SHIRE OF COOLGARDIE

A G E N D A

OF THE

AUDIT COMMITTEE MEETING

14 March 2017

6.00pm

Coolgardie

SHIRE OF COOLGARDIE

NOTICE OF THE AUDIT COMMITTEE MEETING

Dear Committee Member

The meeting of the Shire of Coolgardie Audit Committee will be held on Tuesday 14 March 2017 at 6.00pm in Coolgardie in the Coolgardie Council Chambers, Bayley Street.

J. Trail

JAMES TRAIL
ACTING CHIEF EXECUTIVE OFFICER

SHIRE OF COOLGARDIE

DISCLOSURE OF INTERESTS

TO THE CHIEF EXECUTIVE OFFICER:
Under the Provisions of Division 6 of Part 5 of the Local Government Act 1995, I hereby disclose a Financial Interest/s in the matter/s listed on this form, which is/are scheduled for consideration at the meeting of Council to be held on:

TUESDAY ____	2016

Where indicated by the word 'YES' in column 6, I will be seeking a determination (under Section 5.68) by the meeting, for reasons I will expand on.

*(Print Name)*________________________ *(Signature)* ____________________ *(Date)*

NOTE: Members of Council are asked to deliver this completed form to the Chief Executive Officer on the day of the Council Meeting as required by the Act. Where this is not practicable the Disclosure/s may be telephoned to the Council Office on 9080 2111 and/or the form subsequently passed to the Chief Executive Officer prior to the meeting.

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4.0 CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

ITEM 4.1 AUDIT COMMITTEE MEETING OF COUNCIL 14 February 2017

OFFICERS RECOMMENDATION:

That the minutes of the Audit Committee Meeting of Council 14 February 2017 be confirmed as a true and accurate record.

5.0 REPORTS

AGENDA REFERENCE:	5.1
SUBJECT:	Completed Compliance Audit Return 2016
LOCATION:	Shire of Coolgardie
APPLICANT:	Nil
FILE REFERENCE:	NAM5395
DISCLOSURE OF INTEREST:	The officer has no financial interest in this report.
DATE:	09 March 2017
AUTHOR:	Acting Chief Executive Officer – James Trail

SUMMARY:
For the Audit Committee to recommend to Council to adopt the Shire's 2016 Compliance Audit Return (the return) prior to it being submitted to the Department of Local Government and Communities (DLGC).

BACKGROUND:
The Compliance Audit consists of a number of questions relating to various aspects of council's operations (see attachment). It assists Council in assessing how well it is functioning with respect to adherence to Acts and Regulations applicable to its operations and provides an opportunity to review processes where it is noted that non-compliance has occurred.

The Compliance Audit Return is targeted for return to the Department of Local Government (the Executive Director) by 31 March 2017 as per the *Local Government (Audit) Regulations 1996.*

COMMENT:
In responding to the Compliance Audit, Council staff have reviewed various registers, Council Minutes and other internal documentation, which can be evidenced to substantiate answers given.

Based on this review the following table represents a summary of the responses given

Section/Category	No. of Questions	Compliance	Non Compliance	Not Applicable
Commercial Enterprises by LG	5	0	0	5
Delegation of Power/Duty	13	5	3	5
Disclosure of Interest	16	12	3	1
Disposal of Property	2	1	1	0
Elections	1	0	0	1
Finance	14	8	2	4
Local Government Employees	5	2	0	3
Official Conduct	6	6	0	0
Tenders for Providing Goods and Services	25	10	1	14
Total	87	44	10	33

A comparison between 2015 and 2016 shows an increase in Non Compliance from 2 to 10 and a decrease in Compliance from 51 to 44.

With regard to the increase in Non Compliance the areas are listed below:

<u>Delegation of Power</u>

1. Where all delegations by the CEO to any employee in writing
   - All delegations to employees were not provided in writing only the delegation to purchase

2. Has the CEO kept a register of all delegations made under the Act to him and to other employees
   - A register of all delegations does not appear to have been kept in the prescribed format

3. Did all persons exercising a delegated power or duty under the Act keep, on all occasions, a written record as required
   - A written record in the prescribed format has not been kept on all occasions

<u>Disclosure of Interest</u>

1. Did the CEO keep a register of financial interests which contained the returns lodged under section 5.75 and 5.76
   - A register of financial interests was not kept. Financial interests declared were filled out on the appropriate forms.

2. Did the CEO keep a register of financial interests which contained a record of disclosures made under sections 5.65, 5.70 and 5.71, in the form prescribed in Administration Regulation 28
   - No a register of financial interests was not kept in the prescribed format

3. Has the CEO kept a register of all notifiable gifts received by Council members and employees
    - A register was not maintained in the prescribed format for the whole calendar year. Was implemented in September 2016 as part of the Probity Review

Disposal of Property

1. Was local public notice given prior to disposal for any property not disposed of by public auction or tender (except where excluded by Section 3.58 (5))
    - Local public notice was not given for two leases in the prescribed format as recommended in the Probity Review. A process was put in place in December 2016 to remedy this oversight

Finance

1. Was the Auditor's report for the financial year ended 30 June 2016 received by the local government within 30 days of completion of the audit
    - No the auditors report for the year ending 30 June 2016 was received in draft on 8th March 2017

2. Was the Auditor's report for the financial year ended 30 June 2016 received by the local government by 31st December 2016
    - No the auditors report for the year ending 30 June 2016 was received in draft on 8th March 2017

3. Where the local government determined that matters raised in the auditor's report (prepared under s 7.9 (1) of the Act) required action to be taken by the local government, was a copy of the report forwarded to the Minister by the end of the financial year or 6 months after the last report prepared under s7.9 was received by the local government whichever was the latest in time
    - The Local Government did not receive the auditors report for year ended 30th June 2016 in the calendar year. The management report for the year ended 30th June 2015 received in calendar year 2016 was not submitted to the audit committee or Council with actions from management to address issues raised. The issues raised in the management report for the year ending 30th June 2015 were detailed in the Probity Audit Review verbatim.

Tenders for Providing Goods and Services

1. Did the information recorded in the local government's tender register comply with the requirements of F&G Reg 17.
    - Name of successful tenderer not recorded clearly in register and referenced to the relevant Council resolution. Consideration for all tenders received was recorded in the register when only the consideration sought in the accepted tender must be recorded

In relation to the Non Applicable areas, generally

- Commercial Enterprises by the Local Government. The Shire of Coolgardie did not undertake any commercial enterprises.
- Delegation of Power/Duty. This relates only to Committee's. As the Shire only has two committees, being the Audit Committee and the Policy Committee, and these have no delegated authority. This is not applicable.
- Tender for Providing Goods and Services. The Administration did not progress any multiple tender projects, variances of contract nor run any expressions of interest in the reporting period.
- In the matter of finance, no delegation was given to the audit committee.
- Questions relating to the appointment of a CEO did not occur in the reporting period.

The continued trend of non delivery of the annual financial statements by the required date in 2016 was not addressed. Although a KPI was introduced to achieve this along with the development of the finance and administration team, the outcome was still the same. This issue has been highlighted by comments from the auditor in the draft management letter:

The existing accounting staff was inexperienced and having great difficulties in reconciling/finalising transactions and balances, especially for bank account reconciliation, fixed asset reconciliation and fair value accounting for plant and equipment assets as required by Financial Management Regulation 17A.

CONSULTATION:
Chief Executive Officer
Council
Deputy CEO

STATUTORY ENVIRONMENT:
Local Government (Audit) Regulation, 14 and 15

POLICY IMPLICATIONS:
Nil

FINANCIAL IMPLICATIONS:
Nil

STRATEGIC IMPLICATION:
Solutions focussed and customer oriented organisation.

- High quality corporate governance, accountability and compliance.
- Effective communication and engagement processes.

VOTING REQUIREMENT: Simple Majority

OFFICER RECOMMENDATION:

That the Audit Committee

1. Recommend to Council to ADOPT the 2016 Local Government Compliance Audit Return for the period 1 January 2016 to 31 December 2016 forming Attachment 1 to this Report;
2. Recommend to Council in accordance with Regulation 15 of the *Local Government (Audit) Regulations 1996*, to SUBMIT the completed Compliance Audit Return as detailed in Part 1 above to the Department of Local Government and Communities.

AGENDA REFERENCE: 5.2

SUBJECT: Annual Financial Statements 30th June 2016

LOCATION: Nil

APPLICANT: Nil

FILE REFERENCE: NAM5394

DISCLOSURE OF INTEREST: Nil

DATE: 8 March 2017

AUTHOR: James Trail – Acting Chief Executive Officer

SUMMARY:
To recommend the adoption of the Annual Financial Statements for period ending 30th June 2016 to Council.

BACKGROUND:
The annual financial statements for period ending 30th June 2016 are presented to the Audit Committee for consideration to recommend adoption by Council.
Shire staff and Moore Stephens have been working collectively to prepare a set of statements for the auditors.
A draft of the financial statements and accompanying letters were received by Shire staff on the 8th March 2017.
The Acting Chief Executive officer spoke to David Tomasi to seek clarity on a number of key issues. Following the discussions the statements, independent auditor report and management report have been amended to include additional information and clarity.

COMMENT:
As Council are aware the audit was delayed from October 2016 to February 2017 due to a change over in staff, when Moore Stephens did commence the audit in February they had difficulty in finding all the information the needed to complete the audit. To ensure this does not happen in the future the Shire will review its current financial management practises in particular reconciliations and accounting processes and sufficient accounting resources will be allocated to ensure the Shire will meet the 31 December 2017 deadline to have the audited financial report completed and sent to the Department of Local Government.
Moore Stephens would like to stress one off assessments of ratios at a particular point in time can only provide a snapshot of the financial position and operating situation of the Shire. As is the case with all ratios and indicators, their interpretation is much improved if they are calculated as an average over time with the relevant trends being considered.
A number of the Shire's ratios are below the accepted industry benchmark and trending downwards over the longer term, moving forward measures, strategies to reverse the downward

trends and improve the overall level of the ratios will need to be considered. Moore Stephens will continue to monitor the financial position and ratios in future financial years and suggest it is prudent for Council and management to do as we strive to manage the resources of the Shire.

Ratio	Basic Standard	Shire's Actual Ratios 2016	2015	2014	3 Year Trend2
Current Ratio	>=0.9	1.30	1.150	0.920	
Asset Sustainability	>=0.9	0.340	0.540	0.680	
Debt Service Cover	>=2	2.260	2.420	6.490	
Operating Surplus	>=0.15	(0.880)	(0.420)	(0.209)	
Own Source Revenue Coverage	>=0.6	0.510	0.620	0.744	
Asset Consumption	>=0.75	0.980	0.890	0.674	
Asset Renewal Funding	>=1.05	0.240	N/A	N/A	N/

Above Target	Within acceptable banding	Below Acceptable Banding

<u>COMMENTS ON RATIOS</u>

Adjustments relating to 2016

Three of the 2016 ratios disclosed above have been adjusted for "one off" timing/non-cash items as follows:

• Operating revenue was distorted by the early receipts of the half of the allocation of the 2015/16 Financial Assistance Grants (FAGs) on 30 June 2015. This early payment of the grant increased operating revenue in 2015 and decreased operating revenue in 2016 by $534,292.

• Operating expenses were distorted by the loss on revaluation of plant and equipment assets amounting to $392,590.

These items are considered "one-off" timing in nature and were adjusted when calculating the ratios in the above table (as shown by "*") as were relevant comparative year ratios (which had been affected by similar "one-off" items).

Regional and State 4 Year Averages

Regional and State 4 year averages have not been adjusted for "one-off" items even though these items may have been applicable in prior years as they are based on the statutory ratios which have been reported in published financial reports. However, they still provide a useful reference point as they are indicative of a trend.

Asset Sustainability Ratio

This ratio appears to have been trending downwards over the longer term and is below both the Regional and State 4 year averages.

Analysis of the Shire's Statement of Comprehensive Income indicates the main reason for the deterioration of the ratio in the current year to be a significant increase in the amount of depreciation expense over the prior year. Total depreciation increased from $4,235,027 in 2015 to $8,776,006 in 2016. This increase in depreciation is attributable to the revaluation of infrastructure assets conducted during the year ended 30 June 2016 which resulted in a significantly higher depreciable asset base especially roads. One possible cause relates to the Remaining Useful Life (RUL) assessments performed on individual assets. They may not have been comprehensive enough to adjust to more realistic conditions which would have resulted in a lower depreciation expense.

Whilst the approach to conditions was considered conservative, we suggest this be reviewed as it provides an unrealistic distortion to the ratios represented. To help ensure the depreciation charged for the year is a true reflection of the Infrastructure value in the years preceding the next revaluation, management should implement a plan to review condition and RUL assessments in the short to medium term.

Interpretation of this ratio should be considered together with the Asset Consumption Ratio (above target at 0.98) and the Asset Renewal Funding Ratio (below target at 0.24).

Assets Renewal Funding Ratio

This ratio is below the target level. In addition, it is below both Regional and State 3 year averages.

Interpretation of this ratio should be considered together with the Asset Sustainability Ratio (ASR) (below target at 0.34) and the ACR (above target at 0.98).

Whilst the ASR (after factoring in the depreciation anomaly detailed above) and the ACR for the year suggest the Shire is currently replacing its existing assets at about the same rate they are wearing out, the Council should consider reviewing the Shire's long-term capital investment program to help ensure asset renewal is maintained at an appropriate level with sufficient funding support in the future.

Debt Service Cover Ratio

This ratio has improved from the previous year but is trending marginally downwards against the average over the longer term. It is also below both the Regional and State averages.

Analysis of the Shire's Statement of Comprehensive Income indicates the main reason for the improvement in the ratio in the current year to be the increase in operating revenue relating to rates revenue and other revenue, mainly from recovery of Lehman Brothers Investments.

In order to help ensure the continued sustainability and financial wellbeing of the Shire, both Council and Management will need to consider ways to improve the operating position in the medium term. This is either via increasing revenue or by decreasing expenditure (or a combination of both).

Operating Surplus Ratio

This ratio has deteriorated from the previous year. It is below both the Regional and State averages and is trending marginally downwards over the last five years. Moreover, it has been in negative territory for the last five years.

The increase in the depreciation expense discussed in the comments on the Asset Sustainability Ratio above is the main reason for the deterioration of this ratio despite the increase in operating revenue as mentioned at the Debt Service Cover Ratio.

Whilst this is by no means categorical (it is ultimately dependent on what the final depreciation expense is), it does provide some insight and explanation as to the importance of updating condition and RUL assessments as soon as possible. Even if depreciation was at similar levels as to prior years (Pre-revaluation), these ratios would still be below their respective target levels.

As is the case of the Debt Service Cover ratio above, to help alleviate the continued erosion of this ratio, both Council and Management will need to consider ways to improve the operating position either via increasing revenue or by decreasing expenditure (or a combination of both). This is dependent upon the Council and management understanding the circumstances and the interaction operating surplus has on other ratios and operations in general.

Ratio Summary

A number of the Shire's ratios are below the accepted industry benchmark and trending downwards over the longer term, moving forward, measures/strategies to reverse the downward trends and improve the overall level of the ratios should be considered.

One off assessments of ratios at a particular point in time can only provide a snapshot of the financial position and operating situation of the Shire. As is the case with all ratios and indicators, their interpretation is much improved if they are calculated as an average over time with the relevant trends being considered.

Moore Stephens will continue to monitor the financial position and ratios in future financial years and suggest it is prudent for Council and management do so also as they strive to manage the scarce resources of the Shire.

SUMMARY COMMENT

Whilst the management had subsequently appointed a third party consultant to assist them with the preparation of the annual financial report, the accounts were far from fully reconciled for an efficient turnaround. The existing accounting staff was inexperienced and having great difficulties in reconciling/finalising transactions and balances, especially for bank account reconciliation, fixed asset reconciliation and fair value accounting for plant and equipment assets as required by Financial Management Regulation 17A.

During the course of the audit, we also noted a large number of operating accounts were incorrectly remapped or categorised in the Shire's accounting system. In addition, some income accounts were incorrectly cleared to fixed asset accounts. Consequently, the Shire's statements of comprehensive income (both by Nature and Program) were incorrectly produced for 2016 financial reporting purposes and had to be further adjusted to reflect the true position.

Furthermore, we noted the Shire's asset management software, AssetFinda, was not duly updated with all necessary variables required to calculate the depreciation of infrastructure assets for 2015/2016 following the revaluation done during 2014/2015. This needs to be addressed as a priority in 2016/2017.

The calculation of depreciation on roads for the year ended 30 June 2016 was performed using a single weighted average rate instead of considering the various component parts of the roads separately as required by *AASB 116 Property, Plant and Equipment.*

The main reason for the departure from this standard was the Shire's management has a lack of confidence on the suggested annual depreciation expense in respect of the Shire's road asset in Asset Finda following the revaluation work performed on its infrastructure assets (during the year ended 30 June 2015). This has arisen from the lack of co-ordination between the Engineering and Finance sections of the Shire.

The Shire's management will review the condition and RUL assessments from the revaluation performed during the year ended 30 June 2015 in respect of roads in the short term to help ensure the depreciation charged for the year is a true reflection of the Infrastructure value in the years preceding the next revaluation.

As is obvious by the time taken to correct the account and finalise the report, the process has been far from efficient. This has resulted in a late audit report and increased costs.
Not only does it impact on the efficiency of the audit process, it also reflects on the efficiency of the Shire as a whole as it compromises the delivery of meaningful, accurate and timely management information.
Please also note similar point has been raised in previous management letters since 2011 except 2015.
This seriously undermined the financial management practices of the Shire. Consequently, we found it necessary to highlight this matter in our audit report.
To ensure this situation is rectified and does not present itself again, the council should review the Shire's current financial management practices. In particular, key reconciliations and accounting processes should be identified and sufficient accounting resources be allocated to the process with the goal of meeting the 31 December deadline for having the audited Financial Report completed and sent to the Department

CONSULTATION:
Moore Stephens
Shire staff

STATUTORY ENVIRONMENT:
Section 5.53 AND 5.54 Local Government Act 1995 as amended.

POLICY IMPLICATIONS:
Nil

FINANCIAL IMPLICATIONS:
Nil

STRATEGIC IMPLICATION:

Solutions focussed and customer oriented organisation.

▪ High quality corporate governance, accountability and compliance.

▪ Effective communication and engagement processes.

VOTING REQUIREMENT: Simple Majority

OFFICER RECOMMENDATION:

That the Audit Committee:

1. Accepts the Annual Financial Statements for the period ending 30th June 2016, Independent Auditor's Report and Management Report for the Year Ended 30 June 2016
2. Recommends the Council adopt the Annual Financial Statements for the period ending 30th June 2016
3. Recommends the Council receive the Management Report for the Year Ended 30 June 2016
4. Recommends to Council the Acting Chief Executive Officer prepare an action report on the matters raised in the Management Report for the year ended 30 June 2016 to be presented to the Council at the April 2017 Ordinary Meeting of Council
5. Recommend to Council that the action report be forwarded to the Minister in accordance with s 7.12A (4) of the Local Government Act 1995

AGENDA REFERENCE:	5.3
SUBJECT:	Internal Audit Framework – Risk Management
LOCATION:	Nil
APPLICANT:	Nil
FILE REFERENCE:	NAM5386
DISCLOSURE OF INTEREST:	Nil
DATE:	8 March 2017
AUTHOR:	Jill O'Brien – Deputy Chief Executive Officer

SUMMARY:
For the Audit Committee to receive the update on the reporting of strategic risks and controls.

BACKGROUND:
In February 2013 amendments to the Local Government (Audit) Regulations 1996 extended the responsibilities of audit committees and Chief Executive Officers of Local Government authorities in relation to the reviewing and reporting of the Local Government's systems and procedures in regard to risk management, internal control and legislative compliance.
At the August 2016 Ordinary meeting of Council, Council resolved the following

<u>COUNCIL RESOLUTION: #187/16</u>

That Council

1. *Note the Strategic Risk Report (attached)*
2. *Note the Updated Risk Report (attached)*
3. *Note the Identified Risk Report (attached)*
4. *Receive the Proposed Strategic Risks 2016-2017*
5. *Request the Committee receive a quarterly report on all strategic risks and high operational risks inclusive of commentary and % complete*
6. *Request the Committee receive all operational risks twice a year inclusive of commentary and % complete*
7. *Request a review of the risk management, internal control and legislative compliance systems and procedures required by Regulation 17 of the Local Government (Audit) Regulations 1996 be undertaken and provided to the Committee in October 2016.*

CARRIED SIMPLE MAJORITY 5/0

COMMENT:
Previously Council has been presented with a set of Strategic and Operational Risks. Each Manager had been requested to monitor and report on these risks. With a new management team in place a copy of the risk matrix has been provided to coordinators to review, after the review the risk management framework will be work shopped with the new management team during the month of March to ensure the current risk matrix is in line with legislative compliance as required by the Local Government (Audit) Regulations 1996.
The review will include delegations of responsible officers to monitor and report on each risk, an action plan as to how staff will minimise each risk, what risks are being addressed and any amendments that have been changed through the process. On completion of this review the framework will then be presented to Council for feedback and staff will start reporting on risk effective from 1 July 2017.
Monitoring and reviewing activities will provide evidence on appropriateness and effectiveness of systems and procedures in risk management, internal control and legislative compliance as required by the Local Government (Audit) Regulations 1996.

CONSULTATION:
James Trail Acting Chief Executive Officer

STATUTORY ENVIRONMENT:
Local Government (Audit) Regulation 17

POLICY IMPLICATIONS:
AD – 14 Risk Management Policy

FINANCIAL IMPLICATIONS:
Nil

STRATEGIC IMPLICATION:
Solutions focussed and customer oriented organisation.
- High quality corporate governance, accountability and compliance.
- Effective communication and engagement process.

VOTING REQUIREMENT: Simple Majority

OFFICER RECOMMENDATION:

That the Audit Committee receive the update on the reporting of strategic risks and controls.

6.0 CLOSURE OF MEETING