



# Shire of Pingelly

## Minutes

Audit and Risk Committee Meeting  
19 February 2020

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

The Chairman declared the meeting open at 1.03pm.

### **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 and emerging.

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

### **MEMBERS PRESENT**

Cr W Mulroney	(President)
Cr J McBurney	(Deputy President)
Cr D Freebairn	(arrived 1.06pm)
Cr K Hastings	
Cr B Hotham	
Cr P Narducci	
Cr A Oliveri	
Cr P Wood	

### **STAFF IN ATTENDANCE**

Ms J Burton	Chief Executive Officer
Mr S Billingham	Director Corporate and Community Services

### **APOLOGIES**

Mrs L Boddy	Executive Assistant
Mr D Watkins	Director Technical Services

### **OBSERVERS & VISITORS**

Nil

## **3. RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE**

Nil

**4. PUBLIC QUESTION TIME**

Nil

**5. APPLICATIONS FOR LEAVE OF ABSENCE**

Nil

**6. DISCLOSURES OF INTEREST**

Nil

**7. CONFIRMATION OF MINUTES AND REPORTS**

**7.1 Audit and Risk Committee Meeting – 17 July 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

**12794 Moved: Cr Hotham                      Seconded: Cr McBurney**

**Recommendation:**

**That the Minutes of the Audit and Risk Committee of the Shire of Pingelly held in the Council Chambers on 17 July 2019 be confirmed.**

Carried 7:0

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

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

Nil

## **10. BUSINESS**

### **10.1 Compliance Audit Return 2019**

<b>File Reference:</b>	<b>ADM0074</b>
<b>Location:</b>	<b>Not Applicable</b>
<b>Applicant:</b>	<b>Not Applicable</b>
<b>Author:</b>	<b>Director Corporate &amp; Community Services</b>
<b>Disclosure of Interest:</b>	<b>Nil</b>
<b>Attachments:</b>	<b>Compliance Audit Return 31 December 2019</b>
<b>Previous Reference:</b>	<b>Nil</b>

#### **Summary**

The Compliance Audit Return 2019 (CAR) is submitted to the Audit and Risk Committee for consideration noting there are two instances of non-compliance in the CAR.

#### **Background**

The *Local Government (Audit) Regulations 1996* requires every local government to carry out a Compliance Audit for the period 1 January to 31 December each year and to complete a Compliance Audit Return (CAR) as produced by the Department of Local Government, Sport and Cultural Industries.

The CAR is to be:

- Reviewed by the Audit and Risk Committee;
- Presented to Council at a meeting of the Council;
- Adopted by the Council; and
- Recorded in the minutes of the council meeting at which it is adopted.

After the CAR has been presented to and adopted by Council, a certified copy is to be signed by the Shire President and Chief Executive Officer (CEO) for lodgement with the Department by 31 March, together with the relevant section of the council minutes and any additional information explaining or qualifying the compliance audit.

#### **Comment**

The CAR is one of the tools available to Council in its governance monitoring role. The CAR also forms part of the Department of Local Government's monitoring program. The 2019 CAR once again places emphasis on the need for Council to be aware and acknowledge instances of non-compliance, or where full compliance was not achieved. In addition, the CAR also requires (if applicable) Council to endorse details of remedial action either taken or proposed, to prevent future like occurrences.

The 2019 CAR has been completed by Management and is presented as an attachment to this Report for consideration/review by the Audit and Risk Committee, prior to it being submitted to Council. The 2019 CAR has identified two instances of non-compliance.

1. Finance Q8 S7.12A(4) - Where the auditor identified matters as significant in the auditor's report, did the local government prepare a report stating what action had been taken or it intended to take with respect to each of the matters and give a copy to the Minister within 3 months after receipt of the audit report?

Comment: Correspondence received from Department of Local Government on failure to lodge report on time and report on S7.12A was presented to the Audit and Risk Committee and Council 17 July 2019. This matter was addressed at the July 2019 Audit and Risk Committee and report sent to the Minister.

2. Integrated Planning and Reporting Section Q 2 s5.56 Admin Reg 19DA (4) - Has the local government reviewed the Corporate Business Plan in the 2018/19 financial year?

Comment: While the Corporate Business Plan was workshopped with Council in the 2018/19 financial year, it was not adopted until September 2019.

The 2019 CAR, once adopted by Council, will be signed by the Shire President and CEO and then forwarded to the Director General of the Department of Local Government by 31 March 2020.

**Consultation:**

Office of the Auditor General  
Chief Executive Officer

**Statutory Environment:**

*Local Government (Audit) Regulations 1996*

Regulation 13 – Prescribed statutory requirements for which compliance audit is needed (Act s. 7.13910(i))

Regulation 14 – Compliance audits by local Governments

Regulation 15 – Compliance audit return, certified copy of etc. to be given to Executive Director

**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:**

Goal 5	Innovation, Leadership and Governance
Outcome	Nil applicable
Strategy	Nil applicable

**Risk Implications**

Risk	Key risk of noncompliance with S7.12A (4) of the Act letter from Stuart Fraser 28/6/2019 see letter attached
Risk Rating (Prior to Treatment or Control)	Medium (9)
Principal Risk Theme	Legislative compliance
Risk Action Plan (Controls or Treatment Proposed)	Completion of review of Strategic Community Plan and Corporate Business Plan.

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)

**Voting Requirements:**

Simple Majority

**12795 Moved: Cr Hastings**

**Seconded: Cr Wood**

**Recommendation**

**That the Audit Committee adopts the Compliance Audit Return (CAR) for the 2019 calendar year presented as attached.**

Carried 7:0

Cr Freebairn joined the meeting at 1.06pm

## **10.2 Final Audit Management Report June 2019**

<b>File Reference:</b>	<b>ADM0074</b>
<b>Location:</b>	<b>Not Applicable</b>
<b>Applicant:</b>	<b>Not Applicable</b>
<b>Author:</b>	<b>Director Corporate &amp; Community Services</b>
<b>Disclosure of Interest:</b>	<b>Nil</b>
<b>Attachments:</b>	<b>Office of the Auditor General Final Audit Management Letter Report for Year ending 30 June 2019</b>
<b>Previous Reference:</b>	<b>Nil</b>

### **Summary**

The Audit and Risk Committee is requested to consider the Final Audit Management Report from the Office of the Auditor General.

### **Background**

AMD Accountants on behalf of the Office of the Auditor General visited the Shire of Pingelly on the 16-18 October 2019 to conduct the Final Audit for the year ending 30 June 2019.

The Final Management Letter Report raised a single point. The instance relates to the Shire not reporting the Asset renewal funding ratio for 2019, 2018 and 2017 as required by section 50(1) of the *Local Government (Financial Management) Regulations 1996*, as planned capital renewals and required capital expenditure were not estimated in the long-term financial plan and asset management plan.

The Office of the Auditor General recommends that the Shire reviews and updates the long-term financial plan and asset management plan annually to ensure 10-year projections are available to calculate the Asset Renewal Funding Ratio.

The Shire Management Comment below address the above recommendation:

- Shire of Pingelly Long Term Financial Plan (LTFP) is currently being updated and renewed. This LTFP will provide a robust and reliable 10 year + plan and be updated on an annual basis moving forward.
- The Shire is also currently renewing its Asset Management Plans to coincide with the new LTFP.

### **Comment**

As mentioned above the Shire is currently working on completing the annual review and updating of the Long-Term Financial Plan and Asset Management Plan. The draft Long-Term Financial Plan is nearing completion and expected to be ready for a Council workshop in March 2020.

The Asset Management Plan still requires a significant investment of time and resources to update and complete. The goal is to have the roads component of the Asset Management Plan completed by the end of April 2020 for presentation to Council in May 2020, subject to adequate time, expertise and resources being available.

Once these two plans have been finalised, presented to and adopted by Council, the Annual Report will contain the Asset Renewal Funding Ratio figures, ensuring compliance with the Local Government Act and its associated regulations.

### **Consultation**

Office of the Auditor General  
AMD Chartered Accountants

**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**

Goal 5	Innovation, Leadership and Governance
Outcome	Nil applicable
Strategy	Nil applicable

**Risk Implications**

Risk	Key risk of noncompliance with Local Government Act reporting ratios and Integrated Planning and Reporting framework requirements
Risk Rating (Prior to Treatment or Control)	Medium (6)
Principal Risk Theme	Reputational and Legislative Compliance
Risk Action Plan (Controls or Treatment Proposed)	Completion of update of Long Term Financial and Asset Management Plans

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)

**Voting Requirements**

Simple Majority

**12796 Moved: Cr Hotham**

**Seconded: Cr McBurney**

**Recommendation**

**That the Audit Committee:**

- receive the minutes of the Audit Committee dated 19 February 2019; and
- notes the actions required by the Chief Executive Officer to address matters raised in the attached Final Management Letter Report.

Carried 8:0



### **10.3 Significant Matter raised in Audit Report 2019**

<b>File Reference:</b>	<b>ADM0074</b>
<b>Location:</b>	<b>Not Applicable</b>
<b>Applicant:</b>	<b>Not Applicable</b>
<b>Author:</b>	<b>Director Corporate &amp; Community Services</b>
<b>Disclosure of Interest:</b>	<b>Nil</b>
<b>Attachments:</b>	<b>Office of the Auditor General Independent Auditors Report for Year Ending 30 June 2019</b>
<b>Previous Reference:</b>	<b>Nil</b>

#### **Summary**

The Audit and Risk Committee is requested to consider the matters identified as “Significant” in the 2018/2019 Audit Report, pursuant to Section 7.12A of the *Local Government Act 1995*:

#### **Background**

Section 7.2 of the *Local Government Act 1995* requires that the accounts and annual financial report of a local government for each financial year are to be audited by an auditor appointed by the local government.

An amendment to Section 7.12A(4) of the Local Government Act 1995 in August 2017 now requires that 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.”*

Section 7.12A(5) further requires that:

*“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.”*

The Office of the Auditor General in the Independent Auditor’s Report for the year ending 30 June 2019 was received on the 25 November 2019 ( see attachment), under heading ‘Report on Other Legal and Regulatory Requirements’ states the following:

#### ***Report on Other Legal and Regulatory Requirements***

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

- (i) In my opinion, the following matters indicate significant adverse trends in the financial position or the financial management practices of the Shire of Pingelly:
  - a. Current ratio as reported in Note 34 of the financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of 1 for 2019 and 2018 (2017: 2.03, 2018: 0.74 and 2019: 0.25); and
  - b. Operating surplus ratio as reported in Note 34 of the financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of zero for the last three years (2017: -0.60, 2018: -0.47 and 2019: -0.73).

#### **Comment**

##### **Current Ratio**

The current ratio as at 30 June 2019 is being affected by the \$1.2M in WA Treasury Corporation short-term loan funds currently listed as a current liability in the Shire’s Balance Sheet. Once the short-term loan funds are converted into a long-term debenture, the majority of the borrowings will be reclassified as a non-current liability, then the current ratio figure will improve substantially.

##### **Operating Surplus Ratio**

Research has revealed that the majority of rural local governments do not have an Operating Surplus Ratio that meets the standards set by the Department, and there is an indication by the Auditor General that this benchmark may need review. The WA Treasury Corporation are currently reviewing all financial ratios and benchmarks, and their appropriateness for the Department of Local Government Sport and Cultural Industries. There is an indication that there may be a change to the method of calculation to allow the inclusion of the financial assistance grant income in the formula of this ratio. Without a change in the ratio status quo it is anticipated the Shire will be reporting on this ratio again in the future.

The Shire is currently undertaking the review of its Long-Term Financial Plan and will investigate strategies to improve this ratio. It is quite possible, however, that the Operating Surplus Ratio may remain at levels below the “standard”, due to cost pressures, limited capacity to increase own source revenue sources, and the reliance on government funding.

The Operating Surplus Ratio requires Council to ensure that its own revenue sources grow at the same or a greater rate than its operating expenses, including depreciation. It is well known that most country local governments struggle to fully fund asset depreciation via its own revenue sources and there is a heavy reliance on external grant funding such as Regional Road Group and Roads to Recovery to assist with asset renewal expenditure. It is important to note this ratio is affected by the amount of depreciation in the financials each year. The Shires level of depreciation continues to rise each year faster than own source revenues increase.

- 30 June 2019 \$2,360,310
- 30 June 2018 \$1,522,726

The depreciation increases of \$837,584 above resulting from a revaluation increment infrastructure in 2018. The regular revaluation of the Shire's \$68M of roads, drainage and bridges infrastructure assets affecting the annual depreciation calculation each year. A review of the Shires unit rates and costs for infrastructure to be conducted in the future with a view to reducing the carrying value of Infrastructure assets and hence reducing the resulting depreciation charge generated each year.

Furthermore, it is anticipated the capitalisation of the Pingelly Recreation and Cultural Centre of circa \$10M and Pingelly Age Appropriate Accommodation \$1.7M will further compound this issue. The conversion from works in progress (not depreciated) to buildings (2% Depreciation), will result in an annual depreciation increase in 2020 of \$234,000 p.a.

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

### **Consultation**

Department of Local Government, Sport and Cultural Industries  
Office of the Auditor General  
AMD Chartered Accountants

### **Statutory Environment**

Section 6.4 of the *Local Government Act 1995* requires a local government to prepare financial reports including an annual financial report. *Regulation 50 of the Local Government (Financial Management) Regulations 1996* specifically requires the inclusion of seven financial ratios as developed by the Department to be included in the annual financial report. These statutory ratios are also included in Council's long-term financial plan and are key sustainability measures. The Department's Integrated Planning and Reporting Advisory Standard includes benchmarks in relation to the ratios that sets minimum regulatory requirements that ensure an acceptable minimum standard of practice.

### **Policy Implications**

Nil

**Financial Implications**

Nil

**Strategic Implications**

Goal 5	Innovation, Leadership and Governance
Outcome	Nil applicable
Strategy	Nil applicable

**Risk Implications**

Failure to meet the Department’s financial ratio benchmarks may put the Council at risk of being classified as unsustainable particularly if it cannot demonstrate improvement in ratio performance over the medium to long term.

Risk	Failure to meet Department’s financial ratio benchmarks may put the Council at risk of being classified unsustainable
Risk Rating (Prior to Treatment or Control)	Medium (9)
Principal Risk Theme	Legislative Compliance
Risk Action Plan (Controls or Treatment Proposed)	Development of Long-Term Financial Plan that considers the future trends of ratios.

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)

**Voting Requirements**

Simple Majority

**12797 Moved: Cr Oliveri                      Seconded: Cr Hastings**

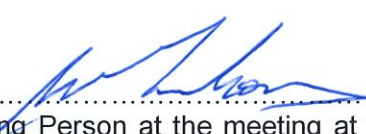
**Recommendation**

**That the Audit Committee receives this report on the significant matters of an adverse trend in the Current Ratio and Operating Surplus Ratio raised in the 2018/2019 Audit Report.**

Carried 8:0

**19. CLOSURE OF MEETING**

The Chairman declared the meeting closed at 1.11pm.

<p>These minutes were confirmed by Council at the Ordinary Council Meeting held on 19 February 2020.</p> <p>Signed..........</p> <p>Presiding Person at the meeting at which the minutes were confirmed.</p>
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