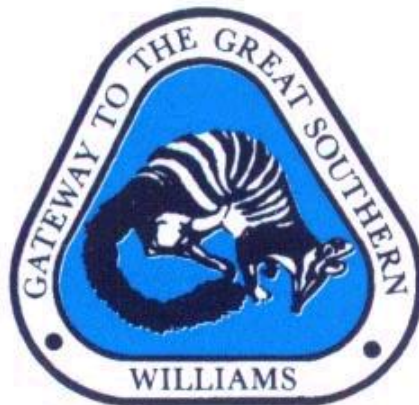


SHIRE OF WILLIAMS

***MINUTES AUDIT COMMITTEE MEETING
TO BE HELD ON WEDNESDAY 21ST AUGUST 2019***



INTERIM AUDIT

***SIGNIFICANT ADVERSE
TRENDS IN THE
FINANCIAL POSITION***



MINUTES – AUDIT COMMITTEE MEETING HELD 21ST AUGUST 2019

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SEPARATE DOCUMENTS

1. Minutes



SHIRE OF WILLIAMS

BROOKING STREET, WILLIAMS, WESTERN AUSTRALIA.

OFFICE HOURS: MONDAY TO FRIDAY: 8.30 a.m. to 5.00 p.m.

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All communications to be addressed to the Chief Executive Officer, P.O. Box 96, Williams, W.A. 6391.

Your Ref:

Our Ref:

NOTICE OF MEETING

You are respectfully advised that the next Audit Committee meeting will be held in the Council Chambers at 12.00 noon Wednesday 21st August 2019.

Yours faithfully

Geoff McKeown
Chief Executive Officer



DISCLAIMER

No responsibility whatsoever is implied or accepted by the Shire of Williams for any act, omission or statement or intimation occurring during Council or Committee meetings. The Shire of Williams disclaims any liability for any loss whatsoever and howsoever caused arising out of reliance by any person or legal entity on any such act, omission or statement or intimation occurring during Council or Committee meetings. Any person or legal entity who acts or fails to act in reliance upon any statement, act or omission made in a Council or Committee meeting does so at that person's or legal entity's own risk.

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



AGENDA

1.0 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

The President, Cr Logie declared the meeting open at 12.27pm.

2.0 RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE (PREVIOUSLY APPROVED)

Cr Jarrad Logie (President)

Cr Gilbert Medlen

Cr Robert Baker

Cr Simon Harding

Geoff McKeown

Chief Executive Officer

Cara Ryan

Manager of Finance

3.0 PUBLIC QUESTION TIME

4.0 PETITIONS / DEPUTATIONS / PRESENTATIONS

5.0 DECLARATIONS OF INTEREST

DECLARATION OF INTEREST	
Name / Position	
Item No. / Subject	
Type of Interest	



6.0 AUDIT COMMITTEE MEETING HELD 20TH MARCH 2019

6.1 CONFIRMATION OF AUDIT COMMITTEE MEETING HELD 20TH MARCH 2019

Officer's Recommendation

That the Minutes of the Audit Committee Meeting held on 20th March 2019, as previously circulated, be confirmed as a true and accurate record.

Committee Decision

Harding/Medlen

That the Minutes of the Audit Committee Meeting held on 20th March 2019, as previously circulated, be confirmed as a true and accurate record.

Carried 4/0

7.0 ANNOUNCEMENTS BY PRESIDING MEMBER WITHOUT DISCUSSION

8.0 REPORTS



8.1 CHIEF EXECUTIVE OFFICER REPORT

8.1.1 FINDINGS IDENTIFIED DURING INTERIM AUDIT

File Reference	4.22.00
Statutory Reference	<i>Local Government Act 1995 and Local Government Amendment (Auditing) Act 2017</i>
Author & Date	Geoff McKeown 16 August 2019
Attachment	Nil

Background

Butler Settineri (Audit) Pty Ltd conducted an Interim Audit for the 2018/19 financial year on the 13 and 14 May 2019. The audit is conducted on behalf of the Office of the Auditor General (the OAG).

During the audit any findings identified are communicated to the OAG and a Management Letter is referred back to the local government.

Comment

A draft of the letter to be sent by Butler Settineri (Audit) Pty Ltd to the OAG was been shared with the Shire to give the opportunity to include a Management Comment. Detail of the finding identified follows:

<i>INDEX OF FINDINGS</i>	<i>RATING</i>		
	<i>Significant</i>	<i>Moderate</i>	<i>Minor</i>
<i>1. Purchase orders dated after invoice dates</i>		<i>Yes</i>	
<i>2.</i>			
<i>3.</i>			
<i>4.</i>			
<i>5.</i>			
<i>6.</i>			
<i>7.</i>			
<i>8.</i>			

KEY TO RATINGS

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



- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating could indicate the need for a modified audit opinion in the current year, or in a subsequent reporting period if not addressed. However even if the issue is not likely to impact the audit opinion, it should be addressed promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

Issue Purchase orders dated after invoice dates

Finding:

During our sample testing of payments made throughout the year, we identified instances where the authorised purchase orders were dated after the dates of the corresponding supplier invoices.

Rating: Moderate

Implication:

There is no evidence that the ordering of goods was approved prior to ordering.

Recommendation:

Purchase orders should be approved for all applicable items prior to ordering.

Management's Comments:

This is an area that requires improvement and reinforcement to officers that have approval to make purchases. The Shire's purchasing policy does clearly state that a purchase directly made to a supplier requires a purchase order. Employees will be reminded of their obligation to ensure a purchase order is raised at the time of entering into a contact for goods and services.

The purchasing policy will be reviewed to include that a purchase order will not be required for purchases up to \$200, where the market is known, low risk and the officer making the purchase has authority to do so.

Responsible Person:

Works Supervisor

Completion Date:

Financial Implications

Non-compliance with the purchasing policy creates a risk where goods and services may be purchased without correct approval.



Strategic Implications

This item aligns with the community’s vision and aspirations as contained in the Shire of Williams Strategic Community Plan 2017-2032. Specifically it relates to the following strategies:

CL 2.2 Maintain accountability, transparency and financial responsibility.

Voting Requirements

Simple Majority

Officer’s Recommendation

That the Audit Committee notes the draft letter concerning findings identified during the 2018/19 Interim Audit and awaits the formal response from the Office of the Auditor General.

Committee Decision

Medlen/Harding

That the Audit Committee notes the draft letter concerning findings identified during the 2018/19 Interim Audit and awaits the formal response from the Office of the Auditor General.

Carried 4/0



8.1.2 SIGNIFICANT ADVERSE TRENDS IN THE FINANCIAL POSITION

File Reference	4.22.00
Statutory Reference	<i>Local Government Act 1995 and Local Government Amendment (Auditing) Act 2017</i>
Author & Date	Geoff McKeown 15 August 2019
Attachment	Nil

Background

In November 2017 the proclamation of the *Local Government Amendment (Auditing) Act 2017* introduced a number of reforms to auditing laws. The legislation requires local governments to examine an audit report it receives and implement appropriate action in respect to the significant matters raised.

The Department of Local Government, Sport and Cultural Industries (the Department) has received the Shire's 2017-18 Audit Report. This report identifies a significant adverse trend in the financial position of the Shire, indicating that the Asset Sustainability Ratio and Operating Surplus Ratio are below the Department's standard.

Local governments must prepare a report addressing the significant matters identified in their audit report, which is to be considered by the local government's audit committee before being adopted by council.

The Department has written to the Shire requesting that action be taken to comply with this requirement.

Comment

The relevant comments in the 2017-2018 Audit Report from Butler Settineri (Audit) Pty state:

"We did not, during the course of our audit, become aware of any instances where the Shire did not comply with the statutory requirements of the Local Government Act (1995) (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

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

- a) Apart from the asset sustainability ratio and operating surplus ratio there are no material matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Shire.*
- b) The Shire substantially complied with Part 6 of the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).*
- c) All information and explanations required were obtained by us.*
- d) All audit procedures were satisfactorily completed in conducting our audit."*



➤ **Asset Sustainability Ratio**

$$\text{Asset Sustainability Ratio} = \frac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation}}$$

The purpose of this ratio is to indicate whether a local government is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out. The Department has determined that a ratio below 0.90 (90%) is below the standard required. The Office of the Auditor General suggests below 0.80 (80%) is below the standard required.

The following table highlights the Shire’s ratio as calculated for the last three financial years, along with an unaudited figure for the 2018/19 financial year:

	2015/16	2016/17	2017/18	2018/19 (unaudited)
Asset sustainability ratio	0.37 (37%)	0.49 (49%)	0.37 (37%)	0.96 (96%)

This ratio is influenced by the extent to which a local government creates new assets or upgrades assets, as opposed to the replacement or renewal of an existing asset. In the period covered in the table above, and specifically in the 2017/18 financial year, the Shire of Williams has developed new assets, including Aged Appropriate Units, Industrial Unit and the first stage of the Williams Lions Park redevelopment. These significant projects have been completed with the unaudited 2018/19 ratio reflecting a return to a typical asset replacement and renewal programme. This unaudited ratio now meets the ‘basic’ standard.

➤ **Operating Surplus Ratio**

$$\text{Operating Surplus Ratio} = \frac{\text{(Operating Revenue MINUS Operating Expense)}}{\text{Own Source Operating Revenue}}$$

The purpose of this ratio is a measure of a local governments’ ability to cover its operational costs and have revenues available for capital funding or other purposes. The Department has determined that a ratio below 0.01 (1%) is below the standard required. The Office of the Auditor General suggests below 0.00 (0%) is below the standard required.

The following table highlights the Shire’s ratio as calculated for the last three financial years, along with an unaudited figure for the 2018/19 financial year:

	2015/16	2016/17	2017/18	2018/19 (unaudited)
Operating surplus ratio	-0.47 (-47%)	-0.28 (-28%)	-0.20 (-20%)	-0.07 (-7%)



Own source operating revenue is made up of rates, fees and charges, interest income, profit on disposals of assets, reimbursements and recoveries, and other revenue. Small regional local governments are limited in their ability to increase own source revenue and are more reliant on grant funding for renewal of assets.

Depreciation expense a significant factor in this ratio as it is included in operating expense. The requirement to revalue road assets on a regular basis, and attribute an appropriate level of depreciation, has been a challenge for local governments. This process has matured in recent years and this Shire has better systems in place to more accurately account for road asset depreciation expense.

While taking these factors into consideration, the trend for the Shire of Williams is moving towards achieving a ratio above the minimum standard.

Strategic Implications

This item aligns with the community's vision and aspirations as contained in the Shire of Williams Strategic Community Plan 2017 to 2032. Specifically, it relates to the following strategy(s):

- CL 2.2 Maintain accountability, transparency and financial responsibility.
- CL 2.3 Monitor revenue streams and implement opportunities where appropriate. Consistently review rate income.

Financial implications

Current trends indicate that the Shire is moving towards achieving a ratio above the minimum standard.

Voting Requirements

Simple Majority

Officer's Recommendation

The Audit Committee recommends to Council that it:

1. Notes the significant adverse trends in the financial position of the Shire, as identified in the 2017/18 Audit Report, stating that the Asset Sustainability Ratio and Operating Surplus Ratio are below the Department of Local Government, Sport and Cultural Industries standard; and
2. Authorises a copy of this report to be forwarded to the Minister for Local Government and be published on the Shire's official website.

Committee Decision

Baker/Harding

The Audit Committee recommends to Council that it:

1. Notes the significant adverse trends in the financial position of the Shire, as identified in the 2017/18 Audit Report, stating that the Asset Sustainability Ratio and Operating Surplus Ratio are below the Department of Local Government, Sport and Cultural Industries standard; and
2. Authorises a copy of this report to be forwarded to the Minister for Local Government and be published on the Shire's official website.

Carried 4/0



**9.0 NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY
DECISION OF MEETING.**

10.0 INFORMATION SESSION

11.0 CLOSURE OF MEETING

The President, Cr Logie closed the meeting at 12.48pm.