



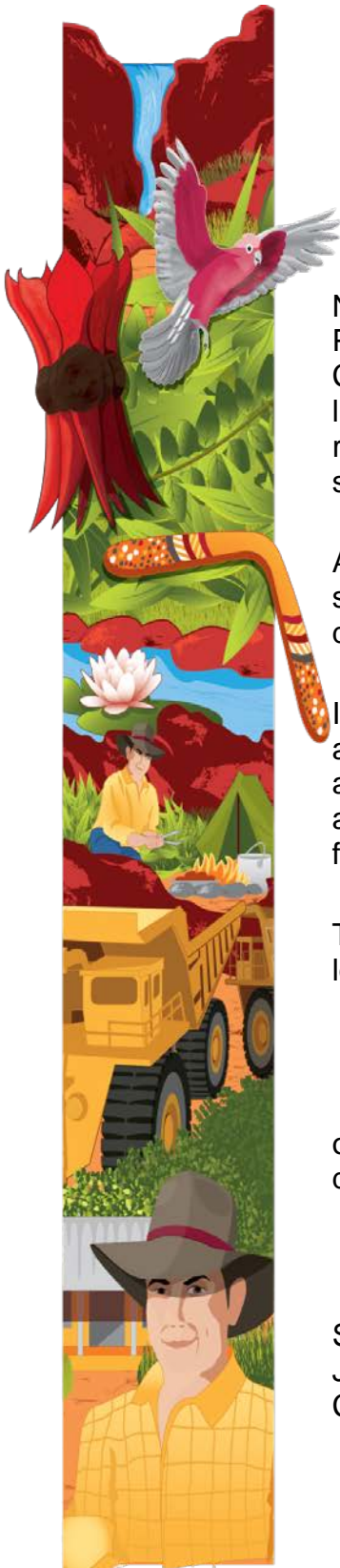
SHIRE OF EAST PILBARA

MINUTES

AUDIT COMMITTEE

NOTICE IS HEREBY GIVEN that an
Audit Committee Meeting of the Council was held,
in the Council Chambers Meeting Room, Newman
9:00 am, Friday, 23rd November, **2018**

Jeremy Edwards
CHIEF EXECUTIVE OFFICER



DISCLAIMER

No responsibility whatsoever is implied or accepted by the Shire of East Pilbara for any act, omission or statement or intimation occurring during Council or Committee Meetings. The Shire of East Pilbara disclaims any liability for any loss whatsoever and howsoever caused arising out of reliance by any person or legal entity on any such act, omission or statement or intimation occurring during Council or Committee Meetings.

Any person or legal entity who acts or fails to act in reliance upon any statement, act or omission made in a Council or Committee Meeting does so at that person's or legal entity's own risk.

In particular and without derogating any planning application or application of a licence, any statement or intimation of approval made by any member or Officer of the Shire of East Pilbara during the course of any meeting is not intended to be and is not taken as notice of approval from the Shire of East Pilbara.

The Shire of East Pilbara warns that anyone who has any application lodged with the Shire of East Pilbara must obtain and should only rely on

WRITTEN CONFIRMATION

of the outcome of the application and any conditions attaching to the decision made by the Shire of East Pilbara in respect of the application.

Signed: _____
Jeremy Edwards
Chief Executive Officer

AUDIT COMMITTEE
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1 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

2 RECORD OF ATTENDANCES/APOLOGIES/LEAVE OF ABSENCE

2.1 ATTENDANCES

Councillors

Gerry Parsons(Committee Member)
Anita Grace (Committee Member)
Anthony Middleton(Committee Member)

Craig Hoyer (Observer)
Jeton (Jay) Ahmedi (Observer)
Michael Kitchin (Observer)

Officers

Jeremy Edwards
Sian Appleton

2.2 APOLOGIES

Nil

2.3 LEAVE OF ABSENCE

Nil

3 RESPONSE TO PREVIOUS QUESTIONS TAKEN ON NOTICE

Nil

4 PUBLIC QUESTION TIME

Nil

5 PETITIONS/DEPUTATIONS/PRESENTATIONS

Nil

5.1 PRESENTATION BY WEN-SHEIN CHAI, SHIRE AUDITOR

Wen-Shein Chai presented to the Audit Committee regarding the Annual Financial Statements.

6 APPLICATIONS FOR LEAVE OF ABSENCE

Nil

7 CONFIRMATION OF MINUTES OF PREVIOUS COMMITTEE MEETING

7.1 CONFIRMATION OF MINUTES

OFFICER'S RECOMMENDATION:

MOVED: Cr Anthony Middleton

SECONDED: Cr Anita Grace

THAT the minutes of the Audit Committee Meeting held at Newman on the 6th September 2018, be confirmed as a true and correct record of proceedings.

**CARRIED
RECORD OF VOTE: 3 - 0**

8 MEMBERS' REPORTS

8.1 ITEMS FOR RECOMMENDATION'

Nil

9 OFFICERS' REPORTS

9.1.1 AUDIT MANAGEMENT REPORT 2018

File Ref:	FIN-21-1
Attachments:	2018 Management Report East Pilbara.pdf
Responsible Officer:	Ms Sian Appleton Deputy Chief Executive Officer
Author:	Ms Sian Appleton Deputy Chief Executive Officer
Location/Address:	N/A
Name of Applicant:	N/A
Author Disclosure of Interest:	Nil

REPORT PURPOSE

That the Audit Committee review the contents of the Audit Management Letter and recommend Council accept the letter as presented.

BACKGROUND

The Auditors are required under the Local Government Audit Regulations to report certain compliance matters in their audit report. Other matters which arise during the course of their audit that they wish to bring to Council's attention are raised in the management report.

COMMENTS/OPTIONS/DISCUSSIONS

The Auditors have again singled out Ratios in their Management Report as follows:

OPERATING SURPLUS RATIO

This ratio represents the percentage by which the operating surplus (or deficit) differs from the Shire's own source revenue which includes rates and operating grants.

The Shire's ratio (after adjustment for FAGs and WANDRRA flood damage reimbursement and expenditure) has declined in the current year (from (0.17) to (0.19)) and has been negative for the last four years. Analysis of the Shire's Statement of Comprehensive Income indicates the main reason for the downward trend to be the operating expenditure increases (in particular, depreciation and employee costs) not being matched by the increase in operating revenue (mainly increase in fees and charges) during the year ended 30 June 2018.

A negative ratio indicates the local government is experiencing an operating deficit. A sustained period of deficits will erode the Shire's ability to service debt and maintain both its operational service level and asset base over the longer term whilst a positive ratio which is consistently above 0.15 provides the Shire with greater flexibility in meeting operational service levels and asset management requirements.

Both Council and management will need to consider ways to improve the operating position in order to increase the ratio above the basic acceptable target level of 0.15. This includes considering the sustainability of the current rating structure, identifying potential new avenues of revenue, and finding the optimum level of the Shire's operating expenses.

ASSET SUSTAINABILITY RATIO

This ratio expresses capital expenditure on renewal and replacement of existing assets as a percentage of depreciation costs. It 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.

*Whilst this ratio remains unchanged from the last year, it has been trending downwards over the longer term and is below the Department of Local Government, Sport and Cultural Industries target level of 0.90 since 2016. Our analysis of this ratio over the longer term noted the deterioration was due to:
The decrease in the capital renewal expenditures over the years; and
The higher depreciation expense for the year since 2016.*

To help the Shire maintain its assets base more effectively and improve this ratio in the future, we urge the management and Council to consider implementing plans:

- a) To ensure a more consistent spending on renewal or replacement of existing assets in line with the Shire's Assets Management Plans; and*
- b) To review the Total Useful Life (TUL) and remaining Useful Life (RUL) assessments on individual assets, especially roads so as to determine the appropriate level of depreciation for assets renewal and replacement purposes.*

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).

We noted the Shire has not been able to calculate this ratio since 2016 as its

AMPs do not have the information (i.e. the yearly totals of required capital expenditure for the next 10 years) necessary for the calculation.

From discussion, we understand management are working towards updating the Shire's AMPs in the next financial year. This will enable proper calculation of this ratio and help identify gaps between planned and required capital expenditure.

SUMMARY

As detailed above, some ratios are below the accepted industry benchmarks. Given the relative strength of the other ratios and the Shire's balance sheet, lower ratios may be acceptable in the short term provided other measure/strategies are maximised. Notwithstanding this, these ratios appear to be trending downwards over the longer term and this should be carefully considered moving forward to avoid the development of an adverse trend in the Shire's financial position.

We would like to take this opportunity 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.

Summary

As detailed above, some ratios are below the accepted industry benchmarks. Given the relative strength of the other ratios and the Shire's balance sheet, lower ratios may be acceptable in the short term provided other measure/strategies are maximised. Notwithstanding this, these ratios appear to be trending downwards over the longer term and this should be carefully considered moving forward to avoid the development of an adverse trend in the Shire's financial position.

We would like to take this opportunity 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.

No other matters were noted.

STATUTORY IMPLICATIONS/REQUIREMENTS

Part 7 - Audit (Division 3 - Conduct of audit) 7.9. Audit to be conducted (pg 271)

Part 7 - Audit (Division 4 - General) 7.13. Regulations as to audits (pg 274)

POLICY IMPLICATIONS

Nil

STRATEGIC COMMUNITY PLAN

Goal 1 – Civic Leadership – Planned Actions

The Shire of East Pilbara seeks to deliver high quality corporate governance and demonstrate accountability to its constituents. All decisions are informed by community engagement – leading to the effective allocation of the Shire’s resources – that deliver optimum benefits to the community.

1.1 Efficient and effective local government

1.1.1 Ethical, accountable and transparent decision-making

Responsible officer: DCEO

Timing: As appropriate

1.1.2 Continued strong financial management

Responsible officer: DCEO

Timing: 1 year

RISK MANAGEMENT CONSIDERATIONS

The annual audit assists the Shire to identify issues that may pose a risk and manage those risks

FINANCIAL IMPLICATIONS

No financial resource impact.

VOTING REQUIREMENTS

Simple.

MOVED: Cr Anthony Middleton

SECONDED: Cr Anita Grace

OFFICER'S RECOMMENDATION

THAT the Audit Committee review the Audit Management Report, as presented, and recommend Council receive the Audit Management Report for the Year Ended 30 June 2018.

**CARRIED
RECORD OF VOTE: 3 - 0**

9.1.2 AUDITED ANNUAL FINANCIAL STATEMENTS 2017/18

File Ref:	FIN-22-2
Attachments:	Annual Financial Statements 2017 18 pdf
Responsible Officer:	Ms Sian Appleton Deputy Chief Executive Officer
Author:	Ms Sian Appleton Deputy Chief Executive Officer
Proposed Meeting Date:	30 November 2017
Location/Address:	N/A
Name of Applicant:	N/A
Author Disclosure of Interest:	Nil

REPORT PURPOSE

For the Audit Committee to review the Annual Financial Statements for the year ended 30 June 2018 and recommend Council accept the Audited Annual Financial Statements for the year ended 30 June 2018 as presented.

BACKGROUND

For the Audit Committee to review the audited Annual Financial Statements for the year ended 30 June 2017 and to recommend to Council that the information is received.

COMMENTS/OPTIONS/DISCUSSIONS

The Audit Opinion is as follows -

Opinion

We have audited the accompanying financial report of the Shire of East Pilbara {the Shire}, which comprises the Statement of Financial Position as at 30 June 2018, Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and the Rate Setting Statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Statement by Chief Executive Officer.

In our opinion, the financial report of the Shire of East Pilbara:

- a) *is based on proper accounts and reports; and*
 - b) *fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2018 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.

STATUTORY IMPLICATIONS/REQUIREMENTS

The relevant sections of the Local Government Act 1995 are:

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;
 - (b) the CEO of the local government; and
 - (c) the Minister

7.12A. Duties of local government with respect to audits

- (3) A local government is to examine the report of the auditor prepared under section 7.9 (1), and any report prepared under section 7.9 (3) forwarded to it, and is to –
 - (a) determine if any matters raised by the report, or reports, 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 is to
 - (a) prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
 - (b) forward a copy of that report to the Minister, by the end of the next financial year, or 6 months after the last report prepared under 7.9 is received by the local government, whichever is the latest time.

POLICY IMPLICATIONS

Nil

STRATEGIC COMMUNITY PLAN

Goal 1 – Civic Leadership – Planned Actions

The Shire of East Pilbara seeks to deliver high quality corporate governance and demonstrate accountability to its constituents. All decisions are informed by community engagement – leading to the effective allocation of the Shire’s resources – that deliver optimum benefits to the community.

- 1.1 Efficient and effective local government
 - 1.1.1 *Ethical, accountable and transparent decision-making*
Responsible officer: DCEO
Timing: As appropriate
 - 1.1.2 *Continued strong financial management*
Responsible officer: DCEO
Timing: 1 year

RISK MANAGEMENT CONSIDERATIONS

The findings of the Auditors have been acted on to manage the risk to the Shire.

FINANCIAL IMPLICATIONS

No financial resource impact.

VOTING REQUIREMENTS

Absolute.

MOVED: Cr Anita Grace

SECONDED: Cr Anthony Middleton

OFFICER'S RECOMMENDATION

THAT the Audit Committee review the Audited Annual Financial Statements for the year ending 30 June 2018 and recommend that Council receive the Audited Annual Financial Statements as presented.

**CARRIED
RECORD OF VOTE: 3 - 0**

10 MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil

**11 NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY A
DECISION OF COMMITTEE**

Nil

12 CONFIDENTIAL MATTERS BEHIND CLOSED DOORS

Nil

13 GENERAL BUSINESS

Cr J Ahmedi – How does Council participate in service level definitions without being involved from an operational level.

Jeremy Edwards responded that defining service standards is Council's role and the implementation of this is the Executives role.

14 DATE OF NEXT MEETING

22nd February 2019.

15 CLOSURE

9.34am