



SHIRE OF DENMARK AUDIT ADVISORY COMMITTEE

HELD IN THE COUNCIL CHAMBERS,
953 SOUTH COAST HIGHWAY, DENMARK,
TUESDAY, 31 JANUARY 2017.

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Council Committee Meeting

31 January 2017

DISCLAIMER

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1. DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

The Presiding Member declared the meeting opened at 2.05pm.

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

MEMBERS:

Cr David Morrell (Shire President)
Cr Ceinwen Gearon (Deputy Shire President)
Cr Yasmin Bartlett
Cr Jan Lewis
Cr Janine Phillips
Cr Mark Allan
Cr Peter Caron
Cr Rob Whooley
Cr Clem Wright

STAFF:

Mr Bill Parker (Chief Executive Officer)
Mr Cary Green (Director of Finance & Administration)
Mr Steve Broad (Accountant)

APOLOGIES:

Nil

ON LEAVE OF ABSENCE:

Nil

ABSENT:

Nil

VISITORS:

Nil

DECLARATIONS OF INTEREST:

Nil

3. ANNOUNCEMENTS BY THE PERSON PRESIDING

Nil

4. PUBLIC QUESTION TIME

Nil

5. CONFIRMATION OF MINUTES

5.1 AUDIT COMMITTEE MEETING - 18 MARCH 2016

COMMITTEE RESOLUTION & OFFICER RECOMMENDATION	ITEM 5.1
Moved Cr Whooley	Seconded Cr Gearon
That the minutes of the Shire of Denmark Audit Advisory Committee meeting held on 18 March 2016, be confirmed as a true and correct record of the proceedings.	
Carried 9/0	

6. OFFICER REPORTS

6.1 CONDUCT OF MEETING WITH AUDITOR – 2015/2016 ANNUAL FINANCIAL REPORT AND AUDITORS REPORT

File Ref:	FIN.31
Applicant / Proponent:	Shire of Denmark
Subject Land / Locality:	Nil
Disclosure of Officer Interest:	Nil
Date:	10 January 2017
Author:	Steve Broad, Acting Director of Finance & Administration
Authorising Officer:	Bill Parker, Chief Executive Officer
Attachments:	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 2015/2016 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

COMMITTEE RESOLUTION & OFFICER RECOMMENDATION	ITEM 6.1
Moved: Cr Gearon	Seconded: Cr Lewis
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 9/0

The Audit Committee commenced their meeting with Council's Auditor Mr Russell Harrison of Lincoln's Accountants and Business Advisors via telephone conference at 2.15pm.

- 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, 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 3.05pm.

6.2 SHIRE OF DENMARK 2015/16 ANNUAL FINANCIAL STATEMENT AND AUDIT REPORT

File Ref:	FIN.31
Applicant / Proponent:	Shire of Denmark
Subject Land / Locality:	Nil
Disclosure of Officer Interest:	Nil
Date:	10 January 2017
Author:	Steve Broad, Acting Director of Finance & Administration
Authorising Officer:	Bill Parker, Chief Executive Officer
Attachments:	6.2 a – 2015/16 Annual Financial Report including Independent Auditors Report 6.2 b – Management Letter

Summary:

The 2015/16 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

Ratio	Description	Result	Prescribed Standard
Current Ratio	Indicates the Shire's ability to meet short term debt obligations.	0.91	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.	0.39	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.	3.21	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	(0.41)	A basic standard is met between 0.01 and 0.15. An advanced standard is

	capital funding or other purposes.		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.	0.64	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	N/A	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:

	Standards Met
	Improvement Required

Ratio	Description	Result 13/14	Result 14/15	Result 15/16	Prescribed Standard
Current Ratio	Indicates the Shire's ability to meet short term debt obligations.	0.79	0.98	0.91	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.	0.3	1.36	0.39	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.	2.96	3.98	3.21	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.	-0.22	-0.22	-0.41	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.	0.71	0.72	0.64	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	N/A	N/A	N/A	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.

Two 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:

- Outstanding Cheques, and
- Ratios.

The Shire's non-compliance with some of the ratios has been discussed with the Auditor. The Auditor has stressed that all ratios can't be assessed in isolation and need to be considered in a broader context. For example, the Shire's current ratio result of 0.91 is slightly below the Department's benchmark of greater than 1. However, when considered over a 10 year time horizon this ratio is expected to steadily increase to sustainable levels. .

The Shire's Asset Sustainability ratio is low due to the revaluation of infrastructure assets in the past year, which has considerably increased the depreciation expense. The Shire is aware of this and will be implementing measures to improve this ratio in coming years as reflected in the draft Long Term Financial Plan.

The Asset Consumption and Asset Renewal Funding Ratios were not calculated because 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.

The Auditor has not expressed any significant concerns in relation to these results or the Shire's broader financial position.

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 2015/16 Annual Financial Statements are printed and collated in-house by Shire Staff, the costs of which are included in operating budgets for the 2016/17 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.

COMMITTEE RESOLUTION & OFFICER RECOMMENDATION	ITEM 6.2
Moved: Cr Whooley	Seconded: Cr Wright
That the Shire of Denmark Audit Committee recommends to Council that the 2015/16 Annual Financial Statements including Auditors Report be accepted.	
	Carried 9/0

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 3:15pm.

The Chief Executive Officer recommends the endorsement of these minutes at the next meeting.

Signed: _____
Bill Parker – Chief Executive Officer

Date: _____

These minutes were confirmed at a meeting on the _____.

Signed: _____
(Presiding Person at the meeting at which the minutes were confirmed.)