



**SHIRE**  
*of*  
**DANDARAGAN**

**MINUTES**

for

**AUDIT COMMITTEE MEETING**

held

**CERVANTES COMMUNITY CLUB, CERVANTES**

on

**THURSDAY 26 NOVEMBER 2020**

**COMMENCING AT 1.19PM**

**MINUTES OF AUDIT COMMITTEE MEETING HELD THURSDAY 26 NOVEMBER 2020****1. DECLARATION OF OPENING**

The Presiding Member declared the meeting open at 1.19pm and welcomed those present.

**2. RECORD OF ATTENDANCE / APOLOGIES LEAVE OF ABSENCE****Members**

Councillor L Holmes (Chair)  
Councillor D Slys  
Councillor R Shanhun  
Councillor A Eyre

**Staff**

Mr S Clayton (Executive Manager Corporate & Community Services)

**Apologies****Leave of Absence**

Nil

**Observer**

Nil

**3. CONFIRMATION OF MINUTES****3.1 MINUTES OF THE AUDIT COMMITTEE MEETING HELD 24 FEBRUARY 2020****AUDIT COMMITTEE DECISION**

Moved Cr Shanhun, seconded Cr Slys

That the Minutes of the Audit Committee Meeting held 24 February 2020 be confirmed.

**CARRIED 4 / 0**

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#### 4. MATTERS FOR DISCUSSION

##### 4.1 AUDIT REPORT FOR THE YEAR ENDED 30 JUNE 2020

Location:	N/A
Applicant:	N/A
File Ref:	Business Classification Scheme / Financial Management / Audit / External
Disclosure of Interest:	None
Date:	19 November 2020
Author:	Scott Clayton, Executive Manager Corporate & Community Services
Senior Officer:	Brent Bailey, Chief Executive Officer

##### PROPOSAL

That the Independent Audit Report for the 2019 / 2020 financial year be received.

##### BACKGROUND

Circulated with the agenda is a copy of the Office of the Auditor General Independent Audit Reports. The opinion of the Aloha

Morrissey, Acting Deputy Auditor General, is as follows;

*"I have audited the annual financial report of the Shire of Dandaragan which comprises the Statement of Financial Position as at 30 June 2020, 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, and notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.*

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

- I. is based on proper accounts and records; and*
- II. fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2020 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."*

In addition, a Management Control Issues list has been submitted to the Shire. This does not form part of the audit report itself but does allow for the auditor to raise other findings that may warrant consideration.

##### COMMENT

The "Independent Auditor's Report" as attached is unqualified but does include two matters that in the auditors opinion indicates significant adverse trends. Therefore in accordance

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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.”

One matter of significance is as follows;

*“The Operating Surplus Ratio as reported in Note 31 of the annual financial report is below the DLGSCI’s basic standard of 0.01 for the last three financial years..”*

This same matter has been identified for the last 3 years during the audit the following commentary will form the contents of a report to the Minister;

The Shire’s ratio has been negative for the last 5 financial years. The Department of Local Government, Sports and Cultural Industries guidelines state;

*“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.”*

This ratio and associated standard utilise the concept of “own source funding.” To achieve a positive ratio would mean that rates would need to increase significantly to achieve this. Achieving 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 Local Government would receive no government funding assistance is highly unlikely and therefore, increasing rates to simply achieve the ratio standard is not advised.

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Primarily this is due to the ratio including \$6.3M of depreciation within the “expenditure” category of the calculation. The Shire’s current asset management plans are not mature enough at this stage to determine whether this depreciation figure is a true representation of the renewal funding required to be contributed back to existing assets. Until such time as maturity is reached in regard to the AMP’s understanding of community level of service expectation, effective life and unit costs for its fixed assets, depreciation should only be used as a measure of the consumption of an assets economic potential over time.

This is not to say the ratio is entirely irrelevant, but the target for this ratio should be driven by sound asset management planning to underpin it, not simply to meet the standard.

In the meantime, the Shire of Dandaragan maintains significant reserves entirely for the purpose of asset renewal should urgent needs arise.

The other matter of significance is as follows;

*“The Asset Sustainability Ratio as reported in Note 31 of the annual financial report has progressively declined over the past 3 years and for 2018-19 and 2019-20 is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of 0.8.”*

As mentioned above the use of depreciation for anything other than the consumption of an assets economic potential is not an accurate measure of future asset renewal needs until such time as asset management plans and processes are mature.

This ratio measures actual capital renewal expenditure against depreciation as a measure of how sustainably the Shire is maintaining its assets.

As asset management plans mature this ratio will be a key component of determining future expenditure needs.

#### 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 —

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- (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

There are no policy implications relevant to this item.

#### FINANCIAL IMPLICATIONS

There are no financial implications relevant to this item.

#### STRATEGIC IMPLICATIONS

Nil

#### ATTACHMENTS

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

- Annual Financial Statements (Doc Id: 166242)
- Independent Audit Report (Doc Id: 166238)
- Transmittal letter from Office of Auditor General for interim audit (Doc Id: 166237)

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- Transmittal letter from Office of Auditor General for final audit (Doc Id: 166241)

**(Marked 4.1)**

VOTING REQUIREMENT

Simple majority

**OFFICER RECOMMENDATION/AUDIT COMMITTEE DECISION**

**Moved Cr Eyre, seconded Cr Slyns**

**That;**

1. the Independent Audit Report and the audited financial statements for the year ended 30 June 2020 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 the current action of further development of the Shire's asset management plans will allow for the two matters of significance identified by the Office of the Audit General to be resolved in a future financial year, and;
4. the audit committee determine that the responses by the Shire administration to the management control issues highlighted in the Transmittal letters are appropriate.

**CARRIED 4 / 0**

**5 CLOSURE OF MEETING**

The Presiding Member declared the Meeting closed at 1.30pm.

These Minutes were confirmed at a Meeting on... 22 March 2021 .....

Signed.....

Presiding Person at the Meeting at which the Minutes were confirmed

Date... 22 March 2021 .....