

SHIRE OF PEPPERMINT GROVE



AUDIT COMMITTEE AGENDA

MEETING TO BE HELD ON THE

15th JANUARY 2019

COMMENCING AT 4:00pm



Shire of Peppermint Grove

NOTICE OF MEETING

Dear Committee Member

It is advised that the **Audit Committee Meeting** will be held in the Council Chamber of the **Shire of Peppermint Grove**, 1 Leake Street, Peppermint Grove, on **15th January 2019**, commencing at 4.00pm.

MEETING AGENDA ATTACHED

Yours faithfully

A handwritten signature in black ink, appearing to read 'Don Burnett', is written over a white rectangular area.

Don Burnett
Chief Executive Officer

TABLE OF CONTENTS

1	OFFICIAL OPENING	2
2	ATTENDANCE AND APOLOGIES	2
	2.1 Attendance	2
	2.2 Apologies	2
3	DECLARATIONS OF INTERESTS	2
4	CONFIRMATION OF MINUTES	2
	4.1 Audit Committee Meeting Held 27 th March 2018	2
5	OFFICER REPORTS	3
	5.1 Compliance Audit Return 2018	3
	5.2 Finance and Audit Report for the Year Ended 30 June 2018	5
	5.3 Information Matters for Noting	8
6.	Closure of Meeting	9



Shire of Peppermint Grove

AUDIT COMMITTEE MEETING AGENDA

15th JANUARY 2019

- 1 OFFICIAL OPENING
- 2 ATTENDANCE AND APOLOGIES
 - 2.1 Attendance
 - 2.2 Apologies
- 3 DECLARATIONS OF INTERESTS
- 4 CONFIRMATION OF MINUTES
 - 4.1 Audit Committee Meeting Held 27th March 2018

OFFICER RECOMMENDATION

That the Minutes of the Audit Committee meeting held on 27th March 2018 be confirmed as a true and accurate record of proceedings.

5 OFFICER REPORTS

5.1 Compliance Audit Return 2018

ATTACHMENT DETAILS

<u>Attachment No</u>	<u>Details</u>
Attachment 1 – Item 5.1 refers	Compliance Audit Return 2018

Voting Requirement	:	Simple Majority
Subject Index	:	Compliance Audit Report
Location / Property Index	:	Nil
Application Index	:	N/A
TPS No 3 Zoning	:	N/A
Land Use	:	N/A
Lot Area	:	N/A
Disclosure of any Interest	:	Nil
Previous Items	:	Nil
Applicant	:	N/A
Owner	:	N/A
Responsible Officer	:	Paul Rawlings, Manager Corporate Services

COUNCIL ROLE

- Advocacy** *When Council advocates on its own behalf or on behalf of its community to another level of government / body / agency.*
- Executive** *The substantial direction setting and oversight role of the Council eg. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.*
- Legislative** *Includes adopting local laws, town planning schemes & policies.*
- Review** *When Council reviews decisions made by Officers.*
- Quasi-Judicial** *When Council determines an application / matter that directly affect a person's right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. Examples of quasi-judicial authority include town planning applications, building licences, applications for other permits / licences (eg under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.*

PURPOSE OF REPORT

The purpose of this report is to present to Council the 2018 Compliance Audit Return (CAR) for adoption and endorsement.

SUMMARY AND KEY ISSUES

- | |
|---|
| <ul style="list-style-type: none">• There are two items of non-compliance highlighted in the 2018 return. |
|---|

BACKGROUND

Completion of the Compliance Audit Return is a statutory requirement and requires that it be:

- a) reviewed by the Audit Committee with the results of the review presented at a meeting of the Council;
- c) adopted by the Council; and
- d) recorded in the minutes of the meeting at which it is adopted.

After the Compliance Audit Return has been presented to the Council, a certified copy of the return, along with the relevant section of the minutes and any additional information explaining or qualifying the compliance audit, is to be submitted to the Director General by 31 March 2019. (Certified means signed by the Mayor or President and the CEO).

CONSULTATION

There has been no specific consultation undertaken in respect to this matter.

STRATEGIC IMPLICATIONS

There are no Strategic Plan implications evident at this time.

POLICY IMPLICATIONS

There are no Policy implications evident at this time.

STATUTORY IMPLICATIONS

The Shire has met all but two of the statutory requirements under regulation 13 of *the Local Government (Audit) Regulations 1996*. Regulation 14 requires that Committee reviews the CAR and reports to Council the results of such review.

FINANCIAL IMPLICATIONS

There are no financial implications.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications at this time.

SOCIAL IMPLICATIONS

There are no social implications at this time.

OFFICER COMMENT

In the reporting year, 2018, the Shire has been compliant in all but two mandatory areas.

Due to the changeover of a number of key management personnel in the first half of 2018 two items were overlooked as follows:

1. The annual review of delegations to the CEO was not undertaken in May 2018. This is proposed to be undertaken in the first half of 2019.
2. The Manager of Development Services, as a designated officer under the *Local Government Act*, was required to lodge a primary return under the disclosure of interests provisions within three months of commencement of employment. Due to an oversight, this was not done but was rectified soon after when it was discovered.

In addition to the above areas of mandatory non-compliance, there are a number of voluntary compliance disclosures where it has been decided to choose the option to not respond. Such disclosures cover a number of integrated planning documents that have yet to be reviewed in accordance with the Act including:

1. Strategic Community Plan (this is proposed to be undertaken in 2019);
2. Corporate Business Plan (this is proposed to be undertaken in 2019 in conjunction with the strategic community plan);
3. Ten Year Financial Plan (a draft plan is included with this agenda);
4. Asset Management Plan (AMP). This will be undertaken in three stages, the first being a plan covering buildings (excluding the Shire Office, Grove Library and the Community Centre) and all infrastructure assets. A contract has been awarded to Asset Infrastructure Management to undertake this work. The second stage will be a more "in-depth" AMP covering the Shire Office, Grove Library and the Community Centre as requested by the Library Management Committee (a Request for Quote under WALGA's Preferred Supplier Network is currently being drafted). The final stage will be an internal AMP covering furniture, plant and equipment.
5. Workforce Plan (this is proposed to be undertaken in 2019).

OFFICER RECOMMENDATION

THAT COMMITTEE RECOMMENDS

That Council adopts the Compliance Audit Return for 2018.

5.2 Finance and Audit Report for the Year Ended 30 June 2018

<u>Attachment No</u>	<u>Details</u>
Attachment 2 – Item 5.2 refers	Finance & Audit Report 30 June 2018

Voting Requirement	:	Simple Majority
Subject Index	:	Finance and Audit Report
Location / Property Index	:	Nil
Application Index	:	N/A
TPS No 3 Zoning	:	N/A
Land Use	:	N/A
Lot Area	:	N/A
Disclosure of any Interest	:	Nil
Previous Items	:	N/A
Applicant	:	N/A
Owner	:	N/A
Responsible Officer	:	Paul Rawlings, Manager Corporate Services

COUNCIL ROLE

- Advocacy** *When Council advocates on its own behalf or on behalf of its community to another level of government / body / agency.*
- Executive** *The substantial direction setting and oversight role of the Council eg. adopting plans and reports, accepting tenders, directing operations,*

setting and amending budgets.

- Legislative** *Includes adopting local laws, town planning schemes & policies.*
- Review** *When Council reviews decisions made by Officers.*
- Quasi-Judicial** *When Council determines an application / matter that directly affect a person's right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. Examples of quasi-judicial authority include town planning applications, building licences, applications for other permits / licences (eg under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.*

PURPOSE OF REPORT

The purpose of this report is to adopt the finance and audit report for the 2017/18 financial year.

SUMMARY AND KEY ISSUES

- The finance and audit report for the 2017/18 financial year is presented for committee review and recommendation to Council for adoption.
- The Shire achieved a financial health indicator score for 2017/18 of 82 with the financial ratio benchmark being achieved in six out of seven categories.

LOCATION

N/A

BACKGROUND

The 2017/18 finance report reveals a closing surplus position at 30 June 2018 totalling \$60,999. This figure includes a current liability provision for annual and long service leave totalling \$188,779. However, Council holds cash reserves of \$170,577 for this purpose. Accordingly, for the purposes of the 2018/19 budget the opening surplus figure is increased to \$60,999 + \$170,577 = \$231,576. The 2018/19 budget anticipated a surplus brought forward of \$234,565, an immaterial difference.

The audit report highlights only one area of concern – the fact that the asset sustainability ratio is below the industry benchmark of 90% (see Officer Comment section below for further information).

The Shire of Peppermint Grove is required to meet with its auditor at least once in every year to examine the report of the auditor and determine if any matters raised require action to be taken.

To this end, Ms Marcia Johnson representing Council's auditor, Mr Marius van der Merwe, will be available at the meeting to comment on the audit and answer any questions committee members may have.

CONSULTATION

There has been no specific consultation undertaken in respect to this matter.

STRATEGIC IMPLICATIONS

There are no Strategic Plan implications evident at this time.

POLICY IMPLICATIONS

There are no Policy implications evident at this time.

STATUTORY IMPLICATIONS

The Shire of Peppermint Grove is required to meet with its auditor at least once in every year to examine the report of the auditor and determine if any matters raised require action to be taken (section 7.12(A) (2) of the *Local Government Act 1995*).

FINANCIAL IMPLICATIONS

2017/18 saw a number of projects successfully completed including:

- Replacement of the temporary fence along the eastern side of the Shire office & community centre with a masonry wall;
- Ongoing river foreshore works including pathway fencing and repairs to the river wall;
- Opening of the *Freshwaters Café* at Keane's Point following the demolition of the old kiosk and toilet block; and
- Road resurfacing along part of The Esplanade with the balance of works to be completed in 2018/19.

Except for depreciation expenses all categories of revenue and expenditure were largely in line with the original budget. No allowance was made for infrastructure depreciation in the 2017/18 budget due to the requirement to revalue such assets during the year. However, at the request of the auditor such expenses were charged for the full year but, due to their non-cash nature, no variation was made to the budget.

Following extensive discussions during the audit, infrastructure assets were re-valued by around \$1.9 million, mainly reflecting the increasing cost of renewing such assets since the last re-valuation three years ago.

Additionally, a further \$831,190 fair revaluation adjustment to land under the control of Council was recorded due to the commencement of the ground lease for the *Freshwaters Cafe*. This adjustment was required to recognise the value of a property and was obtained by using the present value of the market rent to be derived over the 21 years of the lease which was then adjusted by a fair rate of return to determine the property value.

ENVIRONMENTAL IMPLICATIONS

There are no environmental implications at this time.

SOCIAL IMPLICATIONS

There are no social implications at this time.

OFFICER COMMENT

The audit report highlights the fact that the asset sustainability ratio (0.72 or 72%) fails to meet the industry benchmark (0.90 or 90%). This indicator measures the ratio of capital renewal and replacement expenditure on existing assets (net of asset sale proceeds) to total depreciation expense.

For 2017/18 net renewal CAPEX totalled \$318,578 and depreciation (as an estimate of the value of consumption of those assets) totalled \$442,382 resulting in the 72% ratio.

Part of the reason for not making the benchmark has been the increase in annual depreciation (from \$408,341 to \$442,382) reflecting the increase in infrastructure asset values (\$1.9 million) noted above.

The increase in planned capital expenditure requirements has been included in the revision of the ten-year financial plan.

Additionally, some CAPEX projects (notably Hobbs Place) have been carried forward to 2018/19 due to the need to do additional planning.

As a result, Council will certainly achieve the sustainable asset benchmark indicator in 2018/19.

OFFICER RECOMMENDATION

THAT Committee recommends

THAT Council accepts and adopts the Finance and Audit Report for the financial year ending 30 June 2018.

5.3 Information Matters for Noting

Purchasing/Tendering and Credit Card Procurement Process Review

Mr Santo Casilli of AvantEdge Consulting has been engaged to undertake an internal audit of Council's purchasing, tendering and corporate credit card control processes. This audit forms part of the requirement for Council to conduct a review of its financial management systems no less than every three years (previously every four years but amended by the State Government from June 2018 to the lesser period).

Mr Casilli's recommendations will be implemented to ensure Council's procurement processes remain robust and in line with contemporary attitudes.

Additionally a revised procurement policy will be recommended for adoption early in 2019.

The last comprehensive financial management system review was completed by consultant Andrew Burchfield in November 2016.

Audit and Other Financial Management Reforms

In addition to the above changes to financial management system reviews, the Local Government Financial Management and Audit regulations have been amended to:

1. Only require the capitalisation of assets where their fair value at acquisition is \$5,000 or more;
2. Require audit system and procedures be reviewed every three years (previously this was every two years);
3. Require assets to be revalued to their fair values where they are likely to be materially different from their carrying value within a period of at least three years but not more than five years since last revaluation;
4. Extend the Audit Committee's responsibilities to monitor and advise the CEO regarding systems and procedures relating to risk management, internal control and legislative compliance; and
5. Extend the Audit Committee's responsibilities to implement recommendations by the auditor that have been accepted by Council and accept recommendations arising from reviews of Council's systems and procedures.

Local Government Act Amendments Impacting Audits

Changes to the *Local Government Act 1995* in 2017 are "filtering through" the industry as follows:

1. The State Auditor General has assumed responsibility for financial audits. Cottesloe and Cambridge were the first western suburbs local governments impacted in 2017/18 with all other

- western suburbs local governments – including Peppermint Grove - being performed from the 2018/19 financial year;
2. The State Auditor General has also been given the power to conduct local government performance audits, examining the economy, efficiency and effectiveness in complying with legislative provisions and their own internal policies. Performance audits have already been commenced or completed with respect to credit cards, procurement, records management, building permits and fraud risk management;
 3. Financial and audit reports, as part of the annual report, are to be published online on the Shire website, commencing with the 2017/18 annual report; and
 4. Local governments must prepare a report addressing significant matters identified in the audit report, stating what action has been taken or is intended to be taken and provide such report to the Minister within three months of receiving the audit report. Within 14 days of forwarding this report to the Minister, a copy must be published on the Shire website.

Ten-Year Financial Plan

A draft ten-year financial plan is attached (Attachment 3) – please note several pages are yet to be updated.

The following comments are offered:

Page 1 – Statement of Comprehensive Income by Nature & Type – Lower materials and contracts expenses due to waste management savings result in the operating surplus ratio KPI (Page 13) remaining above the benchmark for the entire 10 years.

Page 3 – Statement of Cash Flows – The above surplus operating position sees cash holdings steadily grow 60% over the ten years.

Pages 4-5 – Statement of Financial Position – Predicted budget surpluses grow significantly over the first 5 years before decreasing modestly over the final 5 years. This results in the current ratio (Page 13) well in excess of the benchmark throughout the life of the plan.

Page 7 – Rate Setting Statement – Depicts the impact of strong budget surpluses without requiring rate increases in excess of estimated 2% CPI. The rates coverage ratio (Page 13) remains well above the benchmark.

Pages 8-9 – Ten-Year Capital Works Program – Depicts strong performance in renewing existing assets resulting in the asset sustainability ratio exceeding the benchmark for seven out of the ten years of the plan.

Pages 15-16 – Cash Reserves – Predicted to steadily climb with a particular emphasis on building the building & non-road infrastructure cash reserve. This is aimed at providing for sufficient funds to finance major upgrade works on the Shire office, Council's 9.25% share of the library/community centre & other infrastructure beyond 2028.