

SHIRE OF BRUCE ROCK

AUDIT COMMITTEE MEETING MINUTES 21 MAY 2020

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SHIRE OF BRUCE ROCK

AUDIT COMMITTEE MEETING MINUTES 21 MAY 2020

1. Declaration of Opening

The Committee Chair, Cr Stephen Strange declared the meeting open at 3.09pm.

2. Record of Attendance / Apologies / Leave of Absence (Previously Approved)

President	Cr SA Strange
Deputy President	Cr R Rajagopalan
Councillors	Cr AR Crooks
	Cr IS Dolton
	Cr KP Foss
	Cr NK Kilminster
	Cr PG Negri
	Cr BJ Waight
	Cr RA Waye
Chief Executive Officer	Mr DRS Mollenoyux
Acting Deputy Chief Executive Officer	Mrs MJ Schilling
Manager of Finance	Mrs JL Bow
Acting Executive Assistant	Miss CE Negri

3. Response to Previous Public Questions Taken on Notice

4. Public Question Time

5. Petitions / Deputations / Presentations / Submissions

6. Confirmation of Minutes

6.1. Audit Committee Meeting – 16 Apr 2020

COMMITTEE DECISION

Resolution ACM May 20 – 6.1

Moved: Cr Rajagopalan

Seconded: Cr Waye

That the minutes of the Audit Committee Meeting held Thursday 16 April 2020 be confirmed as a true and correct record.

Carried 9/0

7. Reports of Officers

7.1. Manager of Finance

Agenda Reference and Subject:	7.1.1 Response to Audit Report as required by section 7.12A of Local Government Act 1995
File Reference:	8.2.6.1 Annual Audit
Reporting Officer:	Jennifer Bow, Manager of Finance
Author:	Jennifer Bow, Manager of Finance
Disclosure of Interest	Nil
Attachments	<p><i>Item 7.1.1 Attachment A – s.7.12A Report</i></p> <p><i>Item 7.1.1 Attachment B – Audit Report</i></p> <p><i>Item 7.1.1 Attachment C – Letter from Minister</i></p> <p><i>Item 7.1.1 Attachment D – LG Alert</i></p> <p><i>Item 7.1.1 Attachment E – Moore Stephens Ratios Guide</i></p>

Summary

The Audit Committee is to examine a report (Attachment A) prepared by the Local Government addressing any significant items raised in the Audit Report (Attachment B), in accordance with section 7.12A of the Local Government Act 1995, and outline what actions have been taken or intend to be taken to address each of the matters raised.

Background

The Department of Local Government, Sport and Communities advised the CEO (Attachment C) that the report submitted to the Minister is not compliant with the legislative requirements as it did not address the matters raised in the Audit Report, namely the adverse trends for ratios.

The report that was prepared for the February Audit Committee Meeting did not comply with the legislative requirements as it only addressed the items raised in the Management Letter. The Department has released an LG Alert (Attachment D) relating to how to address this compliance issue however this was released on the same day as the Audit Committee Meeting.

Comment

The attached report details the Local Government's response to the significant items raised in the Audit Report provided for the financial statements for the year ending 30th June 2019.

The report will also have to be sent to the Minister of Local Government, Hon David Templeman in accordance with section 7.12A(5) of the Local Government Act 1995 outlining how management will address the significant matters raised in the Audit Report. Within 14 days of submitting this report, it must also be displayed on our website.

Audit Report

The 2019 Audit Report issued is a Qualified Report. This is on the basis that the OAG is unable to verify that the Other Infrastructure assets listed in the financial statements has not been corrected valued or condition assessments conducted on these assets as required as per the 2018 Management Letter.

The Auditor General also made comment on three adverse ratios reported in Note 32 of the financial statements. This was also included in last year's audit report. Moore Stephens have prepared a guide to ratios which includes helpful information in interpreting results from ratios (Attachment E).

- Asset Sustainability Ratio is below the Department of Local Government, Sport & Cultural Industries standard of 0.8 for the last three years. This means that we are not replacing assets soon enough but is a direct correlation to our depreciation expense in the financials.
- Operating surplus ratio is below the Department of Local Government, Sport & Cultural Industries standard of 0 for the last three years (2016; -0.86, 2017; -0.70, 2018; -1.87). However the Auditor General commented that most Local Governments have had this reported as an adverse trend as Local Governments are not meant to make a profit and so there may be a flaw in the standard that needs revising.
- Own Source Revenue ratio is below the Department of Local Government, Sport & Cultural Industries standard of 0.35 (2016; 0.43, 2017;0.30, 2018;0.22). The previous 2 years' ratio looked better due to the grain freight route funding however 2018's ratio has returned to a situation where it demonstrates our reliance on government grants due to our low rate base.

The Auditor General has also stated that we are non-compliant with Part 6 of the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996:

- a. *The Shire has included bonds and other monies in its trust account which are not held in trust, or required to be credited to the trust account under section 6.9(1) of the Local Government Act 1995.*

Staff had conducted a review of bond money held in trust and transferred out any residential property bonds that did not specifically state that they were to be held in trust. There are other funds held in trust for a few different community organisations including the recessed Wheatbelt Women Committee and Vietnam Veterans. However, we are only able to hold money in trust that specifically has an agreement to be held in trust and will have to transfer these funds back to those community organisations.

Overall the Auditor General was satisfied with how the audit was conducted.

Consultation

Chief Executive Officer
Deputy Chief Executive Officer
Manager of Finance
Office of Auditor General
AMD Auditors

Statutory Implications

Duties of local government with respect to audits - s.7.12A of *Local Government Act 1995*

7.12A. Duties of local government with respect to audits

- (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

Nil

Risk Implications

Risk: Compliance – Non-compliance with relevant sections and regulations of the Local Government Act 1995.		
Likelihood	Consequence	Rating
Possible	Moderate	Moderate
Action / Strategy		
This item has been evaluated against the Shire of Bruce Rock’s Risk Management Procedures Risk Matrix. The perceived level of risk is considered to be “Medium” risk and will be managed to mitigate the risks associated with each of the areas of the financial audit.		

Financial Implications

\$28,600 plus disbursements for valuation of Other Infrastructure

Strategic Implications

Shire of Bruce Rock – Strategic Community Plan 2017-2027

Governance

Goal 12 Council leads the organisation in a strategic and flexible manner

Voting Requirements

Simple Majority

COMMITTEE DECISION

Resolution ACM May 20 – 7.1.1

Moved: Cr Rajagopalan

Seconded: Cr Waye

That the Audit Committee recommends to Council to receive the report prepared in accordance with section 7.12A of Local Government Act 1995 addressing significant matters raised in the Audit Report for the financial statements for the year ended 30 June 2019.

Carried 9/0

7.2. Deputy Chief Executive Officer

Agenda Reference and Subject:	7.2.1 Regulation 17 Review Report
File Reference:	2.3.3.1 Local Government Act
Reporting Officer:	Jennifer Bow, Manager of Finance Darren Mollenoyux, Chief Executive Officer
Author:	Alan O’Toole, Deputy Chief Executive Officer and Jennifer Bow, Manager of Finance
Disclosure of Interest	Nil
Attachments	<i>Item 7.2.1 Attachment A – Regulation 17 Report</i>

Summary

The Council is asked to endorse this Report from the Audit Committee on the activities undertaken by the CEO with regard to Regulation 17 of the *Local Government (Audit) Regulations 1996 (WA)*.

Background

The CEO last reported in April 2017 to the Audit Committee regarding activities undertaken with regard to Regulation 17. Regulation 17 states that:

17. (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 sub regulation (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.*

As can be seen in Part (2) above, it is now a requirement to report back to the Audit Committee on what activities have taken place with regard to ensuring compliance with Regulation 17.

The Audit Committee’s role with regard to this is defined in this extract from Regulation 16:

16. *Functions of the audit committee*
 - (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)*
 - ...
 - (f) *to oversee the implementation of any action that the local government —*
 - ...
 - (iii) *has accepted should be taken following receipt of a report of a review conducted under regulation 17(1)*

To assist in the task of addressing Regulation 17, Council approved the CEO to engage the assistance of the law practice Civic Legal, who have developed a program entitled “Project Aware”, which is specifically designed to provide support to Local Governments in this area of compliance.

Regulation 17 is not specific regarding what areas of the Shire’s activity are to be reviewed other than they should be in relation to risk management, internal control, and legislative compliance. It also does not expressly require all systems and procedures within those categories to be reviewed. Therefore, the Shire’s Administration team, using Civic Legal’s “Systems and Procedures Profile” tool, first identified and then prioritised those areas where it was felt the Shire was most vulnerable in terms of risk and legislative compliance.

The process once these had been decided was that for each topic or area identified, the relevant staff members would prepare a “Working Paper”. Then, in teleconference with Civic Legal’s Managing Principal and Governance Consultant, the staff would address the issues identified in the Working Paper, and discuss and obtain advice and guidance on possible improvements to process etc.

Comment

To date the CEO has reviewed 8 areas of activity (i.e. systems/procedures) that ranked highest priority using the Project Aware process. These are detailed in the table below:

System/Procedure
Tenders and Procurement
Council Agendas
Records Management
HR Processes
Insurance Claim Processes
Claims and Litigation
Public Availability of Documents
Risk Management Policies and Procedures
Event Planning and Management

The items that the Administration felt were most critical (Tenders/Procurement and Council Agendas) were addressed first and have therefore been completed, and the identified improvements have been implemented. Note: It is not intended that all improvement items identified in one area have to be completed before moving on to another area, and therefore while some areas have been completed, others are currently being worked through, and work on the latter two has recently commenced. This is possible because different areas involve different groups of staffing, and therefore means that work on different areas can continue concurrently.

As can be seen by the attached Regulation 17 Review Report, engagement with Project Aware and staff commitment to achieving positive outcomes is leading to improvements to processes in most areas of Shire activity. This in turn will ensure compliance with legislative requirements, greater management of risk, and greater control across the wide area of activities undertaken by the Shire. It is intended that this process will continue indefinitely to support and encourage a continuous improvement approach to all the Council’s undertakings.

Consultation

- Chief Executive Officer
- Manager of Finance
- Acting Deputy Chief Executive Officer

Statutory Implications

Local Government (Audit) Regulations 1996 r.16, r17.

Policy Implications

Compliance with the Risk Management Policy (adopted in October 2014)

Risk Implications

Risk: That the Regulation 17 Report is not endorsed by Council.		
Likelihood	Consequence	Rating
Rare	Major	High
Action / Strategy		
It is a requirement that the activities relating to Regulation 17 are reported to the Audit Committee and thus to Council. By engaging with Project Aware the CEO has ensured that a robust and consistent process for addressing this area of compliance issue is being appropriately addressed.		

Financial Implications

Nil

Strategic Implications

Shire of Bruce Rock Strategic Community Plan 2017-2027

Governance

- Goal 10 Our organisation is well positioned and has capacity for the future
- 12 Council leads the organisation in a strategic and flexible manner

Voting Requirements

Simple Majority

COMMITTEE DECISION

Resolution ACM May 20 – 7.2.1

Moved: Cr Waye

Seconded: Cr Waight

That the Audit Committee receives the attached report from the CEO on the status of the appropriateness and effectiveness of the Shire’s systems and procedures, as per Regulation 17 of the Local Government (Audit) Regulations 1996.

Carried 9/0

8. New Business of an urgent nature introduced by discussion of the meeting.

9. Closure of Meeting.

The Committee Chairman, Cr Stephen Strange thanked everyone for their attendance and closed the meeting at 3.18pm.

These minutes were confirmed at a meeting on

Cr Stephen Strange
Shire President