

Shire of Tammin



DECLARATION

I declare that the minutes of the:

Audit Committee Meeting held on 27 February 2020 was confirmed at the Audit Committee Meeting held on 28 May 2020.

Name: Michael Greenwood

Signed: 

Being the person presiding at the meeting at which these minutes were confirmed.

Date: 28th May 2020



Shire of Tammin

CONFIRMED MINUTES

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Please be advised that a meeting of the Audit Committee of the Shire of Tammin was held on Thursday 27 February 2020 at Council Chambers, 1 Donnan Street Tammin, commencing at 3:15pm.

Neville Hale
CHIEF EXECUTIVE OFFICER
27 February 2020

CHARTER

The role of the Audit Committee is to provide an independent oversight of the financial systems of a local government on behalf of Council. The Council (unless delegated to the Audit Committee) is required to meet a minimum of once per year with the auditor (which may be by video or telephone).

Members of the Audit Committee are Councillors M. Greenwood, G Batchelor, Cr Caffell and Cr Daniels. Please note that other members of Council are welcome to attend.

ORDER OF BUSINESS & TABLE OF CONTENTS

1. Declaration of opening
2. Record of attendance
3. Response to Previous Questions taken on Notice
4. Public Question Time
5. Declarations of Interest
6. Confirmation of previous minutes
7. Agenda Items
 - 7.1 Compliance Audit Return 2018
 - 7.2 Risk Management Framework Review
8. Closure of meeting

1. DECLARATION OF OPENING

The President declared the meeting open at 3:21pm.

2. RECORD OF ATTENDANCE

Present:

Cr M Greenwood	Shire President
Cr G Batchelor	Deputy President
Cr N Caffell	Member
Cr C Daniels	Member

In Attendance:

Cr C Thomson	Councillor
Cr T Nicholls	Councillor
Neville Hale	Chief Executive Officer
Morgan Ware	Manager Finance & Administration
Fabian Houbrechts	Manager of Works & Services

Leave of Absence:

Nil

Apologies:

Nil

3. RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE

Nil

4. PUBLIC QUESTION TIME

Nil

5. DECLARATIONS OF INTEREST

Nil

6. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

Minutes of the previous Audit Committee meeting, held on 19 December 2019 are included as an attachment to this Agenda.

STATUTORY IMPLICATIONS

Section 5.22 (2) of the *Local Government Act 1995* Section 5.22 (2) requires minutes of all Council and Committee meetings to be submitted to the next meeting of the council or the committee, as the case requires, for confirmation.

TAC 01/20

That the minutes of the Audit Committee meeting held on 19 December 2019 be confirmed.

Moved: Cr Batchelor

Seconded: Cr Caffell

Vote: Simple Majority

Carried: 4/0

7. AGENDA ITEMS

7.1 Compliance Audit Return - 2019

Location:	Shire of Tammin
Applicant:	Manager of Finance and Administration
Date:	20 February 2020
Author:	Morgan Ware
Item Approved by:	Chief Executive Officer – Neville Hale
Disclosure of Interest:	Nil
File Reference:	Nil
Attachment/s:	Attachment Item 7.1 - Compliance Audit Return 2019

Proposal/ Summary

For the Audit Committee to review the 2019 Compliance Audit Return and make recommendation to Council.

Background

Each local government is to carry out a compliance audit (following the end of each calendar year) against the requirements included in the Department of Local Government, Sports & Cultural Industries Compliance Audit Return (CAR).

In cases of non-compliance, additional information is required, explaining or qualifying the issues, together with explanation of what remedial action has been taken or proposed, with such information to be included in the Agenda item. Each Councillor is to be provided the opportunity to review the completed Return and make comment.

The adoption of the Return is to be recorded in the minutes of the Council meeting.

The Return is to be submitted to the Department of Local Government by 31 March 2020.

Comment

The Compliance Audit Return has been completed and the following areas were found to be non-complaint.

Section / Reference	Question	Response	Comments
Finance	Q. 8 Where the auditor identified matters as significant in the auditor's report (prepared under s7.9(1) of the Act), did the local government prepare a report stating what action had been taken with respect to each of the	Yes	The Audit Report was received on 19 December 2019 and the required report will be presented to Council at its 27 February 2020 Ordinary Meeting with details to be sent to the Minister and placed on the website.

	matters and give a copy to the Minister within 3 months after receipt of the Audit Report		
Tenders for Providing Goods & Services	Q. 27 Did the Local Government comply with it's current purchasing policy in relation to the supply of goods or services where the consideration under the contract is, or is expected to be \$150,000 or less or worth \$150,000 or less	No	The 2019 Interim Audit identified a number occasions of non-compliance which were the subject of a report to Council (July 2019) that was submitted to the Minister in accordance with s7.12A(4) and posted on the Shire's website.

This year's CAR involved a total of 104 questions (95 in 2018).

Consultation

Chief Executive Officer

Policy Implications

Nil

Statutory Environment

Local Government Act – s7.13(1)(i) *provides that:*

Regulations may make provision –

- (i) *Requiring local governments to carry out, in the prescribed manner and in a form approved by the Minister, an audit of compliance with such statutory requirements as are prescribed whether those requirements are –*
 - (i) *Of a financial nature or not; or*
 - (ii) *Under this Act or another written law*

Local Government (Audit) Regulation 1996 Clause 14 provides that:

- (1) *A local government is to carry out a compliance audit for the period 1 January to 31 December in each year.*
- (2) *After carrying out compliance audit the local government is to prepare a compliance audit return in a form approved by the Minister.*
- (3A) *The local government's audit committee is to review the compliance audit return and is to report to the council the results of that review.*
- (3) *A compliance audit return is to be –*
 - (a) *presented to the council at a meeting of the council;*
 - (b) *adopted by the council; and*
 - (c) *recorded in the minutes of the meeting at which it is adopted.*

Strategic Implications

"Civic Leadership Strategies

Our Councillors and community leaders have vision, are accessible, act with transparency and integrity, and act in good faith on behalf of their constituents.

The following outcomes and strategies have been identified to achieve this vision.

Outcome 6.1 Strong governance and leadership, demonstrating fair and equitable community values

6.1.1 Deliver sustainable governance through transparent and robust policy and processes

6.1.2 Undertake the civic duties of Council with the highest degree of ethics"

TAC 02/20

That the Committee, in regard to the Shire of Tammin's Compliance Audit Return (CAR) 2019 recommend that Council:

- **Adopt the attached Compliance Audit Return 2019;**
- **Makes note of the areas of non- compliance which are to be reviewed and corrected;**
- **Authorise the Shire President and Chief Executive Officer to certify the Return; and,**
- **Instruct the Chief Executive Officer to lodge the CAR 2019 with the Department of Local Government, Sport and Cultural Industries.**

Moved: Cr Batchelor

Seconded: Cr Daniels

Vote: Simple Majority

Carried: 4/0

7.2 Section 7.12A(4) - 2018/19 Financial Year – Audit Report

Location:	Shire of Tammin
Applicant:	Office of the Auditor General
Date:	11 February 2020
Author:	Neville Hale
Item Approved by:	Chief Executive Officer
Disclosure of Interest:	Conditions of contract of employment
File Reference:	FIN02 – Audit
Attachment/s:	Attachment Item 7.2 - Auditors Report – Final Signed – RSM Attachment Item 7.2 – 7.12A July 2019 – Procurement Attachment Item 7.2 – Opinion – Office of Auditor General

Purpose/Summary

For the Committee to advise Council of significant adverse trends and non-compliance with the Council's Internal Purchasing Policy identified in the Shire's 2018/19 Audit Report prepared by the Office of the Auditor General.

Background

The Auditor General's report was presented to Council at its 19 December 2019 Ordinary Meeting. The Report referenced the following material matters indicating significant adverse trends in the financial position of the Shire:

"In accordance with the Local Government (Audit) Regulations 1996 I report that:

- (i) In my opinion, the following material matters indicate significant adverse trends in the financial position of the Shire:*
 - a. The Operating Surplus Ratio has been below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for the past three years.*
 - b. The Asset Renewal Funding Ratio has been below the DLGSCI standard for the past two years.*
The financial ratios are reported in Note 34 of the annual financial report.
- (ii) The following material matter indicates a non-compliance with Part 6 of the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law were identified during the course of my audit:*
 - a. For approximately 57% of purchase transactions we sampled, there was inadequate or no evidence that a sufficient number of quotations was obtained to test the market and no documentation was available to explain why other quotes were not sought. This practice increases the likelihood of not receiving value for money in procurement.*
- (iii) All required information and explanations were obtained by me.*

- (iv) All audit procedures were satisfactorily completed.*
- (v) In my opinion, the Asset Consumption Ratio and the Asset Renewal Funding Ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.*

Accordingly it is proposed that the Committee recommend that Council:

- 1. note the adverse Audit finding in respect to the Operating Surplus Ratio and Asset Renewal Funding Ratio for the 2018/19 Financial Year, as reported by the Auditor General to the Audit Committee and Council on 19 December 2019, including the material matter of non compliance relating to procurement ;*
- 2. in accepting this report, authorize the Chief Executive Officer to forward a copy of the Report to the Minister in accordance with section 7.12A(4)(b) of the Local Government Act, 1995; and,*
- 3. publish a copy of this Report on its website in accordance with the provisions of section 7.12A(4)(b).*

Comment

The Shire's 2018/19 Annual Report, inclusive of the Audit Report was presented to the Shire's Audit Committee and Council on 19 December 2019 wherein the Agenda included the following attachments:

Attachment Item 3.1.1 - Shire of Tammin - Audit Report 30.06.19

Attachment Item 3.1.2 - Shire of Tammin - Annual Financial Statements 30.06.19

Attachment Item 3.1.3 - Shire of Tammin - Management Letter 30.06.19

Attachment Item 3.1.4 – Shire of Tammin – Annual Report 30.06.19

The Audit Report identified the following matters:

- 1. "Significant adverse trend in the financial position: Operating Surplus Ratio below the Department of Local Government, Sport and Cultural Industries (DLGSC) standard for the last three years; and,*
- 2. The Asset Renewal Funding Ratio has been below the DLGSC standard for the past two years."*

A copy of the Auditors Report and Council minutes were forwarded to DLGSC on 20 December 2019 in accordance with the requirements of the Act. A copy of the Minutes of the 19 December 2019 Ordinary Meeting were placed on the Shire's website.

In accordance with section 7.12A(4) of the Local Government Act 1995 a local government is to prepare a report:

- a) 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.*

Furthermore, 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."

Accordingly, the following report is presented in accordance with the format required by the Office of the Auditor General.

The required report follows.

REPORT

Section 7.12A(4)(a) of the *Local Government Act 1995* Office of the Auditor General (OAG) – 2018/19 Audit Report

Purpose of Report

To inform Council and community members of significant adverse trends identified by its Auditors. Moreover, the report, in the required form, was not presented to the Shire's Audit Committee and or Council at the 19 December 2019 Meetings when reviewing the 2018/19 Annual Report inclusive of the Audit Report due to time constraints.

1. Significant Matter Identified by OAG – Operating Surplus Ratio

"Significant adverse trend in the financial position: Operating Surplus Ratio below the Department standard for the last three years."

Where the Operating Surplus Ratio is calculated as:

Operating revenue (AAS) LESS Contributions to capital outlays LESS operating expense (AAS) DIVIDED BY Own Source Revenue (FR50)

Department Standard - Basic Standard between 0% and 15% and advanced with ratio greater than 15%.

Implication

DLGSC Guidelines on Financial Ratios offers the following comment:

The 'Operating Surplus Ratio' is a measure of the Shire's financial performance. A positive operating surplus ratio indicates the percentage of total own source revenue available to help fund proposed capital expenditure, transfer to cash reserves or to reduce debt. A negative ratio indicates the percentage increase in total own source revenue (principally rates) that would have been required to achieve a break-even operating result.

Management Comment

It is difficult to quantify the impact of this ratio given that some 110 of 137 local governments failed to meet the required standard for the 2017/18 financial year. No information is at hand at this time in respect to 2018/19.

The CEO has previously sought independent comment on the Operating Surplus Ratio results following a self assessment that identified a number of contributing factors influencing the Ratio outcome. Factors such as recognition of Federal Assistance Grants being inconsistent from year to year and the impact of non-cash depreciation.

Notwithstanding these issues, the CEO discussed the adverse trend with Mr Ron Back, a recognized specialist in the field of local government financial management who has amassed a data base of financial records for almost all shires going back a number of years. Having reviewed data relating to the Shire of Tammin, Mr Back noted:

"Irrespective of the views on the adequacy of this performance indicator, the legislation requires the Shire to calculate and report this ratio in its annual financial report."

In responding to the Departmental enquiry, it should be noted that the trend for this ratio is improving, from -166% to -51% to -50% to -21% in the last four years. The operations of the Shire have not materially changed; indeed, the operations of the Shire have not changed over many decades.

The Shire has increased its rate revenue by 6.0%, 8.8%, 5.5% and 4.0% over this period which has contributed to the better performance, however it has been mindful of difficult economic climate and the impost on ratepayers. In addition, the results have been achieved despite the substantial increases arising from State charges. The Shire has also experienced a real reduction in its untied grants over the same period."

Action Taken or Intended to be Taken

The Shire of Tammin has noted that whilst the Ratio has been below the required standard over the past three years, it has been improving.

The Shire will continue to monitor the Ratio results and identify factors within its control that can be addressed with a view to improving the Ratio outcome.

Completion or Proposed Completion Date

Ongoing monitoring. The recognition of Federal Assistance Grants within the year to which they apply will go a long way to reducing the fluctuations currently experienced.

2. Significant Matter identified by OAG – Asset Renewal Funding Ratio

Significant adverse trend in the Asset Renewal Funding Ratio - is below the DLGSCI standard for the past two years.

Where the Asset Renewal Funding Ratio is calculated as:

NPV of planned capital renewal over 10 years DIVIDED BY NPV of required capital expenditure over 10 years

Implication

The DLGSC Guidelines on Financial Ratios offers the following comment:

A local government's financial capacity to fund asset renewal at existing revenue/service levels. Standard is met if the ratio is between 75% and 95%. Standard is improving if the ratio is between 95% and 105%

The trend of the ratio is of concern as over the past four years it has fallen from 125% to 60% to 47% to 30%

Management comment

The Shire in consultation with its consultants is currently revisiting all aspects of this ratio calculation noting that four years ago the ratio stood at 125%. It is anticipated that updates have been incorrectly applied.

Furthermore, it is noted that the Shire holds significant funds in Reserves which can be applied to asset renewal projects if required.

Action taken or intended to be taken

Shire staff met with its consultants on Wednesday, 19 February 2020 where it was identified that the existing data had not been updated to reflect the decrease in infrastructure asset values nor the

additional expenditure for asset renewal. These matters are currently being attended too and will be subject to further detailed analysis.

It is noted that the 2019/20 Budget includes \$310,000 of asset renewal projects for buildings, including provision of \$120,000 for improvements to the local Golf Club building. This funding is consistent with requirements. Moreover, it was identified that for 2019/20, actual expenditure on the road network was at least 50% greater than what is included in the projections used to calculate this ratio.

A review of the proposed asset renewal requirements is currently being undertaken with assistance from external consultants

Completion or Proposed Completion Date

It is proposed to have all asset renewal requirements incorporated into updated asset management plans by 30 June 2020 for inclusion in the 2020/21 budget deliberations

3. Non compliance with Internal purchasing policy 3.1(b)

The Auditor General has reported that in regard to the Shire's procurement practices that:

"there was inadequate or no evidence that a sufficient number of quotations was obtained to test the market and no documentation was available to explain why other quotes were not sought. This practice increases the likelihood of not receiving value for money in procurement."

This matter was identified in the interim Audit prepared by the Shire's Auditors RSM in June 2019. The Audit Committee and Council reviewed these findings at respective Meetings in July 2019 and in accordance with requirements of the Local Government Act took the following action:

1. *noted the adverse Audit finding in respect to Non-compliance with internal purchasing policy 3.1(b) and the actions proposed to be taken to address the issue;*
2. *in accepting this report, authorize the Chief Executive Officer to forward a copy of the Report to the Minister in accordance with section 7.12A(4)(b) of the Local Government Act, 1995; and,*
3. *publish a copy of this Report on its website in accordance with the provisions of section 7.12A(4)(b).*

Each of the above actions were subsequently undertaken immediately following the July 2019 Ordinary Council Meeting with all staff with purchasing responsibilities being briefed on the requirements of the Shire's Purchasing Policy.

(Copy of July 2019 Report attached)

Consultation

Mr Ron Back, Local Government Financial specialist
Ben Symonds – Asset Management

Statutory Implications

7.12A. Duties of local government with respect to audits

- (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

N/A

Financial Implications

N/A

Strategic Implications

Civic Leadership Strategies

Outcome 6.1 Strong governance and leadership, demonstrating fair and equitable community values

- 6.1.1 Deliver sustainable governance through transparent and robust policy and processes
- 6.1.2 Undertake the civic duties of Council with the highest degree of ethics

TAC 03/20

That the Committee recommend to Council that it:

1. notes the adverse Audit findings in respect to the Operating Surplus Ratio and Asset Renewal Funding Ratio for the 2018/19 Financial Year together with the Non-Compliance with the Internal Purchasing Policy as reported on in July 2019, as reported to the Audit Committee and Council on 19 December 2019;
2. note that the adverse findings were presented to the Audit Committee on 27 February 2020 together with reports on each with additional management comment provided and the action taken to address the matters, namely:

Operating Surplus Ratio: "The Shire of Tammin has noted that whilst the Ratio has been below the required standard over the past three years, it has been improving. The Shire will continue to monitor the Ratio results and identify factors within its control that can be addressed with a view to improving the Ratio outcome"

Asset Renewal Funding Ratio: "The decline in this ration appears to be the result of incorrect information. Assets have been revalued and financial information updated. A review of the proposed asset renewal requirements is currently being undertaken with assistance from external consultants.

Internal purchasing Policy – non-compliance: new procedures have been introduced and all relevant staff advised of these new requirements.

3. in accepting this report, authorize the Chief Executive Officer to forward a copy of the Report to the Minister in accordance with section 7.12A(4)(b) of the Local Government Act, 1995; and,
4. publish a copy of this Report on its website in accordance with the provisions of section 7.12A(4)(b).

Moved: Cr Batchelor

Seconded: Cr Caffell

Vote: Simple Majority

Carried: 4/0

8. CLOSURE OF MEETING

There being no further business, the Chairperson will declare the meeting closed at 3:33pm.