

SHIRE OF KOJONUP

Kojonup



**Audit & Risk Committee
Minutes**

6 August 2019

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 6 AUGUST 2019

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AGENDA

1 DECLARATION OF OPENING AND ANNOUNCEMENT OF GUESTS

The Presiding Member, Cr J Mathwin, declared the meeting open at 9:05 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 Jill Mathwin	Presiding Member
Cr Graeme Hobbs	
Cr John Benn	
James Hope	Community Member (from 9:10am)
Roger House	Community Member

STAFF (OBSERVERS)

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

Senior Manager Team Visitor:

Sue Northover	Manager Aged Care Services (9:05am to 10:00am)
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APOLOGIES

Cr Judith Warland	
Judy Stewart	Senior Administration Officer

3 PUBLIC QUESTION TIME

Nil

4 SUMMARY OF RESPONSE TO PREVIOUS QUESTIONS TAKEN ON NOTICE

Nil

5 APPLICATIONS FOR LEAVE OF ABSENCE

(The next ordinary meeting is scheduled for Tuesday, 5 November 2019 at 9:00am.)

Nil

6 CONFIRMATION OF MINUTES

Audit & Risk Committee Meeting held 7 May 2019 ([Attachment 6.1](#))

OFFICER RECOMMENDATION

Moved Cr G Hobbs, seconded Mr R House that the minutes of the Audit & Risk Committee Meeting held on 7 May 2019 be confirmed as a true and accurate record.

CARRIED 5/0

7 DECLARATIONS OF INTEREST

Nil

8 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 Managers areas of responsibility and current projects/issues;
- Questions on Notice from the Audit Committee;
- Managements own recommendations for improvement in key areas;

Sue Northover, Manager Aged Care Services will be attending this meeting. Questions on Notice can be submitted via email to macs@kojonup.wa.gov.au .

Meeting Notes:

The Manager Aged Care Services discussed the changes to funding which has resulted in a significant decrease in government subsidies for new residents. Some aged care facilities are trialing a new fee structure, and with the current Royal Commission into Aged Care in Australia, this needs to be watched closely.

There are currently 42 people on the Springhaven Lodge waiting list, with one room vacant and everyone on the list have been offered the placement with no-one accepting. As such, the position may be offered to those in need further afield.

9 AUDIT & RISK 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.

10 REPORTS

10.1 STATUS REPORTS

10.1.1 COMMITTEE STATUS REPORT

Date	Item Number & Title	Issue	Response	Status
15 May 2018	9.3 – Focus Audit – Timely Payment of Suppliers	OAG recommends that a written policy on processing payment of invoices is developed and placed on the Intranet for staff to access.	The Shire of Kojonup currently have in place Procedures that state when and how payments are made but they previously didn't specifically define a goal of timeliness. The procedure has been amended with the due date for all payments to be 30 days from the receipt of the invoice.	Completed
15 May 2018	9.3 – Focus Audit - Timely Payment of Suppliers	The Shire should pay all invoices within 30 days of the receipt of the invoice or receipt of the goods and services.	Training of all staff and authorising officers to be undertaken to have invoices signed and to Finance Officer in a timely manner for payment. Action - Finance Officer	Partially Complete

Date	Item Number & Title	Issue	Response	Status
19 February 2019	10.2 Annual Report 2017/2018	Primary Returns for 3 individuals were missing from the register.	<p>One Primary Return has been located and added to the register. The remaining two individual's returns cannot be located. A procedure has been created and placed at the front of the register to prevent this from occurring again.</p> <p>The returns cannot be located in:</p> <ul style="list-style-type: none"> - File GO.CLR.4 where other Primary returns were located and other related documents are recorded within Synergy. - The old filing number system through all folders that may have had relevance to Primary returns where none were located. - Box P/11/KO an archive box that contains Primary Returns from ex staff and Primary returns general documents. - Through the current Primary and Annual return folder - Through the annual return folder for current staff that goes back longer than 5 years. 	Completed - No further action available

Date	Item Number & Title	Issue	Response	Status
19 February 2019	10.3 Financial Management Review	<p>Audit Committee</p> <ul style="list-style-type: none"> The Audit Committee understanding of Council operating activities may be enhanced by inviting senior staff (by rotation) to report on key areas identified by the audit committee in order to understand systems process requirements and risks; Seeking managements own recommendations for improvement in key areas would be a useful source of information; 	<p>Audit & Risk Committee agenda template has been changed by adding a Senior Management Team Visitor item which will include three sections as follows:</p> <ul style="list-style-type: none"> Update on Managers areas of responsibility and current projects/issues; Questions on Notice from the Audit Committee; Managements own recommendations for improvement in key areas; 	Completed
19 February 2019	10.3 Financial Management Review	<p>Register of Complaints</p> <p>That a register of Complaints be established;</p>	<p>A register has been created in accordance with section 5.121 of the Act, including all form and a guide and is now stored in the Executive Assistants Office.</p>	Completed
19 February 2019	10.3 Financial Management Review	<p>Bank Reconciliations</p> <ul style="list-style-type: none"> We note that signature and / or date are not evident on some month end reconciliations; That the month end reconciliations be placed on the agenda of regular management meetings provide a suitable opportunity for review and to formalise its critical importance to overall internal control. 	<ul style="list-style-type: none"> The monthly financial checklist has been improved to ensure that all monthly checks are signed off. The Bank Reconciliation has been added as a regular item to the SMT agenda 	<p>Completed</p> <p>Completed</p>

Date	Item Number & Title	Issue	Response	Status
19 February 2019	10.3 Financial Management Review	<p>Trust Fund</p> <ul style="list-style-type: none"> • the appropriate adjustment be made prior to finalising the reconciliation to ensure it balances correctly; 	<p>A \$2.00 adjustment has been made to the trust fund to ensure it now balances.</p>	Completed
19 February 2019	10.3 Financial Management Review	<p>Credit Card Procedures</p> <ul style="list-style-type: none"> • That the policy be improved by cardholders providing written acknowledgement of their responsibilities under the policy upon receipt of their card; • That Cardholders certify their purchases recorded on the monthly statement; 	<ul style="list-style-type: none"> • All cardholders have provided written acknowledgement of their responsibilities under the policy; • CEO as from 30 April 2019, now views and 'signs off' correctness of monthly card use and purchases for each card holder. 	<p>Completed</p> <p>Completed</p>
19 February 2019	10.3 Financial Management Review	<p>Financial Ratios</p> <ul style="list-style-type: none"> • That the useful life prediction used to calculate depreciation rates be reviewed. 	<p>No action taken to date.</p>	

10.1.2 RISK MANAGEMENT UPDATE

Over the course of the last three months, Managers or their staff have met with the Senior Administration Officer to cross reference old Risk Management Plan risks to the new Risk Management Framework (Framework) Risk Profiles. This exercise has ensured that risks within the old risk management system are captured within the new Risk Profiles along with appropriate controls and actions.

Review and updating of Risk Profiles is occurring on a regular basis: the progress and urgency of items on the Actions List are addressed at Senior Management Team meetings (held monthly following Council's ordinary meetings) and the administration team looks at one Risk Profile per fortnightly meeting with a view to updating any information, if required, within that particular Risk Profile. This provides for all of administration staff participation and discussion on risks, controls and actions.

The original Risk Profile content was provided by Local Government Insurance Services (LGIS) and is local government generic in nature. Whilst this content ensures the Shire is not missing the identification and mitigation of risks common to local government, by way of regular review the documentation will become more Shire of Kojonup specific.

LGIS representatives visited the Kojonup Showgrounds in early July and undertook a public liability assessment of the grounds and buildings. LGIS anticipate being able to provide a formal report by the end of October which should see it able to presented to the December 2019 Audit and Risk Committee meeting.

10.1.3 RISK MANAGEMENT FRAMEWORK ACTIONS LIST AND DASHBOARD REPORT **(Attachments 10.1.3 [a] and [b])**

The current Actions List is derived from the 15 Risk Profile areas and details the personnel responsible for each action and the desired timeframes in which an action is to be undertaken. Actions represent how the key control can be improved and, thus, a risk can be further mitigated. Added to the Actions List since the previous edition are the status of each action; that is, how the action is progressing to date (as requested by the Committee at its May 2019 meeting) and Risk Profiles relevant to each action (for ease of staff reference to Risk Profile context).

Since the last Audit and Risk Committee Meeting in May 2019, an additional risk and additional key controls and actions have been added to the Risk Profiles (transferring from the old Risk Register) and show at the bottom of the Actions List (until assigned a priority) and within the Dashboard Report.

11 OFFICER’S REPORTS

11.1 2017/2018 AUDIT REPORT – SIGNIFICANT MATTER RAISED

AUTHOR	Anthony Middleton – Manager Corporate & Community Services
DATE	Tuesday, 30 July 2019
FILE NO	FM.AUD.1
ATTACHMENT(S)	Nil.

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

To consider action to be taken by the Shire to address a significant matter raised within the 2017/2018 Audit Report.

BACKGROUND

Contained within the 2017/2018 Audit Report was a matter identified as significant by the Auditor. This matter raised by the Auditor was as follows:

‘Significant adverse trend in the financial position of the Shire: Operating Surplus Ratio below the Department standard for the last three years.’

Section 7.12A 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.

This agenda item is the first stage of developing a ‘report’ to address the matter raised by the Auditor, with the Committee’s recommendation to the Council being the second step.

The Author is providing commentary to the issues surrounding this matter, however, it is integral to the process that the Audit Committee formulate its own recommendation to the Council.

COMMENT

This ratio is a measure of the extent to which own source revenues raised covers operational expenses. The higher the ratio, the greater the ability to operate effectively on own source revenue.

There are many factors to be considered when addressing this issue. For example, “below the Department standard” is an arbitrary measure not a legislative requirement. Balancing the provision of community services versus achieving an operating surplus is another.

The Operating Surplus Ratio is calculated as follows:

$$\frac{\text{Operating Revenue minus Operating Expenses}}{\text{Own Source Operating Revenue}}$$

Issues with the Ratio Calculation:

The method of calculating this ratio poses several philosophical problems in the application of 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 for, in some cases, decades. It is definitely acceptable to expect these funding sources to exist into the future. These grants fund new assets or asset renewal and upgrade which all flow through ‘Operating Expenses’ via increased depreciation and maintenance costs, thus negatively affecting both sides of the ratio calculation.

Road grants and specific grants for built assets (such as the Great Southern Housing Initiative) were received by local authorities fifty years ago, are still being received today and are very likely to be available 50 years into the future. The exclusion of these ‘Non-Operating Grants, Subsidies and Contributions’ can result in a surplus being turned into a deficit. As such, it seems unusual they be excluded from the ratio calculation.

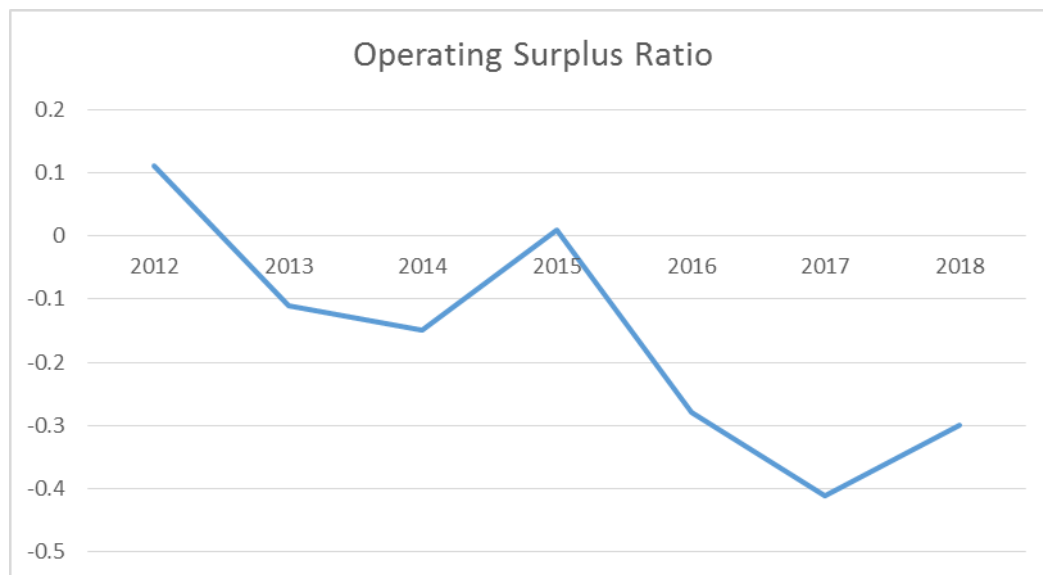
Ratio Departmental Standards:

Targets set by the Department of Local Government guidelines for this ratio are as follows:

0.1 (1%) or less	Concern
Between 0.1 & 0.15 (1% & 15%)	Basic achievement
0.15 (15%) or above	Advanced

Historical Ratio Results:

Date	2012	2013	2014	2015	2016	2017	2018
Operating Surplus Ratio	0.11	(0.11)	(0.15)	0.01	(0.28)	(0.41)	(0.30)



Feedback Provided on the Ratio:

The Auditor, in their Management letter to the Shire, provided the following commentary in relation to this ratio:

“Target not met. Trend downward from the prior year. Indicates necessity for continued close financial management.”

Unfortunately this comment within the ratio section of the letter is the one the Committee has discussed with the Auditor rather than the comment contained within the Audit Report that it was ‘a serious adverse trend’.

The independent four year Financial Management Review undertaken in December 2018 by McLeod Corporation Pty Ltd provided commentary on the Shire’s financial ratios. This report stated:

**“Overall Assessment:
Councils financial ratio performance generally exceeds the Local Government Departments expectations.”**

However, for this particular ratio, it stated:

“Council’s result does not meet expectations, influenced by deficit result from operating activities, affected by depreciation expense.”

What has caused the Ratio to Decline?

During the seven year time frame reported on above, expenses are constantly increasing, whilst our “own source revenue”, which is the denominator in this ratio calculation, is relatively stagnant. Some simple examples of why the ratio isn’t improving include:

Property Rate Increases:

The property rate increase in the 2019/2020 draft budget is 3.0%, which represents an additional \$117,417 of revenue. This proposed rate raise does not sufficiently fund the additional cost of doing business and therefore management have worked hard to find additional operating efficiencies elsewhere to balance the budget. For example:

- Springhaven Lodge operating loss has increased by \$131,885;
- Road Maintenance expenses have increased by \$178,950;
- The Council donation to the new Medical Centre totals \$140,000; and
- Audit costs have increased \$13,000 now that Audits are completed by the State Government.

The above four examples alone represent a rate increase of 11.85% yet rates increased 3.0%.

In the time period 30 June 2013 to 30 June 2018, total rates revenue increased by 18.4%.

Insurance Expenses:

In the time period 30 June 2013 to 30 June 2018, the total cost of insurance has increased from \$223,525 to \$314,219, an increase of 40.6%.

Wages & Salaries:

In the time period 30 June 2013 to 30 June 2018, the total cost of wages and salaries has increased from \$3.13m to \$4.6m, an increase of 46.8%. This is primarily due to the creation of new positions and the annual increases prescribed by the Shire of Kojonup All of Staff Enterprise Bargaining Agreement.

The Kodja Place:

In the time period 30 June 2013 to 30 June 2018, the total loss incurred by The Kodja Place has increased from \$242,000 to \$650,000, an increase of 168.3%. This is due to the change in management and operational structure.

Road Maintenance Expenditure:

In the time period 30 June 2013 to 30 June 2018, total road maintenance expenditure increased by 10.1%.

Road Maintenance expenditure in 2018/2019 up by \$255,000 (from budget estimates) yet no corresponding revenue (this would bring the percentage increase from 30 June 2013 up to 17.8%).

Springhaven Lodge:

Springhaven Lodge's 2018/2019 budgeted operating loss of \$96,582 was exceeded by \$232,087 (total operating loss of \$328,669).

Swimming Pool:

Swimming Pool entry fees cut by more than half in 2015 to improve patronage.

It should be emphasised that the Author is not criticising the examples and initiatives shown above, in fact they are all valuable to the community. Unfortunately though, each example has a negative effect on the Operating Surplus Ratio and is therefore identified.

Action that can be taken to rectify the Ratio:

The difficulty in addressing the Auditors comments from the 2017/2018 Audit Report is that the Local Government Act requires a report to be prepared “stating what action the local government has taken or intends to take”. This is not going to be easy as if anything, the situation has got worse, not better:

- The 2018/2019 financial year incurred a substantial operating loss due to Springhaven’s finances and increased road maintenance expenditure (Note – No actual loss was incurred due to the prepayment of 2019/2020 Financial Assistance Grant funds); and
- The budget for 2019/2020 will see the ratio worsen yet again with a considerable operating deficit as the budget has a heavy reliance on non-operating (capital) grants and reserve account transfers to achieve the coming year’s goals.

It is very easy to provide ‘mathematical’ solutions to improve the ratio, simply by “cutting this service” or “raising that fee”, however, the decisions required to be made have more far reaching impacts than merely financial. ‘Blunt’ examples or suggestions of how to improve the ratio may not serve the community well.

In addition, it is very relevant that the importance of these ratios is put into perspective. Ratios that cover all local governments in WA, regardless of size or geographic location, are a very rudimentary way of evaluation performance and it is vital to see these ratios as only one part of the jigsaw puzzle. While they are important, it is the trend of each ratio that gives the biggest indicator to performance, rather than merely the gross ratio score itself.

The above commentary surrounding the Operating Surplus ratio seeks to provide the Committee and the Council with the information necessary to inform future decisions and assess the financial performance of the Shire now and into the future. It is not the Author’s intention to magically solve this ratio overnight, as the above information shows that it will likely get worse before it gets better, however, awareness of all of the issues allows financial information and systems to be improved to assist all future decision making.

The Audit & Risk Committee is encouraged to add its own recommendations or requests to the Author’s recommendation at the conclusion of this agenda item.

CONSULTATION

Shire President
Chief Executive Officer
Senior Finance Officer

STATUTORY REQUIREMENTS

Section 7.12A. (Duties of local government with respect to audits) of the *Local Government act 1995* states:

- (1) A local government is to do everything in its power to —
 - (a) assist the auditor of the local government to conduct an audit and carry out the auditor’s other duties under this Act in respect of the

- local government; and
- (b) ensure that audits are conducted successfully and expeditiously.
- (2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.
- (3) A local government must –
- (aa) examine an audit report received by the local government; and
 - (a) determine if any matters raised by the audit report, require action to be taken by the local government; and
 - (b) ensure that appropriate action is taken in respect of those matters.
- (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.

POLICY IMPLICATIONS

Nil.

FINANCIAL IMPLICATIONS

This item reports on the current financial position of the Shire. The recommendation does not in itself have a financial implication.

RISK MANAGEMENT IMPLICATIONS

An independent audit process is a key risk management control mechanism and greatly assists in the identification of system, process or financial improvements.

ASSET MANAGEMENT IMPLICATIONS

Nil

SOUTHERN LINK VROC (VOLUNTARY REGIONAL ORGANISATION OF COUNCILS) IMPLICATIONS

Nil

VOTING REQUIREMENTS

Simple Majority

OFFICER RECOMMENDATION:

That it be recommended to the Council that:

1. The information contained within this report relating to the Operating Surplus Ratio be received;
2. It is recognised that the Operating Surplus Ratio may decrease further in 2018/2019 and 2019/2020 before improvements are experienced;
3. The Operating Surplus Ratio be reviewed by the Audit & Risk Committee at each meeting until such time as the 'Basic Achievement' standard is met; and
4. The Manager Corporate & Community Services be requested to forward a copy of the 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.

COMMITTEE DECISION:

Moved Mr J Hope, seconded Mr R House that it be recommended to the Council that:

1. **The information contained within this report relating to the Operating Surplus Ratio be received;**
2. **It is recognised that the Operating Surplus Ratio may decrease further in 2018/2019 and 2019/2020 before improvements are experienced;**
3. **The Operating Surplus Ratio be reviewed by the Audit & Risk Committee at each meeting until such time as the 'Basic Achievement' standard is met, with the relevant Officer presenting three (3) recommended actions to improve the ratio; and**
4. **The Manager Corporate & Community Services be requested to forward a copy of the 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.'**

CARRIED 5/0

11.2 INTERIM AUDIT REPORT 2018/2019

AUTHOR	Anthony Middleton – Manager Corporate & Community Services
DATE	Tuesday, 30 July 2019
FILE NO	FM.AUD.2
ATTACHMENT(S)	11.2.1 – Interim Management Points for Comments

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 update the Committee with regard to the interim audit for 2018/2019.

BACKGROUND

The interim audit for the 2018/2019 financial year was conducted on-site on 15-17 April 2019.

COMMENT

Whilst the interim audit report is not available at the time of this agenda being prepared, the issues raised and the Shire’s management comments made in relation to the issues raised are contained within the attached document.

In summary, two (2) points were raised as follows:

1. Changes to Payroll Master File
‘The Shire should ensure that changes to the payroll master file are independently reviewed and system access privileges to the master file are reviewed to ensure that only appropriate, approved staff have access.’
2. Purchase orders dated after invoice date
The Shire should ensure that purchase orders are approved prior to goods/services being ordered.

Further details and management comments as they relate are contained within the attachment.

CONSULTATION

Auditors
Payroll & Emergency Services Officer
Finance Officer.

STATUTORY REQUIREMENTS

The two items raised relate to best practise rather than legislative compliance.

POLICY IMPLICATIONS

Council Policy 2.1.2 (Purchasing & Creditor Control) relates to the second point raised by the Auditors. The policy clearly states that a purchase order is required for all purchases over \$100.

FINANCIAL IMPLICATIONS

Nil.

RISK MANAGEMENT IMPLICATIONS

An independent audit process is a key risk management control mechanism and greatly assists in the identification of system and process improvements, such as the two items identified.

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 G Hobbs, seconded Cr J Benn that:

1. The update provided for the 2018/2019 interim audit be received; and
2. The two points raised within the interim audit be added to the Committee's Status Report.

CARRIED 5/0

11.3 INSURANCE POLICIES 2019/2020

AUTHOR	Heather Marland – Senior Finance Officer
DATE	Tuesday, 30 July 2019
FILE NO	RM.REG.1
ATTACHMENT(S)	11.3.1 - Vehicle and Plant Register 11.3.2 - Property Register

STRATEGIC/CORPORATE IMPLICATIONS		
“Smart Possibilities – Kojonup 2027+”		“Smart Implementation – Kojonup 2018-2022”
Key Pillar	Community Outcomes	Corporate Actions
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 inform the Committee of the insurance levels and associated costs held by the shire for the 2019/2020 financial year.

BACKGROUND

Insurance is one of the Shire’s largest annual expenses and most important risk management tasks and therefore it is appropriate that the Committee and Council, in addition to staff, be comfortable with the levels of insurance taken out.

COMMENT

The Shire of Kojonup obtain insurance cover through LGIS (Local Government Insurance Services). LGIS is partly owned by WALGA and offer insurance through their Scheme Membership and also through policies taken out with insurers. They are able to obtain policies from main stream insurance at a reduced rate as they broker on behalf of all scheme members.

Below is a list of insurances held by the Shire for the 2019/2020 financial year including the insurance provider, limit of liability and the cost of premium.

Policy	2018/19 Premium	2019/20 Premium	Insurer	Liability	Interest Protected
LGIS Bushfire	\$22,646	\$33,635	Scheme	\$500k	Volunteer Bushfire members, medical expenses, loss of salary/wages and death benefits
LGIS Liability	\$33,151	\$34,146	Scheme	\$500m	Public liability - Death or Personal Injury, Loss or Damage to Property
Casual Hirers Liability	\$ 0	\$0	Covered by Scheme	\$10m	Legal liability to thirds parties for death, illness or personal injury and loss of damage to property at hired facility
Crime	\$867	\$942	Scheme	\$400k	Direct financial loss sustained by member.
LGIS Property	\$99,995	\$94,526	Scheme	\$600m	Physical loss, destruction or damage to property including Machinery breakdown and electronic equipment
LGIS Workcare	\$102,774	\$100,695	Scheme	\$500k	Workers Compensation and Injury Management including Journey Accident Cover
Corporate Travel	\$825	\$825	Chubb Insurance	\$10m	External Journey beyond 50km
Cyber Liability	\$1,650	\$1650	Chubb Insurance	\$1m	Data stolen/accessed/alt ered
Management Liability	\$29,993	\$30,893	Chubb Insurance	\$4.25m	Councillors and Officers Liability and Employment practices Liability

Marine Cargo	\$660	\$660	QBE	\$400k	All goods &/or interests belonging &/or appertaining whilst in transit by land, air, water and parcel post.
Motor Vehicle	\$52,922	\$59,733	Zurich Australia	\$3.2m	All motor vehicles and trailers owned leased or mortgaged under hire purchase or hired in or let out. Includes volunteer bushfire brigade member's vehicles.
Personal Accident - Volunteers , Councillors	\$467	\$467	Chubb Insurance	\$300k	Elected members and volunteers if injured or death whilst engaged in work for the Shire if said work is authorised by the Shire.
Medical Malpractice Liability	\$5,775	\$6352	Vero Insurance	\$20m	Cover of Medical Practice lawsuits for Springhaven
	\$354,933	\$364,527			

CONSULTATION

David Woods – Account Manager LGIS

Anthony Middleton – Manager Corporate and Community Services

STATUTORY REQUIREMENTS

Local Government Act 1995 Section 5.42(1)

Delegation Register – Admin 007 – Entering into Contracts of Insurance

The Chief Executive Officer is Delegated Authority to enter into appropriate contracts of insurance. In exercising the delegation the CEO is to have regard to the provisions of the Annual Budget.

Section 5.49(2) (Workers' compensation arrangement) of the *Local Government Act 1995* states:

- (2) WALGA is to establish and manage, for the benefit of itself and any eligible body that chooses to participate, a group self insurance arrangement against liability to pay compensation under the WCIM Act.

POLICY IMPLICATIONS

2.1.8 – Financial Governance – Management of financial risk prudently, having regard to economic circumstances.

FINANCIAL IMPLICATIONS

Insurance is an annual expenses which is included in the budget each year. The figure shown above of \$364,527.74 for 2019/2020 shows an approx. 2.8% increase on the previous year.

RISK MANAGEMENT IMPLICATIONS

Insurance is the most important risk management tasks undertaken each year. Insurance is our single largest ongoing external cost, and without adequate cover the Shire is extremely exposed to financial and property loss and open to liability

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 J Benn, seconded Cr G Hobbs that the information regarding the levels of the Shire's Insurance for the 2019/2020 financial year be noted.

CARRIED 5/0

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

12.1 2018/2019 Financial Result

For the Information of the Committee, the following is an extract from the July Council Meeting agenda item noting the 30 June 2019 Monthly Financial Statements:

'The following items are worthy of noting:

- Closing surplus position of \$413,840;
- Operating results:
 - 93% of budgeted operating revenue has been received; and
 - 105% of budgeted operating expenditure spent;
- Capital expenditure achieved 53% of budgeted projects;
- The value of outstanding rates equates to 5.2% of 2018/2019 rates raised;
- Cash holdings of \$4.85m of which \$3.74m is held in cash backed reserve accounts; and
- Page 9 & 10 of the statements detail major variations from year to date (amended) budgets in accordance with Council Policy 2.1.6.

Elected members will be aware that a prepayment of the 2019/2020 Financial Assistance Grants totalling \$802,000 was received in the 2018/2019 financial year. As such, the surplus mentioned above of \$413,840 would actually have been a deficit of \$388,160 had the prepayment not been received. The main contributors to this deficit were as follows:

- Road maintenance operating expenditure was 118% of the budget, or \$255,281 more than budget estimates; and
- Springhaven Lodge's budgeted operating loss of \$96,582 was exceeded by \$232,087 (total operating loss of \$328,669)'

Meeting Notes:

The above information was noted by the Committee.

13 NEXT MEETING

The next ordinary meeting is scheduled for Tuesday, 5 November 2019 at 9:00am.

14 CLOSURE

There being no further business to discuss, the Chairman Cr Jill Mathwin thanked members for their attendance and declared the meeting closed at 11:05am.

15 **ATTACHMENTS (SEPARATE)**

- 6.1 Audit & Risk Committee Minutes 7 May 2019
- 10.1.3(a) Risk Management Actions List
- 10.1.3(b) Risk Management Dashboard Report
- 11.2.1 Interim Audit Management Points for Comment
- 11.3.1 Vehicle & Plant Register
- 11.3.2 Property Register