

SHIRE OF KOJONUP



Audit Committee

MINUTES

6 June 2017

MINUTES OF THE AUDIT COMMITTEE MEETING HELD 6 JUNE 2017

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MINUTES

1 **DECLARATION OF OPENING AND ANNOUNCEMENT OF GUESTS**

The Presiding Member declared the meeting open at 9:04am and alerted the meeting of the procedures for emergencies including evacuation, designated exits and muster points.

2 **ATTENDANCE, APOLOGIES & LEAVE OF ABSENCE**

MEMBERS

Cr Jill Mathwin (Presiding Member)

Cr Ned Radford

Cr Ian Pedler

Mr Roger House

STAFF (OBSERVERS)

Mr Anthony Middleton Manager of Corporate Services

VISITORS

Crissie Coldwell Finance Officer

APOLOGIES

Cr Judith Warland

Mr James Hope

Mrs Heather Marland Senior Finance Officer (Observer)

3 **PUBLIC QUESTION TIME**

Nil.

4 **SUMMARY OF RESPONSE TO PREVIOUS QUESTIONS TAKEN ON NOTICE**

Nil

5 **APPLICATIONS FOR LEAVE OF ABSENCE**

Nil

6 CONFIRMATION OF MINUTES

AUDIT COMMITTEE MEETING held 21 February 2017

OFFICER RECOMMENDATION / COMMITTEE DECISION

7/17 Moved Cr Radford, seconded Cr Pedler that the Minutes of the Audit Committee Meeting held on 21 February 2017 be confirmed as a true record.

CARRIED 4/0

7 DECLARATIONS OF INTEREST

Nil.

8 VISITORS/GUESTS

The Manager Corporate Services outlined new methods of payment fraud used by criminals against some local governments in WA as advised by Moore Stephens. The Finance Officer (Crissie Coldwell) outlined the procedures that have been implemented to minimise this risk to the Shire of Kojonup.

The meeting discussed possible changes to the timing of the process undertaken to improve its effectiveness and the Manager Corporate Services agreed to implement the suggestions.

The Finance Officer (Crissie Coldwell) left the meeting at 9:16am.

9 AUDIT COMMITTEE TIMETABLE

As a guide and subject to availability, each Audit 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

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
- Financial Management Review (each 4 years – 2014, 2018...)
- Summary of Risk Management
- Leave Provision Adequacy

4th Quarter (October – December)

- Committee Status Report
- Audit Report & Management Letter
- Annual Financial Report
- Annual Report
- Risk, Legal Compliance & Internal Controls review (each 2 years – 2014, 2016...)
- 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.

For noting only (or additions).

10 **REPORTS**

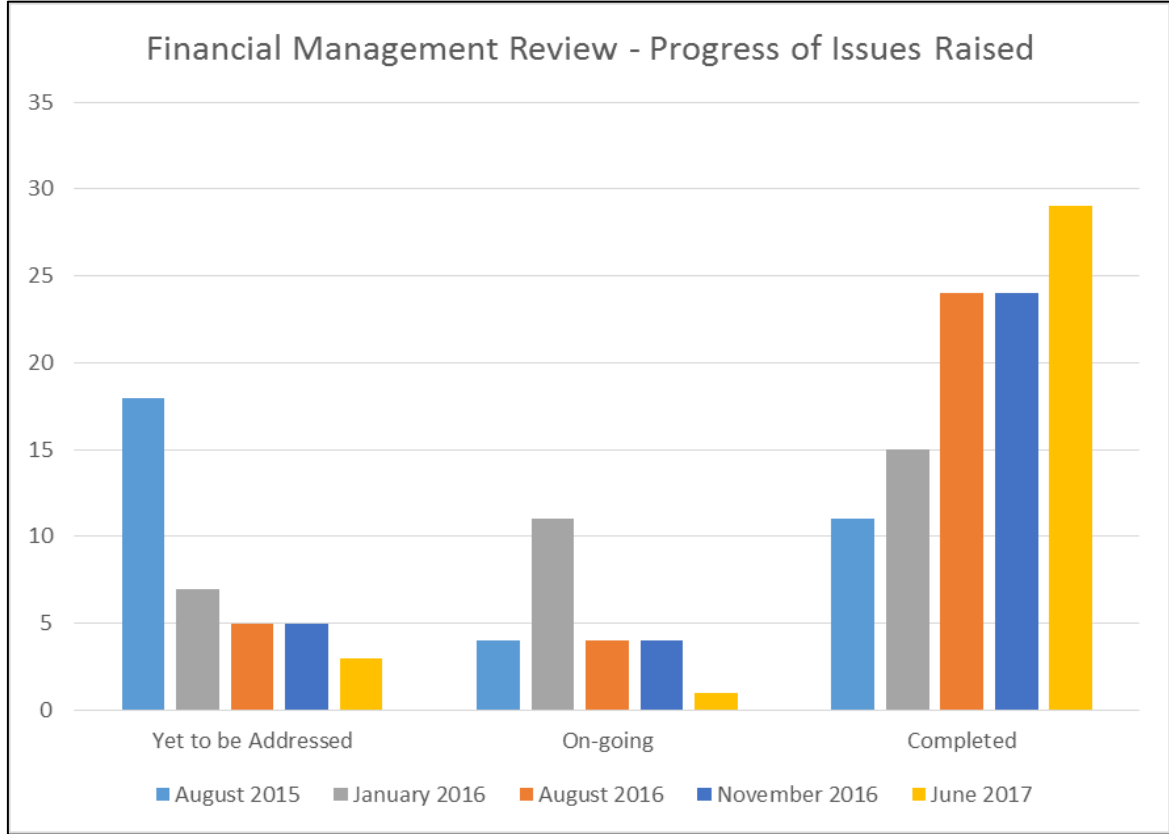
10.1 STATUS REPORTS

10.1.1 COMMITTEE STATUS REPORT

Date	Item Number & Title	Issue	Response	Status
16 September 2014	9.3 Fuel Cards	That fuel cards be considered whilst compiling the credit card policy.	Credit Card Policy has been adopted by the Council. The Council adopted the Committee's recommendation relating to fuel cards for the Shire President.	Completed
4 August 2015	9.1 Tendering & Performance Audits	The Committee queried the selection criteria used in tenders and requested that a Draft Council Policy be brought to a future Committee meeting	Agenda item proposed for 2 May 2017 meeting.	Ongoing
15 November 2016	10.5 Annual Financial Report 2015/2016	Item raised regarding "Bank Reconciliations" in the Auditor's Management Report.	Senior Finance Officer addressed with Committee	Completed
15 November 2016	10.7 Leave Entitlements & Provisions – Draft Policy	The Chief Executive Officer be requested to provide further information and/or formulate a policy on the taking of leave, leave accrual issues and any other relevant matter.	Agenda item contained within this agenda.	Ongoing
21 February 2017	11.1 Volunteer Management / The role of Volunteers	The Manager Corporate Services be requested to provide a report regarding police and WWC checks and register of volunteers.	Agenda item contained within this agenda.	Ongoing
6 June 2017	7 Visitors	Changing the timing of the creditor bank detail changes verification to immediately before EFT approval.		

10.1.2 FINANCIAL MANAGEMENT REVIEW 2015 STATUS REPORT

A full copy of the Financial Management Review has previously been circulated and is available for Committee members if required. The review raised thirty three (33) matters and the status of their implementation is as follows:



At the Audit Committee Meeting held on 2 August 2016, members requested that items contained in the “yet to be addressed” and “on-going” categories be individually listed. They are as follows:

Yet to Commence:

RATES

- No evidence of independent review on manual rolling reconciliations.

SALARIES AND WAGES

- No proper segregation of duty surrounding payroll system and changes in employees’ details.

INVESTMENTS

- Investment Policy did not comply with FM Regulation 19C.

Ongoing:

GENERAL JOURNALS

- General journals were not reviewed.

10.1.3 RISK REGISTER

The Risk Register is undertaking an overhaul and redesign and therefore no summary is provided this meeting.

10.2 FINANCIAL PERFORMANCE – THE BLACK COCKATOO CAFÉ

AUTHOR: Anthony Middleton – Manager Corporate Services
DATE: Thursday, 1 June 2017
FILE NO: RC.MUS.1
ATTACHMENT: Nil

DECLARATION OF INTEREST

Nil

SUMMARY

The purpose of this report is to update the Committee of financial performance of The Black Cockatoo Café.

BACKGROUND

In June 2016, the Shire of Kojonup purchased ‘The Black Cockatoo Café’ (BCC) situated at The Kodja Place Precinct to ensure continuity of service and to protect the ongoing appeal and overall viability of the precinct.

With many factors being unknown, the 2016/2017 Annual Budget was prepared assuming a financial break even result for operations, that is total budgeted operating expenditure equaled total budgeted operating revenue (or a profit/(loss) of \$0). At the mid-year budget review adopted by the Council in February 2017, this budgeted net result was amended to a deficit of \$78,000.

At its meeting held on 21 February 2017, the Committee resolved as follows:

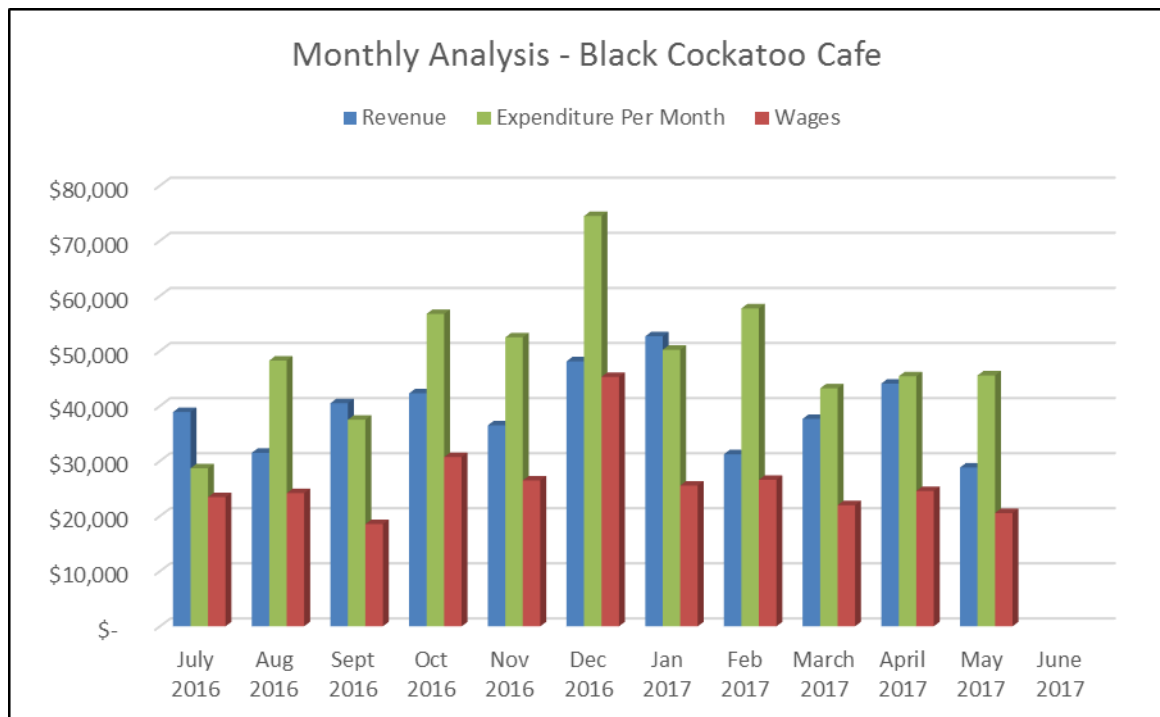
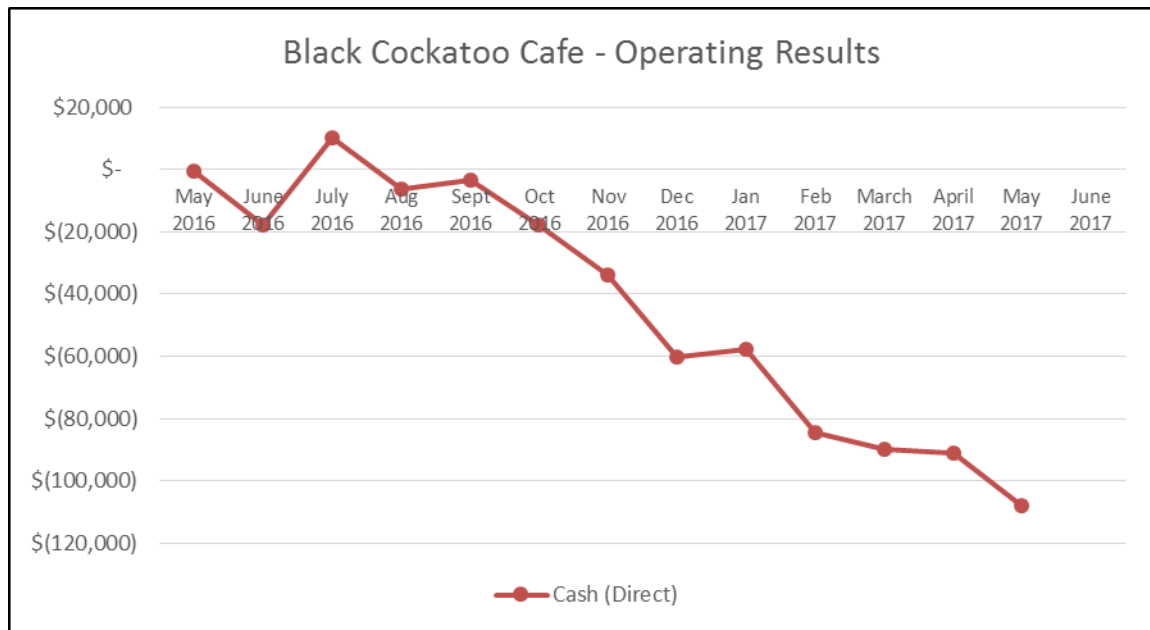
“...that the report be received and the information contained within be noted.”

And

“...that the Audit Committee notes its concern at the financial losses experienced at the Black Cockatoo Café and encourage the Council to monitor closely and take action if required”

COMMENT

Unfortunately, the financial performance of the BCC in 2016/2017 continues to deteriorate, with significant expenditure in employee costs and cost of goods sold not being met with corresponding sales. The following table and graphs represent the financial performance of the BCC at the time of writing:



Tourism & Area Promotion - The Black Cockatoo Café							
8502	Salaries	Exp.	MC&T	\$315,000	\$288,750	\$287,987	91%
8532	Superannuation	Exp.	MC&T	\$27,000	\$24,750	\$22,678	84%
8564	Other Employment Costs	Exp.	MC&T	\$3,500	\$3,201	\$607	17%
8562	Training	Exp.	MC&T	\$1,000	\$913	\$86	9%
8534	Utilities	Exp.	MC&T	\$29,000	\$26,576	\$14,440	50%
8536	Insurance	Exp.	MC&T	\$1,000	\$913	\$0	0%
8542	Bank Fees	Exp.	MC&T	\$4,250	\$3,894	\$0	0%
8546	Minor Equipment & Repairs	Exp.	MC&T	\$12,000	\$11,000	\$3,969	33%
8554	Other Expenses	Exp.	MC&T	\$5,850	\$5,357	\$2,361	40%
8567	Cost of Goods Sold	Exp.	MC&T	\$200,000	\$183,326	\$203,186	102%
055D	Depreciation	Exp.	MC&T	\$1,400	\$1,276	\$0	0%
8558	Transition Costs	Exp.	MC&T	\$2,000	\$1,837	\$0	0%
8557	Building Maintenance	Exp.	MC&T	\$4,000	\$3,663	\$4,870	122%
				\$606,000	\$555,456	\$540,184	89%
8503	Trading Income	Inc.	MC&T	-\$513,000	-\$470,250	-\$427,733	83%
8513	Grant for Cool Room	Inc.	MC&T	-\$20,000	-\$18,326	\$0	0%
8523	Functions	Inc.	MC&T	-\$5,000	-\$4,576	-\$2,214	44%
8533	Catering	Inc.	MC&T	-\$10,000	-\$9,163	-\$2,338	23%
				-\$548,000	-\$502,315	-\$432,284	79%
	Net Profit/(loss) The Black Cockatoo Café			-\$58,000	-\$53,141	-\$107,900	

** Please note that in the figures above, account 8513 – ‘Grant for Cool Room’ should be excluded to obtain a true operating result.

The Council has been thoroughly briefed regarding this topic by both the Manager Corporate Services (financial aspects) and the Manager Community Development & Tourism (operational café aspects). This agenda item has been prepared to inform the audit committee in the interests of full disclosure and accountability.

The Chief Executive Officer prepared an item for the Council’s consideration at its April 2017 meeting, and the Council resolved as follows:

“...that Council:

1. Call for expressions of interest for the lease of the Black Cockatoo Café for an initial term of three (3) years with further options of three (3) + three (3) years effective 1 July 2017 or no later than 31 July 2017, and
2. Instruct Management to continue to implement strategies that closes the ‘gap’ between sales, wages and cost of goods sold including but not limited to:
 - Improved Café/Kodja Place signage;
 - Menu options and pricing structure to address the cost of goods sold and back of house operations;
 - Food buzzers;
 - Operating hours; and
 - Catering for bus tours, groups and events.”

CONSULTATION

Council briefing sessions, senior management team, Audit Committee Presiding Member.

STATUTORY REQUIREMENTS

There are no statutory implications for this report.

POLICY IMPLICATIONS

There are no policy implications for this report.

FINANCIAL IMPLICATIONS

The purpose of this report is to advise the negative financial impact currently being experienced as a result of one area of the Council operations. The result is significant in nature and has a substantial effect on our financial position.

STRATEGIC/CORPORATE IMPLICATIONS

Community Strategic Plan 2013 – 2023

Outcomes:

- G1 – Being Well Governed

Corporate Business Plan 2013 – 2017

Objectives:

- G1.4 – Maintain robust systems and controls

RISK MANAGEMENT IMPLICATIONS

This report is addressing a significant financial risk for the organisation. This risk can be minimized through close monitoring, open communication and information flow and rapid decision making.

ASSET MANAGEMENT IMPLICATIONS

There are no asset management implications for this report.

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION/COMMITTEE DECISION

8/17 Moved Cr Pedler, seconded Cr Radford that the report be received and the information contained within be noted.

CARRIED 4/0

COMMITTEE DECISION

9/17 Moved Roger House, seconded Cr Pedler that it be recommended to the Council that the Shire operating The Black Cockatoo Café ceases at the 30 June 2017.

CARRIED 4/0

10.3 LEAVE ENTITLEMENTS & PROVISIONS

AUTHOR: Anthony Middleton – Manager Corporate Services
DATE: Wednesday, 3 May 2017
FILE NO: CM.TND.1
ATTACHMENT: Nil

DECLARATION OF INTEREST

Nil

SUMMARY

The purpose of this report is to provide further information on the taking of leave and leave accruals.

BACKGROUND

At its meeting held 15 November 2016, the Audit Committee resolved:

“...the Chief Executive Officer be requested to provide further information and/or formulate a policy on the taking of leave, leave accrual issues and any other relevant matter.”

COMMENT

Shire of Kojonup employees are entitled to the following types of accrued leave provisions:

- Annual Leave
- Long Service Leave
- Rostered Days Off
- Time in Lieu
- Sick Leave

Whilst financial provisions are made in the Shire’s financial accounts to provide for the above liabilities, the management of leave accruals to ensure they do not grow excessively is also essential. This is the reason that the Audit Committee have requested further information to ensure that entitlements are managed appropriately.

The Shire of Kojonup All of Staff Agreement 2011 (The EBA) covers all staff except Springhaven Lodge employees. This agreement is currently being renegotiated and it is expected that all staff will be included in the new agreement.

Annual Leave

An employee may be directed to take annual leave in the following circumstances:

- During a period of shut down (between Christmas and New Year)
- If the employee has an excessive accumulated annual leave balance
 - “Excessive” leave is when an employee has accrued at least 8 weeks leave
 - Employers cannot make a direction that will result in an employee’s annual leave balance dropping below 6 weeks; and
 - Before making a direction, the employer must meet with the employee to try to reach agreement on a plan to reduce or eliminate the excessive leave

At the time of writing this report, \$301,025 of annual leave is accrued. 8 weeks of leave accrual equates to 304 hours and 4 staff currently exceed this accrual, by a total of \$14,400. The annual budget for each year contains a provision of four (4) weeks leave for each staff

member. Currently, eighteen (18) staff have annual leave accruals that exceed this four week provision. It is exceeded by a total of \$88,114.

Long Service Leave

At the time of writing this report, \$236,913 of long service leave is accrued. A long service leave entitlement following 10 years of continuous service equates to an accrual of 494 hours and only 1 staff member currently exceeds this accrual.

Rostered Days Off (RDO)

RDO accrual is only an issue for employees employed under the Local Government Industry Award. The EBA limits the accrual of rostered days off to a maximum of 22.5 hours. At the time of writing this report, \$10,790 of RDO's were accrued and 6 staff exceeded the 22.5 hour maximum, representing \$4,672.

Time in Lieu (TIL)

The EBA limits the accrual of TIL to a maximum of 22.5 hours. At the time of writing this report, \$13,422 of TIL was accrued and 6 staff exceeded this 22.5 hour maximum, representing \$4,970.

Sick Leave

Whilst the payment of sick leave is not normally an entitlement on termination of employment, the EBA contains a clause (29) that provides for certain payouts using a defined formula, as follows:

<u>Unused Sick Leave</u>	<u>Entitlement</u>
1-200 hours	20%
201-400 hours	40%
401-600 hours	60%
601+ hours	80%

The current liability for this clause 29 sits at approximately \$179,000 and this is not provided for within the financial statements or reserve accounts provisions.

This sick leave termination payment liability will continue to grow with a stable workforce and the only method of limiting liability or reducing its growth is through the renegotiation of the EBA.

Summary

Leave Type	Control Mechanism	Reduction Available
Annual Leave	Possible to direct leave greater than 8 weeks accrual	\$14,400
Long Service Leave	Leave due to be taken	\$1,600
Rostered Days Off	Maximum set by EBA	\$4,672
Time in Lieu	Maximum set by EBA	\$4,970
Sick Leave	EBA negotiations	Capping or restrict growth

The information above shows that suitable control measures are in place to limit the accrual of excessive amounts of leave, possibly with the exception of the EBA sick leave clause, however it is clearly demonstrated that these control limits are being exceeded and a greater emphasis needs to be placed on adherence to these control measures.

CONSULTATION

Nil.

STATUTORY REQUIREMENTS

The Shire of Kojonup All of Staff Agreement 2011.
National Employment Standards.

POLICY IMPLICATIONS

The Committee recently recommended changes to this policy based on the setting of reserve account values to assist with the cash backing of reserve accounts to fund leave liabilities.

FINANCIAL IMPLICATIONS

Nil

STRATEGIC/CORPORATE IMPLICATIONS

Corporate Business Plan 2013 – 2017

Outcomes:

- G1 – Being Well Governed

Actions:

- G1.4.1 – Implement organisation wide risk management.

RISK MANAGEMENT IMPLICATIONS

Increased compliance with the *Local Government Act 1995* and the All of Staff Agreement decreases risks of increasing levels of liabilities, industrial action, significant staff absences and shortages, etc.

ASSET MANAGEMENT IMPLICATIONS

Nil

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION / COMMITTEE DECISION

10/17 Moved Cr Pedler, seconded Roger House that the report be received and the information contained within be noted.

CARRIED 4/0

10.4 FEES & CHARGES REVIEW

AUTHOR: Anthony Middleton – Manager of Corporate Services
DATE: Tuesday, 2 June 2017
FILE NO: FM.FEE.1
ATTACHMENT: 2017/2018 DRAFT List of Fees and Charges

DECLARATION OF INTEREST

Nil

SUMMARY

The purpose of this report is to consider the structure, content and equity of the existing fees and charges prior to consideration (adoption) by the Council in the upcoming 2017/2018 budget cycle.

BACKGROUND

The Council is required to adopt a list of fees and charges annually. This is conducted as part of the budget adoption process.

COMMENT

The attached list of fees and charges has been reviewed by staff and was the subject of a Council briefing session. The opportunity exists for the Audit Committee to make comment in relation to its readability, complexity, equity, charging structures or fee objectives and contribute to this process.

CONSULTATION

Staff, Council and now the Audit Committee.

STATUTORY REQUIREMENTS

Section 6.15 to 6.19 of the Local Government Act (1995) legislates the imposition of fees and charges for a local government. Section 6.19 of this Act requires a local government to advertise the imposition of fees and charges that are not included in the annual budget.

POLICY IMPLICATIONS

There is no Council policy applicable to this item.

FINANCIAL IMPLICATIONS

The list of fees and charges, when adopted, sets the level of many revenue items contained within the budget. Significant consideration needs to be given when setting each fee and charge and the effect that it will have on the usage of that facility and the total revenue level obtained.

STRATEGIC/CORPORATE IMPLICATIONS

Community Strategic Plan 2013 – 2023

Outcomes:

- G1 – Being Well Governed

Corporate Business Plan 2013 – 2017

Actions

- 1.1.2 – Maintain a structured forward planning process in accordance with legislation and community aspirations
- 1.1.4 – Maintain robust systems and controls

RISK MANAGEMENT IMPLICATIONS

A thorough and complete list of fees and charges assists with legislative compliance and ensures the generation of adequate revenue.

ASSET MANAGEMENT IMPLICATIONS

An appropriate list of fees and charges can assist to fund the required asset management investment.

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION/COMMITTEE DECISION

11/17 Moved Cr Radford, seconded Roger House that the list of fees and charges, as attached, be referred to the 2016/2017 draft budget process.

CARRIED 4/0

10.5 VOLUNTEER MANAGEMENT

This issue was raised by Cr Mathwin at the previous Committee Meeting. The minutes show:

After discussion regarding volunteers it was suggested that volunteers undergo a Police check and those working in the Library and Kodja Place obtain a Working with Children card. Also a register of volunteers with skill sets shall be maintained. The Manager of Corporate Services be requested to provide a report to the Audit Committee.

The Shire has a Council Policy (2.3.8 – Volunteer Management) on the management of volunteers and this is attached. A volunteer handbook was also produced in February 2016 when this policy was adopted and is also attached, however, it is very large and has had limited use in the organisation.

The above information was noted by the Committee.

10.6 BUDGET TIMETABLE

Staff are currently immersed in the annual budget process and the 2017/2018 annual budget timetable has been attached for the Committee's information.

The above information was noted by the Committee.

10.7 VEHICLE LOG BOOK – KO.1 – SHIRE PRESIDENT

Following amendments to Council Policy 3.20 (Motor Vehicle Use – Shire President) at the 21 February 2017 Committee Meeting and 21 March 2017 Council Meeting, the Shire's finance staff are now required to present "to the Audit Committee at the May meeting each year for verification of official and private usage".

The log book presented is as follows:

VEHICLE LOG BOOK				Car No.			
DATE OF JOURNEY		PURPOSE OF JOURNEY	ODOMETER		KILOMETRES TRAVELLED		
START DATE	END DATE		START	END	BUSINESS	PRIVATE	
24/12	27/12/16	KUKERIN				/	
6/1	9/1	SHIRE / ALBANY			/	/	
13/1	17/1	KUKERIN				/	
18/1		KOT / TUCK			/	/	
19/1		ICEBRKRS / SHIRE			/	/	
21/1		KPAC / SHIRE			/	/	
26/1		AUST DAY B/F			/	/	
28/1		SHIRE / MTG			/	/	
2/2		WAPC / PERTH			/	/	
3/2		SHIRE			/	/	
4/2		ALBANY / ICEBRKRS			/	/	
PROGRESSIVE TOTAL							

DATE OF JOURNEY		PURPOSE OF JOURNEY	ODOMETER		KILOMETRES TRAVELLED	
START DATE	END DATE		START	END	BUSINESS	PRIVATE
5/2		DAY CARE OPENING			/	
8/2		SHIRE			/	
9/2		LOTON CLS MTG			/	
9/2		NATS MTG				/
10/2		SHIRE			/	
11/2		SPRING COMM. KOJ			/	
12/2		LAKE GRACE / MINISTERS @ NATS			/	/
15/2		CR TRAINING / SHIRE			/	
16/2		CR TRAINING / SHIRE			/	
17/2		SHIRE (MCLEMAN)			/	
18/2		SHIRE			/	
PROGRESSIVE TOTAL						

© ZIONS SYSTEMS – Form VL6R

COMMITTEE DECISION

12/17 Moved Cr Radford, seconded Roger House that it be recommended to the Council that all log books be required to include odometer readings.

CARRIED 4/0

11 OTHER ITEMS FOR DISCUSSION AS RAISED BY MEMBERS

Cr Radford

- Discussion was held regarding staff training and possible tenure requirements. It was resolved that no changes to existing provisions are required.

12 NEW BUSINESS

(of an urgent nature, introduced by a decision of the meeting).

Nil.

13 NEXT MEETING

The next ordinary meeting is scheduled for Tuesday, 1 August 2017 at 9:00am.

Council at its meeting held 15 November 2016 approved the following Audit Committee meeting dates for 2017:

- 7 November

14 CLOSURE

There being no further business to discuss the Presiding Member thanked members for their attendance and declared the meeting closed at 10:08am.

15 ATTACHMENTS (SEPARATE)

- Item 10.4 Draft List of Fees and Charges 2017/2018
- Item 10.5.1 Volunteer Management Policy
- Item 10.5.2 Volunteer Management Handbook
- Item 10.6 2017/2018 Budget Timetable

Presiding Member

Date