



Ordinary Council Meeting

11 December 2019

LATE ITEM

REPORT & ATTACHMENTS

ITEM NO

SUBJECT

11.4.3

MINUTES OF AUDIT AND RISK MANAGEMENT COMMITTEE MEETING – 27
NOVEMBER 2019

11.4.3 MINUTES OF AUDIT AND RISK MANAGEMENT COMMITTEE MEETING HELD ON 27 NOVEMBER 2019

LOCATION/ADDRESS	N/A
APPLICANT/LANDOWNER	Shire of Augusta Margaret River
FILE REFERENCE	FIN/7
REPORT AUTHOR	Andrew Ross, Acting Director Corporate and Community Services
AUTHORISING OFFICER	Stephanie Addison-Brown, Chief Executive Officer

IN BRIEF

The Audit and Risk Management Committee meeting of 27 November 2019 considered the Annual Financial Report and Auditor's report for 2018-19, Auditor's Management Report for 2018-19, Risk Dashboard report and the report on legislative compliance requirements for 2018-19.

RECOMMENDATION

That Council:

1. Receives the unconfirmed minutes of the Audit and Risk Management Committee meeting held on 27 November 2019;
 2. Endorses the attached letter to the Director General, Department of Local Government, Sport and Cultural Industries explaining the reasons for an adverse trend in the financial position of the Shire being reported in the Auditor's report; and
 3. Approves the attached letter of explanation being published on the Shire's website.
-

LOCATION PLAN

Nil

TABLED ITEMS

Nil

BACKGROUND

Council's Audit and Risk Management Committee (ARMC) comprises four members of Council and operates in accordance with the Augusta Margaret River Audit and Risk Management Committee Instrument of Appointment and Delegation. The Committee is required to discharge the legislative obligations outlined in the Local Government Act 1995 and the Local Government (Audit) Regulations 1996.

CONSULTATION AND ADVICE

External Consultation

Nil

Internal Consultation

Manager Legal and Governance provided advice following the receipt of an email from the Department of Local Government, Sport and Cultural Industries (DLGSC) after the attached letter had been submitted to the DLGSC on 28 November 2019. The DLGSC advised the attached letter must be endorsed by Council before it is submitted to the DLGSC and Council must also approve publishing the attached letter on its website. The Manager Legal and Governance advised Council endorsement is required, as audit functions cannot be delegated.

DISCUSSION / OFFICER COMMENTS

The meeting minutes are self-explanatory and there were no items raised during the meeting that required follow-up by Council. In brief the Committee:

- Reviewed the Annual Financial Report for 2018-19 including the Auditor's Report for the year and recommended they be accepted by Council;
- Received the Auditor's Management Report for 2018-19;
- Noted the Risk Dashboard Report for September 2019; and
- Received the report on legislative compliance requirements actioned during 2018-19 noting that 112 actions had been completed and 5 were in progress.

During the course of the meeting, committee members were advised a letter explaining the adverse trend raised about the Operating surplus ratio results had been prepared and would be submitted to the DLGSC and published on the Shire's website. The attached letter was sent by email on 28 November 2019. On the following day the DLGSC advised the following.

"The expectation of the Department is that any report prepared under section 7.12A (4) of the Act is submitted to the Audit Committee and then Council for endorsement prior to being submitted via the Department for the Minister. That then means any report to the Minister under section 7.12A (4) of the Act that is published on a local governments website has been endorsed by the Council."

To ensure compliance, Council is requested to endorse the attached letter of explanation as well as its publishing on the website.

STATUTORY ENVIRONMENT / LEGAL IMPLICATIONS

Regulation 16 of the *Local Government (Audit) Regulations 1996* states that

"An audit committee has the following functions —

- (a) to guide and assist the local government in carrying out —
 - (i) its functions under Part 6 of the Act;
 - (ii) its functions relating to other audits and other matters relating to financial management;
- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;
- (c) to review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to —
 - (i) report to the council the results of that review; and
 - (ii) give a copy of the CEO's report to the council.
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
 - (i) regulation 17(1); and
 - (ii) the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;
- (f) to oversee the implementation of any action that the local government —
 - (i) is required to take by section 7.12A(3); and
 - (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and
 - (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and
 - (iv) has accepted should be taken following receipt of a report of a review conducted under the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c)
- (g) to perform any other functions conferred on the audit committee by these regulations or another written law."

STRATEGIC PLAN / POLICY IMPLICATIONS

Community Strategic Plan 2036 (CSP)

Corporate Business Plan 2019-2023

Key Result Area 5: Effective leadership and governance

Community Outcome 2: Effective and integrated strategy, planning, financial and asset management

Strategy 4: Ensure information is managed in accordance with statutory requirements and is available for decision making

PLANNING FRAMEWORK

Nil

FINANCIAL IMPLICATIONS

Implications

There are no financial implications associated with the adoption of the Committee minutes.

Long Term Financial Plan

Nil

Whole of Lifecycle considerations

Nil

SUSTAINABILITY IMPLICATIONS

Environmental

Nil

Social

Nil

Economic

Nil

ADVOCACY

Nil

ALTERNATE OPTIONS

Nil

VOTING REQUIREMENTS

Simple Majority

RECOMMENDATION

That Council:

1. Receives the unconfirmed minutes of the Audit and Risk Management Committee meeting held on 27 November 2019;
2. Endorses the attached letter to the Director General, Department of Local Government, Sport and Cultural Industries explaining the reasons for an adverse trend in the financial position of the Shire being reported in the Auditor's report; and
3. Approves the attached letter of explanation being published on the Shire's website.

ADVICE TO APPLICANT / PROPONENT

Nil

ATTACHMENTS

1. Unconfirmed Minutes of the Audit and Risk Management Committee meeting of 27 November 2019.
2. Letter dated 27 November 2019 to the DLGSC.

Audit and Risk
Management Committee

MINUTES

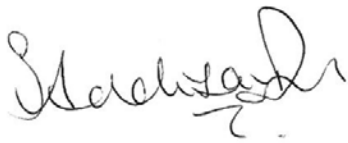
FOR THE MEETING HELD
WEDNESDAY 27 NOVEMBER 2019
IN COUNCIL CHAMBERS,
WALLCLIFFE ROAD, MARGARET RIVER
COMMENCING AT 4.30PM

Meeting Notice

Dear Councillor

I advise that an Audit and Risk Management Committee Meeting of the Shire of Augusta Margaret River will be held in the Council Chambers, 41 Wallcliffe Road, Margaret River, on Wednesday 27 November 2019, commencing at 4.30pm.

Yours faithfully



STEPHANIE ADDISON-BROWN
CHIEF EXECUTIVE OFFICER

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Minutes of the Audit and Risk Management Committee Meeting held on Wednesday 27 November 2019, in Council Chambers, 41 Wallcliffe Road, Margaret River, commencing at 4.30pm

Audit and Risk Management Committee

1.0 DECLARATION OF OPENING

The Chair welcomed all in attendance and declared the meeting open at 4.32pm

2.0 ATTENDANCE

Shire President	:	Cr Ian Earl
Councillors	:	Cr Brian Daniel Cr Paula Cristoffanini Cr Kylie Kennaugh
Chief Executive Officer	:	Ms Stephanie Addison-Brown
Director Sustainable Development	:	Dr Dale Putland (entered at 4.33pm)
Director Infrastructure Services	:	Dr Markus Botte
Acting Director Corporate and Community Services	:	Mr Andrew Ross
Manager Legal and Governance:		Mr Ian McLeod
Governance Officer (Legal, Risk and Permit)	:	Ms Emma Rogers
Governance Officer / Council Support	:	Ms Claire Schiller
MEMBERS OF THE PUBLIC	:	Nil
MEMBERS OF THE PRESS	:	Nil

2.1 Apologies

Nil

2.2. Approved Leave of Absence

Nil

3.0 DISCLOSURES OF INTERESTS

Nil

4.0 PUBLIC QUESTIONS

4.1 Public Question Time

Nil

5.0 CONFIRMATION OF MINUTES OF PREVIOUS MEETING

5.1 Audit and Risk Management Committee Meeting held 26 June 2019

MOTION / ARMC DECISION

CR EARL, CR CRISTOFFANINI ARMC2019/8

That the minutes of the Audit Risk Management Committee Meeting held 26 June 2019 are confirmed to be a true and correct record of the meeting.

CARRIED 4/0

6.0 REPORTS

6.1 ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2019

LOCATION/ADDRESS	Shire of Augusta Margaret River
APPLICANT/LANDOWNER	Nil
FILE REFERENCE	FIN/7
REPORT AUTHOR	Andrew Ross, Acting Director Corporate and Community Services
AUTHORISING OFFICER	Stephanie Addison-Brown, Chief Executive Officer

IN BRIEF

- In accordance with the provisions of the *Local Government Act 1995*, the Local Government (Financial Management) Regulations 1996 and the Australian Accounting Standards, the Annual Financial Report for the year ended 30 June 2019 was prepared and provided to the Shire's auditors.
- The Annual Financial Report for the year ended 30 June 2019 which includes the Independent Auditor's Report is presented to the Audit and Risk Management Committee for examination and for submission to Council for adoption.

RECOMMENDATION

That the Audit and Risk Management Committee receives the Annual Financial Report for the year ended 30 June 2019 including the Independent Auditor's Report and recommends they be considered and adopted by Council.

LOCATION PLAN

Nil

TABLED ITEMS

Nil

BACKGROUND

Part 4 of the Local Government (Financial Management) Regulations 1996 prescribe the requirements for the Annual Financial Report. To assist the Shire with its compliance the report template prepared by the Shire's Auditors, Moore Stephens is used. This template also ensures the Shire is compliant with the Australian Accounting Standards.

CONSULTATION AND ADVICE

External Consultation

Nil

Internal Consultation

Nil

DISCUSSION/ OFFICER COMMENTS

The Shire's draft Annual Financial Report was initially provided to the Auditors during the week ending 16 August 2019 as the auditor's procedures require the report and supporting information to be provided prior to their on-site visit. The Auditors were on site for four days from 19 to 22 August to conduct fieldwork including transaction sampling and compliance checking. 2018-19 is the last year of the 5 years audit contract with Moore Stephens. All future audits will be the responsibility of the Office of Auditor General although the conduct of the audit may be contracted to qualified auditors such as Moore Stephens.

The initial version of the Annual Financial Report provided for audit did not include the financial risk management, ratios and the various Australian Accounting Standard disclosure notes as this information was still being compiled.

Since this version the report has undergone a number of changes to resolve some accounting interpretation matters, report formatting and disclosure issues as well as including the information that

had not been initially included. No revaluation of assets for fair value purposes was required for 2018-19.

The Independent Auditor's Report was received by e-mail on 11 October 2019.

The Independent Auditor's Report provides an opinion on whether the annual financial report represents the financial results of the Shire in accordance with the Local Government Act and the Australian Accounting Standards. The Auditor's Opinion expressed in the report is as follows:

"In our opinion, the financial report of the Shire of Augusta-Margaret River:

- a. is based on proper accounts and reports; and
- b. fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2019 and its financial position at the end of the period in accordance with the Local Government Act 1995 (the Act) and, to the extent they are not inconsistent with the Act, Australian Accounting Standards."

The contents of the Independent Auditor's Report reflects the influence of the Office of the Auditor General who are responsible for undertaking local government audits. The report clearly emphasises the responsibilities of the CEO, Council and the auditors for the financial report.

The report concludes with the following.

"In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- a) In our opinion, there is a significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio has been below the DLGSCI standard for the past 3 years.
- b) All required information and explanations were obtained by us.
- c) All audit procedures were satisfactorily completed in conducting our audit.
- d) In our opinion, the asset consumption ratio and the asset renewal ratio included in the annual financial report were supported by verifiable information and reasonable assumptions."

The main point to be aware of is point (a) above as an adverse trend requires a report to be provided to the Minister within 3 months of the audit report being received as in accordance with section 7.12A of the *Local Government Act 1995* an adverse trend would be considered a matter of significance. However, a negative result for the Operating Surplus ratio is not uncommon for regional local governments as it is difficult to obtain sufficient operating revenue from rates, operating grants, fees and charges, etc to offset all operating expenditure, particularly the non-cash allocation of depreciation. For the Shire, depreciation is the second largest area of operating expenditure after employee costs, and minimising this charge is dependent upon assessing factors such as the fair value of the asset, its non-depreciable component, its condition, expected service life and remaining service life. The subjectivity associated with the assumptions for these factors impacts total depreciation and directly impacts the Shire's operating result.

The complete Annual Financial Report is attached and includes the various statutory financial statements, notes to the accounts and the Independent Audit Report. The Annual Financial Report will be included in the Shire's Annual Report for 2018-19 and will also be available on the Shire's web site.

Some highlights of the Annual Financial Report for 2018-19 are as follows.

- The Statement of Comprehensive Income shows a net result of a surplus of \$3,998,443 compared to the budgeted result of \$4,915,587 and the 2017-18 result of \$4,780,828.
- The net result did not achieve the budget and last year's result due primarily to lower non-operating grants.
- The advance payment of Financial Assistance Grants (FAGs) for 2019-20 of \$745,739 received in June 2019 resulted in operating grants being higher than budget. An advance payment of FAGs for 2018-19 was also received in June 2018 and results in the amounts being comparable year on year.
- The receipt of these advance payments does have an impact upon three of the Shire's financial ratios by overstating revenue for the year. However, as the advance payment received effectively offsets the impact of the previous year's advance payment the impact on the Current ratio, Debt Service Cover ratio and the Operating Surplus ratio is not significant.

- Fees and charges revenue for some areas such as the aquatic centre, fitness centre and outside school hours care were over budget and offset under budget revenue for planning, building, caravan parks and the indoor recreation centre.
- Interest earned on investments exceeded budget as term deposits were able to be held for longer than anticipated due partly to delays in major capital expenditure projects.
- Total operating expenditure for the year did not exceed the budget.
- Employee costs were 3.3% over budget despite a number of staff vacancies during the year and the time taken to fill the vacancies. The end of year adjustment to leave provisions to recognise outstanding leave and on-costs was the main cause of this variation and was partly offset by under budget employee salaries and wages, training, uniforms and protective clothing.
- Under budget material and contracts expenditure is largely attributable to the deferral of projects to 2019-20.
- Utility charges were lower than budget with the largest variation occurring for caravan parks.
- Depreciation was higher than budget due to the value of infrastructure assets increasing following their fair value revaluation last year as well as the inclusion of depreciation for new assets.
- Insurance and interest were close to budget projections.
- An operating deficit of \$1,081,634 was an improvement on the budgeted deficit of \$2,601,963 due to over budget operating revenue.
- Non-operating (capital) grants did not achieve budget as some grants for major capital projects will not be received until the projects are completed in 2019-20 and include the \$720,000 balance of the National Stronger Regions Fund grant for the HEART project and \$405,268 from Lotterywest for the Cowaramup Hall upgrade project.
- The Statement of Financial Position shows the Shire's net assets have increased from \$466.133 million to \$470.131 million. The increase in property, plant and equipment resulting from the replacement of plant and vehicles as well as the construction of buildings is the main contributor to this increase.
- The surplus for the year has resulted in the Shire's total equity increasing.
- Cash backed reserves to meet future year's anticipated expenditure reduced to \$25,969,301 from \$28,029,962 and are disclosed in Note 4. The balance of reserves was higher than budget due to the transfer from the Margaret River CBD Redevelopment reserve not proceeding as a result of the main street upgrade project being delayed. Developer contributions received were higher than budgeted and transfers from the Caravan Parks upgrade reserve and Plant reserve were lower than budgeted due to delays to the chalet project and plant purchases.
- The Cash Flow Statement shows the Shire's end of year cash position improved to \$11,337,056 from \$9,242,729 at the start of the year. While there was a negligible increase in cash flow from operating activities, less cash used for capital investment purposes due to capital grants and the drawdown of a new loan contributed to an overall increase in cash for the year. Increased cash generated from operations and lower capital investment compared to budget projections, also meant an improved result to budget.
- The Rate Setting Statement shows the Shire ended the year with a closing net current assets position of a surplus of \$3,804,165. This was a significant improvement on the budgeted result of a breakeven position. The result was also slightly higher than the estimated brought forward position of \$3,587,166 included in the budget for 2019-20. Capital projects totalling \$1,710,069 carried forward to 2019-20 and the combination of operating projects being carried forward, grants received in advance, over budget operating revenue and under budget operating expenditure all contributed to the brought forward position. The \$216,999 improvement in the actual closing position compared to the budget will assist in offsetting any over budget expenditures or revenue shortfalls during 2019-20 such as interest earned on investments not being expected to achieve expectations due to the Reserve Bank reducing the cash reference rate.
- Note 29 details the Financial Ratios that are the key measures specified and assessed by the Department of Local Government, Sport and Cultural Industries (DLGSCI) and these ratios are shown in the following table. Four (4) of the seven (7) statutory ratios exceed the DLGSCI's advanced level, one is very close to the advanced standard and one exceeds the basic level. This is the same result as last year.
- The poorest performing ratio is the Operating Surplus ratio which is negative due to the net operating deficit recorded for 2018-19.
- The Own Source Revenue Coverage ratio result of 0.86 almost achieves the DLG's advanced standard of 0.90 and is slightly lower than last year's result.

SHIRE OF AUGUSTA MARGARET RIVER
AUDIT AND RISK MANAGEMENT COMMITTEE MEETING AGENDA 27 NOVEMBER 2019

- Despite drawing down an additional loan this year, the Debt Service Cover ratio result of 5.44 (last year 5.64) still exceeds the DLGSCI's advanced level.
- The Current ratio also remains strong although the result of 1.22 is lower than last year's 1.37.
- The Asset Sustainability ratio has remained steady at 0.88 and is approaching the DLGSCI's basic level. Although there is an emphasis on renewing assets compared to upgrading or developing new assets, major projects such as the construction of the HEART unfavourably effect the results of this ratio.
- The Asset Consumption Ratio measures the extent to which depreciable assets have been consumed compared to their replacement cost showed a result of 0.78 and exceeded the advanced target.
- The Asset Renewal Funding Ratio is a measure of the ability of a local government to fund its projected asset renewal expenditure and had a result of 1.17, last year 1.21 (advanced target of 1.05). This ratio compares planned capital renewal expenditure for 10 years per the LTFP with the asset renewal expenditure of the Asset Management Plan over the same term. However, as both of these documents are to be updated it is possible this ratio result may be overstated.

Annual Financial Report ratios	2019	2018	2017	2016	2015	2014	2013	2012	2011	DLGSCI Target
Current Ratio	1.22	1.37	1.34	1.05	1.21	1.07	1.39	1.05	0.83	> 1
Asset Sustainability Ratio	0.88	0.88	0.81	0.73	0.57	1.10	1.25	1.12	1.13	> 0.9 Basic > 1.1 Advanced
Debt Service Cover Ratio	5.44	5.64	8.11	5.81	7.81	4.92	8.92	1.40	6.30	> 2 Basic > 5 Advanced
Operating Surplus Ratio	(0.07)	(0.12)	(0.01)	(0.06)	0.04	(0.05)	0.15	0.17	0.02	> 0.01 Basic > 0.15 Advanced
Own Source Revenue Coverage Ratio	0.86	0.88	0.89	0.89	0.91	0.91	0.92	1.09	0.94	> 0.4 Basic > 0.9 Advanced
Asset Consumption Ratio	0.78	0.99	0.97	0.99	0.75	0.79	0.76	N/A	N/A	> 0.5 Basic > 0.75 Advanced
Asset Renewal Funding Ratio	1.17	1.21	1.36	1.28	1.18	0.57	0.65	N/A	N/A	> 0.75 Basic > 1.05 Advanced
Ratios are calculated as follows:										
Current ratio	$\frac{\text{current assets minus restricted assets}}{\text{current liabilities minus liabilities associated with restricted assets}}$									Measures ability to pay current liabilities
Asset sustainability ratio	$\frac{\text{capital renewal and replacement expenditure}}{\text{Depreciation expenses}}$									Renewal spending as a percentage of depreciation
Debt service cover ratio	$\frac{\text{annual operating surplus before interest and depreciation principal and interest}}{\text{operating revenue minus operating expenses}}$									Cash available to pay loan repayments
Operating surplus ratio	$\frac{\text{own source operating revenue}}{\text{operating expenses}}$									Ability to achieve an operating surplus
Own source revenue coverage ratio	$\frac{\text{depreciated replacement cost of assets}}{\text{current replacement cost of depreciable assets}}$									Level of asset stock consumed
Asset consumption ratio	$\frac{\text{NPV of planned capital renewal over 10 years (per LTFP)}}{\text{NPV of required capital expenditure over 10 years (per AMP)}}$									Alignment of LTFP & AMP for asset renewal
Asset renewal funding ratio										

Overall the financial results and ratios show the financial performance of the Shire for 2018-19 is similar to the previous year.

The detailed notes to the financial statements provide a further breakdown of the various financial statements.

The Auditor, Mr Wen-Shien Chai from Moore Stephens participated in an exit meeting by teleconference with the Shire President (chairperson of the Audit and Risk Management Committee) and the CEO on 10 October 2019. The purpose of the exit meeting was to discuss the Independent Audit Report and any other matters relating to the audit of the Annual Financial Report. No issues requiring follow-up by the committee were raised at this meeting. As legislation requires the local government meet with the auditor at least once every year the teleconference exit meeting discharges this requirement.

STATUTORY ENVIRONMENT / LEGAL IMPLICATIONS

Section 6.4 of the *Local Government Act 1995* states that:

“(1) A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed.

(2) The financial report is to —

(a) be prepared and presented in the manner and form prescribed; and

(b) contain the prescribed information.

(3) By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor —

(a) the accounts of the local government, balanced up to the last day of the preceding financial year; and

(b) the annual financial report of the local government for the preceding financial year.”

Regulation 51 of the Local Government (Financial Management) Regulations 1996 states that:

“(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.”

Section 7.2 of the Local Government Act 1995 states that:

“The accounts and annual financial report of a local government for each financial year are required to be audited by an auditor appointed by the local government.”

Section 7.9(1) of the Local Government Act 1995 states that:

“An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to —

(a) the mayor or president; and

(b) the CEO of the local government; and

(c) the Minister.

Section 7.12A of the *Local Government Act 1995* states that:

“(2) ... a local government is to meet with the auditor of the local government at least once in every year.

(3) A local government must —

(aa) examine an audit report received by the local government; and

(a) Determine if any matters raised by the audit report, require action to be taken by the local government; and

(b) Ensure the appropriate action is taken in respect of those matters.

(4) A local government must —

(a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and

(b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.

(5) Within 14 days after a local government gives a report to the Minister under section (4)(b), the CEO must publish a copy of the report on the local government’s official website.”

Regulation 10 of the Local Government (Audit) Regulations 1996 specifies the requirements for the auditor’s report.

STRATEGIC PLAN / POLICY IMPLICATIONS

Community Strategic Plan 2036 (CSP)

Corporate Business Plan 2019-2023

Key Result Area 5: Effective leadership and governance
Community Outcome 6: Measure and report on success and sustainability
Strategy 1: Effectively measure our success and progress to a sustainable future
Strategic Response: Conduct external audit and interim audit annually and remediate any problems within timeframes

PLANNING FRAMEWORK

Nil

FINANCIAL IMPLICATIONS

The Annual Financial Report is the audited record of the actual financial results for 2018-19 and while the results are positive it is essential financial performance be closely monitored to maximise operating revenue, control operating expenditures and ensure revenue budgets are achieved or exceeded and expenditure budgets are not exceeded.

SUSTAINABILITY IMPLICATIONS

Environmental

Nil

Social

Nil

Economic

Nil

ADVOCACY

Nil

VOTING REQUIREMENTS

Simple Majority

RECOMMENDATION

That the Audit and Risk Management Committee receives the Annual Financial Report for the year ended 30 June 2019, including the Independent Auditor's Report and recommends they be considered and adopted by Council.

ATTACHMENTS

1. Annual Financial Report for the year ended 30 June 2019

The Acting Director Corporate and Community Services informed the meeting that due to the Auditors reporting a significant adverse trend for the Operating Surplus Ratio in their report, the Shire is required to provide an explanation to the Department of Local Government, Sport and Cultural Industries and to publish this on the Shire's website. It was advised the explanatory letter has been prepared and the main cause of a negative operating surplus ratio being recorded is that the increasing non-cash allocation of depreciation is not being funded by operating revenue.

The CEO added that at the recent WALGA Zone meeting, concerns regarding how the ratio was calculated were raised. It is to be noted that WALGA supports a request to the Department for the ratio to be reviewed.

RECOMMENDATION / ARMC DECISION

CR KENNAUGH, CR DANIEL ARMC2019/9

That the Audit and Risk Management Committee receives the Annual Financial Report for the year ended 30 June 2019, including the Independent Auditor's Report and recommends they be considered and adopted by Council.

CARRIED 4/0

6.2 AUDITOR'S MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2019

LOCATION/ADDRESS	Shire of Augusta Margaret River
APPLICANT/LANDOWNER	Nil
FILE REFERENCE	FIN/7
REPORT AUTHOR	Andrew Ross, Acting Director Corporate and Community Services
AUTHORISING OFFICER	Stephanie Addison-Brown, Chief Executive Officer

IN BRIEF

- Each year the Shire's Auditors provide a Management Report with their Independent Audit Report.
- This Management Report is provided to the Committee for review and reference.

RECOMMENDATION

That the Audit and Risk Management Committee receives the Auditor's Management Report for the year ended 30 June 2019 and notes that no response is required.

LOCATION PLAN

Nil

TABLED ITEMS

Nil

BACKGROUND

In accordance with legislation, the Shire has its financial records independently audited. In addition to ascertaining whether the Annual Financial Report provides a fair representation of the financial performance and position of the Shire, the independent auditors provide a Management Report to the Shire President. This Management Report was received by email on 11 October 2019.

The main purpose of the independent audit is to express an opinion on the Annual Financial Report. Other matters may be identified during the course of the audit such as financial control weaknesses, legislative compliance breaches, errors or frauds. The Auditor is required to report these matters to the Shire's management.

The Shire has not generally publicly reported matters raised in the Management Report and it is proposed this continue unless the matter is considered to be serious (for example, a significant legislative breach or fraud) or systemic (for example, major weaknesses in financial controls) and public reporting is warranted to promote accountability and awareness in the community.

One of the responsibilities of a local government is to examine an audit report received by the local government, determine if any matters require actions to be taken and ensure appropriate action is taken. As the Audit Report and Management Report were provided at the same time, the local government's review should also include the Management Report.

CONSULTATION AND ADVICE

External Consultation

Nil

Internal Consultation

Nil

DISCUSSION/ OFFICER COMMENTS

The Management Report for 2018-19 has not identified any matters which the Auditors wish to bring to Council's attention. This is the same result as occurred last year while in previous years, the Auditors have commented on ratios and leave entitlements. From a staff perspective it is very pleasing that no matters of concern have been raised.

STATUTORY ENVIRONMENT / LEGAL IMPLICATIONS

Section 6.4 of the *Local Government Act 1995* states that:

“(1) A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed.

(2) The financial report is to —

(a) be prepared and presented in the manner and form prescribed; and

(b) contain the prescribed information.

(3) By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor —

(a) the accounts of the local government, balanced up to the last day of the preceding financial year; and

(b) the annual financial report of the local government for the preceding financial year.”

Regulation 51 of the *Local Government (Financial Management) Regulations 1996* states that:

“(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.”

Section 7.2 of the *Local Government Act 1995* states that:

“The accounts and annual financial report of a local government for each financial year are required to be audited by an auditor appointed by the local government.”

Section 7.9(1) of the *Local Government Act 1995* states that:

“An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to —

(a) the mayor or president; and

(b) the CEO of the local government; and

(c) the Minister.”

Section 7.12A of the *Local Government Act 1995* states that:

“(2) A local government is to meet with the auditor of the local government at least once in every year.

(3) A local government must —

(aa) examine an audit report received by the local government; and

(c) Determine if any matters raised by the audit report, require action to be taken by the local government; and

(d) Ensure the appropriate action is taken in respect of those matters.

(4) A local government must —

(a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and

(b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government....”

STRATEGIC PLAN / POLICY IMPLICATIONS

Community Strategic Plan 2036 (CSP)

Corporate Business Plan 2019-2023

Key Result Area 5: Effective leadership and governance

Community Outcome 6: Measure and report on success and sustainability

Strategy 1: Effectively measure our success and progress to a sustainable future

Strategic Response: Conduct external audit and interim audit annually and remediate any problems within timeframes

PLANNING FRAMEWORK

Nil

FINANCIAL IMPLICATIONS

A clear management report is an indication the auditors consider the Shire’s financial position to be reasonable and there are no financial concerns.

SUSTAINABILITY IMPLICATIONS

Environmental

Nil

Social

Nil

Economic

Nil

ADVOCACY

Nil

VOTING REQUIREMENTS

Simple Majority

RECOMMENDATION

That the Audit and Risk Management Committee receives the Auditor's Management Report for the year ended 30 June 2019 and notes no response is required.

ATTACHMENTS

1. Management Report for the year ended 30 June 2019

RECOMMENDATION / ARMC DECISION

CR DANIEL, CR KENNAUGH ARMC2019/10

That the Audit and Risk Management Committee receives the Auditor's Management Report for the year ended 30 June 2019 and notes no response is required.

CARRIED 4/0

6.3 RISK DASHBOARD REPORTS

LOCATION/ADDRESS	Shire of Augusta Margaret River
APPLICANT/LANDOWNER	Shire of Augusta Margaret River
FILE REFERENCE	COR/17
REPORT AUTHOR	Emma Rogers, Governance (Legal, Permit and Risk) Officer
AUTHORISING OFFICER	Ian McLeod, Manager Legal Services and Governance

IN BRIEF

- Under the Local Government (Audit) Regulations the CEO is required to review the effectiveness of various local government systems including risk management and report the results to the Audit and Risk Management Committee.
- The Shire undertakes a rolling review of 14 different risk categories (profiles) and the controls used to manage those profiles.
- In the last quarter, five risk profiles were reviewed. One risk profile (Environment management / Land use) was rated extreme, requiring urgent attention due to the issue of limestone cliff instability at Gnarabup, Prevelly and Gracetown. CMW have been appointed to provide technical advice on the management of limestone cliff areas. A report will be presented to Council for consideration at December Ordinary Meeting.
- Two controls have been rated as inadequate: management of bookings and uses of community halls, and absence of fire detection / alarm system in MR Civic and Administration Building. Treatment plans to improve the effectiveness of the controls have been endorsed by ELT.
- On a more strategic level, a review of the Shire's Risk Management Framework and operational risk profiles is currently underway, to consider any improvements to ongoing risk management for the Shire.

RECOMMENDATION

That the Audit and Risk Management Committee notes the Operational Risk Dashboard Report for September 2019 as per Attachment 2.

BACKGROUND

The Shire is obligated to address organisational risk under the Local Government (Audit) Regulations. The Shire has developed a risk management policy, with the objective of 'using a risk management framework to identify, evaluate, treat and monitor risk. The Shire's Risk Management Framework breaks down different organisational risks into 14 different categories known as 'Risk Profiles'. The 14 profile categories are:

1. Asset management practices
2. Business and community disruption
3. Compliance risk (statutory, regulatory)
4. Document management processes
5. Employment Practices
6. Environmental management / Land use
7. Errors, omissions, delays
8. External theft and fraud
9. Facilities / venues / events
10. Misconduct
11. IT or communication systems and infrastructure
12. Procurement / contract management
13. Projects / change management
14. Safety and security practices

Assessment of this data provides details of current issues, actions and treatments that need to be addressed and form the Risk Dashboard. Actions identified in the Dashboard form part of future reviews of the Corporate Plan and annual Operational Plans.

Attachment 1 to this report is a hierarchical flowchart of the Shire's risk management framework.

CONSULTATION AND ADVICE

External Consultation

Nil

Internal Consultation

Executive Leadership Team
Sustainable Planning Officer
Coordinator Finance
Manager Human and Community Services
Manager Environmental Health, Waste and Ranger Services
Coordinator Building Assets and Maintenance

DISCUSSION/ OFFICER COMMENTS

Risk Dashboard

A Risk Dashboard providing the status of risk data is presented to the Executive Leadership Team (ELT) quarterly for monitoring and review. A status update on the review of key controls and risk profiles is as follows:

- A full review of key controls and risk ratings is complete in eight risk profiles, being:
 - Asset management practices
 - Safety and security practices
 - IT or communication systems and infrastructure
 - Misconduct
 - External theft and fraud
 - Compliance risk (statutory, regulatory)
 - Procurement / Contract Management
 - Employment practices

- A partial review of key controls has been undertaken in four of the risk profiles, being:
 - Errors, omissions and delays
 - Document management processes
 - Environment management / Land use
 - Facilities / venues / events

- A review of key controls in two of the risk profiles has not yet begun:
 - Business and community disruption
 - Projects / Change management

Attachment 2 is the Risk Dashboard for September 2019, which lists the risk profiles, their overall control and risk ratings, and the ongoing, and newly identified actions.

A summary of the newly identified risk actions arising from a review of risk profiles from June – September 2019 is presented in the table below:

Environment management / Land use		Risk	Control
		Extreme	Inadequate
Actions	Due Date	Comments	
Management of limestone cliff areas: Prepare a report for Council consideration on recommendations by CMW Geosciences (appointed by Shire) on appropriate management of limestone cliff	Dec-19	This risk profile is rated as extreme, requiring urgent attention. The Shire recently appointed CMW Geosciences to provide technical advice as to the appropriate management of instability of limestone cliff areas, including adjacent public infrastructure such as stairs. CMW Geosciences have recently provided a draft report and presented a briefing to Council via teleconference on 13 November 2019 on key	

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areas and adjacent public infrastructure (stairs) in Gracetown, Surfers Point, Riflebutts and Gnarabup cliffs.		recommendations for management of limestone cliff instability, such as removal of cliffs, stabilisation, monitoring, developing exclusion areas and so forth. Subject sites include Gracetown, Surfers Point, Riflebutts Cliffs and Gnarabup (adjacent to White Elephant). The Shire's Sustainability Planning Officer is preparing a report on key recommendations made by CMW Geosciences for Council consideration at the December Ordinary Meeting.
<u>Surveillance and security at landfill sites:</u> Obtain quotes and consider purchasing solar lights with built in cameras for Davis Rd land fill site.	Dec-19	There are currently limited cameras and lights at Davis Rd landfill site. Officers are awaiting quotations for upgrade of security - solar lights with built in cameras, to reduce risk of theft.
Employment practices		Risk
		Moderate
		Control
		Adequate
Actions	Due Date	Comments
<u>Staff inductions:</u> Create a centralised register for inductions for staff.	Dec-19	This risk profile is rated as moderate risk with adequate controls in place. This action is proposed as an improvement measure for recording staff inductions, and ensuring staff receive appropriate inductions.
Facilities / Venues / Events		Risk
		Moderate
		Control
		Adequate
Actions	Due Date	Comments
<u>Management of Community Halls:</u> Consider the options for managing and booking community halls, including the feasibility of creating FTE to manage halls bookings against the current monetary contributions to Halls Committees.	March-19	This risk profile is rated as moderate risk with an overall control rating of adequate. However, one of the key controls, 'management of bookings and uses of halls' was rated inadequate, requiring attention. It's proposed to consider options for the management and bookings of community halls due to concerns of relying on volunteer groups to ensure third party users of the halls have public liability insurance, appropriate liquor licenses, permits to consume alcohol etc. Furthermore, not all Hall community groups are incorporated, have own public liability insurance, or have entered into management agreements with the Shire.
Procurement / Contract Management		Risk
		High
		Control
		Adequate
Actions	Due Date	Comments
<u>Conflicts of Interest:</u> Governance officer forward procurement related disclosures of interest to Finance officers for awareness of conflicts of interest between staff and suppliers. Finance officers will generate alerts in Synergy Creditors module of conflicts of interest between supplier and staff.	Nov-19	This risk profile is rated as high risk with adequate controls in place. This action creates a further layer of oversight in procurement, with Finance Officers having a greater awareness of conflicts of interest existing between staff and suppliers.
External Theft & Fraud		Risk
		High
		Control
		Adequate
Actions	Due Date	Comments

<u>Fire detection and alarm system in MRCAC:</u> Obtain quotes of a fire detection and alarm service to retrofit the Margaret River Civic and Administration Centre (CAC), and consider inclusion in next year's budget.	Mar-20	This risk profile is rated as high risk with adequate controls in place. However, one of the key controls, 'security monitoring' was rated inadequate, requiring attention. The CAC building has no fire detection / alarm system in place, which is considered a risk. Although, a smoke detection system is not legally required under the Building Code for this type of building. It's proposed to obtain quotes and consider for inclusion in the forthcoming budget.
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Review of Risk Management Framework and development of Strategic Risk Register

A review of the Risk Management Framework is underway. Further work to improve the format of the risk dashboard is proposed for the next quarter, to create a risk register that is easier to understand and work with.

In addition, the current risk profiles are predominantly based on operational risk. It is also proposed to develop a second risk register to better incorporate strategic risk.

STATUTORY ENVIRONMENT / LEGAL IMPLICATIONS

Relevant legislation relating to risk management is detailed below.

Local Government (Audit) Regulations 1996 Regulation 17:

1. The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —
 - (a) risk management; and
 - (b) internal control; and
 - (c) legislative compliance.

2. The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.

3. The CEO is to report to the audit committee the results of that review.

Regulation 16(c)(d):

An audit committee has the following functions:

- (c) to review a report given to it by the CEO under regulation 17(3) (the **CEO's report**) and is to —
 - (i) report to the council the results of that review; and
 - (ii) give a copy of the CEO's report to the council;

- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
 - (i) regulation 17(1); and
 - (ii) the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c).

STRATEGIC PLAN/POLICY IMPLICATIONS

Community Strategic Plan 2036 (CSP)

Corporate Business Plan 2019-2023

Key Result Area 5: Effective leadership and governance

Community Outcome 2: Effective and integrated strategy, planning, financial and asset management

Strategic Response 2.4: Ensure information is managed in accordance with statutory requirements and is available for decision making.

Service level strategy/plan 5.2.4.4: Implement the Risk Management Framework, including convening of tri-annual meetings of the Audit and Risk Management Committee.

PLANNING FRAMEWORK

Nil

FINANCIAL IMPLICATIONS

Implications

There may be financial implications from the actions detailed in the Risk Management Report. Actions which require expenditure generally include obtaining quotes and consider purchasing or including in forthcoming budgets.

Long Term Financial Plan

Any proposed action or control that had significant long term financial implications would be considered in a specific Council Report.

Whole of Lifecycle considerations

Nil

SUSTAINABILITY IMPLICATIONS

Environmental

The management of risk is essential to ensure the ongoing sustainability of the Shire and to minimise or eliminate threats to the environment.

Social

The prudent management of risk is important in maintaining the social structure within the Shire.

Economic

Incorporating risk management into planning, decision making and operations is essential for the achievement of the Shire's visions, goals and outcomes.

ADVOCACY

Nil

ALTERNATE OPTIONS

Where proposed actions are considered inadequate by the ARMC, the committee may resolve to request the CEO to further investigate the control.

VOTING REQUIREMENTS

Simple Majority

RECOMMENDATION

The Audit and Risk Management Committee notes the Risk Dashboard Report for September 2019 as per the Attachment.

ATTACHMENTS

1. Hierarchical Flowchart of the Shire's Risk Management Framework
2. Risk Dashboard Report – September 2019

RECOMMENDATION / ARMC DECISION

CR CRISTOFFANINI, CR KENNAUGH ARMC2019/11

The Audit and Risk Management Committee notes the Risk Dashboard Report for September 2019 as per the Attachment.

CARRIED 4/0

6.4 REPORT ON LEGISLATIVE COMPLIANCE REQUIREMENTS FOR 2018 – 2019

LOCATION/ADDRESS	Shire of Augusta Margaret River
APPLICANT/LANDOWNER	Shire of Augusta Margaret River
FILE REFERENCE	GOV/17
REPORT AUTHOR	Emma Rogers, Governance (Legal, Risk, Permit) Officer
AUTHORISING OFFICER	Ian McLeod, Manager Legal Services and Governance

IN BRIEF

- The Local Government (Audit) Regulations 1996 requires the CEO to review the appropriateness and effectiveness of a local government's systems and procedures in relation to risk management, internal control and legislative compliance [Regulation 17].
- A legislative compliance calendar has been developed to assist the organisation in managing legislative compliance requirements and reducing risk of non-compliance.
- A report on the legislative compliance requirements actioned by officers between 1 July 2018 and 30 June 2019 is presented to the Audit and Risk Management Committee (ARMC).

RECOMMENDATION

That the Audit and Risk Management Committee receives the report on legislative compliance requirements actioned over the 1 July 2018 to 30 June 2019 period, noting a total of 112 compliance actions completed, and as at 30 June 2019, five actions were in progress.

LOCATION PLAN

Nil

TABLED ITEMS

Nil

BACKGROUND

Under regulation 17 of LG (Audit) Regulations 1996, the CEO is required to annually review the appropriateness and effectiveness of local government's systems and procedures, including those in relation to legislative compliance. The Shire has an electronic compliance calendar and register that notifies the relevant officers when actions or reviews required by legislation need to be undertaken. The compliance calendar and register also provides for Council to review the actions undertaken and outstanding and informs the content of this report.

CONSULTATION AND ADVICE

External Consultation

WALGA – Template Compliance Calendar

Internal Consultation

- Relevant officers responsible for compliance requirements

DISCUSSION / OFFICER COMMENTS

A report of the legislative compliance register showing the compliance requirements actioned, and any requirements due, is presented to the Audit and Risk Management Committee (ARMC) annually. The table below shows the number of actions completed, not yet started or in progress over each quarter of the 2018-19 financial year.

Table 1: Number of actions completed over 2018-2019

		Compliance actions completed	Actions not started	Actions in progress	Total actions	% achieved compliance
2018-19	Q1	32	1	11	44	73%

SHIRE OF AUGUSTA MARGARET RIVER
AUDIT AND RISK MANAGEMENT COMMITTEE MEETING AGENDA 27 NOVEMBER 2019

2018-19	Q2	28	2	2	32	88%
2018-19	Q3	25	1	2	28	89%
2018-19	Q4	26	0	5	31	84%

Over the 2018-19 financial year, a total of 112 compliance actions were completed, relating to various legislative requirements under the *Local Government Act 1995*, and other Acts. As at the 30 June 2019, five actions were in progress, each of which are detailed below.

- Submit Annual Report on implementation of the Equal Employment Opportunity Plan to Director Equal Employment Opportunity - Advised relevant State department of EEO plan being in progress, and will be completed by January 2020.
- Review of the *Cemeteries Local Law 2010* – a review of the local law is currently underway, and Council resolved to give state wide advertising of its intention to amend the local law on the 28 August 2019.
- Review of *Activities in Thoroughfares and Public Places and Trading Local Law* - a review of the local law is also underway, and in the same report Council resolved to give state wide advertising of its intention to amend the local law (28 August 2019);
- Review of Standing Orders Local Law – Council resolved to defer the review of this local law until the review of the *Local Government Act 1995* and Regulations have been finalised (14 August 2019).
- A review of the *Health Local Laws* - Council resolved on the 28 August 2019 to defer the review of this local law, pending implementation of stage 5 of the *Public Health Act 2016*.

A copy of the full report detailing the compliance requirements actioned over the 2018-19 financial year, and future compliance requirements due is attached.

STATUTORY ENVIRONMENT / LEGAL IMPLICATIONS

Local Government (Audit) Regulations 1996

17. CEO to review certain systems and procedures

- (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —
 - (a) risk management; and
 - (b) internal control; and
 - (c) legislative compliance.

STRATEGIC PLAN / POLICY IMPLICATIONS

Community Strategic Plan 2036 (CSP)

Corporate Business Plan 2019-2023

Key Result Area 5: Effective leadership and governance

Outcome 2: Effective and integrated strategy, planning, financial and asset management

Strategy 4: Ensure information is managed in accordance with statutory requirements and is available for decision making

PLANNING FRAMEWORK

Nil

FINANCIAL IMPLICATIONS

Effective legislative compliance management ensures compliance responsibilities are carried out and legislative requirements are met, which ultimately reduces risk and liabilities.

Long Term Financial Plan

Nil

Whole of Lifecycle considerations

Nil

SUSTAINABILITY IMPLICATIONS

Environmental

Nil

Social

Nil

Economic

Nil

ADVOCACY

Nil

ALTERNATE OPTIONS

Nil

VOTING REQUIREMENTS

Simple Majority

RECOMMENDATION

That the Audit and Risk Management Committee receives the report on legislative compliance requirements actioned over the 1 July 2018 to 30 June 2019 period, noting a total of 112 compliance actions completed, and as at 30 June 2019, five actions were in progress.

ADVICE TO APPLICANT / PROPONENT

Nil

ATTACHMENTS

1. Report of legislative compliance requirements actioned over 1 July 2018 to 30 June 2019 period.

RECOMMENDATION / ARMC DECISION

CR KENNAUGH, CR DANIEL ARMC2019/12

That the Audit and Risk Management Committee receives the report on legislative compliance requirements actioned over the 1 July 2018 to 30 June 2019 period, noting a total of 112 compliance actions completed, and as at 30 June 2019, five actions were in progress.

CARRIED 4/0

7 CONFIDENTIAL BUSINESS

Nil

8 CLOSURE OF MEETING

The Chair thanked all in attendance and declared the meeting closed at 4.40pm

DOCUMENT NO: O220218
FILE NO: FIN/7
OFFICER: Stephanie Addison-Brown



27 November 2019

Director General
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Dear Sir,

Independent Auditor's Report for 2018-19 Annual Financial Report

The Shire of Augusta Margaret River received the Independent Auditor's Report for the 2018-19 Annual Financial Report on 11 October 2019. The contents of this report were discussed with the Shire President, CEO and finance staff at an exit meeting with Auditors prior to the release of the Auditor's Report. The report was provided to the Shire's Audit and Risk Management Committee on 27 November 2019.

The Auditor's Report did not identify any concerns with the accounts and reports other than the following statement.

"In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- a) In our opinion, there is a significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio has been below the DLGSCI standard for the past 3 years."

In accordance with section 7.12A (4) (a) of the *Local Government Act 1995*, a local government must 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 intend to take with respect to each of those matters. Furthermore section 7.12A (4) (b) states the report must be provided to the Minister within 3 months after the audit report is received by the local government.

The Operating Surplus Ratio results and calculations are represented in the followed table.

	2018-19	2017-18	2016-17
Operating Surplus Ratio	(0.07)	(0.12)	(0.01)
Calculated as (a) / (b) as follows:			
Net Result	4,048,237	4,780,828	9,475,210
Less: Capital Grants	6,387,793	8,374,650	9,819,155
(a) Net Operating Result	(2,339,556)	(3,593,822)	(343,945)
Rates	21,430,382	20,522,452	19,582,298
Fees and charges	9,792,002	9,678,816	9,274,105
Service charges	4,000	4,333	4,333
Interest income	1,113,897	1,009,731	968,544
Profit on disposal of assets	76,174	47,536	42,817

Reimbursements and recoveries	0	0	151,095
(b) Own Source Operating Revenue	32,416,455	31,262,868	30,023,192

The table shows that a surplus net result is attributable to the non-operating grants the Shire receives for the development of assets. Despite strong operating revenue from rates and fees and charges in particular, they are insufficient to offset operating expenditure resulting in a net operating deficit being recorded. Annual increases in operating expenditure are shown in the following table.

	2018-19	2017-18	2016-17
Employee expenses	15,167,709	14,258,895	13,672,157
	6%	4%	1%
Materials and contracts	8,706,843	7,984,402	6,894,724
	9%	16%	-7%
Utilities	936,391	1,031,636	1,150,145
	-9%	-10%	-2%
Depreciation	9,379,885	9,114,195	8,805,609
	3%	4%	9%
Interest	527,510	485,860	504,213
	9%	-4%	-8%
Insurance	628,242	592,577	605,141
	6%	-2%	1%
Other expenditure	735,306	542,066	456,760
	36%	19%	16%

The table shows employee expenses, depreciation and materials and contracts are the largest areas of operating expenditure and their average annual increases over the 3 years are 4%, 5% and 6%. Although the other areas of expenditure are not as significant, utilities are reducing due to the Shire's investment in solar power, interest is relatively stable despite a number of new loan borrowings in recent years and insurance is also quite stable.

The average annual increase in employee expenses of 4% includes an enterprise bargaining agreement annual increase of 2.5% and demonstrates these costs are being restrained despite the pressure of increased service provision. Increased materials and contracts expenditure are directly linked to the provision of community services and projects. Depreciation is associated with the Shire's increasing fixed asset base as shown in the following table.

	2018-19	2017-18	2016-17
Property, plant and equipment	93,360,133	85,399,089	83,856,717
	9%	2%	6%
Infrastructure	358,004,594	358,663,291	200,317,755
	0%	19%	2%

Increases in the asset base as a result of the addition of new assets and the fair value revaluation of existing assets have contributed to large annual increases in some years. This has been reflected in an increasing depreciation allocation and although depreciation rates, useful lives, asset conditions and non-depreciable components are regularly reviewed, the non-cash allocation of depreciation is the main reason for the Shire recording a deficit net operating result and therefore a negative net operating surplus.

Although the Shire are concerned a negative net operating surplus ratio has been recorded for the past 3 financial years and is therefore categorised as an adverse trend, it is felt there

are mitigating circumstances and that this ratio does not necessarily reflect the Shire's overall financial performance.

For the past 3 financial years, the Shire's results for 4 of the 7 statutory ratios exceeds the advanced benchmark established by the Department and the results of another ratio are very close to this advanced target. These results are shown in the following table.

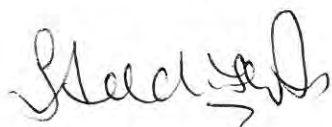
Annual Financial Report ratios

	2019	2018	2017	DLGSCI Target
Current Ratio	1.22	1.37	1.34	> 1
Asset Sustainability Ratio	0.88	0.88	0.81	> 0.9 Basic > 1.1 Advanced
Debt Service Cover Ratio	5.44	5.64	8.11	> 2 Basic > 5 Advanced
Operating Surplus Ratio	(0.07)	(0.12)	(0.01)	> 0.01 Basic > 0.15 Advanced
Own Source Revenue Coverage Ratio	0.86	0.88	0.89	> 0.4 Basic > 0.9 Advanced
Asset Consumption Ratio	0.78	0.99	0.97	> 0.5 Basic > 0.75 Advanced
Asset Renewal Funding Ratio	1.17	1.21	1.36	> 0.75 Basic > 1.05 Advanced

However, despite these results the Shire will continue to review operating expenditure needs, consider budget efficiency measures and review asset depreciation factors in order to minimise operating expenditure needs so a net operating surplus may be recorded.

If you have any queries in relation to the above please do not hesitate to contact Andrew Ross, Manager Corporate Services on 9780 5249 or aross@amrshire.wa.gov.au.

Yours faithfully,



Stephanie Addison-Brown
Chief Executive Officer