

Audit and Risk Management Committee

AGENDA

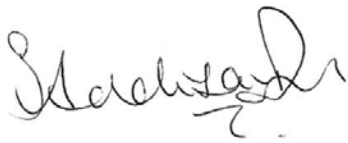
FOR THE MEETING TO BE HELD
WEDNESDAY 9 DECEMBER 2020
IN COUNCIL CHAMBERS,
WALLCLIFFE ROAD, MARGARET RIVER
COMMENCING AT 1.30PM

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 Mainbreak, 41 Wallcliffe Road, Margaret River, on Wednesday 9 December 2020, commencing at 1.30pm.

Yours faithfully



STEPHANIE ADDISON-BROWN
CHIEF EXECUTIVE OFFICER

ATTENTION/DISCLAIMER

This agenda has yet to be dealt with by the Committee. The Recommendations shown at the foot of each item have yet to be considered by the Committee and are not to be interpreted as being the position of the Committee. The minutes of the meeting held to discuss this agenda should be read to ascertain the decision of the Committee.

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Audit and Risk Management Committee

1.0 DECLARATION OF OPENING

2.0 ATTENDANCE

3.0 DISCLOSURES OF INTERESTS

4.0 PUBLIC QUESTIONS

4.1 Public Question Time

5.0 CONFIRMATION OF MINUTES OF PREVIOUS MEETING

5.1 Audit and Risk Management Committee Meeting held 11 November 2020

6.0 REPORTS

6.1 AMENDMENT TO AUDIT AND RISK MANAGEMENT COMMITTEE INSTRUMENT OF APPOINTMENT AND DELEGATION – TABLE OF LEGISLATIVE OBLIGATIONS

LOCATION/ADDRESS	Shire of Augusta Margaret River
APPLICANT/LANDOWNER	Shire of Augusta Margaret River
FILE REFERENCE	COR/57
REPORT AUTHOR	Claire Schiller, Governance Officer / Council Support
AUTHORISING OFFICER	Ian McLeod, Manager Legal and Governance Services

IN BRIEF

- The Audit and Risk Management Committee (ARMC) is required to discharge the legislative obligations outlined in the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996*.
- To ensure compliance with these obligations it is recommended that the Instrument of Appointment and Delegation be amended to include a list of matters that must be reported.

RECOMMENDATION

That the Audit and Risk Management Committee recommends that Council amend the Audit and Risk Management Instrument of Appointment and Delegation to include the following non exhaustive table of matters that are required to be reported:

Report	Frequency	Source
Risk management dashboard	At least twice a year	<i>Risk Management Framework</i>
Compliance audit return	Annually	<i>Regulation 14 Local Government (Audit) Regulations 1996)</i>
Interim and End of Financial year Audit	Annually	<i>Part 4 of the Local Government (Financial Management) Regulations 1996</i>
Review in accordance with regulation 5(2)(c) of LG (Financial Management) Regulations (also referred to as internal audit review).	Once every three years	<i>Local Government (Financial Management) Regulations 1996 regulation 5(2)(c)</i>
Annual Financial Report	Annually	<i>Part 4 of the Local Government (Financial Management) Regulations 1996</i>
Report on appropriateness and , effectiveness of systems and procedures in relations to risk management, internal controls and legislative compliance.	Once every three years	<i>Regulation 17 LG (Audit) Regulations 1996</i>
OAG – Local Government Focus Reports	Within three months of an OAG focus report	<i>ARMC resolution 11/11/2020 (ARMC2020/10)</i>

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
- Manager Corporate Services
- Governance (Legal and Risk) Officer

DISCUSSION / OFFICER COMMENTS

To assist with audit and compliance planning, it is recommended that the ARMC Instrument of Appointment and Delegation be amended to include a table of matters that are required to be reported to the ARMC, and how often they should be reported. The intent is to give an overview of the legislative reporting requirements and to ensure compliance is achieved.

This table is not exhaustive and should not be seen as preventing other audit and risk related matters from being reported to the ARMC.

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 2020-2024

Key Result Area 5: Effective leadership and governance

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

Strategic Response 4: Ensure the Shire's financial performance is well managed and leads to a strong financial position

PLANNING FRAMEWORK

Nil

FINANCIAL IMPLICATIONS

Implications

Nil

Long Term Financial Plan

Nil

Whole of Lifecycle considerations

Nil

SUSTAINABILITY IMPLICATIONS

Environmental

Nil

Social

Nil

Economic

Nil

ADVOCACY

Nil

IMPLICATIONS OF ALTERNATIVE RESOLUTION

Nil

VOTING REQUIREMENTS

Simple Majority

RECOMMENDATION

That the Audit and Risk Management Committee recommends that Council amends the Audit and Risk Management Instrument of Appointment and Delegation to include the following non exhaustive table of matters that are required to be reported:

Report	Frequency	Source
Risk management dashboard	At least twice a year	<i>Risk Management Framework</i>
Compliance audit return	Annually	<i>Regulation 14 Local Government (Audit) Regulations 1996)</i>
Interim and End of Financial year Audit	Annually	<i>Part 4 of the Local Government (Financial Management) Regulations 1996</i>
Review in accordance with regulation 5(2)(c) of LG (Financial Management) Regulations (also referred to as internal audit review).	Once every three years	<i>Local Government (Financial Management) Regulations 1996 regulation 5(2)(c)</i>
Annual Financial Report	Annually	<i>Part 4 of the Local Government (Financial Management) Regulations 1996</i>
Report on appropriateness and , effectiveness of systems and procedures in relations to risk management, internal controls and legislative compliance.	Once every three years	<i>Regulation 17 LG (Audit) Regulations 1996</i>

OAG – Local Government Focus Reports	Within three months of an OAG focus report	ARMC resolution 11/11/2020 (ARMC2020/10)
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ADVICE TO APPLICANT / PROPONENT

Nil

ATTACHMENTS

1. ARMC Instrument of Appointment and Delegation with tracked changes

6.2 AUDIT CONCLUDING MEMORANDUM FOR THE YEAR ENDED 30 JUNE 2020

LOCATION/ADDRESS	Shire of Augusta Margaret River
APPLICANT/LANDOWNER	Nil
FILE REFERENCE	FIN/7
REPORT AUTHOR	Andrew Ross, Manager Corporate Services
AUTHORISING OFFICER	James Shepherd, Director Corporate and Community Services

IN BRIEF

- Moore Australia has been engaged by the Office of Auditor General (OAG) to audit the Shire's Annual Financial Report for 2019-20.
- The Audit Concluding Memorandum communicates the results of this audit.
- The Audit and Risk Management Committee (ARMC) are requested to review this document.

RECOMMENDATION

That the Audit and Risk Management Committee:

1. receives the Audit Concluding Memorandum for the year ended 30 June 2020; and
 2. confirms it has met with representatives of OAG and Moore Australia to discuss this memorandum and the audit of the 2019-20 Annual Financial Report.
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LOCATION PLAN

Nil

TABLED ITEMS

Nil

BACKGROUND

2019-20 is the first year the Shire has been audited by auditors contracted by the OAG. Moore Australia (Moore) were contracted by OAG to complete the audit. The process of auditing the 2019-20 Annual Financial Report commenced with the conduct of an interim audit in March 2020 which focuses on internal controls, the results of which were provided to the ARMC on 24 June 2020 along with the report provided by the OAG. The draft Annual Financial Report was provided to Moore in August 2020 when they attended on-site to undertake the field work to verify financial transactions and the calculations for the report. The Annual Financial Report was finalised by the Shire and Moore on 30 November 2020 and provided to the OAG for their review. Moore provided the Audit Concluding Memorandum on this date.

CONSULTATION AND ADVICE

External Consultation

Nil

Internal Consultation

Nil

DISCUSSION/ OFFICER COMMENTS

The Audit Concluding Memorandum is self-explanatory and focuses on key audit risks and focus areas as well as noting progress made on matters raised during the interim audit. For each of the 9 risk areas, audit procedures to address risk are outlined and conclusions are stated. The conclusions for all risk areas, apart from one, were positive in that based on work performed, the auditors were satisfied. The exception is the risk area of significant adverse trends which identified the Operating Surplus ratio is below the industry benchmark and OAG threshold for the past 3 years. As a significant adverse trend a report must be prepared outlining proposed actions and this report must be provided to the Minister within 3 months of receipt of the audit report. A copy of the Audit Concluding Memorandum is attached for the review and comment of the ARMC.

Representatives of the OAG and Moore Australia will attend the meeting to discuss the Audit concluding Memorandum and any other matters relating to the audit of the Annual Financial Report. In essence this meeting and consideration of the memorandum by the ARMC constitutes the audit exit meeting. This in-person attendance by the auditors will discharge the requirement to meet with the auditor at least once every year.

STATUTORY ENVIRONMENT / LEGAL IMPLICATIONS

Part 7 of the *Local Government Act 1995* deals with matters relating to audit including audit committee, appointment of auditors, conduct of audit and financial audit. The following sections are relevant.

Section 7.2 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) 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 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 2020-2024

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

Implications

The Annual Financial Report is the audited record of the actual financial results for 2019-20 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.

Long Term Financial Plan

Financial performance for 2019-20 influences the Long-Term Financial Plan by providing actual revenue and expenditure parameters to compare against forecast results.

Whole of Lifecycle considerations

Nil

SUSTAINABILITY IMPLICATIONS

Environmental

Nil

Social

Nil

Economic

Nil

ADVOCACY

Nil

IMPLICATIONS OF ALTERNATIVE RESOLUTION

Nil

VOTING REQUIREMENTS

Simple Majority

RECOMMENDATION

That the Audit and Risk Management Committee:

1. receives the Audit Concluding Memorandum for the year ended 30 June 2020; and
2. confirms it has met with representatives of OAG and Moore Australia to discuss this memorandum and the audit of the 2019-20 Annual Financial Report.

ATTACHMENTS

1. Audit Concluding Memorandum for the year ended 30 June 2020

6.3 ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2020

LOCATION/ADDRESS	Shire of Augusta Margaret River
APPLICANT/LANDOWNER	Nil
FILE REFERENCE	FIN/7
REPORT AUTHOR	Andrew Ross, Manager Corporate Services
AUTHORISING OFFICER	James Shepherd, Director Corporate and Community Services

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 2020 was prepared and provided to the Shire's auditors.
- The Annual Financial Report for the year ended 30 June 2020 is presented to the Audit and Risk Management Committee for examination and comment prior to it being signed by the CEO.
- The Independent Auditor's Report will be received by the CEO after the Annual Financial Report has been signed by the CEO.

RECOMMENDATION

That the Audit and Risk Management Committee:

1. Receives the Annual Financial Report for the year ended 30 June 2020;
 2. Approves the CEO signing the Statement on page 2 of the Annual Financial Report so the Report can be finalised and the Independent Auditor's Report obtained for inclusion in the Report; and
 3. Recommends the Annual Financial Report, including the Independent Auditor's Report, be included in the Annual Report.
-

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 Moore Australia is used. This template also ensures the Shire is compliant with the Australian Accounting Standards. Moore Australia was also engaged by the Office of Auditor General to audit the Shire's Annual Financial Report for 2019-20.

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 on 18 August 2020 as the auditor's procedures require the report and supporting information to be provided for their on-site visit. The Auditors were on site for four days from 17 to 20 August to conduct fieldwork including transaction sampling and compliance checking. 2019-20 is the first year the audit was the responsibility of the Office of Auditor General, who contracted the audit to Moore Australia.

The initial version of the Annual Financial Report provided for audit was reasonably complete although it was recognised that some areas of disclosure required improvement and finalisation. Since this

version the report has undergone a number of changes to resolve some accounting interpretation matters, report formatting and to correct and add disclosure information.

Changes in the application of Australian Accounting Standards required the disclosure of additional information relating to the financial impact of these standards. The changed information relates to the recognition of certain operating leases as right-of-use assets and the recognition of revenue and grants received in advance as a liability in order to allow it to be matched against expenditure. A prior period adjustment to recognise the liability (provision) for the closure and rehabilitation of waste cells at the Davis Road landfill site was also recognised. The initial value of this provision is \$5,430,000.

A revaluation of plant, equipment and furniture for fair value purposes was processed in 2019-20. However, legislative changes impacting the 2019-20 financial year were being progressed by the Department of Local Government, Sport and Cultural Industries (DLGSCI) and OAG which would result in the fair revaluation of these asset classes not being required and their value instead being held at cost. The other change being progressed was to no longer recognise the value of crown land vested in and under the control of Council as an asset. The Shire was impacted by both of these changes having already recognised the fair value revaluation of plant, equipment and furniture and holding an asset value of \$5,092,300 for the golf courses in Augusta and Margaret River.

The Local Government (Financial Management) Amendment Regulations 2020 were gazetted on 6 November 2020. It was agreed the fair value valuation would not be changed as the difference between cost and fair value for these assets was likely to be immaterial and that adjustments would be processed to reduce the value of the Shire's assets by the amounts included for the golf courses. Changes were processed and the Annual Financial Report has been reviewed and approved by Moore Australia and OAG.

The OAG have advised the Independent Auditor's Report will be issued after the audit exit meeting with the Audit and Risk Management Committee as the intent is to resolve any queries from the committee regarding the audit process and Annual Financial Report. However, the Audit Concluding Memorandum states that Moore Australia will be recommending the OAG issue an unmodified opinion on the audit of the Shire's financial report. It will also be noted that in accordance with Regulation 10(3) of the Local Government (Audit) Regulations 1996 that:

- "There is a significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio has been below the industry benchmark and OAG threshold for the past 3 years."

A significant adverse trend requires a report be provided to the Minister within 3 months of the audit report being received, in accordance with section 7.12A of the *Local Government Act 1995*.

A positive result for the Operating Surplus ratio is difficult to achieve if there is insufficient 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 third largest area of operating expenditure after employee costs and materials and contracts, 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 assumptions for these factors impact total depreciation and directly impacts the Shire's operating result.

Other negative impacts upon the Shire's operating result for 2019-20 were the decline in interest earnings due to the historically low cash reference rate, lower fees and charges earned due to a combination of facilities being closed and fees being waived during the course of the COVID-19 pandemic, and increased employee costs to operate the new HEART facility.

The Annual Financial Report is attached and includes the various statutory financial statements and notes to the accounts. The Independent Auditor's Report will be included when it is received. The Annual Financial Report, including the Independent Auditor's Report, will be included in the Shire's Annual Report for 2019-20 and will also be available on the Shire's web site.

Some highlights of the Annual Financial Report for 2019-20 are as follows.

- The Statement of Comprehensive Income shows a net result of a surplus of \$10,801,210 compared to the budgeted result of \$1,892,879 and the 2018-19 result of \$3,895,408.

- The net result exceeded the budget and last year's result due primarily to higher non-operating grants resulting from the recognition of \$7,992,979 of donated assets for subdivisions from developers.
- The advance payment of Financial Assistance Grants (FAGs) for 2020-21 of \$742,349 received in May 2020 resulted in operating grants being higher than budget. An advance payment of FAGs for 2019-20 was also received in June 2019 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 the year did not achieve budget for the aquatic centre, recreation centres, fitness centre, holiday parks, HEART, customer relations, libraries and outside school hours care areas due primarily to COVID-19 enforced facility closures.
- Interest earned on investments did not achieve budget as rates budgeted for term deposits were higher than actual rates achieved due to the Reserve Bank reducing the cash reference rate.
- Total operating expenditure for the year did not exceed the budget.
- Employee costs were 6.3% over budget despite some 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 contributed half of this variation with the balance due to higher than budget salaries and wages and superannuation. These increases were attributable to additional staff required in some key business areas as well as organisational restructures that were progressed during the year.
- Under budget material and contracts expenditure is largely attributable to the deferral of projects to 2020-21.
- Depreciation was higher than budget due to the increasing value of infrastructure assets as well as the inclusion of depreciation for new assets.
- Utility charges, interest and insurance were close to budget projections.
- An operating deficit of \$3,625,551 was a slight improvement on the budgeted deficit of \$3,791,836 despite the impact of COVID-19 as the advance payment of the 2020-21 financial assistance grants contributed to operating grants exceeding budget.
- Non-operating (capital) grants exceeded budget due to funds being received for the de-proclamation of Bussell Highway in Margaret River and the non-cash recognition of developer contributions for donated assets in subdivisions.
- The Statement of Financial Position shows the Shire's net assets have decreased from \$465.423 million to \$464.335 million. The inclusion of the remediation provision of \$5.430 million for the Davis Road landfill site resulted in a prior year adjustment being processed to 2019. However, the main reason for the decrease is the removal of crown land vested in and under the control of Council valued at \$5.092 million from the property, plant and equipment category. Cash flow needs for the Margaret River main street project resulted in the balance of term deposits (Other financial assets) decreasing.
- 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 \$21,475,517 from \$25,969,301 and are disclosed in Note 4. The balance of reserves was higher than budget due partly to the transfer from the Margaret River CBD Redevelopment reserve not proceeding as a result of the timing of the main street upgrade project. Developer contributions received were higher than budgeted and transfers from the Caravan Parks upgrade reserve were lower than budgeted due to the timing of the chalet and amenities building upgrade project. An Emergency Disaster Relief reserve to initially provide financial support resulting from COVID-19 was initially established with a transfer from the Waste Management reserve. The funds received for the de-proclamation of Bussell Highway were transferred to the Roads reserve.
- The Cash Flow Statement shows the Shire's end of year cash position improved to \$12,646,535 from \$11,337,056 at the start of the year. While there was a decrease in cash flow from operating activities due to lower fees and charges and interest received and higher payments for employee costs and materials and contracts, less cash used for capital investment purposes due to capital grants and the redemption of some term deposits contributed to an overall increase in cash for the year. However, reduced cash generated from operations and higher capital investment compared to budget projections, resulted in a reduced result to budget.
- The Rate Setting Statement shows the Shire ended the year with a closing net current assets position of a surplus of \$2,405,479. This was an improvement on the budgeted result of a breakeven position. The result was also slightly higher than the estimated brought forward

position of \$2,247,875 included in the budget for 2020-21. Capital projects totalling \$1,137,026 carried forward to 2020-21 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 \$157,604 improvement in the actual closing position compared to the budget will assist in offsetting any over budget expenditures or revenue shortfalls during 2020-21 and any surplus may allow reserves to be replenished.

- Note 34 details the Financial Ratios that are the key measures specified and assessed by the DLGSCI and these ratios are shown in the following table. Three (4) of the seven (7) statutory ratios exceed the DLGSCI's advanced level and is a slight deterioration on last year's results. Three other ratios exceed the basic standard and one of these is close to the advanced standard although the ratio's trend is declining.
- The poorest performing ratio is the Operating Surplus ratio which is again negative due to the increased net operating deficit recorded for 2019-20.
- The Own Source Revenue Coverage ratio result of 0.81 almost achieves the DLGSCI's advanced standard of 0.90 but is slightly lower than last year's result and showing a declining trend.
- The net operating deficit also contributed to the reduced Debt Service Cover ratio result of 3.43 (last year 5.44) and is now lower than the DLGSCI's advanced standard of 5 but still above the basic standard of 2.
- The Current ratio remains strong with the result of 1.22 being the same as last year.
- The Asset Sustainability ratio has increased slightly from 0.87 to 0.91 and is approaching the DLGSCI's basic level. The improvement in this ratio reflects the emphasis upon renewing assets.
- The Asset Consumption Ratio measures the extent to which depreciable assets have been consumed compared to their replacement cost and the ratio result of 0.95 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 1.11, last year 1.17 (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 these documents are being updated it is possible this ratio result may be overstated.

SHIRE OF AUGUSTA MARGARET RIVER
AUDIT AND RISK MANAGEMENT COMMITTEE MEETING AGENDA 9 DECEMBER 2020

Annual Financial Report ratios	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	DLGSCI Target
Current Ratio	1.22	1.22	1.37	1.34	1.05	1.21	1.07	1.39	1.05	0.83	> 1
Asset Sustainability Ratio	0.91	0.87	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	3.43	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	(0.16)	(0.08)	(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	0.81	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	0.95	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	1.11	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							current assets minus restricted assets current liabilities minus liabilities associated with restricted assets				Measures ability to pay current liabilities
Asset sustainability ratio							capital renewal and replacement expenditure Depreciation expenses				Renewal spending as a percentage of depreciation
Debt service cover ratio							annual operating surplus before interest and depreciation principal and interest				Cash available to pay loan repayments
Operating surplus ratio							operating revenue minus operating expenses own source operating revenue				Ability to achieve an operating surplus
Own source revenue coverage ratio							own source operating revenue operating expenses				Percentage of expenses funded without grants
Asset consumption ratio							depreciated replacement cost of assets current replacement cost of depreciable assets				Level of asset stock consumed
Asset renewal funding ratio							NPV of planned capital renewal over 10 years (per LTFP) NPV of required capital expenditure over 10 years (per AMP)				Alignment of LTFP & AMP for asset renewal

Overall the financial results and ratios show the financial performance of the Shire for 2019-20 is positive.

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

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 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) 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 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.
- (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 2020-2024

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

Implications

The Annual Financial Report is the audited record of the actual financial results for 2019-20 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.

Long Term Financial Plan

Financial performance for 2019-20 influences the Long-Term Financial Plan by providing actual revenue and expenditure parameters to compare against forecast results.

Whole of Lifecycle considerations

Nil

SUSTAINABILITY IMPLICATIONS

Environmental

Nil

Social

Nil

Economic

Nil

ADVOCACY

Nil

IMPLICATIONS OF ALTERNATIVE RESOLUTION

Nil

VOTING REQUIREMENTS

Simple Majority

RECOMMENDATION

That the Audit and Risk Management Committee:

1. Receives the Annual Financial Report for the year ended 30 June 2020;
2. Approves the CEO signing the Statement on page 2 of the Annual Financial Report so the Report can be finalised and the Independent Auditor's Report obtained for inclusion in the Report; and
3. Recommends the Annual Financial Report, including the Independent Auditor's Report, be included in the Annual Report.

ATTACHMENTS

1. Annual Financial Report for the year ended 30 June 2020

7 CONFIDENTIAL BUSINESS

8 CLOSURE OF MEETING