



MINUTES

AUDIT AND GOVERNANCE COMMITTEE MEETING

Held at the Fire Station Training Room, West Island

Tuesday 18 February 2020 at 4.15pm

OUR VALUES

Service

Provide the best service we can.

We serve the community and each other.

Accountability

We take responsibility for our own actions.

We do what we say we will do.

Mistakes are an opportunity to learn.

Support

We support our team and our community.

Look for opportunities to help each other.

Respect

We respect and value others.

Our interactions are always respectful towards others.

Integrity

We will be honest and transparent with all our dealings.

Maintain confidentiality.

Trust each other.

Achievement

Being proactive and enabling the outcomes.

Be creative and think outside the square.

Disclaimer

Members of the public should note that in any discussion regarding any planning or other application that any statement or intimation of approval made by any member or officer of the Shire during the course of any meeting is not intended to be and is not to be taken as notice of approval from the Shire. No action should be taken on any item discussed at a Council meeting prior to written advice on the resolution of the Council being received. Any plans or documents contained in this document may be subject to copyright law provisions (Copyright Act 1968, as amended) and the express permission of the copyright owner(s) should be sought prior to the reproduction.

TABLE OF CONTENTS

ITEM	SUBJECT
1	OPENING/ANNOUNCEMENTS OF VISITORS
2	ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE (PREVIOUSLY APPROVED)
3	PUBLIC QUESTION TIME
4	DECLARATION OF INTERESTS
5	CONFIRMATION OF MINUTES OF PREVIOUS MEETING
5.1	Minutes of the Audit Committee Meeting – 28 November 2019
6	PRESENTATIONS
7	OFFICER’S REPORT
7.1	Presentation of the Compliance Audit Return 2019
7.2	Section 7.12A(4) – 2018-19 Financial Year Audit Report
8	MATTERS BEHIND CLOSED DOORS
9	CLOSURE

1. OPENING/ANNOUNCEMENTS OF VISITORS

The meeting was formally opened by the Chair of the Audit and Governance Committee, Cr Minkom at 4.24pm.

2. ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE (PREVIOUSLY APPROVED)

Presiding Member	Cr A Minkom
Deputy Presiding Member	Cr S Charlston
Staff	Andrea Selvey, Chief Executive Officer Joanne Soderlund, Deputy Chief Executive Officer
Public	Nil
Visitors	Nil
APOLOGIES	Cr T Lacy

APPROVED LEAVE OF ABSENCE: Nil

3. PUBLIC QUESTION TIME

Meetings shall be generally open to the public pursuant to the *Local Government Act 1995, s5.23* and include question time for members of the pursuant to the *Local Government Act 1995, s5.24*.

Nil

4. DECLARATION OF INTERESTS

Members of the Committee are bound by the provisions of *the Local Government Act 1995, Section 5.65* with respect to disclosure of financial, impartiality or proximity interests.

Name	Item No	Interest	Nature
NIL			

5. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

- 5.1 Audit Committee Meeting held on 28 November 2019
Attachment 5.1

COMMITTEE RESOLUTION

MOVED CR CHARLSTON SECONDED CR MINKOM

THAT, PURSUANT TO SECTIONS 3.18 AND 5.22(2) OF THE LOCAL GOVERNMENT ACT 1995, THE MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 28 NOVEMBER 2019, AS PRESENTED IN ATTACHMENT 5.1 BE CONFIRMED AS A TRUE AND CORRECT RECORD OF PROCEEDINGS.

THE MOTION WAS PUT AND DECLARED CARRIED (2/0)

FOR: CR CHARLSTON, CR MINKOM
AGAINST: NIL

OFFICER'S RECOMMENDATION

THAT, PURSUANT TO SECTIONS 3.18 AND 5.22(2) OF THE LOCAL GOVERNMENT ACT 1995, THE MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE MEETING HELD ON 28 NOVEMBER 2019, AS PRESENTED IN ATTACHMENT 5.1 BE CONFIRMED AS A TRUE AND CORRECT RECORD OF PROCEEDINGS.

6. PRESENTATIONS

Nil

7. OFFICER'S REPORTS

7.1 PRESENTATION OF THE COMPLIANCE AUDIT RETURN 2019**Report Information**

Date: 14 February 2020
Applicant: Shire of Cocos (Keeling) Islands
File Ref:
Location: Not Applicable
Disclosure of Interest: Nil
Reporting Officer: Chief Executive Officer
Island: Shire Wide
Attachments: 7.1 Compliance Audit Return 2020

Authority / Discretion**Definition**

<input type="checkbox"/>	Advocacy	<i>when Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.</i>
<input type="checkbox"/>	Executive	<i>the substantial direction setting and oversight role of the Council. E.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.</i>
<input checked="" type="checkbox"/>	Legislative	<i>includes adopting local laws, town planning schemes and policies. Review when Council reviews decisions made by officers.</i>
<input type="checkbox"/>	Quasi-Judicial	<i>when Council determines an application / matter that directly affects a person's right and interest. The judicial character arises from the obligations to abide by the principles of natural justice. Examples of Quasi-Judicial authority include town planning applications, building licenses, applications for other permits / licenses.</i>
<input type="checkbox"/>	Information	<i>Includes items provides to Council for information purposes only that do not require a decision of Council (i.e. – for noting).</i>

Report Purpose

To present the

Relevant Documents

Available for viewing at the meeting

Nil

Background

In accordance with Regulation 14 of the Local Government (Audit) Regulations 1996 each local government in Western Australia must carry out an annual audit of statutory compliance for the period 1 January to 31 December, in the form of Department of Local Government Compliance Audit Return.

The 2019 Compliance Audit Return focuses on high risk areas of compliance and statutory reporting as prescribed in regulation 13 of the Local Government (Audit) Regulations 1996.

The Audit Committee is required to review the completed CAR and report the results to Council, prior to CAR adoption by Council and submission to the Department of Local Government, Sport and Cultural Industries by 31 March 2020.

Comment

Any reporting of non-compliance in CAR is a reminder for local government officers to engage with elected members via the audit committee to provide Council with a plan and timeframe within which to address non-compliance.

Some changes to the audit process (i.e. audits carried out by the Office of the Auditor General) have resulted in a few changes to compliance reporting. For example, the reporting of significant adverse trends – see number 8 on page 5 of the CAR. The use of the term significant invokes a requirement for specific reporting to the Minister. The CAR highlighted this change and officers have acted within the required timeframe.

The other change is an amendment to the timeframes required for the Reg 5 Financial Management Review (FMR) – see number 1 on page 9. The interval required was changed from 4 yearly to 3 yearly in 2018. In the absence of any advice to the contrary Shire officers are working on the assumption that our Reg 5 FMR is due by June 2020 as per the original timeframe (i.e. 4-year interval) but that the next Reg 5 FMR will be due in three years.

Policy and Legislative Implications

Local Government (Audit) Regulations 1996

Financial Implications

Nil

Strategic Implications

Nil

Conclusion

The CAR is a timely reminder of the various areas of compliance required by local governments and is a sound mechanism to test compliance and areas on which to focus improvements. The Shire's CAR for 2019 brought several changes to legislation to the attention of officers. Those two matters have been clarified and addressed and therefore the Audit and Governance Committee can be confident that the Shire is operating in a compliant manner.

COMMITTEE RESOLUTION

THAT THE AUDIT AND GOVERNANCE COMMITTEE, PURSUANT TO *REGULATION 14 OF THE LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996*, RESOLVES TO:

- a. NOTE THAT IT HAS REVIEWED THE COMPLIANCE AUDIT RETURN 2019 FOR THE SHIRE OF COCOS (KEELING) ISLANDS; AND**
- b. RECOMMEND THAT COUNCIL RECEIVES THE COMPLIANCE AUDIT RETURN 2019 FOR THE SHIRE OF COCOS (KEELING) ISLANDS.**

THE MOTION WAS PUT AND DECLARED CARRIED (2/0)

FOR: CR CHARLSTON, CR MINKOM

AGAINST: NIL

OFFICER RECOMMENDATION

THAT THE AUDIT AND GOVERNANCE COMMITTEE, PURSUANT TO *REGULATION 14 OF THE LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996*, RESOLVES TO:

- a. NOTE THAT IT HAS REVIEWED THE COMPLIANCE AUDIT RETURN 2019 FOR THE SHIRE OF COCOS (KEELING) ISLANDS; AND**
- b. RECOMMEND THAT COUNCIL RECEIVES THE COMPLIANCE AUDIT RETURN 2019 FOR THE SHIRE OF COCOS (KEELING) ISLANDS.**

7.2 SECTION 7.12A(4) – 2018-19 FINANCIAL YEAR AUDIT REPORT**Report Information**

Date: 17 February 2020
Applicant: Shire of Cocos (Keeling) Islands
File Ref:
Location: Not Applicable
Disclosure of Interest: Nil
Reporting Officer: Deputy Chief Executive Officer
Island: Shire Wide
Attachments: 2018/2019 Audit Report

Authority / Discretion**Definition**

<input type="checkbox"/>	Advocacy	<i>when Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.</i>
<input type="checkbox"/>	Executive	<i>the substantial direction setting and oversight role of the Council. E.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.</i>
<input checked="" type="checkbox"/>	Legislative	<i>includes adopting local laws, town planning schemes and policies. Review when Council reviews decisions made by officers.</i>
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<input type="checkbox"/>	Information	<i>Includes items provides to Council for information purposes only that do not require a decision of Council (i.e. – for noting).</i>

Report Purpose

For the Committee to receive a report on a significant adverse trend identified in the Shire's 2018/19 Audit Report.

Relevant Documents

Available for viewing at the meeting

Nil

Background

In accordance with Regulation 14 of the Local Government (Audit) Regulations 1996 each local government in Western Australia must carry out an annual audit of statutory compliance for the period 1 January to 31 December, in the form of Department of Local Government Compliance Audit Return (CAR).

The completion of this years CAR highlighted the requirements to report matters deemed 'significant' in the Shires Audit Report. The audit report has always had comments surrounding the ratios however a change in terminology used by the Office of the Auditor General when reporting these as 'significant adverse trends' has resulted in a level of reporting that has previously not been required.

A circular released by the department of local government in February 2020 advises:

If the Auditor General or a local government's appointed auditor reports a significant matter in an audit report, section 7.12A of the Local Government Act 1995 (the Act) requires a response from the local government. The requirements of this response are:

- a. Upon receipt of the auditor's report, the local government must prepare a report for its Audit Committee to address the significant matters raised and outline what action(s) the local government has taken or intends to take in respect of each of the matters raised.*
- b. The Audit Committee minutes and the report to the Minister are referred to Council for proper review and endorsement of any proposed actions.*
- c. Within 3 months of receipt of the auditor's report, a copy of the Council-endorsed report must be provided to the Minister.*
- d. Within 14 days of providing a copy of the report to the Minister, a copy must be published on the local government's website.*

A local government is not considered compliant with its statutory obligations until all of the above actions have been completed.

Comment

As this requirement has only just come to the attention of the administration the Shire will not be able to fulfil its obligation to provide a copy of the report to the minister within three months. The audit report was received on the 19th of November and to allow this report to be endorsed by council as outlined above it won't be able to be send to the minister until the 27th of February which will be 3 months and 1 week.

Below is a copy of the report that has been prepared for the minister.

REPORT**Section 7.12A(4)(a) of the Local Government Act 1995 (CKI)****Office of the Auditor General (OAG) – Financial Audit****Purpose of Report**

To inform the audit committee of the significant adverse trends identified by its Auditors in their report for the 2018/19 Financial Year.

Significant Matter Identified by OAG

The following matters were raised by the Auditors:

- *The Asset Sustainability Ratio has been below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for the past 3 years.*
- *The Own Source Revenue Coverage Ratio reported in the current year and prior year are both below the DLGSCI standard.*

Asset Sustainability Ratio:

The asset sustainability ratio is calculated as capital renewal and replacement expenditure / depreciation.

The DLGSCI basic target for this ratio is 90%.

Own Source Revenue Coverage Ratio:

The own source revenue coverage ratio is calculated as own source operating revenue / operating expense.

The DLGSCI basic target for this ratio is between 40% and 60%.

Implication

DLGSC Guidelines on Financial Ratios offers the following comments:

The Asset Sustainability ratio is an approximation of the extent to which assets managed by a local government are being replaced as these reach the end of their useful lives. It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to depreciation expense. Expenditure on new or additional assets is excluded. Depreciation expense represents an estimate of the extent to which the assets have been consumed during that period. Measuring assets at fair value is critical to the calculation of a valid depreciation expense value.

The own source revenue coverage ratio is the measurement of a local government's ability to cover its costs through its own revenue efforts.

Management Comment

Asset Sustainability Ratio:

This ratio is affected by the amount of capital renewal and replacement expenditure undertaken from year to year. The 2018/2019 financial year saw a significant portion of expenditure on new assets coming from the Community Masterplanning process. This saw the asset sustainability ratio dip to 34% compared to the previous two financial years of 52% and 74% respectively.

The accuracy of the depreciation figure also needs to be considered. The Shire has almost 70 kampong houses on its asset register which are being depreciated however they are currently on a long-term lease. The terms of the lease are as such that all renewal and replacement expenditure is the responsibility of the leaseholder. Therefore, the depreciation for this properties is included in the ratio calculation however the Shire is not responsible for their renewal.

The ratio also specifically stipulates capital renewal and replacement expenditure. There is a significant partition of expenditure that is recognised as an operating cost which further distorts this ratios accuracy.

Own Source Revenue Coverage Ratio:

The Shire is likely to always struggle with this ratio. The small rates base with limited opportunity for expansion is likely to see the shire continue to be heavily reliant on its annual Financial Assistance Grant allocation.

Large ad hoc private works projects from the Commonwealth Government will increase this ratio as last occurred in 2017 financial year when the ratio managed to hit the target range at 50%. In that year the Shire recognised private works income of \$1 million from the Commonwealth, however this is the exception and not the rule.

A 40% increase in the Shires Financial Assistance Grant allocation in the 2019 financial year has had a negative effect of this ratio as it has allowed for increases in our operating expenses.

Action Taken or Intended to be Taken

Asset Sustainability Ratio:

The Shire has created a new Asset and Property Management Coordinator position to increase its focus on asset management and renewals. This increased focus should see an increased level of expenditure on capital renewal and replacements in the future.

Council will continue to monitor and ensure that adequate renewal projects are included in each new budget and work to get the ratio increasing and reverse the current trend.

The Shire will also investigate with the Office of Auditor General (OAG) the potential to include operating expenditure on renewal and replacement items into the ratio calculation to give a more accurate ratio. Similarly, the Shire will highlight to the OAG the distortion that the depreciation of the houses which are on a long term lease is having on this ratio and argue to have this excluded from the calculation.

Own Source Revenue Coverage Ratio:

The Shire will continue to monitor this ratio however given the unique circumstances of the Islands it is likely to always be very heavily reliant on the financial assistance grants. The Shire will continue to encourage the Commonwealth Government to invest in projects that it can carry out as private works but this is outside the Shire's control.

Policy and Legislative Implications

Section 7.12A of the Local Government Act (CKI)

Financial Implications

Nil

Strategic Implications

Nil

Conclusion

That the audit committee receive the report on the significant adverse trends in the 2018/2019 Audit report.

COMMITTEE RECOMMENDATION

THAT THE AUDIT COMMITTEE, PURSUANT TO REGULATION 16 OF THE LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996 (CKI) RECOMMENDS THAT COUNCIL:

- 1. NOTE THE SIGNIFICANT ADVERSE TRENDS IDENTIFIED IN THE 2018/19 AUDIT REPORT FOR THE ASSET SUSTAINABILITY RATIO AND THE OWN SOURCE REVENUE COVERAGE RATIO**
- 2. IN ACCEPTING THIS REPORT, AUTHORISE THE CHIEF EXECUTIVE OFFICER TO FORWARD A COPY OF THE REPORT TO THE MINISTER IN ACCORDANCE WITH SECTION 7.12A(4)(B) OF THE LOCAL GOVERNMENT ACT 1995 (CKI); AND**
- 3. PUBLISH A COPY OF THIS REPORT ON ITS WEBSITE IN ACCORDANCE WITH THE PROVISIONS OF SECTION 7.12(4)(B).**

THE MOTION WAS PUT AND DECLARED CARRIED (2/0)

FOR: CR CHARLSTON, CR MINKOM

AGAINST: NIL

OFFICER RECOMMENDATION

THAT THE AUDIT COMMITTEE, PURSUANT TO *REGULATION 16 OF THE LOCAL GOVERNMENT (AUDIT) REGULATIONS 1996 (CKI)* RECOMMENDS THAT COUNCIL:

1. NOTE THE SIGNIFICANT ADVERSE TRENDS IDENTIFIED IN THE 2018/19 AUDIT REPORT FOR THE ASSET SUSTAINABILITY RATIO AND THE OWN SOURCE REVENUE COVERAGE RATIO
2. IN ACCEPTING THIS REPORT, AUTHORISE THE CHIEF EXECUTIVE OFFICER TO FORWARD A COPY OF THE REPORT TO THE MINISTER IN ACCORDANCE WITH SECTION 7.12A(4)(B) OF THE LOCAL GOVERNMENT ACT 1995 (CKI); AND
3. PUBLISH A COPY OF THIS REPORT ON ITS WEBSITE IN ACCORDANCE WITH THE PROVISIONS OF SECTION 7.12(4)(B).

8. MATTERS BEHIND CLOSED DOORS

Nil

9. CLOSURE OF BUSINESS

The Chair closed the meeting at 5.05pm.