



# Minutes

of the Shire of Cranbrook

**Audit Committee**

held on Wednesday 19 February 2020

At 2:15pm in the Cranbrook Council Chambers

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## AGENDA

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

The Chairperson, Cr Slater declared the meeting open at 2.20pm. The Chairperson alerted the meeting to the procedures for emergencies including evacuation, designated exits and muster points.

### 2. ATTENDANCE / APOLOGIES / APPROVED LEAVE OF ABSENCE

#### 2.1 ATTENDANCE

Chairperson	Cr PW (Peter) Slater
Councillors	Cr PL (Phil) Horrocks
	Cr PM (Peter) Beech
	Cr ER (Ruth) Bigwood
	Cr P (Peter) Denton
	Cr RW (Robert) Johnson
	Cr DS (David) Carey
	Cr VN (Vanessa) Fiegert
	Cr JA (Jen) Quick
Chief Executive Officer	Mr PB (Peter) Northover
Manager of Finance & Administration	Mrs PA (Trish) Standish
Manager of Works	Mr JE (Jeff) Alderton
Members of the Public	Nil

#### 2.2 APOLOGIES

Nil

#### 2.3 APPROVED LEAVE OF ABSENCE

Nil

### 3. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

#### 3.1 AUDIT COMMITTEE MEETING – 11 December 2019

Moved Cr Denton, seconded Cr Horrocks that the minutes from the Audit Committee Meeting held on 11 December 2019, be confirmed as a true and correct record.

**CARRIED 9/0**

#### 4. GENERAL BUSINESS

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<b>4.1</b>	<b>COMPLIANCE AUDIT RETURN - 2019</b>
<b>RESPONSIBLE OFFICER:</b>	Peter Northover – Chief Executive Officer
<b>REPORT AUTHOR:</b>	Trish Standish – Manager of Finance and Administration
<b>FILE REFERENCE:</b>	AD5
<b>APPLICANT:</b>	N/A
<b>DATE OF REPORT:</b>	6 January 2020
<b>ATTACHMENTS:</b>	2019 Compliance Audit Return

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##### **Purpose**

The purpose of this report is for the Audit Committee to consider the Compliance Audit Return (CAR) for the 2019 calendar year as required by the Local Government Act 1995.

##### **Background**

The CAR is one of the tools that allow the Council to monitor how the organisation is functioning. Each Local Government is required to carry out a compliance audit for the period 1 January – 31 December 2019 against the requirements included in the Local Government (Audit) Regulations.

##### **Officers Comment**

The current structure of the CAR is restricted to the areas of compliance of those considered high risk. The Audit Committee is required to review the CAR and report the results of that review to the Council prior to adoption by the full Council and submission to the Department of Local Government Sport and Cultural Industries.

After the CAR has been presented to the Council, a certified copy of the return together with the relevant section of the minutes and any additional information explaining or qualifying the Compliance Audit is to be submitted to the Executive Director of the Department of Local Government Sport and Cultural Industries by 31 March 2020.

##### **Statutory Environment**

The Local Government (Audit) regulations define the process and requirements for the compliance audit return.

##### **Policy Applicable – Implications**

There is no Council policy applicable to this report.

##### **Financial Implications**

There are no financial implications for this report.

### **Risk Implications**

The risks associated with matters in this report are:

- Failure to fulfil Statutory, Regulatory or Compliance Requirements

The **impact** of the risk is Non-Compliance

The **consequences** of these risks are considered to be Insignificant

The **likelihood** is Rare

Hence the **risk rating** for this item is Low

Risk mitigation includes ensuring the CAR is completed on time each year.

### **Strategic Community Plan Reference**

The 2017-2027 Shire of Cranbrook, Strategic Community Plan states that:

*Objective 4: Leadership - Demonstrate strong governance, leadership and organisational growth*

Outcome 4.1: Excellence in governance, compliance, regulation and reporting

Strategy 4.1.1: Maintain a high level of corporate governance, responsibility and accountability

### **Consultation**

Consultation was not required for this report.

### **VROC Implications**

There are no strategic VROC implications from this report

### **Voting Requirements**

Simple Majority

### **OFFICER RECOMMENDATION/AUDIT COMMITTEE RESOLUTION**

**Moved Cr Bigwood, seconded Cr Beech that the Audit Committee recommends to the Council that the Shire of Cranbrook's Compliance Audit Return for the period 1 January to 31 December 2019, as attached, be adopted.**

**CARRIED 9/0**

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**4.2 ANNUAL REPORT 2018/2019**

<b>RESPONSIBLE OFFICER:</b>	Trish Standish – Manager of Finance and Administration
<b>REPORT AUTHOR:</b>	Trish Standish – Manager of Finance and Administration
<b>FILE REFERENCE:</b>	AD4/GO4
<b>APPLICANT:</b>	N/A
<b>DATE OF REPORT:</b>	6 January 2020
<b>ATTACHMENTS:</b>	2018/2019 Annual Report

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**Purpose**

The purpose of this report is for the Audit Committee to consider the adoption of the 2018/2019 Shire of Cranbrook Annual Report and to set a date for the annual electors meeting.

**Background**

The Councils annual report has been prepared in accordance with the Local Government Act 1995, associated regulations, and is attached.

**Officers Comment**

The final audited financial statements were received from the auditor in December and the formal audit exit meeting was held during the Audit Committee Meeting held on 11 December 2019. In attendance at this meeting (via teleconference) was Ms Efthalia Samaras, Director Financial Audit, Office of the Auditor General and Mr Russell Harrison, Partner, Lincolns.

During this meeting, Mr Harrison discussed the report to the audit committee for the year ended 30 June 2019, which included:

- Significant Adverse Trends – The operating surplus ratio has been below the Department of Local Government Sport and Cultural Industries (DLGSI) standard for the past three years.
- Audit Report – The audit report had an unqualified opinion.
- Management Letter Findings – There were no reportable findings in the management letter.
- Uncorrected Audit Misstatements – There were no uncorrected audit misstatements
- Corrected Audit Misstatements – There was one corrected audit misstatement, being a transfer of monies from trust account to restricted cash due to no legislative requirement for the monies to be held in trust.

Following the formal audit exit meeting, the Office of the Auditor General released the independent auditors report (included in the Annual Report document).

When considering the timing requirements to hold the annual electors' meeting described below in Statutory Environment, the meeting needs to be held between 9 March 2020 and 15 April 2020.

**Statutory Environment**

The Local Government Act 1995 requires the Council to accept the Annual Report by 31 December each year unless the audit report is not available. If unable to be accepted by 31 December in any given year then Council must accept the report within two (2) months of the audit report becoming available. The annual meeting of electors must then be held within fifty-six (56) days of Council accepting the Annual Report. A minimum of fourteen days local public notice is required of the date, time, place and purpose of the meeting.

### **Policy Applicable - Implications**

Council Policy 1.1 'Electors Meeting' states:

'The Annual Electors' meeting will be held within 56 days of receiving the Annual Financial Report. The Annual Electors' meeting venue will alternate between the Cranbrook and Frankland River town-sites as follows:

2018/2019	Frankland River
2019/2020	Cranbrook
2020/2021	Frankland River

The previous annual electors' meeting was held on 17 April 2019 in Cranbrook.

Electors are requested to provide the Chief Executive Officer with their questions no later than one week prior to the Annual Electors Meeting to enable staff to research the matter if required.

### **Financial Implications**

There are no financial implications for this report. The Annual Report contains the annual financial statements for 2018/2019, illustrating the Council's financial performance for this period.

### **Risk Implications**

The risks associated with matters in this report are:

- Misconduct
- Errors, Omissions and Delays
- Failure of IT and or Communication Systems and Infrastructure
- Providing inaccurate advice/information
- Inadequate document management processes
- Ineffective employment practices

**The impact** of the risk is Financial and Reputational.

**The consequences** of these risks are considered to be Extreme.

**The likelihood** is Unlikely

Hence the **risk rating** for this item is High

Risk mitigation includes ensuring staff have the appropriate security access levels for financial transactions and by implementing recommendations from the auditor.

### **Strategic Community Plan Reference**

The 2017-2027 Shire of Cranbrook, Strategic Community Plan states that:

*Objective 4: Leadership - Demonstrate strong governance, leadership and organisational growth*

Outcome 4.1: Excellence in governance, compliance, regulation and reporting

Strategy 4.1.1: Maintain a high level of corporate governance, responsibility and accountability

### **Consultation**

Consultation was not required for this report.

### **VROC Implications**

There are no strategic VROC implications for this report.

### **Voting Requirements**

**Absolute Majority**



**OFFICER RECOMMENDATION/AUDIT COMMITTEE RESOLUTION**

**Moved Cr Denton, seconded Cr Bigwood that the Audit Committee recommends to the Council:**

- 1. The attached 2018/2019 Shire of Cranbrook Annual Report be accepted; and**
- 2. The annual meeting of Electors be held on Monday 9 March 2020 at 6.30pm in Frankland River.**

**CARRIED 9/0**

<b>4.3</b>	<b>AUDIT 30 JUNE 2019 – SIGNIFICANT MATTER RAISED</b>
<b>RESPONSIBLE OFFICER:</b>	Trish Standish – Manager of Finance and Administration
<b>REPORT AUTHOR:</b>	Trish Standish – Manager of Finance and Administration
<b>FILE REFERENCE:</b>	FM 9
<b>APPLICANT:</b>	N/A
<b>DATE OF REPORT:</b>	6 January 2020
<b>ATTACHMENTS:</b>	Nil

**Purpose**

The purpose of this report is to provide the Audit Committee with a report addressing a matter identified as ‘significant’ in the 2018/2019 Audit Report, pursuant to section 7.12A of the Local Government Act 1995.

**Background**

The Audit Committee have just considered the Annual Financial Statements and the Office of the Auditor General (OAG) independent audit report for the year ending 30 June 2019 earlier in this meeting. Section 7.12A (4) (a) of the Local Government Act 1995 dictates the submission of a report to the Minister regarding the significant adverse trend noted by the OAG in their independent auditor’s report.

The OAG identified the Operating Surplus Ratio that has been below the Department of Local Government, Port and Cultural Industries (DLGSCI) standard for the past three years as a significant adverse trend. This was discussed at length during the formal audit exit meeting in December 2019.

**Officers Comment**

The operating surplus ratio is a measure of the Shire’s ability to cover its operational costs and have revenues available for capital funding or other non-operating purposes. The calculation method is:

$$\frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$$

A basic standard is met between 0.01 and 0.15. An advanced standard is met if the ratio is greater than 0.15. Over the past seven years the Shire’s operating surplus ratio has been as follows:

2019	(0.39)
2018	(0.52)
2017	(0.27)
2016	(0.73)
2015	0.08
2014	(0.24)
2013	(0.26)

Council will recall that this matter was considered in July 2019 after the 30 June 2018 annual financial statements also indicated this adverse trend. Mr Paul Gilbert from Macleods Corporation Pty Ltd also addressed this issue as part of his report after undertaking the Financial Management Review in January 2019.

Mr Gilbert's report states:

"Financial Ratios

*Council's financial ratio performance generally exceeds the Local Government Departments expectations, we consider that the Shire has healthy financial operating ratios. Only the Operating Surplus Ratio and the Asset Sustainability Ratio do not meet with expectations and this is consistent with many other regional Councils illustrating an economic dependency on grants.*

*Both ratios are adversely impacted by the high level of non-cash depreciation expense, particularly as it relates to roads and bridges causing an operating deficit (despite an operating cash-flow surplus). We recommend that depreciation rates be reviewed."*

This ratio is the most difficult to address, as it requires Council to ensure that its revenue sources grow at the same or a greater rate than its operating expenses, including depreciation. The introduction of fair value of all assets resulted in Council increasing the value of its assets which has caused a negative flow on effect to the amount of depreciation booked due to the increase in carrying values of assets.

It is well known that regional Councils struggle to fully cash fund asset depreciation as their revenue sources are limited. The only major source of funding that Council can control is rates. The challenge that faces Council is in order to achieve an operating surplus ratio result that is within the benchmarks established by the DLGSCI is striking a balance between how much of a rate burden should be placed on ratepayers and how much of a reduction in service levels should occur to contain rising operating expenses.

Whilst depreciation rates have been reviewed, it is quite possible that this ratio will remain at a level below the DLGSCI standard due to cost pressures and limited revenue sources.

**Statutory Environment**

The Local Government Act 1995 Section 7.12A states that:

"(4) The 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 Applicable – Implications**

There is no Council policy applicable to this report.

**Financial Implications**

There are no financial implications from this report.

### **Risk Implications**

The risks associated with matters in this report are:

- Errors, Omissions and Delays
- Failure to fulfil Statutory, Regulatory or Compliance Requirements

The **impact** of the risk is Non-Compliance

The **consequences** of these risks are considered to be Insignificant

The **likelihood** is Possible

Hence the **risk rating** is Low

Risk mitigation includes reporting to Council and the Department of Local Government Sport and Cultural Industries.

### **Strategic Community Plan Reference**

The 2017-2027 Shire of Cranbrook, Strategic Community Plan states that:

*Objective 4: Leadership - Demonstrate strong governance, leadership and organisational growth*

Outcome 4.1: Excellence in governance, compliance, regulation and reporting

Strategy 4.1.1: Maintain a high level of corporate governance, responsibility and accountability

### **Consultation**

Consultation for this report included Lincolns, Office of the Auditor General and the Council.

### **VROC Implications**

There are no strategic VROC implications from this report

### **Voting Requirements**

Simple Majority

### **OFFICER RECOMMENDATION/AUDIT COMMITTEE RESOLUTION**

**Moved Cr Quick, seconded Cr Fiegert that the Audit Committee recommends to the Council that this report be accepted and forwarded to the Minister.**

**CARRIED 9/0**

**5. CLOSURE OF MEETING**

There being no further business to discuss the Chairperson, Cr Slater declared the meeting closed at 2.30pm.