

# Shire of Denmark Minutes



## SHIRE OF DENMARK AUDIT ADVISORY COMMITTEE

HELD IN THE COUNCIL COMMITTEE ROOM,  
953 SOUTH COAST HIGHWAY, DENMARK,  
FRIDAY, 18 MARCH 2016.

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

The Presiding Member declared the meeting opened at 11:57am.

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

MEMBERS:

Cr David Morrell (Shire President)  
 Cr Kelli Gillies (Deputy Shire President)  
 Cr Yasmin Bartlett  
 Cr Ceinwen Gearon  
 Cr Roger Seeney  
 Cr Rob Whooley Arrived 12:18pm  
 Vacant x 2

STAFF:

Mr Cliff Frewing (Chief Executive Officer)  
 Mr Kim Dolzadelli (Director of Finance & Administration)

APOLOGIES:

Cr Jan Lewis  
 Mr Steve Broad (Accountant)

ON LEAVE OF ABSENCE:

N/A

ABSENT:

N/A

VISITORS:

N/A

DECLARATIONS OF INTEREST:

Name	Item No	Interest	Nature
Cr Robert Whooley	6.3	Financial	Question contained in Compliance Audit Return relating to previous employment with the Shire of Denmark

**3. ANNOUNCEMENTS BY THE PERSON PRESIDING**

Nil

**4. PUBLIC QUESTION TIME**

Nil

## 5. CONFIRMATION OF MINUTES

### 5.1 AUDIT COMMITTEE MEETING 3 MARCH 2015

OFFICER RECOMMENDATION/COMMITTEE RESOLUTION	ITEM 5.1
Moved Cr Seeney	Seconded Cr Gillies
That the minutes of the Shire of Denmark Audit Advisory Committee meeting held on 3 March 2015, be confirmed as a true and correct record of the proceedings.	
Carried 5/0	

## 6. OFFICER REPORTS

### 6.1 CONDUCT OF MEETING WITH AUDITOR – 2014/2015 ANNUAL FINANCIAL REPORT AND AUDITORS REPORT

<b>File Ref:</b>	FIN.31
<b>Applicant / Proponent:</b>	Shire of Denmark
<b>Subject Land / Locality:</b>	Nil
<b>Disclosure of Officer Interest:</b>	Nil
<b>Date:</b>	8 March 2016
<b>Author:</b>	Kim Dolzadelli, Director of Finance & Administration
<b>Authorising Officer:</b>	Cliff Frewing, Chief Executive Officer
<b>Attachments:</b>	Nil

#### Summary:

To resolve how the meeting between the Audit Committee and Council's Auditor will be conducted.

#### Comment:

Council's Auditors, Lincolns Accountants and Business Advisors, have produced an Audit Report and a list of Audit Observations for the 2014/2015 financial year.

An important function of the meeting is to discuss with the Auditor, the conduct of the audit, the audit findings, and the state of the Shire's financial affairs generally.

Legislation specifies that a local government is required to meet with its auditor at least once in every year. The Department of Local Government and Regional Developments Local Government Operational Guidelines – Number 09, Part 16 states:

*"It is acknowledged that the requirement to meet at least once per year may incur a significant financial burden for the more remote local governments. In such circumstances the meeting can be conducted by telephone or video conference. The Council or Audit Committee should resolve how the meeting with the Auditor will be conducted and for the record of the meeting to show that the Auditor was involved and the matters discussed."*

Council's Auditor has advised that they will be available between 12 noon and 12:40pm to liaise with members of the Audit Committee via teleconference, he is currently interstate.

#### Consultation:

The Annual Financial Report has been the subject of close examination by the appointed auditors, Lincolns Accountants and Business Advisors.

#### Statutory Obligations:

Local Government Act 1995 Section 7.12A(2)

**Policy Implications:**

Nil

**Budget / Financial Implications:**

Nil

**Strategic Implications:**

There are no known significant strategic implications relating to the report or the officer recommendation.

**Sustainability Implications:**➤ **Environmental:**

There are no known significant environmental considerations relating to the report or officer recommendation.

➤ **Economic:**

There are no known significant economic considerations relating to the report or officer recommendation.

➤ **Social:**

There are no known significant social considerations relating to the report or officer recommendation.

**Voting Requirements:**

Simple Majority

OFFICER RECOMMENDATION/COMMITTEE RESOLUTION	ITEM 6.1
Moved Cr Bartlett	Seconded Cr Gillies
That the Shire of Denmark Audit Committee resolves to conduct a meeting with Council's Auditor Mr Russell Harrison of Lincoln's Accountants and Business Advisors via telephone conference.	
	Carried 5/0

The Audit Committee commenced their meeting with Council's Auditor Mr Russell Harrison of Lincoln's Accountants and Business Advisors via telephone conference at 12:10pm.

*Cr Whooley entered the meeting at 12:18pm*

- Discussions included roles and responsibilities with respect to the Audit,
- Substantive Audit testing and processes,
- Compliance with the Local Government Act and associated Regulations,
- Testing of systems and processes and third party evidence,
- Preparation and importance of Long Term Financial Planning and Asset management planning,
- Roman 2, Road and Infrastructure assets database, and
- The Operating Surplus, Current and Asset Consumption Ratio's ( Mr Harrison undertook to email more information regarding the Asset Consumption Ratio to be distributed to all Councillors/Audit Committee members)

The Audit Committee finished their meeting with Council's Auditor Mr Russell Harrison of Lincoln's Accountants and Business Advisors at 12:55pm.

<b>6.2</b>	<b>SHIRE OF DENMARK 2014/15 ANNUAL FINANCIAL STATEMENT AND AUDIT REPORT</b>
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<b>File Ref:</b>	FIN.31
<b>Applicant / Proponent:</b>	Shire of Denmark
<b>Subject Land / Locality:</b>	Nil
<b>Disclosure of Officer Interest:</b>	Nil
<b>Date:</b>	8 March 2016
<b>Author:</b>	Kim Dolzadelli, Director of Finance & Administration
<b>Authorising Officer:</b>	Cliff Frewing, Chief Executive Officer
<b>Attachments:</b>	6.1 a – 2014/15 Annual Financial Report including Independent Auditors Report 6.1 b – Management Letter

**Summary:**

The 2014/15 Annual Financial Statement, Auditors Report and Management Letter has been received from Council's appointed Auditor, Mr Russell Harrison from Lincolns Accountants and Business Advisers, and is provided to Committee Members with the Agenda documents.

**Comment:**

The Audit Report and Management Letter are to be subject of an Audit Committee meeting where the Committee will consider any action that may be required.

*"The Audit Committee should note the Auditors comments that:  
We undertook a complete assessment of the Shire of Denmark's financial systems and assessed areas of risk.*

*We are pleased to review confirmed strong internal controls within the financial and reporting systems of the Shire of Denmark."*

Shire Officers are not members of this committee and are present to answer any questions from members. The officers are able to leave the meeting when appropriate to allow direct and transparent communication between the committee members and/or Councils Auditor.

The Management Letter, which usually accompanies the Audit Report and which addresses less significant matters, offers the following comments regarding the Shires financial position;

**AUDITORS COMMENT ON FINANCIAL POSITION**

<b>Ratio</b>	<b>Description</b>	<b>Result</b>	<b>Prescribed Standard</b>
Current Ratio	Indicates the Shire's ability to meet short term debt obligations.	0.98	The standard is met if the ratio is greater than 1.
Asset Sustainability Ratio	Indicates that the Shire is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.	1.36	The standard is met if the ratio is 0.9 or higher.
Debt Service Cover Ratio	Indicates the Shire's ability to repay its debt including lease payments.	3.98	A basic standard is met if the ratio is greater than or equal to 2. An advanced standard is met if the ratio is greater than 5.
Operating Surplus Ratio	Indicates the Shire's ability to cover its operational costs and have revenues available for capital funding or other	(0.22)	A basic standard is met between 0.01 and 0.15. An advanced standard is met if the ratio is greater than

	purposes.		0.15.
Own Source Revenue Coverage Ratio	Indicates the Shire's ability to cover its costs through its own revenue efforts.	0.72	A basic standard is met if the ratio is between 0.4 and 0.6. Intermediate standard is between 0.6 and 0.9. An advanced standard is met if the ratio is greater than 0.9.
Asset Consumption Ratio	Measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost	0.99	The standard is met if the ratio is 0.5 or greater. The standard is improving if the ratio is between 0.6 and 0.75.
Asset Renewal Funding Ratio	Measures the ability of the Shire to fund its projected asset renewal/replacements in the future.	N/A	The standard is met if the ratio is between 0.75 and 0.95. The standard is improving if the ratio is between 0.95 and 1.05.

The officer has prepared the following table to enable members of the Audit Committee to look at the last three (3) financial years in order to see if any specific trends are developing with respect to the above ratios:

	<b>Standards Met</b>
	<b>Improvement Required</b>

Ratio	Description	Result 12/13	Result 13/14	Result 14/15	Prescribed Standard
Current Ratio	Indicates the Shire's ability to meet short term debt obligations.	1.248	0.79	0.98	The standard is met if the ratio is greater than 1.
Asset Sustainability Ratio	Indicates that the Shire is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.	1.438	0.3	1.36	The standard is met if the ratio is 0.9 or higher.
Debt Service Cover Ratio	Indicates the Shire's ability to repay its debt including lease payments.	5.022	2.96	3.98	A basic standard is met if the ratio is greater than or equal to 2. An advanced standard is met if the ratio is greater than 5.
Operating Surplus Ratio	Indicates the Shire's ability to cover its operational costs and have revenues available for capital funding or other purposes.	-0.091	-0.22	-0.22	A basic standard is met between 0.01 and 0.15. An advanced standard is met if the ratio is greater than 0.15.
Own Source Revenue Coverage Ratio	Indicates the Shire's ability to cover its costs through its own revenue efforts.	0.697	0.71	0.72	A basic standard is met if the ratio is between 0.4 and 0.6. Intermediate standard is between 0.6 and 0.9. An advanced standard is met if the ratio is greater than 0.9.

Asset Consumption Ratio	Measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost	0.599	0.64	0.99	The standard is met if the ratio is 0.5 or greater. The standard is improving if the ratio is between 0.6 and 0.75.
Asset Renewal Funding Ratio	Measures the ability of the Shire to fund its projected asset renewal/replacements in the future.	N/A	N/A	N/A	The standard is met if the ratio is between 0.75 and 0.95. The standard is improving if the ratio is between 0.95 and 1.05.

Four minor matters are contained within the “Audit Observations and Comments Schedule”, as attached to the Management letter raise observations with respect to the following items:

- Subsidiary Infrastructure Ledger – Deprecation,
- Long Outstanding Debtors,
- Asset Classification, and
- Ratio’s.

The Auditor notes that the Shire has not completed the Asset Management Plan or Long Term Financial Plan as required by Administration Regulation 19D, Councillors have been made aware of this matter previously by Officers and these outstanding items are currently being prepared for consideration of Council.

**Consultation:**

Nil

**Statutory Obligations:**

Local Government Act 1995 Section 7.12A.  
Local Government (Financial Management) Regulations 1996.  
Local Government (Audit) Regulations 1996 – Regulation 16.

**Policy Implications:**

Nil

**Budget / Financial Implications:**

The 2014/15 Annual Financial Statements are printed and collated in-house by Shire Staff, the costs of which are included in operating budgets for the 2015/16 financial year.

**Strategic Implications:**

There are no known significant strategic implications relating to the report or the officer recommendation.

**Sustainability Implications:**

➤ **Environmental:**

There are no known significant environmental considerations relating to the report or officer recommendation.

➤ **Economic:**

There are no known significant economic considerations relating to the report or officer recommendation.

➤ **Social:**

There are no known significant social considerations relating to the report or officer recommendation.

**Voting Requirements:**

Simple Majority for committee purposes.

**OFFICER RECOMMENDATION****ITEM 6.2**

That the Shire of Denmark Audit Committee recommends to Council that the 2014/15 Annual Financial Statements including Auditors Report be accepted.

**COMMITTEE RESOLUTION****ITEM 6.2**

Moved Cr Gillies

Seconded Cr Gearon

That the Shire of Denmark Audit Committee recommends to Council that the 2014/15 Annual Financial Statements including Auditors Report be accepted, noting the following points:

1. From the Independent Auditors Report
  - Point (f) In relation to the Asset Renewal Funding Ratio, we note that the information required for the Ratio has not been completed, and
  - Point (g) the Shire has not completed the Asset Management Plan or Long Term Financial Plan as required by Administration Regulation 19D.
  
2. From the Auditors Management Letter
  - Subsidiary Infrastructure Ledger – Depreciation,
  - Long Outstanding Debtors,
  - Asset Classifications, and
  - Ratio's.

Carried 6/0



*Cr Robert Whooley Declared a Financial interest in Item 6.3 with respect to a Question contained in Compliance Audit Return relating to previous employment with the Shire of Denmark. Cr Whooley left the room at 1:15pm and did not return to the meeting*

<b>6.3 SHIRE OF DENMARK 2015 COMPLIANCE AUDIT RETURN</b>
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<b>File Ref:</b>	FIN.31
<b>Applicant / Proponent:</b>	Shire of Denmark
<b>Subject Land / Locality:</b>	Nil
<b>Disclosure of Officer Interest:</b>	Nil
<b>Date:</b>	8 March 2016
<b>Author:</b>	Kim Dolzadelli, Director of Finance & Administration
<b>Authorising Officer:</b>	Cliff Frewing, Chief Executive Officer
<b>Attachments:</b>	2015 Compliance Audit Return

**Summary:**

The Department of Local Government and Communities (DLGC) has made available the 2015 Compliance Audit Return (CAR) for completion.

The Local Government Act 1995 Section 7.13 requires a Local Government to complete the Compliance Audit Return in the form specified by the DLGRC and return by 31 March.

**Consultation:**

Consultation with respect to completion of the 2015 Compliance Audit Return has occurred with appropriate internal staff members.

**Statutory Obligations:**

Local Government Act 1995

Local Government (Audit) Regulations 1996 Regulations 13, 14 and 15.

14. Compliance audits by local governments
  - (1) A local government is to carry out a compliance audit for the period 1 January to 31 December in each year.
  - (2) After carrying out a compliance audit the local government is to prepare a compliance audit return in a form approved by the Minister.
  - (3A) The local government's audit committee is to review the compliance audit return and is to report to the council the results of that review.
  - (3) After the audit committee has reported to the council under sub regulation (3A), the compliance audit return is to be —
    - (a) presented to the council at a meeting of the council; and
    - (b) adopted by the council; and
    - (c) recorded in the minutes of the meeting at which it is adopted.

[Regulation 14 inserted in Gazette 23 Apr 1999 p. 1724-5; amended in Gazette 30 Dec 2011 p. 5580-1.]

15. Compliance audit return, certified copy of etc. to be given to Executive Director
  - (1) After the compliance audit return has been presented to the council in with regulation 14(3) a certified copy of the return together with —

- (a) a copy of the relevant section of the minutes referred to in regulation 14(3)(c); and
  - (b) any additional information explaining or qualifying the compliance audit, is to be submitted to the Executive Director by 31 March next following the period to which the return relates.
- (2) In this regulation —
- certified** in relation to a compliance audit return means signed by —
- (a) the mayor or president; and
  - (b) the CEO.

[Regulation 15 inserted in Gazette 23 Apr 1999 p. 1725.]

**Policy Implications:**

Nil

**Budget / Financial Implications:**

Nil

**Strategic Implications:**

There are no known significant strategic implications relating to the report or the officer recommendation.

**Sustainability Implications:**

➤ **Environmental:**

There are no known significant environmental considerations relating to the report or officer recommendation.

➤ **Economic:**

There are no known significant economic considerations relating to the report or officer recommendation.

➤ **Social:**

There are no known significant social considerations relating to the report or officer recommendation.

➤ **Risk:**

Risk	Risk Likelihood (based on history and with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk Theme	Risk Action Plan (Controls or Treatment proposed)
Not meeting Statutory Compliance	Rare (1)	Moderate (3)	Low (1-4)	Failure to meet Statutory, Regulatory or Compliance Requirements	accept Officer Recommendation or alternate Committee Recommendation

**Comment:**

Having completed the 2015 Compliance Audit Return, it is hereby attached for the consideration of the Audit Advisory Committee.

The author notes that the Shire of Denmark had 100% compliance with the 2015 Compliance Audit Return.

**Voting Requirements:**  
Simple Majority

OFFICER RECOMMENDATION/COMMITTEE RESOLUTION	ITEM 6.3
Moved Cr Seeney	Seconded Cr Gillies
That the Shire of Denmark Audit Advisory Committee, having reviewed the 2015 Compliance Audit Return, comprising Eighty Seven items of compliance, noting 100% compliance recommends to Council its adoption.	
	Carried 5/0

**7. GENERAL BUSINESS**  
Nil

**8. NEXT MEETING**  
The next meeting of the Shire of Denmark Audit Committee is to be held as required.

**9. CLOSURE OF MEETING**  
The Shire President, Presiding member of the Committee thanked all of those in attendance and closed the meeting at 1:17pm.