



# **UNCONFIRMED MINUTES**

**OF THE**

**AUDIT AND RISK COMMITTEE MEETING**

**15 OCTOBER 2019**

## **OUR VISION**

***"A thriving and friendly community that recognises our history and embraces cultural diversity and economic opportunity, whilst nurturing our natural and built environment."***

## **OUR MISSION**

***"To deliver affordable and quality Local Government services."***

## **CORE VALUES OF THE SHIRE**

***The core values that underpin the achievement of the mission will be based on a strong customer service focus and a positive attitude:***

**Communication**

**Integrity**

**Respect**

**Innovation**

**Transparency**

**Courtesy**

### **DISCLAIMER**

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**SHIRE OF BROOME**  
**AUDIT AND RISK COMMITTEE MEETING**  
**TUESDAY 15 OCTOBER 2019**  
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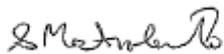
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## NOTICE OF MEETING

Dear Council Member,

The next Audit and Risk Committee of the Shire of Broome will be held on Tuesday, 15 October 2019 in the Council Chambers, Corner Weld and Haas Streets, Broome, commencing at 12:00 pm.

Regards,



S MASTROLEMBO  
**Chief Executive Officer**

15/10/2019

**MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING OF THE SHIRE OF BROOME,  
HELD IN THE COUNCIL CHAMBERS, CORNER WELD AND HAAS STREETS, BROOME,  
ON TUESDAY 15 OCTOBER 2019, COMMENCING AT 12:00PM.**

**1. OFFICIAL OPENING**

The Chairman welcomed Councillors and Officers and declared the meeting open at 12:15 pm.

**2. ATTENDANCE AND APOLOGIES**

Attendance: Cr D Male Chairperson  
Cr B Ruderforth Councillor

Leave of Absence: Nil

Apologies: Cr Tracey  
Cr Mitchell

Officers: Mr S Mastrolembo Chief Executive Officer  
Mr J Watt Director Corporate Services  
Alvin Santiago Manager Financial Services

**3. DECLARATIONS OF FINANCIAL INTEREST / IMPARTIALITY**

Committee Member	Item No	Item	Nature of Interest
NIL			

**4. CONFIRMATION OF MINUTES**

**COMMITTEE RESOLUTION:**  
**Moved: Cr D Male** **Seconded: Cr B Ruderforth**  
***That the Minutes of the Audit and Risk Committee held on 14 May 2019, as published and circulated, be confirmed as a true and accurate record of that meeting.***  
**CARRIED UNANIMOUSLY 2/0**

**5. REPORTS OF OFFICERS**

<b>5.1 ANNUAL FINANCIAL REPORT &amp; AUDIT REPORT 2018/2019</b>	
<b>LOCATION/ADDRESS:</b>	Nil
<b>APPLICANT:</b>	Nil
<b>FILE:</b>	FRE02
<b>AUTHOR:</b>	Manager Financial Services
<b>CONTRIBUTOR/S:</b>	Nil
<b>RESPONSIBLE OFFICER:</b>	Director Corporate Services
<b>DISCLOSURE OF INTEREST:</b>	Nil
<b>DATE OF REPORT:</b>	25 September 2019

**SUMMARY:** The Audit and Risk Committee is required to consider and recommend to Council, the adoption of the annual financial report, examine the audit and management reports, and review the report prepared by the Chief Executive Officer.

**BACKGROUND**

Pursuant to section 7.9 of the *Local Government Act 1995 (LGA)*, an Auditor is required to examine the accounts and annual financial report submitted by a local government for audit. The Auditor is also required, by 31 December following the financial year to which the accounts and report relate, to prepare a report thereon and forward a copy of that report to:

- (a) Mayor or President; and
- (b) The Chief Executive Officer; and
- (c) The Minister.

Furthermore, in accordance with Regulation 10(4) of the *Local Government (Audit) Regulations 1996 (Audit Regulations)*, where it is considered appropriate to do so, the Auditor may prepare a Management Report to accompany the Auditor's Report, which is also to be forwarded to the persons specified in section 7.9 of the LGA.

On finalisation of the Shire's 2018/19 final audit visit, the Auditors presented their initial findings to the Audit and Risk Committee (**the Committee**) for consideration at an informal briefing session held 8 October 2019, which was attended by members of the Committee.

The Committee is required to examine the reports of the Auditor after receiving a report from the Chief Executive Officer (**CEO**) on the matters reported and:

- 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.

The Committee is also required to review a report prepared by the CEO on any actions taken in respect of any matters raised in the report of the Auditor and present the report to Council for adoption. A copy of the report is to be forwarded to the Minister prior to the end of the next financial year or 6 months after the last report prepared by the Auditor is received, whichever is the latest in time.

An analysis of the 2018/19 operating result is provided in this report and how it compares to the forecasted outcomes of the Shire's adopted Integrated Planning and Reporting Framework.

The Strategic Community Plan 2017-27 (**SCP**) was adopted at the December 2016 Ordinary Meeting of Council (**OMC**) and the Corporate Business Plan 2018-22 (**CBP**) was adopted by Council at the December 2017 OMC. A revised 2018-22 Long Term Financial Plan (**LTFP**) was also received by Council at the December 2017 OMC and adopted at the June 2018 OMC. The Shire's LTFP was reviewed in November 2017 to support the review of the SCP and CBP. These plans informed the 2018/19 annual budget process.

The Shire's Infrastructure Asset Management Plan (**AMP**) was finalised and presented to Council at the December 2017 OMC and informed the 2018/19 annual budget process. The AMP is continuously reviewed as part of the mandated Integrated Planning and Reporting Framework and was used to inform the 2019/20 annual budget process.

The Committee is requested to consider and recommend adoption of the annual financial report to Council.

## **COMMENT**

### **Financial Highlights of the Annual Financial Report**

- Net comprehensive income (net accounting profit) of \$8,616,372 for the year ended 30 June 2019. This represents an increase in the Shire's net assets from \$405M to \$413M. Non-operating grants for the Chinatown Revitalisation Project and Town Beach Redevelopment are the main contributory factors to this net profit figure.
- Net decrease in cash of \$2,963,036 from \$45M to \$42M. Expenditure of the funds held in restricted cash of the Chinatown Revitalisation Project mainly resulted in this reduction in cash.
- Net Surplus of Municipal Funds of \$2,144,226. The details of this surplus is explained in the table below.

### **Chief Executive Officer's Report to the Audit and Risk Committee**

Following is the CEO's report to the Committee on matters arising from the audit and management reports.

#### **Audit Report**

There were no matters of statutory non-compliance reported.

#### **Management Report**

The Auditor's Management Report provides an overview of the approach undertaken in respect of the annual audit process and the associated outcomes of the audit. The Management Report also identifies any findings that, whilst generally not material in relation to the overall audit of the financial report, are considered relevant to the day to day operations of the Shire.

#### 1. Matters Identified

There were no issues identified.

The Auditor provided comment on the Shire's ratios similar to that in 2017/18, in particular the significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio has been below the industry benchmark and the Office of the Auditor General (OAG) threshold for the past 3 years.

The Operating Surplus Ratio is designed to provide a measure of the ability to cover operational costs and have revenue available for capital funding or other purposes. It is calculated by subtracting Operating Expense from Operational Revenue and dividing the resulting figure by Own Source Operating Revenue. The DLGSC "basic" standard is a measure between 1% and 15% (0.01 and 0.15) while an "advanced" standard is a measure higher than 15% (>0.15).

The Shire's Operating Surplus Ratio for the past three financial years are listed below.

2018/19 -11% (-0.11)

2017/18 -13% (-0.13)

2016/17 -12% (-0.12).

At the 8 October 2019 audit exit meeting, Moore Stephens and the Office of the Auditor General explained that this finding will be reported to the Department of Local Government, Sport and Cultural Industries (DLGSCI). It was however clarified that in calculating this ratio, the operating surplus used as a numerator is significantly understated due to the inclusion of depreciation as operating expense. Depreciation expense is a non-cash item and not considered when raising rates and other own-source funding. Furthermore, non-operating grants forming part of the Shire's total comprehensive income and a significant funding source considered when raising rates, have also been excluded when calculating the ratios.

While this adverse ratio will be reported to the DLGSCI, Management is confident that this ratio does not correctly represent the Shire's current and future state of financial sustainability.

The Audit and Risk Committee should note that:

- The Shire raises its rates/own-source funding based on how much it needs to renew and/or upgrade its assets as per the Asset Management Plan and Capital Works Program. Depreciation expense is only an accounting expense which may or may not necessarily correspond to the amount of the Shire's renewal or upgrade expenditure each year.
- The Shire's strategy is to ensure that external funding is sought to finance any new and/or upgrade to infrastructure assets. This highlights the importance of non-operating grants to the Shire's operations. The Shire has consistently demonstrated it's ability to successfully obtain non-operating grants through the years. Ignoring this funding source in judging the Shire's financial sustainability is flawed. Furthermore, any new and/or upgraded assets are eventually capitalised and depreciated. To include depreciation expense and yet disregard the non-operating grants which funded these assets distorts the calculation of the ratio.

## 2. Audit Adjustments

Following the presentation of the draft 2018/19 Financial Report to the Auditor, GST receivable that was previously disclosed together with Other Receivables had been reclassified as a separate line item presented in Note 5.

The auditors have also identified an audit difference that was not adjusted in the financial report due to being trivial, relating to \$20,621 of items reported as trust which, in the opinion of the auditors, should be reported as trade liabilities. Management are still discussing this approach in line with operational practicalities, however the value is immaterial.

### 3. Other Matters

There were no identified matters of fraud to report and there were no disagreements with management about significant accounting matters.

#### **2018/19 Operating Result**

The financial year ended 30 June 2019 resulted in the following carried forward operating surplus:

- \$4,006,759 Estimated net surplus as at 30 June 2018/19 and budgeted as 2019/20 opening surplus.
- \$2,144,226 Actual 2018/19 operating surplus at the completion of year end processing.

The surplus amounts above excludes non-cash transactions such as depreciation, profit or loss on plant disposal, provision for credit losses and the effects of asset revaluation gains or losses.

The 2019/20 Annual Budget adopted at the June 2019 OMC, included an estimated brought forward operating surplus of \$4,006,759 from 2018/19. This comprised the following:

- \$1,507,238 Financial Assistance Grants (FAGS) estimated to be received in advance; and
- \$2,499,521 estimated surpluses from operating and capital budgets not expected to be spent or collected by 30 June 2019, with "work in progress" projects expected to continue in 2019/20 as detailed in Attachment 3.

The above figures were calculated prior to the close of financial year processing. At the completion of the year ended 30 June 2019, the actual brought forward surplus has been adjusted to the final confirmed amount of \$2,144,226 which comprised:

- \$1,507,238 actual amount of FAGS received in advance;
- \$604,304 confirmed amount of net surplus from projects originally anticipated as carryovers at the time of budget adoption;
- (\$191,365) net deficit pertaining to additional carryover projects not previously anticipated at the time of budget preparation;
- \$170,356 of unspent funds originally budgeted for the Surf Live Saving Club Building Upgrade which should be transferred back to building reserve;
- \$53,693 of remaining surplus available for further allocation.

The \$53,593 non-carryover surplus is the smallest surplus realised by the Shire for the past few years. The net surplus resulted from the net impact of favourable and unfavourable variances in various budget line items rather than being attributable to certain events. However, the following are the most notable reasons giving rise to the net surplus:

- \$588K of transfers from leave reserve to municipal funds resulting from turnover of staff reaching 7 years and the change in discount rate used based on the 30-year Government Bonds resulted in lower net present value of liabilities that need to be funded from reserves.
- \$53K higher interest earned than budgeted;
- \$106K net savings in materials and contracts from over 67 expenditure accounts;
- \$32K savings in utilities, mainly power costs (\$19K) and water across various parks (\$13K);
- \$400K deficit from WANDRRA reimbursements for emergency response costs that have yet to be received;
- \$253K overspend on Chinatown Revitalisation Project's engineering consultancy and superintendence;
- \$86K in additional sundry donations to Shinju Matsuri and Saltwater Country; and
- \$43K in additional contributions for Singapore Flights.

It is proposed that \$170,356 of unspent funds originally budgeted for the Surf Live Saving Club Building Upgrade be transferred back to building reserve.

The \$53,693 remaining surplus is recommended by officers to be transferred to the Public Open Space Reserve to minimise the budgetary risk of the Town Beach Redevelopment Project.

A summary of the recommended surplus allocation is as follows:

#### **SUMMARY OF 2018/19 SURPLUS**

	<b>Budgeted Opening Surplus 2019/20</b>	<b>Actual Surplus as Confirmed 2019/20</b>
Expenditure budget carried over	10,621,669	11,263,406
Income budget carried over	- 8,122,148	- 10,659,101
Surplus from advanced FAGS carried over	1,507,238	1,507,238
Newly identified expense carryover		876,374
Newly identified income carryover		- 1,067,739
Unspent funds for Surf Club Building Upgrade - Transfer to Reserve		170,356
Net surplus available for transfer to reserve		53,693
<b>Net surplus</b>	<b>4,006,759</b>	<b>2,144,226</b>

#### **ADJUSTMENTS TO PRIOR YEARS ANNUAL REPORTS**

There were no adjustments required to prior year reports.

#### **CONSULTATION**

Chairperson.....Date.....

Nil.

## STATUTORY ENVIRONMENT

### Local Government Act 1995

#### 5.53. Annual reports

- (1) The local government is to prepare an annual report for each financial year.
- (2) The annual report is to contain —
  - (a) a report from the mayor or president; and
  - (b) a report from the CEO; and
  - [(c), (d) deleted]
  - (e) an overview of the plan for the future of the district made in accordance with section 5.56, including major initiatives that are proposed to commence or to continue in the next financial year; and
  - (f) the financial report for the financial year; and
  - (g) such information as may be prescribed in relation to the payments made to employees; and
  - (h) the auditor's report prepared under section 7.9(1) or 7.12AD(1) for the financial year; and
  - (ha) a matter on which a report must be made under section 29(2) of the Disability Services Act 1993 ; and
  - (hb) details of entries made under section 5.121 during the financial year in the register of complaints, including —
    - (i) the number of complaints recorded in the register of complaints;
    - (ii) how the recorded complaints were dealt with; and
    - (iii) any other details that the regulations may require;

and

  - (i) such other information as may be prescribed.

[Section 5.53 amended by No. 44 of 1999 s. 28(3); No. 49 of 2004 s. 42(4) and (5); No. 1 of 2007 s. 6; No. 5 of 2017 s. 7(1).]

#### 5.54. Acceptance of annual reports

- (1) Subject to subsection (2), the annual report for a financial year is to be accepted\* by the local government no later than 31 December after that financial year.

\* Absolute majority required.

- (2) If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year,

*the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.*

**6.4. Financial report**

- (1) *A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed.*
- (2) *The financial report is to —*
  - (a) *be prepared and presented in the manner and form prescribed; and*
  - (b) *contain the prescribed information.*
- (3) *By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor —*
  - (a) *the accounts of the local government, balanced up to the last day of the preceding financial year; and*
  - (b) *the annual financial report of the local government for the preceding financial year.*

**7.9. Audit to be conducted**

- (1) *An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to —*
  - (a) *the mayor or president; and*
  - (b) *the CEO of the local government; and*
  - (c) *the Minister.*
- (2) *Without limiting the generality of subsection (1), where the auditor considers that —*
  - (a) *there is any error or deficiency in an account or financial report submitted for audit; or*
  - (b) *any money paid from, or due to, any fund or account of a local government has been or may have been misapplied to purposes not authorised by law; or*
  - (c) *there is a matter arising from the examination of the accounts and annual financial report that needs to be addressed by the local government, details of that error, deficiency, misapplication or matter, are to be included in the report by the auditor.*
- (3) *The Minister may direct the auditor of a local government to examine a particular aspect of the accounts and the annual financial report submitted for audit by that local government and to —*
  - (a) *prepare a report thereon; and*
  - (b) *forward a copy of that report to the Minister, and that direction has effect according to its terms.*
- (4) *If the Minister considers it appropriate to do so, the Minister is to forward a copy of the report referred to in subsection (3), or part of that report, to the CEO of the local government to be dealt with under section 7.12A.*

**7.12A. Duties of local government with respect to audits**

- (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 the auditor's 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.
- (3) A local government must —
- (aa) examine an audit report received by the local government; and
  - (a) determine if any matters raised by the audit report, require action to be taken by the local government; and
  - (b) ensure that appropriate action is taken in respect of those matters.
- (4) A local government must —
- (a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and
  - (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.
- (5) Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.

#### Local Government (Audit) Regulations 1996

##### 10. Report by auditor

- (4) Where it is considered by the auditor to be appropriate to do so, the auditor is to prepare a management report to accompany the auditor's report and to forward a copy of the management report to the persons specified in section 7.9(1) with the auditor's report.

#### Local Government (Financial Management) Regulations 1996

##### 17A Assets, valuation of for financial reports etc.

- (1) In this regulation —
- carrying amount**, in relation to an asset, means the carrying amount of the asset determined in accordance with the AAS;
- fair value**, in relation to an asset, means the fair value of the asset measured in accordance with the AAS.

- (2) Subject to subregulation (3), the value of an asset shown in a local government's financial reports must be the fair value of the asset.
- (3) A local government must show in each financial report —
- (a) for the financial year ending on 30 June 2013, the fair value of all of the assets of the local government that are plant and equipment; and
  - (b) for the financial year ending on 30 June 2014, the fair value of all of the assets of the local government —
    - (i) that are plant and equipment; and
    - (ii) that are —
      - (I) land and buildings; or
      - (II) infrastructure;
 and
  - (c) for a financial year ending on or after 30 June 2015, the fair value of all of the assets of the local government.
- (4) A local government must revalue all assets of the local government –
- (a) whenever the local government is of the opinion that the fair value of the asset is likely to be materially different from its carrying amount; and
  - (b) in any event, within a period of at least 3 years but no more than 5 years after the day on which the asset was last valued or revalued.
- (5) An asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition by the local government is under \$5 000.

[Regulation 17A inserted: Gazette 20 Apr 2012 p. 1699-700; amended: Gazette 21 Jun 2013 p. 2451; 26 Jun 2018 p. 2388.]

## **POLICY IMPLICATIONS**

2.2.2 - Materiality in Financial Reporting

2.2.7 - Significant Accounting Policies

## **FINANCIAL IMPLICATIONS**

In terms of materiality, the unallocated surplus amount of \$53,694 (surplus excluding FAGS grants in advance and the committed expenditure of Attachment 3 and 4) represents a variance of 0.13% compared to original budgeted operating revenue for 2018/19 of \$42,217,591 (excluding non-operating grants and contributions for assets) (2017/18 - 3.42%). This net surplus is below the adopted threshold of \$422,176 as per Policy 2.2.2 Materiality in Financial Reporting.

## **RISK**

The audited Annual Financial Report is a key control measure used to report to Council and its stakeholders that Council's financial position, result of operations, cash flows, changes in equity and rate setting statement are free from any material misstatement caused by fraud or error. The audit findings indicate areas requiring improvement and management have implemented measures to review processes. The report measures Council's financial capacity to achieve its adopted strategic and operational objectives. A material variance indicates areas requiring investigation such as revisiting budget estimation assumptions, workforce management and Council's overall resource capacity to achieve its strategic objectives.

The recommendation by the Committee to Council for the adoption of the Annual Financial Report, Audit and Management Report and CEO's report is a key statutory compliance matter. Should this not be recommended for adoption, a delay in Council's adoption of the 2018/19 Annual Report to be presented at the October 2019 OMC will result and will impact Council's ability to schedule the Annual Electors Meeting (**AEM**) in December as planned. This poses a high risk due to the possibility of occurring and the impact of a significant delay to major deliverables.

Should the Committee make alternative recommendations regarding the proposed allocation of the 2018/19 surplus, given the immateriality of the amount and In line with Council's risk ratings, the risk is assessed as minor where the financial impact is less than \$250,000 and the likelihood of this occurring is possible. To mitigate these risks, the report recommendations should be adopted.

## **STRATEGIC IMPLICATIONS**

### **Our People Goal – Foster a community environment that is accessible, affordable, inclusive, healthy and safe:**

Encourage communication.

Identify affordable services and initiatives to satisfy community needs.

### **Our Prosperity Goal – Create the means to enable local jobs creation and lifestyle affordability for the current and future population:**

Encourage the provision of affordable land for residential, industrial, commercial and community use.

### **Our Organisation Goal – Continually enhance the Shire's organisational capacity to service the needs of a growing community:**

Develop an organisational culture that strives for service excellence.

Review and analyse strategic and operational plans.

Manage resource allocation.

Manage staff attraction and retention.

Improve systems, processes and compliance.

## **VOTING REQUIREMENTS**

Chairperson.....Date.....

*Absolute Majority*

**COMMITTEE RESOLUTION:**  
**(REPORT RECOMMENDATION)**

**Moved: Cr D Male**

**Seconded: Cr B Rudeforth**

**That the Audit and Risk Committee recommends that Council:**

- 1. Receives the Chief Executive Officer's report relating to the audit.**
- 2. Receives the Audit Report and Audit Management Report dated 9 October 2019 as per Attachment 1.**
- 3. Adopts the Audited Annual Financial Report for the year ended 30 June 2019 as per Attachment 2.**
- 4. Allocates the net operating surplus from the 2018/19 financial year as per Attachments 3 and 4 with the balance of \$224,049 to be transferred to reserves as follows:**
  - a) Building Reserve \$170,356; and**
  - b) Public Open Space Reserve \$53,693.**

**CARRIED UNANIMOUSLY BY ABSOLUTE MAJORITY 5/0**

**Attachments**

1. 2018-2019 Audit Management Report
2. 2018-2019 Annual Financial Report
3. 2018-2019 Surplus - Originally Budgeted Carryover - as Adjusted
4. 2018-2019 Surplus - Additional Carryover
5. 2018-2019 Audit Concluding Memorandum

**6. MATTERS BEHIND CLOSED DOORS**

Nil

**7. MEETING CLOSURE**

There being no further business the Chairman declared the meeting closed at 12:54 PM.