



SHIRE OF WOODANILLING



Audit Committee Minutes 25 May 2021

To be held 2pm at Shire Chambers 3316 Robinson Rd
Woodanilling

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AUDIT COMMITTEE

1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

Meeting opened at 3.43pm

2. RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE (PREVIOUSLY APPROVED)

Present:

Cr HR Thomson	Shire President	Cr M Trimming	
Cr D Douglas	Deputy Shire President	Cr S Jefferies	
Cr P Morrell		Stephen Gash	Chief Executive Officer
Cr T Brown		Sue Dowson	Deputy CEO

Apologies:

Nil

3. CONFIRMATION OF MINUTES

3.1. SPECIAL AUDIT COMMITTEE HELD – 16 APRIL 2021

AUDIT COMMITTEE DECISION

Moved Cr Morrell seconded Cr Trimming

That the Minutes of the Special Audit Committee 16 April 2021 to receive the 'Report to Audit Committee' from the Office of the Auditor General be confirmed as a true and correct record of proceedings.

CARRIED 6/0

4. OFFICER’S REPORTS

4.1. CONSIDERATION OF 2019/2020 ANNUAL FINANCIAL STATEMENTS

Proponent	Shire of Woodanilling
Owner	N/A
Location/Address	N/A
Author of Report	Stephen Gash - CEO
Date of Meeting	26 April 2021
Previous Reports	
Disclosure of any Interest	Nil
File Reference	4.3.4
Attachments	Annual Financial Statements 2019/2020 Including Auditors Report

BRIEF SUMMARY

The Audit Committee is requested to receive the 2019/2020 Annual Financial Statements and consider any significant items.

BACKGROUND

The Audited Annual Financial Statement for 2019/2020 were received on the 22nd April 2021 from the Office of the Auditor General. The Statements include the Auditor Report.

This followed a Special Audit Committee Meeting on 16th April 2021 where the findings were discussed with the Audit Committee as an ‘exit interview’ prior to finalising the Statements. There are no changes in the Auditors report from the report to Audit Committee on 16th April 20 to items listed in the Auditors Report to the Annual Financial Statements.

STATUTORY/LEGAL IMPLICATIONS

The relevant legislation regarding the annual financial statements and the annual report is as follows:

Local Government (Audit) Regulations 1996

16. Functions of audit committee

An audit committee has the following functions (in part) —

- (a) to guide and assist the local government in carrying out —
 - (i) its functions under Part 6 of the Act; and *Local Government (Audit) Regulations 1996*
 - (ii) its functions relating to other audits and other matters related 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
- (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)**.

***Section 7.12A(3) requires a local government to examine an audit report received, determine any matters raised in the audit report require action and ensure appropriate action is taken regarding these matters**

**** Section 7.12A(4)(a) requires a report addressing any matters identified as significant by the auditor and the action it will take to address such matters.**

Local Government (Financial Management) Regulations

Regulation 51(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.

Local Government Act 1995

6.4 Financial report

6.4.4

- (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.

7.9. Audit to be conducted

- (1) 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.
- (2) Without limiting the generality of subsection (1), where the auditor considers that —
 - (a) there is any error or deficiency in an account or financial report submitted for audit; or
 - (b) any money paid from, or due to, any fund or account of a local government has been or may have been misapplied to purposes not authorised by law; or
 - (c) there is a matter arising from the examination of the accounts and annual financial report that needs to be addressed by the local government, details of that error, deficiency, misapplication or matter, are to be included in the report by the auditor.

POLICY IMPLICATIONS

Nil

FINANCIAL IMPLICATIONS

The Shire has now received from the Office of the Auditor General (OAG) the invoice for the annual financials being \$29,000 which is as budgeted.

STRATEGIC IMPLICATIONS

Theme 3

Governance

GOALS

Short Term

GO.10 Implementation of community consultation process that link the Council and the community to ensure open and accountable government

Ongoing

GO.4 Financial management Plan – implementation and regular reporting on long term plan

CONSULTATION/COMMUNICATION

Audit Committee (Includes all Councillors)

Linclons
Office of Auditor General

RISK IMPLICATIONS

Non completion of the Annual Report and the Annual Financial Statements or that they have not been compiled correctly is a compliance risk.

This is the third year under the OAG Audit contract who advise that many Audits were delayed due to the timeframe for adoption of changes to the Local Government (Financial Management Regulations).

The audit contract did not include the requirement for Roads to Recovery Annual Report and this was not finalised before the 30 April 2021 cut off to receive cash payments in 2020/21. Therefore the Shire was forced to defer all Roads to Recovery Projects or face significant cash flow issues approximating 35% of the entire annual rate revenue.

COMMENT

Items in the Audit report requiring consideration under section 7.12(A) of the Local Government Act (1995) are:

1. Completion of the Community Strategic Plan and Corporate Business Plan to ensure asset ratios can be calculated; and
2. Operating Surplus Ratio remaining below required local government benchmarks for the past 3 years.

Proposed Response to be forwarded to the Minister for Local Government and published as required

1. The Shire had planned to progress its integrated planning processes at a planned community event in February 2020. Unfortunately this did not happen as the event was used as a community update to the Katanning- Woodanilling Bushfire. Immediately following this was the COVID restrictions which prevented progression and reallocated resources to other community support.

ACTION: The required planning will be completed by 30 June 2021.

2. Council acknowledges the level and trend of the Operating Surplus Ratio below:

FINANCIAL RATIOS

	2020 Actual	2019 Actual	2018 Actual
Current ratio	1.97	1.68	3.52
Asset consumption ratio	0.80	0.82	0.77
Asset renewal funding ratio	N/A	1.00	1.00
Asset sustainability ratio	1.03	0.50	0.83
Debt service cover ratio	N/A	N/A	N/A
Operating surplus ratio	(0.35)	(0.86)	(0.42)
Own source revenue coverage ratio	0.42	0.30	0.25

Operating surplus ratio = $\frac{\text{(operating revenue minus operating expense)}}{\text{own source operating revenue}}$

Own source operating revenue means revenue from rates and service charges, fees and user charges, reimbursements and recoveries, interest income and profit on disposal of assets.

The Operating Surplus Ratio measures the extent to which revenues raised cover operational expenses (including depreciation).

The Department considers the ratio standard is met if the ratio is above 0.00. To achieve a positive level in the ratio requires operating revenue (excluding capital grants and contributions) to be greater than operating expenditure (including depreciation). It is typical of a local government similar to the Shire of Woodanilling to have an operating surplus ratio that does not meet the minimum requirements. This result reflects a reliance on sources of funding other than Council's own source funds such as rates.

A number of additional major items also directly influence the results of the Operating Surplus Ratio, such as:

1. The timing of operating grant funds being received in one financial year and expenditure being incurred in another e.g. pre-payment of the Federal Government Financial Assistance Grants.
2. The exclusion from the ratio of recurrent capital grants (such as specific purpose road grants) as a revenue, yet all of their expenditure is counted.
3. The funding of operating projects from reserve funds. All operating expenditure must be included in the ratio calculations, however the funds from cash reserve are excluded, resulting in an apparent lower ability to fund operating expenditure.

In order to improve its Operating Surplus Ratio, the Council has limited options available to it. One measure could be to increasing rates substantially, however, this must be balanced with the community's capacity and willingness to pay. An alternative is to review the Shire's major operating costs, including employment costs, materials and contracts, however, to achieve the required cost savings would have a dramatic adverse impact the level of service which the Shire is able to deliver to the community.

The Shire notes WALGA recommendations on the applicability of this ratio given some of the exclusions above.

ACTION: The Shire of Woodanilling does not have the immediate capacity in its current financial structure to bring the ratio in line with the Department's benchmark in the short term. The Shire will seek, as part of its long-term financial planning process, to make improvements to the Operating Surplus Ratio over time as opportunities present to improve revenue sources and make efficiencies in operating expenses.

VOTING REQUIREMENTS

Simple Majority

OFFICER'S RECOMMENDATION – REVIEW OF THE 2019/20 ANNUAL FINANCIAL STATEMENTS

Moved Cr Douglas seconded Cr Morrell

That the Audit Committee-

1. Receives the Shire's 2019/2020 Annual Financial Statements and Auditors Report.
2. Has reviewed the Auditors Report and recommends to Council the proposed response on significant items contained within this report.

CARRIED 6/0

4.2. 2020/2021 AUDIT PLANNING

Proponent	Shire of Woodanilling
Owner	
Location/Address	
Author of Report	Stephen Gash - CEO
Date of Meeting	20 May 2021
Previous Reports	
Disclosure of any Interest	Nil
File Reference	4.3.4
Attachments	2020/2021 Audit Plan

BRIEF SUMMARY

To receive the Audit Plan for the 2020/2021 Audit provided at the entry interview.

BACKGROUND

The entry interview with Auditors was conducted on 11 May 2021 by teleconference.

The scope for the Audit is managed by the Office of the Auditor General and the Audit Plan was presented at the entry interview to document relevant standards, and expectations on information and timing.

STATUTORY/LEGAL IMPLICATIONS

Local Government (Audit) Regulations 1996

POLICY IMPLICATIONS

Nil

FINANCIAL IMPLICATIONS

Nil

STRATEGIC IMPLICATIONS

Theme 3

Governance

OBJECTIVES

To promote continual improvement that is supported by efficient and effective governance structures and processes.

STRATEGIES

By ensuring legislation is used to effectively enable quality decision making.

CONSULTATION/COMMUNICATION

Nothing Required

RISK MANAGEMENT

External Audit is one of the highest risk management processes the Audit Committee can rely upon to carry out their oversight role.

COMMENT

Lincolns have been re-appointed as sub-contractors to undertake the Office of the Auditor General Audit of the Shire of Woodanilling for the next three (3) years.

The Shire clarified that this will include Roads to Recovery Annual Report review for OAG certification.

The entry interview was required prior to Interim Audit. The interim audit visit was undertaken on 18th and 19th of May.

VOTING REQUIREMENTS

Simple Majority

OFFICER'S RECOMMENDATION – ITEM 2020/2021 AUDIT PLAN

Moved Cr Douglas seconded Cr Morrell

That the Audit Committee receive the 2020/2021 Audit Plan and note the proposed timing of Audit processes.

CARRIED 6/0

4.3. COMPLIANCE AUDIT RETURN

Proponent	Shire of Woodanilling
Owner	
Location/Address	
Author of Report	Sue Dowson DCEO
Date of Meeting	23 March 2021
Previous Reports	
Disclosure of any Interest	Nil
File Reference	4.1.36
Attachments	Compliance Audit Return to 31/12/2020 under separate cover.

BRIEF SUMMARY

To adopt the Compliance Audit Return in accordance with the Local Government (Audit) Regulations 1996.

BACKGROUND

The Compliance Audit Return process ensures that each Local Government has processes in place that allows Council to monitor how the organisation is functioning. The Compliance Audit Return is one of the tools available to assist Council with this monitoring role.

The Compliance Audit Return is to be:

- presented to Council at a meeting of the Council
- adopted by the Council; and
- the adoption recorded in the minutes of the meeting at which it is adopted.

After the Return has been presented to Council a certified copy of the Return along with the relevant Section of the Minutes and any additional information is to be submitted to the Department by 31 March 2021.

STATUTORY/LEGAL IMPLICATIONS

Local Government (Audit) Regulations 1996

POLICY IMPLICATIONS

Nil

FINANCIAL IMPLICATIONS

Nil

STRATEGIC IMPLICATIONS

Theme 3

Governance

OBJECTIVES

To promote continual improvement that is supported by efficient and effective governance structures and processes.

STRATEGIES

By ensuring legislation is used to effectively enable quality decision making.

CONSULTATION/COMMUNICATION

Nothing Required

RISK MANAGEMENT

The need to undertake the Compliance Audit Return (CAR) is one of compliance. The Shire in the past has complied with this requirement within the due date. The failure to undertake the CAR this year within the prescribed time giving a high risk rating that needs to be addressed.

COMMENT

Non-compliance identified primarily relates to timing that has been impacted by resourcing due to staffing and COVID.

VOTING REQUIREMENTS

Absolute Majority

OFFICER'S RECOMMENDATION – ITEM COMPLIANCE AUDIT RETURN 01/01/2020 – 31/12/2020

Moved Cr Morrell seconded Cr Douglas

That the Audit Committee:

1. Receive the attached Statutory Compliance Audit for the period 1st January 2020 until 31 December 2020.and recommend its approval and lodgement to Council
2. Note the non-compliance and require monthly status reporting on outstanding actions.

CARRIED 6/0

5. **ITEMS LISTED FOR DISCUSSION**

Nil

6. **CLOSURE OF MEETING**

Meeting Closed at 4.20pm