



SHIRE
of
DANDARAGAN

AGENDA

for

AUDIT COMMITTEE MEETING

to be held at the

CERVANTES PINNACLES MOTEL, CERVANTES

on

THURSDAY 28 NOVEMBER 2019

COMMENCING AT 10.00AM

AGENDA FOR AUDIT COMMITTEE MEETING TO BE HELD THURSDAY 28 NOVEMBER 2019
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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 D Slyns
 Councillor P Shanhun

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

Apologies**Leave of Absence**

Councillor A Eyre

3. CONFIRMATION OF MINUTES**3.1 MINUTES OF THE AUDIT COMMITTEE MEETING HELD 24 APRIL 2019****4. MATTERS FOR DISCUSSION****4.1 AUDIT REPORT FOR THE YEAR ENDED 30 JUNE 2019**

Location:	N/A
Applicant:	N/A
File Ref:	Business Classification Scheme / Financial Management / Audit / External
Disclosure of Interest:	None
Date:	14 November 2019
Author:	Scott Clayton, Executive Manager Corporate & Community Services
Senior Officer:	Brent Bailey, Chief Executive Officer

PROPOSAL

That the Independent Audit Report for the 2018 / 2019 financial year be received.

BACKGROUND

Circulated with the agenda is a copy of the Office of the Auditor General Independent Audit Report which states:

INDEPENDENT AUDITOR'S REPORT**To the Councillors of the Shire of Dandaragan
Report on the Audit of the Financial Report****Opinion**

I have audited the annual financial report of the Shire of Dandaragan which comprises the Statement of Financial Position as at 30 June 2019, 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 2019 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.*

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of my report. I am independent of the Shire in accordance with the Auditor General Act 2006 and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to my audit of the annual financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter - Basis of Accounting

I draw attention to Note 1 to the annual financial report, which describes the basis of accounting. The annual financial report has been prepared for the purpose of fulfilling the Shire's financial reporting responsibilities under the Act. Regulation 16 of the Local Government (Financial Management) Regulations 1996 does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. My opinion is not modified in respect of this matter.

Responsibilities of the Chief Executive Officer and Council for the Financial Report

The Chief Executive Officer (CEO) of the Shire is responsible for the preparation and fair presentation of the annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal

control as the CEO determines is necessary to enable the preparation of an annual financial report that is free from material misstatement, whether due to fraud or error.

In preparing the annual financial report, the CEO is responsible for assessing the Shire's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State government has made decisions affecting the continued existence of the Shire.

The Council is responsible for overseeing the Shire's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Report

The objectives of my audit are to obtain reasonable assurance about whether the annual financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the annual financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.*
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Shire's internal control.*
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the CEO.*

Conclude on the appropriateness of the CEO's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Shire's ability to

continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the annual financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report, as we cannot predict future events or conditions that may have an impact.

- Evaluate the overall presentation, structure and content of the annual financial report, including the disclosures, and whether the annual financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Council and the CEO regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Other Legal and Regulatory Requirements

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 has been below the Department of Local Government, Sport and Cultural Industries' standard for the past three years. The financial ratios are reported in Note 30 of the annual financial report.**
- (ii) The following material matter indicating 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 was identified during the course of my audit:

 - a. The Shire has not reported the Asset Renewal Funding Ratio for 2019, 2018 and 2017 in the annual financial report as required by section 50(1) of the Local Government (Financial Management) Regulations 1996, as planned capital renewals and required capital expenditure were not estimated in a long-term financial plan and asset management plan respectively.**
- (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 included in the annual financial report was supported by verifiable information and reasonable assumptions.*

Other Matter

The financial ratios for 2017 in Note 30 of the annual financial report were audited by another auditor when performing their audit of the Shire for the year ending 30 June 2017. The auditor expressed an unmodified opinion on the annual financial report for that year.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of the Shire of Dandaragan for the year ended 30 June 2019 included on the Shire's website. The Shire's management is responsible for the integrity of the Shire's website. This audit does not provide assurance on the integrity of the Shire's website. The auditor's report refers only to the annual financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this annual financial report. If users of the annual financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited annual financial report to confirm the information contained in this website version of the annual financial report.

In addition, a management report 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 one matter that in the auditors opinion indicates a significant adverse trend. 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;

"The Operating Surplus Ratio has been below the Department of Local Government, Sport and Cultural Industries' standard for the past three years. The financial ratios are reported in Note 30 of the annual financial report."

This same matter was identified in the 2017/2018 audit and the response has not changed. However, as a report is required to be submitted to the Minister it is repeated in full as follows;

The Shire's ratio has been negative for the last 4 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 for a Shire with such a low current debt, 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.

Furthermore, the Shires ratio includes \$5.75M of depreciation within the “expenditure” category of this ratio 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 report also states one matter of non-compliance as follows;

“The following material matter indicating 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 was identified during the course of my audit:

AGENDA FOR AUDIT COMMITTEE MEETING TO BE HELD THURSDAY 28 NOVEMBER 2019

- a. *The Shire has not reported the Asset Renewal Funding Ratio for 2019, 2018 and 2017 in the annual financial report as required by section 50(1) of the Local Government (Financial Management) Regulations 1996, as planned capital renewals and required capital expenditure were not estimated in a long-term financial plan and asset management plan respectively.”*

The auditor has made the following recommendation;

“...that the Shire prepares, reviews and updates the Long Term Financial Plan and Asset Management Plan annually to ensure 10 year projections are available to calculate the Asset Renewal Funding Ratio.”

Shire management gave the following in response to the finding;

“The Shire commenced a complete review of its entire suite of Integrated Planning and Reporting Tools in 2018. To date, a new Strategic Community Plan has been adopted, a new Corporate Business Plan is out for public comment while all new Asset Management Plans and Workforce Plan are in draft form and expected to be adopted in the near future.

Once all of the above documents are endorsed a new Long Term Financial Plan will be developed from the information contained in the other documents mentioned.

This will be completed within the 2019/20 financial year and will provide an accurate ratio in time for the 2019/20 Annual Financial Statements.”

CONSULTATION

- Chief Executive Officer
- Office of the Auditor General

STATUTORY ENVIRONMENT

Section 7.12A Local Government Act 1995 requires a local government to receive and examine the report of the auditor and to prepare a report on any actions required in respect of the auditor's report.

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:

AGENDA FOR AUDIT COMMITTEE MEETING TO BE HELD THURSDAY 28 NOVEMBER 2019

- Annual Financial Statements (Doc Id: 144509)
- Independent Audit Report (Doc Id: 144510)
- Management letter from Office of Auditor General (Doc Id: 144511)
- Attachment 1 to management letter (Doc ID: 144513)
(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 2019 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. the audit committee determine that the response by the Shire administration to the other matters identified in the audit report and management letter are appropriate.**

4.2 SHIRE OF DANDARAGAN – LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996 REGULATION 17 AND LOCAL GOVERNMENT (FINANCIAL MANAGEMENT) REGULATIONS 1996 REGULATION 5(2)(C) REVIEW

Location:	Shire of Dandaragan
Applicant:	Not Applicable
Folder Path:	Business Classification Scheme / Corporate Management / Audit / Internal
Disclosure of Interest:	Nil
Date:	20 November 2019
Author:	Brent Bailey, Chief Executive Officer
Senior Officer:	Not Applicable

PROPOSAL

The purpose of this report is for the Audit Committee to review the CEO's report on the appropriateness and effectiveness of the Shire's systems and procedures in relation to risk management, internal control, legislative compliance, financial management systems, and procedures of the local government. The recommendation is for the Audit Committee to receive the report and submit it to Council for endorsement.

BACKGROUND

In accordance with the Local Government (Audit) Regulations 1996 the CEO is required to undertake a review of the Shire's systems and procedures relating to risk management, internal control and legislative compliance not less than once every 3 years. The last review undertaken by the CEO was carried out in 2016.

The process undertaken also considers the appropriateness and effectiveness of the financial management systems and procedures of the shire as required by the Local Government (Financial Management) Regulations 1996

The Audit Committee's role in the process is set out in Regulation 16 and requires the Audit Committee to review the report prepared by the CEO for Council and provide a copy of the report to Council. The Audit Committee is also tasked with responsibility to oversee any actions required from the CEO's review report. In response to this, a key recommendation of the report is to provide a standing agenda item providing the Audit Committee with a status update on matters arising from the review at each meeting.

The review has been undertaken during the months September – November 2019 by the CEO, Executive Managers and a supporting staff member tasked with detailed internal audit responsibilities to carry out detailed testing on internal systems and processes. The results of this review have been provided in the attached review report.

While the regulations do not mandate a particular process or provide minimum standards the Department of Local Government, Sport and Cultural Industries Operational Guidelines No.9 provides guidance on

key topics and content for review. In addition, the CEO has utilised operational templates from LGIS WA and reviews from other local governments to derive a review process that is appropriate for the Shire's size and available resources for the project.

COMMENT

The commentary and conclusions within the report support the CEO's finding that the Shire's internal systems and procedures are appropriate and effective for the organisation's size and context. The review process has determined a number of recommendations for further review and implementation over the short term.

One of the major process adjustments is to increase the utilisation and distribution of the Shire's risk profiles which provide up to date tracking of known risks and how they are being managed. It is proposed that internal process changes result in the risk profiles being an element of both Executive Management Team meetings and future Audit Committee meetings. This process will ensure that risk management remains a contemporary consideration in the Shire's business, both at staff and elected member level.

The review of risk and internal procedures is an ongoing and recurrent activity within the Shire of Dandaragan. As a small regional local government we regularly respond to changes in the operating environment whether it be legislative, human resource, political or change. The Regulation 17 review while important is not the principal driver for ensuring that the Shire's internal systems are aligned with our aim of being a leader in regional local government.

CONSULTATION

Nil

STATUTORY ENVIRONMENT

Local Government (Audit) Regulation 1996 - 16 Functions of audit committee, 17 - CEO to review certain systems and procedures

16. Functions of audit committee

An audit committee has the following functions —

- (a) to guide and assist the local government in carrying out —*
 - (i) its functions under Part 6 of the Act; and*
 - (ii) its functions relating to other audits and other matters related to financial management;*
- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;*
- (c) to review a report given to it by the CEO under regulation 17(3) (the **CEO's report**) and is to —*
 - (i) report to the council the results of that review; and*
 - (ii) give a copy of the CEO's report to the council;*
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —*

- (i) *regulation 17(1); and*
- (ii) *the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);*
- (e) *to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;*
- (f) *to oversee the implementation of any action that the local government —*
 - (i) *is required to take by section 7.12A(3); and*
 - (ii) *has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and*
 - (iii) *has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and*
 - (iv) *has accepted should be taken following receipt of a report of a review conducted under the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);*
- (g) *to perform any other function conferred on the audit committee by these regulations or another written law.*

17. CEO to review certain systems and procedures

- (1) *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —*
 - (a) *risk management; and*
 - (b) *internal control; and*
 - (c) *legislative compliance.*
- (2) *The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.*
- (3) *The CEO is to report to the audit committee the results of that review.*

Local Government (Financial Management) Regulation 1996 – 5(2)(c) - CEO's duties as to financial management

5. CEO's duties as to financial management

(2) *The CEO is to —*

- (c) *undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews.*

POLICY IMPLICATIONS

There are no policy implications relevant to this item.

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FINANCIAL IMPLICATIONS

This review has been undertaken in-house and incurred no additional budget implications.

STRATEGIC IMPLICATIONS

Strategic Community Plan – Envision 2029

04 – Community	The Shire's resident population will grow more than the WA regional average supported by increased community recreation and cultural opportunities and access to key liveability factors such as health and wellbeing services and educational opportunities
Priority Outcomes	Our Roles
A region that develops and supports community leadership and collective values	Increased usage of renewable energy and energy saving technologies on Council assets

ATTACHMENTS

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

- Local Government (Audit) Regulation 17 Risk Management (Doc Id: 144760)
- Local Risk Profile & Reporting Tool (Doc Id: 144751)

(Marked 4.2)

VOTING REQUIREMENT

Simple Majority

OFFICER RECOMMENDATION

That the Audit Committee receives the Chief Executive Officer's report, satisfying both Regulation 17 of the Local Government (Audit) Regulations 1996 and Regulation 5(2)(c) of the Local Government (Financial Management) Regulations 1996 and submit the report to Council for endorsement.

5. CLOSURE OF MEETING