary:

To provide the Audit Committee with the Interim Management Report from its Office of the Auditor General for consideration. (See attached report submitted as a separate attachment)

Background:

AMD Accountants on behalf of the Office of the Auditor General visited the Shire of Pingelly on the 27-29 May 2019 to conduct the Interim Audit for the year ending 30 June 2019.

Below is listed the matters raised in the Interim Management Letter Report and the Shire of Pingelly Management Comments.

Consultation:

Shire of Pingelly Audit Committee
 Acting Chief Executive Officer
 Office of the Auditor General
 AMD Chartered Accountants

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. User Access Management		✓	
2. Fees and Charges		✓	
3. Credit Card Statements		✓	
4. Review of Reconciliations		✓	
5. Journal Entries			✓

KEY TO RATINGS

The Ratings in this management letter are based on the audit team’s assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- 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.

1. User Access Management

Finding

Our review of user access levels within the Shire's financial reporting system (Synergy) identified that 9 user accounts still exist for staff, who were no longer employed by the Shire.

Rating: Moderate

Implication

Without an effective user access management process to ensure user accounts of individuals leaving the Shire are appropriately removed or disabled, there is an increased risk of unauthorised access.

Recommendation

We recommend that the Shire regularly review its user accounts within Synergy, and promptly remove or disable user accounts of staff who have left the Shire.

Management Comment

Affected Synergysoft user profiles to be addressed as listed below:

1. CEO Profile name changed and updated to Acting CEO - CEO position remains
2. ETO officer user profile 'depot' – name changed to position title - removed.
3. Casual Admin Officer RG – 'policy' – name changed to position - removed.
4. Project Admin Officer TW user profile 'pao' – Name changed to position – removed.
5. Admin Officer - AO - removed.
6. Community Development Officer KS – CSO position currently vacant and name removed and changed to position title until position recruited.
7. Casual LD - contractor4 – removed
8. Project Management- pm - removed
9. Trainee-Trainee - removed

Risk of other employees using an old user profile and bypassing their access restrictions considered low as staff are not permitted to share their login details and passwords. Audit trails are switched on in Synergysoft. As part of Termination check list all outgoing staff have their passwords cancelled within the hour of their termination to stop access either by remote connection or at any PC, Laptop or smart device or phone to email or server files including SynergySoft.

Responsible Officer: Director Corporate and Community Services

Completion Date: 30 June 2019

2. Fees and Charges

Finding

From our testing of 5 sundry debtor invoices, we found the following:

1. In one instance, the administration charge for rubbish disposal was not included on the Shire's published list of fees and charges for 2018-19.
Section 6.19 of the *Local Government Act 1995* (Act) requires:
If a local government wishes to impose any fees or charges after the annual budget has been adopted, it must, before introducing the fees or charges, give local public notice of — its intention to do so; and the date from which it is proposed the fees or charges will be imposed.
2. In one instance, the rate charged for truck repairs to the Shire of Brookton was not indexed at 1 July 2018 to include the annual increase of 3%, which was agreed between both Shires.

Rating: Moderate

Implication

The Shire is not complying with the requirement of the Act.

By charging an incorrect fee, there is a risk of financial loss to the Shire.

Recommendation

We recommend that the Shire ensure a public notice is given for any fees and charges imposed that are not included within the original budget, in accordance with the Act.

We also recommend that the Shire undertake the necessary steps to ensure correct rates are charged when invoicing.

Management Comment

Senior Finance Officer has now updated the Private Works procedures and calculation spreadsheet after being supplied copy of the new agreement for Heavy Duty Plant Mechanic Services between the Shire of Pingelly and the Shire of Brookton signed in February 2019. Due to short period of time and a downturn in usage from the Shire of Brookton this 3% lower charge out rate is considered immaterial. It should be noted that Private Works is still producing a reasonable Profit as a cost centre.

Schedule of Fees and Charges for 2018/19 only has an administration fee under private works \$156 and the Draft Fees and Charges for 2019/20 to include an administration fee under Refuse/Rubbish Disposal/Environment for to ensure future compliance.

Responsible Officer: Director Corporate and Community Services
Completion Date: 17 July 2019 Budget Adoption date proposed

3. Credit Card Statements

Finding

We noted that since new credit cards were issued to the acting Chief Executive Officer (CEO) and Director of Corporate and Community Services (DCCS) in March 2019, the CEO and DCCS had self-approved their credit card statements.

While we acknowledged that the Senior Finance Officer's (SFO) sign off is also on the credit card statements, her sign off is more to evidence that the credit card transactions are supported by invoices/receipts and recorded in the correct general ledger accounts. Furthermore, the DCCS and SFO are closely related which could be seen as a threat to actual or perceived independence.

Rating: Moderate

Implication

By not having an independent review of credit card statements, there is an increased risk of fraud and error passing undetected.

Recommendation

We recommend that the Shire ensure all credit card statements are reviewed and signed by an independent senior officer.

As best practice, we also recommend that the CEO's credit card statements be reviewed and signed by the President or a representative of Council.

Management Comment

The Chief Executive Officer now reviews and signs off the Director of Corporate and Community Services credit cards monthly transactions. The Shire President now reviews and signs off the Chief Executive Officer monthly credit card transactions.

Responsible Officer: Chief Executive Officer and Director Corporate and Community Services

Completion Date: 30 June 2019

4. Review of Reconciliations

Finding

From our review of the reconciliations performed, we noted that there was no evidence that the following reconciliations were being independently reviewed:

- Monthly fixed asset reconciliations
- Periodic reconciliations of WA Treasury Corporation (WATC) loans and self-supporting loans

Rating: Moderate

Implication

When reconciliations are not independently reviewed, there is an increased risk that errors may not be detected and resolved promptly.

Recommendation

We recommend that the Shire ensure all reconciliations performed are reviewed and signed by an independent senior officer.

Management Comment

Monthly fixed asset reconciliations are now being prepared by the DCCS from May 2019 and to be reviewed by an independent officer other than SFO.

Half yearly reconciliation of Loans and Self Supporting loans to be undertaken DCCS as paid usually every 6 months. SSL Reconciliation prepared and compared to agreed repayment schedule/terms. Loans Liability Reconciliation currently prepared annually to be changed to 6 monthly and compared to WATC reports and GL balances.

Responsible Officer: Director Corporate and Community Services

Completion Date: 30 June 2019

5. Journals Entries

Finding

We noted that journals processed by the DCCS are reviewed and signed off by the SFO, and vice versa. As noted in Finding 3, these two employees are closely related.

Rating: Minor Implication

If journals are not independently reviewed and approved, there is an increased risk that erroneous or fraudulent transactions may pass undetected.

Recommendation

We recommend that all journal entries be independently reviewed and the evidence of authorisation retained. Also given the close relationship between the DCCS and SFO, we recommend that the Shire consider whether significant adjusting journals should be further reviewed by the CEO.

Management Comment

Future Journals created by the DCCS and SFO are to be reviewed and signed off by another independent Officer to reduce threat to actual or perceived independence e.g. CEO.

Responsible Officer: Director Corporate and Community Services
Completion Date: 30 June 2019

Statutory Environment:

Local Government Act 1995 and associated regulations

Policy Implications:

There are no policy implications arising from this report.

Financial Implications:

There are no known financial implications upon either the Council’s current budget or long term financial plan.

Strategic Implications:

There are no known significant strategic implications relating to the report or the committee recommendation.

Risk Implications:

Risk	Medium (6)
Risk Likelihood (based on history and with existing controls)	Medium (6)
Risk Impact / Consequence	Medium (6)
Risk Rating (Prior to Treatment or Control)	Medium (6)
Principal Risk Theme	Medium (6)
Risk Action Plan (Controls or Treatment Proposed)	Medium (6)

Risk Matrix

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	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 6 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

Recommendation:

That the Audit Committee recommends to Council:

1. receive the minutes of the Audit Committee dated 17 July 2019; and
2. notes there are no further actions required by the Acting Chief Executive Officer to address matters raised in the attached Interim Management Letter Report.

Moved: _____ Seconded: _____

10.2 Audit Committee Terms of Reference Name Change

File Reference: ADM0074
Location: Shire of Pingelly
Applicant: Stuart Billingham, Director Corporate & Community Services
Author: Stuart Billingham, Director Corporate & Community Services
Date: 4 July 2019
Disclosure of Interest: Nil
Attachments: Shire of Pingelly Audit and Risk Committee terms of reference updated
 (Attachment 2 following orange sheet at the end of this document)

Summary:

To provide the Audit Committee with a request to review and change its term of reference and name.

Background:

With a growing focus on risk management in Local Government many Councils are now adding to the Audit Committee responsibilities the role of risk management. A new Draft Terms of Reference attached for consideration of adoption and a name change for the committee.

Statutory Environment:

Local Government Act 1995 and associated regulations

Policy Implications:

There are no policy implications arising from this report.

Financial Implications:

There are no known financial implications upon either the Council's current budget or long term financial plan.

Strategic Implications:

There are no known significant strategic implications relating to the report or the committee recommendation.

Risk Implications:

Risk	Low (2)
Risk Likelihood (based on history and with existing controls)	Low (2)
Risk Impact / Consequence	Low (2)
Risk Rating (Prior to Treatment or Control)	Low (2)
Principal Risk Theme	Low (2)
Risk Action Plan (Controls or Treatment Proposed)	Low (2)

Risk Matrix

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	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 2 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

Recommendation:

That the Audit Committee recommends to Council it adopts the new Name of ‘Audit and Risk Committee’ and updates the Terms of Reference of the Audit and Risk Committee as submitted in the attached Draft Terms of Reference.

Moved: _____ Seconded: _____

10.3 Significant Adverse Trend Report to Minister for Local Government S7.12A

File Reference: ADM0074
Location: Shire of Pingelly
Applicant: Department of Local Government, Sport and Cultural Industries
Author: Stuart Billingham, Director Corporate & Community Services
Date: 8 July 2019
Disclosure of Interest: Nil
Attachments: Department Local Government Letter for Year Ending 30 June 2018
 (Attachment 3 following yellow sheet at the end of this document)

Summary:

To provide the Audit Committee with a report on the Significant adverse trend in the financial position of the Shire: Operating Surplus Ratio below the Department standard the last three years.

Background:

AMD Accountants in the Auditor Report for the year ending 30 June 2018, under Report on Other Legal and Regulatory Requirements states.

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: -0.472).

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

The Operating Surplus Ratio is calculated by Operating revenue minus operating expense as a ratio of own source operating revenue. It measures the Shires ability to cover operational costs and have revenues available for capital funding or other purposes. Basic standard met if ratio is above 0.01. A sustained period of deficits will reduce the ability of the Shire to maintain service levels and its asset base. Accurate depreciation levels may result in an improvement to this ratio. As shown below own source operating revenue is made up of Rates, Fees and Charges, Interest Income, Profit on disposals of assets, reimbursements and recoveries and other revenue.

2018 OPERATING SURPLUS RATIO	Operating Minus Revenue Expense Operating		(1,139,409)			
	Net Result	+	4,901,168			
	- less: Non-Operating grants, Subsidies and contributions	-	(6,040,577)		(1,139,409)	
	Own Source Operating Revenue		2,415,798		2,415,798	-0.472
	- add: rates	+	1,913,399			=
	- add: fees and user charges	+	319,050			
	- add: service charges	+	0			
	- add: interest income	+	80,339			
	- add: profit on disposal of assets	+	0			
	- add: reimbursements and recoveries	+	60,311			
	- add: other revenue		42,699			

2017 OPERATING SURPLUS RATIO	Operating Minus Revenue Expense Operating		(1,442,862)			
	Net Result	+	1,736,983			
	- less: Non-Operating grants, Subsidies and contributions	-	(3,179,845)		(1,442,862)	-0.596
	Own Source Operating Revenue		2,421,274		2,421,274	
	- add: rates	+	1,870,046			=
	- add: fees and user charges	+	284,771			
	- add: service charges	+	0			
	- add: interest income	+	136,752			
	- add: profit on disposal of assets	+	0			
	- add: reimbursements and recoveries	+	20,751			
	- add: other revenue		108,954			

2016 OPERATING SURPLUS RATIO	Operating Minus Revenue Expense Operating		(1,671,586)			
	Net Result	+	(336,905)			
	- less: Non-Operating grants, Subsidies and contributions	-	(1,334,681)		(1,671,586)	-0.719
	Own Source Operating Revenue		2,325,151		2,325,151	
	- add: rates	+	1,699,390			=
	- add: fees and user charges	+	322,566			
	- add: service charges	+	0			
	- add: interest income	+	166,725			
	- add: profit on disposal of assets	+	11,069			
	- add: reimbursements and recoveries	+	74,509			
	- add: other revenue		50,892			

Comment:

Many Country Local Governments in WA are heavily funded by external grants and often lack the capacity to raise their own source funding to meet the growing challenge of balancing the annual budget whilst maintaining service levels.

It is noted by the Auditors that the Shire of Pingelly was unable to achieve a zero operating surplus ratio or better in the past three (3) years (and refer attached Note 31. Financial Ratios - excerpt from the 30 June 2018 Annual Financial Statements) reflects the shire's reliance on non-operating grants (\$6,040,577 in 2017-18) to offset the shire's annual depreciation expense (\$1,522,726 in 2017-18).

The Shire's 30 June 2014 Annual Financial Statements reported depreciation expense at \$1,991,572, and this expense has not been responsible for adversely affecting this ratio as council has re-valued its assets so as to accord with the Act's re-valuation for fair value regulations.

The matter of this adverse trend of the operating surplus ratio and this 'seeming' reliance by small regional Local Governments on non-operating grants appears to be the norm rather than the exception in Country and Regional Western Australia.

It appears that without a change in the *status quo* e.g. a change in the DLGSCI's operating surplus ratio standard of zero; or transfer of the shire's circa \$68M of roads, drainage and bridges infrastructure assets to the state, seems that every year the Shire of Pingelly, with its *circa* \$87M in total of non-current assets and reliance on non-operating grants, will be reporting on this matter in future years again.

Consultation:

Acting Chief Executive Officer
Office of the Auditor General
AMD Chartered Accountants

Statutory Environment:

Local Government Act 1995 and associated regulations

Division 4 — General

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.
- (2) 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.
- (3) 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.]

Policy Implications:

There are possible future policy implications arising from this report.

Financial Implications:

There are no known financial implications upon either the Council's current budget or long term financial plan. Future Plans may need to consider increasing own source revenues or reducing service levels to address this matter.

Strategic Implications:

There are no known significant strategic implications relating to the report or the committee recommendation. Future discussions on how to address this matter to be held before 30 June 2020.

Risk Implications:

Risk	Low (2)
Risk Likelihood (based on history and with existing controls)	Low (2)
Risk Impact / Consequence	Low (2)
Risk Rating (Prior to Treatment or Control)	Low (2)
Principal Risk Theme	Low (2)
Risk Action Plan (Controls or Treatment Proposed)	Low (2)

Risk Matrix

Consequence Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic
		1	2	3	4	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 2 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

Recommendation:

That the Audit Committee recommends to Council:

That Council:

- Recognises that relative to Department of Local Government, Sport and Cultural Industries criteria, the Shire of Pingelly is not meeting the operating surplus ratio (zero) standard, and directs the Chief Executive Officer to arrange, before 30 June 2020, workshop(s) as required so that Council might further discuss and attempt to address this matter.**
- Directs the Acting Chief Executive Officer to give a copy of this report to the Minister for Local Government as soon as practically possible; and publish a copy of this report on the Shires official website.**

(NB: Statutory timeframe of providing this report to the Minister within three (3) months after 30 June 2018 audit report was received by the local government having passed and may be raised as a future noncompliance matter.)

Moved: _____ Seconded: _____

11. CLOSURE

The Chairman to declare the meeting closed.