

SHIRE OF KOJONUP

Kojonup



Audit & Risk Committee Minutes

16 June 2020

TERMS OF REFERENCE

AUDIT & RISK COMMITTEE

Function:

This Committee is responsible for assisting Council in recommending appropriate actions to Council with regards to audit, risk and governance management to ensure accountability to the community in its responsibilities.

Duties and Responsibilities:

- Receive and review the biannual reports from the Chief Executive Officer (CEO) regarding the appropriateness and effectiveness of the Shires risk management, internal controls and legislative compliance and make recommendations to Council;
- Recommend and review the Shires Risk Appetite Statement in order to set the Risk Tolerance of the Council;
- Monitor and receive reports concerning the development, implementation and on-going management of the Shires Risk Management Plan and the effectiveness of its Risk Management Framework;
- Provide advice and assistance to Council as to the carrying out of its functions in relation to audits and recommend;
 - a) a list of those matters to be audited; and
 - b) the scope of the audit to be undertaken;
- Meet with the auditor yearly and provide a report to Council on the matters discussed and the outcome of the discussions;
- Liaise with the (CEO) to ensure that the Shire does everything in its power to:
 - a) assist the auditor to conduct the audit and carry out his or her other duties under the *Local Government Act 1995*; and
 - b) ensure that audits are conducted successfully and expeditiously;
- Examine the reports of the auditor after receiving a report from the CEO on the matters and:
 - a) determine if any matters raised require action to be taken by the Shire; and
 - b) ensure that appropriate action is taken in respect of those matters;
 - c) Review the report prepared by the CEO in respect of any matters raised in the report of the auditor and present the report to Council for adoption prior to the end of the next financial year or six months after the last report prepared by the auditor is received, whichever is the latest;
- Review the scope of the Audit Plan and its effectiveness;
- Consider and recommend adoption of the Annual Financial Report to the Council;
- Address issues brought to the attention of the Committee, including responding to requests from Council for advice that are within the parameters of the Committee's terms of reference;
- Seek information or obtain expert advice through the CEO on matters of concern within the scope of the Committee's terms of reference following authorisation from the Council; and
- Review the annual Statutory Compliance Return and make a recommendation on its adoption to Council.

Membership

Four (4) Councillors; and

Two (2) Community Members.

MINUTES FOR THE AUDIT AND RISK COMMITTEE MEETING
HELD ON 16 JUNE 2020

TABLE OF CONTENTS

1	DECLARATION OF OPENING	4
2	ATTENDANCE, APOLOGIES & LEAVE OF ABSENCE	4
3	PUBLIC QUESTION TIME	4
4	SUMMARY OF RESPONSE TO PREVIOUS QUESTIONS TAKEN ON NOTICE	4
5	CONFIRMATION OF MINUTES	4
7	SENIOR MANAGEMENT TEAM DISCUSSION	5
8	COMMITTEE TIMETABLE	6
9	COMMITTEE STATUS REPORT	7
10.	SUMMARY OF RISK MANAGEMENT	8
11.	OFFICER REPORTS	8
11.1	ANNUAL FINANCIAL REPORT 2018/2019 & GENERAL MEETING OF ELECTORS	8
11.2	LEAVE PROVISION ADEQUACY – ANNUAL UPDATE	12
12	OTHER ITEMS FOR DISCUSSION OR FURTHER RESEARCH AS RAISED BY MEMBERS	15
13	NEXT MEETING	15
14	CLOSURE	15
15	ATTACHMENTS (SEPARATE)	15

MINUTES

1 DECLARATION OF OPENING

The Chairman, Cr Gale declared the meeting open at 9.17 am and alerted the meeting of the procedures for emergencies including evacuation, designated exits and muster points.

2 ATTENDANCE, APOLOGIES & LEAVE OF ABSENCE

MEMBERS

Cr Kevin Gale	Member (Chairperson)
Cr Parminder Singh	Member
Cr Cindy Wieringa	Member
Cr Felicity Webb	Member
James Hope	Community Member (not in attendance)
Roger House	Community Member (not in attendance)

STAFF (OBSERVERS)

Anthony Middleton	Manager of Corporate & Community Services
Heather Marland	Senior Finance Officer

SENIOR MANAGEMENT TEAM VISITOR:

Nil

APOLOGIES

Judy Stewart	Senior Administration Officer
--------------	-------------------------------

3 PUBLIC QUESTION TIME

Nil.

4 SUMMARY OF RESPONSE TO PREVIOUS QUESTIONS TAKEN ON NOTICE

Nil.

5 CONFIRMATION OF MINUTES

Audit & Risk Committee Meeting held 2 June 2020 ([Attachment 5.1](#))

OFFICER RECOMMENDATION/COMMITTEE DECISION

Moved Cr Singh, seconded Cr Webb that the minutes of the Audit & Risk Committee Meeting held on 2 June 2020 be confirmed as a true and accurate record.

CARRIED 4/0

6 DECLARATIONS OF INTEREST

Nil.

7 SENIOR MANAGEMENT TEAM DISCUSSION

In accordance with the Financial Management Review adopted in February 2019, one senior manager will attend the Audit & Risk Committee on a rotational basis to discuss the following:

- Update on Manager's areas of responsibility and current projects/issues;
- Questions on Notice from the Audit Committee;
- Management's own recommendations for improvement in key areas;

There was no Senior Manager at this meeting due to the 'special' nature of the meeting.

8 COMMITTEE TIMETABLE

As a guide and subject to availability, each Audit & Risk Committee agenda will contain the following **(list to be expanded at the suggestion of members)**:

1st Quarter (January – March)

- Committee Status Report
- Compliance Audit Return
- Summary of Risk Management
- Volunteer Management
- Leave Provision Adequacy

2nd Quarter (April – June)

- Committee Status Report
- Summary of Risk Management
- Fees & Charges Review
- Business Continuity Plan Review
- Shire President's Vehicle Log Book

3rd Quarter (July – September)

- Committee Status Report
- Interim Audit Report
- Summary of Risk Management
- Insurance Overview

4th Quarter (October – December)

- Committee Status Report
- Audit Report & Management Letter
- Annual Financial Report
- Annual Report
- Financial Management Review (each 3 years – 2018, 2021...)
- Risk, Legal Compliance & Internal Controls review (each 3 years – 2018, 2021...)
- Summary of Risk Management

OFFICER COMMENT

The above list will remain at the commencement of each Committee agenda to act as a timetable and enable members to add to the items to be considered.

9 COMMITTEE STATUS REPORT

Date	Item Number & Title	Issue	Response	Status
No Items Outstanding				

10. SUMMARY OF RISK MANAGEMENT

Nil.

11. OFFICER REPORTS

11.1 ANNUAL FINANCIAL REPORT 2018/2019 & GENERAL MEETING OF ELECTORS

AUTHOR	Anthony Middleton – Manager Corporate & Community Services
DATE	Thursday, 4 June 2020
FILE NO	FM.AUD.2 & FM.FNR.1
ATTACHMENT(S)	11.1.1 Annual Financial Report 2018/2019 11.1.2 Auditor's Management Letter

STRATEGIC/CORPORATE IMPLICATIONS		
"Smart Possibilities – Kojonup 2027+"		"Smart Implementation – Kojonup 2021 +"
Key Pillar	Community Outcomes	Corporate Actions
KP – 3 Performance	3.4 – Be organised and transparent with our financial management.	3.4.1 - Increase regularity of readable financial reporting to the community. 3.4.2 – Act with sound long-term and transparent financial management and deliver residents considered value for money.

DECLARATION OF INTEREST

Nil.

SUMMARY

The purpose of this report is to consider the 2018/2019 Annual Financial Report, incorporating the Audit Report and make recommendation to the Council.

BACKGROUND

Each local government is to prepare an annual report for each financial year. The report is a record of the Shire's activities for the financial year and is an integral part of the accountability principles established for local governments in WA.

COMMENT

The Audit Report and Annual Financial Report both form part of the Annual Report which will be considered by the Council at their 16 June 2020 meeting. The Auditor's management letter is provided as additional information to the Committee and Council for transparency and full disclosure.

Ordinarily, the Annual Electors Meeting must be held within 56 days of accepting the annual report, with appropriate time being allowed after adoption to give notice of the meeting, say 14 days. Due to the COVID-19 Pandemic, the government has released the *Local Government (COVID-19 Response) Order 2020* which has amended certain provisions of the *Local Government Act 1995*. One of these amended provisions is the deferral of the Annual Electors Meeting, which is now “to be held on a day selected by the local government but not more than 56 days after cessation day” (Note – “cessation day means the day on which the state of emergency declaration made under the Emergency Management Act 2005 section 56 on 15 March 2020 in relation to the COVID-19 pandemic is revoked or otherwise ceases to have effect”).

Significant Matters Raised:

Contained within the 2018/2019 Audit Report were two (2) matters identified as significant by the Auditor. These matters raised by the Auditor were as follows:

- a) **‘The Operating Surplus Ratio has been below the Department of Local Government, Sport & Cultural Industries (DLGSCI) standard for the past three years; and**
- b) **The Asset Sustainability Ratio has been below the DLGSCI standard for the past two years, with the current ratio being below the previous year.’**

Section 7.12A of the *Local Government Act 1995* requires a local government to:

- (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 subsection (4)(b), the CEO must publish a copy of the report on the local government’s official website.

The report required under s7.12A is as follows:

- a) **Operating Surplus Ratio:**

This ratio was the subject of two detailed reports to the Council and Audit Committee in 2019. To improve this ratio, either operating income needs to increase or operating expenditure needs to decrease. This could be done through very blunt mechanisms, however may not be in the best interests of the community.

The method of calculating this ratio poses several philosophical problems in the application of the accounting standards. The main issue is the exclusion of ‘Non-Operating Grants, Subsidies and Contributions’ such as road grants and one-off grants for building assets such as housing. Roads grants, such as ‘Roads to Recovery’, ‘Direct Road’ and ‘Regional Road Group’ are long term local government funding streams that have existing, in some cases, for decades. It is definitely acceptable to expect these funding sources to exist into the future. Secondly, these grants fund new assets or asset renewal and upgrade which all flow through to ‘Operating Expenses’ via increased depreciation and maintenance costs, thus negatively affecting both sides of

the ratio calculation.

b) Asset Sustainability Ratio

The Asset Sustainability Ratio is a measure of depreciation of assets versus expenditure on asset renewal, i.e. Is the Shire adequately maintaining its asset base? This ratio highlights that capital expenditure has been skewed towards new assets rather than asset renewal.

The Shire has done considerable work on asset management, including the 'Building Assessment Framework 2017' which highlighted 25 buildings for disposal. Significant work has been undertaken on the Showgrounds and outlying community halls, however, these are significant issues that will take time to work through.

CONSULTATION

Audit and Risk Committee meeting 2 June 2020

Auditors

Senior Staff.

STATUTORY REQUIREMENTS

Section 5.26 to 5.33; 5.53 & 5.54 of the *Local Government Act 1995*

Regulation 51(2) of the *Local Government (Financial Management) Regulations 1996*

Section 4 of the *Local Government (COVID-19 Response) Order 2020*

POLICY IMPLICATIONS

There are no policy implications for this report.

FINANCIAL IMPLICATIONS

This item reports on the financial position of the Shire as at 30 June 2019. The recommendation does not in itself have a financial implication.

RISK MANAGEMENT IMPLICATIONS

There are no risk management implications for this report.

ASSET MANAGEMENT IMPLICATIONS

There are no asset management implications for this report.

SOUTHERN LINK VROC (VOLUNTARY REGIONAL ORGANISATION OF COUNCILS)
IMPLICATIONS

Nil.

VOTING REQUIREMENTS

Simple Majority.

OFFICER RECOMMENDATION/COMMITTEE DECISION

Moved Cr Singh, seconded Cr Wieringa that:

1. It be recommended to the Council that:
 - a. The 2018/2019 Annual Financial Report be adopted; and
 - b. The Manager Corporate & Community Services be requested to forward a copy of this Committee and the Council agenda items to the Minister for Local Government and placed on the Shire website in accordance with Section 7.12A (Duties of local government with respect to audits) of the Local Government Act 1995;
2. The information contained within this report relating to the Operating Surplus Ratio and the Asset Consumption Ratio be received; and
3. The matters raised in the Auditor's Management Letter be noted and included in the Committee Status Report of future Audit and Risk Committee agendas.

CARRIED 4/0

11.2 LEAVE PROVISION ADEQUACY – ANNUAL UPDATE

AUTHOR	Anthony Middleton – Manager Corporate & Community Services
DATE	Friday, 5 June 2020
FILE NO	FM.FNR.1
ATTACHMENT(S)	Nil

STRATEGIC/CORPORATE IMPLICATIONS		
Community Strategic Plan 2017 – 2027 “Smart Possibilities – Kojonup 2027+”		Corporate Business Plan 2017 – 2021 “Smart Implementation – Kojonup 2021 +”
Key Pillar	Community Outcomes	Corporate Actions
KP – 3 Performance	3.4 – Be organised and transparent with our financial management.	3.4.2 – Act with sound long-term and transparent financial management and deliver residents considered value for money.

DECLARATION OF INTEREST

Nil.

SUMMARY

The purpose of this report is to review the Shire’s employee leave provisions in accordance with the goals set in Council Policy 2.1.8 (Financial Governance).

BACKGROUND

During 2016, the Audit & Risk Committee undertook considerable work into setting appropriate levels of funding for leave liability provisions. Following annual reviews, Council Policy 2.1.8 (Financial Governance) now states:

‘Employee Leave – As a minimum, the level of this reserve should meet both:

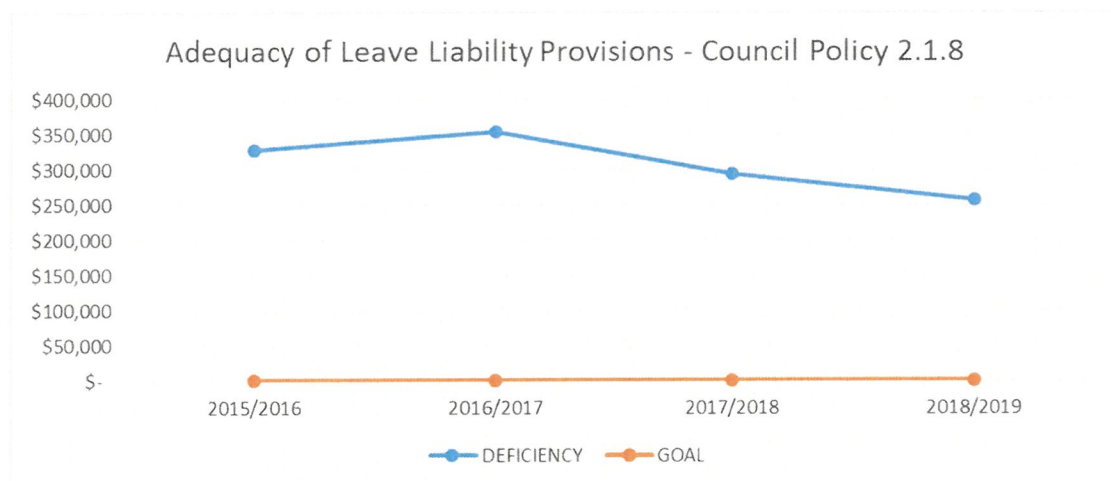
- The EBA sick leave liability (clause 29); and
- The current portion of the long service leave liability for staff with seven (7) years or more service.

This funding goal is to be implemented over several financial years up to 2021/2022 to manage the financial impact.

COMMENT

An update on our progress against this goal within Council Policy 2.1.8 is as follows:

	2015/2016	2016/2017	2017/2018	2018/2019
Liability:				
EBA Sick Leave	\$ 150,000	\$ 199,941	\$ 125,793	\$ 138,911
CURRENT Long Service Leave	\$ 278,794	\$ 271,946	\$ 309,076	\$ 301,287
	\$ 428,794	\$ 471,887	\$ 434,869	\$ 440,198
Cash Backing:				
Leave Reserve Account	-\$ 99,810	-\$ 117,649	-\$ 140,063	-\$ 183,200
DEFICIENCY	\$ 328,984	\$ 354,238	\$ 294,806	\$ 256,998



Relevant commentary on the above figures includes:

- The above figures show that the gap between provision and liability has reduced by an average of \$50,000 per year for the last two (2) years;
- This is predominately as a result of stabilising leave accrual figures, while increasing the balance of the leave reserve account;
- The 2019/2020 Annual Budget contains a \$20,000 transfer to the Leave Liability Reserve account, further improving the situation for next year's analysis.

CONSULTATION

Nil

STATUTORY REQUIREMENTS

Reserve accounts and the recording of employee leave liabilities is tightly governed through the *Local Government (Financial Management) Regulations 1996*, *Australian Accounting Standards* and *International Financial Reporting Standards*.

POLICY IMPLICATIONS

This report is an assessment of a goal set within Council Policy 2.1.8 (Financial Governance).

FINANCIAL IMPLICATIONS

The liability exposure of staff entitlements has a significant impact on the Shire's financial position. This policy aims to ensure a practical cash provision is made that balances both responsible financial management with reducing locking funds away unnecessarily

RISK MANAGEMENT IMPLICATIONS

This process of assessing the provision adequacy of the leave liability each year is a primary tool in minimizing financial risk exposure for this category of liability.

ASSET MANAGEMENT IMPLICATIONS

Nil.

SOUTHERN LINK VROC (VOLUNTARY REGIONAL ORGANISATION OF COUNCILS) IMPLICATIONS

Nil.

VOTING REQUIREMENTS

Simple Majority.

OFFICER RECOMMENDATION/COMMITTEE DECISION

Moved Cr Singh, seconded Cr Weiringa that the Officer's report on leave provision adequacy be received.

CARRIED 4/0

12 OTHER ITEMS FOR DISCUSSION OR FURTHER RESEARCH AS RAISED BY MEMBERS

A discussion on personal use on Shire vehicles and the cost of fuel to the Shire for the personal use was discussed. The outcome of the discussion is the following motion to Council.

COMMITTEE RECOMMENDATION TO COUNCIL

Moved Cr Singh, seconded Cr Webb that:

1. the information of each vehicle with private use with regards to cost of fuel be requested, and
2. that a review of all log books for those with private use of shire vehicles and also the policies for the use of the Shire Presidents vehicle and Councillor travel.

CARRIED 4/0

13 NEXT MEETING

The next meeting of the Committee will be held on Tuesday, 4 August 2020 at 9:00am.

14 CLOSURE

There being no further business to discuss, the Chairman, Cr Gale thanked members for their attendance and declared the meeting closed at 10.04 am.

15 ATTACHMENTS (SEPARATE)

- 5.1 Audit & Risk Committee Minutes 2 June 2020
- 11.1.1 Annual Financial Report 2018/2019
- 11.1.2 Auditor's Management Letter


Presiding Member

18 AUGUST 2020
Date