

SHIRE OF LEONORA



MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING

HELD 21ST DECEMBER, 2021, IN COUNCIL CHAMBERS
COMMENCING AT 11:40 AM.

1.0 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS / FINANCIAL INTEREST DISCLOSURE

Chairperson, Cr PJ Craig, declared the meeting open at **11:40am**.

2.0 RECORD OF ATTENDANCE / APOLOGIES / LEAVE OF ABSENCE

2.1 Present

President	PJ Craig
Deputy President	RA Norrie
Councillors	RM Cotterill
	AE Taylor
	LR Petersen
	F Harris
Chief Executive Officer	JG Epis
Deputy Chief Executive Officer	L Trevenen
Visitor	T Browning (Associate Director, Moore Australia)

2.2 Apologies

Nil

2.3 Leave of Absence

Councillors AM Moore

2.4 Applications for Leave of Absence

Councillor AM Moore requested a leave of absence from the meeting to be held today, 21st December, 2021.

Moved Cr F Harris, seconded Cr LR Petersen that Councillor AM Moore be granted a leave of absence from the ordinary meeting of council to be held today, 21st December, 2021.

3.0 CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING

Moved Cr RA Norrie, Seconded Cr AE Taylor that the Minutes of the Audit and Risk Committee Meeting held on 28th September, 2021, be confirmed as a true and accurate record.

CARRIED (6 VOTES TO 0)

4.0 REPORTS OF OFFICERS

4.1 CHIEF EXECUTIVE OFFICER

4.1.1 SIGNIFICANT AUDIT MATTER – ASSET SUSTAINABILITY AND OPERATING SURPLUS RATIOS

SUBMISSION TO: Meeting of Audit Committee
Meeting Date: 21st December 2021

AGENDA REFERENCE: 4.1.1 AUDIT DEC 2021

SUBJECT: Significant Audit Matter – Asset Sustainability and Operating Surplus Ratios

LOCATION / ADDRESS: Leonora

NAME OF APPLICANT: N/A

FILE REFERENCE: Audits – Reports & Minutes 1.10

AUTHOR, DISCLOSURE OF ANY INTEREST AND DATE OF REPORT

NAME: J.G. Epis

OFFICER: Chief Executive Officer

INTEREST DISCLOSURE: Nil

DATE: 14th December 2021

BACKGROUND

The Office of the Auditor General (OAG) completed their 2020/21 financial audit for the Shire of Leonora on 8th December 2021. In the Independent Auditor's Report issued, the OAG reported a significant adverse trend for both the asset sustainability ratio and the operating surplus ratio, which were below the standard set by the Department of Local Government, Sport and Cultural Industries for the past three financial years.

Under section 7.12A(4) of the *Local Government Act 1995*, a local government is required to prepare a report stating what action has been taken or is intended to be taken in respect to matters raised within the audit report, to forward a copy of the report to the Minister within three months of receiving the audit report and to publish the report on the Shire's website within 14 days of supplying the report to the Minister.

COMMENT

The requirement to prepare a report stating actions to be taken to address matters identified as significant by the auditor, as well as to provide a copy of the report to the Minister within three months after the audit report is received from the auditor, and to publish the report on the official local government website within 14 days of providing the report to the Minister, is the result of an amendment to the Act in August 2017.

To comply with the requirements of section 7.12A(4) & (5) of the *Local Government Act 1995*, an action report has been prepared (attached) which is presented for the audit committee's consideration. The action report, once received by the audit and risk committee, will require endorsement by the Council, prior to being submitted to the Minister and published on the Shire of Leonora's website.

STATUTORY ENVIRONMENT

Section 7.12A(4) of the *Local Government Act 1995* requires a local government to prepare a report stating what action has been taken or is intended to be taken in respect to matters raised within the audit report, and to forward a copy of the report to the Minister within three months of receiving the audit report.

Section 7.12A(5) of the *Local Government Act 1995* requires a local government to publish on its official website the report prepared under section 7.12(4) within 14 days of supplying the report to the minister.

POLICY IMPLICATIONS

There are no policy implications resulting from the recommendation of this report.

FINANCIAL IMPLICATIONS

There are no financial implications resulting from the recommendation of this report.

STRATEGIC IMPLICATIONS

Strategic References within the Shire of Leonora Strategic Community Plan 2017-2027 demonstrate connections between services and the desired outcomes and community vision for the Shire of Leonora, particularly in relation to Governance services. In this instance outcome 4.5 Strong Leadership and Planning, with strategy 4.5.3 'Continue to Develop Strategic Plans and Ensure Legislative Compliance' applies.

RISK MANAGEMENT

This item has been evaluated against the Shire of Leonora's Risk Management Strategy and risk assessment matrix. The perceived level of risk is high prior to treatment, the receipt of this report by the audit and risk committee, and subsequent consideration for endorsement by Council will reduce the risk to medium.

RECOMMENDATIONS

That the Audit and Risk Committee:

1. Receive the attached 'Action Report – 2020/21 Significant Adverse Trend – Asset Sustainability and Operating Surplus Ratios';
2. Recommend the endorsement of the attached 'Action Report – 2020/21 Significant Adverse Trend – Asset Sustainability and Operating Surplus Ratios' by Council at the next ordinary meeting; and
3. Following endorsement of the 'Action Report – 2020/21 Significant Adverse Trend – Asset Sustainability and Operating Surplus Ratios' by Council, authorise the CEO to forward a copy of the report to the Minister and to publish the report on the Shire of Leonora's official website.

VOTING REQUIREMENT

Simple Majority

COUNCIL DECISION

Moved Cr RA Norrie, Seconded Cr LR Petersen that the Audit and Risk Committee:

1. Receive the attached 'Action Report – 2020/21 Significant Adverse Trend – Asset Sustainability and Operating Surplus Ratios';
2. Recommend the endorsement of the attached 'Action Report – 2020/21 Significant Adverse Trend – Asset Sustainability and Operating Surplus Ratios' by Council at the next ordinary meeting; and
3. Following endorsement of the 'Action Report – 2020/21 Significant Adverse Trend – Asset Sustainability and Operating Surplus Ratios' by Council, authorise the CEO to forward a copy of the report to the Minister and to publish the report on the Shire of Leonora's official website.

CARRIED (6 VOTES TO 0)

ACTION REPORT – 2020 - 2021 Significant Adverse Trend – Asset Sustainability Ratio and Operating Surplus Ratio

Section 7.12A (4) of the Local Government Act 1995 requires a local government to prepare a report stating what action has been taken or is intended to be taken in respect to matters raised within the audit report. The Shire of Leonora’s Independent Auditor’s Report for 2020-21 issued by the Office of the Auditor General (OAG), noted a significant adverse trend for the asset sustainability and operating surplus ratio.

Shire of Leonora – Asset Sustainability Ratio

Asset Sustainability Ratio $\frac{\text{capital renewal and replacement expenditure}}{\text{depreciation}}$

The Asset Sustainability Ratio demonstrates the extent to which the Shire of Leonora is replacing or renewing existing assets at the same rate that its overall asset stock is depreciating. A basic standard is met if the ratio is greater than 0.9 and advanced standard is if the ratio is above 1.1. The ratio over the past three years is listed below:

2019	2020	2021
0.76	0.56	0.59

Explanation for Asset Sustainability Ratio Not Meeting Benchmarks

The Asset Sustainability Ratio can be influenced by a number of factors such as revaluation of assets and the subsequent increase and decrease in depreciation expense, as well as the amount being expended on renewal and replacement of assets annually. When considering the calculation of this ratio, the expected requirement to expend the equivalent of depreciation expense annually through the renewal and replacement of assets may not be reasonable.

Fluctuations will generally be observed with asset renewals annually. When required renewals are examined within the long term financial and asset management plans, it will reflect renewal and replacement requirements in some years are higher, as assets come to the end of their useful life. In other years, where assets are not required to be replaced or renewed, fluctuations or spikes in the level of renewal and replacement requirements will likely be observed at a much lower level than where assets have reached the end of their useful life. Due to these fluctuations described, the expenditure for asset renewal and replacement may not be equivalent to depreciation expenditure in each year when following integrated planning and reporting plans and undertaking sound asset management practices.

Actions Proposed to Address the Asset Sustainability Ratio

The Shire of Leonora intends for future renewal and replacement of assets to be undertaken in accordance with integrated planning and reporting plans. These plans reflect asset replacement and renewal requirements against depreciation expenditure over the term of the plan (fifteen years), as well as annually, to allow for better consideration and measurement of whether assets are being renewed at the same rate they are depreciating.

Shire of Leonora – Operating Surplus Ratio

Operating Surplus Ratio
$$\frac{\text{Operating Revenue MINUS Operating Expenditure}}{\text{Own Source Operating Revenue}}$$

The operating surplus ratio demonstrates the extent to which operating revenues cover operating expenses (including depreciation expense), with a positive operating surplus ratio considered by the Department an indicator of long-term financial sustainability. The Shire's operating surplus ratio has experienced movement over the previous three years as below:

2019	2020	2021
(0.05)	(0.01)	(0.05)

The basic benchmark set by the Department of Local Government, Sport and Cultural Industries (the Department) for the operating surplus ratio is 0.01 – 0.15. Ratios higher than 0.15 are in the desirable benchmark range set by the Department. The Shire of Leonora has experienced a downward trend with its operating surplus ratio in 2020/21 which does not meet the benchmark set by the Department, resulting in the 'significant adverse trend' finding on the Shire's audit report.

Explanation for Operating Surplus Ratio Not Meeting Benchmarks

The Shire has considered within its Long Term Financial Plan (LTFP) the impact of ongoing capital road funds such as Roads to Recovery (R2R) and Regional Road Group (RRG) – neither of which are included in the calculation of the operating surplus ratio. Depreciation expense, which is included within the calculation of the operating surplus ratio, is rarely funded in full by rural local governments such as the Shire of Leonora, with grant funds such as the R2R and RRG contributing to asset renewals and compensating for operating losses arising from depreciation expense.

Actions Proposed to Address the Operating Surplus Ratio

To ensure the operating surplus ratio would meet the benchmark set by the Department, the Shire could consider increasing rates, however this would effectively result in over rating the community when also considering the ongoing road grants received by the Shire. As a result, the Shire considers the benchmark for the operating surplus ratio to be flawed for a Shire receiving non-operating grants for the renewal of assets, and it does not intend to take action to increase revenue above a level which will result in the community being overrated when considering expected and ongoing non-operating grants for asset renewals.

The operating surplus ratio and the financial performance of the Shire of Leonora will continue to be reviewed through ongoing monitoring of depreciation expense and financial reports which are reported to Council, including required budget reviews and monthly statements of financial activity.

Disclaimer

This Report has been prepared for the exclusive use by the Shire of Leonora.

This report contains quantitative and qualitative statements, including projections, estimates, opinions and forecasts concerning the anticipated future performance of the Shire of Leonora, based on a large number of assumptions, and will be, subject to significant uncertainties and contingencies many, if not all, of which are outside the control of the Shire of Leonora.

This report is supplied in good faith for public information purposes and the Shire accepts no responsibility for any loss occasioned by any person acting or refraining from action as a result of reliance on this Report.

Document Management

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Date of Adoption	21st December, 2021

4.0 REPORTS OF OFFICERS

4.2 DEPUTY CHIEF EXECUTIVE OFFICER

4.2.1 RELATED PARTY TRANSACTIONS AND DISCLOSURES

SUBMISSION TO: Meeting of Audit Committee
Meeting Date: 21st December, 2021

AGENDA REFERENCE: 4.2.1 AUDIT DEC 21

SUBJECT: Related Party Transactions and Disclosures

LOCATION / ADDRESS: Leonora

NAME OF APPLICANT: N/A

FILE REFERENCE: 1.8

AUTHOR, DISCLOSURE OF ANY INTEREST AND DATE OF REPORT

NAME: Lee-Anne Trevenen

OFFICER: Deputy Chief Executive Officer

INTEREST DISCLOSURE: Nil

DATE: 15th December, 2021

BACKGROUND

In accordance with AASB 124 *Related Party Disclosures*, local governments must disclose in the annual financial statements related party relationships, transactions and outstanding balances (including commitments) from 1 July 2016. Related parties include Key Management Personnel (KMP), which in the Shire of Leonora's case will include all elected members and executive staff, their close family members and any entities that they control or jointly control. The disclosure requires any transactions with these parties, whether monetary or not, to be identified and assessed whether disclosure is required or not. A disclosure may be in aggregate and will only occur where a transaction has occurred.

Regarding the disclosures, the following approach was developed in a workshop held at the June 2017 Audit and Risk Committee Meeting to ensure that management can properly address the requirements of the accounting standard:

- A procedure / guide for related party disclosures to be established, which includes the updating of returns quarterly through the Audit and Risk Committee Meetings
- Establishment of a system to identify and record related parties of KMPs
- Establishment of a system to identify and record related party relationships of KMPs
- Establishment of a system to identify and record related party transactions
- Identify 'Ordinary Citizen Transactions' (OCTs) that will not be disclosed by Council
- Create declaration forms to be completed by KMPs
- Set a materiality threshold for management to apply when assessing transactions for inclusion in the financial statements
- Identified the need for a separate workshop to be scheduled for newly elected members and
- For the Audit and Risk Committee to recommend any changes required to the above processes

STATUTORY ENVIRONMENT

Disclosures were required from Local Government entities from 1 July 2016 in accordance with AASB 124 *Related Party Disclosures*, with the first disclosures made in the Financial Statements for the year ended 30 June 2017.

POLICY IMPLICATIONS

There are no policy implications resulting from the recommendation of this report.

FINANCIAL IMPLICATIONS

There are no financial implications resulting from the recommendation of this report that will have any detrimental effect on the Shire's finances.

STRATEGIC IMPLICATIONS

Strategic References within the Shire of Leonora Strategic Community Plan 2017-2027 demonstrate connections between services and the desired outcomes and community vision for the Shire of Leonora, particularly in relation to Governance services in this instance such as 4.1 Efficient service offerings to the community, 4.2 Effective and open engagement with all sections of the community, 4.5 Strong leadership and planning.

RECOMMENDATIONS

That the Audit and Risk Committee note the approach taken and the systems established by management with regard to addressing the requirements of *AASB 124 Related Party Disclosures*.

VOTING REQUIREMENT

Simple Majority

COUNCIL DECISION

Moved Cr AE Taylor, Seconded Cr RA Norrie that the Audit and Risk Committee note the approach taken and the systems established by management with regard to addressing the requirements of *AASB 124 Related Party Disclosures*.

CARRIED (6 VOTES TO 0)

4.0 REPORTS OF OFFICERS

4.2 DEPUTY CHIEF EXECUTIVE OFFICER

4.2.2 RISK MANAGEMENT ACTIVITIES UPDATE SEPTEMBER 2021

SUBMISSION TO: Meeting of Audit Committee
Meeting Date: 21st December 2021

AGENDA REFERENCE: 4.2.2 AUDIT DEC 21

SUBJECT: Risk Management Activities Update October 2021

LOCATION / ADDRESS: Leonora

NAME OF APPLICANT: N/A

FILE REFERENCE: 1.10 – Audits – Reports & Minutes

AUTHOR, DISCLOSURE OF ANY INTEREST AND DATE OF REPORT

NAME: Lee-Anne Trevenen

OFFICER: Deputy Chief Executive Officer

INTEREST DISCLOSURE: Nil

DATE: 14th December 2021

BACKGROUND

Prior to 30 June 2018, meetings with the Chief Executive Officers (CEO's) for the Shires of Leonora, Laverton, Menzies and Wiluna were held, where opportunities for collaboration and service sharing were discussed. From these meetings, it was considered a viable opportunity to further explore the possibility of engaging the services of a consultancy company to perform the Statutory Compliance Services for the four local governments, given many already engaged consultants to assist with a variety of work.

The Shires of Leonora, Laverton, Menzies and Wiluna supported proceeding to the tender stage for Statutory Compliance Services and subsequently the tender was awarded to Moore Stephens (now known as Moore Australia). This tender included risk management support services, and the delivery of statutory support and compliance services.

Since the service with Moore Australia commenced in 2018/19, the Shire has adopted an updated risk management policy which aligns to *AS/NZS ISO 31000:2018 Risk Management Guidelines*. A Risk Management Strategy was also prepared utilising the Principles, Framework and Process as defined within the standard. The Strategy considers the context of the Shire and conforms to the requirements of the standard by providing the necessary guidance and direction to be followed by the Shire in its risk management activities, and is aligned with the risk management policy.

COMMENT

The Risk Management Strategy provides guidance and direction around risk management activities, including the assessment, prioritisation and communication of risk. This includes the reporting of risks through the Audit and Risk Committee.

Meetings have been held with staff to consider opportunities to progress risk management work, which assisted to set up base documents to support the commencement of risk management activities for the Shire during routine onsite visits as part of the service. Some formal workshops have been held with staff, and additional workshops are intended to facilitate discussions around the examination, review and updating of risks, as well as themes/profiles, controls and frameworks. Draft 'risk profiles' have been previously established (resulting from meetings and discussions with staff) which were utilised to develop a draft risk register, which was created and populated as an extension to existing online registers service provided by Moore Australia.

In September and October 2021, Moore Australia conducted an onsite and offsite meeting with the Shire to commence review and update the risk profiles to more accurately reflect the circumstances for the Shire of Leonora, and to populate the risk register with updated controls to calculate residual risks to be reported to the Audit and Risk Committee. Time constraints related to the audit have somewhat delayed the progression of the review, however the most recent available updates have been prepared. The risk profiles are currently being updated in more detail and will be utilised to further update the risk register prior to the next meeting. The risk register will also be updated with applicable recommendations (including best practice initiatives) resulting from focus audits and other reports recently published by the Office of the Auditor General (OAG) relating to the local government sector, and the results of the review of financial management, risk management, legislative compliance and internal controls which is due to be finalised in early 2022.

A risk summary report is intended to be provided bi-annually to the committee. This report enables analysis of what has changed for the organisation, and whether these changes result in new or emerging risks against each risk profile. This subsequently allows for the risk register to be updated, and for a report to the committee to be compiled summarising new risks or changes to existing risks. The risk summary report will be compiled for the next meeting highlighting risk changes identified against each profile since the last review, including actions and treatments in place for high level risks.

A quarterly dashboard report is essentially a progress report informing the committee with a summary of the current number of risks, unaddressed high level risks, total new risks etc. The table below demonstrates the format of quarterly reports to the committee communicating risk movements.

Risk Category	No. of High or Extreme Rated Risks Identified	No. of High or Extreme Rated Risks after Treatment	No. of New Risks Identified (October 2021)	No. of Risks Closed (October 2021)
Performance	2	1	0	0
Environmental	2	2	0	0
Reputational Damage	2	1	0	0
Financial	6	4	1	0
Service Delivery / Business Interruption	5	4	1	0
Legislative / Regulatory / Policy/ Occupational Safety and Health	6	4	1	0

STATUTORY IMPLICATIONS

Regulation 17.1 of the *Local Government (Audit) Regulations 1996* requires the CEO to monitor the appropriateness and effectiveness of systems and procedures in regard to risk management, internal controls and legislative compliance.

POLICY IMPLICATIONS

The Risk Management Policy outlines the Shire's commitment and approach to managing risks impacting on day-to-day operations and the delivery of strategic objectives.

FINANCIAL IMPLICATIONS

Provision is included in the 2021/22 Adopted Budget for Moore Australia to deliver Statutory Compliance Services, including risk management, in line with the awarded tender.

STRATEGIC IMPLICATIONS

One of Council's responsibilities in risk management is to be satisfied risks are identified, managed and controlled appropriately, to achieve Shire's strategic objectives, as well as to support the allocation of funds / resources to treat risks as required.

The Chief Executive Officer and executive team plays a key role in the establishment and development of an effective risk management framework. To ensure the successful delivery of the Strategic Planning objectives, the strategy requires ongoing monitoring and revision for alignment to the Plan for the Future.

One role of the audit committee is to monitor identified strategic high level risks and their treatment solutions to ensure the community receives the services delivered effectively as outlined within the Plan for the Future.

Monitoring and reviewing activities will continue to provide evidence of the appropriateness and effectiveness of systems and procedures in regard to risk management, internal control and legislative compliance, as required by the *Local Government (Audit) Regulations 1996*. The Risk Management Strategy also provides direction for the implementation of risk management activities.

Strategic references within the Shire of Leonora Strategic Community Plan 2017-2027 demonstrate connections between services and the desired outcomes and community vision for the Shire of Leonora, particularly in relation to Governance services in this instance such as 4.1 Efficient service offerings to the community, 4.2 Effective and open engagement with all sections of the community, 4.5 Strong leadership and planning.

RISK MANAGEMENT

This item has been evaluated against the Shire of Leonora's Risk Management Strategy, Risk Assessment Matrix. The perceived level of risk is high prior to treatment, the progression of risk management activities aligned with the Risk Management Strategy will reduce the risk to low.

RECOMMENDATIONS

That the Audit and Risk Committee receive the above report updating risk management activities undertaken to date.

VOTING REQUIREMENT

Simple Majority

COUNCIL DECISION

Moved Cr RM Cotterill, Seconded Cr RA Norrie that the Audit and Risk Committee receive the above report updating risk management activities undertaken to date.

CARRIED (6 VOTES TO 0)

5.0 NEXT MEETING

15th March, 2022, following the conclusion of the Ordinary meeting of Council commencing at 9:30am.

6.0 CLOSURE OF MEETING

There being no further business, Chairperson Cr PJ Craig declared the meeting closed at **11:57am**.