

Shire of Denmark Minutes



SHIRE OF DENMARK AUDIT ADVISORY COMMITTEE

HELD IN THE COUNCIL CHAMBERS,
953 SOUTH COAST HIGHWAY, DENMARK,
TUESDAY, 5 FEBRUARY 2019.

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Council Committee Meeting

5 FEBRUARY 2019

DISCLAIMER

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1. DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

3.33pm – *The Presiding Person, Cr Gibson, declared the meeting open.*

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

MEMBERS:

Cr Kingsley Gibson (Presiding Person)
Cr Ceinwen Gearon (Shire President)
Cr Ian Osborne
Cr Janine Phillips
Cr Rob Whooley

STAFF:

Mr Bill Parker (Chief Executive Officer)
Mr Cary Green (Director Corporate and Community Services)
Mr Lee Sounness (Manager Corporate Services)
Mrs Claire Thompson (CEO Executive Assistant)
Ms Angela Masih (Admin Assistant, Corporate and Community Services)
Mrs Teiga Murray (Corporate Planning Officer)

APOLOGIES:

Cr Peter Caron (Deputy Shire President)

ON LEAVE OF ABSENCE:

Nil

ABSENT:

Nil

VISITORS:

Ms Efthalia Samaras (Office of Auditor General) – via teleconference
Mr Russell Harrison (Lincolns by numb3rs) - via teleconference
Members of the public in attendance at the commencement of the meeting: 1
Members of the press in attendance at the commencement of the meeting: Nil

DECLARATIONS OF INTEREST:

Nil

3. ANNOUNCEMENTS BY THE PERSON PRESIDING

Nil

4. CONFIRMATION OF MINUTES

4.1 AUDIT COMMITTEE MEETING 13 MARCH 2018

COMMITTEE RESOLUTION & OFFICER RECOMMENDATION	ITEM 4.1
MOVED: CR PHILLIPS	SECONDED: CR GEARON
That the minutes of the Shire of Denmark Audit Advisory Committee meeting held on 13 March 2018, be confirmed as a true and correct record of the proceedings.	
CARRIED UNANIMOUSLY: 5/0	

5. PUBLIC QUESTION TIME

Public Question Time shall be held in accordance with section 5.24 of the Local Government Act 1995 and Regulations 5, 6 and 7 of the Local Government (Administration) Regulations 1996.

Public question time enables members of the public to address the Committee or ask questions of Committee. The procedure for public question time can be found on the wall near the entrance to the Council Chambers or can be downloaded from the Shire's website at <http://www.denmark.wa.gov.au/council-meetings>.

Questions from the public are invited and welcomed at this point of the Agenda.

Questions from the Public

5.1 Mr Geoff Bowley – Long Term Financial Plan

Mr Bowley acknowledged and thanked Council for advertising the Audit Committee meeting and opening it up to the public.

Mr Bowley sought clarification on the seven financial ratios within note 28 within the Annual Financial Report. Mr Bowley noted that four ratios had improved and queried whether the fact that the Operating Surplus Ratio was in negative. Mr Bowley asked whether Council could comment on the matter.

The Director Corporate and Community Services advised that the Operating Surplus Ratio would be likely to remain negative whilst the Shire officers are running a balanced budget.

3.37pm - Cr Rob Whooley left the room.

3.37pm - Cr Rob Whooley returned to the room.

Mr Bowley enquired as to when the Long Term Financial Plan would be adopted.

The Director Corporate and Community Services advised that Council had requested further information be included in the Long Term Financial Plan and that Council hoped to have the plan adopted by the end of the financial year.

Cr Gibson advised that Council would prefer to adopt a thorough plan with more detailed information on individual projects.

6. OFFICER REPORTS

6.1 CONDUCT OF MEETING WITH AUDITOR – 2017/2018 ANNUAL FINANCIAL REPORT AND AUDITORS REPORT
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File Ref:	FIN.31
Applicant / Proponent:	Shire of Denmark
Subject Land / Locality:	Nil
Disclosure of Officer Interest:	Nil
Date:	21 January 2019
Author:	Cary Green, Director Corporate and Community Services
Authorising Officer:	Bill Parker, Chief Executive Officer
Attachments:	Nil

Summary:

To resolve how the meeting between the Audit Committee and Council's Auditor will be conducted.

Background:

Nil

Consultation:

The Annual Financial Report has been the subject of close examination by the Office of the Auditor General and the appointed auditor Russell Harrison of Lincolns Beyond Numb3rs.

Statutory Obligations:

Local Government Act 1995 Section 7.12A (2)

Policy Implications:

There are no policy implications.

Budget / Financial Implications:

Nil

Strategic & Corporate Plan Implications:

The report and officer recommendation are consistent with Council’s adopted Strategic Community Plan Aspirations and Objectives and the Corporate Business Plan Actions and Projects in the following specific ways:

Denmark 2027

L5.4 To be fiscally responsible.

Sustainability Implications:

➤ **Governance:**

There are no known significant governance considerations relating to the report or officer recommendation.

➤ **Environmental:**

There are no known significant environmental implications relating to the report or officer recommendation.

➤ **Economic:**

There are no known significant economic implications relating to the report or officer recommendation.

➤ **Social:**

There are no known significant social considerations relating to the report or officer recommendation.

➤ **Risk:**

Risk	Risk Likelihood (based on history and with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That the Audit Advisory Committee do not agree to meet with the Auditor.	Rare (1)	Minor (2)	Low (1-4)	Failure to meet Statutory, Regulatory or Compliance Requirements	Accept Officer Recommendation

Comment/Conclusion:

The Office of the Auditor General have produced an Independent Auditor’s Report and an Index of Audit Findings for the 2017/2018 financial year.

An important function of the meeting is to discuss with the Auditor, the conduct of the audit, the audit findings, and the state of the Shire’s financial affairs generally.

Legislation specifies that a local government is required to meet with its auditor at least once in every year. The Department’s Local Government Operational Guidelines – Number 09, Part 16 states:

“It is acknowledged that the requirement to meet at least once per year may incur a significant financial burden for the more remote local governments. In such circumstances the meeting can be conducted by telephone or video conference. The Council or Audit Committee should resolve how the meeting with the Auditor will be conducted and for the record of the meeting to show that the Auditor was involved and the matters discussed.”

The Office of the Audit General and Council’s Auditor has advised that they will be available from 3:30 pm to liaise with members of the Audit Committee via teleconference.

Voting Requirements:

Simple Majority

COMMITTEE RESOLUTION & OFFICER RECOMMENDATION	ITEM 6.1
MOVED: CR GEARON	SECONDED: CR PHILLIPS
That the Shire of Denmark Audit Advisory Committee resolves to conduct a meeting with the Office of the Auditor General and the appointed auditor, Mr Russell Harrison of Lincolns Beyond Numb3rs via telephone conference.	
CARRIED UNANIMOUSLY: 5/0	

3.43pm – Mr Russell Harrison & Ms Efthalia Samaras joined the meeting via telephone conference.

6.2 SHIRE OF DENMARK 2017/18 ANNUAL FINANCIAL STATEMENT AND AUDIT REPORT	
File Ref:	FIN.31
Applicant / Proponent:	Shire of Denmark
Subject Land / Locality:	Nil
Disclosure of Officer Interest:	Nil
Date:	8 February 2018
Author:	Cary Green, Director Corporate and Community Services
Authorising Officer:	Bill Parker, Chief Executive Officer
Attachments:	6.2a – 2017/2018 Financial Statements 6.2b – Financial Management Findings 6.2c – Auditor General Report

Summary:

The 2017/2018 Annual Financial Statement, Auditor’s Report and Management Letter has been received from the Office of the Auditor General’s Director of Financial Audit, Efthalia Samara and the appointed Auditor, Mr Russell Harrison from Lincolns beyond Numb3rs and is provided to Committee Members with the Agenda documents.

Consultation:

Nil

Statutory Obligations:

Local Government Act 1995 - Part 7.

Local Government (Financial Management) Regulations 1996.

Local Government (Audit) Regulations 1996 – Regulation 16.

Policy Implications:

The Audit Advisory Committee have delegated authority under Delegation D040231.

Policy P040232 – Municipal Budget Policies relates to annual financial budgets.

Budget / Financial Implications:

The cost of the Audit was \$33,500 (ex GST) and the preparation, collation and printing of statements was undertaken in-house by Council Officers. Both of these costs have been covered in the 2018/19 Budget.

Strategic & Corporate Plan Implications:

The report and officer recommendation are consistent with Council’s adopted Strategic Community Plan Aspirations and Objectives and the Corporate Business Plan Actions and Projects in the following specific ways:

Denmark 2027

L5.4 To be fiscally responsible.

Sustainability Implications:

➤ **Governance:**

There are no known significant governance considerations relating to the report or officer recommendation.

➤ **Environmental:**

There are no known significant environmental implications relating to the report or officer recommendation.

➤ **Economic:**

There are no known significant economic implications relating to the report or officer recommendation.

➤ **Social:**

There are no known significant social considerations relating to the report or officer recommendation.

➤ **Risk:**

Risk	Risk Likelihood (based on history and with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
That the Committee not consider and make recommendation on the 2017/18 Financial Statements and Auditors Report.	Rare (1)	Minor (2)	Low (1-4)	Failure to meet Statutory, Regulatory or Compliance Requirements	Accept Officer Recommendation

Comment/Conclusion:

The 2017/2018 Annual Financial Report, Independent Auditor’s Report and Management Letter are to be subject of an Audit Committee meeting where the Committee will consider any action that may be required.

The objectives of the audit are to obtain reasonable assurances that the financial report is free from material misstatement and to provide an opinion to that effect. The nature of the audit is influenced by factors such as the use of professional judgement, selective testing, inherent limitations in internal controls and persuasive rather than conclusive evidence.

Shire Officers are not members of this committee and are present to answer any questions from members.

INDEPENDENT AUDITORS REPORT

Opinion

In the opinion of the Office of the Auditor General, the annual financial report of the Shire of Denmark:

- i. is based on proper accounts and records; and
- ii. fairly represents, in all material aspects, the results of the operations of the Shire for the year ended 30 June 2018 and its financial position at the end of that period in accordance with the Local Government Act 1995 (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

The following is an extract from the management letter and summarises the findings identified during the final audit;

1. General Journal Review

Finding:

It was noted supporting documentation for accounting journal entries was not maintained at all times and there was no evidence of an independent review/approval of journals.

Management Comment:

An Accounting Procedure - General Journals has been drafted to suit the Shire of Denmark's organisational structure and operational requirements. This procedure documents the use, authorisation and control over journal entries. It is expected that this procedure will be adopted by management as an internal administrative process improvement during February 2019.

2. Financial Ratios

Finding:

The auditor noted the asset renewal funding ratio for the year ended 30 June 2018 and the preceding years has not been included in the financial report. The auditor also noted that there are no comparatives for the asset consumption ratio.

Management Comment:

During the 2017/18 financial year a significant amount of work was done in respect to the preparation of a Long Term Financial Plan (LTFP) and review of the Shire's Asset register content and accuracy and work on this has continued in 2018/19.

The Shire currently has a "draft LTFP" which has been workshopped with Council, and includes all the information required to calculate this ratio, however it is not yet adopted. Once the LTFP is adopted this ratio will be calculated to comply with the regulations.

The officer has prepared the following table to enable members of the Audit Advisory Committee to look at the last three (3) financial years in respect to the ratios below.

Ratio	Description	Result 17/18	Result 16/17	Result 15/16	Prescribed Standard
Current Ratio	Indicates the Shire's ability to meet short term debt obligations.	.93	(.55) 1.05	(1.39) 1.15	The standard is met if the ratio is greater than 1.
Asset Sustainability Ratio	Indicates that the Shire is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.	.98	.40	.39	The standard is met if the ratio is 0.9 or higher.
Debt Service Cover Ratio	Indicates the Shire's ability to repay its debt including lease payments.	4.53	(3.59) 4.93	(4.47) 3.21	A basic standard is met if the ratio is greater than or equal to 2. An advanced standard is met if the ratio is greater than 5.
Operating Surplus Ratio	Indicates the Shire's ability to cover its operational costs and have revenues available for capital funding or other purposes.	-.28	(-.46) -.39	(-.36) -.41	A basic standard is met between 0.01 and 0.15. An advanced standard is met if the ratio is greater than 0.15.
Own Source Revenue Coverage Ratio	Indicates the Shire's ability to cover its costs through its own revenue efforts.	0.67	0.60	0.64	A basic standard is met if the ratio is between 0.4 and 0.6. Intermediate standard is between 0.6 and 0.9. An advanced standard is met if the ratio is greater than 0.9.
Asset Consumption Ratio	Measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost	.97	N/A	N/A	The standard is met if the ratio is 0.5 or greater. The standard is improving if the ratio is between 0.6 and 0.75.
Asset Renewal Funding Ratio	Measures the ability of the Shire to fund its projected asset renewal/replacements in the future.	N/A	N/A	N/A	The standard is met if the ratio is between 0.75 and 0.95. The standard is improving if the ratio is between 0.95 and 1.05.

Notes: Three of the ratios above were distorted by the early receipt of Grants. In addition, two of the ratios were impacted by revenue and expenses associated with flood damage reinstatement which is considered one-off. The adjusted ratios are shown in brackets.

The table shows improvement from the previous financial year in the following ratios:

- Asset Sustainability Ratio
- Operating Surplus Ratio
- Own Source Revenue Coverage Ratio
- Asset Consumption Ratio

With the substantial work being undertaken in respect to the Shire's Asset Management plan and Long Term Financial Plan, as well as improved budgeting processes, it is expected that the ratios will continue to improve over time.

ANNUAL REPORT AND AGM OF ELECTORS

An Annual Report is currently being prepared in accordance with Section 5.53 of the Local Government Act and will be presented to Council for consideration on Tuesday 19th of February 2019. If accepted, the Council must then set a date to hold an Annual General Meeting of electors in accordance with the Local Government Act Section 5.27 (2).

Voting Requirements:

Simple majority.

4.00pm - Cr Gibson thanked Mr Harrison and Ms Samara for participating in the meeting. Mr Russell Harrison and Ms Efthalia Samara thanked Shire Officers for their assistance during the audit process and left the meeting.

COMMITTEE RECOMMENDATION & OFFICER RECOMMENDATION	ITEM 6.2
MOVED: CR GEARON	SECONDED: CR OSBORNE

That the Shire of Denmark Audit Advisory Committee recommends that Council adopt the 2017/18 Annual Financial Statements including Auditors Report, noting the recommendations therein and endorsing the actions proposed to be taken by the Chief Executive Officer.

CARRIED UNANIMOUSLY: 5/0

7. GENERAL BUSINESS

Nil

8. NEXT MEETING

The next meeting of the Shire of Denmark Audit Committee is to be held as required.

9. CLOSURE OF MEETING

4.02pm – There being no further business to discuss the Presiding Person, Cr Gibson, thanked all those in attendance and declared the meeting closed.

These minutes were confirmed at the meeting of the _____

Signed: _____