

SHIRE OF CARNARVON

MINUTES OF AUDIT COMMITTEE MEETING

11 MARCH 2020

Council Chambers, Stuart Street
CARNARVON, West Australia
Phone: (08) 9941 0000
Fax: ((08) 9941 1099
Website – www.carnarvon.wa.gov.au



CONFIRMATION OF MINUTES

These minutes were confirmed by the
Council on

as a true and accurate record

.....
Chairman

DISCLAIMER

No responsibility whatsoever is implied or accepted by the Shire of Carnarvon for any act, omission or statement or intimation occurring during Council/Committee Meetings or during formal/informal conversations with Staff or Councillors. The Shire of Carnarvon disclaims any liability for any loss whatsoever and howsoever caused arising out of reliance by any person or legal entity on any such act, omission or statement or intimation occurring during Council/Committee Meetings or discussions. Any person or legal entity who acts or fails to act in reliance upon any statement does so at that person's or legal entity's own risk.

In particular and without derogating in any way from the broad disclaimer above, in any discussion regarding any planning application or application for a licence, any statement or limitation of approval made by a member or officer of the Shire of Carnarvon during the course of any meeting is not intended to be and is not taken as notice of approval from the Shire of Carnarvon. The Shire of Carnarvon warns that anyone who has an application lodged with the Shire of Carnarvon must obtain and only should rely on WRITTEN CONFIRMATION of the outcome of the application, and any conditions attaching to the decision made by the Shire of Carnarvon in respect of the application.

INDEX

1.0 ATTENDANCES, APOLOGIES & APPLICATIONS FOR LEAVE OF ABSENCE

2.0 DECLARATIONS OF INTEREST

(Councillors and Staff are reminded of the requirements of Section 5.65 of the Local Government Act 1995, to disclose any interest during the meeting or when the matter is to be discussed.)

3.0 CONFIRMATION OF MINUTES

4.0 REPORTS

5.0 DATE OF NEXT MEETING

5.0 CLOSURE



**MINUTES OF THE AUDIT COMMITTEE MEETING HELD IN COUNCIL CHAMBERS, STUART STREET CARNARVON
ON WEDNESDAY 11 MARCH 2020 COMMENCING AT 12.02pm**

1.0 ATTENDANCES, APOLOGIES AND APPROVED LEAVE OF ABSENCE

Cr E Smith..... Shire President/Chairperson
Cr B Maslen Councillor
Cr A Fullarton Councillor
Cr L Vandeleur..... Councillor

Mr D Burton Chief Executive Officer
Mrs D Hill Senior Executive Officer

Apologies Cr Nelson
Observers Nil

2.0 DECLARATIONS OF INTEREST:

Nil

3.0 CONFIRMATION OF MINUTES:

The minutes of the Audit Committee Meeting held on 14th January 2019 were confirmed by Council at its Ordinary Meeting held on 22nd January 2019.

4.0 REPORTS

4.1 MEETING WITH SHIRE OF CARNARVON AUDITORS

12.05pm – Mr Wen Shien Chai from Moore Stephens (Council’s Auditor) joined the meeting by phone.

Date of Meeting	11 March 2020
Location/Address	Shire of Carnarvon
Name of Applicant	Shire of Carnarvon
Name of Owner:	Shire of Carnarvon
Author/s:	Maurice Werder – Executive Manager, Corporate Services
Declaration of Interest	Nil
Voting Requirements:	Simple Majority

Summary of Item

To hold discussions with Council's auditor, Mr Wen Shien Chai from Moore Stephens.

Description of Proposal:

The proposal is that during the Audit Committee meeting a telephone 'link-up' be held with the Shire auditor, Mr Wen Shien Chai, of Moore Stephens.

Background:

On appointment of the Audit Committee, it was given responsibility for meeting with the Auditor of the local government at least once in every year, pursuant to Section 7.12A (2) of the *Local Government Act, 1995*.

The Local Government Act does not require the Audit Committee to meet in person with the Auditor but may engage through a telephone link which has been arranged to allow Councillors on the Audit Committee to pose questions and receive answers on the annual financial reports.

Consultation:

Nil

Statutory Environment

The meeting with the Auditor is required under Section 7.12A - Duties of local government with respect to audits, which states:

- (1) *A local government is to do everything in its power to —*
 - (a) *assist the auditor of the local government to conduct an audit and carry out his or her other duties under this Act in respect of the local government; and*
 - (b) *ensure that audits are conducted successfully and expeditiously.*
- (2) *Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.*

Relevant Plans & Policy:

Nil

Financial Implications

There are no financial implications from this report.

Risk Assessment:

Failure to meet with the auditor would be a contravention of the Act.

Community & Strategic Implications:

Goal 5: Civic

Strong and listening Council.

ITEM	OUTCOMES AND STRATEGIES
5.2	The Shire has a high standard of governance and accountability
5.2.6	Compliance with the Local Government Act 1995 and all other relevant legislation and regulations
5.4	Sound financial and asset management
5.4.2	The Shire's Long Term Financial Plan shows financial sustainability, with realistic renewals expenditure and a realistic rates profile

Comment:

The topics to be discussed include;

- Review of Shire of Carnarvon Audit Report
- Review of Shire of Carnarvon Management Report

OFFICER'S RECOMMENDATION

That Council Note:

- 1) *The meeting between the Audit Committee and the Auditor satisfies the requirement of Section 7.12(A) of the Local Government Act, 1995.*
- 2) *The verbal report by the Shire Auditor Mr Wen Shien Chai from Moore Stephens be noted and received.*

ACM 1/3/20

COMMITTEE RESOLUTION & OFFICER'S RECOMMENDATION

CR VANDELEUR/CR FULLARTON

That Council Note:

- 1) *The meeting between the Audit Committee and the Auditor satisfies the requirement of Section 7.12(A) of the Local Government Act, 1995.*
- 2) *The verbal report by the Shire Auditor Mr Wen Shien Chai from Moore Stephens be noted and received.*

CARRIED

F4/AO

4.2

2018/2019 ANNUAL FINANCIAL REPORT, AUDIT REPORT AND MANAGEMENT LETTER

Date of Meeting:	11 March 2020
Location/Address:	Shire of Carnarvon
Name of Applicant:	Shire of Carnarvon
Name of Owner:	Shire of Carnarvon
Author/s:	Maurice Werder - Executive Manager, Corporate Services
Declaration of Interest:	Nil
Voting Requirements:	Simple Majority

Summary of Item:

The purpose of this report is to present a copy of the Financial Report for the year ended 30 June 2019 and the Annual Audit and Management Reports to the Audit Committee for consideration.

Description of Proposal:

That the Audit Committee receive the Auditor's Report and Management Report.

Background:

An independent auditor is required to examine the accounts and annual report submitted by a local government for audit by 31 December following the financial year to which the accounts and report relate. Due to a number of circumstances a request to the Minister of Local Government provided an extension to the 29th February 2020. The Auditor then need to prepare and forward a copy of that report to the President, Chief Executive Officer and the Minister for Local Government. The auditor complied with this requirement in that the final report was received by the Shire on the 27th February 2020.

Under Regulation 10 of the Local Government (Audit) Regulations, the Auditor may prepare a Management Report to accompany the Auditor's Report.

On the finalisation of the Shire's 2018/2019 annual financial audit, it is appropriate that the Auditor's Management Report be presented to the Audit Committee and subsequently the Council for consideration and noting.

The *Shire of Carnarvon Annual Financial Report for 2018-2019* with the audit letter attached at page 54 to 56 is attached at **Schedule 4.2(a)**. The Auditor's *Management Report for the year ended 30 June 2019* is attached at **Schedule 4.2(b)**.

Consultation:

Nil

Statutory Environment

Local Government (Financial Management) Regulations, 1996.

Relevant Plans & Policy:

Nil

Financial Implications:

There are no financial implications from this report.

Impact of New Accounting Standards:

A number of Accounting Standards became operational over the last couple of years which have an impact on the workloads, understanding and timing of the Financial Reports. These will be topics at the Budget Workshop and Financial Professionals Conference next week and the Financial Reporting Workshop in May. The relevant Accounting Standards are:

- AASB 9 Financial Instruments,*
- AASB 15 Revenue from Contracts with Customers,*
- AASB 16 Leases,* and
- AASB 1058 Income of Not-for-Profit Entities.*

Risk Assessment:

The role of the Audit Committee is to support Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions and ethical accountability.

The Audit Committee must examine the audit and management reports provided by the external auditor. The committee would then determine if matters raised in the reports require action to be taken by the local government and ensure that appropriate action is implemented.

Community & Strategic Objectives:

Goal 5: Civic

Strong and listening Council.

ITEM	OUTCOMES AND STRATEGIES
5.2	The Shire has a high standard of governance and accountability
5.2.6	Compliance with the Local Government Act 1995 and all other relevant legislation and regulations
5.4	Sound financial and asset management
5.4.2	The Shire's Long-Term Financial Plan shows financial sustainability, with realistic renewals expenditure and a realistic rates profile

Comment:

The Independent Auditor has approved the Annual Financial Report for the year ended 30th June 2019 attached **Schedule 4.2(a)**, for forwarding to the Audit Committee for consideration. The Financial Report includes the Independent Auditor's Report on page 54 - 56.

The Auditor also provided a Management Report which can be found in full in attached **Schedule 4.2(b)**. The auditor noted the following matter and wished to draw it to the Shire's attention:

Year End Audit Readiness and Efficiency

As you are aware, the completion of the audit for the year ended 30 June 2019 was considerably delayed. Our year end visit was performed on the 21st to 24th of October 2019, however, during the visit our audit requirements were not provided to the standard we expected due to delays in finalising key matters, such as the revaluation of Property, Plant and Equipment, and Furniture and Equipment. This necessitated the finalisation of our audit remotely from our office in the period between November 2019 to February 2020, which required the completion of further reconciliations and the provision of significant additional information.

As is obvious by the time to finalise the report, the process has been far from efficient. This has resulted in a late audit report and increased costs. Not only does it impact on the efficiency of the audit process, it also reflects on the efficiency of the Shire as a whole, as it compromises the delivery of meaningful, accurate and timely management information.

Comment: To help ensure this situation is rectified and does not present itself again, key reconciliations and accounting processes should be identified and sufficient accounting resources be allocated to the process with the goal of having the audited Financial Report completed within the prescribed deadlines in any given year, especially considering the transition to the OAG for the Shire's upcoming 2020 audit.

The Independent Auditor's Report focused some comments on these matters:

Emphasis of Matter – Basis of Preparation

We draw attention to Note 1 to the financial report, which describes the basis of preparation. The financial report has been prepared for the purpose of fulfilling the Shire's financial reporting responsibilities under the Act. Regulation 16 of the Local Government (Financial Management) Regulations 1996 (Regulations), does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. Our opinion is not modified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- a) In our opinion, there is a significant adverse trend in the financial position of the Shire as the Asset Sustainability Ratio and Operating Surplus Ratio have been below the DLGSCI standard for the past 3 years.
- b) All required information and explanations were obtained by us.
- c) All audit procedures were satisfactorily completed in conducting our audit.
- d) In our opinion, the asset consumption ratio and asset renewal funding ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

Management Comment:

The Asset Sustainability Ratio and Operating Surplus ratios, as with others, is an important benchmark for assessing long-term financial management and performance of local government and is used as a starting point for assessing and managing financial risk. The draft Long-Term Financial Plan which will be finalised alongside the 2020/21 budget process and Corporate Business Plan minor review does take this into account. The key points to note are:

- The Shire has relatively low existing debt levels and these are projected to decline further, giving the Council considerable capacity to manage any debt servicing risks

- The Corporate Business Plan has thoroughly reviewed levels of service and has identified a rates revenue strategy which is intended to both reduce and smooth immediate funding needs and gaps, and any asset replacement funding needs over the next four years.

At this stage, a watching brief will need to be kept on the impact of any external funding changes on levels of service. Council has the mechanism to address impacts through the budgeting process, and the minor (20/21) and major strategic reviews.

OFFICER'S RECOMMENDATION

That the Audit Committee, pursuant to Regulation 51 (2) of the Local Government (Financial Management) Regulations 1996, receive the auditor's report and management report for the period ended 30th June 2019.

ACM 2/3/20

COMMITTEE RESOLUTION

Cr Vandeleur/Cr Fullarton

1. *That the Audit Committee, pursuant to Regulation 51 (2) of the Local Government (Financial Management) Regulations 1996, receive the auditor's report and management report for the period ended 30th June 2019.*
2. *A report of the analysis of the ratios over a 10 year period be presented to Council.*

CARRIED
F4/AO

(Note to Minute – the Committee was concerned of the notation of an adverse trend and wanted further information to examine the issue)

4.3 SHIRE OF CARNARVON COMPLIANCE AUDIT RETURN 2019

Date of Meeting:	11 March 2020
Location/Address:	Shire of Carnarvon
Name of Applicant:	Shire of Carnarvon
Name of Owner:	Shire of Carnarvon
Author/s:	Maurice Werder, Executive Manager Corporate Services
Declaration of Interest:	Nil
Voting Requirements:	Simple Majority
Previous Report:	N/A

Summary of Item:

This report relates to Council's adoption of the Shire of Carnarvon annual Compliance Audit Return for 2019.

Description of Proposal:

N/A

Background:

The Shire of Carnarvon is required under the Local Government (Audit) Regulation 1996 - Clause 14, to complete an annual Compliance Audit Return (CAR). The CAR represents an audit of the Shire compliance in the period 1 January until 31 December of each year. Commercial Enterprises by Local Governments, Delegation of Power, Disclosure of Interest, Disposal of Property, Finance, Integrated Planning and Reporting, Local Government Employees, Official Conduct, Optional Questions and Tenders are being evaluated based on several questions provided by the Department of Local Government, Sport and Cultural Industries.

In this context the local government is required to undertake the audit and present the report to the Audit Committee for assessment. The CAR will be adopted by Council and presented to the Departmental CEO by 31 March 2020.

A copy of the Compliance Audit Return 2019 is provided at **Schedule 4.3 Shire of Carnarvon Compliance Audit Return 2019**.

Consultation:

Nil.

Statutory Environment:

The Council is obliged to complete and submit the Carnarvon Compliance Audit Return 2019 in accordance with Regulations 14 and 15 the Local Government (Audit) Regulations, 1996.

Relevant Plans and Policy:

Nil

Financial Implications:

Nil.

Risk Assessment:

There is a risk that Council will be in breach of its statutory obligations should it not complete and adopt the Carnarvon - Compliance Audit Return 2018.

Community & Strategic Implications:

The proposed recommendation aligns with the Strategic Community Plan 2018 – 2028 in the following ways:

Goal 5: Civic

Strong and listening Council.

ITEM	OUTCOMES AND STRATEGIES
5.2	The Shire has a high standard of governance and accountability
5.2.6	Compliance with the Local Government Act 1995 and all other relevant legislation and regulations

Comment:

The CAR 2019 has been completed by several relevant officers. The table below provides detail which officer completed which CAR category.

The compilation of the CAR 2019 documents has been completed by the Manager Governance. The Compliance Audit Return as presented to Council on the 25th February have been updated with the further information from the completion and signing off of the Annual Financial Report

COMPLIANCE AUDIT RETURN CATEGORY	RESPONSIBLE OFFICER	ROLE
Commercial Enterprises by Local Governments	Maurice Werder	Executive Manager Corporate Services
Delegation of Power	Dannielle Hill	Senior Executive officer / FOI Coordinator
Disclosure of Interest	Dannielle Hill	Senior Executive officer / FOI Coordinator
Disposal of Property	Carolien Claassens	Manager Governance
Elections	Dannielle Hill	Senior Executive officer / FOI Coordinator

Finance	Sa Toomalatai	Manager Finance
Integrated Planning and Reporting	Maurice Werder	Executive Manager Corporate Services
Local Government Employees	Maurice Werder	Executive Manager Corporate Services
Official Conduct	Dannielle Hill	Senior Executive officer / FOI Coordinator
Optional Questions	Sa Toomalatai Carolien Claassens	Manager Finance Manager Governance
Tenders	Carolien Claassens	Manager Governance

In the Finance category of the CAR three questions 7,8 and 9 related to the Auditors Report for the Financial year ended 30 June 2019, have been answered with No. The meeting with the Shire of Carnarvon Auditors is taking place at the same meeting as the review of the CAR 2019.

Questions 7, 8 and 9 will be amended accordingly, after the response from the Audit Committee.

In the Integrated Planning and Reporting category of the CAR question 5, 6 and 7, related to the adoption of an Asset Management Plan, Long Term Financial Plan and a workforce plan, have been answered with No. Comments have been provided about the progress of completing these reports.

If required, some additional comments have been made by the responsible officer for other CAR categories.

OFFICER'S RECOMMENDATION

That the Audit Committee recommend that Council:

1. Pursuant to Regulation 14(3) of the Local Government (Audit) Regulations 1996 review the Carnarvon – Compliance Audit Return 2019 as presented in Schedule 4.3 of this report;
2. Pursuant to Regulation 14(3A) of the Local Government (Audit) Regulations 1996, after the review by the Audit Committee, present the Compliance Audit Return 2018 to council for adoption;
3. Forward a certified copy of the Carnarvon – Compliance Audit Return 2019 to the 'Departmental CEO' of the Department of Local Government and Communities in accordance with Regulation 15(1) of the Local Government (Audit) Regulations 1996.

ACM 3/3/20

COMMITTEE RESOLUTION

Cr Fullarton/Cr Vandeleur

That the Audit Committee recommend that Council:

1. Pursuant to Regulation 14(3) of the Local Government (Audit) Regulations 1996 review the Carnarvon – Compliance Audit Return 2019 as presented in Schedule 4.3 of this report;
2. Pursuant to Regulation 14(3A) of the Local Government (Audit) Regulations 1996, after the review by the Audit Committee, present the Compliance Audit Return 2019 to Council for adoption;
3. Forward a certified copy of the Carnarvon – Compliance Audit Return 2019 to the 'Departmental CEO' of the Department of Local Government and Communities in accordance with Regulation 15(1) of the Local Government (Audit) Regulations 1996.
4. That an independent compliance officer conduct the review of the 2020 Compliance Audit Return.

CARRIED
F4/AO

(Note to Minute – The Committee were of the view that an independent review of the 2020 Compliance Audit Return be carried out to ensure best practice.)

5.0 DATE OF NEXT MEETING

To be advised.

6.0 CLOSE

The Chairman closed the meeting at 12.42pm.