



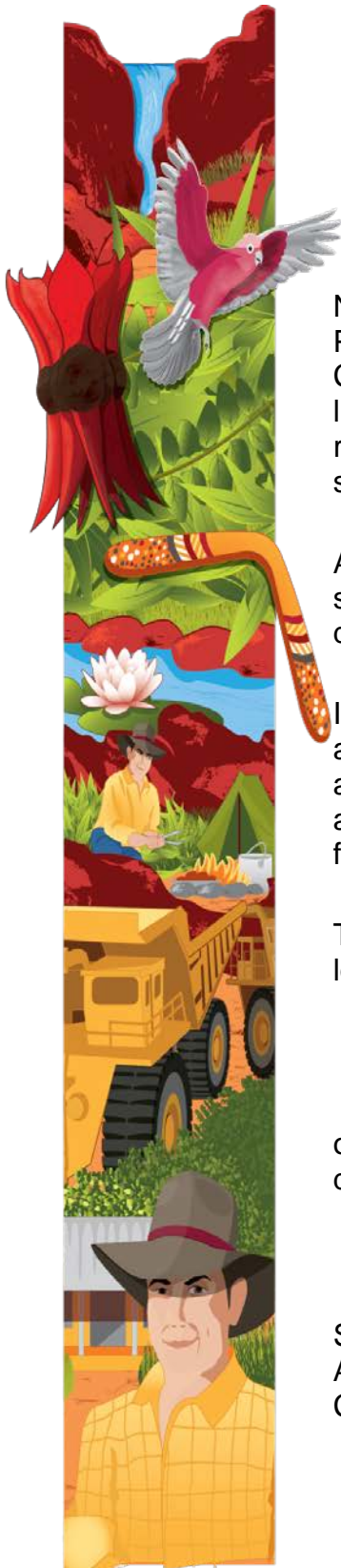
SHIRE OF EAST PILBARA

MINUTES

AUDIT COMMITTEE

NOTICE IS HEREBY GIVEN that an
Audit Committee Meeting of the Council was held,
in the Meeting Room, Newman
8:00 am, Thursday, 30th November, **2017**

Allen Cooper
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: _____
Allen Cooper
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

Anita Grace
Gerry Parsons
Anthony Middleton

Officers

Sian Appleton

2.2 APOLOGIES

Councillors

Lynne Craigie
Craig Hoyer
Jay Ahmedi

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

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 Anita Grace

SECONDED: Cr Anthony Middleton

THAT the minutes of the Audit Committee Meeting held at Newman on 7th September 2017, be confirmed as a true and correct record of proceedings.

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

To be actioned by Ms Sian Appleton, Deputy Chief Executive Officer

8 MEMBERS' REPORTS

Nil

8.1 ITEMS FOR RECOMMENDATION

Nil

9 OFFICERS' REPORTS

9.1.1 AUDIT MANAGEMENT REPORT 2017

| | |
|---------------------------------------|--|
| File Ref: | FIN-21-1 |
| Attachments: | 2017 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 that the letter is received.

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 singled out Ratios in their Management Report as follows:

“Ratios provide useful information when compared to industry and internal benchmarks and assist in identifying new trends. Whilst not conclusive in themselves, understanding ratios, their trends and how they interact is beneficial for the allocation of scarce resources and planning for the future. Information relating to the statutory ratios disclosed the financial report is summarised in the table below and commentary provided the following pages.

| | Target Ratio | The Shire's Adjusted Ratios | | | | | | The Shire's 5 Year Trend ² | 5 Year Average ³ | |
|-----------------------------------|--------------|-----------------------------|---------|---------|---------|--------|--------|---------------------------------------|-----------------------------|--------|
| | | Actual 2017 | 2017 | 2016 | 2015 | 2014 | 2013 | | Regional | State |
| Current Ratio | ≥ 1 | 2.50 | 2.08* | 2.98 | 1.20* | 1.75* | 1.69 | ↑ | 1.76 | 2.22 |
| Asset Sustainability Ratio | ≥ 1.1 | 0.47 | 0.47 | 0.61 | 1.02 | 0.55 | 0.70 | ↓ | 1.27 | 1.18 |
| Debt Service Cover Ratio | ≥ 10 | 10.87 | 8.80* | 7.68* | 6.70* | 11.79* | 11.27* | ↓ | 9.22 | 12.41 |
| Operating Surplus Ratio | ≥ 0.15 | (0.10) | (0.17)* | (0.14)* | (0.07)* | 0.07* | 0.10* | ↓ | 0.13 | (0.11) |
| Own Source Revenue Coverage Ratio | ≥ 0.9 | 0.77 | 0.77 | 0.75 | 0.96 | 0.91 | 0.88 | ↓ | 0.98 | 0.67 |
| Asset Consumption Ratio | ≥ 0.75 | 0.90 | 0.90 | 0.92 | 0.51 | 0.94 | 0.67 | ↑ | 0.77 | 0.73 |
| Asset Renewal Funding Ratio | ≥ 1.05 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | ↔ | 0.96 | 0.94 |

1. Target ratios per Department of Local Government and Communities (DLGC) Guidelines except the Debt Service Ratio which is a target devised by Moore Stephens (and based on experience). For information, DLGC Guidelines indicate a target Debt Service Cover Ratio of 5.
2. The 5-year trend compares the adjusted 2016 ratio to the average of the adjusted ratios for the last 5 years (except for the Asset Consumption and Asset Renewal Funding Ratios which are a 4-year trend).
3. The average in relation to the Regional and State comparisons is a 4 year average of 2012, 2013, 2014 and 2015.

*Adjusted for "one-off" timing/ non-cash items.

Adjustments relating to 2017

Three of the ratios in the accompanying table were distorted by an item of significant revenue relating to the early payment of 2017/18 Financial Assistance Grants (FAGs) totalling \$2,376,780 received before 30 June 2017. The early payment of the grant increased operating revenue in 2017.

This item is considered "one-off" timing in nature and was 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 5 Year Averages

Regional and State 5 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.

Commentary on Specific Ratios

- **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.

This ratio has deteriorated further from the last year and is trending downwards. It is below the target level and the 5 year Regional and State averages.

The deterioration in the ratio has been attributed to a decrease in capital renewal expenditure for the year (despite a slightly lower depreciation expense).

Interpretation of this ratio should be considered together with the Asset Consumption Ratio (above target at 0.90) and the Asset Renewal Funding Ratio (slightly below target at 1.00).

We also note, whilst the current year's depreciation expense is slightly lower than last year, it still represents a higher amount of depreciation when compared to 2015.

As previously mentioned in our management report for the year ended 30 June 2016, this higher depreciation is attributable to the revaluation of infrastructure assets conducted during the year ended 30 June 2015, which resulted in a significantly higher depreciable asset base. We noted one possible reason relates to the Remaining Useful Life (RUL) assessments performed on individual assets especially roads may not have been comprehensive enough to adjust to more realistic conditions which would have resulted in a lower depreciation expense.

Discussion with management noted the Shire was unable to implement a plan to review the condition and RUL assessments in time for the current year. They indicated the Shire has planned to undertake and incorporate this review in the upcoming round of infrastructure assets revaluation which is due in the next financial year. They anticipate the depreciation charged for the next year should be more reflective of asset consumption once the review is complete and adjustments to RUL made.

- **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.

This ratio has also declined slightly in the current year. It has been in the negative territory for the past three years and is trending downwards.

Whilst an analysis of the Shire's Statement of Comprehensive Income indicates a slight decrease in depreciation expense in the current year, the decline in the ratio has been attributed to a greater decrease in operating grants (after adjustment for FAGs) for the year.

Commentary on Specific Ratios (Continued)

- **Operating Surplus Ratio (Continued)**

Discussion with management indicated the Shire has been identifying practical ways of increasing the Shire's operating position. This includes considering the sustainability of the current rates structure, identifying potential avenues of fees and charges and finding the optimum level of the Shire's operating expenses.

We anticipate management's review of depreciation as discussed at the Asset Sustainability Ratio above would also help to improve the Shire's operating position and this ratio further.

Summary

The Shire's ratio position, after adjustment for FAGs, appears reasonably consistent with prior years. Notwithstanding this, a number of the ratios do appear to be trending downwards over the longer term and

this should be considered moving forward.

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.

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

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.

OFFICER'S RECOMMENDATION

MOVED: Cr Anthony Middleton

SECONDED: Cr Anita Grace

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 2017.

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

To be actioned by Ms Sian Appleton, Deputy Chief Executive Officer

9.1.2 AUDITED ANNUAL FINANCIAL STATEMENTS 2016/17

File Ref: FIN-22-2
Attachments: [Annual Financial Statements 2016 17 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 2017 and recommend Council accept the Audited Annual Financial Statements for the year ended 30 June 2017 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 which indicates an unqualified report

Opinion on the Audit of the Financial Report

www.moorestephenswa.com.au

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 2017, 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 is in accordance with the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended), including:

- a) giving a true and fair view of the Shire's financial position as at 30 June 2017 and of its financial performance and its cash flows for the year ended on that date; and
- b) complying with Australian Accounting Standards (including Australian Accounting Interpretations).

The information below is included in the Management Report for the Year Ended 30 June 2017:

Report on Other Legal and Regulatory Requirements

During the course of the audit we became aware of the following instances where the Shire did not comply with the *Local Government (Financial Management) Regulations 1996 (as amended)*:

Differential General Rates

With respect to differential rates imposed for 2016/2017,

- The details of the original rates set forth in the public notice were not included in the annual statutory budget as required by *Local Government (Financial Management) Regulation 23(b)(i)*; and
- The reasons the final rates differed from those set forth in the public notice were not included in the annual statutory budget and the rate notice or accompanying information as required by *Local Government (Financial Management) Regulation 23(b)(ii) and 56(4)(b)*.

Monthly Statement of Financial Activity

Material variances between the year-to-date actual amounts and budget estimates for capital income and expenditure items were not explained in the monthly Statement of Financial Activity as required by *Local Government (Financial Management) Regulations 34(2)(b)*.

In accordance with the *Local Government (Audit) Regulations 1996*, we also report that:

- a) There are no matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Shire.

The matters mentioned above are currently being dealt with by the administration.

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.

OFFICER'S RECOMMENDATION

MOVED: Cr Anita Grace

SECONDED: Cr Anthony Middleton

THAT the Audit Committee review the Audited Annual Financial Statements for the year ending 30 June 2017 as presented and recommend that Council receive the Audited Annual Financial Statements as presented.

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

To be actioned by Ms Sian Appleton, Deputy Chief Executive Officer

9.1.3 PROPOSED AUDIT COMMITTEE MEETING DATE 2018

File Ref: FIN-21-2
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 Council to set the meeting dates of the Audit Committee meetings for the 2018 year.

BACKGROUND

Council is required under the Local Government Act, once a year, to set and advertise Committee meeting dates, times and venue for the next twelve months.

COMMENTS/OPTIONS/DISCUSSIONS

Four meetings have been scheduled to allow the Audit Committee to perform its main tasks and advise council accordingly. These tasks include the annual meeting with the auditor, the review of the current budget, the review of the budget for the next financial year and the review of the auditor's report and recommendation on that report to Council prior to the Annual Electors meeting.

STATUTORY IMPLICATIONS/REQUIREMENTS

Part 5 - Administration (Division 2 - Council meetings, committees and their meetings and electors' meetings) (Subdivision 3 - Matters affecting council and committee meetings) 5.25. Regulations about council and committee meetings and committees (pg 143)

(1) Without limiting the generality of section 9.59, regulations may make provision in relation to –

(g) the giving of public notice of the date and agenda for council or committee meetings;

Local Government (Administration) Regulations 1996

12. Public notice of council or committee meetings – s5.25(1)(g)

(1) At least once each year a local government is to give local public notice of the dates on which and the time and place at which –

(a) the ordinary council meetings; and

(b) the committee meetings that are required under the Act to be open to members of the public or that are proposed to be open to members of the public, are to be held in the next 12 months.

POLICY IMPLICATIONS

1.3 COUNCIL MEETINGS – DATES AND TIMES

The Policy Council Meetings – Dates and Times states in part:

“Committee meetings will be held subject to resolution of Council from time to time in respect to title, responsibilities, dates and times, and such authorisations of committees are to be included in Council’s Delegations Manual.”

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

Meetings of the Audit Committee will assist in monitoring of risk to the organisation.

FINANCIAL IMPLICATIONS

Resource requirements are in accordance with existing budgetary allocation.

VOTING REQUIREMENTS

Simple.

OFFICER'S RECOMMENDATION

MOVED: Cr Anthony Middleton

SECONDED: Cr Anita Grace

THAT the Audit Committee review the dates for the 2018 audit committee meetings over the next twelve months as listed below and recommend to Council the acceptance of these dates and that they be advertised in accordance with the Local Government (Administration) Regulations.

| MEETING DATE | WEEK | COMMENCEMENT TIME | VENUE |
|--------------------------------------|--------------------------------|------------------------------|---------------|
| 22nd February 2018 | 4th Thursday | 8:00am | Newman |
| 14th June 2018 | 2nd Thursday | 8:00am | Newman |
| 6th September 2018 | 1st Thursday | 8:00am | Newman |
| 22nd November 2018 | 4th Thursday | 8:00am | Newman |

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

To be actioned by Ms Sian Appleton, Deputy Chief Executive Officer

- 10 MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN**
- 11 NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY A
DECISION OF COMMITTEE**
- 12 CONFIDENTIAL MATTERS BEHIND CLOSED DOORS**
- 13 GENERAL BUSINESS**
- 14 DATE OF NEXT MEETING**

As per 8/12/2017 agenda item Resolution.
- 15 CLOSURE**