



MINUTES

AUDIT COMMITTEE MEETING

Thursday 25 March 2021



TABLE OF CONTENTS

1. **DECLARATION OF OPENING** 3

2. **ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE** 3

 2.1 **ATTENDANCE** 3

 2.2 **APOLOGIES**..... 3

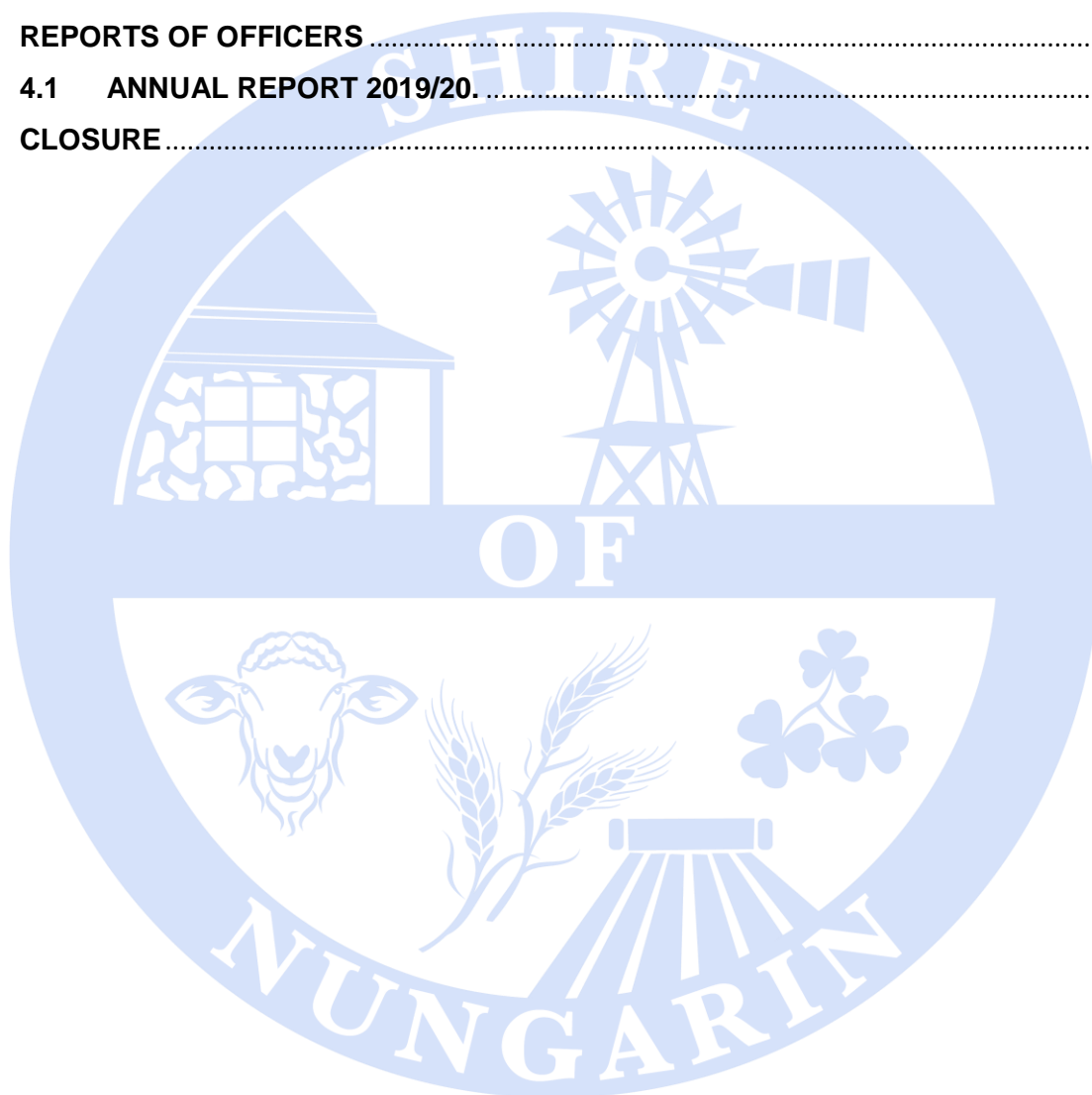
3. **CONFIRMATION OF MINUTES**..... 3

 3.1 **MINUTES OF THE SHIRE OF NUNGARIN AUDIT COMMITTEE** 3

4. **REPORTS OF OFFICERS** 4

 4.1 **ANNUAL REPORT 2019/20**..... 4

5. **CLOSURE**..... 9



AGENDA

1. DECLARATION OF OPENING

The presiding member opened the meeting at 3:00 pm

2. ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE

2.1 ATTENDANCE

Shire President (Chairperson)	Cr P de Lacy
Deputy Shire President	Cr G Coumbe
Elected Member	Cr RE O'Connell (Via Zoom)
Elected Member	Cr K Dayman
Elected Member	Cr W Lee
Elected Member	Cr R Mizia
Elected Member	Cr J Davis
Chief Executive Officer Manager Works & Services	Mr L Long Mr C Large

2.2 APOLOGIES

Nil

3. CONFIRMATION OF MINUTES

3.1 MINUTES OF THE SHIRE OF NUNGARIN AUDIT COMMITTEE

RECOMMENDATION

That the Minutes of the Audit Committee held on 8 March 2021 be confirmed as a true and correct record.

Moved: Cr R Mizia
Seconded: Cr G Coumbe

CARRIED 7/0

4. REPORTS OF OFFICERS

4.1 ANNUAL REPORT 2019/20.	
File Ref:	41001
Previous Item Ref:	Nil
Applicant:	Nil
Author and Title:	Leonard Long, Chief Executive Officer Darren Long, Financial Consultant
Declaration of Interest:	Nil
Voting Requirements	Simple Majority
Appendix Number:	4.1A – 2019/20 Annual Report

RECOMMENDATION

The Audit Committee:

1. **Accepts the Annual Report including the Audited Financial Statements and Auditors Report for the year ending 30 June 2020.**
2. **Endorse the content of the Report Detail in the agenda item as the Shire of Nungarin report to the Minister.**
3. **Hold an Electors' General Meeting at 5pm on Wednesday 21 April 2021.**

Moved: Cr K Dayman

Seconded: Cr R Mizia

CARRIED 7/0

IN BRIEF

The Audit Committee is required to examine the Annual Financial Report which includes the Audit Report, for the year ending 2019/2020 and to make a recommendation to Council.

BACKGROUND

The purpose and responsibilities of the Audit Committee is outlined in Part 7 of the Local Government Act 1995.

One of the Audit Committee's responsibilities is to examine the reports of the auditor. The committee would then determine if any matters raised in the reports require action to be taken by the local government and to ensure appropriate action is implemented. The Audit Committee is to receive and authorise a report relating to the audit prepared by the Chief Executive Officer that is subsequently to be sent to the Minister.

This report outlines actions intended to be undertaken in relation to matters identified by the auditor.

REPORT DETAIL

Council’s annual audit for 2019/20 has now been finalised by the Council’s auditor RSM Australia Pty Ltd.

Details of management issues, suggestions etc. are contained within a separate management report and are addressed on an ongoing basis. A copy of the 2019/2020 Annual Financial Statements can be found at **APPENDIX 4.1(A)**.

Following adoption of the Annual Report, the Annual Financial Statements and the official audit report the document will be presented to the Electors at the annual electors meeting. It is also a requirement that a copy of the audit report and Financial Statements be forwarded to the Dept. of Local Government.

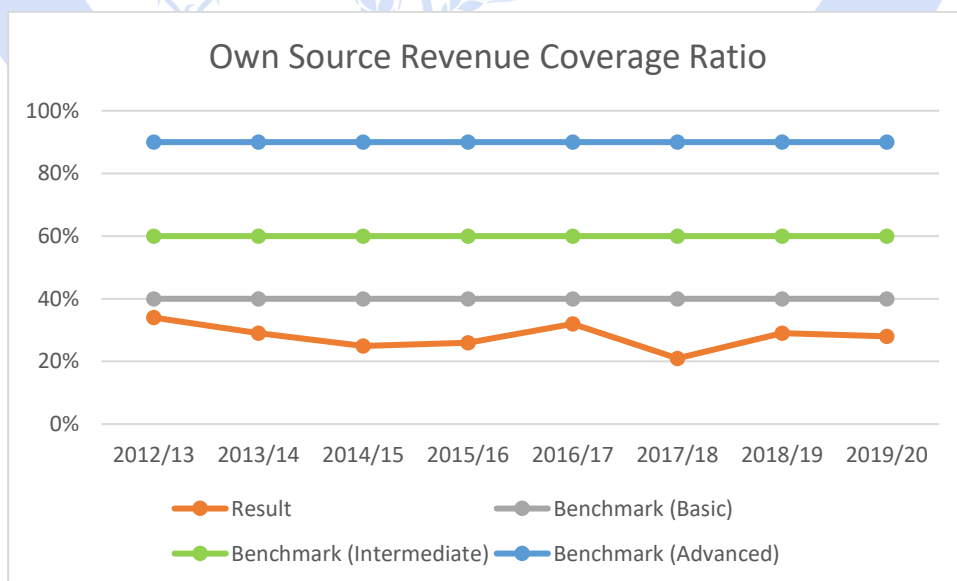
As per the Local Government (Audit) Regulations 1996, the WA Auditor General requires reporting of benchmarks not reached with relation to financial ratios to be addressed in the Auditors Report.

The Council is required to calculate 7 financial ratios and report the outcomes in its financial statements. These ratios measure trends in the Council’s financial performance by a series of benchmarks.

Council’s Auditor has advised three of the seven benchmark ratios have not been achieved –

- Own source revenue coverage ratio - This ratio is the measurement of a local government’s ability to cover its costs through its own revenue efforts. Different standards have been established to recognise the varying revenue raising capacities across the sector, where some rural and remote local governments have limited rate bases and revenue raising capacity, whereas others such as major metropolitan and regional local governments have significant rate bases and other own source revenues.

The following graph shows the coverage ratio results over the last 8 years.

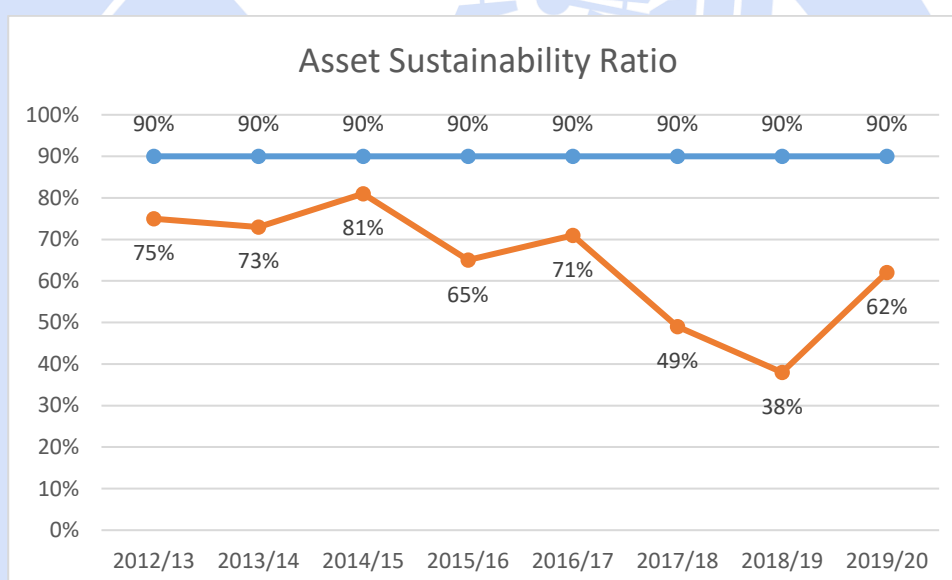


The Shire has a very small rate base (\$573,830), and is largely funded by operating grants from the WA Local Government Grants Commission (\$1.46M). These are the two primary sources of revenue for the Shire, with only \$115,420 being generated in the way of fees and charges.

Unless significant alternative revenue sources are identified, it is unlikely the Shire will be able to meet this ratio in the future. However, the Shire is investigating a number of ways in which to improve its own revenue income. One of which will be the sale of properties that have been repossessed due to rates defaults. These properties will be sold with a number of criteria to ensure their development and subsequent income from rates.

- **Asset sustainability ratio** – which measures the extent to which assets managed by the Council are being replaced as these assets reach the end of their useful lives. This ratio does not account for assets that might last longer than expected or that would not ordinarily be replaced at end of life.

The following graph shows the ASR results over the last 8 years.



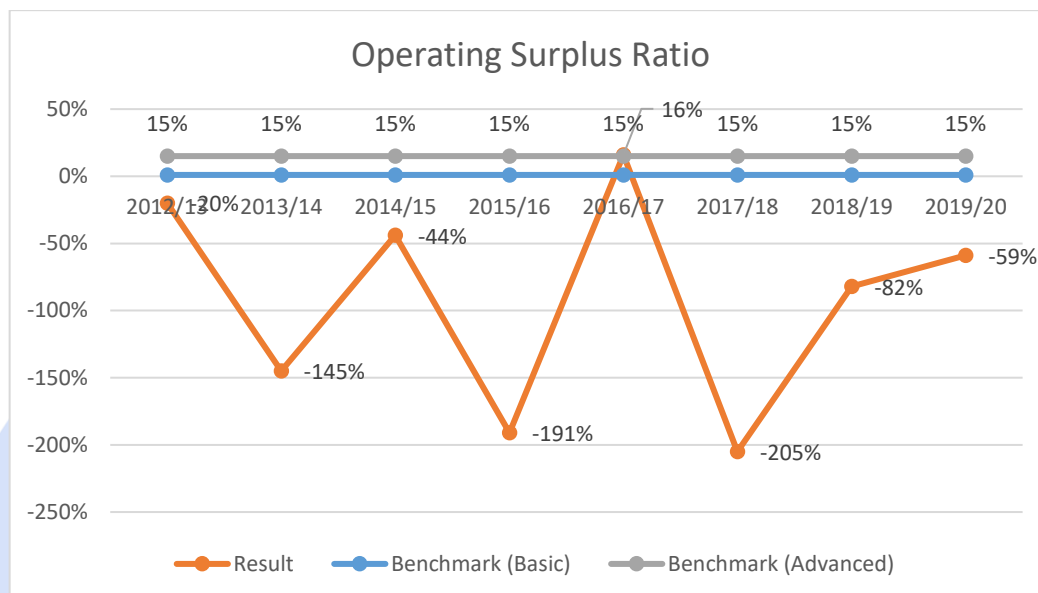
The ASR was impacted by the increase in depreciation as a result of the introduction of Fair Value. The phased introduction of Fair Value of all Assets, resulted in Council increasing the value of its infrastructure assets on 30 June 2014. This caused a negative flow on effect to the amount of depreciation booked in 2015/16 and each year onwards due to the increase in carrying values of assets.

In this regard the Shire has commenced forward planning for the renewal of assets through the implementation of a “Plant Reserve” which will be used specifically to renew plant and equipment once it reaches its end of life.

Further, the Shire is current working on an asset management plan which due to the past years challenging times resulting from the COVID-19 pandemic has unfortunately been delayed and is now due to be completed by the end of the 2020/21 financial year.

- **Operating surplus ratio** – measures the Council's ability to cover its operational costs and have revenues available for capital funding or other purposes. This ratio does not include any operating grants or contributions in its calculation.

The following graph shows the OSR results over the last 8 years.



This ratio is the most difficult to address, as it requires Council to ensure that its revenue sources grow at the same or a greater rate than its operating expenses, including depreciation. The phased introduction of Fair Value of all Assets, resulted in Council increasing the value of its infrastructure assets on 30 June 2014. This caused a negative flow on effect to the amount of depreciation booked in 2015/16 due to the increase in carrying values of assets. The impact of the increase in depreciation can be clearly seen in the 2015/16 negative spike in the graph above (it increased by over \$250,000). It can be clearly seen that corrective measures were taken during 2018/19 and 2019/20 in an effort to address the negative impact of depreciation.

It is well known that most country local governments struggle to fully cash fund asset depreciation, as their revenue sources are limited. The only major source of funding that Council can control are rates. The challenge for Council to achieve an OSR result within the Benchmarks established by the Department of Local Government, Sports and Cultural Industries is striking a balance between how much of a rate burden should be placed on ratepayers, and how much of a reduction in service levels should occur to contain rising operating expenses, unless other alternative revenue sources can be identified.

It is unlikely the Shire will be able to meet the benchmarked ratio unless the Shire is able to generate an additional revenue or reduce expenditure. An immediate action that could be taken to improve the ratio will be to capitalise expenses that may have been classed as operating in the past.

Further the Shire is investigating ways in which to create an additional income stream. However, should any of the initiatives materialise it is unlikely to influence the ratio positively in the near future and would be dependent on the assistance with legislative requirements from other state departments.

SHIRE OF NUNGARIN COMMUNITY STRATEGIC PLAN 2023

Focus Area	Civic Leadership
Aspiration	A strong local democracy with an actively engaged community and effective partnership.
Objective	16.7 Annually review compliance methods.

OTHER STRATEGIC LINKS

Nil

STATUTORY ENVIRONMENT**Local Government Act 1995, Section 7.9:**

Requires the Auditor to examine the accounts and annual financial report by 31 December following the end of the financial year. The Office of the Auditor General has not complied with this requirement.

Local Government Act 1995, Section 7.12A:

Sets out the requirements for local governments in respect to audits. This includes the need to prepare a report to the Minister within 3 months of receiving the audit report if the auditor identifies any items it considers significant.

Local Government (Audit) Regulations 1996, section 10:

Requires the audit report to be forwarded to the Audit Committee within 30 days of completing the audit.

Local Government (Audit) Regulations 1996, section 16:

Describes the functions of the audit committee.

SUSTAINABILITY AND RISK CONSIDERATIONS**Economic – (Impact on the Economy of the Shire and Region)**

Nil

Social – (Quality of life to community and / or affected land owners)

Nil

Policy Implications

Nil

Risk Management Implications

Risk Level	Comment
High	The legislative requirements of the Act are clear on the process required following the receipt of the Auditor General's Audit Report. Failing to meet the requirements exposes the Shire to action by the Department of Local Government, Sport and Cultural Industries.

CONSULTATION

Throughout the preparation of the Annual Financial Report the Shire's Auditors RSM Australia & Advisory consulted the Shires' Financial Consultant Darren Long.

Early in March 2021 the Auditors RSM Australia & Advisory together with the Auditor General's Office had a closing Meeting to present the Annual financial Report to the Audit Committee.

RESOURCE IMPLICATIONS

Financial

Nil

Workforce

Nil

OPTIONS

The Committee has the option of:

1. Accepting the officer's recommendation.
2. Amend the officer's recommendation.

CONCLUSION

The Annual Report is the final component of the Shire's Integrated Planning & Reporting Framework, and is a mechanism of communicating with the community and key stakeholders in a transparent and accountable way.

The acceptance of the Annual Report will allow the report to be published on the Shire's website in advance of the Annual Elector's Meeting which is scheduled for Wednesday 21st April 2021 at 5pm.

5. CLOSURE

The being no further business the meeting closed at 3:09pm

Presiding Member

Date