



NOTICE OF MEETING

A Meeting of the Audit Committee will be held in the Council Chambers, Shire of Capel Administration Building, Forrest Road, Capel on Wednesday, 24 March 2021 commencing at 3:30pm.

ROBERT STEWART
ACTING CHIEF EXECUTIVE OFFICER

22 March 2021

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1 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

Acknowledgement of Country

The Shire of Capel acknowledges the Traditional Custodians, the Wardandi people, and their continuing connection to the land, waters and community. We pay our respects to members of all communities and their cultures; and to Elders, past, present and emerging.

2 RECORD OF ATTENDANCE AND APOLOGIES

3 DISCLOSURES OF INTEREST

RECORDING OF THE VOTE OF ALL MEMBERS PRESENT

MOTION

That in accordance with section 5.21 (4) of the Local Government Act, the vote of all members present be recorded following each vote at this Committee meeting of the Council.

VOTING REQUIREMENTS

Simple majority

4 CONFIRMATION OF MINUTES

4.1 Audit Committee Meeting 16 December 2020

VOTING REQUIREMENTS

Simple majority

OFFICER'S RECOMMENDATION – 4.1

That the Minutes of the Audit Committee Meeting held on 16 December 2020 be confirmed as a true and correct record.

5 REPORTS

5.1 Report on Matters Identified as Significant in 2019/20 Audit Report – Operating Surplus Ratio

Location:	Capel
Applicant:	Shire of Capel
File Reference:	IFM43382
Disclosure of Interest:	Nil
Date:	16.03.21
Author:	Manager Finance, A Mattaboni
Senior Officer:	Acting Chief Executive Officer, R Stewart
Attachments:	1. Audit Opinion – Shire of Capel – 30 June 2020 2. Local Government Operational Guidelines Ratios

PROPOSAL

To consider the report addressing matters identified as significant by the auditor in the 2019/20 audit report and make appropriate recommendations to the Council.

OFFICER'S RECOMMENDATION

That it be recommended to the Council:

That:

- 1) The finding in relation to the Operating Surplus Ratio being below the Department of Local Government ratio guidelines be noted.
- 2) The remedies to ensure the Operating Surplus Ratio complies with Departmental Guidelines be noted for budget consideration.

BACKGROUND

Changes to the Local Government Act 1995 that were enacted in 2005, required that the Council establish an audit committee. The delegation of powers and duties to the audit committee were agreed to by the Council at their meeting on 28 September 2005.

If the Auditor General or a local government's appointed auditor reports a significant matter in an audit report, section 7.12A of the local Government Act 1995 requires a response from the local government.

STATUTORY ENVIRONMENT

Local Government Act 1995

Division 4 – General

7.12A. Duties of local government with respect to audits

(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 (Financial Management) Regulations 1996

50. Financial ratios to be included in annual financial report

- (1) The annual financial report is to include, for the financial year covered by the annual financial report and the 2 preceding financial years —
- (a) the current ratio; and
 - (b) the asset consumption ratio; and
 - (c) the asset renewal funding ratio; and
 - (d) the asset sustainability ratio; and
 - (e) the debt service cover ratio; and
 - (f) the operating surplus ratio; and
 - (g) the own source revenue coverage ratio.

- (2) In this regulation —

operating surplus ratio means the ratio determined as follows —

$$\frac{\text{operating revenue minus operating expense}}{\text{own source operating revenue;}}$$

POLICY IMPLICATIONS

There are no policy implications relevant to this item.

RISK IMPLICATIONS

Medium. Failure to fulfil compliance requirements (statutory, regulatory).

FINANCIAL IMPLICATIONS

Budget

There are no current budget implications.

Long Term

May have implications for the long term financial planning.

SUSTAINABILITY IMPLICATIONS

There are no sustainability implications relevant to this item.

STRATEGIC IMPLICATIONS

Shire of Capel Strategic Community Plan 2018 to 2028

The Leadership Experience, *'Ensure open, transparent, effective good governance.'*

Community Objective:

1.6 Council is effective and efficient in the financial management stewardship of community assets.

CONSULTATION

No consultation has been undertaken.

COMMENT

The Local Government Act 1995 s7.12A states a local government must 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 give a copy of that report to the Minister within 3 months after the audit report is received by the local government. 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.

The 2019/20 audit report identified the following matters that were identified as significant.

'Report on Other Legal and Regulatory Requirements

In accordance with the Local Government (Audit) Regulations 1996 I report that:

(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 32 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of zero for the past three financial years.'

The Local Government Operational Guidelines Number 18 – June 2018 Financial Ratios, provides an explanation of each ratio required to be included in the annual financial report under section 6.4(2) of the Local Government Act 1995 and Regulation 50 of the Local Government (Financial Management) Regulations 1996.

Operating Surplus Ratio

The Operating Surplus ratio is explained in the guidelines as, 'A key indicator of a local governments financial performance is measured by the 'Operating Surplus Ratio'. If a local government consistently achieves a positive operating surplus ratio and has a soundly based long term financial plans showing that it can continue to do so in future, having regard to asset management and the community's service level needs, then it is considered financially sustainable. A positive ratio indicates the percentage of total own source revenue available to help fund proposed capital expenditure, transfer to cash reserves or to reduce debt. A negative ratio indicates the percentage increase in total own source revenue (principally rates) that would have been required to achieve a break-even operating result.'

The guideline states:

'Operating Surplus Ratio = $\frac{\text{Operating Revenue minus Operating Expense}}{\text{Own Source Operating Revenue}}$

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).*

Definitions: 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.

The 2019/20 Annual report at Note 32 Financial Ratios shows:

Operating surplus ratio

2020	2019	2018
(0.13)	(0.07)	(0.04)'

Each year's Operating surplus ratio is made up of:

Operating revenue minus operating expense

Own source operating revenue

<u>(2,254,648)</u>	<u>(1,187,624)</u>	<u>(616,200)</u>
16,973,215	16,785,120	15,860,859

Operating revenue excludes grants that are for the development or acquisition of assets and contributions for the development or acquisition of assets. Ongoing deficits will reduce the ability of a local government to maintain operational service level and asset base.

A basic standard can only be achieved, as shown by the formula, by achieving a positive operating revenue less operating expense amount. Own source revenue raising ability and operational expenditure levels would need to be examined to achieve this standard. An option for increasing own source revenue would be for Council to increase rates but this needs to be considered in relation to ratepayers' capacity to pay. A positive result could also be achieved by a reduction of operating expenditure but this needs to be considered in relation to service delivery levels. Examination of options should be considered during budget preparation.

VOTING REQUIREMENTS

Simple majority

OFFICER'S RECOMMENDATION – 5.1

That it be recommended to the Council:

That:

- 1) The finding in relation to the Operating Surplus Ratio being below the Department of Local Government ratio guidelines be noted.**
- 2) The remedies to ensure the Operating Surplus Ratio complies with Departmental Guidelines be noted for budget consideration.**

5.2 Contingent Liability relating to Contaminated Sites

Location:	Capel
Applicant:	Shire of Capel
File Reference:	IFM43382
Disclosure of Interest:	Nil
Date:	16.03.21
Author:	Manager Finance, A Mattaboni
Senior Officer:	Acting Chief Executive Officer, R Stewart
Attachments:	Audit Management Letter

PROPOSAL

To consider the report addressing the matter identified as significant by the auditor in the 2019/20 Audit Management letter, relating to contingent liability Contaminated Sites and to make recommendations to the Council.

RECOMMENDATION

That it be a recommendation to the Council:

That:

- 1) The significant matter identified by the Council's auditor relating to the valuation of the contingent liability affecting contaminated sites be acknowledged; and
- 2) The response allocating \$100,000.00 to the Contaminated Sites Reserve in the 2020/21 Budget be noted.

BACKGROUND

Changes to the Local Government Act 1995 that were enacted in 2005 required that the Council establish an audit committee. The delegation of powers and duties to the audit committee were agreed to by the Council at their meeting on 28 September 2005.

If the Auditor General or a local government's appointed auditor reports a significant matter in an audit report, section 7.12A of the local Government Act 1995 requires a response from the local government.

Department of Local Government, Sport and Cultural Industries additional information on significant matters reported by the auditor in an audit report states:

'Audit management letters do not meet the definition of an audit report for the purpose of reporting significant matters to the Minister (Audit Reg. 1094)). They should still be considered by the Audit Committee to determine if any action should be taken (refer 7.12A(3)) and for the audit committee to oversee the implementation of any action the local government has taken or intends to take in a report required to be prepared in accordance with section 7.12A(4)(a).

STATUTORY ENVIRONMENT

Local Government Act 1995

Division 4 – General

7.12A. Duties of local government with respect to audits

- (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.

POLICY IMPLICATIONS

There are no policy implications relevant to this item.

RISK IMPLICATIONS

Medium. Failure to fulfil compliance requirements (statutory, regulatory).

FINANCIAL IMPLICATIONS

Budget

Expenditure is included in the current year's budget.

Long Term

There is long term expenditure previously recommended by Council in relation to the matter.

SUSTAINABILITY IMPLICATIONS

There are no sustainability implications relevant to this item.

STRATEGIC IMPLICATIONS

Shire of Capel Strategic Community Plan 2018 to 2028

The Leadership Experience, "*Ensure open, transparent, effective good governance.*"

Community Objective:

- 1.6 Council is effective and efficient in the financial management stewardship of community assets.

CONSULTATION

No consultation has been undertaken.

COMMENT

The Shire of Capel 2019/20 Financial Report Note 21 Contingent Liabilities states:

'The Shire of Capel has identified the following sites, in relation to land owned, vested or leased, that is known to be, or suspected of being contaminated. As at the date of this report the value and timing of remediation has not been ascertained.

- A751, Reserve 27193 Knott Road Boyanup and Lot 202 Salter Rd: Stock saleyards - effluent, groundwater contamination.
- A3202, Reserves 15634 and 51545 Goodwood Road: Recreation Ground – radionuclides.
- A3205, Reserve 21929 97 Weld Road: Quarry and sand - construction and demolition waste (including asbestos and bitumen products).
- A3213, Reserve 14054 Prowse Road: Shire Depot and Pound – hydrocarbons.
- A3252, Reserve 24100 Lot 201 Gray Road: Sanitary site - domestic and commercial waste.
- A6544, Reserve 24529 Lots 500-501 Range Road: Former sanitary site - domestic and commercial waste.
- A6545, Reserve 31012 Lot 6054 Harewoods Road: Former sanitary site - domestic and commercial waste.
- Parcel 22757, Fennel Road: Unmade road reserve – radionuclides.

- Range Rd: Unmade road reserve – radionuclides.
- Parcel 33165, Gavins Road: Unmade road reserve – radionuclides.
- Parcel 33196, Anderson Road: Unmade road reserve – radionuclides.
- Parcel 33197, Withers Road: Unmade road reserve – radionuclides.
- Parcel 23908, Reid Ave: Unmade road reserve – radionuclides.’

The 2019/20 Audit Management Letter has reported a significant finding into contingent liabilities as reported at note 21 of the 2019/20 Shire of Capel Financial Report. The note discloses a contingent liability in respect to various known or suspected contaminated sites due to management not having assessed the cost and timing of remediation works required. This has resulted in a provision for rehabilitation not being recorded at 30 June 2020. The rating is significant due to the risk of misstatement within the financial report. Audit has recommended that an assessment be completed in respect to those sites detailed within Note 21 to determine the value and timing of any remedial works required. Provision for rehabilitation should subsequently be recorded in respect to remediation works required.

The Management Comment to the findings was as follows:

‘It is noted that the finding is listed as significant meaning there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.

Contaminated sites as determined by the Contaminated Sites Act 2003 are listed on the Shire of Capel Contaminated Sites Register. A report to the Shire Climate Change Adaptation and Sustainability Committee (CC04/2020 26th February 2020) in response to the findings from the 2018 Risk Review, recommended the adoption of a risk profile for Shire controlled contaminated sites for subsequent consideration of budget allocations for inclusion in future Long Term Financial Plans. The Shire Climate Change Adaptation and Sustainability Committee decision was recommended to Council for adoption (OC054/2020 27th May 2020).

The Council decision made recommendations for the timeline and funding considerations for assessment of sites. The 2020/21 budget includes \$60,000 to undertake investigation of R14054 Prowse Road (Shire Depot) to determine future rehabilitation needs. It was adopted that Council consider assigning; \$120,000 in 2022/23 for the Long Term Financial Plan to undertake investigation of R21929 Weld Road to determine future rehabilitation needs, \$100,000 in 2028/29 for the Long Term Financial Plan for a detailed site investigation for R31012 Harewoods Road to determine future rehabilitation needs and \$15,000 in the 2029/30 Long Term Financial Plan for a post closure management plan for R24100 Gray Road. These investigations can be used to determine the financial value of the provision to be taken up for rehabilitation works at the sites examined.

The 2020/21 budget includes the creation of a Contaminated Sites Reserve to be used to fund remediation of contaminated sites. It is budgeted to transfer \$100,000 to this reserve in the 2020/21 financial year. Subsequent financial reserve provisions will be included in future financial planning.’

The Contaminated Sites Reserve has been created and included in the 2020/21 budget. The investigation of R14054 Prowse Road (Shire Depot) to determine future rehabilitation needs has commenced in the 2020/21 financial year.

VOTING REQUIREMENTS

Simple majority

OFFICER'S RECOMMENDATION – 5.2

That it be a recommendation to the Council:

That:

- 1) The significant matter identified by the Council's auditor relating to the valuation of the contingent liability affecting contaminated sites be acknowledged; and**
- 2) The response allocating \$100,000.00 to the Contaminated Sites Reserve in the 2020/21 Budget be noted.**

5.3 Compliance Audit Return 2020

Location:	Whole of Shire
Applicant:	Shire of Capel
File Reference:	GR.LI.1
Disclosure of Interest:	Nil
Date:	08.03.21
Author:	Governance Officer, A Lorrimar
Senior Officer:	Acting Chief Executive Officer, R Stewart
Attachments:	DRAFT 2020 Compliance Audit Return

PROPOSAL

For the Shire of Capel Audit Committee to receive the completed 2020 Compliance Audit Return (CAR) draft and recommend that the Council endorse the CAR at the March Ordinary Meeting of the Council.

RECOMMENDATION

That it be a recommendation to the Council:

That the 2020 Compliance Audit Return be adopted.

BACKGROUND

The CAR is one of the tools that assists the Council in the management of compliance with the provisions of the *Local Government Act 1995* (the Act).

The template provided by the Department of Local Government, Sport and Cultural Industries (DLGSCI) incorporates sections on:

- Commercial enterprises;
- Delegations;
- Disclosures of interest;
- Property disposals;
- Elections;
- Finance;
- Integrated planning and reporting;
- Employees;
- Official conduct;
- Optional questions; and
- Tenders.

The CAR is completed annually by Shire Officers and presented to the Audit Committee and the Council for endorsement. A certified copy of the CAR and the relevant Council minute must be provided to the DLGSCI.

STATUTORY ENVIRONMENT

Local Government Act 1995 s7.13

7.13 Regulations as to audits

- (1) Regulations may make provision –
 - (i) Requiring local governments to carry out, in the prescribed manner and in a form approved by the Minister, an audit of compliance with such statutory requirements as are prescribed whether those requirements are
 - (i) of a financial nature or not; or
 - (ii) under this Act or another written law.

Local Government (Audit) Regulations 1996 r14

14 Compliance audits by local governments

- (1) A local government is to carry out a compliance audit for the period 1 January to 31 December in each year.
- (2) After carrying out a compliance audit the local government is to prepare a compliance audit return in a form approved by the Minister.
- (3A) The Local government's audit committee is to review the compliance audit return and is to report to council the results of that review.
- (3) After the audit committee has reported to the council under subregulation (3A), the compliance audit return is to be-
 - (a) presented to the council at a meeting of the council: and
 - (b) adopted by the council; and
 - (c) recorded in the minutes of the meeting at which it is adopted.

15 Certified copy of compliance audit return and other documents to be given to Departmental CEO

- (1) After the compliance audit return has been presented to the council in accordance with regulation 14(3) a certified copy of the return together with –
 - (a) a copy of the relevant section of the minutes referred to in regulation 14(3)(c); and
 - (b) any additional information explaining or qualifying the compliance audit,
- (3A) The local government's audit committee is to review the compliance audit return and is to report to the council the results of that review.

is to be submitted to the Departmental CEO by 31 March next following the period to which the return relates.

- (2) In this regulation – certified in relation to a compliance audit return means signed by -
 - (a) the mayor or president; and
 - (b) the CEO.

POLICY IMPLICATIONS

There are no policy implications associated with this item.

RISK IMPLICATIONS

This report is subject to Shire Policy 2.28 Risk Management Framework. An assessment of potential implications has been undertaken with the following risks identified:

- Compliance – High
- Reputation - Medium

The CAR process has significant upside by ensuring legislative compliance, internal controls are suitable and providing for improvements.

FINANCIAL IMPLICATIONS

Budget

The Return has been completed using existing staff resources, with appropriate funds allocated in the budget.

Long Term

As no assets or infrastructure are being created, there are no whole of life costs relevant to this item.

SUSTAINABILITY IMPLICATIONS

There are no sustainability implications associated with this matter.

STRATEGIC IMPLICATIONS

Shire of Capel Strategic Community Plan 2018-28

The Leadership Experience '*Open, transparent, and effective good governance.*'

Community Objectives

1.6 Council is effective and efficient in the financial management stewardship of community assets.

CONSULTATION

A number of staff contributed to the preparation of the 2020 Compliance Audit Return, including; the Acting Chief Executive Officer, Director Community and Corporate Services, Manger Finance, Manager Human Resources and Executive Services, Accountant and Strategic Governance and Risk Coordinator and Governance Officer.

COMMENT

Two occurrences of non-compliance were identified in the 2020 Compliance Audit Return.

The first related to a Councillor failing to complete an Annual Return by the due date 31 August 2020. The Annual Return was submitted 30 September 2020 and relevant statutory authorities notified.

The second refers to the action taken on matters identified in the Auditor's report and the need to submit a report to the Minister within 3 months. The deadline for submission by 31 March 2021 will be exceeded, due to the timing of the first Audit Committee meeting and subsequent consideration at the March 31 Ordinary Council Meeting.

Optional questions have been answered.

VOTING REQUIREMENTS

Simple Majority

OFFICER'S RECOMMENDATIONS – 5.3
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That it be a recommendation to the Council:

That the 2020 Compliance Audit Return be adopted.

6 URGENT BUSINESS

7 MEETING CLOSURE