



**MINUTES  
FOR  
AUDIT COMMITTEE MEETING  
Wednesday 17 March 2021**

**Council Chambers  
Lot 66 Railway Street  
Trayning WA 6488**

**Commencement: 3:45pm**

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Signed



Leanne Parola  
Chief Executive Officer

## PREFACE

When the Chief Executive Officer approves these Minutes for distribution they are in essence “Unconfirmed” until the following Meeting, where the Minutes will be confirmed subject to any amendments made by the members of the Committee

The “Confirmed” Minutes are then signed off by the Presiding Person.

## UNCONFIRMED MINUTES

These minutes were approved for distribution on 18 March 2021.



Leanne Parola  
**CHIEF EXECUTIVE OFFICER**

## CONFIRMED MINUTES

These minutes were confirmed at a meeting held on

Signed:

*Note: The Presiding Member at the meeting at which the minutes were confirmed is the person who signs above.*

## **MINUTES**

Audit Committee of the Trayning Shire Council,  
held in the Council Chambers, Lot 66 Railway Street, Trayning,  
on Wednesday 17 March 2021, commencing at 3:45pm.

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## 1 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

The Chairperson, Cr MA Brown, welcomed all Members, Staff and Efthalia Samaras the Shire's Auditor and declared the meeting open at 3:50pm.

## 2 RECORD OF ATTENDANCE

### COMMITTEE MEMBERS

Cr Melanie Brown (Chairperson)  
Cr Geoff Waters (Deputy President)  
Cr Michelle McHugh  
Cr Freda Tarr  
Cr Jim Wilkins  
Cr Clayton Marchant

### STAFF

Mrs Leanne Parola (Chief Executive Officer)  
Miss Belinda Taylor (Manager of Corporate Services)  
Mr Parthiv Parekh (Manager of Finance)  
Mr Stephen Thomson (Works Supervisor)

### AUDITORS

Ms Efthalia Samaras – Via Zoom (left the meeting at 3:54pm)

## 3 MINUTES OF MEETINGS

### Background

The Audit Committee Minutes of the previous meeting held 17 February 2021, have been circulated to all Councillors.

### Officer Recommendation/Committee Decision

**Moved Cr CL Marchant**

**Seconded Cr GF Waters**

That the minutes of the Audit Committee Meeting held on 17 February 2021 are a true and correct record of the proceedings.

**Resolution 03-2021.26**

**Carried 6/0**

3:54pm- Auditor Efthalia Samaras left the meeting. The Chairperson, Cr MA Brown thanked her for dialling in to the Audit Committee meeting.

## 4 BUSINESS AS NOTIFIED

### 4.1 Annual Report 2019/20

Date of Report:	9 March 2021
Proponent:	N/A
File Ref:	3.2.6.4 – Annual Report
Officer:	Leanne Parola, Chief Executive Officer
Officer's Disclosure of Interest:	Nil
Attachments:	2019/20 Annual Report Draft Copy
Voting Requirements:	Simple Majority

#### **Purpose of Report**

The Audit Committee is requested to examine the Annual Financial Report which includes the Audit Report, for the year ending 2019/2020 and recommend its adoption by Council.

#### **Background**

The purpose and responsibilities of the Audit Committee is outlined in Part 7 of the Local Government Act 1995.

One of the Audit Committee's responsibilities is to examine the reports of the auditor. The committee would then determine if any matters raised in the reports require action to be taken by the local government and to ensure that appropriate action is implemented. The Audit Committee is to receive and authorise a report relating to the audit prepared by the Chief Executive Officer that is subsequently to be sent to the Minister.

This report outlines actions intended to be undertaken in relation to matters identified by the auditor.

#### **Consultation**

The completion of the annual financial report and audit required staff to undertake extensive consultation with the audit staff and no further consultation is required.

#### **Statutory Environment**

**Local Government Act 1995, Section 7.9** requires the Auditor to examine the accounts and annual financial report by 31 December following the end of the financial year. The Office of the Auditor General has not complied with this requirement.

**Local Government Act 1995, Section 7.12A** sets out the requirements for local governments in respect to audits. This includes the need to prepare a report to the Minister within 3 months of receiving the audit report if the auditor identifies

any items it considers significant.

**Local Government (Audit) Regulations 1996, section 10** requires the audit report to be forwarded to the Audit Committee within 30 days of completing the audit.

**Local Government (Audit) Regulations 1996, section 16** describes the functions of the audit committee.

### **Policy Implications**

The Shire's Accounting Policies are included in the notes to the Financial Statements.

### **Financial Implications**

The Office of the Auditor General has not provided an invoice of costs for performing the audit at this time. There will be costs associated with holding an Audit Committee Meeting and the Electors General Meeting.

### **Strategic Implications**

There are no strategic implications relevant to the adoption of the Annual Report. Actions to address the findings of the auditors will have an impact on future versions of the Long Term Financial Plan and the Asset Management Plan, both of which are expected to be completed by the end of September 2021.

### **Environmental Implications**

There are no significant environmental implications.

### **Social Implications**

There are no social implications with the adoption of the Annual Report but there potentially will be impacts on the community with addressing the 'Operating Surplus Ratio' if it results in the reduction of community facilities and services.

### **Officer's Comment**

The auditors completed the audit for the financial year ended 30 June 2020 in March 2021 and issued the Audit Report on 9 March 2021.

The Auditor reported two (2) matters in the Audit Report:

- (i) *In my opinion, the following material matters indicate significant adverse trends in the financial position of the Shire:*
  - a. *The Operating Surplus Ratio as reported in Note 29 of the annual financial year has been below the Department of Local Government, Sport and Cultural Industries' (DLGSCI) standard for the past 3 years; and*
  - b. *The Asset Sustainability Ratio as reported in Note 29 of the annual financial report has progressively declined over the past 3 years and*

for 2019-20 is below the DLGSCI standard.

(ii) The following material matters indicating non-compliance with Part 6 of the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law were identified during the course of my audit:

a. The Council has not reported the Asset Renewal Funding Ratio for the past 2 years in the financial report as required by Regulation 50(1)(c) of the Local Government (Financial Management) Regulations 1996, as management have not updated the asset management plan and long term financial plan in recent years.

The below extract from the Department of Local Government, Sport and Cultural Industries' Operational Guidelines explains the Operating Surplus Ratio and the Department's standard:

### **Operating Surplus Ratio**

(Operating Revenue MINUS Operating Expense)

divided by

Own Source Operating Revenue

### **Purpose**

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.

### **Standards**

Basic Standard between 1% and 15% (0.01 and 0.15) Advanced Standard > 15% (>0.15).

<b>Definitions</b>	<b>Description</b>
'Operating Revenue'	Means the revenue that is operating revenue for the purposes of the AAS, excluding grants and contributions for the development or acquisition of assets.
'Operating Expense'	Means the expense that is operating expense for the purposes of the AAS.
'Own Source Operating Revenue'	Means revenue from rates and service charges, fees and user charges, reimbursements and recoveries *, interest income and profit on disposal of assets.

Shire of Trayning's figures used to calculate the ratio were:

<b>Operating Revenue &amp; Expenses</b>	<b>2019/20</b>	<b>2018/19</b>
Rates	1,167,162	1,095,520
Operating grants, subsidies and contributions	1,833,252	1,733,430
Fees and charges	216,865	239,444
Interest earnings	3,774	20,054
Profit	12,171	1,550
Other revenue	112,292	133,653
Employee costs	(1,211,520)	(1,339,891)
Materials and contracts	(791,252)	(689,245)
Utility charges	(115,478)	(136,522)



Depreciation	(990,322)	(922,347)
Interest expenses	(19,358)	(18,789)
Insurance expenses	(72,485)	(93,272)
Loss	(491,626)	(16,370)
Other expenses	(91,887)	(52,846)
<b>Net Result</b>	<b>(438,412)</b>	<b>(15,627)</b>

#### Divided by

<b>Own Source Operating Revenue</b>		
Rates	1,167,162	1,095,520
Fees & Charges	216,865	239,444
Interest Income	3,774	20,054
Profit on Disposal of Assets	12,171	40,529
Reimbursements & Recoveries	112,292	119,587
	<b>1,512,264</b>	<b>1,515,134</b>

#### Equals

<b>Operating Surplus Ratio</b>	<b>(0.29)</b>	<b>(0.02)</b>
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The Shire of Trayning's Operating Surplus Ratio will not be able to meet the benchmark standard unless the Shire is able to increase revenue and/or decrease expenditure so that the net operating result is positive. In 2020/21 the Shire budgeted for an Operating Surplus Ratio of (0.70).

A negative ratio indicates that the Shire is reliant on capital grants and contributions to cover its operating costs and capital expenditure (renewal of assets, repayment of debt etc).

The ratio can be improved in future years by focusing on the following:

- Capitalising expenses that may have been classed as operating in the past (ie expenses such as replacing airconditioners and gravel resheeting that improve the condition rating of an asset or extend its life can be treated as capital)
- Reducing depreciation by increasing the useful lives of assets or reducing their values to bring depreciation rates down and disposing of assets that are not required
- Increasing income and/or the creation of new income streams
- Decreasing levels of service/operating expenses

These are all areas that will need to be carefully considered when developing the new Long Term Financial Plan and Asset Management Plan.

The following extract from the Department of Local Government, Sport and Cultural Industries' Operational Guidelines explains the Asset Sustainability Ratio and the Department's standard:

#### **Asset Sustainability Ratio**

*This 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. 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.

**Purpose**

This 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.

**Standards**

Standard is met if the ratio can be measured and is 90% (or 0.90) Standard is improving if this ratio is between 90% and 110% (or 0.90 and 1.10).

<b>Definitions</b>	<b>Description</b>
'Capital Renewal and Replacement Expenditure'	Means expenditure to renew or replace existing assets.  In other words, it is expenditure on an existing asset to return the service potential or the life of the asset up to that which it had originally. It is periodically required expenditure. As it reinstates existing service potential it may reduce operating and maintenance costs.
'Depreciation'	Has the meaning given in the AAS.  Under AASB 116 paragraph 6, 'Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.'  In other words, depreciation represents the allocation of the value of an asset (its cost less its residual value) over its estimated useful life to the local government. Depreciation expense can be sourced from the audited annual financial report.
'Depreciable Amount'	Under AASB 116 paragraph 6, 'Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.'
'Residual Value'	Under AASB 116 paragraph 6, 'The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.'
'Useful Life'	Under AASB 116 paragraph 6, 'Useful life is: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.'

This ratio was not raised as an issue by the Office of the Auditor General until after the Exit Meeting with the Chair of the Audit Committee, Councillor Waters, Chief Executive Officer and Manager Finance. The auditor hired by the Office of the Auditor General telephoned the Chief Executive Officer to advise her of the issue and the notification was accepted at face value.

On investigation by the Chief Executive Officer, it appears that the figures used to calculate the ratio were incorrect for the last two financial years, something that was not picked up by the auditor.

The figures/calculation applied were:

	<b>2019/20</b>	<b>2018/19</b>
Capital Expenditure	\$2,314,212	\$1,231,157
Less: new/upgrade expenditure	(1,365,861)	(253,965)
Less: proceeds on disposal of renewed assets	(205,000)	(247,419)
<b>Capital renewal and replacement expenditure</b>	<b>\$743,351</b>	<b>\$729,773</b>
<b>Depreciation Expense</b>	<b>\$990,322</b>	<b>\$922,347</b>
<b>Ratio</b>	<b>0.751</b>	<b>0.791</b>

The figure used as 'new/upgrade' expenditure was the total spent on property, plant and equipment for the financial year. This is an incorrect treatment as the total includes renewal expenditure on a number of projects, and does not include any new/upgrade expenditure on infrastructure.

This ratio can be improved in future years by focusing on the following:

- Capitalising renewal expenses that may have been classed as operating in the past (ie expenses such as replacing airconditioners and gravel resheeting that improve the condition rating of an asset or extend its life can be treated as capital)
- Reducing depreciation by increasing the useful lives of assets or reducing their values to bring depreciation rates down and disposing of assets that are not required
- Properly splitting capital expenditure into renewal and new/upgrade in future calculations.

This ratio will also need to be carefully considered when developing the new Long Term Financial Plan and Asset Management Plan. Staff have started to develop new versions of these plan for Council consideration before the 2020/21 Annual Financial Statements are finalised.

#### **Officer Recommendation/Committee Decision**

<b>Moved Cr CL Marchant</b>	<b>Seconded Cr FA Tarr</b>
The Audit Committee recommends that Council:	
<ol style="list-style-type: none"> <li>1) Accept the Shire of Trayning Annual Report that includes the Audited Financial Statements and Auditors Report for the year ending 30 June 2020.</li> <li>2) Endorse the content of the Officer's Comment in agenda item as the Shire of Trayning's report to the Minister.</li> <li>3) Hold an Electors' General Meeting at 6 pm on Wednesday 21 April 2021.</li> </ol>	
<b>Resolution 03-2021.27</b>	<b>Carried 6/0</b>

#### **5 URGENT BUSINESS BY DECISION OF MEETING**

Nil

#### **6 MATTERS FOR WHICH THE MEETING MAY BE CLOSED**

Nil

**7 NEXT MEETING**

As required

**8 CLOSURE OF MEETING**

There being no further business the Chairperson, Cr MA Brown declared the meeting closed at 3:55pm.