



SHIRE
of
DANDARAGAN

AGENDA

for

AUDIT COMMITTEE MEETING

to be held at the

COUNCIL MEETING ROOM, JURIEN BAY

on

WEDNESDAY 9 MARCH 2022

COMMENCING AT 9.00AM

AGENDA FOR AUDIT COMMITTEE MEETING TO BE HELD WEDNESDAY 9 MARCH 2022

1. DECLARATION OF OPENING**1.1 ELECTION OF CHAIRPERSON****2. RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE**

Members Councillor L Holmes
 Councillor A Eyre
 Councillor J Clarke
 Councillor R Shanahun

Staff Mr B Bailey (Chief Executive Officer)
 Mr S Clayton (Executive Manager Corporate & Community Services)

Apologies**Leave of Absence****3. CONFIRMATION OF MINUTES****3.1 MINUTES OF THE AUDIT COMMITTEE MEETING HELD 22 MARCH 2021****4. MATTERS FOR DISCUSSION****4.1 AUDIT REPORT FOR THE YEAR ENDED 30 JUNE 2021**

Location:	N/A
Applicant:	N/A
File Ref:	Business Classification Scheme / Financial Management / Audit / External
Disclosure of Interest:	None
Date:	2 March 2022
Author:	Scott Clayton, Executive Manager Corporate & Community Services
Senior Officer:	Brent Bailey, Chief Executive Officer

PROPOSAL

That the Independent Audit Report for the 2020 / 2021 financial year be received. In addition, to recommend to Council that the contents of this agenda item related to the identified significant adverse trend be submitted to the Minister for Local Government to satisfy the requirements of section 7.12A(4) of the Local Government Act 1995 (Act).

BACKGROUND

Circulated with the agenda is a copy of the Office of the Auditor

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General Independent Audit Report. The opinion of Sandra Labuschagne, Deputy Auditor General, is as follows;

"I have audited the financial report of the Shire of Dandaragan (Shire) which comprises:

- *the Statement of Financial Position at 30 June 2021, the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and Rate Setting Statement for the year then ended*
- *Notes comprising a summary of significant accounting policies and other explanatory information*
- *the Statement by the Chief Executive Officer.*

In my opinion the financial report of the Shire of Dandaragan:

- *is based on proper accounts and records*
- *fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2021 and its financial position at the end of that period in accordance with the Local Government Act 1995 (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.*

COMMENT

The "Independent Auditor's Report" as attached is unqualified but does include a material matter that indicates a significant adverse trend in the financial position of the Shire. Therefore in accordance with Section 7.12A(4)(a) of the Local Government Act 1995 "The local government must prepare a report addressing any matter identified as significant by the audit in the report, and stating what action the local government has taken or intends to take with respect to each of those matters."

The matter of significance is as follows;

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

(i) In my opinion, the following material matter indicates a significant adverse trend in the financial position of the Shire:

- (a) The Operating Surplus Ratio is below the Department of Local Government, Sport and Cultural Industries standard for the past 3 years.*

The following commentary will form the contents of a report to the Minister;

The Shire's ratio has been negative for the last 6 financial years. The Department of Local Government, Sports and Cultural Industries guidelines state;

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“A positive 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.”

The operating surplus ratio calculation excludes grants received to assist with capital works but includes depreciation expense. It has long been argued by the local government sector that these grants are an integral component of revenue for local government and long-term financial plans are predicted on receiving these funds. Removing this key source of revenue from the ratio calculation has a negative impact on the ratio and skews the result.

It is typical of a local government similar to the Shire of Dandaragan and other regional Councils to have an operating surplus ratio that does not meet the minimum requirements. This result reflects a reliance on sources of funding other than Council's own source funds such as rates, to be sustainable.

Ultimately, a positive ratio for the Shire of Dandaragan would mean the Shire would be sustainable without any type of non- operating grant funding from the State or Federal Government.

Examples of non-operating grants (the vast majority are for the renewal of assets) that have been excluded from this ratio include;

- Roads to Recovery
- Regional Road Group
- Commodity Route Funding

These are all grant funding that the Shire should expect on an ongoing basis to assist in meeting its asset renewal obligations. The prospect of there ever being a time where a regional Local Government would receive no government funding assistance is highly unlikely and therefore, increasing rates to simply achieve the ratio standard is not advised.

Primarily this is due to the ratio including \$5.8M of depreciation within the “expenditure” category of the calculation. To include all depreciation (a measure of consumption of a non-current asset) in the numerator of this ratio but exclude non-operating grant (used to renew those same assets) makes the target standard almost impossible for a regional Council with limited income earning potential outside of the imposition of rates to achieve whilst also maintaining downward pressure on rate increase.

Alternatively, the measure could also be improved by Council reviewing its major operating cost centres, including employment

costs, materials, and contracts however this will almost certainly adversely impact the level of service which Council is able to deliver to the community.

The current ratio benchmarks adopted by the Department is a “one size fits all” approach. It is understood that a majority of rural local governments have not had an Operating Surplus Ratio that met the standards set by the Department, and there has been an indication by the Auditor General that this benchmark may need review.

It is now quite clear that the requirement to produce this report as an outcome of an identified adverse trend is likely to be an annual process until such time as the ratio’s and benchmarks are reviewed.

Therefore, other than the pursuit of continuous efficiency improvement in operations to reduce costs across the board without increasing rates beyond what the community sees as reasonable no further action is required in relation to this significant adverse trend

CONSULTATION

- Chief Executive Officer
- Office of the Auditor General

STATUTORY ENVIRONMENT

Local Government Act 1995

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*

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- (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

There are no policy implications relevant to this item.

FINANCIAL IMPLICATIONS

There are no financial implications relevant to this item.

STRATEGIC IMPLICATIONS

There are no strategic implications relevant to this item.

ATTACHMENTS

Circulated with the agenda are the following items relevant to this report:

- Annual Financial Statements (Doc Id: SODR-2042075298-33940)
- Independent Audit Report (Doc Id: SODR-2042075298-30910)

(Marked 4.1)

VOTING REQUIREMENT

Simple majority

OFFICER RECOMMENDATION

That:

- 1. the Independent Audit Report and the audited financial statements for the year ended 30 June 2021 be received, and;**
- 2. In accordance with Section 7.12A (3) of the Local Government Act 1995 determine that there are no matters raised in the report that require further action, and;**
- 3. In accordance with Section 7.12A (4) of the of the Local Government Act 1995 determine that no direct action needs to be undertaken in relation to the significant adverse trend identified in the audit report.**

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4.2 STATUTORY COMPLIANCE AUDIT RETURN 2021

Location:	Shire of Dandaragan
Applicant:	N/A
Folder Path:	Corporate Services/Finance and Rates/Audits/Internal Reviews/Compliance Audit Returns
Disclosure of Interest:	None
Date:	3 March 2022
Author:	Scott Clayton, Executive Manager Corporate & Community Services
Senior Officer:	Brent Bailey, Chief Executive Officer

PROPOSAL

That the Compliance Audit Return for the period 1 January 2021 to 31 December 2021 be presented to Council for adoption.

BACKGROUND

Local governments in Western Australia are required to complete, on an annual basis, a Compliance Audit Return (CAR). The Return is a self-assessment of compliance related to areas of compliance considered high risk, such as:

- financial interest disclosures;
- procurement and tendering;
- delegation and use of delegated power; and
- the recruitment and appointment of the Chief Executive Officer.

After the Compliance Audit Return has been reviewed by the Audit Committee and a report presented to Council, a certified copy of the return along with the relevant section of the minutes and any additional information explaining or qualifying the compliance audit is to be submitted to the Director General of the Department of Local Government and Communities by **31 March 2022**.

COMMENT

For the period 1 January 2021 to 31 December 2021 the CAR demonstrates that the Shire has achieved the required level of compliance except in four instances;

Reference	Question	Response	Comments
s5.46(2)	Were all delegations made under Division 4 of the Act reviewed by the delegator at least once during the 2020/2021 financial year?	No	The latest review was conducted on 22/1/22 which was after year end.
s5.76 Admin Reg 23, Form 3	Was an annual return in the prescribed form lodged by all relevant persons by 31 August 2021?	No	2 returns were received in September after the due date due to an employee being on leave and a Councillor who was working in a remote environment unable to access effective communications.

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s5.89A(6)	When a person ceases to be a person who is required to make a disclosure under section 5.87A or 5.87B, did the CEO remove from the register all records relating to that person?	No	The website register has recently been updated to comply with this requirement.
s5.51A(1) & (3)	Did the CEO prepare, and implement and publish an up-to-date version on the local government's website, a code of conduct to be observed by employees of the local government?	No	Employee code of conduct is provided as part of all staff inductions however was not uploaded on the website during the year. This has since been rectified.

CONSULTATION

Nil

STATUTORY ENVIRONMENT

The contents of the Compliance Audit Return relates to *Section 14.3A* of the *Local Government (Audit) Regulations 1996* whereby 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.

POLICY IMPLICATIONS

There are no policy implications relevant to this item.

FINANCIAL IMPLICATIONS

There are no financial implications relevant to this item.

STRATEGIC IMPLICATIONS

There are no strategic implications relevant to this item.

ATTACHMENTS

Circulated with the agenda is the following item relevant to this report:

- Compliance Audit Return 2021 (Doc Id: SODR-2042075298-34058) **(Marked 4.2)**

VOTING REQUIREMENT

Simple majority

OFFICER RECOMMENDATION

That the Compliance Audit Return as per attached (Doc Id: SODR-2042075298-34058) for the period 1 January 2021 to 31 December 2021 be presented to Council for adoption.

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4.3 BUDGET REVIEW 2021 / 22

Location:	Shire of Dandaragan
Applicant:	N / A
Folder ID:	Corporate Services / Financial Statements and Budgets/Reviews/2021-2022
Disclosure of Interest:	None
Date:	3 March 2022
Author:	Scott Clayton, Executive Manager Corporate and Community Services

PROPOSAL

To recommend to Council that the budget review for the 2021/2022 financial year based on the financial statements from 1 July 2021 to 31 December 2021 be adopted.

BACKGROUND

33A of Financial Management Regulations (1996) states;

- (1) Between 1 January and 31 March in each financial year a local government is to carry out a review of its annual budget for that year.
- (2A) The review of an annual budget for a financial year must —
 - (a) consider the local government's financial performance in the period beginning on 1 July and ending no earlier than 31 December in that financial year; and
 - (b) consider the local government's financial position as at the date of the review; and
 - (c) review the outcomes for the end of that financial year that are forecast in the budget.
- (2) Within 30 days after a review of the annual budget of a local government is carried out it is to be submitted to the council.
- (3) A council is to consider a review submitted to it and is to determine* whether or not to adopt the review, any parts of the review or any recommendations made in the review.

*Absolute majority required.

- (4) Within 30 days after a council has made a determination, a copy of the review and determination is to be provided to the Department.

COMMENT

Staff have reviewed the 2021/2022 budget to identify any significant variances. The financial statements to the 31 December 2021 have been used as the basis for the review, however, where a variance has occurred and is known prior to the completion of the staff component of the review on 28 February 2022, these have been accounted for.

A variance of opening deficit budget to actuals was \$11,805. A number of variances (attached) were identified in the review culminating in an overall recognition of a surplus of \$204,507.

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Attached is the summary of the identified variances, the Rates Setting Statement and other statements showing the effect of these variances.

For 2021/2022 the budget review has considered the completability of projects and where it is determined that a project will not be completed within this financial year it has been removed.

Any projects that have been deleted can be re-considered in the 2022/2023 budget deliberations.

A transfer to Reserves has been included for the purchase of a Prime Mover Truck which could not be supplied within this financial year.

CONSULTATION

- Chief Executive Officer
- Executive Manager Infrastructure
- Executive Manager Development Services

STATUTORY ENVIRONMENT

- Regulation 33A and 34 of the Local Government Financial Management Regulations (1996)

POLICY IMPLICATIONS

There are no policy implications relevant to this item.

FINANCIAL IMPLICATIONS

The adoption of this budget review will amend the budget with an overall recognition of a surplus of \$204,507.

STRATEGIC IMPLICATIONS

There are no direct strategic implications relevant to this item, however, legislative compliance, strong financial controls and good governance are core functions of Local Government.

Any projects proposed to be brought forward should consider their alignment with the goals contained in the Community Strategic Plan and/or projects already identified in the Corporate Business Plan.

ATTACHMENTS

Circulated with the agenda is the following item relevant to this report:

- Budget Review identifying variances and statements for the period ending 30 June 2022 (Doc Id: SODR-1034602345-10242)

(Marked 4.3)

VOTING REQUIREMENT

Simple Majority

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OFFICER RECOMMENDATION

To recommend to Council that the budget review, as presented with a surplus of \$204,507 be adopted, with the following variances being formally adopted as budget amendments;

Name	Description	Amount DR/(CR)
Other Contributions	Increase in Contribution to FRC licence fee	(6,333)
Other Reimbursements	Income from 3rd party services Shire of Moora	(9,000)
Other Reimbursements	Income from 3rd party services Shire of Coorow	(4,915)
Other Reimbursements	Income from 3rd party services Shire of Cocos	(1,300)
Insurance	Reimbursement of insurance claim from previous year	(31,800)
Insurance	Reimbursement of Insurance Premiums 20/21	(6,342)
Insurance	Reimbursement of Insurance Premiums 20/21	(9,811)
Insurance	Reimbursement of Insurance Premiums 20/21	(285)
Insurance	Reimbursement of Insurance Premiums 20/21	(2,812)
Other Reimbursements (No GST)	Apprenticeship Support payment	(4,000)
Grants Commission	General Purpose grant higher than budgeted	(66,104)
Local Roads	Local Roads Grants higher than budgeted	(54,774)
Other Non-Operating Contributions	Remove Lobster Hut contribution for Pavilion	100,000
Interest on Reserve Fund Investments	Less than budgeted interest received on reserve account	14,600
Buildings & Improvements	Sale of Building Lot 13 Dandaragan Road	(366,000)
Less Accumulated Depreciation	Sale of Building Lot 13 Dandaragan Road	293,592
Profit on Sale of Building	Sale of Building Lot 13 Dandaragan Road	(32,592)
Land	Sale of Land Lot 13 Dandaragan Road	(15,000)
Profit on Sale of Land	Sale of Land Lot 13 Dandaragan Road	(5,000)
Trading in Public Place Licence	Fees income higher than budgeted	(1,800)
Lodging House Registration	Fees income higher than budgeted	(700)
Lodging House Reg. - Holiday Homes	Fees income higher than budgeted	(1,100)
Swimming Pool Inspection	Fees income higher than budgeted	(300)

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Name	Description	Amount DR/(CR)
Food Premises Registration & Inspection	Fees income higher than budgeted	(200)
Staff Housing Rent	Add new EMDS Salary Sacrifice from November	(14,720)
Staff Housing Rent	Remove EMDS Salary Sacrifice from February	6,700
Staff Housing Rent	Add new CESC Salary Sacrifice from January	(8,400)
Staff Housing Rent	Add new MEH Salary Sacrifice from February	(6,700)
Staff Housing	Add new EMDS Housing rent from November	14,720
Staff Housing	Remove EMDS Housing rent from February	(6,700)
Staff Housing	Add new CESC Salary Sacrifice from January	8,400
Staff Housing	Add new MEH Salary Sacrifice from February	6,700
Private Rental	Remove portion of rental income budgeted for GROH house	8,300
Sale of Tourism Merchandise	Increase tourism sales as tracking higher than budgeted	(10,000)
Tourism Merchandise	Increase Tourism merchandise purchases	10,000
Foreshore Power charges	Foreshore power charges - 3rd party vendors	(3,680)
Sandy Cape Camping	Increase Sandy Cape income higher than budgeted	(50,000)
FBT Expenses	Adjust FBT allocations	(4,637)
FBT Expenses	Adjust FBT allocations	(477)
FBT Expenses	Adjust FBT allocations	(1,484)
FBT Expenses	Adjust FBT allocations	6,520
FBT Expenses	Adjust FBT allocations	(156)
FBT Expenses	Adjust FBT allocations	4,141
FBT Expenses	Adjust FBT allocations	(3,669)
FBT Expenses	Adjust FBT allocations	1,253
Election Expenses	Election expenses less than budgeted	(6,775)
Materials and Contracts (ALL)	Contracted waste attendant Badgingarra	15,360
Materials and Contracts (ALL)	Contracted waste attendant Dandaragan	25,020
Advertising and Promotions	More job adverts than budgeted	5,000

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Name	Description	Amount DR/(CR)
Controlled Waste DEC tracking form	Controlled waste fees for Council septic	30,000
Infrastructure - Other	Sandy Cape Tank modification project over budget	6,712
Buildings & Improvements	CCRC Acoustics project over budget	7,000
Buildings & Improvements	Reduce Building Backlog renewal budget	(54,108)
Buildings & Improvements	Badgingarra toilet leach drains done last year	(10,000)
Other Non-Operating Contributions	Remove Generator Practice contribution	2,000
Plant & Equipment	Remove Generator for Medical Centre project	(7,000)
Infrastructure - Roads	Roberts Street overbudget	75,426
Buildings & Improvements	Increase Budget for Construction of Depot Building	90,000
Building Construction Reserve	Increase Budget for Construction of Depot Building	(90,000)
Furniture & Equipment	Jurien & Cervantes Television Satellite Reception equipment	55,000
Television Services Reserve	Jurien & Cervantes Television Satellite Reception equipment	(55,000)
Leave Reserve	Unplanned termination leave payments	(80,387)
Plant Reserve	Purchase of truck deferred due to supply	255,000
New Loans	Adjustment to the timing of taking out New Loans	3,044
Leases	Adjustment due to timing of new leases	69
Plant & Equipment replacement program	No longer disposing of or purchasing - 6Wheel Prime Mover	(255,000)
Plant & Equipment replacement program	No longer disposing of - PLV233 - 2014 Colorado T/Top - DN015	8,000
Plant & Equipment replacement program	No longer disposing of - PLV234 - 2014 Colorado T/Top - DN024	8,000
Plant & Equipment replacement program	No longer disposing of - PLV212 - DN053 - ICV Nissan Patrol	8,500
Plant & Equipment replacement program	Adjustment to match actual purchase/disposal - Grader 12H Equip.	(9,500)
Plant & Equipment replacement program	Adjustment to match actual purchase/disposal - Multi Roller	8,000
Plant & Equipment replacement program	PLV261 - 2015 Ford Ranger - -1GON796	9,572
Plant & Equipment replacement program	Adjustment to match actual purchase/disposal - Verti-Mower	(2,390)
Plant & Equipment replacement program	Adjustment to match actual purchase/disposal - Convert PTC023	(1,992)

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5. CLOSURE OF MEETING