



Agenda

Audit Committee Meeting

Thursday 14 November 2019

Audit Committee – 14 November 2019

Table of Contents

1.	ATTENDANCE	1
2.	APOLOGIES / LEAVE OF ABSENCE.....	1
3.	CONFIRMATION OF MINUTES.....	1
3.1	Confirmation of Previous Minutes – 27 June 2019	1
4.	DEPUTATIONS	1
5.	REPORTS	2
5.1	2018/19 Annual Financial Audit Report.....	2
5.2	Review of Systems Regarding Risk Management, Internal Control and Compliance.....	6
6.	CLOSURE OF MEETING.....	8



Notice of Meeting

Notice is hereby given that a meeting of the Audit Committee will be held in Council Chambers, 1915 Pinjarra Road, Pinjarra on Thursday 14 November 2019 at 9:00am.

Dean Unsworth
Chief Executive Officer

Important Note

It should be noted that decisions of this Committee are only recommendations to and not decisions of the Council. Committee recommendations should therefore not be acted on or otherwise relied upon until Council has formally considered and decided on the Committee recommendations.

1. ATTENDANCE

2. APOLOGIES / LEAVE OF ABSENCE

Cr B Cardilini – Apology

3. CONFIRMATION OF MINUTES

3.1 Confirmation of Previous Minutes – 27 June 2019

Recommendation

That the Minutes of the Shire of Murray Audit Committee meeting held on Thursday 27 June 2019 be confirmed as a true and correct record.

4. DEPUTATIONS

Ms. Maria Cavallo, Director AMD Chartered Accountants will attend the Audit Committee Meeting.

5. REPORTS

5.1 2018/19 Annual Financial Audit Report

File Ref: 8010
Author and Title: Nicole Bryant, Manager Finance
Voting Requirements: Simple Majority

Appendix 1-2-3

Recommendation

That the Audit Committee:

Receive and accept the Shire of Murray 2018/19 Audit Report from AMD Chartered Accountants as detailed in Appendix 1 and 2.

Receive and accept the Shire of Murray 2018/19 Significant Adverse Trend Report as detailed in Appendix 3.

In Brief

This report is presented to the Audit Committee to consider the receipt of the audit report for the year ended 30 June 2019. The Audit Committee is required to consider any compliance issues or other matters raised in the report.

Background

Section 6.4 of the *Local Government Act 1995* requires local governments to prepare an annual financial report and to submit both the report and its accounts to its auditor by 30 September each year. Furthermore, in accordance with Regulation 10(4) of the Local Government (Audit) Regulations 1996, where it is considered appropriate to do so, the Auditor may prepare a Management Report to accompany the Auditor's Report.

AMD Chartered Accountants have completed their audit of the Shire's financial statements and associated controls for the financial year ending 30 June 2019. The Audit Report and associated financial statements, as well as the Management Letter, are attached as **Appendix 1 and 2**.

As part of this audit it is the responsibility for the auditor to identify any financial trends which it considers adverse and of concern. For the 30 June 2019 year, AMD has identified that the Shire of Murray has an adverse trend in the Operating Surplus Ratio, which is discussed in **Appendix 3**.

The Audit Committee has a responsibility under its terms of reference, to review the external auditors report, determine if any matters raised require action to be taken by the local government, and ensure that appropriate action is taken in respect of those matters.

Report Detail

The audit report for 30 June 2019 is unqualified with the opinion stating the financial report presents fairly the financial position of the Shire of Murray, as at and for the year ended 30 June 2019. All internal procedures and controls were noted to be adequate and maintained to a high standard throughout the financial year.

Incorporated within the audit report is commentary on two financial performance ratios that are currently below the Department of Local Government, Sport and Cultural Industries' benchmarks. The relevant extract from the audit report is:

Note 33 to Council’s financial report includes 7 financial ratios required to be reported by the Local Government (Financial Management) Regulation 1996. For the year ended 30 June 2019, Council has either met or exceeded the standard set by the Department of Local Government, Sport and Cultural Industries for 5 out of the 7 ratios.

The Operating Surplus ratio did not meet the guidelines, reported at (0.06) as at 30 June 2019 (2018: (0.07) and 2017: 0). This ratio has progressively declined over the past three years and for 2018-19 is below the Department of Local Government, Sport and Cultural Industries standard of 0.

The Asset Sustainability ratio did not meet the guidelines, reported at 0.72 as at 30 June 2019 (2018: 0.75 and 2017: 1.12). This ratio has progressively declined over the past three years and for 2018-19 is below the Department of Local Government, Sport and Cultural Industries standard of 0.9.

We recommend Council continue to consider the impact on ratios and long-term sustainability when making decisions regarding asset renewal, additional borrowings and setting rates for future years.

A key indicator of a local government’s financial performance is measured by the ‘Operating Surplus Ratio’. This ratio is a measure of a local government’s ability to cover its operational costs and have revenues available for capital funding or other purposes. This ratio is discussed further in **Appendix 3**.

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. The ratio indicates whether a local government is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.

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.

Limitations to this ratio include contributions to reserves to fund future renewal not included.

A ratio classified as below the basic standard should immediately prompt a review of the local government’s depreciation rates and asset valuations to ensure that they are reasonable and are generating reliable and representative depreciation expenditure. It should also prompt a review of operations and revenue raising capacity necessary to support the ongoing asset base. This should be performed with reference to the forward expenditure estimates detailed in the Asset Management Plan of the local government.

Murray 2030 Strategic Community Plan

Focus Area	Capable and Accountable
Aspiration	To develop strong leadership through good governance, effective communication and ensuring value for money.
Strategy	Establish a strong corporate governance framework to ensure high standards of integrity, ethics and accountability.

Murray 2019- 2023 Corporate Business Plan

Focus Area	Capable and Accountable
Objective	5.1 Murray has a sustainable future.
Strategy	5.1.1 Maintain Long-Term Financial Sustainability.
Project and Actions	5.1.1.6 Review the Long-Term Financial Plan.

Other Strategic Links

The Shire of Murray 2019/20 Annual Budget.

Statutory Environment

Local Government Act 1995 Part 6 and 7

Local Government (Financial Management Regulations) 1996

Local Government (Audit Regulations) 1996

Sustainability & Risk Considerations

Economic - (Impact on the Economy of the Shire and Region)

Sound management of the Shire's finances is critical to ensure funding is available for the ongoing provision of services to the Community.

Social - (Quality of life to community and/or affected landowners)

Nil

Environment – (Impact on environment's sustainability)

Nil

Policy Implications

A local government is required to examine the report of its auditor and determine if any matters raised by the report require action to be taken by the local government. The local government is to ensure that the action is taken in respect of those matters.

Risk Management Implications

<i>Risk Level</i>	<i>Comment</i>
Moderate	The audited Annual Financial Report is a key control measure used to report to Council and its stakeholders to provide assurance that all systems, processes and controls are in place to minimise the risk of any material misstatement or loss caused by fraud or error. The regular audit of financial matters and associated controls minimises risk exposure for Council both in operational, reputational and compliance areas.

Consultation

There is no legislative requirement to consult on the receipt of the Audit Report, or the preparation of the Annual Financial Report, but the *Local Government Act 1995* requires a General Meeting of Electors to be held, and the Shires Annual Report, incorporating the Financial Report, to be made available publicly.

Resource Implications

Financial

Nil

Workforce

Nil

Options

1. Receiving the Annual Financial Report and Significant Adverse Trends Report for the year ended 30 June 2019.
2. Not receiving the Annual Financial Report and Significant Adverse Trends Report for the year ended 30 June 2019.

Conclusion

The 2018/19 Financial Audit Report reflects the ongoing high standards in financial management that are in place. Staff will continue to review existing processes to ensure best practice financial management continues to be implemented to meet the needs of the Shire's future growth and to ensure compliance is maintained.

In order for the Shire to meet its legislative requirements, it is recommended that the Audit Committee accepts the Annual Financial Report and Significant Adverse Trends Report associated with the 2018/19 financial year.

5.2 Review of Systems Regarding Risk Management, Internal Control and Compliance

File Ref:	8/9035		
Previous Items:	AC. 24 Nov 16	Item 5.1	(AC16/2)
	AC. 18 Nov 14	Item 5.4	(AC14/13)
Applicant:	N/A		
Author and Title:	Nicole Wilson, Coordinator Integrated Planning		
Voting Requirements:	Simple Majority		

Appendix 4

Recommendation

That the Audit Committee:

Accepts the results of the review of the appropriateness and effectiveness of the Shire of Murray's systems in regard to risk management, internal control and legislative compliance.

In Brief

The Audit Committee is requested to receive the results of the review of the appropriateness and effectiveness of the Shire's systems and procedures in regard to risk management, internal control and legislative compliance.

Background

Regulation 17 of the Local Government (Audit) Regulations 1996 requires the Chief Executive Officer to undertake a review of the appropriateness and effectiveness of the Shire's systems and procedures in relation to risk management, internal controls and legislative compliance. This review is to be completed at least once every three years and the results reported to the Audit Committee. The last review was completed in November 2016.

Report Detail

The Corporate Risk Team, on behalf of the Chief Executive Officer, has undertaken a review of the risk management, internal controls and legislative compliance systems and procedures. The details of the review are contained in **Appendix 4**, and considers the following:

- 2019-2023 Corporate Business Plan
- Risk Management Policy
- Risk Management Strategy and Guide
- Operational and Strategic Risk Management
- Strategic Risk Management
- Crisis Management and Business Continuity Documentation
- Corporate Risk Team
- Risk Management training and education processes
- Risk Management culture
- Management of fraud and misconduct
- External Audit Services
- Compliance Audit Return

The review concluded that Shire has sound and effective systems and procedures in place, and has also provided recommendations for the future direction and priorities for risk management over the next few years.

Murray 2030 Strategic Community Plan

Focus Area	Capable and Accountable
Aspiration	To develop strong leadership through good governance, effective communication and ensuring value for money.
Strategy	Establish a strong corporate governance framework to ensure high standards of integrity, ethics and accountability.

Murray 2019- 2023 Corporate Business Plan

Focus Area	Capable and Accountable
Objective	Murray has a sustainable future
Strategy	Establish a strong corporate governance framework to ensure high standards of integrity, ethics and accountability.
Project and Actions	N/A

Other Strategic Links

Risk Management Strategy.

Statutory Environment

Regulations 16 and 17 of the *Local Government (Audit) Regulations 1996* are applicable to this agenda item as they outline the functions and reporting requirements of the Audit Committee.

Sustainability & Risk Considerations

Economic - (Impact on the Economy of the Shire and Region)

Not Applicable.

Social - (Quality of life to community and/or affected landowners)

Not Applicable.

Environment – (Impact on environment’s sustainability)

Not Applicable.

Policy Implications

The amendments to the *Local Government (Audit) Regulations 1996* enhance the reporting of the Shire’s approach to risk management, internal controls and legislative compliance with increased transparency and involvement for the Elected Members. The review of the Shire’s systems and procedures relating to risk management, internal control and compliance highlights the steps the Shire is taking to adequately manage risk and adhere to statutory obligations.

Risk Management Implications

<i>Risk Level</i>	<i>Comment</i>
Moderate	Failure to undertake the review will result in non-compliance with the requirements of the Local Government (Audit) Regulations

	1996. The regular, ongoing review of systems and procedures in relation to risk management, internal control and legislative is essential to ensure continual improvement and best practice.
--	--

Consultation

Department of Local Government, Sport and Cultural Industries
Local Government Insurance Services
Corporate Risk Team

Resource Implications

Financial

There are no financial implications as a result of the recommendation.

Workforce

There is no impact on the workforce as a result of this recommendation.

Options

The Committee has the option of:

1. Endorsing the results of the review of risk management, internal control and compliance systems and procedures.
2. Endorsing the results of the review of risk management, internal control and compliance systems and procedures with changes.

Conclusion

The Shire of Murray developed its risk management framework in 2009, and since that time, continual review and improvement have taken place in line with ISO31000:2018 Risk Management – Guidelines. Continual review and improvement ensures effective monitoring of risk management programs, the maintenance of sound internal controls, and that a strong attitude toward legislative compliance exists and is maintained.

The results from this recent review of the appropriateness and effectiveness of the Shire of Murray's systems in regard to risk management, internal control and legislative compliance highlight that these processes are well rounded and sustainable. The review also recommends implementing a new corporate risk register, further integrating risk management into everyday business processes, ongoing risk management training, implementing a formalised control assurance process, and the development of a Fraud Prevention Strategy.

6. CLOSURE OF MEETING