



## *Minutes Certification*

### **AUDIT COMMITTEE MEETING**

MINUTES of the Audit Committee Meeting of the  
Shire of Coolgardie held on 10 December 2019,  
Commencing at 5.30pm were presented to  
Council and confirmed.

James Trail  
Chief Executive Officer

Cr Malcolm Cullen  
Shire President

Shire President Signed

Date Signed

26/5/2020



**MINUTES**

**OF THE**

**AUDIT COMMITTEE MEETING**

**10 December 2019**

**6.00pm**


**Coolgardie**

**SHIRE OF COOLGARDIE**

**NOTICE OF AUDIT COMMITTEE MEETING**

Dear Elected Member

The next Audit Committee Meeting of the Shire of Coolgardie will be held on Tuesday 10 December 2019 in the Council Chambers, Bayley Street, Coolgardie commencing at 6:00pm.

A handwritten signature in blue ink that reads "J. Trail". The signature is written in a cursive style and is contained within a white rectangular box.

**JAMES TRAIL**  
**CHIEF EXECUTIVE OFFICER**

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## **1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS**

Shire President, M Cullen declared the meeting open at 05:04 pm and welcome fellow Councillors, visitors and staff and thanked them for their attendance.

## **2 RECORD OF ATTENDANCE / APOLOGIES / APPROVED LEAVE OF ABSENCE**

### **PRESENT:**

Shire President, Malcolm Cullen  
Councillor, Tracey Rathbone  
Councillor, Sherryl Botting  
Councillor, Eugen Winter  
Councillor, Tammee Keast

### **MEMBERS OF STAFF:**

Chief Executive Officer, James Trail  
Executive Assistant, Bree Crawley  
Director Economic and Community Development, Mia Hicks  
Director of Operations, Robert Hicks  
Consultant, Martin Whitely  
Consultant, Francesca Lefante

### **MEMBERS OF THE PUBLIC:**

Nil

### **APOLOGIES:**

Councillor, Norm Karafilis

### **APPROVED LEAVE OF ABSENCE:**

Councillor, Kathie Lindup

## **3 DECLARATIONS OF INTEREST**

### **3.1 *Declarations of Financial Interests – Local Government Act Section 5.60A***

Nil

### **3.2 *Declarations of Proximity Interests – Local Government Act Section 5.60B***

Nil

### **3.3 *Declarations of Impartiality Interests – Administration Regulation 34C***

Nil

#### 4 CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

#### 5 REPORTS OF OFFICERS

##### 5.1 Chief Executive Officer

##### 5.1.1 Annual Financial Report and Audit Report 2018/19

<b>Location:</b>	Shire of Coolgardie
<b>Applicant:</b>	Shire of Coolgardie
<b>File Reference:</b>	
<b>Disclosure of Interest:</b>	Nil
<b>Date:</b>	06 December 2019
<b>Author:</b>	James Trail, Chief Executive Officer

##### **Summary:**

The Audit Committee is required to consider and recommend to Council, the adoption of the annual financial report, examine the audit and management reports, and review the report prepared by the Chief Executive Officer.

##### **Background:**

Pursuant to Section 7.9 of the *Local Government Act 1995* ("LGA"), an Auditor is required to examine the accounts and annual financial report submitted by a local government for audit. The Auditor is also required, by 31 December following the financial year to which the accounts and report relate, prepare a report thereon and forward a copy of that report to:

- (a) Mayor or President; and
- (b) The Chief Executive Officer; and
- (c) The Minister.

Furthermore, in accordance with Regulation 10(4) of the *Local Government (Audit) Regulations 1996* ("*Audit Regulations*"), where it is considered appropriate to do so, the Auditor may prepare a Management Report to accompany the Auditor's Report, which is also to be forwarded to the persons specified in Section 7.9 of the LGA.

On finalisation of the Shire's 2018/19 final audit, the Auditors have forwarded the Annual Financials Statements along with the Audit Report and the Audit Concluding Memorandum.

The Audit Committee is required to examine the reports of the auditor after receiving a report from the Chief Executive Officer ("CEO") on the matters reported and:

- Determine if any matters raised require action to be taken by the local government; and
- Ensure that appropriate action is taken in respect of those matters.

The Audit Committee is also required to review a report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and present the report to Council for adoption. A copy of the report is to be forwarded to the Minister prior to the end of the next financial year or 6 months after the last report prepared by the auditor is received, whichever is the latest in time.

The Audit Committee is requested to consider and recommend adoption of the annual financial report to Council.

**Comment:**

Following is the CEO's report to the Audit Committee on matters arising from the audit and management reports.

**Audit Report**

There was one adverse trend reported.

Reporting of any material matters that indicate significant adverse trends in the financial position of the Shire relating to the requirements of Local Government (Audit) Regulation 10(3)(a). The Auditor's used the statutory ratios disclosed and compared them against industry benchmarks and previously reported ratios. They also assessed how the ratios impact the operations of the Shire.

The Auditor's made the following comment;

***Based on work performed, we noted a significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio has been below the industry benchmark for the past 3 years.***

**Management Comment**

Operating Revenue minus operating expenditure divided by own source revenue is the measure for the Operating Surplus Ratio. For 2018/19 the difference between operating revenue and operating expenditure was (\$2,836,032). In order to meet the standard and improve the ratio Council needs to have the following strategic conversation with the community;

- Increase revenue generated from non - rating sources such as Kambalda airstrip, Shire tip sites and commercial activities
- Increase rates annually in excess of 7% over the next 5 years
- Increase rates revenue through rating of mining infrastructure
- Reduce levels of service on all operating activities

Council and management will continue to explore areas to help improve the operating position of the Shire. However this will not significantly improve the operating surplus ratio without the Council having a strategic conversation as suggested above.

**Management Report**

It provides an overview of the approach undertaken in respect of the annual audit process and the associated outcomes of the audit. The Management Report also identifies any findings that are considered relevant to the day to day operations of the Shire. There were no matters of statutory or financial non-compliance reported.

The Management Report for the period ended 30<sup>th</sup> June 2018 raised 11 issues requiring management attention (See attached). The report for the period ended 30<sup>th</sup> June 2019 raised none. A significant improvement.

**Attachments:**

1. 2018-19 Annual Financial Statements - Final Draft [5.1.1.1 - 57 pages]
2. 2017-18 Audit Management Letters Action List [5.1.1.2 - 2 pages]
3. 2018-19 Audit Report Action List [5.1.1.3 - 1 page]
4. Audit Report ( Signed) 06-12-19 [5.1.1.4 - 3 pages]
5. Management Report ( Signed) 06-12-19 [5.1.1.5 - 1 page]

**Consultation:**

Finance & Administration staff  
Martin Whitely, LG Corporate Solutions

**Statutory Environment:**

**Local Government Act 1995**

**6.4. Financial report**

- (1) A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed.
- (2) The financial report is to —
  - (a) be prepared and presented in the manner and form prescribed; and
  - (b) contain the prescribed information.
- (3) By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor —
  - (a) the accounts of the local government, balanced up to the last day of the preceding financial year; and
  - (b) the annual financial report of the local government for the preceding financial year.

**7.9. Audit to be conducted**

- (1) An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to —
  - (a) the mayor or president; and
  - (b) the CEO of the local government; and
  - (c) the Minister.
- (2) Without limiting the generality of subsection (1), where the auditor considers that —
  - (a) there is any error or deficiency in an account or financial report submitted for audit; or

- (b) any money paid from, or due to, any fund or account of a local government has been or may have been misapplied to purposes not authorised by law; or
  - (c) there is a matter arising from the examination of the accounts and annual financial report that needs to be addressed by the local government,
- details of that error, deficiency, misapplication or matter, are to be included in the report by the auditor.
- (3) The Minister may direct the auditor of a local government to examine a particular aspect of the accounts and the annual financial report submitted for audit by that local government and to —
    - (a) prepare a report thereon; and
    - (b) forward a copy of that report to the Minister,
 and that direction has effect according to its terms.
  - (4) If the Minister considers it appropriate to do so, the Minister is to forward a copy of the report referred to in subsection (3), or part of that report, to the CEO of the local government.

#### **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
  - (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.

#### **5.54. Acceptance of annual reports**

- (1) Subject to subsection (2), the annual report for a financial year is to be accepted\* by the local government no later than 31 December after that financial year.

\* *Absolute majority required.*

- (2) If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.

## Local Government (Audit) Regulations 1996

### 10. Report by auditor

- (1) An auditor's report is to be forwarded to the persons specified in section 7.9(1) within 30 days of completing the audit.
- (2) The report is to give the auditor's opinion on —
  - (a) the financial position of the local government; and
  - (b) the results of the operations of the local government.
- (3) The report is to include —
  - (a) any material matters that in the opinion of the auditor indicate significant adverse trends in the financial position or the financial management practices of the local government; and
  - (b) any matters indicating non-compliance with Part 6 of the Act, the *Local Government (Financial Management) Regulations 1996* or applicable financial controls in any other written law; and
  - (c) details of whether information and explanations were obtained by the auditor; and
  - (d) a report on the conduct of the audit; and
  - (e) the opinion of the auditor as to whether or not the following financial ratios included in the annual financial report are supported by verifiable information and reasonable assumptions —
    - (i) the asset consumption ratio; and
    - (ii) the asset renewal funding ratio.

(4A) In subregulation (3)(e) —

**asset consumption ratio** has the meaning given in the *Local Government (Financial Management) Regulations 1996* regulation 50(2);

**asset renewal funding ratio** has the meaning given in the *Local Government (Financial Management) Regulations 1996* regulation 50(2).

- (4) Where it is considered by the auditor to be appropriate to do so, the auditor is to prepare a management report to accompany the auditor's report and to forward a copy of the management report to the persons specified in section 7.9(1) with the auditor's report.

## Local Government (Financial Management) Regulations 1996

### 17A. Assets, valuation of for financial reports etc.

- (1) In this regulation —

**carrying amount**, in relation to an asset, means the carrying amount of the asset determined in accordance with the AAS;

**fair value**, in relation to an asset, means the fair value of the asset measured in accordance with the AAS.

- (2) Subject to subregulation (3), the value of an asset shown in a local government's financial reports must be the fair value of the asset.
- (3) A local government must show in each financial report —
  - (a) for the financial year ending on 30 June 2013, the fair value of all of the assets of the local government that are plant and equipment; and
  - (b) for the financial year ending on 30 June 2014, the fair value of all of the assets of the local government —
    - (i) that are plant and equipment; and
    - (ii) that are —
      - (I) land and buildings; or
      - (II) infrastructure;and
  - (c) for a financial year ending on or after 30 June 2015, the fair value of all of the assets of the local government.
- (4) A local government must revalue an asset of the local government —
  - (a) whenever the local government is of the opinion that the fair value of the asset is likely to be materially different from its carrying amount; and
  - (b) in any event, within a period of at least 3 years but no more than 5 years after the day on which the asset was last valued or revalued.
- (5) An asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition by the local government is under \$5 000.

*[Regulation 17A inserted by Gazette 20 Apr 2012 p. 1699-700; amended by Gazette 21 Jun 2013 p. 2451; 26 Jun 2018 p. 2388.]*

#### **17B. CEO to take steps to protect excluded portable and attractive assets**

A CEO must take all reasonable steps to prevent the theft or loss of —

- (a) a non-consumable asset that is susceptible to theft or loss due to its portable nature and attractiveness for personal use or resale; and
- (b) an asset referred to in regulation 17A(5).

*[Regulation 17B inserted by Gazette 26 Jun 2018 p. 2388.]*

#### **Policy Implications:**

Investment of Surplus Funds 02  
Risk Management 21

#### **Financial Implications:**

Nil

**Strategic Implications:**

**Accountable and Effective Leaders**

Demonstrating sound financial management and plans for the Shire's long term financial sustainability

Demonstrating that decisions are developed through inclusive community engagement

High quality corporate governance, accountability and compliance

Maintain integrated strategic and operational plans

**Voting Requirement:** Absolute Majority

**Officer Recommendation:**

That the Audit Committee,

1. Recommend Council receive the Chief Executive Officer response to the Audit Report for the period ending 30<sup>th</sup> June 2019 dated 06 December 2019
2. Receive the Action Report as attached and recommend the Report be received by Council
3. Recommend Council receive the Audit Management Report dated 06 December 2019
4. Recommend Council adopts the Annual Financial Report and Audit Report for the year ended 30 June 2019
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.

**COUNCIL RESOLUTION: #266/19**

**Moved: Councillor, T Rathbone**

**Seconded: Councillor, E Winter**

That the Audit Committee,

1. **Recommend Council receive the Chief Executive Officer response to the Audit Report for the period ending 30<sup>th</sup> June 2019 dated 06 December 2019**
2. **Receive the Action Report as attached and recommend the Report be received by Council**
3. **Recommend Council receive the Audit Management Report dated 06 December 2019**
4. **Recommend Council adopts the Annual Financial Report and Audit Report for the year ended 30 June 2019**
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.**

**CARRIED ABSOLUTE MAJORITY 4/0**

### 5.1.2 Adoption of Annual Report 2018-2019

<b>Location:</b>	Nil
<b>Applicant:</b>	Nil
<b>File Reference:</b>	
<b>Disclosure of Interest:</b>	Nil
<b>Date:</b>	06 December 2019
<b>Author:</b>	Chief Executive Officer, James Trail

#### **Summary:**

Audit Committee to recommend to Council to adopt the Annual Report for the year ended 30 June 2019 and set the date of the Annual Meeting of Electors

#### **Background:**

The annual Meeting of Electors is to consider the Annual Report for the year ended 30 June 2019. If Council were like minded the meeting could be held in Kambalda on January 28<sup>th</sup>, 2020.

#### **Comment:**

The Annual Report for the year ended 30 June 2019 is presented to Council for adoption. The report will be available to the public at the Administration Office and the Library, Barnes Drive Kambalda, and the Library in the Recreation Centre, Sylvester Street Coolgardie.

The Annual Financial Report is included in the Annual Report and it is noted the following matter to be reported in accordance with Reg 10(3) of the Local Government (Audit) Regulations 1996:

***There is a significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio has been below the industry benchmark for the past 3 years.***

The primary tool set by the Department of Local Government and Communities for the measurement of the performance of each local government are the financial ratios. These have been presented for many years and demonstrate that there is a need for either an increase in revenue or reduction of operating expenditure.

Financial ratios are numerical representations of the organisation's performance. The ratios referred to are set for all local governments in Western Australia and are calculated as follows;

Current ratio	$\frac{\text{current assets minus restricted assets}}{\text{current liabilities minus liabilities associated with restricted assets}}$
Asset sustainability ratio	$\frac{\text{capital renewal and replacement expenditure}}{\text{Depreciation expenses}}$
Debt service cover ratio	$\frac{\text{annual operating surplus before interest and depreciation}}{\text{principal and interest}}$
Operating surplus ratio	$\frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$
Own source revenue coverage ratio	$\frac{\text{own source operating revenue}}{\text{operating expenses}}$

The results for these ratios are shown in the following table.

Ratio	Standard	2019	2018	2017	2016
Current Ratio	>= 1.00	2.48	3.21	2.06	1.30
Asset Consumption	>= 0.75	0.97	0.75	0.97	0.98
Asset Renewal	>= 1.05	1.11	N/A	N/A	0.24
Asset Sustainability	>= 1.10	0.80	0.27	0.39	0.34
Debt Service Cover	>= 5.00	11.76	4.28	5.21	2.26
Operating Surplus	>= 0.15	(0.32)	(0.40)	(0.35)	(0.88)
Own Source Revenue Coverage	>= 0.90	0.65	0.62	0.62	0.51

## COMMENT ON RATIOS

### Current Ratio

The current ratio is a liquidity ratio that measures whether the Shire has enough resources to meet its short-term obligations. If current liabilities exceed current assets the current ratio will be less than 1 and is an early indicator that the Shire may have problems meeting its short-term obligations.

This ratio continues to remain above the standard. The reduction in the ratio from 2017/18 is due to an increase in current liabilities of \$560,000. This is due to current borrowings for new loans and accrued expenses for the Kambalda Swimming Pool.

### Asset Sustainability Ratio

The Asset Sustainability ratio expresses capital expenditure on renewal and replacement of existing assets as a percentage of depreciation costs. This ratio is used to identify any potential decline or improvement in asset conditions. A percentage of less than 100% on an ongoing basis indicates assets may be deteriorating at a greater rate than spending on renewal or replacement.

A significant factor in calculating this ratio is the annual depreciation charge for roads and other infrastructure. This figure has been excessively high in previous years and following the completion of the fair value adjustments in the 2017/18 financial year, this ratio has improved significantly in the 2018/19 financial year due to an increase in asset renewal of \$1,959,641 and reduction in depreciation cost of \$807,549.

Sustaining the ratio at this level or improvement to this ratio will assist the Shire maintain its asset base at the right level into the future. Interpretation of this ratio should also be considered together with the Asset Consumption Ratio (above target at 0.97) and the Asset Renewal Funding Ratio (1.11).

### **Asset Renewal Funding Ratio**

This ratio indicates whether Shire's planned capital renewal expenditure over the next 10 years as per its Long Term Financial Plan (LTFP) is sufficient to meet the required capital renewal expenditure over the next 10 years as per its Asset Management Plans (AMPs).

The ratio for 2018/19 is 1.11. This is a significant improvement on previous years when the ratio has not been calculated. This will also have a significant positive impact on the Financial Health Indicator (FHI) for the period ended 30<sup>th</sup> June 2019.

### **Operating Surplus Ratio**

The Operating Surplus Ratio represents the percentage by which the operating surplus (or deficit) differs from the Shire's own source revenue which includes rates.

This ratio has improved slightly in the current year; however, it is still below the target level and in negative territory. In the Audit Concluding Memorandum from the Shire Auditor the following comment was made;

*In addition, we noted the following matter to be reported in accordance with Reg 10(3) of the Local Government (Audit) Regulations 1996:*

- ***There is a significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio has been below the industry benchmark for the past 3 years.***

Operating Revenue minus operating expenditure divided by own source revenue is the measure for the Operating Surplus Ratio. For 2018/19 the difference between operating revenue and operating expenditure was **(\$2,836,032)**. Consequently, in order to meet the standard and improve the ratio Council needs to have the following strategic conversation with the community;

- Increase revenue generated from non - rating sources such as Kambalda airstrip, Shire tip sites and commercial activities
- Increase rates annually in excess of 7% over the next 5 years
- Increase rates revenue through rating of mining infrastructure
- Reduce levels of service on all operating activities

Council and management will continue to explore areas to help improve the operating position of the Shire. However this will not significantly improve the operating surplus ratio without the Council having a strategic conversation as suggested above.

### **Attachments:**

1. Final Attachment Annual Report 06-12-19 [5.1.2.1 - 94 pages]

**Consultation:**

Auditor – Moore Stephens – Wen-Shien Chai  
Council Staff  
Shire Contractor

**Statutory Environment:**

Section 5.54 Local Government Act 1995 as amended.  
Local Government (Financial Management) Regulations 1996

**Policy Implications:**

Nil

**Financial Implications:**

Nil

**Strategic Implications:**

**Accountable and Effective Leaders**

Demonstrating sound financial management and plans for the Shire's long term financial sustainability  
High quality corporate governance, accountability and compliance

**Voting Requirement:** Absolute Majority

**Officer Recommendation:**

That the Audit Committee,

1. Recommend to Council to adopt the Annual Report for the year ended 30 June 2019 in accordance with Section 5.54 of the Local Government Act 1995,
2. Recommend to Council to set the date for the Annual meeting of Electors to be Tuesday 28 January 2019 at 6.30pm at the Kambalda Recreation Centre.

**COUNCIL RESOLUTION: #267/19**

**Moved: Councillor, T Rathbone**

**Seconded: Councillor, E Winter**

That the Audit Committee,

1. Recommend to Council to adopt the Annual Report for the year ended 30 June 2019 in accordance with Section 5.54 of the Local Government Act 1995,
2. Recommend to Council to set the date for the Annual meeting of Electors to be Tuesday 28 January 2019 at 6.30pm at the Kambalda Recreation Centre.

**CARRIED ABSOLUTE MAJORITY 4/0**

## **6 CLOSURE OF MEETING**

Shire President, M Cullen declared the meeting closed at 05:46 pm and thanked all for their attendance.