



**Shire of Derby /  
West Kimberley**

# **AGENDA**

## **Compliance and Strategic Review Committee Meeting**

**Thursday, 14 November 2019**

**I hereby give notice that a Compliance and Strategic Review Committee Meeting will be held on:**

**Date: Thursday, 14 November 2019**

**Time: 4.00pm**

**Location: Council Chambers  
Clarendon Street  
Derby**

**Amanda O'Halloran**

**Chief Executive Officer**





**Order Of Business**

<b>1</b>	<b>Declaration of Opening, Announcement of Visitors</b> .....	<b>5</b>
<b>2</b>	<b>Attendance via Telephone/Instantaneous Communications</b> .....	<b>5</b>
<b>3</b>	<b>Announcements by Presiding Person without Discussion</b> .....	<b>5</b>
<b>4</b>	<b>Disclosure of Interests</b> .....	<b>5</b>
4.1	Declaration of Financial Interests .....	5
4.2	Declaration of Proximity Interests .....	5
4.3	Declaration of Impartiality Interests.....	5
<b>5</b>	<b>Confirmation of Minutes of Previous Meetings</b> .....	<b>5</b>
<b>6</b>	<b>Reports</b> .....	<b>6</b>
6.1	Regulation 17 - Review of Risk Management, Legislative Compliance and Internal Controls.....	6
6.2	Use of Delegations and Common Seal .....	51
6.3	Compliance Reports - Council Minute Management and Councillor Attendance.....	63
6.4	Compliance Register .....	83
6.5	Compliance Program 2018/19 Review .....	91
6.6	Report on matters Identified as significant in the 2018/19 Audit Report .....	98
<b>7</b>	<b>New Business of an Urgent Nature</b> .....	<b>160</b>
<b>8</b>	<b>Date of Next Meeting</b> .....	<b>160</b>
<b>9</b>	<b>Closure of Meeting</b> .....	<b>160</b>



**1 DECLARATION OF OPENING, ANNOUNCEMENT OF VISITORS****2 ATTENDANCE VIA TELEPHONE/INSTANTANEOUS COMMUNICATIONS**

In accordance with regulation 14A of the Local Government (Administration) Regulations 1996 Council must approve (by Absolute Majority) the attendance of a person, not physically present at a meeting of Council, by audio contact. The person must be in a 'suitable place' as approved (by absolute majority) by Council. A 'suitable place' means a place that is located in a townsite or other residential area and 150km or further from the place at which the meeting is to be held.

**3 ANNOUNCEMENTS BY PRESIDING PERSON WITHOUT DISCUSSION****4 DISCLOSURE OF INTERESTS**

Section 5.65 and 5.70 of the *Local Government Act 1995* requires an Elected Member or officer who has an interest in any matter to be discussed at a Committee/Council Meeting that will be attended by the Elected Member or officer must disclose the nature of the interest in a written notice given to the Chief Executive Officer before the meeting; or at the meeting before the matter is discussed.

An Elected Member who makes a disclosure under section 5.65 or 5.70 must not preside at the part of the meeting relating to the matter; or participate in; or be present during, any discussion or decision making procedure relating to the matter, unless allowed by the Committee/Council. If Committee/Council allow an Elected Member to speak, the extent of the interest must also be stated.

**4.1 Declaration of Financial Interests****4.2 Declaration of Proximity Interests****4.3 Declaration of Impartiality Interests****5 CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS****RECOMMENDATION**

**That the Minutes of the Compliance and Strategic Review Committee Meeting held at the Council Chambers, Clarendon Street, Derby, on 12 September 2019 be CONFIRMED.**

## 6 REPORTS

### 6.1 REGULATION 17 - REVIEW OF RISK MANAGEMENT, LEGISLATIVE COMPLIANCE AND INTERNAL CONTROLS

**File Number:** 4110

**Author:** Amanda O'Halloran, Chief Executive Officer

**Responsible Officer:** Amanda O'Halloran, Chief Executive Officer

**Authority/Discretion:** Legislative

#### SUMMARY

Regulation 16(C) of the *Local Government (Audit) Regulations 1996* stipulates that the Audit Committee is to review a report given to it by the Chief Executive Officer (CEO) under the Regulation 17 (3) of the *Local Government (Audit) Regulations 1996*. Regulation 17 of the *Local Government (Audit) Regulations 1996* provides that the CEO is to review the appropriateness and effectiveness of the local governments systems and procedures in relation to risk management, internal control and legislative compliance.

The Audit Committee is also required to report to the council the results of that review and give a copy of the CEO's report to the Council.

#### DISCLOSURE OF ANY INTEREST

Nil

#### BACKGROUND

Regulation 17 of the *Local Government (Audit) Regulations 1996* require the CEO to conduct a review of systems and procedures relating to legislative compliance, risk management and internal controls on a triennial basis.

The Department of Local Government, Sport and Cultural Industries (DLGSC) Operational Guidelines No.9 (revised September 2013) provides a useful overview of the issues that should be taken into account when undertaking a Regulation 17 review. A copy of the guideline is included as an attachment and has been used as the basis for the CEO's Regulation 17 review in this instance.

It is also worth noting that Section 7 of the Departments Western Australian Local Government Accounting Manual provides a comprehensive internal control framework related to internal control.

The Internal Regulation 17 Audit incorporates the requirement under Regulation 5 (2) (c) of the Local Government (Financial Management) Regulations 1996 which provides the Chief Executive Officer is to: 'Undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once every 3 financial years) and report to the local government the results of those reviews.' A contract to review the Shires Financial Management systems including Strategic Resourcing (Asset Management Plan and Long Term Financial Planning) and the Corporate Business Plan was awarded to Moore Stephens in June 2019. Their report was received and presented to the Compliance and Strategic Review Committee on 12 September 2019 and falls outside the reporting period of this review.

The last Review of Risk Management, Internal Controls and Legislative Compliance was presented to the 15 December 2016 Ordinary Council Meeting in accordance with legislative requirements. The Shire of Derby/West Kimberley has undertaken the 2019 Regulation 17 review internally.

## **POLICY IMPLICATIONS**

Policies were reviewed and assessed for legislative and operational compliance, the outcomes are published within the attached report.

## **STATUTORY IMPLICATIONS**

### ***Local Government Act 1995***

#### 7.13 Regulations as to audits

(1) Regulations may make provision –

- (aa) as to the functions of the CEO and the audit committee in relation to audits carried out under this part and reports made on those audits;
- (ab) as to the functions of audit committees, including the selection and recommendation of an auditor;

### ***Local Government (Audit) Regulations 1996***

16. Functions of audit committee — An audit committee has the following functions —

- a) to guide and assist the local government in carrying out —
  - (i) its functions under Part 6 of the Act; and
  - (ii) its functions relating to other audits and other matters related to financial management;
- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;
- (c) to review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to —
  - (i) report to the council the results of that review; and
  - (ii) give a copy of the CEO's report to the council;
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
  - (i) regulation 17(1); and
  - (ii) the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;
- (f) to oversee the implementation of any action that the local government —
  - (i) is required to take by section 7.12A(3); and
  - (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a);
  - (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and
  - (iv) has accepted should be taken following receipt of a report of a review conducted under the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);

- (g) to perform any other function conferred on the audit committee by these regulations or another written law.

17. CEO to review certain systems and procedures

- (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —
- (a) risk management; and
  - (b) internal control; and
  - (c) legislative compliance.
- (2) The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.
- (3) The CEO is to report to the audit committee the results of that review.

### FINANCIAL IMPLICATIONS

All costs have been accounted for in the 2019/20 Annual Budget.

### STRATEGIC IMPLICATIONS

GOAL	OUTCOME	STRATEGY
Goal 4: Good Governance and an effective Organisation <i>Leadership that provides strategic direction for the community, supported by efficient and effective service delivery.</i>	4.1: Effective governance and leadership	4.1.4: Ensure governance policies and procedures are in accordance with legislative requirements.
		4.1.3: Strengthen the governance role of Councillors by informing, resourcing, skilling and supporting their role.
		4.1.8: Develop and Maintain risk management policies and procedures

### RISK MANAGEMENT CONSIDERATIONS

RISK	LIKELIHOOD	CONSEQUENCE	RISK ANALYSIS	MITIGATION
<b>Legal &amp; Compliance:</b>  The Review isn't undertaken leaving the Shire and the Council non-compliant and in a vulnerable operating position.	Possible	Moderate	Medium	The Audit Committee to receive a calendar of review and compliance targets to drive the process and ensure the Councils statutory compliance



**CONSULTATION**

## 1. Moore Stephens

**COMMENT**

While there is no mandatory or minimum requirement for conducting the review, as required by Regulation 17, the Shire has used the DLGSC Operational Guidelines as a basis for reviewing the 'appropriateness and effectiveness' of the Shire's current systems and processes.

This review is for the period January 2018 to July 2019 and provided an opportunity to review the implementation of improvements identified by the previous CEO as well as ability to identify new areas of focus in light of reviews undertaken by the Office of the Auditor General over the past eighteen months. The review has identified areas where there has been positive outcomes in the areas of Risk Management (Information Technology systems, Policy and Framework), Internal Controls (Recordkeeping, review of Policies and Procedures, reporting on matters to Council's Compliance and Strategic Review Committee) and Legislative Compliance (Governance calendar and Financial Management Review).

This report sets out the matters identified during the review and provides suggestions for improvements:

**Risk Management – 9 areas for improvement**

- Risk Management Policy
- Risk Framework
- Risk Management Process
- Risk Reporting
- Risk Monitoring
- Council Policies
- Code of Conduct Training
- Disaster Recovery
- Business Continuity

**Internal Controls – 7 areas for improvement**

- Internal Audit
- Segregation of Duties – System Access
- Work Procedures
- Review of Financial Processes
- Credit Cards
- Access to ABA Files
- Purchasing Controls

**Legislative Compliance – 5 areas for improvement**



- Framework
- Maintenance of Registers

- Review and Submission of Reports
- Operational Compliance
- Integrated Planning and reporting

### VOTING REQUIREMENT

Simple majority

### ATTACHMENTS

1. **Regulation 17 Report - Review of Risk Management, Internal Controls and Legislative Compliance** [↓](#) 
2. **DLGSC Operational Guideline No. 9 - The Appointment Function and Responsibilities of Audit Committees** [↓](#) 

### RECOMMENDATION

That the Compliance and Strategic Review Committee:

1. **Receives the CEO's Regulation 17 Report - Review of Risk Management, Internal Controls and Legislative Compliance in the attached report.**
2. **Recommends to Council that it receives the Audit Regulation 17 Report - Review of Risk Management, Internal Controls and Legislative Compliance provided to the C&SR Committee by the CEO.**
3. **Endorses the 21 areas for improvement and recommended actions identified as part of the review.**
4. **Requests that the Chef Executive Officer provides a further report to the Compliance and Strategic Review Committee on the progress of recommended actions by February 2020.**



# **Shire of Derby / West Kimberley**

## **Regulation 17 Review**

**Review of Risk Management, Internal Controls and  
Legislative Compliance**

**Amanda O'Halloran  
Chief Executive Officer**

**30 October 2019**

 [www.sdwk.wa.gov.au](http://www.sdwk.wa.gov.au)



## REVIEW SUMMARY

Effective risk management contributes to the achievement of the Shire's objectives through continuous review of its processes and systems. A key element of risk management includes a governance framework integrated into strategic and operational plans. Considering the size, resources, operations and environment the Shire of Derby/West Kimberley operates in, a documented risk management strategy to provide for the management of risk in a holistic, systematic, structured and proactive manner is considered appropriate. A sustainable risk management process requires transparent and formal risk reporting monitoring, both bottom up and top down.

This review of Risk Management, Internal Controls and Legislative Compliance is for the period January 2018 to July 2019 and provides an opportunity to review the implementation of improvements identified by the previous CEO, as well as identifying new areas of focus in light of reviews undertaken by the Office of the Auditor General over the past eighteen months. The review has identified areas where there has been positive outcomes in the areas of Risk Management (Information Technology systems, Policy and Framework), Internal Controls (Recordkeeping, review of Policies and Procedures, reporting on matters to Council's Compliance and Strategic Review Committee) and Legislative Compliance (Governance calendar and Financial Management Review).

This report sets out the matters identified during the review and provides suggestions for improvements:

- Risk Management – 9 areas for improvement
  - Risk Management Policy
  - Risk Framework
  - Risk Management Process
  - Risk Reporting
  - Risk Monitoring
  - Council Policies
  - Code of Conduct Training
  - Disaster Recovery
  - Business Continuity
- Internal Controls – 7 areas for improvement
  - Internal Audit
  - Segregation of Duties – System Access
  - Work Procedures
  - Review of Financial Processes
  - Credit Cards
  - Access to ABA Files
  - Purchasing Controls
- Legislative Compliance – 5 areas for improvement
  - Framework
  - Maintenance of Registers
  - Review and Submission of Reports
  - Operational Compliance
  - Integrated Planning and reporting

### Derby

(08) 9191 0999 | 30 Loch Street  
 sdwk@sdwk.wa.gov.au | PO Box 94, Derby WA 6728

### Fitzroy Crossing

(08) 9191 5355 | Flynn Drive  
 sdwk@sdwk.wa.gov.au | PO Box 101, Fitzroy Crossing

ABN: 99 934 203 062

[www.sdwk.wa.gov.au](http://www.sdwk.wa.gov.au)



## 1. INTRODUCTION

### 1.1 Scope of Review

The Shire of Derby/West Kimberley has undertaken a review in relation to the requirements of Regulation 17 of the *Local Government (Audit) Regulations 1996*.

- A high-level review of the risk management systems policies, procedures and plans in place at the Shire;
- Evaluate the financial internal control systems and procedures at the Shire;
- Evaluate the operational internal control systems and procedures at the Shire;
- Assess systems and processes for maintaining legislative compliance;
- Report on gaps identified during the review and provide suggestions for improvements; and
- Prepare a report of matters identified during the review to assist the Chief Executive Officer to assess the appropriateness and effectiveness of the relevant systems and procedures in accordance with Local Government Audit Regulation 17.

The review covered the period of January 2018 – July 2019.

### 1.2 Review Required by Legislation

The *Local Government (Audit) Regulations 1996*, Regulation 17, requires the following:

1. The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to:
  - a) risk management;
  - b) internal control; and
  - c) legislative compliance.

The review may relate to any or all of the matters referred to in sub regulation (1) (a), (b) and (c), but each of those matters is to be the subject of a review no less than once every three (3) financial years (with effect 28 June 2018).

2. The CEO is to report to the audit committee the results of that review.

This review was undertaken in response to the above requirements and this report has been prepared by the CEO to assist in meeting statutory obligations.

In accordance with Regulation 16(c) of the *Local Government (Audit) Regulations 1996*, the Audit Committee is required to review a report prepared by the CEO, and subsequently report to the Council the results of the Committee's review, while at the same time, attaching a copy of the CEO's report to the Audit Committee.

Operational Guidelines prepared by the Department of Local Government, Sport and Cultural Industries (Audit in Local Government, No. 9 September 2013) provides background to the intended outcomes of the review. An extract of the relevant content of the Operational Guidelines has been reproduced at Appendix 1.

#### Derby

(08) 9191 0999 | 30 Loch Street  
sdwk@sdwk.wa.gov.au | PO Box 94, Derby WA 6728

#### Fitzroy Crossing

(08) 9191 5355 | Flynn Drive  
sdwk@sdwk.wa.gov.au | PO Box 101, Fitzroy Crossing

ABN: 99 934 203 062

[www.sdwk.wa.gov.au](http://www.sdwk.wa.gov.au)

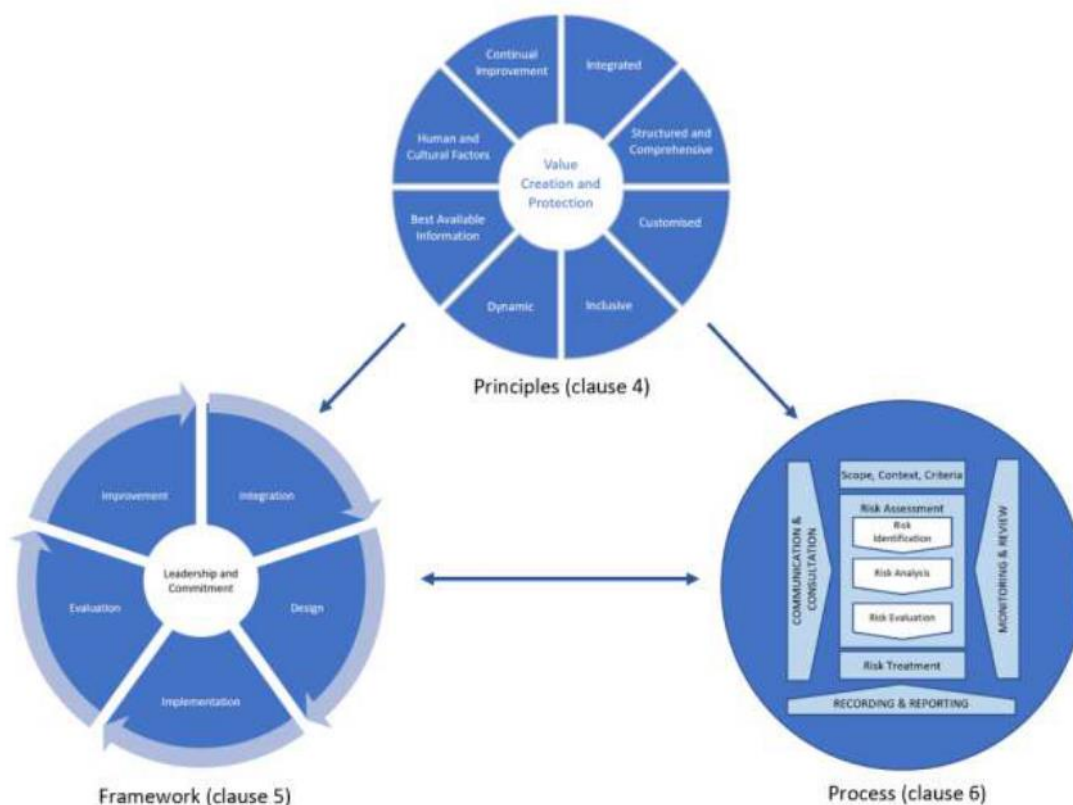


**1.3 Review Methodology**

The primary goal of this review is to assist the CEO of the Shire of Derby/West Kimberley to establish the appropriateness and effectiveness of the Shire of Derby/West Kimberley’s systems and procedures in relation to risk management, legislative compliance and internal controls. The issues identified have been prioritised as high, medium and low to assist with allocating resources and undertaking corrective actions.

Internal controls are designed to treat risks and form part of the risk management process. Non-compliance with legislation is one of the risks usually identified as a consequence of applying a risk management process.

The Australian Standard for Risk Management (ISO 31000:2018(E)) identifies three components in the application of risk management, being Principles, Framework and Process, as set out in Diagram 1 below.



Source: Australia/New Zealand Standard ISO 31000:2018

**Diagram 1: Components of Risk Management**

**Derby**

(08) 9191 0999 | 30 Loch Street  
 sdwk@sdwk.wa.gov.au | PO Box 94, Derby WA 6728

**Fitzroy Crossing**

(08) 9191 5355 | Flynn Drive  
 sdwk@sdwk.wa.gov.au | PO Box 101, Fitzroy Crossing

ABN: 99 934 203 062

www.sdwk.wa.gov.au



## 2.1 Risk Management

Effective risk management contributes to the achievement of the Shire's objectives through continuous review of its processes and systems. A key element of risk management includes a governance framework integrated into strategic and operational plans.

Considering the size, resources, operations and environment the Shire of Derby/West Kimberley operates in, a documented risk management strategy to provide for the management of risk in a holistic, systematic, structured and pro-active manner is considered appropriate. A sustainable risk management process requires transparent and formal risk reporting and monitoring, both bottom up and top down.

The Shire's formal risk management documentation consists of the Risk and Opportunity Management Policy, adopted in September 2016 and a Risk and Opportunity Management Framework, both have been reviewed and adopted at the 28 February 2019 Ordinary Council Meeting.

### 2.1.1 Summary Assessment

Although the Shire's Risk Management Policy and Risk and Opportunity Management Framework have been adopted for a number of years the Shire has yet to fully implement a formal risk management strategy.

Informal processes are in place within the organisation to manage operational risks, however a planned, strategic approach is required. The areas of Occupational Safety and Health and business continuity across all areas of the organisation with a focus on the Derby Port and airports are areas for prioritisation.

### 2.1.2 Summary Conclusion

The Shire's current Risk Management Policy and Risk and Opportunity Management Framework align with the latest Risk Management Standard (ISO 31000:2018) however, need to be fully implemented before risk management can be considered appropriate and effective. Implementation will clearly articulate key stakeholder roles and responsibilities and provide a consistent approach throughout the risk management processes (i.e. risk identification, assessment, risk mitigation and formal reporting and communication).

A total of 9 suggestions for improvement within risk management have been detailed in the Review Objectives, Assessment and Improvements at 3.2 Risk Management, page 7.

## 2.2 Internal Controls

Internal controls are systems of policies and procedures to mitigate risks including, but not limited to, safeguarding of assets and people, ensuring accurate and reliable reporting, promoting compliance with laws and regulations and achieving effective and efficient operations. An effective and strong system of internal control requires a high level of integrity and ethical behaviour, documented policies and procedures and clear accountability and oversight.

### 2.2.1 Summary Assessment

The Shire's internal control framework was reviewed and found to be well understood and adhered to by staff. The internal control framework consists of:

#### Derby

(08) 9191 0999 | 30 Loch Street  
sdwk@sdwk.wa.gov.au | PO Box 94, Derby WA 6728

#### Fitzroy Crossing

(08) 9191 5355 | Flynn Drive  
sdwk@sdwk.wa.gov.au | PO Box 101, Fitzroy Crossing

ABN: 99 934 203 062

[www.sdwk.wa.gov.au](http://www.sdwk.wa.gov.au)



- Policies and documented work procedures
- IT systems and controls; and
- Formal management review processes.

The review noted consistent practices by finance and operational staff to ensure key controls undergo an independent review process by Supervisors and Managers. The Shire's financial processes revealed appropriate segregation of duties in most cases (refer to below for exceptions), and trained staff familiar with internal control procedures and a culture of ethical behaviour and integrity. The review identified the following gaps:

- The Shire currently does not have an internal audit function, nor independent process to assess the operational effectiveness and robustness of its internal controls;
- The CEO's credit card expenses are approved by the Shire President; and
- Access to ABA files containing banking instructions is not restricted, resulting in the potential for unauthorised access.

A total of 7 suggestions for improvement within risk management have been detailed in the Review Objectives, Assessment and Improvements at 3.3 Risk Management, page 11.

### 2.2.2 Summary Conclusion

Review of the Shire's internal control framework indicated internal controls are considered generally appropriate and operating effectively, based on the walkthroughs conducted of the key financial controls (i.e. purchasing, accounts payable, payroll, month-end accounting close and sample testing of transactions). Recommendations to address the gaps identified are outlined in Section 3.3 and summarised as follows:

- Consideration for independent health-checks on key financial and operational controls be carried out on a cyclical basis to provide the CEO with assurance of the effectiveness of the Shire's internal control framework;
- The CEO's credit card expenses and reconciliation should be presented to Council for noting as items authorised by the CEO, relating to the CEO; and
- Implement appropriate controls in relation to ABA files.

### 2.3 Legislative Compliance

An organisation's adherence to compliance obligations are dependent on a robust compliance culture, stemming from organisational values emphasising commitment to legal and regulatory compliance, integrity and business ethics.

Systems and processes for adherence to legislative requirements and those supporting a compliance culture are partially reliant on the maturity of the risk management and internal control frameworks.

To ensure compliance obligations are met on a timely basis, compliance responsibilities need to be embedded into operational plans and day-to-day procedures.

#### Derby

(08) 9191 0999 | 30 Loch Street  
 sdwk@sdwk.wa.gov.au | PO Box 94, Derby WA 6728

#### Fitzroy Crossing

(08) 9191 5355 | Flynn Drive  
 sdwk@sdwk.wa.gov.au | PO Box 101, Fitzroy Crossing

ABN: 99 934 203 062

[www.sdwk.wa.gov.au](http://www.sdwk.wa.gov.au)





### 2.3.1 Summary Assessment

The review of the Shire's management systems and processes to support compliance with legislative requirements indicated practices in place provide a good framework for improvements in the future. This review did have identified opportunities for improvement regarding registers, Review and Submission of Reports and Operational Compliance.

A total of 5 suggestions for improvement within risk management have been detailed in the Review Objectives, Assessment and Improvements at 3.4 Risk Management, page 14.

### 2.3.2 Summary Conclusion

The Shire has appropriate and effective systems and processes in place to help minimise the risk of noncompliance with legislative requirements. Recommendations to address the gaps identified are outlined in Section 3.4 and summarised as follows:

- Framework
- Maintenance of registers
- Review and submission of reports
- Operational compliance
- Integrated planning and reporting.

## 3.0 Review Objectives, Assessment and Improvements

### 3.1 Detailed Results

The Shire's systems and processes were evaluated based on:

- Review of the Shire's documented policies, procedures and work instructions;
- Interviews and walkthroughs with staff to confirm and validate key internal controls and procedures;
- Detailed testing on a sample basis of key financial processes for segregation of duties, authorisation/approval, accuracy and completeness of data input into accounting system and management oversight controls;
- Inspection of documentation for adherence to legislative requirements; and
- Assessment of current practices against industry standard practices. The tables on the following pages summarise the results by respective area.

#### Derby

(08) 9191 0999 | 30 Loch Street  
sdwk@sdwk.wa.gov.au | PO Box 94, Derby WA 6728

#### Fitzroy Crossing

(08) 9191 5355 | Flynn Drive  
sdwk@sdwk.wa.gov.au | PO Box 101, Fitzroy Crossing

ABN: 99 934 203 062

[www.sdwk.wa.gov.au](http://www.sdwk.wa.gov.au)



### 3.2 Risk Management

	Category	Objectives/Desired Outcomes	Assessment	Corrective Actions	Priority
3.2.1	Risk Management Policy	<p>A Risk Management Policy is in place and communicated to staff for their awareness and compliance.</p> <p>Staff are provided with formal risk training.</p> <p>Staff understand their risk management roles and responsibilities</p>	<p>The Risk Management Policy AF6 adopted by Council in February 2019 covers the commitment and rationale for risk management.</p> <p>This Policy does not clearly articulate the purpose and desired outcomes of an entity wide risk management strategy in line with the Standard for Risk Management, ISO 31000:2018</p>	<p>Review and update the Risk Management Policy to help the Shire to:</p> <ul style="list-style-type: none"> <li>Align risk management with its objectives, strategy and culture</li> <li>Communicate the value of risk management to the organisation and stakeholders; and</li> <li>Promote systematic monitoring of risks</li> </ul>	High
3.2.2	Risk Framework	<p>The Shire's Risk and Opportunity Management Framework consists of formal procedures, work instructions and templates and provides guidance around key risk management processes.</p>	<p>Risk and Opportunity Management Framework was developed in conjunction with the adoption of AF6 however has not been implemented throughout the Shire.</p>	<p>Risk management training with staff is required to embed this framework into operational culture.</p> <p>Risk Framework and Risk Profile to be reviewed with LGIS and workshops presented to staff.</p>	High



### 3.2 Risk Management (Cont'd)

	Category	Objectives/Desired Outcomes	Assessment	Corrective Actions	Priority
3.2.3	Risk Management Process	A formal process for the identification, review, analysis and treatment of risks.	<p>A formal risk management process is yet to be fully implemented across the Shire.</p> <p>Currently, no process to formally communicate and manage entity wide risks is in place.</p> <p>A risk register is reported to the Compliance and Strategic Review Committee, however only contains issues identified as non compliant at the Shire's Airport and Port. Risks which could significantly impact on the Shire's ability to deliver on its strategic objectives or essential services are not recorded in the register.</p>	<p>Following update of the Shire's Risk Management Policy and Risk and Opportunity Management Framework, the risk management process should be implemented throughout the Shire.</p> <p>Staff training on principles of risk management should be provided to embed a risk awareness culture.</p>	<p>Medium</p> <p>Medium</p>
3.2.4	Risk Monitoring	Risks are regularly monitored to ensure appropriate attention is given to risk mitigation activities.	There are currently no formal processes to formally review risks.	Routine monitoring of identified risks should be undertaken to ensure risks are reduced to an acceptable level.	Medium



### 3.2 Risk Management (Cont'd)

	Category	Objectives/Desired Outcomes	Assessment	Corrective Actions	Priority
3.2.5	Risk Reporting	Formal risk reports are presented to the Compliance and Strategic Review Committee.	A risk register of specific/identified risks are reported to Council's Compliance and Strategic Review Committee monthly, however only address areas of non compliance at airports/port.	<p>Risks which could significantly impact on the Shire's ability to deliver on its strategic objectives or essential services are not recorded in the register.</p> <p>Risk reporting requirements to the Compliance and Strategic Review Committee should be included in the Risk Management Policy and Risk and Opportunity Management Framework.</p>	Medium
3.2.6	Council Policies	Council Policies exist and form the Shire's governance framework.	Comprehensive review of Policy Manual undertaken from September 2018 and completed March 2019 with review by the Compliance and Strategic Review Committee. There were over 15 policies that were not reviewed during this process.	To be included on governance calendar to ensure regular review through the Compliance and Strategic Review Committee.	Low
3.2.7	Code of Conduct Training	Formal Code of Conduct training is required for all new staff. Refresher Code of Conduct training is provided to re-enforce the Shire's expectations of ethical conduct by its staff.	9 staff have been trained, approximately 45 still to complete.	<p>Code of Conduct training is completed by outstanding staff members.</p> <p>Code of Conduct refresher training for all staff be conducted at least annually.</p>	High



### 3.2 Risk Management (Cont'd)

	Category	Objectives/Desired Outcomes	Assessment	Corrective Actions	Priority
3.2.8	Disaster Recovery Plan	A current Disaster Recovery Plan is in place and tested as required.	A disaster recovery plan does not exist for Shire Operations.	Plan has been identified as needing development in approved Recordkeeping Plan. This plan will be included with risk management program with the assistance of LGIS.	Medium
3.2.9	Business Continuity Plan	A Business Continuity Plan is in place and reviewed when significant changes to the systems and processes at the Shire occur.	An extensive amount of work has been undertaken in relation to IT systems, however there is no comprehensive business continuity plan that encompasses all areas of operations in place.	A Plan has been identified as needing development in approved Recordkeeping Plan.  Business continuity plans to cover all areas of operations with a focus on Derby Port and airports to be supported by LGIS.	High



### 3.3 Internal Control Environment

	Category	Objectives/Desired Outcomes	Assessment	Corrective Actions	Priority
3.3.1	Internal Audit - Finance	An Internal Audit Plan is in place with audit recommendations tracked for corrective action.	Items raised in the auditors Management Report were presented to the Compliance and Strategic Review Committee on 16 May 2019 and endorsed by Council on 30 May 2019, authorising the CEO to prepare a report to the Minister within 3 months addressing any significant matters raised. The CEO provided a response to the Department on 28 June 2019. Currently there is no plan in place to manage corrective action.	<p>To provide the CEO with assurance of the effectiveness of the Shire's internal control framework, consideration be given to conducting routine independent planned reviews over key financial and operational controls.</p> <p>The review program can be performed by internal staff where they are not responsible for the area under review.</p> <p>Implementation of plan with quarterly reporting to the Compliance and Strategic Review Committee</p>	Medium
3.3.2	Segregation of Duties – System Access	System user access privileges are reviewed to ensure access is authorised and granted on a 'needs basis'.	Currently no plan in place to manage corrective action.	<p>User access privileges in the IT system be reviewed and access privileges be amended to align with job roles.</p> <p>For good practice, undertake review at least annually across the whole organisation.</p>	High



3.3 Internal Control Environment (Cont'd)					
	Category	Objectives/Desired Outcomes	Assessment	Corrective Actions	Priority
3.3.3	Work Procedures Finance	Documented policies and procedures are available to guide staff and ensure internal controls are performed as required.	<p>The Shire has procedures in place which support financial functions. Further development is required for documented procedures such as detailed checklists and work instructions to help staff perform their key financial/operational controls.</p> <p>There are deficiencies across all function areas across the organisation.</p>	<p>Development of:</p> <ul style="list-style-type: none"> <li>• Current position descriptions</li> <li>• Job checklists</li> <li>• Flow charts</li> <li>• Documented procedures that show step by step with screenshots of how to perform critical functions.</li> <li>• Opportunity to use framework such as Better Business to facilitate a coordinated approach.</li> </ul>	High
3.3.4	Review of Financial Processes	<p>Supervisory and management controls are part of the control environment to:</p> <ul style="list-style-type: none"> <li>• Ensure independent review of key financial processes;</li> <li>• Detect unusual, unauthorised and inappropriate transactions</li> <li>• Ensure key tasks are performed as required (eg. bank reconciliations, account reconciliations, rate reconciliations and pay run control checks).</li> </ul>	Currently no plan in place to manage corrective action.	<p>Development of process to address and implement.</p> <p>Consideration for independent health-checks on key financial and operational controls be carried out on a cyclical basis to provide the CEO with assurance of the effectiveness of the Shire's internal control framework.</p>	High



### 3.3 Internal Control Environment (Cont'd)

	Category	Objectives/Desired Outcomes	Assessment	Corrective Actions	Priority
3.3.5	Credit Cards	Credit card expenses are approved and reconciled on a monthly basis. A listing of credit card expenditure is provided to Council for noting.	Adoption of Transaction Card policy on 28.02.2019. This policy covers the use of Corporate Credit Cards, Fuel Cards and Cabcharges.  Further process is required in relation to use of credit cards.  Fuel card use and supporting systems need to be implemented.	<ul style="list-style-type: none"> <li>Implementation of declarations on monthly credit card acquittal</li> <li>Strengthening of Corporate Credit Card User Agreement</li> <li>Process is developed for the use of fuel cards</li> </ul>	High
3.3.6	Access to ABA Files	ABA files should be restricted on a 'need to know' basis to prevent unauthorised changes to banking instructions.	Currently no plan in place to manage corrective action.	<ul style="list-style-type: none"> <li>Review the current access privileges and grant access only to those requiring it for their role.</li> <li>Implement controls to ensure bank account details loaded to the bank agree to supplier or employee records.</li> </ul>	High
3.3.7	Purchasing Controls	Purchase orders are approved prior to receipt and/or commitment to purchase goods and services. Contracts are in place for purchase of goods and/or services. Thresholds for purchasing outlined in the Purchasing Policy are complied with.	Currently no plan in place to manage corrective action.	<ul style="list-style-type: none"> <li>Review of purchasing delegations and limits to be undertaken</li> <li>Development of Procurement guideline and recording of quotes assessment</li> <li>Staff to be trained in purchasing roles and responsibilities.</li> </ul>	High





### 3.4 Legislative Compliance

	Category	Objectives/Desired Outcomes	Assessment	Corrective Action	Priority
3.4.1	Framework	<p>Systems and processes in place to help ensure compliance to legislative requirements.</p> <p>Notification of changes is from reliable sources and timely.</p> <p>Dissemination of information to staff is a formalised process.</p>	<ul style="list-style-type: none"> <li>Varying levels of systems and processes are in place across the organisation.</li> <li>A governance program was endorsed in October 2018 that gave some framework to policy and strategic document review.</li> <li>Dissemination of information is at best ad hoc.</li> </ul>	<p>The governance program needs to be further developed to ensure compliance decisions are documented and staff trained in their use especially Policy adoption and any amendment to procedures as a result.</p>	Medium
3.4.2	Maintenance of Registers	<p>System and processes in place to help ensure staff and elected members report:</p> <ul style="list-style-type: none"> <li>Receipt of gifts / travel; and</li> <li>Related party disclosures.</li> </ul> <p>The Shire maintains Registers required under the Act.</p>	<p>The Shire uses the ATTAIN electronic system for reporting use of returns, related party interests, delegations, gifts and travel declarations. Information has generally been captured and complies however further development of process is required to ensure information is made available as appropriate eg gifts declaration on website.</p> <p>There has been a failure in the management of Leases, Agreements and Grants registers due to staff turnover.</p>	<ul style="list-style-type: none"> <li>Develop process to ensure data is entered into and extracted out of systems.</li> <li>Purchase of Synergy Compliance calendar that will enable oversight by governance and notifications to responsible officer and their supervisor of due dates/milestones. This will prevent system failure due to staff turnover.</li> <li>Leases, Grants and Agreements – collation and review current terms and conditions. This data will enable use of central system enabling reporting and oversight. Ensuring actions are undertaken when required.</li> </ul>	High



**3.4 Legislative Compliance (Cont'd)**

	Category	Objectives/Desired Outcomes	Assessment	Corrective Action	Priority
3.4.3	Review and Submission of Reports	The Shire reviews and submits the required informing plans and budgets to the Department of Local Government, Sport and Cultural Industries by the required deadlines.	Governance staff work with the WALGA compliance calendar.  Reporting structures are not evident.	Quarterly reporting to be presented to the Compliance and Strategic Review Committee to demonstrate compliance is achieved.	High
3.4.4	Operational Compliance	Systems and procedures are in place to comply with legislative requirements for a number of areas of operations covered by legislation other than the Local Government Act 1995.	<i>Recordkeeping Act</i> <ul style="list-style-type: none"> <li>Record Keeping Plan has been reviewed and adopted by State Records Commission in December 2018. Plans identified and required to ensure all areas of the Act are being achieved operationally, and demonstrate compliance have not commenced.</li> <li>Recordkeeping requirements included in revised Code of Conduct demonstrating the importance of recordkeeping and providing mechanism for managing non compliance.</li> </ul>	<ul style="list-style-type: none"> <li>Induction process to include recordkeeping responsibilities training same as undertaken with staff</li> <li>Annual training with all staff</li> <li>Training to be developed and undertaken with Elected Members</li> </ul>	Medium



3.4 Legislative Compliance (Cont'd)					
	Category	Objectives/Desired Outcomes	Assessment	Corrective Action	Priority
3.4.5	Integrated Planning and reporting	Plans are developed and reviewed	<p>Plans have not been reviewed at the time of reporting.</p> <ul style="list-style-type: none"> <li>Community Strategic Plan – 2012</li> <li>Corporate Business Plan – 2013</li> <li>Long Term Financial Plan – 2013</li> <li>Workforce Management Plan – 2013</li> <li>Asset Management Plan - 2013</li> </ul>	<ul style="list-style-type: none"> <li>Community Strategic Plan - will be reviewed over the next 12 months in conjunction with Elected Members and the Community.</li> <li>Corporate Business Plan - is currently being reviewed with the support of Moore Stephens prior to the adoption of the Annual Budget to ensure ongoing compliance</li> <li>Long Term Financial Plan and Asset Management Plan - Moore Stephens was engaged in February 2019 to undertake these reviews, they have been delayed to date due to resourcing issues and issues finalising the 2018/19 year end etc. Elected Member workshops and Management Review have been booked to occur in Derby during July, to have these reports finalised to influence the budget, long term Strategic planning and investment strategies.</li> </ul>	High



## Appendix 1 – Department of Local Government, Sport and Cultural Industries 2013 – Operational Guidelines.

Audit in Local Government

Page 17 of 20

### Appendix 3

#### Issues that should be considered for inclusion in the CEO's Review of Risk Management, Internal Control and Legislative Compliance

**Please note:** Section 7 of the Department's Western Australian Local Government Accounting Manual provides a comprehensive internal control framework related to internal control and risk management.

#### Risk Management

Internal control and risk management systems and programs are a key expression of a local government's attitude to effective controls. Good audit committee practices in monitoring internal control and risk management programs typically include:

- Reviewing whether the local government has an effective risk management system and that material operating risks to the local government are appropriately considered;
- Reviewing whether the local government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time;
- Assessing the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas;
  - potential non-compliance with legislation, regulations and standards and local government's policies;
  - important accounting judgements or estimates that prove to be wrong;
- litigation and claims;
- misconduct, fraud and theft;
- significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the local government;
- Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported;
- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Reviewing the effectiveness of the local government's internal control system with management and the internal and external auditors;
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;
- Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied;
- Should the need arise, meeting periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment;
- Ascertaining whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated,

#### Derby

(08) 9191 0999

sdwk@sdwk.wa.gov.au

30 Loch Street

PO Box 94, Derby WA 6728

#### Fitzroy Crossing

(08) 9191 5355

sdwk@sdwk.wa.gov.au

Flynn Drive

PO Box 101, Fitzroy Crossing

ABN: 99 934 203 062

[www.sdwk.wa.gov.au](http://www.sdwk.wa.gov.au)



# Shire of Derby / West Kimberley

Page 18 of 20

Audit in Local Government

monitored and there is regular reporting and ongoing management of fraud and misconduct risks.

## Internal Control

Internal control is a key component of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Strategies to maintain sound internal controls are based on risk analysis of the internal operations of a local government.

An effective and transparent internal control environment is built on the following key areas:

- integrity and ethics;
- policies and delegated authority;
- levels of responsibilities and authorities;
- audit practices;
- information system access and security;
- management operating style; and
- human resource management and practices.

Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government.

Aspects of an effective control framework will include:

- delegation of authority;
- documented policies and procedures;
- trained and qualified employees;
- system controls;
- effective policy and process review;
- regular internal audits;
- documentation of risk identification and assessment; and

- regular liaison with auditor and legal advisors.

The following are examples of controls that are typically reviewed:

- separation of roles and functions, processing and authorisation;
- control of approval of documents, letters and financial records;
- comparison of internal data with other or external sources of information;
- limit of direct physical access to assets and records;
- control of computer applications and information system standards;
- limit access to make changes in data files and systems;
- regular maintenance and review of financial control accounts and trial balances;
- comparison and analysis of financial results with budgeted amounts;
- the arithmetical accuracy and content of records;
- report, review and approval of financial payments and reconciliations; and
- comparison of the result of physical cash and inventory counts with accounting records.

## Legislative Compliance

The compliance programs of a local government are a strong indication of attitude towards meeting legislative requirements. Audit committee practices in regard to monitoring compliance programs typically include:

- Monitoring compliance with legislation and regulations;
- Reviewing the annual Compliance Audit Return and reporting to Council the results of that review;
- Staying informed about how management is monitoring the

### Derby

(08) 9191 0999

sdwk@sdwk.wa.gov.au

30 Loch Street

PO Box 94, Derby WA 6728

### Fitzroy Crossing

(08) 9191 5355

sdwk@sdwk.wa.gov.au

Flynn Drive

PO Box 101, Fitzroy Crossing

ABN: 99 934 203 062

[www.sdwk.wa.gov.au](http://www.sdwk.wa.gov.au)



- effectiveness of its compliance and making recommendations for change as necessary;
- Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints;
  - Obtaining assurance that adverse trends are identified and review management's plans to deal with these;
  - Reviewing management disclosures in financial reports of the effect of significant compliance issues;
  - Reviewing whether the internal and/or external auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee;
  - Considering the internal auditor's role in assessing compliance and ethics risks in their plan;
  - Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements; and
  - Complying with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest.

**Derby**

(08) 9191 0999 | 30 Loch Street  
 sdwk@sdwk.wa.gov.au | PO Box 94, Derby WA 6728

**Fitzroy Crossing**

(08) 9191 5355 | Flynn Drive  
 sdwk@sdwk.wa.gov.au | PO Box 101, Fitzroy Crossing

ABN: 99 934 203 062

[www.sdwk.wa.gov.au](http://www.sdwk.wa.gov.au)



Government of **Western Australia**  
Department of **Local Government and Communities**

# Local Government Operational Guidelines

Number 09 – Revised September 2013

## Audit in Local Government

The appointment, function  
and responsibilities of  
Audit Committees

## 1. Introduction

The *Local Government Act 1995* (the Act) requires that all local governments establish an audit committee. An audit committee plays a key role in assisting a local government to fulfil its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, legislative compliance, ethical accountability and the internal and external audit functions.

The purpose of this guideline is to assist local governments to establish and operate an effective audit committee. Clear and comprehensive terms of reference, setting out the committee's roles and responsibilities, are essential and a model terms of reference for an audit committee is provided with this guideline. Matters such as the governing legislation, membership, primary roles and responsibilities of the committee and ancillary functions are also addressed. Guidance is provided to the committee as it approaches its task of appointing an external auditor through provision of a minimum standard audit specification and as it forms an opinion of the local government's internal audit requirements.

## 2. Audit Requirements, Committees and Functions

The relevant parts of the Act and regulations that relate to audit requirements, audit committees and their functions are listed below.

### Financial Management

In relation to financial management under Part 6 of the Act, a local government is to –

- a) prepare and adopt an annual budget in the form and manner prescribed (section 6.2). A copy of the budget is to be sent to the Department within 30 days of adoption.
- b) prepare an annual financial report and such other financial reports as prescribed. The accounts of the local government and annual financial report are to be submitted to the auditor for audit by 30 September (section 6.4).
- c) have a municipal fund and a separate and distinct trust fund (section 6.6).
- d) establish and maintain reserve funds for the holding of monies set aside for future use (section 6.11).

### Audit Requirements for Local Governments

Part 7 of the Act and the *Local Government (Audit) Regulations 1996* (the Regulations) address the situation of audit. In relation to the duties of the local government with respect to audits –

- a) the local government is to do everything in its power to –
  - i. assist the auditor to conduct an audit and carry out his or her other duties under the Act; and



- ii. ensure that audits are conducted successfully and expeditiously;
- b) a local government is to meet with its auditor at least once in every year;
- c) a local government is to examine the report of the auditor and is to –
  - i. determine if any matters raised require action to be taken by the local government; and
  - ii. ensure that appropriate action is taken in respect of those matters;
- d) a local government is to –
  - i. prepare a report on any actions taken in respect of any matters raised in the report of the auditor; and
  - ii. forward a copy of that report to the Minister by the end of the next financial year, or six months after the last report prepared by the auditor is received by the local government, whichever is the latest in time.
- e) the only powers and duties that can be delegated to a committee are any of the powers and duties of the local government under Part 7 of the Act; that is, those relating to audit. The committee cannot on-delegate the powers and duties delegated to it;
- f) an audit committee with a member who is a person that is not an elected member can be delegated powers and duties referred to in (e); and
- g) a decision of the committee is to be made by simple majority.

### **Audit Committee Functions**

The Regulations state that an audit committee –

### **Establishment of the Audit Committee**

The Act and Regulations provide that:

In relation to the establishment of an audit committee –

- a) each local government is to establish an audit committee consisting of three or more persons to exercise the powers and discharge the duties conferred on it;
- b) members of the committee are to be appointed by an absolute majority decision of Council. At least three of the members, and the majority of the members, are to be elected members;
- c) the Chief Executive Officer (CEO) is not to be a member of the committee and may not nominate a person to be a member or have a person to represent him or her as a member of the committee;
- d) an employee is not to be a member of the committee;
- (a) is to provide guidance and assistance to the local government –
  - (i) as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act;
  - (ii) as to the development of a process to be used to select and appoint a person to be an auditor;
- (b) may provide guidance and assistance to the local government as to –
  - (i) matters to be audited;
  - (ii) the scope of audits;
  - (iii) its functions under Part 6 of the Act;
  - (iv) the carrying out of its functions relating to other audits and other matters related to financial management;
- (c) is to review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to –
  - (i) report to the council the results of that review;
  - (ii) give a copy of the CEO's report to the council;

- (d) review the annual Compliance Audit Return and report to the council the results of that review, and
- (e) consider the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance and report to the council the results of those reviews.

### 3. Operation of Audit Committees

#### Role and Responsibilities

The role of the audit committee is to support Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions and ethical accountability.

The audit committee should critically examine the audit and management reports provided by the external auditor. The committee would then determine if matters raised in the reports require action to be taken by the local government and ensure that appropriate action is implemented.

A further role for the audit committee would be to receive and authorise the report relating to the audit prepared by the CEO that is to be sent to the Minister.

This report would outline any actions the local government has taken or intends to take in relation to the matters identified by the auditor.

While a formal internal audit function could be considered to be an operational function and therefore the responsibility of the CEO, it is desirable for an internal auditor to have a direct line of communication to the Audit Committee.

The Audit Committee needs to form an opinion of the local government's internal audit requirements and recommend a course of action that ensures that any internal audit processes adopted are appropriate, accountable and transparent. The role of the external auditor in this regard can be established at the time of appointment.

**Please note** that an audit committee (or any other committee) cannot be given a management task where the Act and Regulations make the CEO specifically responsible. Where the local government is assigned the function through the legislation, the audit committee may have a role unless the function has been delegated to the CEO by the Council.

The deliberations and recommendations of the committee must be independent and autonomous. Therefore, the Act prohibits the CEO being a member of the committee. However, it is essential that the CEO be given every opportunity to provide his/her expert advice to the committee as he/she does with full Council and other committees.

A model terms of reference is attached as Appendix 1 to assist local governments to define an appropriate role for its audit committee. When considering the model, local governments need to remember it is a guide and they can delete or modify any matters they believe not applicable.

It is important to note that the legislation gives the audit committee a specific role in appointing the auditor. It is to recommend to the Council who should be appointed as the auditor. Attached as Appendix 2 is a model 'Minimum Standard Audit Specification' that local governments can use when developing a process to be used to select and appoint a person to be the auditor.

Local governments can amend the document to suit their individual requirements. Any scope adopted must meet, as a minimum, the legislative requirements, as outlined in the Act and the Regulations.

The legislation specifies that a local government is required to meet with its auditor at least once in every year. The term "local government" in this context means the Council. If Council so resolved via a formal delegation, a meeting between the audit committee and the auditor would satisfy this requirement.

It is acknowledged that the requirement to meet at least once per year may incur a significant financial burden for the more remote local governments. In such circumstances the meeting can be conducted by telephone or video conference. The Council or audit committee should resolve how the meeting with the auditor will be conducted and for the record of the meeting to show that the auditor was involved and the matters discussed. It would be inappropriate for Council representatives to meet with the auditor in their offices unless they were members of the Audit Committee or a significant majority of the members are present.

The committee may need to liaise regularly with the external auditor to discuss the audit plan, results of the audit and implementation of any recommendations for action emerging from the audit. How communication and liaison between auditor and committee is to occur should be addressed in the agreement of appointment.

Advice from the auditor may address issues such as –

- (i) an assessment of accounting procedures;
- (ii) an assessment of internal controls;
- (iii) an assessment of risk;
- (iv) compliance with the Act and associated regulations;
- (v) compliance with Council policies;
- (vi) performance assessments on the efficiency and effectiveness of operations;
- (vii) processes of the internal audit;
- (viii) outcomes of the external audit prior to issue of management and audit reports; and
- (ix) changes to accounting standards and legislation and the impact on the local government.

### **Membership**

The Act requires that an audit committee is to consist of a minimum of 3 members and in that situation all must be council members. Where a committee consists of more than 3 members then a majority of those members must be council members. Local governments may decide to appoint a committee involving only elected members or they may appoint one or more persons who are external to the Council. If a Council considers it appropriate, the whole Council can be appointed to the audit committee.

If the local government wishes to appoint one or more persons other than elected members to the committee, which is recommended, it should ensure that they have the requisite knowledge and skills to provide benefit to the committee.

### **Operation of the Committee**

Irrespective of the membership of the committee, all legislative requirements relating to committee meetings such as advertising meeting dates, notice of meeting and keeping minutes of meetings need to be complied with.

The legislation prevents a meeting fee being paid to an external person but it is permissible for a payment to be made as a reimbursement of expenses, commensurate with the expertise and knowledge such people bring to the committee. The Council will need to determine whether payment will be offered and the level of that reimbursement payment.

Members of the committee should be encouraged to attend appropriate courses to keep them up to date with legislation, accounting and other relevant issues.

### **Other Responsibilities**

Local governments are required by legislation to complete a statutory compliance return (Compliance Audit Return or CAR) annually and have the return adopted by Council. The return is a checklist of a local government's compliance with the requirements of the Act and its Regulations, concentrating on areas of compliance considered "high risk."

The Audit Committee is to review the annual CAR and report to the Council the results of that review, prior to adoption of the return by Council. After adoption, the return is to be signed by the Mayor or President and the CEO prior to it being forwarded to the Department.

The Audit Committee is to consider the CEO's biennial reviews (see Regulation 17.) of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance and report to the council the results of those reviews.

Attached as Appendix 3 is information to assist in determining what falls within the terms 'risk management,' 'internal control' and 'legislative compliance.'

The audit committee could also consider proposals from the CEO as to whether the compliance audit, and the biennial reviews of risk management, internal control and legislative compliance, are undertaken internally or an external party is contracted to undertake the task. In the case of an external party the audit committee would have responsibility to receive the review report from the CEO and make recommendations on it to full Council.

## 4. The External Audit

### Appointment of the Auditor

The Act and Regulations provide that –

- a) on the recommendation of the audit committee a local government is to from time to time appoint, by absolute majority, a person to be its auditor;
- b) the local government may appoint one or more persons as its auditor;
- c) the local government's auditor is to be a person who is –
  - a. a registered company auditor; or
  - b. an auditor approved by the Minister;
- d) a person may not be appointed as a local government auditor if that person is –
  - a. a councillor or employee of the local government;
  - b. in debt to the local government for more than \$5,000;
  - c. a councillor or employee of a regional local government in which the local government is a participant;
  - d. a member of an incorporated association formed by the local government; or
  - e. a class of persons as prescribed in the Regulations;
- e) an auditor is not to be appointed for more than five years; and
- f) the appointment of a person as an auditor is to be made by agreement in writing and is to include –
  - i. the objectives of the audit;
  - ii. the scope of the audit;
  - iii. a plan for the audit;
  - iv. details of the remuneration and expenses to be paid to the auditor; and
  - v. the method to be used by the local government to communicate with, and supply information to, the auditor.

The committee should undertake a proper selection and appointment process as part of appointing, or reappointing an auditor. If reappointment is being considered, the process should include the review of key issues as in i. to v. above.

It is important to realise that the Act specifies that it is a named person(s) that is appointed as auditor, not the company, or 'the partners' of the company which employs the person. Therefore, when the audit report is received it must be signed by the person(s) appointed as the auditor; it cannot be the generic signature identifying the firm.

### Conduct of the Audit

The Act and Regulations provide that –

- a) the auditor is required by 31 December next following the financial year to which the audit relates, to examine the accounts and annual financial report submitted for audit;
- b) the auditor is to form an opinion as to whether –
  - i. the accounts are properly kept; and
  - ii. the annual financial report –
    - is prepared in accordance with the financial records; and
    - represents fairly the results of the operations of the local government and its financial position at 30 June;
- c) the auditor is to prepare a report on the audit and within 30 days of completing the audit forward a copy to –
  - i. the mayor or president;
  - ii. the CEO of the local government; and
  - iii. the Minister;

- d) the report is to give the auditor's opinion on –
- i. the financial position of the local government; and
  - ii. the results of the operation of the local government;
- e) the report is to include –
- i. any material matters that indicate significant adverse trends in the financial position or the financial management practices of the local government;
  - ii. any matters indicating non-compliance with financial management requirements of the Act, Regulations and any other written law;
  - iii. details of whether information and explanations were obtained;
  - iv. a report on the conduct of the audit; and
  - v. the opinion of the auditor as to whether or not the specific financial ratios reported are supported by verifiable information and reasonable assumptions;
- f) where it is considered appropriate to do so the auditor is to prepare a management report to accompany the auditor's report;
- g) where the auditor considers that –
- i. there is any error or deficiency in an account or financial report;
  - ii. any money paid from, or due to the local government has been, or may have been misapplied; or
  - iii. there is a matter arising from the audit that needs to be addressed by the local government; details are to be included in the report to the Minister; and

- h) the auditor has a right of access at all reasonable times to such books, accounts, documents and assets of the local government as are in the opinion of the auditor necessary to allow the audit to be conducted.

### Scope of the Audit

The Act and Regulations prescribe the scope of the external audit of the annual financial statements of a local government.

The scope details are going to vary between local governments but as an aid a model minimum standard audit specification is attached as Appendix 2 to this guideline. Individual local governments can amend that document to suit their particular needs.

### Reporting by the Auditor

Regulations require the auditor, where appropriate, to prepare a management report to accompany the auditor's report. Although there is no legislative requirement for the auditor to prepare a management report unless he or she deems it appropriate, local government may wish to require the auditor to prepare a report on all issues identified during the audit.

The auditor, after completing the audit, is to forward a copy of his or her audit and management report to –

- the Mayor or President;
- the CEO of the local government; and
- the Minister via the Department.

It is the CEO's responsibility to ensure that the external audit report is provided to the audit committee. In considering the audit and management reports presented to the audit committee, the CEO should:

- a) examine any critical matters raised in the reports that affect the financial position of the local government; and
- b) provide comment on any critical matters raised and action proposed to be taken to address those matters.

Once Council has addressed matters raised, or accepted the CEO's planned remedial action on matters raised in the audit and management reports, the CEO should provide feedback to the Department on those matters.

## Appendix 1

### Model Terms of Reference – Audit Committees

**Important:** The following Model Terms of Reference contains clauses that may not be applicable to each local government. Local governments will need to consider each clause and only adopt those that are applicable to the roles and responsibilities and delegated powers and functions that will apply to their audit committee.

The clauses that may be considered optional have been asterisked (\*).

#### Objectives of Audit Committees

The primary objective of the audit committee is to accept responsibility for the annual external audit and liaise with the local government's auditor so that Council can be satisfied with the performance of the local government in managing its financial affairs.

Reports from the committee will assist Council in discharging its legislative responsibilities of controlling the local government's affairs, determining the local government's policies and overseeing the allocation of the local government's finances and resources. The committee will ensure openness in the local government's financial reporting and will liaise with the CEO to ensure the effective and efficient management of the local government's financial accounting systems and compliance with legislation.

The committee is to facilitate –

- the enhancement of the credibility and objectivity of \*internal and external financial reporting;

- \*effective management of financial and other risks and the protection of Council assets;
- compliance with laws and regulations as well as use of best practice guidelines relative to audit, risk management, internal control and legislative compliance;
- \*the coordination of the internal audit function with the external audit; and
- the provision of an effective means of communication between the external auditor, \*internal auditor, the CEO and the Council.

#### Powers of the Audit Committee

The Audit committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its term of reference. This is in order to facilitate informed decision-making by Council in relation to the legislative functions and duties of the local government that have not been delegated to the CEO.

The committee is a formally appointed committee of council and is responsible to that body. The committee does not have executive powers or authority to implement actions in areas over which the CEO has legislative responsibility and does not have any delegated financial responsibility. The committee does not have any management functions and cannot involve itself in management processes or procedures.

#### Membership

The committee will consist of \*four members with three elected and \*one external person. All members shall have full voting rights.

\*External persons appointed to the

committee will have business or financial management/reporting knowledge and experience, and be conversant with financial and other reporting requirements.

\*Appointment of external persons shall be made by Council by way of a public advertisement and be for a maximum term of two years. The terms of the appointment should be arranged to ensure an orderly rotation and continuity of membership despite changes to Council's elected representatives.

\*Reimbursement of approved expenses will be paid to each external person who is a member of the committee.

The CEO and employees are not members of the committee.

The CEO or his/her nominee is to be available to attend meetings to provide advice and guidance to the committee.

The local government shall provide secretarial and administrative support to the committee.

#### Meetings

The committee shall meet at least \*quarterly.

Additional meetings shall be convened at the discretion of the presiding person.

#### Reporting

Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council.

\*The committee shall report annually to the Council summarising its activities during the previous financial year.

#### Duties and Responsibilities

The duties and responsibilities of the committee will be –



- a) Provide guidance and assistance to Council as to the carrying out the functions of the local government in relation to audits;
- b) Develop and recommend to Council an appropriate process for the selection and appointment of a person as the local government's auditor;
- c) Develop and recommend to Council –
  - a list of those matters to be audited; and
  - the scope of the audit to be undertaken;
- d) Recommend to Council the person or persons to be appointed as auditor;
- e) Develop and recommend to Council a written agreement for the appointment of the external auditor. The agreement is to include –
  - the objectives of the audit;
  - the scope of the audit;
  - a plan of the audit;
  - details of the remuneration and expenses to be paid to the auditor; and
  - the method to be used by the local government to communicate with, and supply information to, the auditor;
- f) Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions;
- g) Liaise with the CEO to ensure that the local government does everything in its power to –
  - assist the auditor to conduct the audit and carry out his or her other duties under the *Local Government Act 1995*; and
  - ensure that audits are conducted successfully and expeditiously;
- h) Examine the reports of the auditor after receiving a report from the CEO on the matters to –
  - 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;
- i) Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and presenting the report to Council for adoption 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;
- j) Review the scope of the audit plan and program and its effectiveness;
- k) \*Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or CEO (see reference to internal audit page 14);
- l) \*Review the level of resources allocated to internal audit and the scope of its authority;
- m) \*Review reports of internal audits, monitor the implementation of recommendations made by the audit and review the extent to which Council and management reacts to matters raised;
- n) \*Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs;
- o) \*Review the local government's draft annual financial report, focusing on –
  - accounting policies and practices;
  - changes to accounting policies and practices;
  - the process used in making significant accounting estimates;
  - significant adjustments to the financial report (if any) arising from the audit process;

- compliance with accounting standards and other reporting requirements; and
  - significant variances from prior years;
- p) \*Consider and recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the annual financial report is signed;
- q) \*Address issues brought to the attention of the committee, including responding to requests from Council for advice that are within the parameters of the committee's terms of reference;
- r) Seek information or obtain expert advice through the CEO on matters of concern within the scope of the committee's terms of reference following authorisation from the Council;
- s) Review the annual Compliance Audit Return and report to the council the results of that review, and
- t) Consider the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance, required to be provided to the committee, and report to the council the results of those reviews.

### Internal Audit

Many local governments have recognised the need to improve their internal auditing processes, and have moved to either employ an internal auditor or contract out the internal audit function.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an

organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of an internal audit would be determined by the Audit committee, with input from the CEO, based on the size of the local government's internal operations and the level of compliance to be achieved. The role differs from that of the external auditor who is appointed by council on the recommendation of the Audit Committee, to report independently to it, through the mayor/president and the CEO, on the annual financial statements. The external auditor's primary role is to decide whether the annual financial statements of a local government are free of material misstatement.

There are certain functions of the internal audit that complement the external auditor's role. As the external auditor plans for an effective audit they need to assess and determine whether to include the scope, procedures and outcomes of the internal audit. The CEO must refer all internal audit reports to the Audit Committee for consideration.

An internal auditor's activities should typically include the following:

- (a) review of the internal control structure, monitoring the operations of the information system and internal controls and providing recommendations for improvements;
- (b) a risk assessment with the intention of minimising exposure to all forms of risk on the local government;
- (c) examination of financial and operating information that includes detailed testing of transactions, balances and procedures;

- (d) a review of the efficiency and effectiveness of operations and services including non-financial controls of a local government;
- (e) a review of compliance with management policies and directives and any other internal requirements;
- (f) review of the annual Compliance Audit Return;
- (g) assist in the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance; and
- (h) specific tasks requested by management.

For local government, the internal auditor should report functionally to the audit committee and administratively to the CEO. It should be remembered that pursuant to section 5.41 of the Act, the CEO is responsible for the day-to-day management of council activities including the direction of staff and implicitly the internal audit function. The CEO may choose to delegate this responsibility provided always that the delegation does not directly or indirectly interfere with the ability of the Internal Auditor to conduct an internal audit function free from interference.

A clear and properly defined reporting relationship ensures that the internal auditor is empowered to perform their role working with management. The direct reporting line to the audit committee also acts as an adequate safeguard in the event of a serious breakdown in internal controls or internal control culture at senior levels in the organisation.

While it is recognised that smaller councils may not be able to justify a

full-time internal auditor, a small size of operation does not justify forgoing internal audit altogether. If audit committee or management is of the view that the employment of an independent internal auditor either full-time or part-time is not warranted, it may request the council to have the internal audit function undertaken as necessary by an external contractor, or expand the role of its external auditor.

The external auditor or his or her professional company should only undertake internal audit functions that complement the external audit and do not cloud the objectivity and independence of the external audit. An external auditor must not audit information prepared by them or their accounting practice, as this is considered incompatible with the standard of independence.

Local governments that do not establish an internal audit process but require a review of the financial management systems and procedures, may decide to use the services of the external auditor for that purpose. Such reviews are to be undertaken every four years in accordance with regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.

The review of financial management systems and procedures provides the external auditor with greater assurance of systems and procedures used to prepare the annual financial statements, and whether they provide information free of material misstatement.

## Appendix 2

### Model Minimum Standard Audit Specification

**Important:** The following Model Minimum Standard Audit Specification may be used as the basis for the calling of tenders or seeking of quotes for the appointment of an auditor. Local governments need to consider the Model to ensure that only those clauses applicable to its requirements are used. This applies, in particular, to the "Critical matters to be audited".

#### Introduction

This document is provided for the assistance of auditors who wish to apply for the role of auditor with the City/Town/Shire.

Auditors are required to address all of the matters outlined in the specification.

Auditors who submit an application may be asked to provide further information and/or make a presentation to the audit committee.

#### Objectives of the Audit

To provide an independent audit opinion of the accounts and annual financial reports of the local government for each financial year covered by the term of the audit appointment.

#### Term of Audit Appointment

For the financial years commencing 1 July ..... through to 30 June..... (not more than 5 years)

#### Scope of the Audit

The auditor is to –

Carry out such work as is necessary to form an opinion as to whether –

- (a) the accounts are properly kept; and
- (b) the annual financial report –
  - (i) is prepared in accordance with the financial records; and
  - (ii) represents fairly the results of the operations of the local government and the financial position of the local government at 30 June in accordance with the Australian Accounting Standards, the *Local Government Act 1995* (as amended) (the Act), the *Local Government (Financial Management) Regulations 1996* (as amended) and other mandatory professional reporting requirements.

Give an opinion in his or her audit report on –

- (a) the financial position of the local government; and
- (b) the results of the operation of the local government.

Include in his or her audit report –

- (a) any material matters that indicate significant adverse trends in the financial position or the financial management practices of the local government;
- (b) any matters indicating non-compliance with financial management or control requirements of the Act, Regulations and any other written law;
- (c) details of whether information and explanations were obtained by the auditor;

- (d) a report on the conduct of the audit; and
- (e) the opinion of the auditor as to whether or not the specific financial ratios reported are supported by verifiable information and reasonable assumptions.

#### Audit Methodology and Approach

Other requirements of the Auditor –

- (a) The auditor is required to comply with the requirements of section 7.9 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996*;
- (b) An audit is to be carried out in accordance with accounting standards adopted from time to time by the Australian Government Auditing and Assurance Standards Board (AuASB);
- (c) The auditor is to provide the local government with a general outline of his/her methodology;
- (d) The auditor is to provide the local government with a plan for the audit including –
  - timing of interim audit visits;
  - final audit visit (within 30 days of being advised that the accounts and annual financial report are available for audit);
  - timing of the legislative requirement to meet with the local government and whether that meeting will be in person or by some other means;
  - the method to be used to communicate with, and provide advice and information to, the local government; and
- (e) The auditor is required to produce an audit report as required by section 7.9 of the *Local Government Act 1995* and, if considered appropriate by the auditor, a management report.

#### Critical Matters to be Audited

The auditor is to include in his or her application the extent to which the critical matters outlined below will be audited so as to form an opinion on the manner in which they have been maintained.

- (i) Revenue
  - Rates revenue
  - Government grants
  - User pays revenue
  - Profit on sale of non-current assets
  - Other income
- (ii) Expenditure
  - Salary and wage costs
  - Depreciation
  - Materials and contract expenditure
  - Loss on sale of non-current assets
  - Insurances
  - Bad debts
  - Other expenditure
- (iii) Current Assets
  - Bank and short term investments
  - Receivables and prepayments
  - Inventory
- (iv) Non-Current Assets
  - Property, plant, furniture and equipment
  - Infrastructure and depreciation
  - Other receivables
- (v) Liabilities (Current and non-current)
  - Creditors and accruals
  - Loan borrowings including new loans raised
  - Provision for annual and long service leave entitlements
- (vi) Reserve Funds
- (vii) Contingent Liabilities
- (viii) Capital Commitments
- (ix) Accounting Policies and Notes to the Financial Statements
- (x) Cash Flow Statement
- (xi) The financial ratios required by the *Local Government (Financial Management) Regulations 1996*

### Hours, Fees and Expenditure

The auditor is to provide –

- estimate of the time to be spent on the audit;
- fees for completing the audit in accordance with this specification;
- nominated auditor(s) and registered company audit number(s); and
- experience of the nominated auditors in completing local government audits.

The auditor is to provide a fee for any additional audit requested by Council.

### Terms

Conditions to be noted by auditors –

- the auditor shall not sub contract to a third party;
- the auditor shall not, and has no right to, assign the audit contract to third parties;
- the auditor shall not be engaged by the local government to undertake any financial consultancy with the local government that requires the preparation of financial information that will be the subject of the annual audit; and
- the auditor shall confirm that he or she has, and will maintain during the duration of the audit term, professional indemnity insurance covering the legal liability arising out of any neglect, default, error, or omission.

### Termination of Appointment

The appointment as auditor is terminated if –

- (a) the auditor ceases to be a registered company auditor;
- (b) the auditor ceases to be an approved auditor under Section 7.5 of the *Local Government Act 1995*;
- (c) the auditor is a disqualified person under Section 7.4(2) of the *Local Government Act 1995*;
- (d) the auditor resigns by notice in writing to Council; or
- (e) Council serves notice in writing to the auditor terminating the appointment.

## Appendix 3

### Issues that should be considered for inclusion in the CEO's Review of Risk Management, Internal Control and Legislative Compliance

**Please note:** Section 7 of the Department's Western Australian Local Government Accounting Manual provides a comprehensive internal control framework related to internal control and risk management.

#### Risk Management

Internal control and risk management systems and programs are a key expression of a local government's attitude to effective controls. Good audit committee practices in monitoring internal control and risk management programs typically include:

- Reviewing whether the local government has an effective risk management system and that material operating risks to the local government are appropriately considered;
- Reviewing whether the local government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time;
- Assessing the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas:
  - potential non-compliance with legislation, regulations and standards and local government's policies;
  - important accounting judgements or estimates that prove to be wrong;
  - litigation and claims;
  - misconduct, fraud and theft;
  - significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the local government;
- Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported;
- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance;
- Reviewing the effectiveness of the local government's internal control system with management and the internal and external auditors;
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk;
- Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied;
- Should the need arise, meeting periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment;
- Ascertaining whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated,

monitored and there is regular reporting and ongoing management of fraud and misconduct risks.

### Internal Control

Internal control is a key component of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Strategies to maintain sound internal controls are based on risk analysis of the internal operations of a local government.

An effective and transparent internal control environment is built on the following key areas:

- integrity and ethics;
- policies and delegated authority;
- levels of responsibilities and authorities;
- audit practices;
- information system access and security;
- management operating style; and
- human resource management and practices.

Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government.

Aspects of an effective control framework will include:

- delegation of authority;
- documented policies and procedures;
- trained and qualified employees;
- system controls;
- effective policy and process review;
- regular internal audits;
- documentation of risk identification and assessment; and

- regular liaison with auditor and legal advisors.

The following are examples of controls that are typically reviewed:

- separation of roles and functions, processing and authorisation;
- control of approval of documents, letters and financial records;
- comparison of internal data with other or external sources of information;
- limit of direct physical access to assets and records;
- control of computer applications and information system standards;
- limit access to make changes in data files and systems;
- regular maintenance and review of financial control accounts and trial balances;
- comparison and analysis of financial results with budgeted amounts;
- the arithmetical accuracy and content of records;
- report, review and approval of financial payments and reconciliations; and
- comparison of the result of physical cash and inventory counts with accounting records.

### Legislative Compliance

The compliance programs of a local government are a strong indication of attitude towards meeting legislative requirements. Audit committee practices in regard to monitoring compliance programs typically include:

- Monitoring compliance with legislation and regulations;
- Reviewing the annual Compliance Audit Return and reporting to Council the results of that review;
- Staying informed about how management is monitoring the



effectiveness of its compliance and making recommendations for change as necessary;

- Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints;
- Obtaining assurance that adverse trends are identified and review management's plans to deal with these;
- Reviewing management disclosures in financial reports of the effect of significant compliance issues;
- Reviewing whether the internal and/or external auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee;
- Considering the internal auditor's role in assessing compliance and ethics risks in their plan;
- Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements; and
- Complying with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest.

These guidelines are also available on the Department's website at [www.dlgc.wa.gov.au](http://www.dlgc.wa.gov.au)



#### About the Guideline series

This document and others in the series are intended as a guide to good practice and should not be taken as a compliance requirement. The content is based on Department officer knowledge, understanding, observation of, and appropriate consultation on contemporary good practice in local government. Guidelines may also involve the Department's views on the intent and interpretation of relevant legislation.

All guidelines are subject to review, amendment and re-publishing as required. Therefore, comments on any aspect of the guideline are welcome. Advice of methods of improvement in the area of the guideline topic that can be reported to other local governments will be especially beneficial.

For more information about this and other guidelines, contact the Local Government Regulation and Support Branch at:

#### **Department of Local Government and Communities**

Gordon Stephenson House, 140 William Street, Perth WA 6000

GPO Box R1250, Perth WA 6844

Telephone: (08) 6551 8700 Fax: (08) 6552 1555

Freecall (Country only): 1800 620 511

Email: [info@dlgc.wa.gov.au](mailto:info@dlgc.wa.gov.au) Website: [www.dlgc.wa.gov.au](http://www.dlgc.wa.gov.au)

Translating and Interpreting Service (TIS) – Tel: 13 14 50

## 6.2 USE OF DELEGATIONS AND COMMON SEAL

**File Number:** 4110 - Internal Audit

**Author:** Danielle Hurstfield, Manager Administration and Governance

**Responsible Officer:** Amanda O'Halloran, Chief Executive Officer

**Authority/Discretion:** Information

### SUMMARY

For the Committee to receive the information detailing the use of the Common Seal and actions performed under delegated authority requiring referral to Council for the months of September and October 2019.

### DISCLOSURE OF ANY INTEREST

Nil.

### BACKGROUND

The Terms of Reference for the Compliance and Strategic Review Committee adopted on 26 March 2015 detail the key role the Committee holds in assisting the Shire fulfil its corporate governance responsibilities in managing the affairs of the organisation. This includes financial reporting, risk management, compliance requirements and auditing.

The Committee will ensure compliance in the Shire's financial reporting and will liaise with the CEO to ensure the effective and efficient management of the Shire's financial accounting systems to meet statutory requirements.

In accordance with sections 5.16 and 5.42 of the Act, a local government can delegate certain functions to a committee of Council, or to the Chief Executive Officer. A variety of other legislation also permits the delegations of functions to the Chief Executive Officer, as well as other officers. The Chief Executive Officer's statutory powers and duties under the Act and any powers or duties delegated by the Council can be further delegated by the Chief Executive Officer to other officers of Council. Delegation details must be recorded in a register, which is available for inspection by the public.

### STATUTORY ENVIRONMENT:

#### *Local Government Act 1995*

#### *5.16. Delegation of some powers and duties to certain committees*

(1) Under and subject to section 5.17, a local government may delegate\* to a committee any of its powers and duties other than this power of delegation.

\* Absolute majority required.

(2) A delegation under this section is to be in writing and may be general or as otherwise provided in the instrument of delegation.

(3) Without limiting the application of sections 58 and 59 of the Interpretation Act 1984 —

(a) a delegation made under this section has effect for the period of time specified in the delegation or if no period has been specified, indefinitely; and

(b) any decision to amend or revoke a delegation under this section is to be by an absolute majority.

(4) Nothing in this section is to be read as preventing a local government from performing any of its functions by acting through another person.

#### **5.17. Limits on delegation of powers and duties to certain committees**

(1) A local government can delegate —

(a) to a committee comprising council members only, any of the council's powers or duties under this Act except —

(i) any power or duty that requires a decision of an absolute majority or a 75% majority of the local government; and

(ii) any other power or duty that is prescribed;

And

(b) to a committee comprising council members and employees, any of the local government's powers or duties that can be delegated to the CEO under Division 4; and

(c) to a committee referred to in section 5.9(2)(c), (d) or (e), any of the local government's powers or duties that are necessary or convenient for the proper management of —

(i) the local government's property; or

(ii) an event in which the local government is involved.

(2) A local government cannot delegate any of its powers or duties to a committee referred to in section 5.9(2)(f).

#### **5.18. Register of delegations to committees**

A local government is to keep a register of the delegations made under this Division and review the delegations at least once every financial year.

#### **5.42. Delegation of some powers and duties to CEO**

(1) A local government may delegate\* to the CEO the exercise of any of its powers or the discharge of any of its duties under

(a) this Act other than those referred to in section 5.43.

(b) the Planning and Development Act 2005 section 214(2), (3) or (5)

\* Absolute majority required.

(2) A delegation under this section is to be in writing and may be general or as otherwise provided in the instrument of delegation.

#### **5.43. Limits on delegations to CEO**

A local government cannot delegate to a CEO any of the following powers or duties —

any power or duty that requires a decision of an absolute majority or a 75% majority of the local government;

accepting a tender which exceeds an amount determined by the local government for the purpose of this paragraph;

appointing an auditor;

acquiring or disposing of any property valued at an amount exceeding an amount determined by the local government for the purpose of this paragraph;

any of the local government's powers under section 5.98, 5.98A, 5.99, 5.99A or 5.100;

borrowing money on behalf of the local government;

hearing or determining an objection of a kind referred to in section 9.5;

(ha) the power under section 9.49A(4) to authorise a person to sign documents on behalf of the local government;

any power or duty that requires the approval of the Minister or the Governor;

such other powers or duties as may be prescribed.

#### **5.44. CEO may delegate powers and duties to other employees**

(1) A CEO may delegate to any employee of the local government the exercise of any of the CEO's powers or the discharge of any of the CEO's duties under this Act other than this power of delegation.

(2) A delegation under this section is to be in writing and may be general or as otherwise provided in the instrument of delegation.

(3) This section extends to a power or duty the exercise or discharge of which has been delegated by a local government to the CEO under section 5.42, but in the case of such a power or duty —

(a) The CEO's power under this section to delegate the exercise of that power or the discharge of that duty; and

(b) the exercise of that power or the discharge of that duty by the CEO's delegate, are subject to any conditions imposed by the local government on its delegation to the CEO.

(4) Subsection (3) (b) does not limit the CEO's power to impose conditions or further conditions on a delegation under this section.

(5) In subsections (3) and (4) —

conditions includes qualifications, limitations or exceptions.

#### **5.45. Other matters relevant to delegations under this Division**

(1) Without limiting the application of sections 58 and 59 of the Interpretation Act 1984 —

(a) A delegation made under this Division has effect for the period of time specified in the delegation or where no period has been specified, indefinitely; and

(b) Any decision to amend or revoke a delegation by a local government under this Division is to be by an absolute majority.

(2) Nothing in this Division is to be read as preventing —

(a) A local government from performing any of its functions by acting through a person other than the CEO; or

(b) A CEO from performing any of his or her functions by acting through another person.

#### **5.46. Register of, and records relevant to, delegations to CEO and employees**

(1) The CEO is to keep a register of the delegations made under this Division to the CEO and to employees.

(2) At least once every financial year, delegations made under this Division are to be reviewed by the delegator.

(3) A person to whom a power or duty is delegated under this Act is to keep records in accordance with regulations in relation to the exercise of the power or the discharge of the duty.

Regulation 19 of the Local Government (Administration) Regulations relates to records to be kept of delegations exercised.

**19. Delegates to keep certain records (Act s. 5.46(3))**

Where a power or duty has been delegated under the Act to the CEO or to any other local government employee, the person to whom the power or duty has been delegated is to keep a written record of —

- (a) how the person exercised the power or discharged the duty; and
- (b) when the person exercised the power or discharged the duty; and
- (c) the persons or classes of persons, other than council or committee members or employees of the local government, directly affected by the exercise of the power or the discharge of the duty.

*Building Act 2011 section 127*

*Bush Fires Act 1954 section 48*

*Cat Act 2011 section 44*

*Dog Act 1976 section 10AA*

*Food Act 2008 section 118*

*Public Health Act 2016 section 21*

*Road Traffic (Events on Roads) Regulations 1991*

**POLICY IMPLICATIONS**

Nil

**FINANCIAL IMPLICATIONS**

Nil

**STRATEGIC IMPLICATIONS**

GOAL	OUTCOME	STRATEGY
4: Good governance and effective organisation	4.1: Effective governance and leadership	4.1.3: Strengthen the governance role of Councillors by informing, resourcing, skilling and supporting their role  4.1.8: Develop and maintain risk management policies and procedures

Risk Management Considerations

RISK	LIKELIHOOD	CONSEQUENCE	RISK ANALYSIS	MITIGATION
<b>Financial:</b>	Unlikely	Severe	Extreme	Monthly reporting to the

Financial, Legal and Compliance, Organisational Operations and Reputation				Compliance and Strategic Review Committee for awareness and direction where required.
---	--	--	--	---

### CONSULTATION

Internal consultation has been undertaken with relevant areas to collate information.

### COMMENT

The Council Seal has been applied to two documents for the period 1 September – 31 October 2019.

The attached register details the actions performed under delegation during September and October 2019.

### VOTING REQUIREMENT

Simple majority

### ATTACHMENTS

1. Records of exercise of delegated powers or duties - September/October 2019  

### RECOMMENDATION

**That the Compliance and Strategic Review Committee RECEIVES the information contained in this item and attached register detailing the use of delegations of authority and Common Seal.**



Records of exercise of delegated powers or duties

Reference	Function	Category	Officer	Date of decision	Decision	Description	Person or classes of persons	Address	Details	Comments
A11	AFFIXING THE COMMON SEAL	Administration	CEO	7 Oct 2019	Granted	Scheme Amendment No. 24 - Shire of Derby/West Kimberley Town Planning Schemes No.5	Public	---	Scheme Amendment No. 24 - Shire of Derby/West Kimberley Town Planning Schemes No.5 - OCM 02/03/2016 Minute Number 037/2016	---
A11	AFFIXING THE COMMON SEAL	Administration	CEO	9 Oct 2019	Granted	Surrender of Lease - Derby 4 Kids Inc	Derby 4 Kids Inc	---	Surrender of Lease - Derby 4 Kids Inc  Shire President and CEO signed Surrender of Lease	---





## Records of exercise of delegated powers or duties

Reference	Function	Category	Officer	Date of decision	Decision	Description	Person or classes of persons	Address	Details	Comments
F1	PAYMENTS FROM MUNICIPAL FUNDS – INCURRING LIABILITIES AND MAKING PAYMENTS	Finance	CEO	28 Oct 2019	Granted	Transfer of Funds for investment	Nil	---	Authorisation of Transfer	---
F1	PAYMENTS FROM MUNICIPAL FUNDS – INCURRING LIABILITIES AND MAKING PAYMENTS	Finance	CEO	11 Sep 2019	Granted	Authorisation of Payment	Nil	Nil	Payment of Monthly Accounts	---
F1	PAYMENTS FROM MUNICIPAL FUNDS – INCURRING LIABILITIES AND MAKING PAYMENTS	Finance	CEO	27 Sep 2019	Granted	Payment of Accounts	Nil	Nil	Payment of Monthly Accounts	---



## Records of exercise of delegated powers or duties

Reference	Function	Category	Officer	Date of decision	Decision	Description	Person or classes of persons	Address	Details	Comments
F1	PAYMENTS FROM MUNICIPAL FUNDS – INCURRING LIABILITIES AND MAKING PAYMENTS	Finance	CEO	16 Sep 2019	Granted	Payment of Accounts	Nil	Nil	Payment of Monthly Accounts	---
F1	PAYMENTS FROM MUNICIPAL FUNDS – INCURRING LIABILITIES AND MAKING PAYMENTS	Finance	CEO	23 Oct 2019	Granted	Payment of Accounts	Nil	Nil	Payment of Monthly Accounts	---
F1	PAYMENTS FROM MUNICIPAL FUNDS – INCURRING LIABILITIES AND MAKING PAYMENTS	Finance	CEO	28 Oct 2019	Granted	Payment Of Accounts	Nil	Nil	Payment of BAS	---



Records of exercise of delegated powers or duties

Reference	Function	Category	Officer	Date of decision	Decision	Description	Person or classes of persons	Address	Details	Comments
F1	PAYMENTS FROM MUNICIPAL FUNDS – INCURRING LIABILITIES AND MAKING PAYMENTS	Finance	CEO	3 Oct 2019	Granted	Payment of Accounts	Nil	Nil	Bank Authorisation of Employment fortnightly pays	---
F1	PAYMENTS FROM MUNICIPAL FUNDS – INCURRING LIABILITIES AND MAKING PAYMENTS	Finance	CEO	25 Sep 2019	Granted	Authorisation of Payroll	Nil	---	Authorisation of fortnightly payroll	---
F1	PAYMENTS FROM MUNICIPAL FUNDS – INCURRING LIABILITIES AND MAKING PAYMENTS	Finance	Director of Technical and Development Services	31 Oct 2019	Granted	2nd Authorisation of Payroll	none	none	2nd bank authorisation of payroll	---
T2	INTERIM	Town	Manager	17 Sep 2019	Granted	Following	Applicant	N/A	• Appli	Prelim



Records of exercise of delegated powers or duties

Reference	Function	Category	Officer	Date of decision	Decision	Description	Person or classes of persons	Address	Details	Comments
	DEVELOPMENT ORDER NO 8: DETERMINATION OF APPLICATIONS	Planning	Planning Services			assessment of application against R Codes and FFTP			cation asses sed again st land use in FFTP - 2 grou ped dwell ings consi stent with ident ified resid ential use and densi ty of devel opm ent for this locati	discussion had taken place with DoC re this application pre its submission which has assisted in ensuring that the application was designed to meet rqmnts of the R Codes. Proposal had also been referred to SHO to ensure that there was no heritage implications - advice had been received back that site was clear of any



Records of exercise of delegated powers or duties

Reference	Function	Category	Officer	Date of decision	Decision	Description	Person or classes of persons	Address	Details	Comments
									on in the town ; • application then assessed against the Part 5 of the R Code s - application assessed as meeting the deemed to comply	(built) heritage concerns.



Records of exercise of delegated powers or duties

Reference	Function	Category	Officer	Date of decision	Decision	Description	Person or classes of persons	Address	Details	Comments
									provisions ; • R Code stipulate that applications that satisfy the deemed to comply should not be refused.	

### 6.3 COMPLIANCE REPORTS - COUNCIL MINUTE MANAGEMENT AND COUNCILLOR ATTENDANCE

**File Number:** 4110 - Internal Audit

**Author:** Danielle Hurstfield, Manager Administration and Governance

**Responsible Officer:** Amanda O'Halloran, Chief Executive Officer

**Authority/Discretion:** Information

#### SUMMARY

For the Committee to receive the information provided in the attached reports and provide strategic direction as required.

#### DISCLOSURE OF ANY INTEREST

Nil

#### BACKGROUND

The Terms of Reference for the Compliance and Strategic Review Committee adopted on 26 March 2015 detail the key role the Committee holds in assisting the Shire fulfil its corporate governance responsibilities in managing the affairs of the organisation. This includes financial reporting, risk management, compliance requirements and auditing.

The Committee will ensure compliance in the Shire's financial reporting and will liaise with the CEO to ensure the effective and efficient management of the Shire's financial accounting systems to meet statutory requirements.

#### POLICY IMPLICATIONS

Nil

#### FINANCIAL IMPLICATIONS

Nil

#### STRATEGIC IMPLICATIONS

GOAL	OUTCOME	STRATEGY
4: Good governance and effective organisation	4.1: Effective governance and leadership	4.1.3: Strengthen the governance role of Councillors by informing, resourcing, skilling and supporting their role  4.1.8: Develop and maintain risk management policies and procedures

**RISK MANAGEMENT CONSIDERATIONS**

<b>RISK</b>	<b>LIKELIHOOD</b>	<b>CONSEQUENCE</b>	<b>RISK ANALYSIS</b>	<b>MITIGATION</b>
<b>Financial:</b> Financial, Legal and Compliance, Organisational Operations and Reputation	Unlikely	Severe	Extreme	Monthly reporting to the Compliance and Strategic Review Committee for awareness and direction where required.

**CONSULTATION**

Internal consultation has been undertaken with relevant areas to collate information.

**COMMENT**

Nil

**VOTING REQUIREMENT**

Simple majority

**ATTACHMENTS**

1. **Councillor Meeting Attendance Table** [↓](#) 
2. **Council Minute Management\_November 2019** [↓](#) 

**RECOMMENDATION**

**That the Compliance and Strategic Review Committee RECEIVES the information contained in the reports detailing Councillor meeting attendance and Council Minute management.**





**MEETING ATTENDANCE**

The following table provides information on attendance at the 2019 Ordinary and Special Council Meetings:

Councillor	28 Feb 2019	14 Mar 2019	28 Mar 2019	11 Apr 2019	18 Apr 2019	30 May 2019	30 May 2019	27 Jun 2019	5 Jul 2019	25 Jul 2019	29 Aug 2019	26 Sep 2019	31 Oct 2019	21 Nov 2019	12 Dec 2019
	OCM	SCM	OCM	SCM	OCM	OCM	AGM	OCM	SCM	OCM	OCM	OCM	OCM	OCM	OCM
P White	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
P Coggins	✓	✓	✓	A	✓	LOA	A	✓	A	✓	✓	✓			
C Kloss	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	LOA	✓		
P McCumstie	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			
I Prouse	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			
A Twaddle	✓	A	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
G Davis	*	*	*	*	*	*	*	*	*	*	*	✓	✓		
G Haerewa	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
D Andrews	LOA	A	A	A	✓	✓	A	A	✓	A	✓	✓			
R Mouda													✓		
S Ross													✓		
P Riley													✓		
K Bedford													✓		

\*Determination finalised by State Administrative Tribunal (SAT) on 28 August 2019. SAT determined that Councillor Geoff Davis is not disqualified from holding office as a Councillor of the Shire of Derby/West Kimberley.

**Derby**

(08) 9191 0999 | 30 Loch Street  
 sdwk@sdwk.wa.gov.au | PO Box 94, Derby WA 6728

**Fitzroy Crossing**

(08) 9191 5355 | Flynn Drive  
 sdwk@sdwk.wa.gov.au | PO Box 101, Fitzroy Crossing

ABN: 99 934 203 062

[www.sdwk.wa.gov.au](http://www.sdwk.wa.gov.au)

Outstanding/Finalised	Division: Committee: Officer:	Date From: Date To:
Action Sheets Report		Printed: 8 November 2019 9:08 AM

Meeting	Officer/Director	Section	Subject
Council 25/09/2019	O'Halloran, Amanda Gash, Stephen	Executive Services	Minutes of the joint meeting of the Kimberley Zone and Kimberley Regional Group held 3 September 2019
<b>RESOLUTION 108/19</b>			
<b>Moved: Cr Paul White</b>			
<b>Seconded: Cr Peter McCumstie</b>			
<b>That Council</b>			
1. <b>Receives and endorses the resolutions of the Kimberley Zone of WALGA and Kimberley Regional Group as attached in the minutes from the Joint Meeting held 3 September 2019;</b>			
2. <b>Notes and endorses:</b>			
<b>(a) Business Plan Status Report</b>			
<b>(b) Executive Support Report 16 July 2019 to 15 August 2019</b>			
<b>(c) Alcohol Management Report August 2019</b>			
<b>(d) Waste Tag Meeting Minutes 25 July 2019</b>			
<b>(e) Report on overview of Canberra delegation</b>			
<b>(f) Amendment to the Kimberley Regional Group (KRG) Governance Agreement</b>			
<b>(g) Report on Defence in the North West of Australia</b>			
<u>In Favour:</u>	Crs Geoff Haerewa, Paul White, Denise Andrews, Peter Coggins, Geoff Davis, Peter McCumstie, Iris Prouse and Andrew Twaddle		
<u>Against:</u>	Nil		
			<b>CARRIED 8/0</b>

Outstanding/Finalised	<b>Division:</b>	<b>Date From:</b>
<b>Action Sheets Report</b>	<b>Committee:</b>	<b>Date To:</b>
	<b>Officer:</b>	<b>Printed: 8 November 2019 9:08 AM</b>

3 Oct 2019 - 3:13 PM - Amanda O'Halloran  
 Action completed by: McCulloch, Carlie  
 Completed

Meeting	Officer/Director	Section	Subject
Council 25/09/2019	O'Halloran, Amanda Gash, Stephen	Executive Services	Chief Executive Officer Annual Leave/Acting Chief Executive Officer Arrangements
<b>RESOLUTION 109/19</b>			
<b>Moved: Cr Iris Prouse</b>			
<b>Seconded: Cr Andrew Twaddle</b>			
<b>That Council:</b>			
1. <b>Approve the Annual leave of the Chief Executive Officer, Amanda O'Halloran for the period commencing on 11 March 2020 up to and including Friday the 17 April 2020.</b>			
2. <b>Appoint the Director of Technical and Development Services, Wayne Neate as the Acting Chief Executive Officer for the period from 11 March 2020 up to and including Friday the 17 April 2020.</b>			
<u>In Favour:</u> Crs Geoff Haerewa, Paul White, Denise Andrews, Peter Coggins, Geoff Davis, Peter McCumstie, Iris Prouse and Andrew Twaddle			
<u>Against:</u> Nil			
<b>CARRIED 8/0</b>			

Meeting	Officer/Director	Section	Subject
Council 25/09/2019	Neate, Wayne Hurstfield, Danielle	Technical Services	Shire of Derby/West Kimberley Roads
<b>RESOLUTION 112/19</b>			
<b>Moved: Cr Paul White</b>			

Outstanding/Finalised	Division: Committee: Officer:	Date From: Date To:
<a href="#">Action Sheets Report</a>		Printed: 8 November 2019 9:08 AM

**Seconded: Cr Andrew Twaddle**

**That Council**

- Endorse the applications for Road Project Grant funding for Geikie Gorge Road for \$387,200 and Ashley Street for \$319,770.**
- Note the Future program for the development of a 5 Year roads program which includes a Workshop and adoption of the 5 year roads program.**

In Favour: Crs Geoff Haerewa, Paul White, Denise Andrews, Peter Coggins, Geoff Davis, Peter McCumstie, Iris Prouse and Andrew Twaddle

Against: Nil

**CARRIED 8/0**

Meeting	Officer/Director	Section	Subject
Council 25/09/2019	O'Halloran, Amanda Gash, Stephen	Community and Recreation Services	Policy - Public Art
<b>RESOLUTION 113/19</b>			
<b>Moved: Cr Iris Prouse</b>			
<b>Seconded: Cr Peter Coggins</b>			
<b>That Council:</b>			
<b>1. Adopt the amended Public Art Policy; and</b>			
<b>2. Endorse the proposed Agreement for Donation of Artwork template as an incorporated document under the Public Art Policy.</b>			
<u>In Favour:</u> Crs Geoff Haerewa, Paul White, Denise Andrews, Peter Coggins, Geoff Davis, Peter McCumstie, Iris Prouse and Andrew Twaddle			
<u>Against:</u> Nil			
<b>CARRIED 8/0</b>			

Outstanding/Finalised	Division: Committee: Officer:	Date From: Date To:
<a href="#">Action Sheets Report</a>		Printed: 8 November 2019 9:08 AM

Meeting	Officer/Director	Section	Subject
Council 25/09/2019	O'Halloran, Amanda Gash, Stephen	Community and Recreation Services	Community Grants - Derby Landcare Group
<b>RESOLUTION 114/19</b>			
<b>Moved: Cr Iris Prouse</b>			
<b>Seconded: Cr Andrew Twaddle</b>			
<b>That Council provide an extension to the Derby Landcare Group for the 2018 and 2019 financial years funding totalling \$10,000 to utilise and acquit these funds within three months after the end of the 2020 financial year or the end of the activity, whichever the earlier.</b>			
<u>In Favour:</u> Crs Geoff Haerewa, Paul White, Denise Andrews, Peter Coggins, Geoff Davis, Peter McCumstie, Iris Prouse and Andrew Twaddle			
<u>Against:</u> Nil			
			<b>CARRIED 8/0</b>

Meeting	Officer/Director	Section	Subject
Council 25/09/2019	McCulloch, Carlie Hurstfield, Danielle	New Business Of An Urgent Nature	Special Council Meeting: Thursday 24 October 2019
<b>RESOLUTION 118/19</b>			
<b>Moved: Cr Andrew Twaddle</b>			
<b>Seconded: Cr Paul White</b>			
<b>That Council approve the intention to hold a Special Meeting on Thursday, 24 October 2019 at 5.30pm at 30 Clarendon Street Derby for the purpose of swearing in of Councillors, the Election of President and Deputy President and drawing the seating arrangements for Elected Members.</b>			
<u>In Favour:</u> Crs Geoff Haerewa, Paul White, Denise Andrews, Peter Coggins, Geoff Davis, Peter McCumstie, Iris Prouse and Andrew Twaddle			
<u>Against:</u> Nil			
			<b>CARRIED 8/0</b>

Outstanding/Finalised	<b>Division:</b>	<b>Date From:</b>
	<b>Committee:</b>	<b>Date To:</b>
	<b>Officer:</b>	
<b>Action Sheets Report</b>		<b>Printed: 8 November 2019 9:08 AM</b>

2 Oct 2019 - 11:40 AM - Carlie McCulloch  
Action completed by: McCulloch, Carlie  
Advertised in Babbling Boabs (3/10/19), on SDWK external website, Facebook page and Town Noticeboards.

Meeting	Officer/Director	Section	Subject
Council 31/10/2019	Neate, Wayne Hurstfield, Danielle	Executive Services	New road dedication - Sandford Rd Fitzroy Crossing
<b>RESOLUTION 125/19</b>			
<b>Moved: Cr Andrew Twaddle</b>			
<b>Seconded: Cr Chris Kloss</b>			
<ol style="list-style-type: none"> <li>1. That Council pursuant to section 56 (1) of the Land Administration Act 1997 and regulation 8 of the Land Administration Regulations Act 1997, resolves to request that the Minister for Lands to dedicates the land on which the proposed realigned Sandford Road is to be constructed upon as shown Plan No.1 – ‘Areas to be dedicated as road’ dated 17/09/2019;</li> <li>2. That Council pursuant to section 58 of the Land Administration Act 1997 and regulation 9 of the <i>Land Administration Regulations 1998</i> resolves to request that the Minister for Lands permanently close the eastern section of the Sandford Road, road reserve as depicted on Plan No.2 – ‘Areas of road to be closed’ dated 17/09/2019 and that the land comprising the former road be amalgamated into the adjoining parcel of Vacant Crown Land, Land ID number 3092954;</li> <li>3. That Council, in making the request and in accordance with section 56 (4) of the Land administration Act indemnifies the Minister for Lands against any claim for compensation in an amount equal to the amount of all costs and expenses reasonably incurred by the Minister in considering and granting the request;</li> <li>4. That Council by ABSOLUTE MAJORITY delegates authority to the Chief Executive Officer to forward the request to the Minister to: <ol style="list-style-type: none"> <li>a) dedicate the land as a road as foreshadowed in Condition 1 above once the Council has advertised the proposal and invited comments from the public on the matter as required by Part 2 s.8 (d) of the Land Administration Regulations 1998 on the basis there are no sustainable submissions objecting to the dedication; and</li> <li>b) permanently close the portion of Sandford Road as detailed in Condition 2 above once the advertising required under section 58 (3) of the Land Administration Act 1997 has been completed and on the basis there are no sustainable submissions received objecting to the closure.</li> </ol> </li> </ol>			

<p>Outstanding/Finalised</p> <p><b>Action Sheets Report</b></p>	<p><b>Division:</b></p> <p><b>Committee:</b></p> <p><b>Officer:</b></p>	<p><b>Date From:</b></p> <p><b>Date To:</b></p> <p><b>Printed: 8 November 2019 9:08 AM</b></p>
---	---	--

**c) In the event there are objections received to the dedication and closure as set out in Condition 4, I. and II. Above that cannot be satisfactorily resolved the matter/s are to be referred back to the next available Council meeting for consideration and determination.**

In Favour: Crs Geoff Haerewa, Paul White, Geoff Davis, Chris Kloss, Andrew Twaddle, Steve Ross, Rowena Mouda, Pat Riley and Keith Bedford

Against: Nil

**CARRIED 9/0**

Meeting	Officer/Director	Section	Subject
Council 31/10/2019	Hurstfield, Danielle Hurstfield, Danielle	Corporate Services	Committees and Working Groups Review and Appointments
<b>RESOLUTION 126/19</b>			
<b>Moved: Cr Geoff Davis</b>			
<b>Seconded: Cr Rowena Mouda</b>			
<ol style="list-style-type: none"> <li>1. That all Elected Member representation prior to 20 October 2019 on Council Committees, External Committees/Organisations, Internal Working Parties/Groups and Miscellaneous Portfolios be dissolved.</li> <li>2. That the appointments be reviewed every 6 months.</li> </ol>			
<b><u>COUNCIL COMMITTEES</u></b>			
<b><i>CEO Performance Review Committee (no delegated power)</i></b>			
<ol style="list-style-type: none"> <li>3. That by Absolute Majority Council APPOINTS all Elected Members to the CEO Performance Review Committee.</li> </ol>			

Outstanding/Finalised	Division: Committee: Officer:	Date From: Date To:
<a href="#">Action Sheets Report</a>		Printed: 8 November 2019 9:08 AM

***Compliance and Strategic Review Committee (no delegated power)***

4. That by Absolute Majority Council APPROVES Elected Members to be appointed to the Compliance and Strategic Review Committee.
5. That by Absolute Majority Council APPOINTS the following Elected Members to Compliance and Strategic Review Committee. (Note. This action appoints the Councillors to the Committee).

Cr Haerewa

Cr White

Cr Bedford

Cr Kloss

Cr Riley

***Recovery Committee (no delegated power)***

6. That by Absolute Majority Council APPOINTS the following Elected Members and Staff to Shire of Derby West Kimberley Recovery Committee. (Note. This action appoints the Councillors to the Committee).

Cr Twaddle

Cr White

Cr Mouda

Cr Haerewa

Cr Davis

Chief Executive Officer

Director of Technical and Development Services



Outstanding/Finalised	Division:	Date From:
	Committee:	Date To:
	Officer:	
<a href="#">Action Sheets Report</a>		Printed: 8 November 2019 9:08 AM

**Commercial Committee (*no delegated power*)**

7. That by Absolute Majority Council APPOINTS the following Elected Members and Staff to Shire of Derby West Kimberley Commercial Committee.  
(Note. This action appoints the Councillors to the Committee).

Cr Twaddle

Cr Mouda

Cr Kloss

Cr Haerewa

Cr Bedford

**EXTERNAL REPRESENTATION – COMMITTEES/ORGANISATIONS**

8. That Council APPROVES the nomination of the following Elected Members to the external Committees/Organisations as detailed below:

***Kimberley Zone Representatives***

Member: Cr Haerewa

Deputy Member: Cr White

Proxy: Cr Davis

Proxy: Cr Mouda

***Regional Collaborative Group Board***

Member: Cr Haerewa

Outstanding/Finalised	Division: Committee: Officer:	Date From: Date To:
<a href="#">Action Sheets Report</a>		Printed: 8 November 2019 9:08 AM

**Deputy Member: Cr White**

**Proxy: Cr Davis**

**Proxy: Cr Mouda**

***Local Government Development Assessment Panel (DAP)***

**Member 1: Cr Twaddle**

**Member 2: Cr Kloss**

**Proxy 1: Cr Haerewa**

**Proxy 2: Cr White**

***Regional Roads Group***

**Member: Cr White**

**Proxy: Cr Ross**

**Proxy: Cr Haerewa**

***Tourism***

**Cr Kloss**

**Cr Riley**

***Pastoralists and Graziers Association (PGA) and Kimberley Pilbara Cattlemen's Association (KPCA)***

**Cr Twaddle**

**Proxy: Cr Haerewa**

Outstanding/Finalised	Division:	Date From:
	Committee:	Date To:
	Officer:	
<a href="#">Action Sheets Report</a>		Printed: 8 November 2019 9:08 AM

**Landcare**

Cr Kloss

Proxy: Cr Riley

***Fitzroy Valley Development***

Cr Davis

Cr Bedford

Cr Twaddle

Cr Haerewa

***Derby Aboriginal Health Service – Local Advisory Committee***

Cr Riley

Proxy: Cr Mouda

***District Health Advisory Council for Derby***

Cr Mouda

Proxy: Cr Riley

***District Health Advisory Council for Fitzroy Crossing***

Cr Bedford

Proxy: Cr Davis

Outstanding/Finalised	Division:	Date From:
	Committee:	Date To:
<a href="#">Action Sheets Report</a>	Officer:	Printed: 8 November 2019 9:08 AM

**Roadwise Committee**

Cr Kloss

Proxy: Cr Haerewa

**Local Emergency Management Committee (LEMC)**

Cr Haerewa (Chair)

Cr Twaddle

Fitzroy Crossing Proxy: Cr Davis

**Liquor Accord**

Cr Kloss

Cr Haerewa

**Chamber of Commerce**

Cr White

Cr Haerewa

**MISCELLANEOUS PORTFOLIOS****Youth Affairs Derby**

Cr Mouda

Proxy: Cr Riley

Outstanding/Finalised	Division:	Date From:
	Committee:	Date To:
	Officer:	
<b>Action Sheets Report</b>		<b>Printed: 8 November 2019 9:08 AM</b>

**Proxy: Cr Haerewa**

***Youth Affairs Fitzroy Crossing***

**Cr Bedford**

**Proxy: Cr Davis**

**Proxy: Cr Haerewa**

***Aged and Seniors***

**Cr Ross**

**Proxy: Cr White**

***Education Derby***

**Cr Mouda**

**Proxy: Cr Riley**

**Proxy: Cr Haerewa**

***Education and Sport and Recreation – Fitzroy Crossing***

**Cr Davis**

**Proxy: Cr Bedford**

**Proxy: Cr Haerewa**

Outstanding/Finalised	Division:	Date From:
	Committee:	Date To:
	Officer:	
<a href="#">Action Sheets Report</a>		Printed: 8 November 2019 9:08 AM

***Sport and Recreation – Derby*****Cr Mouda****Proxy: Cr Haerewa*****Waste Management*****Cr Kloss****Proxy: Cr Haerewa*****Mining and Exploration*****Cr Bedford****Cr White****Cr Haerewa**

In Favour: Crs Geoff Haerewa, Paul White, Geoff Davis, Chris Kloss, Andrew Twaddle, Steve Ross, Rowena Mouda, Pat Riley and Keith Bedford

Against: Nil

**CARRIED 9/0 BY ABSOLUTE MAJORITY**

Outstanding/Finalised	Division:	Date From:
Action Sheets Report	Committee:	Date To:
	Officer:	Printed: 8 November 2019 9:08 AM

Meeting	Officer/Director	Section	Subject	
Council 31/10/2019	Hurstfield, Danielle Hurstfield, Danielle	Corporate Services	Review of Council Meeting Schedule for 2020	
<b>RESOLUTION 127/19</b>				
Moved: Cr Paul White				
Seconded: Cr Chris Kloss				
That Council:				
1. APPROVE the following Compliance and Strategic Review Committee (CSRC) and Ordinary Meeting of Council (OCM) dates, times and venues for the 2020 year:				
DAY	MEETING	DATE	TIME	VENUE
Thursday	CSRC	13 February	4.00pm	Council Chambers, Derby
Thursday	OCM	27 February	5.30pm	Council Chambers, Derby
Thursday	CSRC	12 March	4.00pm	Council Chambers, Derby
Thursday	OCM	26 March	1.00pm	Library, Fitzroy Crossing
Thursday	CSRC	16 April	4.00pm	Council Chambers, Derby
Thursday	OCM	30 April	5.30pm	Council Chambers, Derby
Thursday	CSRC	14 May	1.00pm	Library, Fitzroy Crossing
Thursday	OCM	28 May	5.30pm	Council Chambers, Derby
Thursday	CSRC	11 June	4.00pm	Council Chambers, Derby
Thursday	OCM	25 June	1.00pm	Library, Fitzroy Crossing
Thursday	CSRC	16 July	4.00pm	Council Chambers, Derby

Outstanding/Finalised	Division: Committee: Officer:	Date From: Date To:
<b>Action Sheets Report</b>		<b>Printed: 8 November 2019 9:08 AM</b>

Thursday	OCM	30 July	5.30pm	Council Chambers, Derby
Thursday	CSRC	13 August	1.00pm	Library, Fitzroy Crossing
Thursday	OCM	27 August	5.30pm	Council Chambers, Derby
Thursday	CSRC	10 September	4.00pm	Council Chambers, Derby
Thursday	OCM	24 September	5.30pm	Council Chambers, Derby
Thursday	CSRC	15 October	1.00pm	Library, Fitzroy Crossing
Thursday	OCM	29 October	5.30pm	Council Chambers, Derby
Thursday	CSRC	12 November	4.00pm	Council Chambers, Derby
Thursday	OCM	26 November	1.00pm	Library, Fitzroy Crossing
Thursday	CSRC	17 December	4.00pm	Council Chambers, Derby
Thursday	OCM	17 December	5.30pm	Council Chambers, Derby

**2. REQUEST that the Chief Executive Officer advertise the approved dates by Public Notice and on the Shire of Derby/West Kimberley website.**

In Favour: Crs Geoff Haerewa, Paul White, Geoff Davis, Chris Kloss, Andrew Twaddle, Steve Ross, Rowena Mouda, Pat Riley and Keith Bedford

Against: Nil

**CARRIED 9/0**

*6 Nov 2019 - 2:05 PM - Carlie McCulloch*

Public Notice created for Notice Boards. Emailed Derby and Fitzroy Crossing Library Managers and asked them to put on Public Notice Boards. Asked Fitzroy Crossing Area Manager to place on Public Noticeboards in Fitzroy Crossing. Notice will be placed on Public Notice Boards in Derby. External Shire website updated with dates for 2020. Will also advertise on SDWK Facebook page.

*6 Nov 2019 - 2:08 PM - Danielle Hurstfield*

Action completed by: McCulloch, Carlie

Public Notice created for Notice Boards. Emailed Derby and Fitzroy Crossing Library Managers and asked them to put on Public Notice Boards. Asked Fitzroy Crossing Area Manager to place on Public Noticeboards in Fitzroy Crossing. Notice will be placed on Public Notice Boards in Derby. External Shire website updated with dates for 2020. Will also advertise on SDWK Facebook page.



Outstanding/Finalised	<b>Division:</b>	<b>Date From:</b>
<a href="#">Action Sheets Report</a>	<b>Committee:</b>	<b>Date To:</b>
	<b>Officer:</b>	<b>Printed: 8 November 2019 9:08 AM</b>

Meeting	Officer/Director	Section	Subject
Council 31/10/2019	Neate, Wayne Hurstfield, Danielle	Technical Services	Handover of Water Corporation Standpipe
<b>RESOLUTION 130/19</b>			
<b>Moved: Cr Chris Kloss</b>			
<b>Seconded: Cr Keith Bedford</b>			
<b>That Council</b>			
<ol style="list-style-type: none"> <li><b>1. Authorise the Chief Executive Officer and the Shire President to sign the Water Supply agreement on behalf of Council for the Shire of Derby West Kimberley to take ownership of the standpipe located at 14-18 Knowsley Street East, Derby, Lot 1142 Reserve 9973.</b></li> <li><b>2. Authorise the affixing of the common seal to the Water Supply agreement.</b></li> </ol>			
<u>In Favour:</u> Crs Geoff Haerewa, Paul White, Geoff Davis, Chris Kloss, Andrew Twaddle, Steve Ross, Rowena Mouda, Pat Riley and Keith Bedford			
<u>Against:</u> Nil			
			<b>CARRIED 9/0</b>

Meeting	Officer/Director	Section	Subject
Council 31/10/2019	Neate, Wayne Hurstfield, Danielle	Community and Recreation Services	Relocation of the Statue of Robert Rowell
<b>RESOLUTION 131/19</b>			
<b>Moved: Cr Paul White</b>			
<b>Seconded: Cr Chris Kloss</b>			
<b>That Council approve the relocation of the statue of the late Robert Rowell to Loch Street, near the plaque commemorating his service to the town and across the road from his former residence.</b>			

Outstanding/Finalised	<b>Division:</b>	<b>Date From:</b>
<b>Action Sheets Report</b>	<b>Committee:</b>	<b>Date To:</b>
	<b>Officer:</b>	<b>Printed: 8 November 2019 9:08 AM</b>

<b>In Favour:</b>	Crs Geoff Haerewa, Paul White, Geoff Davis, Chris Kloss, Andrew Twaddle, Steve Ross, Rowena Mouda, Pat Riley and Keith Bedford
<b>Against:</b>	Nil
<b>CARRIED 9/0</b>	

Meeting	Officer/Director	Section	Subject
Council 31/10/2019	Hurstfield, Chris Neate, Wayne	New Business Of An Urgent Nature	Emergency Repairs - Cattle Grid SLK 3.92 Calwynyardah-Nookanbah Road
<b>RESOLUTION 133/19</b>			
<b>Moved: Cr Geoff Davis</b>			
<b>Seconded: Cr Chris Kloss</b>			
<b>That Council:</b>			
<ol style="list-style-type: none"> <li><b>Amends the 2019/20 budget to include expenditure of \$12,000 to undertake the emergency repairs of the cattle grid at SLK 3.92 Calwynyardah-Noonkanbah Road utilising Roads to Recovery funding.</b></li> </ol>			
<b>In Favour:</b>	Crs Geoff Haerewa, Paul White, Geoff Davis, Chris Kloss, Andrew Twaddle, Steve Ross, Rowena Mouda, Pat Riley and Keith Bedford		
<b>Against:</b>	Nil		
<b>CARRIED 9/0</b>			
<i>6 Nov 2019 - 1:33 PM - Chris Hurstfield</i> Purchase order 69186 issued to Buckley's Earthworks & Paving 1614hrs 1 November 2019			

**6.4 COMPLIANCE REGISTER****File Number:** 4110 - Internal Audit**Author:** Danielle Hurstfield, Manager Administration and Governance**Responsible Officer:** Amanda O'Halloran, Chief Executive Officer**Authority/Discretion:** Information**SUMMARY**

For the Committee to receive the information provided in the attached compliance register.

**DISCLOSURE OF ANY INTEREST**

Nil

**BACKGROUND**

The Terms of Reference for the Compliance and Strategic Review Committee adopted on 26 March 2015 detail the key role the Committee holds in assisting the Shire fulfil its corporate governance responsibilities in managing the affairs of the organisation. This includes financial reporting, risk management, compliance requirements and auditing.

The Committee will ensure compliance in the Shire's financial reporting and will liaise with the CEO to ensure the effective and efficient management of the Shire's financial accounting systems to meet statutory requirements.

**STATUTORY ENVIRONMENT:**

*Local Government Act 1995*

*Occupational Safety and Health Act 1984*

*Manual of Standards Part 139 – Aerodromes*

**POLICY IMPLICATIONS**

Nil

**FINANCIAL IMPLICATIONS**

Nil

**STRATEGIC IMPLICATIONS**

<b>GOAL</b>	<b>OUTCOME</b>	<b>STRATEGY</b>
4: Good governance and effective organisation	4.1: Effective governance and leadership	4.1.3: Strengthen the governance role of Councillors by informing, resourcing, skilling and supporting their role  4.1.8: Develop and maintain risk management policies and procedures

**RISK MANAGEMENT CONSIDERATIONS**

<b>RISK</b>	<b>LIKELIHOOD</b>	<b>CONSEQUENCE</b>	<b>RISK ANALYSIS</b>	<b>MITIGATION</b>
<b>Financial:</b> Financial, Legal and Compliance, Organisational Operations and Reputation	Unlikely	Severe	Extreme	Monthly reporting to the Compliance and Strategic Review Committee for awareness and direction where required.

**CONSULTATION**

Internal consultation has been undertaken with relevant areas to collate information.

**COMMENT**

Progress towards addressing outstanding issues has been significant. To date 12 out of 14 items at the port have been completed, all 15 items across the Shires 3 airports and 1 item also completed at the Derby Sportsmen's Club.

**VOTING REQUIREMENT**

Simple majority

**ATTACHMENTS**

1. **Compliance Report\_November 2019**  

**RECOMMENDATION**

**That the Compliance and Strategic Review Committee RECEIVES the information contained in the Compliance register.**

## Compliance Status Report

Last Reviewed  
- 08/11/2019

File No	Subject/Facility	Reference No	Issue	Comment	Position Title Officer Responsible for Action Compliance	Completed Y/N	Date Completed	Records Ref (Evidence of completion)	Comments. If Action not completed, report on plan to rectify
9010.12	Derby Port	Worksafes 48000254	RCD's need to be tested and certificate of testing supplied	Completed	Nick Harrington	Yes	30/11/2018	Yes	
9010.12	Derby Port	Worksafes 48000255	Gaps in railing to be replaced and further railing to be installed to both sides of public areas	This will be a tender	Wayne Neate	Yes	30/04/2019	Yes	
9010.12	Derby Port	Worksafes 48000256	Conduct a risk assessment in relation to traffic movements through public areas so risk may be reduced of vehicle vs public incidents	Traffic management plan being discussed with a risk assessment as part of this process	Paul Glennon	Yes	30/01/2019	Yes	
9010.12	Derby Port	Worksafes 48000257	Undertake a risk assessment of fuel bunkering on wharf potentially adopt a procedure		Paul Glennon				in progress
9010.12	Derby Port	Worksafes 48000258	Conduct an inspection for asbestos within the wharf buildings and label and note appropriately any damaged/hazardous sheets to be removed	Complete	Nick Harrington	Yes	20/09/2018	Yes	
9010.12	Derby Port	Worksafes 48000259	Hazardous materials not to be stored in same fridge as employees food. Provide adequate storage	Removal of fridges where items stored with Food	Paul Glennon	Yes	27/02/2019	Yes	DWA removed fridges Shire will remove old coke fridge. New fridge supplied for staff
9010.12	Derby Port	Worksafes 48000260	Ensure sanitary facilities and shower are clean and safe to use	Old facilities need to be boarded up if not in use	Nick Harrington	Yes	30/11/2018	Yes	
9010.12	Derby Port	Worksafes 48000261	Conduct a risk assessment for each hazard on the Water tank, Correctly Label water tank		Paul Glennon	Yes	30/11/2018	Yes	
9010.12	Derby Port	Worksafes 48000262	Develop man overboard procedure incase someone falls off wharf	Have a look at Broome Port or Wyndham Ports procedure	Wayne Neate				
9010.12	Derby Port	Worksafes 48000263	Portable Fire extinguisher to be installed as per AS2444 and training to be provided regarding use of fire extinguishers	Contact fire service providers	Nick Harrington	Yes	30/11/2018	Yes	
9010.12	Derby Port	Worksafes 48000264	Provide and Maintain a first aid kit appropriate to the activities being carried out on the wharf	Kit purchased in the process of being installed.	Paul Glennon	Yes	30/11/2018	Yes	
9010.12	Derby Port	Worksafes 48000265	Old BARC facilities are in need of repair potentially hazardous	Old facilities need to be boarded up if not in use	Nick Harrington	Yes	1/12/2018	Yes	
9010.12	Derby Port	Worksafes 48000266	Vermin faecal matter throughout old BARC area	Old facilities need to be boarded up if not in use, Regular baiting required	Nick Harrington	Yes	10/01/2019	Yes	Worksafes notified on the 18/02/2019
9010.12	Derby Port	Worksafes 48000267	Old Tram rails present trip hazard in various areas need to be rectified	Work ongoing	Paul Glennon	Yes	30/06/2019	Yes	Work will continue as this is an ongoing issue
9020.2	Derby Airport	CASA NCN 717001	Issues with physical characteristics of the Airport - Markers, lights, line marking etc and overall Airport Management. Current ARO's not performing duties correctly and lack of management control by the Shire	A lot of the Physical elements have been completed. Manual has been reviewed with several changes made to reporting procedure. Several new ARO's now trained and roster of duties allowing several eyes to look over Airport. Previous ARO still requires coaching to remove prior habits	Wayne Neate	Yes	7/12/2018	Yes	

## Compliance Status Report

Last Reviewed  
- 08/11/2019

File No	Subject/Facility	Reference No	Issue	Comment	Position Title Officer Responsible for Action Compliance	Completed Y/N	Date Completed	Records Ref (Evidence of completion)	Comments. If Action not completed, report on plan to rectify
9020.2	Derby Airport	CASA NCN 717005	Line marking and hold line points on the apron were incorrect	Inspection schedule on ATI included to allow for greater technical advice which would allow these issues to be picked up. Change to the aerodrome Manual has occurred	Wayne Neate	Yes	28/02/2019	Yes	
9020.2	Derby Airport	CASA NCN 717006	Not correct Markers along strip	New markers purchased and in place apart from runway 29 end	Wayne Neate	Yes	10/12/2018	Yes	
9020.2	Derby Airport	CASA NCN 717007	Not correct Markers along strip, procedure breakdown	New ARO's and new forms will hopefully solve this matter	Wayne Neate	Yes	10/12/2018	Yes	
9020.2	Derby Airport	CASA NCN 717008	Faded Line Markings on runway 11/29	Shire has purchased Line marker and undertaken work, New ARO's and procedural change has occurred to prevent this from occurring in the future	Wayne Neate	Yes	11/12/2018	Yes	
9020.2	Derby Airport	CASA NCN 717010	Earthing points to be removed	Will be removed	Wayne Neate	Yes	11/12/2018	Yes	
9020.2	Derby Airport	CASA NCN 717011	Manual to include correct drawing numbers and appropriate drawings	Manual reviewed and changed to reflect correct drawing numbers. Drawings have now been updated	Wayne Neate	Yes	12/12/2018	Yes	
9020.2	Derby Airport	CASA NCN 717014	Manual needs to be amended to outline procedures in a more clear and methodical manner with provision to allow cross check or document record		Wayne Neate	Yes	12/12/2018	Yes	
9020.2	Derby Airport	CASA NCN 717015	ERSA needs to be amended		Wayne Neate	Yes	12/12/2018	Yes	
9020.2	Derby Airport	CASA NCN 717016	Servicability Inspections and ATI reports need to be updated	As part of the review of the Manual both these sections have been reviewed	Wayne Neate	Yes	12/12/2018	Yes	
9030.2	Fitzroy Crossing Airport	CASA NCN 717064	Full review of the FX Aerodrome Manual including Servicability Inspections and ATI reports need to be updated	Manual needs to be reviewed as a severe lack of reporting by ARO's to management and lack of following procedure at both airports.	Wayne Neate	Yes	11/06/2019	Yes	
9030.2	Fitzroy Crossing Airport	CASA NCN 716886	Faded Line Markings on runway	Shire has purchased Line marker and undertaken work, New ARO's and procedural change has occurred to prevent this from occurring in the future	Wayne Neate	Yes	11/06/2019	Yes	
9030.2	Fitzroy Crossing Airport	CASA NCN 716937	Reporting on Wildlife as per procedure not being followed and BAS yet to supply certification of fuel bowser/storage	Manual and Wildlife management plan need to be reviewed as a severe lack of reporting by ARO's to management and lack of following procedure at both airports. Airport Manager following up BAS.	Wayne Neate	Yes	11/06/2019	Yes	
9030.2	Fitzroy Crossing Airport	CASA NCN 716887	Issues with physical characteristics of the Airport - Markers, lights, line marking etc and overall Airport Management. Current ARO's not performing duties correctly and lack of management control by the Shire	Manual in the process of being reviewed with several changes being made to reporting procedure. Previous ARO still requires coaching to remove prior habits	Wayne Neate	Yes	11/06/2019	Yes	
	Derby RADS Grant	Derby Airport	Acquital of RADS grant for lighting upgrade at Derby Airport	Acquital of grant to occur	Wayne Neate	Yes	30/10/2018	Yes	
8005.3	Derby Sportsmens Club	Worksafe 90011925	Ensure that identification and assessment of asbestos containing materials is carried out by a competent person in accordance with the code of practice		Wayne Neate	Yes	24/01/2019	Yes	
4110	Audit 17/18	Significant Matters - 2017/18 Audit Report	Inability to reconcile the year end position. Council has engaged the external assistance of Moore Stephens to achieve an up-to-date accurate Long Term Financial Management Plan and Asset Management Plan in conjunction with Council	LTFP & AMP work shop with Council in Derby to be completed by 30 August 2019	Amanda O'Halloran	Yes			

**Compliance Status Report**

Last Reviewed  
- 08/11/2019

File No	Subject/Facility	Reference No	Issue	Comment	Position Title Officer Responsible for Action Compliance	Completed Y/N	Date Completed	Records Ref (Evidence of completion)	Comments. If Action not completed, report on plan to rectify
4110	Audit 17/18	Significant Matters - 2017/18 Audit Report	Year End Audit Readiness and Efficiency.	Moore Stephens to undertake a Financial Management Review by September 30, 2019	Amanda O'Halloran	Yes	06/09/2019		Incorporated into Reg 17 report to September CSRC
			The Shire has engaged Moore Stephens to undertake an independent compliance check, by undertaking a Financial Management Review, to be undertaken over the next quarter.	Senior Finance Officer employed through HAYS for 4 months to support Audit Readiness, Senior Finance Officer employed locally and previous experienced Staff member contracted back locally to help meet immediate concerns.	Amanda O'Halloran	Yes	06/09/2019	2 x Staff to start on the 8 July 2019 and Senior Finance Officer to commence on the 9 Septmber 2019	
4110	Audit 17/18	Significant Matters - 2017/18 Audit Report	Operating Ratio below the industry bench mark;	The Shires Operating Ratio has been impacted by the significant project works associated with WANDRRA, These works are due to be finalised during the 2019/20 Financial Year and this should improve these ratios.  Support to decrease operational expenditure is being provided by Moore Stephens. Council is committed to reviewing service levels and operational capability and making the changes where necessary. This work will be ongoing thorough out the financial year.  To be completed by June 2020	Amanda O'Halloran	No			
4110	Audit 17/18	Significant Matters - 2017/18 Audit Report	Non Compliance Issues		Amanda O'Halloran				
			Lateness of the Audit Report	Council notes that in both these instances the Shire was non compliant and as mentioned above is working to ensure that these issues do not occur again. Compliance has a new priority within the Organisation, and a complete review of all finance related internal controls is being implemented, the Shire is working with our Neighbouring Shire of Broome and Wyndham East Kimberley to share resources and seek mentoring and training opportunities.	Amanda O'Halloran				
			Journal entries posted without being reviewed	Internal controls have been implemented to ensure that all Journals are reviewed by Senior Staff.  A full review of all Finance Internal Controls is being undertaken and it is proposed that any improvements that may be identified are implemented by 30 September 2019.					

**Compliance Status Report**

Last Reviewed  
- 08/11/2019

File No	Subject/Facility	Reference No	Issue	Comment	Position Title Officer Responsible for Action Compliance	Completed Y/N	Date Completed	Records Ref (Evidence of completion)	Comments. If Action not completed, report on plan to rectify
4110	Audit 17/18	Significant Matters - 2017/18 Audit Report	Management Report Issues						
			Year End Efficiency and Readiness;	Due to Staff issues and identified serious misconduct (unauthorised deleting of accounting data) above event, the Shire was seriously underprepared and had to rework many of the year end requirements to provide data for the Audit to proceed – This matter is resolved and the Shire is working to increase resources to rectify this matter immediately.  The Shire is actively recruiting, has engaged Moore Stephens, and 2 x New Staff to help improve Financial operations. To be completed by 30 September 2019	Amanda O'Halloran	Yes	30/08/2019		2 x Staff to start on the 8 July 2019 and Senior Finance Officer to commence on the 9 September 2019
			Asset Management Plan and Long Term Financial Management Plan not up to date;	Moore Stephens was engaged in February 2019 to undertake these reviews, they have been delayed to date due to resourcing issues and issues finalising the 2018/19 year end etc... Elected Member workshops and Management Review have been booked to occur in Derby during July, to have these reports finalised to influence the budget, long term Strategic planning and investment strategies.  Elected Member Workshop and Management Review 18/19 July 2019. To be finalised by 30 August 2019	Amanda O'Halloran	Yes	30/08/2019		Ongoing. Item to CSRC and OCM September 2019
4110	Audit 17/18	Significant Matters - 2017/18 Audit Report	Credit Card Agreement form left unsigned;	This matter is being reviewed and will be rectified by 30 July 2019.	Amanda O'Halloran	Yes	30/07/2019		
4110	Audit 17/18	Significant Matters - 2017/18 Audit Report	Lateness of the submission of the Annual Budget and Budget Review to the Department;	The Shire and Council are committed to working with the Auditor General Auditors this financial year to ensure that these incidents do not occur again into the future. An internal reporting time line has been implemented outlining key governance requirements and reporting readlines. Extra resource has been recruited to support the internal operations of finance.  To be completed by 30 June 2020	Amanda O'Halloran	No			



**Compliance Status Report**

Last Reviewed  
- 08/11/2019

File No	Subject/Facility	Reference No	Issue	Comment	Position Title Officer Responsible for Action Compliance	Completed Y/N	Date Completed	Records Ref (Evidence of completion)	Comments. If Action not completed, report on plan to rectify
4110	Audit 17/18	Significant Matters - 2017/18 Audit Report	No review of the Strategic Community Plan and Corporate Business Plan as required;	<p>Council has not attended to these reviews to date, it appears this has occurred due to the resignation of the CEO (12 months' notice was given), and the lack of financial and human resourcing to undertake the reviews.</p> <p>The Corporate Business Plan is currently being reviewed with the support of Moore Stephens prior to the adoption of the Annual Budget to ensure ongoing compliance. Corporate Business Plan Review to be completed by 30 August 2019</p> <p>The Strategic Community Plan will be reviewed over the next 12 months in conjunction with Elected Members and the Community. Strategic Community Plan to be reviewed and completed by June 30 2020.</p>	Amanda O'Halloran	Yes			Presenting at September 2019 CSRC and OCM
4110	Audit 17/18	Significant Matters - 2017/18 Audit Report	<p>2018/19 Budget Review</p> <p>Proposed unlawful transfers to reserves</p> <p>Concerns over Budget examination prior to adoption</p>	<p>The current Shire Administration does not intend to undertake any unlawful actions in relation to the Budget Review. The Shire has engaged Moore Stephens Senior Consultants to support and mentor our Finance Manager in regards to what is appropriate actions and to ensure the finalisation of the financials is lawful. The Shire will definitely present the Budget Review in a timelier manner going forward and will ensure compliance at this level. To be completed December 2019</p> <p>In regards to the Financial Management Comments, due to the changes in senior staff from the CEO to Senior Finance Staff, we are unable to comment at this time. As discussed previously the NEW Shire Administration Team is and will continue to remain committed to providing Elected Members with timely, accurate reports, providing them with the appropriate tools to make informed decisions.</p>	Amanda O'Halloran	No			Ongoing – mentoring and oversight to be provided through Moore Stephens, Office of the CEO and during the undertaking of the Financial Management Review.
					Amanda O'Halloran	Yes	31/08/2019		

## Compliance Status Report

Last Reviewed  
- 08/11/2019

File No	Subject/Facility	Reference No	Issue	Comment	Position Title Officer Responsible for Action Compliance	Completed Y/N	Date Completed	Records Ref (Evidence of completion)	Comments. If Action not completed, report on plan to rectify
4110	Audit 17/18	Significant Matters - 2017/18 Audit Report	Discrepancy regarding closing and opening balance	Response supplied to department by email on the 3 May 2019 - The Shire prepared and adopted the Budget Review, prior to finalised Audited Annual Financial Statements being available. The figure used in the Budget Review was an estimate. The 17/18 financials were being audited at the same time, and during this time there was some issues with how a number of end of year journals were treated. On advice from the auditors, journals were reversed which had the identified impact on final figures. Due to Staff leave Journals not available at this time, to validate response – aim to provide to Department by 19 July 2019	Amanda O'Halloran	Yes	19/07/2019		
4110	Audit 17/18	Significant Matters - 2017/18 Audit Report	Compliance Audit Return  Non compliance with statutory requirements:-  The Shires Strategic Community Plan has not been reviewed every 4 years as required  The Shires Corporate Business Plan has not been reviewed annually as is required.	Due to the significant staff changes at the Shire over the last 3-6 months, it is difficult to understand fully why the Strategic Community Plan has not undergone review, Council and the Shire Administration are committed to 30 June 2020.  Due to the significant staff changes at the Shire over the last 3-6 months, it is difficult to understand fully why the Corporate Business Plan has not undergone review – other than significant resourcing limitation. However a review is currently underway to ensure that the Corporate Business Plan is reviewed Prior to the adoption of the 2019/20 Annual Budget. To be completed 30 August 2019.	Amanda O'Halloran  Amanda O'Halloran	No  Yes	  30/08/2019		To be completed by 30 June 2020.  Presenting at September 2019 CSRC and OCM

## 6.5 COMPLIANCE PROGRAM 2018/19 REVIEW

**File Number:** 4110

**Author:** Danielle Hurstfield, Manager Administration and Governance

**Responsible Officer:** Amanda O'Halloran, Chief Executive Officer

**Authority/Discretion:** Legislative

### SUMMARY

This item provides a summary of the 2018/19 Compliance Program. The program reviewed 73 Council policies and 11 strategic documents for their validity and compliance. At 30 June 2019 24 items of the 84 items reviewed, have either been deferred or not fully implemented, resulting in a completion of rate of 72%. Results are presented to the Compliance and Strategic Review Committee for information and an action plan of outstanding items for endorsement.

### DISCLOSURE OF ANY INTEREST

Nil

### BACKGROUND

The Terms of Reference for the Compliance and Strategic Review Committee adopted 26 March 2015 detail the key role the Committee holds in assisting the Shire fulfil its corporate governance responsibilities in managing the affairs of the organisation. This includes financial reporting, risk management, compliance requirements and auditing.

The Committee will ensure compliance in the Shire's financial reporting and will liaise with the CEO to ensure the effective and efficient management of the Shire's financial accounting systems to meet statutory requirements.

On 25 October 2018 (Minute 099/2018) Council adopted a Compliance program which provided framework for the review of a number of Council's strategic documents and policies.

### STATUTORY ENVIRONMENT

#### ***Local Government Act 1995***

#### *Part 7, Division 1A — Audit committee*

##### 7.1A. Audit committee

- (1) A local government is to establish an audit committee of 3 or more persons to exercise the powers and discharge the duties conferred on it.
- (2) The members of the audit committee of a local government are to be appointed\* by the local government and at least 3 of the members, and the majority of the members, are to be council members.

\* Absolute majority required.

**Local Government (Audit) Regulations 1996**

## 16. Functions of audit committee

An audit committee has the following functions —

- (a) to guide and assist the local government in carrying out —
  - (i) its functions under Part 6 of the Act; and
  - (ii) its functions relating to other audits and other matters related to financial management;
- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;
- (c) to review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to —
  - (i) report to the council the results of that review; and
  - (ii) give a copy of the CEO's report to the council;
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
  - (i) regulation 17(1); and
  - (ii) the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;
- (f) to oversee the implementation of any action that the local government —
  - (i) is required to take by section 7.12A(3); and
  - (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and
  - (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and
  - (iv) has accepted should be taken following receipt of a report of a review conducted under the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);
- (g) to perform any other function conferred on the audit committee by these regulations or another written law.

[Regulation 16 inserted: Gazette 26 Jun 2018 p. 2386 7.]

**POLICY IMPLICATIONS**

Policies have been reviewed and either adopted, rescinded or deferred.

**FINANCIAL IMPLICATIONS**

Nil

**STRATEGIC IMPLICATIONS**

<b>GOAL</b>	<b>OUTCOME</b>	<b>STRATEGY</b>
4: Good governance and effective organisation	4.1: Effective governance and leadership	4.1.3: Strengthen the governance role of Councillors by informing, resourcing, skilling and supporting their role  4.1.8: Develop and maintain risk management policies and procedures

**RISK MANAGEMENT CONSIDERATIONS**

<b>RISK</b>	<b>LIKELIHOOD</b>	<b>CONSEQUENCE</b>	<b>RISK ANALYSIS</b>	<b>MITIGATION</b>
Financial, Legal and Compliance, Organisational Operations and Reputation	Unlikely	Extreme	Extreme	Monthly reporting to the Compliance and Strategic Review Committee for awareness and direction where required.

**CONSULTATION**

Internal consultation was undertaken with Officers in relevant areas to collate information. Draft policies were presented to the Compliance and Strategic Review Committee and workshopped at Agenda Briefing sessions.

**COMMENT**

The 2018/19 compliance program undertook a comprehensive review of policies and documents to ensure relevance and compliance.

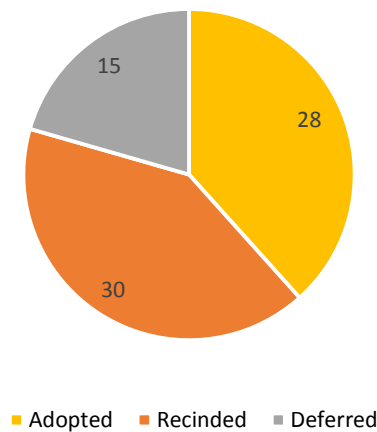
As a result the following documents were adopted:

- Recordkeeping Plan
- Code of Conduct
- Statement of Business Ethics
- Governance Manual
- Customer Service Charter
- Delegations of Power
- Information Statement
- Annual Report
- Budget Review
- Strategic Resourcing (Asset Management Plan and Long Term Financial Planning)

- Corporate Business Plan

During this time Officers and the Compliance and Strategic Review Committee reviewed 73 policies. The outcomes are graphed below:

### Council Policy Review - 2018/19



The 15 policies that were deferred were for varying reasons including officer workload at the time they were scheduled, reliance on completion of a strategic plan and/or requiring review are listed below:

FM1 – Forward Planning

FM2 – Budget Issues

FM3 - Rates

FM4 – Reserve Accounts

FM5 – Loan Borrowings

FM6 - Provisions

FM7 – Cash Flow Management

FM8 – Investments

AF16 – Occupational Safety, Health and Injury Management

TP8 – Town Centre Development

TP10 – Transportable/Relocated Dwellings

W2 – Derby Townsite Streetscape

TP7 – Minimum Finished Floor Level for new buildings (other than outbuildings) Fitzroy Crossing and Camballin

AF23 – Provision of Staff Housing

**AF35 – Establishment of Leases and User Agreements**

In addition, Officers have commenced a review of Local Laws, however this has been deferred pending the completion of the October 2019 Local government elections and amendments to the Local Government Act due by the end of 2019. Officers will develop a scope of works and seek quotes to enable the task to be allocated to an appropriately skilled contractor.

A compliance program is currently being finalised and will identify new areas of focus in light of reviews undertaken by the Office of the Auditor General over the past eighteen months. It will also incorporate areas identified in the CEO's Regulation 17 Review of Risk Management, Internal Controls and Legislative Compliance report.

The 2019/20 Compliance Program will be presented to the December 2019 Compliance and Strategic Review Committee and Council for adoption.

**VOTING REQUIREMENT**

Simple majority

**ATTACHMENTS**

1. **2018/19 Compliance Program Review**  

**RECOMMENDATION**

**That the Compliance and Strategic Review Committee**

1. **Notes the information provided in the attached 2018/19 Compliance Program Review**
2. **Endorses the action plan set out in the attached 2018/19 Compliance Program Review**

2018/19 Compliance Program			
Item - Administration & Finance	Date Adopted	Date Completed	Action Plan
Recordkeeping Plan	Approved by State Records Commission 7 December 2018.	1/02/2019	
AF 41 - Fraud, Misconduct Control and Resilience	Adopted OCM 2019-02-28	1/06/2019	
AF 43 - Attractive Items	Adopted OCM 2019-02-28	1/06/2019	
AF6 – Risk and Opportunity Management	Adopted OCM 2019-02-28	1/06/2019	
AF1 – Procurement of Goods and Services	Adopted OCM 2019-02-28	1/06/2019	
AF14 – Significant Accounting Policies	Adopted OCM 2019-02-28	1/06/2019	
C5 – Council Meetings - Date, Time and Venue	Adopted OCM 2019-02-28	1/06/2019	
Annual Report	Adopted OCM 2019-04-18	18/04/2019	
AF24 – Attendance at Conferences, Seminars and Training	Adopted OCM 2019-02-28	1/06/2019	
AF18 – Sundry Debtors Collection	Adopted OCM 2019-02-28	1/06/2019	
AF19 – Outstanding Rates Collection	Adopted OCM 2019-02-28	1/06/2019	
F20 – Rating Administration	Adopted OCM 2019-02-28	1/06/2019	
AF34 – Community Funding Scheme	Adopted OCM 2019-02-28	1/06/2019	
Delegations Register	Adopted OCM 2019-02-28	1/02/2019	
Customer Service Charter	Adopted OCM 2019-03-28	28/03/2019	
Budget Review	Adopted OCM 2019-03-28	28/03/2019	
C6 - Use of Chambers	Adopted OCM 2019-02-28	1/06/2019	
AF3 – Asset Management	Adopted OCM 2019-02-28	1/06/2019	
AF44 - Local Publication	Adopted OCM 2019-02-28	1/06/2019	
C7 – Presentations on Completion of Service	Adopted OCM 2019-02-28	1/06/2019	
AF45 - Transaction Cards	Adopted OCM 2019-02-28	1/06/2019	
AF7 – GPS Fleet Tracking	Adopted OCM 2019-03-28	1/06/2019	
AF30 – Legal Representation Costs Indemnification	Adopted OCM 2019-03-28	1/06/2019	
AF31 – Payments to Employees in Addition to contract or award	Adopted OCM 2019-02-28	1/06/2019	
AF37 – Defence Reservist/Volunteer Emergency Service Leave	Adopted OCM 2019-04-18	1/06/2019	
AF32 – Council Light Fleet - Usage	Adopted OCM 2019-02-28	Has not been implemented	Further review to be completed by 30 June 2020
Code of Conduct	Adopted OCM 2019-02-28	Training with all staff not yet completed.	To be completed by 30 June 2020
Business Ethics	Adopted OCM 2019-02-28	Training with all staff not yet completed.	To be completed by 30 June 2020
Governance Manual	Adopted OCM 2019-02-28	Training with all staff not yet completed.	To be completed by 30 June 2020
Local Laws – review by staff to commenced.	On hold awaiting review of Local Government Act		To be scoped and prioritised by 30 June 2020
Corporate Business Plan - Review (Council Workshop) Includes Workforce Plan, Asset Management Plan, Long Term Financial Plan, Corporate Business Plan.	Moore Stephens appointed to undertake June 2019. To CSRC 2019-09-12. To be adopted by Council 2019-11-21		To be adopted November 2019
AF23 – Provision of Staff Housing	Deferred		Review 2020/2021 year



2018/19 Compliance Program			
Item - Administration & Finance	Date Adopted	Date Completed	Action Plan
AF33 – Regional Price Preference	Adopted OCM 2019-03-28 with amendment to consult with Chamber of Commerce on definition of local business, to be resubmitted to Council		Community input received, revised wording to be incorporated into amended policy by 30 June 2020
AF35 – Establishment of Leases and User Agreements	Deferred - to be undertaken after review of lease register		To be reviewed and timeline confirmed by 30 June 2020
FM1 – Forward Planning	Deferred until after budget/audit		To be reviewed and timeline confirmed by 30 June 2020
FM2 – Budget Issues	Deferred until after budget/audit		To be reviewed and timeline confirmed by 30 June 2020
FM3 - Rates	Deferred until after budget/audit		To be reviewed and timeline confirmed by 30 June 2020
FM4 – Reserve Accounts	Deferred until after budget/audit		To be reviewed and timeline confirmed by 30 June 2020
FM5 – Loan Borrowings	Deferred until after budget/audit		To be reviewed and timeline confirmed by 30 June 2020
FM6 - Provisions	Deferred until after budget/audit		To be reviewed and timeline confirmed by 30 June 2020
FM7 – Cash Flow Management	Deferred until after budget/audit		To be reviewed and timeline confirmed by 30 June 2020
FM8 – Investments	Deferred until after budget/audit		To be reviewed and timeline confirmed by 30 June 2020
AF16 – Occupational Safety, Health and Injury Management	Deferred pending organisational assessment		Planned to be finalised by 30 June 2020
Item - Development	Date Adopted	Date Completed	Action Plan
H2 – TRADERS AND STALL HOLDERS PERMITS	Adopted OCM 2019-02-28	1/06/2019	
W1 – CROSSOVERS	Adopted OCM 2019-02-28	1/06/2019	
TP1 – Light Industrial Area - Caretakers Residence	Adopted OCM 2019-02-28	1/06/2019	
AF21 – Fire Control Officers Authorities	Adopted OCM 2019-03-28	1/06/2019	
AF30 – Legal Representation Costs Indemnification	Adopted OCM 2019-03-28	1/06/2019	
W3 – Underground Public Utilities Services that cross Council controlled thoroughfares	Adopted OCM 2019-04-18	1/06/2019	
TP5 – Radio Masts	Adopted OCM 2019-03-28 - recind and notify in accordance with Town Planning Scheme	Has not been implemented	To be included in Planning Scheme Review
TP7 – Minimum Finished Floor Level for new buildings(other than outbuildings) Fitzroy Crossing and Camballin	Deferred		To be included in Planning Scheme Review
TP8 – Town Centre Development	Deferred - for inclusion in major review in conjunction with preparation of new Town Planning Scheme		To be included in Planning Scheme Review
TP10 – Transportable/Relocated Dwellings	Deferred		To be included in Planning Scheme Review
W2 – Derby Townsite Streetscape	Deferred - awaiting adoption of Community Strategic Plan		Review 2020/2021 year

**6.6 REPORT ON MATTERS IDENTIFIED AS SIGNIFICANT IN THE 2018/19 AUDIT REPORT****File Number: 4105****Author: Amanda O'Halloran, Chief Executive Officer****Responsible Officer: Amanda O'Halloran, Chief Executive Officer****Authority/Discretion: Executive****SUMMARY**

To provide the Compliance and Strategic Review Committee with an update on progress toward completing matters identified in the report on the significant adverse trends in the financial position and in the financial management practices of the Shire, reported by the Shires Auditors in the 2018/19 Annual Audit.

Changes to section 7.12A of the Local Government Act 1995 states that a Local Government must prepare a report addressing any matters identified as significant by the auditor. The Shire is required to prepare a report stating what action it has taken or intends to take with respect to each of those matters.

**DISCLOSURE OF ANY INTEREST**

Nil.

**BACKGROUND**

The Department of Local Government, Sport and Cultural Industries (DLGSC) wrote to council on the 12 July 2019 to highlight the requirement of Council to prepare a report addressing any matters identified as significant by the auditor in the annual audit report and stating what action the Local government has taken or intends to take with respect to each of those matters. The amendment came into effect in 2017, and with the changeover in CEO's the requirement to report to Council has not been attended to.

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.

The Annual Audit Report for 2017/18 was reported to the 18 April 2019 Compliance and Strategic Review Committee and the Ordinary Meeting of Council held on the same date. The significant adverse trends in the financial position and in the financial management practices of the Shire were identified as follows:

- Structural deficit in the operating results for the last two years;

- Deterioration of the Operating Surplus Ratio;
- Inability to reconcile year end position on a timely basis;
- Preparedness for the auditors visit;
- Inability to respond to requests for information in a timely manner; and
- Quality of organisation and coordination of provided information.

The Shire did provide a response and action report within the required timeframes, however the action plan had not formally been presented to Council and was not endorsed by the Compliance and Strategic Review Committee, this requirement is being attended to in this item.

The Auditors reported a structural deficit in the operating results in the 2016/17 annual audit as well and this to date has not been formally addressed. As a result of the structural deficit the Shires Operating Surplus Ratio has deteriorated and the DLGSC is requiring the Shire to outline the actions it will undertake to address these issues.

### **POLICY IMPLICATIONS**

As a result of the report from the auditor and the identified issues, the Shire will be required to undertake a review of the relevant policies and ensure that they are tailored to ensure that the statutory and management outcomes of the Shire operations are maintained.

### **STATUTORY IMPLICATIONS**

#### *Local Government Act 1995*

#### 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 proceeding 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.

**FINANCIAL IMPLICATIONS**

Nil

**STRATEGIC IMPLICATIONS**

GOAL	OUTCOME	STRATEGY
Goal 4: Good Governance and an effective organisation	Outcome 4.1: Effective Governance and Leadership	Strategy 4.1.4 Ensure governance policies and procedures are in accordance with legislative requirements.

**RISK MANAGEMENT CONSIDERATIONS**

RISK	LIKELIHOOD	CONSEQUENCE	RISK ANALYSIS	MITIGATION
<b>Legal &amp; Compliance:</b> Failure to fulfil compliance requirements (statutory, regulatory)	Likely	Moderate	Medium	The Shire and Council are committed to implementing initiatives to support the Shires operations improve and become sustainable into the future.

**CONSULTATION**

Department of Local Government, Sport and Cultural Industries (DLGSC), Shire of Derby/West Kimberley Councillors and Senior Staff, Moore Stephens.

**COMMENT**

The Shire of Derby/West Kimberley has undergone significant management changes since December 2018, this has been resolved in June 2019 with the appointment of Amanda O'Halloran as CEO. The Council has directed the CEO to ensure that there is a renewed focus on compliance and sustainable financial management. The Audit Report and the Department of Local Government, Sport and Cultural Industries recent letter highlight a number of significant concerns and practices that have recently lead to many changes in the Council. The new initiatives implemented over the last 12 months include, but are not limited to:

- Implementation of the ATTAIn Governance Management System; and
- Improved compliance in Records Management and the adoption of an approved Records Management Plan, resulting in an improved internal culture in regards to Records Management; and
- Implementation of Synergy System Tools to support service mapping, and
- Review of Documented Policies and Procedures
- Whole of Staff training in Policies and Procedures and implementation of renewed Induction Process; and
- Implementation of Manager of Administration and Governance with associated resources; and

- Council implemented a monthly Compliance and Strategic Review Committee in October 2018; and

It is the intention of the new Administration and Council direction to improve compliance and increase Elected Member Engagement and Strategic Decision Making. This will be the major focus of the organisation over the next 12 months.

Please find attached the Shires comments to concerns raised and considered realistic timeframes for correction or implementation of internal controls where required to improve compliance and general business administration.

### **Significant Structural Deficit**

Operating revenue has shown a steady and marked decline since 2011/12. Operating revenues have been in decline due to a number of factors namely, loss of income from airport operations (flights have ceased into Derby), reduction in FAGS Grant (approx. \$1M reduction over the last few years), reduction in fees and charges from the loss of substantial business operations in the Shire and reduction in rates due to cessation of mining operations (Pluton and Kimberley Diamond Mine closures) . Unfortunately the operating expenditure has not undergone corresponding decreases, due to the pressures of maintaining services to Derby and Fitzroy and supporting 50 Aboriginal Communities in trying and often complex climatic conditions (Wet Season) and this is demonstrating concerning trends for the Shire into the future.

The Shire Administration and Council are aligned in the plan for the future and the commitment to improving the Shires financial performance over the next 3 years.

The Council will receive for adoption the 2019/20 Annual Budget and Long Term Financial Plan at the Council Meeting on the 29 August 2019, which demonstrates a serious commitment to a reduction in expenditure, the Council has also committed to a major review of its IPR Framework and the supporting and corresponding documents in an effort to further outline productivity and financial sustainability measures in conjunction with the community.

### **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 the 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 =  $\frac{\text{Operating Revenue minus Operating Expenses}}{\text{Own Source Operating Revenue}}$

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 Australian Accounting Standards (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 2017/18 Annual report at Note 26 Financial Ratios shows:

### Operating Surplus Ratio

2018	2017	2016
(1.51)	(0.71)	(0.84)

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

Operating revenue minus operating expense

Own source operating revenue

2018	2017	2016
<u>(16,392,988)</u>	<u>(7,360,981)</u>	<u>(10,982,117)</u>
10,853,878	10,444,154	13,017,361

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 levels and its 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 should be examined to achieve this requirement. The Shire Administration will work with Council to review service levels and operational expenditure over the coming 12 months and working together with the Community will look to ensure sustainable strategies are implemented through Council to work to improve Councils finances going forward.

See attached Guidelines further explain ratio calculations.

On the 28 June 2019 the Chief Executive Officer provided a plan to address the issues identified with a requirement to provide a quarterly update to the Department of Local Government, Sport and Cultural Industries. An update to this plan is attached. In summary of the 26 items identified 16 have been resolved, 9 are on target and 1 is overdue.

**VOTING REQUIREMENT**

Simple majority

**ATTACHMENTS**

1. **Guidance notes Local Government Financial Ratios** [↓](#) 
2. **Report on Matters Identified as Significant in 2017/2018 Audit Report** [↓](#) 
3. **Update on Matters Identified as Significant - 2019-10** [↓](#) 

**RECOMMENDATION**

**That the Compliance and Strategic Review Committee recommend Council**

1. **Endorse the updated report by Management on the matters identified as significant by Moore Stephens Auditors Report for 2017-2018 that has been forwarded to the Department of Local Government, Sport and Cultural Industries.**

MOORE STEPHENS

## Guidance Series

### Short Guide to Financial Ratios

May 2019

#### **About the Short Guide Series:**

This document and others in the Moore Stephens Short Guide Series are intended as a guide to good practice.

They are not designed to be a definitive authority on the various topics. Rather, as the name suggests, they are a guide to assist both Council and management alike.

They are based on the author's many years experience within the local government industry. They should be interpreted with this in mind.

[www.moorestephens.com.au](http://www.moorestephens.com.au)

Serious about Success<sup>®</sup>



## Contents

<b>1.0</b>	<b>Overview</b> .....	<b>3</b>
<b>2.0</b>	<b>Current Ratio</b> .....	<b>4</b>
2.1	Current Ratio .....	4
<b>3.0</b>	<b>Asset Ratios</b> .....	<b>6</b>
3.1	Asset Consumption Ratio .....	6
3.2	Asset Sustainability Ratio .....	7
3.3	Asset Renewal Funding Ratio .....	8
<b>4.0</b>	<b>Debt Ratio</b> .....	<b>10</b>
4.1	Debt Service Cover Ratio .....	10
<b>5.0</b>	<b>Operating Surplus</b> .....	<b>11</b>
5.1	Operating Surplus Ratio .....	11
5.2	Own Source Revenue Coverage Ratio .....	12



## 1.0 Overview

Financial ratios are designed to provide users of financial information a clearer picture of the performance and results as well as a comparison across periods.

The purpose of this guide is to:-

- assist the Council and management group of local governments gain a greater understanding of the individual ratios; and
- assist with understanding what constitutes a good or poor ratio.

Over time, it has become apparent inconsistencies in the calculation of the ratios occur. If ratio information is to be meaningful, then it is important it is prepared both accurately and consistently.

The ratios selected in this guide are the seven currently defined in Local Government (Financial Management) Regulation 50 and required to be disclosed in the annual financial report. These are explained in detail in the various sections which follow.

Whilst these ratios are a useful guide, it should be remembered there are many indicators of the financial position of a local government.

Each ratio should not be considered in isolation.

Rather, they should all be assessed in context of the particular local government's circumstances and each considered as part of the picture.

A picture with both good and poor ratios may indicate some remedial policies need to be implemented.

A picture with nearly all poor ratios may indicate serious financial repairs are needed.

Local Government (Financial Management) Regulation 50 (1a) allows ratios to be disclosed either as a percentage or as a factor of one.

Our guide uses risk indicators which correspond to the standards established by the Department of Local Government, Sport and Cultural Industries (DLGSCI) and contained within *Local Government Operational Guidelines – Number 18* issued in June 2013.

We have also detailed the Office of Auditor General (OAG) threshold when assessing whether a Local Government meets the basic standard or not.

For each ratio, we have also provided comments and information relating to potential problems with interpretation or financial reporting.

Please note, our comments are in relation to the basic standard established by the DLGSCI. The OAG's basic standard is used for assessing in an audit report context and is highlighted for information only.

**NOTE: THIS GUIDE HAS BEEN UPDATED AND IS CURRENTLY EFFECTIVE FROM 1 JULY 2012.**

**FOR DETAILS OF RATIOS APPLICABLE FOR THE YEAR ENDED 30 JUNE 2012 AND PRIOR YEARS, PLEASE REFER TO EARLIER VERSIONS OF THIS GUIDE.**

Should you have any queries in relation to this guide, please contact Russell Barnes or Greg Godwin of Moore Stephens by:

Phone: 9225 5355  
Email: [rjbarnes@moorestephens.com.au](mailto:rjbarnes@moorestephens.com.au)  
[ggodwin@moorestephens.com.au](mailto:ggodwin@moorestephens.com.au)



## 2.0 Current Ratio

### 2.1 Current Ratio

$$\frac{\text{current assets minus restricted assets}}{\text{current liabilities minus liabilities associated with restricted assets}}$$

**Current Assets** - total current assets as shown in the balance sheet

**Current Liabilities** - total current liabilities as shown in the balance sheet

**Liabilities Associated with Restricted Assets** – the lesser value of a current liability or the cash component of restricted assets held to fund that liability

**Interpretation:**

This ratio is a measure of short term (unrestricted) liquidity. That is, the ability of the local government to meet its short term financial obligations from unrestricted current assets as and when they fall due.

**Risk Indicators:**



**Standard met – 1.00 (100%) or greater**

A ratio of greater than 1.00 (100%) indicates the local government has more current assets than current liabilities.

**Below standard – Less than 1.00 (100%)**

If less than 1.00 (100%), current liabilities are greater than current assets and the local government may have a short term funding issue.

**Comment:**

Provided restricted assets are excluded correctly, it is a very useful indicator of the “true” financial position of the local government, particularly in the short term.

As a general rule, when the current ratio of a local government is calculated at less than one (100%) it indicates a short term funding issue. However, it also needs to be considered in context of the overall financial position.

If monitored correctly during the course of the year (particularly with the benefit of comparative historical information) it is a good indicator for when follow up action is necessary.



## 2.0 Current Ratio (Continued)

### 2.1 Current Ratio (continued)

#### Potential Problems for Financial Reporting:

Errors in calculation are often made with this ratio as balances which should be included are not (or vice versa).

- As this is the current ratio it only considers **current** assets and **current** liabilities;
- Only make a deduction for current liabilities associated with restricted assets if there are restricted assets associated with the liabilities in question;
- If the restricted account balance is greater than the current liability amount associated with it, you may only deduct up to the amount of the liability;
- If the liability amount associated with the restricted account balance is greater than the restricted account balance itself, you may only deduct up to the amount of the restricted account; and
- If a restricted account is for one purpose only (eg long service leave) you may only deduct the current liability in respect to it (ie current portion of long service leave liability). The current liability for annual leave cannot be deducted in this instance.

**NOTE:** On occasions, anomalies may arise due to heavy loan repayments in the twelve months following the point of calculation of the current ratio. This will effectively inflate the level of current liabilities when in fact they are not necessarily due at the point of calculation. They are due over the course of the next twelve months and, in accordance with budgeting protocol, are budgeted to be funded from sources in the following financial year.

Under the current definition it is not possible to adjust for this in the "official" ratio. In these circumstances you may wish to do so to determine the "underlying" ratio for illustrative purposes.



## 3.0 Asset Ratios

### 3.1 Asset Consumption Ratio

$$\frac{\text{depreciated replacement cost of assets}}{\text{current replacement cost of depreciable assets}}$$

**Depreciated Replacement Cost of Assets** – the meaning given in Australian Accounting Standards

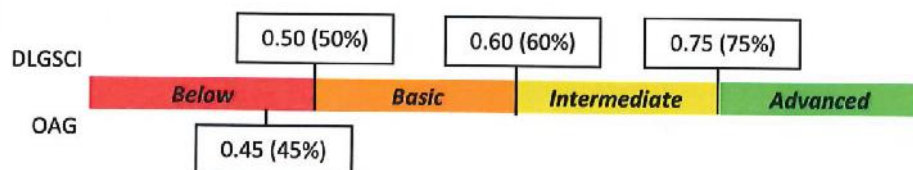
**Current Replacement Cost of Depreciable Assets** – the cost of replacing assets at current prices

**Interpretation:**

Measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost.

Where the written down value is based on a condition assessment of the assets, the ratio highlights the aged condition of the depreciable assets.

**Risk Indicators:**



**Advanced standard – greater than 0.75 (75%)**

Indicates a local government is investing in asset renewal to a level where a high percentage of the local government depreciable assets remain in an ‘as new’ condition.

**Intermediate (improving) standard – between 0.60 (60%) and 0.75 (75%)**

**Basic standard – greater than 0.50 (50%) up to 0.60 (60%)**

Ratios below 0.50 (50%) are higher risk and, if sustained over a long period, will indicate a local government is having difficulty maintaining the average ‘aged’ condition of its assets.

**Comment:**

When this ratio enters the higher risk zone it should immediately prompt a review of depreciation rates and asset valuations to ensure they are reasonable and are generating reliable and representative written down values.

It should also prompt a review of operations and revenue raising capacity necessary to support ongoing asset renewal.

**Potential Problems for Financial Reporting:**

- This ratio relies on accurate written down values being maintained.
- Current Replacement Cost may be problematic if net method of disclosure is used as current replacement cost will not be disclosed within the financial statements.



### 3.0 Asset Ratios (Continued)

#### 3.2 Asset Sustainability Ratio

$$\frac{\text{capital renewal and replacement expenditure}}{\text{Depreciation expense}}$$

**Capital Renewal and Replacement Expenditure** – expenditure to renew or replace existing assets

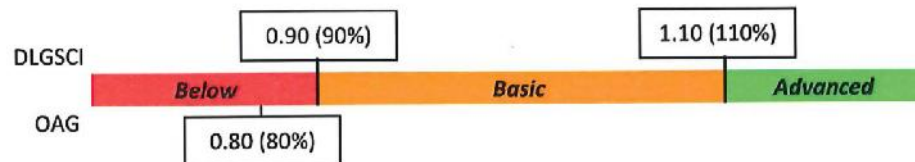
**Depreciation Expense** – has the meaning given in Australian Accounting Standards

**Interpretation:**

Measures the extent to which assets are being renewed/replaced compared to the amount consumed (depreciation).

Interpretation of this ratio is much improved if it is calculated as an average over time (say at least 5 years) as this reduces skewing caused by large scale intermittent investment in major infrastructure (such as buildings and facilities).

**Risk Indicators:**



**Advanced standard – greater than 1.10 (110%)**

Indicates a local government is investing in asset renewal/replacement to the degree that offsets the current consumption of its assets (1.00) and provides for the effect of inflation.

**Basic standard – between 0.90 (90%) and 1.10 (110%)**

When less than 0.90 (90%) a higher risk is evident and indicates the local government is having difficulty undertaking a sustained capital investment program sufficient to renew/replace assets while also negating the effect of inflation on purchasing power over time.

**Comment:**

A ratio classified as below the basic standard should immediately prompt a review of the local government’s depreciation rates and asset valuations to ensure that they are reasonable and are generating reliable and representative depreciation expenditure.

It should also prompt a review of operations and revenue raising capacity necessary to support the ongoing asset base. This should be performed with reference to the forward expenditure estimates detailed in the Asset Management Plan of the local government.

**Potential Problems for Financial Reporting:**

- Need a clear definition as to what is considered replacement expenditure. Including gross cost of plant and equipment rather than net of trade in has the potential to skew this ratio and reduce its intended effectiveness.
- Need to make sure new expenditure is excluded.



## 3.0 Asset Ratios (Continued)

### 3.3 Asset Renewal Funding Ratio

$$\frac{\text{NPV of planned capital renewals over 10 years}}{\text{NPV of required capital expenditure over 10 years}}$$

**NPV** – net present value

**Planned Capital Renewals** –capital renewals and replacement expenditure as estimated in the long-term financial plan

**Required Capital Expenditure** – capital renewal and replacement expenditure as estimated in the asset management plan

**Interpretation:**

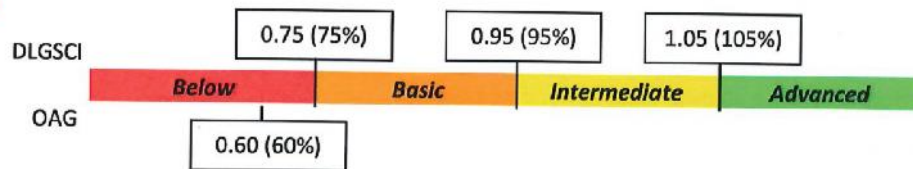
Measures the extent to which assets are being renewed compared to the amount consumed (depreciation).

Provides an indication whether the local government has the financial capacity to fund asset renewals as required and can continue to provide existing levels of services in the future without requiring:

- additional income;
- reduction in expenditure; or
- increase in borrowings (above current projections)

Interpretation of this ratio is much improved if it is calculated as an average over time (say at least 5 years) as this reduces skewing caused by large scale intermittent investment in major infrastructure (such as buildings and facilities).

**Risk Indicators:**



**Advanced standard – greater than 1.05 (105%)**

Indicates a local government is investing in asset renewal to the degree that offsets the current consumption of its assets (1.00) and provides for the effect of inflation.

**Intermediate standard – between 0.95 (95%) and 1.05 (105%)**

**Basic standard – between 0.75 (75%) up to 0.95 (95%)**

A ratio below 0.75 (75%) is considered to be in the higher risk zone and indicates the local government is having difficulty undertaking a sustained capital investment program sufficient to renew assets while also negating the effect of inflation on purchasing power over time.



## 3.0 Asset Ratios (Continued)

### 3.3 Asset Renewal Funding Ratio (continued)

#### Comment:

The Asset Renewal Funding Ratio (ARFR) should be read in conjunction with **Asset Consumption Ratio (ACR)** and the **Asset Sustainability Ratio (ASR)**

The DLGSCI provides a guideline for a satisfactory combination as follows:

ARFR – 95%+

ACR – 50%+

ASR – 90%+

When this ratio or the combination of ratios indicates a higher risk it should immediately prompt a review of the local government's depreciation rates and asset valuations to ensure that they are reasonable and are generating reliable and representative depreciation expenditure.

It should also prompt a review of operations and revenue raising capacity necessary to support the ongoing asset base.

#### Potential Problems for Financial Reporting:

- NPV requires more complex calculations and means the forecasts contained in the long term financial and asset management plans need to be kept up to date to be meaningful and verifiable.





## 4.0 Debt Ratio

### 4.1 Debt Service Cover Ratio

$$\frac{\text{annual operating surplus before interest and depreciation}}{\text{principal and interest}}$$

**Annual Operating Surplus before Interest and Depreciation** – operating revenue minus net operating expense

**Depreciation** – has the meaning given in Australian Accounting Standards

**Interest** – interest expense for moneys borrowed, credit obtained or financial accommodation arranged under section 6.20.

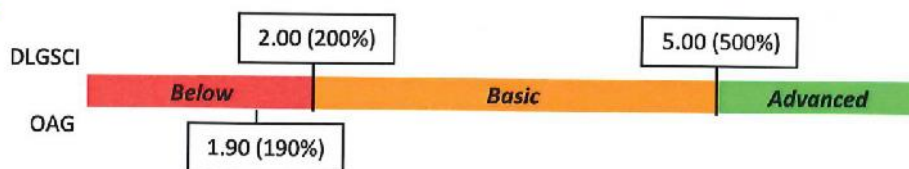
**Principal and Interest** – all principal and interest for money borrowed, credit obtained or financial accommodation arranged under section 6.20

**Interpretation:**

Not unlike the previous debt service ratio although an inverse application.

Measures a Council’s ability to service debt out of its uncommitted or general purpose fund available for its operations.

**Risk Indicators:**



**Advanced standard** – greater than 5.00 (500%)

**Basic standard** – 2.00 (200%) or greater

Below 2.00 (200%) starts to indicate a higher risk

**Comment:**

Those local governments with a higher proportion of revenue from rates can also effectively operate at lower debt service ratios as they are more able to generate income (via rate increases) to cope with the debt burden.

Consequently, the effect of any borrowing increases in a particular year should be considered when formulating funding options for the budget in any given year.

The longer term effect on the ratios when repayments do kick in should not be ignored (as often is the case).

Quite often, borrowings are proposed in one year and repayments do not commence until the following year and it is only then, the true effect of the debt servicing costs become evident in budget deliberations.

It is important the knock on effect on debt ratios are considered as a part of borrowing deliberations.

These ratios also need to be weighed with the need for the local government to consider the future plans/growth including the rationalisation of Reserve funds.

Reference to the Long Term Financial Plan of the local government may assist in identifying these trends.



## 5.0 Operating Surplus

### 5.1 Operating Surplus Ratio

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

**Operating Revenue** – the revenue that is operating revenue for the purposes of Australian Accounting Standards, excluding –

- a) grants for the development or acquisition of assets; and
- b) contributions for the development or acquisition of assets

**Operating Expense** – the expense that is operating expense for the purposes of Australian Accounting Standards

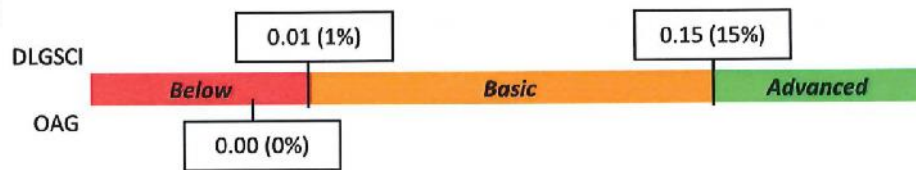
**Own source operating revenue** – revenue from rates and service charges, fees and user charges, reimbursements and recoveries, interest income and profit on disposal of assets

**Interpretation:**

Effectively highlights the scale/extent of any operating surplus or deficit in relation to the overall size of the local government.

Helps to measure if own source revenue raised is able to meet operational needs and have revenues available for capital or other purposes.

**Risk Indicators:**



**Advanced standard – greater than 0.15 (15%)**

The local government is providing a strong operating surplus which will give flexibility in the future in relation to operational service levels and asset base.

**Basic standard – between 0.01 (1%) and 0.15 (15%)**

When this ratio starts to drift into negative territory it indicates a deficit and higher risk.

**Comment:**

A sustained period of deficits will erode the local government’s ability to maintain both its operational service level and asset base.

**Potential Problems for Financial Reporting:**

- Own Source Operating Revenue includes reimbursements and recoveries which are not currently a separate nature or type. It is important the accounting system allows for this to be tracked/obtained. The Somewhere manual/model does provide for separate disclosure for ease of reference.



## 5.0 Operating Surplus (Continued)

### 5.2 Own Source Revenue Coverage Ratio

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

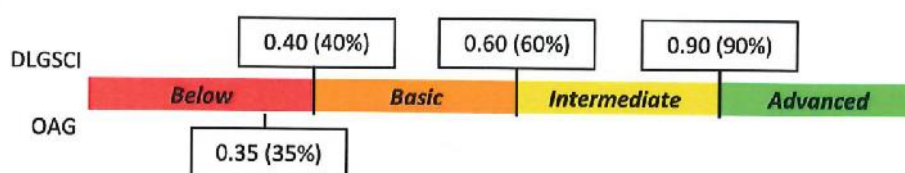
**Own source operating revenue** – revenue from rates and service charges, fees and user charges, reimbursements and recoveries, interest income and profit on disposal of assets

**Operating Expense** – the expense that is operating expense for the purposes of Australian Accounting Standards, including net interest expense and depreciation expense

#### Interpretation:

Measures the local government's ability to cover operating expenses from own source revenue.

#### Risk Indicators:



**Advanced standard** – greater than 0.90 (90%)

**Intermediate standard** – between 0.60 (60%) and 0.90 (90%)

**Basic standard** – less than 0.60 (60%) but no lower than 0.40 (40%)

Below 0.40 (40%) indicates a higher risk.

#### Comment:

The higher the ratio, the more self-reliant the local government is it allows greater flexibility as less external funds are required for operational purposes.

Notwithstanding this, some rural and remote local governments have a limited rate base and revenue raising capability.

At the other extreme, major metropolitan and regional local governments have a significantly greater rate base and own source revenue.

The particular nature/circumstances of the local government need to be considered. Analysis also needs to recognise the varying revenue raising capabilities across the sector when determining the most applicable standard.

In the current funding environment, it is unrealistic to expect rural and remote local governments to operate at the intermediate and advanced standard.

Likewise, major metropolitan and regional local governments would be experiencing financial stress if they operated at the basic standard or even the bottom half of the intermediate standard.

#### Potential Problems for Financial Reporting:

- Own Source Operating Revenue includes reimbursements and recoveries which are not currently a separate nature or type. It is important the accounting system allows for this to be tracked/obtained.

The Somewhere manual/model does provide for separate disclosure for ease of reference.



THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY



© Moore Stephens (WA) Pty Ltd

Short Guide to Financial Ratios  
May 2019

| 13





Government of **Western Australia**  
Department of **Local Government and Communities**

# Local Government Operational Guidelines

Number 18 – June 2013



## Financial Ratios

## 1. Introduction

This guideline is intended to provide a clear 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*.

An explanation of the purpose of each ratio is included to ensure staff and elected members are able to interpret what the ratio result means for the local government.

Definitions are included to fully describe what is meant by the terms used in the ratios.

## 2. Purpose

The guideline is designed to assist local government officers in preparing financial ratios, and provide elected members and officers with an understanding of each ratio.

Financial ratios are designed to provide users of annual financial reports with a clearer interpretation of the performance and financial results of a local government and a comparison of trends over a number of years.

On occasions, there have been inconsistencies in the calculation and interpretation of financial ratios. If information is to be meaningful, it should be prepared accurately and consistently. Ratios may be disclosed as a percentage or a factor of one.

These indicators provide a short term measure of the financial sustainability of local governments and complement the national criteria endorsed by the Local Government and Planning Ministers' Council. They provide for a comprehensive

tool for monitoring the financial sustainability of local governments.

## 3. Legislation

Financial ratios are included in the notes to the annual financial report. These ratios provide users with key indicators of the financial performance of a local government and include comparisons with two prior years.

Under regulation 50 of the *Local Government (Financial Management) Regulations 1996*, the annual financial report is to include, for the financial year covered by the annual financial report and the two preceding financial years, the following:

- a) current ratio;
- b) asset consumption ratio;
- c) asset renewal funding ratio;
- d) asset sustainability ratio;
- e) debt service cover ratio;
- f) operating surplus ratio; and
- g) own source revenue coverage ratio.

As several of the ratios are to be reported for the first time in the 2012/13 financial year, local governments are expected to make reasonable efforts to calculate the ratios for the two prior years. However comparatives for 2010/11 and 2011/12 are not required for the assets consumption ratio or asset renewal funding ratio.

This guideline analyses each of these ratios according to the information they provide. The ratios are classified under the following headings:

- (i) liquidity ratio;
- (ii) debt ratio;
- (iii) coverage ratio;
- (iv) financial performance ratio; and
- (v) asset management ratios.

## 4. Ratios

### 4.1 Liquidity Ratio

Liquidity refers to how quickly and cheaply an asset can be converted into cash. A local government's liquidity is measured by the 'Current Ratio'. This ratio provides information on the ability

of a local government to meet its short-term financial obligations out of unrestricted current assets. The calculation of this ratio is explained as follows:

Current Ratio	
Current Ratio =	$\frac{(\text{Current Assets MINUS Restricted Assets})}{(\text{Current Liabilities MINUS Liabilities Associated with Restricted Assets})}$
Purpose:	This is a modified commercial ratio designed to focus on the liquidity position of a local government that has arisen from past year's transactions.
Standards	The standard is not met if the ratio is lower than 1:1 (less than 100%) The standard is met if the ratio is greater than 1:1 (100% or greater) A ratio less than 1:1 means that a local government does not have sufficient assets that can be quickly converted into cash to meet its immediate cash commitments. This may arise from a budget deficit from the past year, a Council decision to operate an overdraft or a decision to fund leave entitlements from next year's revenues.
<b>Definitions:</b>	
'Current Assets'	Means the total current assets as shown in the balance sheet.
'Current Liabilities'	Means the total current liabilities as shown in the balance sheet.
'Restricted Asset'	Means an asset the use of which is restricted, wholly or partly, by a law made or a requirement imposed outside of the control of the local government, where the restriction is relevant to assessing the performance, financial position or financing and investment of the local government. This includes all section 6.11 cash reserves as these are restricted by the Act '... by a law made ...'; unspent specific grants and other restricted cash identified by the local government, as these are restricted by '... a requirement imposed outside of the control of the local government ...'
'Liabilities Associated with Restricted Assets'	Means the lesser value of a current liability or the cash component of restricted assets held to fund that liability. Commonly this is the cash reserve for long service leave, annual leave and other employee entitlements. Ideally the cash reserve amount should be the same as the provision amount but this is rarely the case. <ul style="list-style-type: none"> <li>• Only make a deduction if there is a cash reserve.</li> <li>• If the cash reserve is greater than the provision amount, only deduct the amount of the provision.</li> <li>• If the provision amount is greater than the cash reserve, only deduct the amount of the cash reserve.</li> <li>• If the cash reserve is for the purpose of long service leave (or other specific leave) then only adjust for that specific leave provision and not the total of all leave provisions.</li> </ul>



## 4.2 Debt Ratio

A local government's ability to service debt is measured by the 'Debt Service Cover Ratio'. This is the measurement of a local government's ability to produce enough cash to cover its debt payments.

Debt Service Cover Ratio	
Debt Service Cover Ratio =	$\frac{\text{Annual Operating Surplus BEFORE Interest and Depreciation}}{\text{Principal and Interest}}$
Purpose:	This ratio is the measurement of a local government's ability to repay its debt including lease payments. The higher the ratio is, the easier it is for a local government to obtain a loan.
Standards	A <b>Basic</b> standard is achieved if the ratio is greater than or equal to two. An <b>Advanced</b> standard is achieved if the ratio is greater than five.
<b>Definitions:</b>	
'Annual Operating Surplus Before Interest and Depreciation'	Means operating revenue minus net operating expense.
'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.
'Net Operating Expense'	Means operating expense excluding interest and depreciation.
'Interest'	Means interest expense for moneys borrowed, credit obtained or financial accommodation arranged under section 6.20 of the Act.
'Depreciation'	Has the meaning given in the AAS.
'Principal and Interest'	Means all principal and interest for moneys borrowed, credit obtained or financial accommodation arranged under section 6.20 of the Act.

### 4.3 Coverage Ratio

A local government's ability to cover its costs through its own taxing and revenue efforts is measured by the 'Own Source Revenue Coverage Ratio'.

Own Source Revenue Coverage Ratio	
Own Source Revenue Coverage Ratio =	$\frac{\text{Own Source Operating Revenue}}{\text{Operating Expense}}$
Purpose:	This ratio is the measurement of a local government's ability to cover its costs through its own revenue efforts. Different standards have been established to recognise the varying revenue raising capacities across the sector, where some rural and remote local governments have limited rate bases and revenue raising capacity, whereas others such as major metropolitan and regional local governments have significant rate bases and other own source revenues.
Standards	A <b>Basic</b> standard is achieved if the ratio is between 40% and 60% (or 0.4 and 0.6). An <b>Intermediate</b> standard is achieved if the ratio is between 60% and 90% (or 0.6 and 0.9). An <b>Advanced</b> standard is achieved if the ratio is greater than 90% (or > 0.9).
<b>Definitions:</b>	
'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.
'Operating Expense'	Means the expense that is operating expense for the purposes of the AAS.

\*Note: Typically local governments disclose, in their annual financial statements, a nature or type classification described as 'Reimbursements and Recoveries, Contributions and Donations' (or similar). In order to calculate the value of own source revenue, it is essential that reimbursements and recoveries are disclosed separately from contributions and donations. This can be by way of note.

#### 4.4 Financial Performance Ratio

A key indicator of a local government's financial performance is measured by the 'Operating Surplus Ratio'. If a local government consistently achieves a positive operating surplus ratio and has 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.

Operating Surplus Ratio	
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:	<b>Basic</b> Standard between 1% and 15% (0.01 and 0.15) <b>Advanced</b> Standard > 15% (>0.15).
<b>Definitions:</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.

\*Note: Typically local governments disclose in their annual financial statements, a nature or type classification described as 'Reimbursements and Recoveries, Contributions and Donations' (or similar). In order to calculate the value of own source revenue, it is essential that reimbursements and recoveries are disclosed separately from contributions and donations. This can be by way of note.

#### 4.5 Asset Consumption Ratio

This ratio seeks to highlight the aged condition of a local government's stock of physical assets.

If a local government is responsibly maintaining and renewing / replacing its assets in accordance with a well prepared

asset management plan, then the fact that its Asset Consumption Ratio may be relatively low and/or declining should not be cause for concern – providing it is operating sustainably.

Asset Consumption Ratio	
Asset Consumption Ratio=	$\frac{\text{Depreciated Replacement Cost of Depreciable Assets}}{\text{Current Replacement Cost of Depreciable Assets}}$
Purpose:	This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost.
Standards:	Standard is met if the ratio can be measured and is 50% or greater (0.50 or >). Standard is improving if the ratio is between 60% and 75% (0.60 and 0.75).
<b>Definitions:</b>	
'Depreciated Replacement Cost of Assets'	Has the meaning given in the AAS. AASB 136 paragraph Aus 6.2 defines depreciated replacement cost as '... the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.'
'Current Replacement Cost'	In AASB 136 paragraph Aus 32.2 'The current replacement cost of an asset is its cost measured by reference to the lowest cost at which the gross future economic benefits of that asset could currently be obtained in the normal course of business.' In addition, AASB 13 paragraph B8 provides 'The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).' More detailed explanation is included in AASB 13 paragraph B9.
'Current Replacement Cost of Depreciable Assets'	Means the cost of replacing assets at current prices.

Note that the values for depreciated replacement cost of depreciable assets and the current replacement cost of depreciable assets are not amounts disclosed in the annual financial statements and the calculations involved should be discussed with auditors.

#### 4.6 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.

Asset Sustainability Ratio	
Asset Sustainability Ratio =	$\frac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation}}$
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>	
'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.'

#### 4.7 Asset Renewal Funding Ratio

This ratio indicates whether the local government has the financial capacity to fund asset renewal as required, and can continue to provide existing levels of services in future, without additional operating income; or reductions in operating expenses.

The ratio is calculated from information included in the local government's Long Term Financial Plan and Asset Management Plan; **not** the Annual Financial Report. For the ratio to be meaningful, a consistent discount rate should generally be applied in Net Present Value (NPV) calculations.

Asset Renewal Funding Ratio	
Asset Renewal Funding Ratio =	$\frac{\text{NPV of Planned Capital Renewals over 10 years}}{\text{NPV of Required Capital Expenditure over 10 years}}$
Purpose:	This ratio is a measure of the ability of a local government to fund its projected asset renewal / replacements in the future.
Standards:	Standard is met if the ratio is between 75% and 95% (or 0.75 and 0.95). Standard is improving if the ratio is between 95% and 105% (or 0.95 and 1.05), and the ASR falls within the range 90% to 110%, and ACR falls within the range 50% to 75%.
<b>Definitions:</b>	
'NPV'	Means Net Present Value.
'Planned Capital Renewals'	Means capital renewal and replacement expenditure as estimated in the long-term financial plan.
'NPV of Planned Capital Renewals' is therefore	The total of all capital expenditures on renewals and replacement included in the 10-year long term financial plan, expressed in current year values.
'Required Capital Expenditure'	Means capital renewal and replacement expenditure as estimated in the asset management plan.
'NPV of Required Capital Expenditure' is therefore	The total of all required capital expenditures on renewals in the 10-year forecast period as indicated in the asset management plans or asset forecasts, expressed in current year values.

## 5. Ratio Calculations

Detailed calculations of each of the seven ratios are included in this section. The calculations are based on the extracts of financial information from annual financial statements or long-term and asset management plans included at section six (6) of this guideline.

### Ratio Calculations are for the year 200Y

<b>a) Current Ratio</b>		(Current Assets MINUS Restricted Assets)	
		(Current Liabilities MINUS Liabilities Associated with Restricted Assets)	
=	$\frac{\overset{[1]}{(8,156,143 - 6,728,955)}}{\underset{[3]}{(2,033,690 - 644,160)}}$	=	$\frac{1,427,188}{1,389,530} = \mathbf{1.03:1}$ <p style="text-align: right;"><b>(or 103%)</b></p>

[Numbers taken from statement of financial position and cash and cash equivalents note]

<b>b) Debt Service Cover Ratio</b>		Annual Operating Surplus BEFORE Interest and Depreciation	
		Principal and Interest	
=	$\frac{\overset{[5]}{(20,707,319+44,048)} - \overset{[7]}{\overset{[8]}{(21,365,583+50,000}}}{\overset{[9]}{+98,325}} - \overset{[10]}{\overset{[11]}{(6,907,407+96,257)}}$	=	$\frac{6,241,123}{166,854} = \mathbf{37.4}$

[Numbers taken from statement of comprehensive income by nature or type and rate setting statement]

<b>c) Own Source Revenue Coverage Ratio</b>		Own Source Operating Revenue	
		Operating Expense	
=	$\frac{\overset{[13]}{(8,165,843+4,999,717+498,964+55,200+44,048)}}{\overset{[7]}{(21,365,583+98,325+50,000)}}$	=	$\frac{\overset{[18]}{13,763,772}}{\overset{[17]}{21,513,908}} = \mathbf{0.64}$ <p style="text-align: right;"><b>(or 64%)</b></p>

[Numbers drawn from statement of comprehensive income by nature or type]

## Ratio Calculations are for the year 200Y

<b>d) Operating Surplus Ratio</b>	(Operating Revenue MINUS Operating Expense)				
	Own Source Operating Revenue				
=	$\frac{((20,707,319+44,048) - (21,513,908))}{13,763,772}$ <small>[5] [6] [17] [18]</small>	=	$\frac{-762,541}{13,763,772}$	=	<b>-5.5%</b> <b>(or -0.055)</b>

[Numbers drawn from statement of comprehensive income by nature or type and Own Source Operating Revenue same as in c) above]

<b>e) Asset Consumption Ratio</b>	Depreciated Replacement Cost of Depreciable Assets				
	Current Replacement Cost of Depreciable Assets				
=	$\frac{(18,847,904+183,226,214)}{(29,284,194+283,543,863)}$ <small>[19] [20] [21] [22]</small>	=	$\frac{202,074,118}{312,828,057}$	=	<b>64.6%</b> <b>(or 0.646)</b>

[Numbers drawn from notes 7a. and 8a.]

<b>f) Asset Sustainability Ratio</b>	Capital Renewal and Replacement Expenditure				
	Depreciation Expense				
=	$\frac{660,185* + 2,031,457 + 46,798 + 2,976,240}{6,907,407}$ <small>[23] [24] [25] [26] [10]</small>	=	$\frac{5,714,680}{6,907,407}$	=	<b>82.7%</b> <b>(or 0.827)</b>

\*Note: while described as land and building in the rate setting statement, for the purpose of this example the expenditure is assumed to all relate to buildings.

[Numbers drawn from rate setting statement]

<b>g) Asset Renewal Funding Ratio</b>	NPV of Planned Capital Renewals over 10 years			
	NPV of Required Capital Expenditure over 10 years			
NPV Planned from LTF Plan	=	$\frac{67,398}{73,099}$ <small>[27] [28]</small>	=	<b>92.2%</b> <b>(or 0.922)</b>

[Numbers drawn from Long Term Financial Plan (planned renewals) and Asset Management Plan (required renewals)]



## 6. Extracts of Financial Information from which ratios are calculated

### 6.1 Annual Financial Statements Extracts

Statement Of Financial Position For The Year Ended 30 June 201Y			
	NOTE	Current Actual \$	Prior Actual \$
<b>Current Assets</b>			
Cash and Cash Equivalents	3	6,781,850	6,005,704
Investments	4	190,000	0
Trade and Other Receivables		527,980	594,914
Inventories		656,313	590,852
<b>Total Current Assets</b>		<b>8,156,143</b> (1)	<b>7,191,470</b>
<b>Non-Current Assets</b>			
Receivables		475,355	461,669
Inventories		2,878,873	2,000,000
Property, Plant and Equipment		31,578,071	31,445,812
Infrastructure		183,226,214 (20)	181,334,195
<b>Total Non-Current Assets</b>		<b>218,158,483</b>	<b>215,241,676</b>
<b>Total Assets</b>		<b>226,314,626</b>	<b>222,433,146</b>
<b>Current Liabilities</b>			
Trade and Other Payables		1,126,295	893,304
Long Term Borrowings		83,612	64,886
Provisions	11	823,783	924,356
<b>Total Current Liabilities</b>		<b>2,033,690</b> (3)	<b>1,882,546</b>
<b>Non-Current Liabilities</b>			
Long Term Borrowings		2,358,215	419,894
Provisions	11	459,277	648,258
<b>Total Non-Current Liabilities</b>		<b>2,817,492</b>	<b>1,068,152</b>
<b>Total Liabilities</b>		<b>4,851,182</b>	<b>2,950,698</b>
<b>Net Assets</b>		<b>221,463,444</b>	<b>219,482,448</b>
<b>Equity</b>			
Retained Surplus		113,817,172	112,717,798
Reserves - Cash/Investment Backed	12	5,162,318	3,530,196
Reserves - Asset Revaluation		102,483,954	103,234,454
<b>Total Equity</b>		<b>221,463,444</b>	<b>219,482,448</b>

<b>Statement Of Comprehensive Income By Nature Or Type For The Period Ended 30 June 201Y</b>				
	NOTE	201Y Actual \$	201Y Budget \$	201X Actual \$
<b>Revenue</b>				
Rates	24	8,165,843 (13)	8,074,469	7,633,920
Operating Grants, Subsidies and Contributions	30	6,987,595	5,548,348	5,609,425
Fees and Charges	29	4,999,717 (14)	4,253,486	4,165,652
Service Charges	26	0	0	0
Interest Earnings	2(a)	498,964 (15)	385,100	413,708
Other Revenue		55,200 (16)	27,304	30,435
		<b>20,707,319 (5)</b>	<b>18,288,707</b>	<b>17,853,140</b>
<b>Expenses</b>				
Employee Costs		(8,896,802)	(8,772,958)	(7,826,475)
Materials and Contracts		(4,120,422)	(3,926,230)	(3,064,784)
Utilities		(443,972)	(435,600)	(404,245)
Depreciation	2(a)	(6,907,407) (10)	(7,100,000)	(7,435,789)
Interest Expenses	2(a)	(96,257) (11)	(399,441)	(37,753)
Insurance		(336,390)	(333,163)	(326,578)
Other Expenditure		(564,333)	(828,951)	(512,377)
		<b>(21,365,583) (7)</b>	<b>(21,796,343)</b>	<b>(19,608,001)</b>
		(658,264)	(3,507,636)	(1,754,861)
Non-Operating Grants, Subsidies and Contributions	30	3,494,037	5,856,328	4,933,510
Fair Value Adjustments to financial assets at fair value through profit and loss	2(a)	(50,000) (8)	0	0
Profit on Asset Disposals	21	44,048 (6)	2,333,736	96,518
Loss on Asset Disposal	21	(98,325) (9)	(49,155)	(43,985)
		<b>3,389,760</b>	<b>8,140,909</b>	<b>4,986,043</b>
<b>Net Result</b>		<b>2,731,496</b>	<b>4,633,273</b>	<b>3,231,182</b>
<b>Other Comprehensive Income</b>				
Changes on revaluation of non-current assets	13	(750,500)	0	0
<b>Total Other Comprehensive Income</b>		<b>(750,500)</b>	<b>0</b>	<b>0</b>
<b>Total Comprehensive Income</b>		<b>1,980,996</b>	<b>4,633,273</b>	<b>3,231,182</b>

Rate Setting Statement For The Period Ended 30 June 201Y				
	NOTE	201Y Actual \$	201Y Budget \$	201X Actual \$
<b>Revenue</b>				
Governance		108,566	93,221	81,376
General Purpose Funding (Excl Rates)		4,104,679	3,970,416	3,855,332
Law, Order, Public Safety		686,829	556,802	864,126
Health		262,378	176,240	175,879
Education and Welfare		1,660,935	1,416,806	1,291,279
Housing		520	600	460
Community Amenities		1,688,168	1,803,650	1,324,894
Recreation and Culture		1,328,903	2,171,562	1,403,700
Transport		4,783,531	3,960,367	5,365,366
Economic Services		503,702	387,060	385,897
Other Property and Services		1,000,611	3,916,478	499,839
		<b>16,128,822</b>	<b>18,453,202</b>	<b>15,248,148</b>
<b>Expenses</b>				
Governance		(826,169)	(908,185)	(763,010)
General Purpose Funding		(171,816)	(158,077)	(154,898)
Law, Order, Public Safety		(1,137,630)	(1,349,794)	(928,250)
Health		(356,604)	(331,717)	(296,011)
Education and Welfare		(1,743,528)	(1,682,025)	(1,495,536)
Housing		(1,657)	(1,500)	(1,432)
Community Amenities		(2,859,238)	(3,057,906)	(2,755,017)
Recreation and Culture		(4,259,938)	(4,243,523)	(3,800,603)
Transport		(8,641,626)	(8,380,666)	(8,156,823)
Economic Services		(616,182)	(598,183)	(469,186)
Other Property and Services		(899,520)	(1,133,922)	(831,220)
		<b>(21,513,908)</b>	<b>(21,845,498)</b>	<b>(19,651,986)</b>
<b>Net Result Excluding Rates</b>		<b>(5,385,086)</b>	<b>(3,392,296)</b>	<b>(4,403,838)</b>
<b>Adjustments for Cash Budget Requirements:</b>				
<b>Non-Cash Expenditure and Revenue</b>				
(Profit)/Loss on Asset Disposals	21	54,277	(2,284,581)	(52,533)
Movements in Assets/Liabilities		2,077	0	104,502
Depreciation on Assets	2(a)	6,907,407	7,100,000	7,435,789
<b>Net Non-Cash Expenditure/Revenue</b>		<b>6,963,761</b>	<b>4,815,419</b>	<b>7,487,758</b>

Rate Setting Statement For The Period Ended 30 June 201Y				
	NOTE	201Y Actual \$	201Y Budget \$	201X Actual \$
<b>Capital Expenditure/Revenue</b>				
Purchase of Land Held for Resale		(2,056,759)	(4,076,189)	(702,227)
Purchase Land and Buildings	20	(660,185)	(1,787,479)	(957,226)
Purchase Plant and Equipment	20	(2,031,457)	(2,686,903)	(2,165,913)
Purchase Furniture and Equipment	20	(46,798)	0	0
Infrastructure Assets	20	(2,976,240)	(3,704,824)	(6,319,171)
Infrastructure Assets – New		(3,710,100)	(7,500,000)	0
Repayment of Debentures	23(a)	(70,597)	(70,597)	(68,526)
Proceeds from Disposal of Assets	21	759,429	5,904,712	655,232
Proceeds from New Debentures	23	2,027,644	2,188,452	350,000
SS Loan Principal Income	23	24,393	24,393	48,098
Transfers to Reserves	12	(3,376,061)	(1,478,584)	(2,952,482)
Transfers from Reserves	12	1,743,939	2,447,854	1,883,320
ADD Surplus/(Deficit) July 1 B/F	24(b)	1,841,049	1,290,473	1,351,004
LESS Surplus/(Deficit) June 30 C/F	24(b)	1,163,514	0	1,841,049
<b>Amount Required to be Raised from Rates</b>	<b>24(a)</b>	<b>(8,116,582)</b>	<b>(8,025,569)</b>	<b>(7,635,020)</b>

3 Cash And Cash Equivalents				
	NOTE	201Y \$	201X \$	
Cash - Unrestricted Muni		52,895	850,416	
Cash - Restricted		6,728,955	(2)	5,155,288
	14(a)	6,781,850		6,005,704
<b>The following restrictions have been imposed by regulations or other externally imposed requirements:</b>				
Land Purchase and Development Reserve	12	941,906		434,375
Plant Reserve	12	1,175,544		806,956
Building Reserve	12	1,777,669		1,224,785
Sanitation Services Reserve	12	623,039		406,750
Employee Entitlements	12	644,160	(4)	657,330
<b>Total Reserves</b>		<b>5,162,318</b>		<b>3,530,196</b>
Unspent Grants	2(d)	1,566,637		1,625,092
<b>Total Unspent Grants and Loans</b>		<b>1,566,637</b>		<b>1,625,092</b>
<b>Total Restricted Cash</b>		<b>6,728,955</b>		<b>5,155,288</b>

7a Property, Plant and Equipment (PP&E)		
	201Y \$	201X \$
Land – Fair Value	12,730,167	12,457,362
Less Accumulated Depreciation	0	0
	12,730,167	12,457,362
Buildings – Fair Value	15,081,793	14,694,413
Less Accumulated Depreciation	(3,746,056)	(3,379,285)
	11,335,737	11,315,128
Furniture and Equipment – Fair Value	895,174	1,426,495
Less Accumulated Depreciation	(638,235)	(1,115,109)
	256,939	311,386
Plant and Equipment – Fair Value	2,865,445	2,814,165
Less Accumulated Depreciation	(2,123,703)	(1,950,728)
	741,742	863,437
Plant and Equipment Under Lease	2,270,110	2,037,911
Less Accumulated Depreciation	(595,703)	(401,210)
	1,674,407	1,636,701
Road Construction Plant – Fair Value	8,171,672	7,920,130
Less Accumulated Amortisation	(3,332,593)	(3,058,332)
	4,839,079	4,861,798
<b>Depreciated Cost of PP&amp;E at Fair Value</b>	<b>31,578,071</b>	<b>31,445,812</b>
<b>Current Replacement Cost of</b> Depreciated PP&E at Fair Value	29,284,194 (21)	28,893,114
<b>Less</b> Accumulated Depreciation	(10,436,290)	(9,904,664)
<b>Depreciated Replacement Cost of</b> Depreciated PP&E at Fair Value	18,847,904 (19)	18,988,450
<b>Land</b> (Non-Depreciable)	12,730,167	12,457,362
<b>Depreciated Cost of PP&amp;E at Fair Value</b>	<b>31,578,071</b>	<b>31,445,812</b>

8a	Infrastructure	
	201Y \$	201X \$
Roads – Fair Value	260,058,298	253,772,740
Less Accumulated Depreciation	(88,538,837)	(83,677,423)
	<u>171,519,461</u>	<u>170,095,317</u>
Drainage – Fair Value	2,832,873	2,711,180
Less Accumulated Depreciation	(1,044,492)	(976,459)
	<u>1,788,381</u>	<u>1,734,721</u>
Bridges – Fair Value	861,642	811,414
Less Accumulated Depreciation	(285,302)	(244,299)
	<u>576,340</u>	<u>567,115</u>
Footpaths and Cycleways – Fair Value	4,701,608	4,305,552
Less Accumulated Depreciation	(1,352,095)	(1,207,616)
	<u>3,349,513</u>	<u>3,097,936</u>
Parks and Gardens – Fair Value	6,518,991	6,258,991
Less Accumulated Depreciation	(5,009,798)	(4,696,849)
	<u>1,509,193</u>	<u>1,562,142</u>
Airports – Fair Value	2,398,359	2,178,649
Less Accumulated Depreciation	(483,853)	(422,827)
	<u>1,914,506</u>	<u>1,755,822</u>
Sewerage – Fair Value	4,576,113	4,506,113
Less Accumulated Depreciation	(3,388,338)	(3,275,685)
	<u>1,187,775</u>	<u>1,230,428</u>
Other – Fair Value	1,595,979	1,461,034
Less Accumulated Depreciation	(214,934)	(170,320)
	<u>1,381,045</u>	<u>1,290,714</u>
	<b><u>183,226,214</u></b>	<b><u>181,334,195</u></b>
<b>Current Replacement Cost</b> of Infrastructure at Fair Value	<b>283,543,863</b> (22)	<b>276,005,673</b>
<b>Less</b> Accumulated Depreciation	<b>(100,317,649)</b>	<b>(94,671,478)</b>
<b>Depreciated Replacement</b> Cost of Infrastructure	<b>183,226,214</b> (20)	<b>181,334,195</b>

<b>11 Provisions</b>		
	<b>201Y</b>	<b>201X</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Provision for Annual Leave	668,540	756,421
Provision for Long Service Leave	155,243	167,935
	<b>823,783</b>	<b>924,356</b>
<b>Non-Current</b>		
Provision for Long Service Leave	459,277	648,258
	<b>459,277</b>	<b>648,258</b>

<b>12f Reserves – Cash/Investment Backed</b>		
	<b>201Y</b>	<b>201X</b>
	<b>\$</b>	<b>\$</b>
<b>Employee Entitlements</b>		
Purpose: To be used to fund Annual and Long Service Leave		
Opening Balance	657,330	427,366
Amount Set Aside / Transfer to Reserve	171,082	260,529
Amount Used / Transfer from Reserve	(184,252)	(30,565)
	<b>644,160</b>	<b>657,330</b>

## 6.2 Long-term Financial Plan and Asset Management Plan Extracts

Renewals / Upgrades	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>Long Term Financial Plan</b>										
Buildings	570	600	700	750	800	850	1,500	1,500	1,500	1,500
Motor Vehicles	182	200	215	220	250	235	260	270	270	280
Plant and Equipment	885	385	290	930	790	390	1,045	790	545	1,050
Infrastructure Roads	7,184	6,359	6,728	7,100	4,744	5,084	5,426	5,772	6,119	6,221
Infrastructure Other	1,235	250	350	400	750	750	800	800	850	850
<b>Total Planned Renewals</b>	<b>10,056</b>	<b>7,794</b>	<b>8,283</b>	<b>9,400</b>	<b>7,334</b>	<b>7,309</b>	<b>9,031</b>	<b>9,132</b>	<b>9,284</b>	<b>9,901</b>
<b>Asset Management Plan</b>										
Buildings	600	650	750	800	850	875	1,700	1,700	1,800	1,800
Motor Vehicles	182	200	215	220	250	235	260	270	270	280
Plant and Equipment	885	385	290	930	790	390	1,045	790	545	1,050
Infrastructure Roads	7,500	7,700	7,900	8,000	5,200	5,400	5,700	6,000	6,400	6,500
Infrastructure Other	1,250	250	380	420	800	800	850	850	900	900
<b>Total Required Renewals</b>	<b>10,417</b>	<b>9,185</b>	<b>9,535</b>	<b>10,370</b>	<b>7,890</b>	<b>7,700</b>	<b>9,555</b>	<b>9,610</b>	<b>9,915</b>	<b>10,530</b>

Discount Rate = 0.05  
 NPV Planned Renewals 67,398 (27)  
 NPV Required Renewals 73,099 (28)  
 Ratio = 67,398/73,099 92.2%



These guidelines are also available on the Department's website at [www.dlgc.wa.gov.au](http://www.dlgc.wa.gov.au)



#### About the Guideline series

This document and others in the series are intended as a guide to good practice and should not be taken as a compliance requirement. The content is based on Department officer knowledge, understanding, observation of, and appropriate consultation on contemporary good practice in local government. Guidelines may also involve the Department's views on the intent and interpretation of relevant legislation.

All guidelines are subject to review, amendment and re-publishing as required. Therefore, comments on any aspect of the guideline are welcome. Advice of methods of improvement in the area of the guideline topic that can be reported to other local governments will be especially beneficial.

For more information about this and other guidelines, contact the Local Government Regulation and Support Branch at:

**Department of Local Government and Communities**

Gordon Stephenson House, 140 William Street, Perth WA 6000

GPO Box R1250, Perth WA 6844

Telephone: (08) 6551 8700 Fax: (08) 6552 1555

Freecall (Country only): 1800 620 511

Email: [info@dlgc.wa.gov.au](mailto:info@dlgc.wa.gov.au) Website: [www.dlgc.wa.gov.au](http://www.dlgc.wa.gov.au)

Translating and Interpreting Service (TIS) – Tel: 13 14 50



## Shire of Derby/West Kimberley

# Report on Matters Identified as Significant in 2017/18 Audit Report

### Executive Summary

The Shire of Derby/West Kimberley's operating revenue has shown a steady and marked decline since 2011/12. Operating revenues have been in decline due to a number of factors namely, loss of income from airport operations, reduction in FAGS Grant, reduction in fees and charges from the loss of substantial business operations in the Shire and reduction in rates due to cessation of mining operations. Unfortunately the operating expenditure has not undergone corresponding decreases and this is demonstrating concerning trends for the Shire into the future.

The Shire Administration and Council are aligned in the plan for the future and the commitment to improving the Shires financial performance over the next 3 years.

The Council will receive for adoption the 2019/20 Annual Budget and Long Term Financial Plan at the Council Meeting on the 29 August 2019, which demonstrates a serious commitment to a reduction in expenditure, the Council has also committed to a major review of its IPR Framework and the supporting and corresponding documents in an effort to further outline productivity and financial sustainability measures in conjunction with the Community.

The Shire has undergone significant management changes since December 2018, this has been resolved in June 2019 with the appointment of Amanda O'Halloran as CEO. The Council has directed the CEO to ensure that there is a renewed focus on compliance and sustainable financial management. The Audit Report and the Department of Local Government, Sport and Cultural Industries recent Letter highlight a number of significant concerns and practices that have recently lead to many changes in the Council over the last 12 months which include, but are not limited to:

- Implementation of the ATTAIN Governance Management System
- Improved compliance in Records Management and the adoption of an approved Records Management Plan, resulting in an improved internal culture in regards to Records Management.
- Implementation of Synergy System Tools to support service mapping
- Review of Documented Policies and Procedures
- Whole of Staff training in Policies and Procedures and implementation of renewed Induction Process
- Implementation of Manager of Administration and Governance with associated resources
- Council implemented a monthly Compliance and Strategic Review Committee in October 2018

It is the intention of the New Administration and Council to improve compliance and increase Elected Member Engagement and Strategic Decision Making. This will be the major focus of the organisation o

#### Derby

(08) 9191 0999 | 30 Loch Street  
 sdwk@sdwk.wa.gov.au | PO Box 94, Derby WA 6728

#### Fitzroy Crossing

(08) 9191 5355 | Flynn Drive  
 sdwk@sdwk.wa.gov.au | PO Box 101, Fitzroy Crossing

ABN: 99 934 203 062

[www.sdwk.wa.gov.au](http://www.sdwk.wa.gov.au)



Please find below the Shires comments to concerns raised and considered realistic timeframes for correction or implementation of internal controls where required to improve compliance and general business administration.

Amanda O'Halloran  
**Chief Executive Officer**

23 August 2019

#### Derby

 (08) 9191 0999 | 30 Loch Street  
 [sdwk@sdwk.wa.gov.au](mailto:sdwk@sdwk.wa.gov.au) | PO Box 94, Derby WA 6728

#### Fitzroy Crossing

 (08) 9191 5355 | Flynn Drive  
 [sdwk@sdwk.wa.gov.au](mailto:sdwk@sdwk.wa.gov.au) | PO Box 101, Fitzroy Crossing

ABN: 99 934 203 062

 [www.sdwk.wa.gov.au](http://www.sdwk.wa.gov.au)



Issue Identified		Shire Comment	Action to be undertaken	Time Frame
1. Audit Report and Management Letter for the Year ended 30 June 2018				
Audit Report Issues	<ul style="list-style-type: none"> <li>• Significant Structural deficit in the operating results for the previous two years;</li> <li>• Inability to reconcile the year end position;</li> <li>• Year End Audit Readiness and Efficiency.</li> </ul>	<p>It is Council's position that the Management Report findings have been complicated by long term Staffing issues, Resignation of the CEO, Significant Economic downturn in the region with the closure of the Curtin Detention Centre and local significant Mining Operations and the impact of WANDRRA on the financial position of the Shire.</p> <p>Council has engaged the external assistance of Moore Stephens to achieve an up-to-date an accurate Long Term Financial Management Plan and Asset Management Plan in conjunction with Council</p> <p>The Shire has engaged Moore Stephens to undertake an independent compliance check, by undertaking a Financial Management Review, to be undertaken over the next quarter.</p> <p>The Shire is working to increase the resourcing of the Finance Team and improve long term retention issues. This week The CEO has engaged the services of 3 extra experienced staff to undertake, audit readiness, reconciling review and improve financial management practices across the Shire.</p>	<p>LTFP &amp; AMP work shop with Council in Derby</p> <p>Moore Stephens to undertake a Financial Management Review by September 30, 2019</p> <p>Senior Finance Officer employed through HAYS for 4 months to support Audit Readiness, Senior Finance Officer employed locally and previous experienced Staff member contracted back locally to help meet immediate concerns.</p>	<p>30 August 2019</p> <p>30 September 2019</p> <p>2 x Staff to start on the 8 July 2019 and Senior Finance Officer to commence on the 9 Septmber2019</p>



Issue Identified		Shire Comment	Action to be undertaken	Time Frame
	Operating Ratio below the industry bench mark;	<p>The Shires Operating Ratio has been impacted by the significant project works associated with WANDRRA, These works are due to be finalised during the 2019/20 Financial Year and this should improve these ratios.</p> <p><b>**Council has been working to improve its operations and decrease operation spend as much as possible. A 20 year loan for works that have been carried out for life time projects such as the Derby Airport and Derby Wharf will be secured this financial year to improve cash flow and distribute the impost generationally, rather than the short term intention previously considered by Council.</b></p>	Support to decrease operational expenditure is being provided by Moore Stephens. Council is committed to reviewing service levels and operational capability and making the changes where necessary. This work will be ongoing thorough out the financial year.	30 June 2020.
	Non Compliance Issues <ul style="list-style-type: none"> <li>• Lateness of the Audit Report</li> <li>• Journal entries posted without being reviewed</li> </ul>	<p>Council notes that in both these instances the Shire was non compliant and as mentioned above is working to ensure that these issues do not occur again.</p> <p>Compliance has a new priority within the Organisation, and a complete review of all finance related internal controls is being implemented, the Shire is working with our Neighbouring Shire of Broome and Wyndham East Kimberley to share resources and seek mentoring and training opportunities.</p> <p>Internal controls have been implemented to ensure that all Journals are reviewed by Senior Staff.</p> <p>A full review of all Finance Internal Controls is being undertaken and it is proposed that any improvements that may be identified are implemented by September 30 2019.</p>	<p>New Forms implemented to document that the review has been undertaken and signed off by Reviewing Officer</p> <p>Review of finance Dept Internal Controls &amp; implementation of improvements</p>	<p>10 June 2019</p> <p>30 September 2019</p>



Issue Identified		Shire Comment	Action to be undertaken	Time Frame
<b>1. Management Report Issues</b>	<ul style="list-style-type: none"> <li>Meeting with the Auditor cancelled;</li> </ul>	<p>The following issues have been duly considered and the Shires response is: The Meeting with the Auditor was cancelled as the Shire had experienced Staff issues and identified serious misconduct (unauthorised deleting of accounting data), it was considered to be an appropriate course of action, given the distance and resources involved in the Auditor attending an onsite meeting in Derby. This was appropriately relayed to the Auditor at the time.</p>	<p>A review of staffing has occurred and internal resourcing changes have occurred.</p>	<p>Finalised</p>
	<ul style="list-style-type: none"> <li>Year End Efficiency and Readiness;</li> </ul>	<p>Due to the above event, the Shire was seriously underprepared and had to rework many of the year end requirements to provide data for the Audit to proceed – This matter is resolved and the Shire is working to increase resources to rectify this matter immediately.</p>	<p>The Shire is actively recruiting, has engaged Moore Stephens, and 2 x New Staff to help improve Financial operations.</p>	<p>30 September 2019</p>
	<ul style="list-style-type: none"> <li>Lateness of accounts and financial report (partly due to deleting of accounting data);</li> </ul>	<p>The Shire had experienced Staff issues and identified serious misconduct (unauthorised deleting of accounting data), this impacted considerably on the ability to present audit data on time and this has been rectified, and will not occur again.</p>	<p>Finalised</p>	<p>Finalised</p>
	<ul style="list-style-type: none"> <li>Asset Management Plan and Long Term Financial Management Plan not up to date;</li> </ul>	<p>Moore Stephens was engaged in February 2019 to undertake these reviews, they have been delayed to date due to resourcing issues and issues finalising the 2018/19 year end etc... Elected Member workshops and Management Review have been booked to occur in Derby during July, to have these reports finalised to influence the budget, long term Strategic planning and investment strategies.</p>	<p>Elected Member Workshop and Management Review 18/19 July 2019</p>	<p>To be finalised by August 30 2019</p>



Issue Identified		Shire Comment	Action to be undertaken	Time Frame
	<ul style="list-style-type: none"> <li data-bbox="589 379 826 464">• Credit Card Agreement form left unsigned;</li> <li data-bbox="589 496 826 580">• Financial Interest Register, errors in returns;</li> <li data-bbox="589 788 826 900">• Lateness on public notice on the availability of the Annual Report;</li> <li data-bbox="589 995 826 1139">• Lateness of the submission of the Annual Budget and Budget Review to the Department;</li> </ul>	<p data-bbox="848 379 1424 432">This matter is being reviewed and will be rectified by 30 July 2019.</p> <p data-bbox="848 496 1424 751">Council notes this has occurred and has implemented the ATTAIN Governance Management System to improve Governance across the Organisation and for Elected Members. The system supports completion of Primary and Annual Returns, Financial Interests and delegation reporting. The system is online and is accessible to all Councillors and authorised Staff. The system has forcing functions to ensure no fields are left blank and forces responses when required.</p> <p data-bbox="848 788 1424 959">Once again the Shire acknowledges this occurred, after investigation of the matter it appears that a number of factors contributed to the outcome including Officer error, Christmas shutdown and Shire operations etc... Council has implemented internal controls to ensure that this incident does not occur again into the future.</p> <p data-bbox="848 995 1424 1187">The Shire and Council are committed to working with the Auditor General Auditors this financial year to ensure that these incidents do not occur again into the future. An internal reporting time line has been implemented outlining key governance requirements and reporting deadlines. Extra resource has been recruited to support the internal operations of finance</p>	<p data-bbox="1447 379 1700 432">Review being undertaken in July 2019</p> <p data-bbox="1447 496 1532 517">Finalised</p> <p data-bbox="1447 788 1532 809">Finalised</p> <p data-bbox="1447 1023 1576 1043">30 June 2020</p>	<p data-bbox="1722 379 1850 400">30 July 2019</p> <p data-bbox="1722 496 1807 517">Finalised</p> <p data-bbox="1722 788 1807 809">Finalised</p> <p data-bbox="1722 1023 1852 1043">30 June 2020</p>



Issue Identified		Shire Comment	Action to be undertaken	Time Frame
	<ul style="list-style-type: none"> <li data-bbox="589 411 837 467">• Tender Register insufficient;</li> <li data-bbox="589 587 837 754">• No review of the Strategic Community Plan and Corporate Business Plan as required;</li> <li data-bbox="589 906 837 1050">• No evidence of month end reconciliations was reviewed by senior staff;</li> <li data-bbox="589 1090 837 1225">• No evidence of Journal entries reviewed nor authorised by senior staff</li> </ul>	<p data-bbox="848 411 1424 547">In this instance it appears the two matters referred to were open tenders listed in the register, where the closing date had not been reached. The Tender Register is complete and available for further inspection. Internal Controls are in place and adequate.</p> <p data-bbox="848 587 1424 866">Council has not attended to these reviews to date, it appears this has occurred due to the resignation of the CEO (12 months' notice was given), and the lack of financial and human resourcing to undertake the reviews. The Corporate Business Plan is currently being reviewed with the support of Moore Stephens prior to the adoption of the Annual Budget to ensure ongoing compliance and the Strategic Community Plan will be reviewed over the next 12 months in conjunction with Elected Members and the Community.</p> <p data-bbox="848 906 1424 1018">This has been implemented with the help and support of Moore Stephens and Month End Process and Procedures now guide Staff in their actions to ensure compliance in these matters.</p> <p data-bbox="848 1082 1424 1129">An appropriate internal Control has been implemented to ensure this occurs into the future.</p>	<p data-bbox="1447 435 1536 459">Finalised</p> <p data-bbox="1447 587 1686 667">Corporate Business Plan Review to be completed by 30 August 2019</p> <p data-bbox="1447 730 1700 842">Strategic Community Plan to be reviewed and completed by June 30 2020.</p> <p data-bbox="1447 906 1536 930">Finalised</p> <p data-bbox="1447 1082 1536 1106">Finalised</p>	<p data-bbox="1722 435 1812 459">Finalised</p> <p data-bbox="1722 587 1827 635">30 August 2019</p> <p data-bbox="1722 730 1850 754">June 30 2020</p> <p data-bbox="1722 906 1812 930">Finalised</p> <p data-bbox="1722 1082 1812 1106">Finalised</p>





Issue Identified		Shire Comment	Action to be undertaken	Time Frame
<b>2. 2018 – 2019 Budget Review</b>				
	<ul style="list-style-type: none"> <li data-bbox="589 360 828 443">• Proposed unlawful transfers to reserves</li> <li data-bbox="589 651 828 734">• Concerns over Budget examination prior to adoption</li> <li data-bbox="589 885 828 997">• Discrepancy regarding closing and opening balance</li> </ul>	<p data-bbox="846 360 1429 587">The current Shire Administration does not intend to undertake any unlawful actions in relation to the Budget Review. The Shire has engaged Moore Stephens Senior Consultants to support and mentor our Finance Manager in regards to what is appropriate actions and to ensure the finalisation of the financials is lawful. The Shire will definitely present the Budget Review in a timelier manner going forward and will ensure compliance at this level.</p> <p data-bbox="846 651 1429 850">In regards to the Financial Management Comments, due to the changes in senior staff from the CEO to Senior Finance Staff, we are unable to comment at this time. As discussed previously the NEW Shire Administration Team is and will continue to remain committed to providing Elected Members with timely, accurate reports, providing them with the appropriate tools to make informed decisions.</p> <p data-bbox="846 885 1429 1230">Response supplied to department by email on the 3 May 2019 - The Shire prepared and adopted the Budget Review, prior to finalised Audited Annual Financial Statements being available. The figure used in the Budget Review was an estimate. The 17/18 financials were being audited at the same time, and during this time there was some issues with how a number of end of year journals were treated. On advice from the auditors, journals where reversed which had the identified impact on final figures. Due to Staff leave Journals not available at this time, to validate response – aim to provide to Department by 19 July 2019</p>	<p data-bbox="1442 360 1704 555">Ongoing – mentoring and oversight to be provided through Moore Stephens, Office of the CEO and during the undertaking of the Financial Management Review.</p> <p data-bbox="1442 651 1529 675">Ongoing</p> <p data-bbox="1442 885 1675 962">Provide Journals to the department by the 19 July 2019</p>	<p data-bbox="1718 360 1845 411">December 2019</p> <p data-bbox="1718 885 1845 906">19 July 2019</p>



Issue Identified		Shire Comment	Action to be undertaken	Time Frame
<b>3. Compliance Audit Return 2018</b>				
	<ul style="list-style-type: none"> <li>• Response inconsistent with Auditors Report</li> </ul>	<p>Due to the significant staff changes at the Shire over the last 3-6 months, it is difficult to understand fully what occurred in this matter, however as explained previously the Shire has moved to the ATTAIN Governance Management System to improve Governance across the Organisation and for Elected Members. The system supports completion of Primary and Annual Returns, Financial Interests and delegation reporting. The system is online and is accessible to all Councillors and authorised Staff. The system has forcing functions to ensure no fields are left blank and forces responses when required. This will provide easy access to accurate evidence. The Shire Administration do not anticipate this occurring again.</p>	Finalised	Finalised
	<ul style="list-style-type: none"> <li>• Non compliance with statutory requirements:-</li> <li>1. The Shires Strategic Community Plan has not been reviewed every 4 years as required</li> <li>2. The Shires Corporate Business Plan has not been reviewed annual as is required.</li> </ul>	<p>Due to the significant staff changes at the Shire over the last 3-6 months, it is difficult to understand fully why the Strategic Community Plan has not undergone review, Council and the Shire Administration are committed to 30 June 2020.</p> <p>Due to the significant staff changes at the Shire over the last 3-6 months, it is difficult to understand fully why the Corporate Business Plan has not undergone review – other than significant resourcing limitation. However a review is currently underway to ensure that the Corporate Business Plan is reviewed Prior to the adoption of the 2019/20 Annual Budget.</p>	<p>Full review of the Strategic Community Plan to be undertaken by 30 June 2020.</p> <p>Review to be completed 30 August 2019</p>	<p>30 June 2020</p> <p>30 August 2019.</p>



**OUR REF:** O4105

**YOUR REF:**

**DATE:** 8 November 2019

Stuart Fraser  
A/Director - Industry and Sector Regulation Branch  
Department of Local Government, Sport and Cultural Industries  
GPO Box R1250  
Perth WA 6844

Email [stuart.fraser@dlgsc.wa.gov.au](mailto:stuart.fraser@dlgsc.wa.gov.au)

Dear Stuart

**Update on Local Government Department Letter 3 May 2019**

Further to my letter dated 28 June 2019 I provide the attached report detailing our progress as at 31 October 2019.

Of the 26 items identified I am pleased to report 16 are finalised, 9 are on target for completion within timeframes and 1 is overdue.

Should you require any additional information, please do not hesitate to contact me.

Yours sincerely

Amanda O'Halloran  
**Chief Executive Officer**

**Derby**

(08) 9191 0999  
sdwk@sdwk.wa.gov.au

30 Loch Street  
PO Box 94, Derby WA 6728

**Fitzroy Crossing**

(08) 9191 5355  
sdwk@sdwk.wa.gov.au

Flynn Drive  
PO Box 101, Fitzroy Crossing

ABN: 99 934 203 062

[www.sdwk.wa.gov.au](http://www.sdwk.wa.gov.au)



Issue Identified		Shire Comment	Action to be undertaken	Time Frame	Progress at 31 October 2019
1. Audit Report and Management Letter for the Year ended 30 June 2018		It is Council's position that the Management Report findings have been complicated by long term Staffing issues, Resignation of the CEO, Significant Economic downturn in the region with the closure of the Curtin Detention Centre and local significant Mining Operations and the impact of WANDRRA on the financial position of the Shire.			
Audit Report Issues	<ul style="list-style-type: none"> <li>Significant Structural deficit in the operating results for the previous two years;</li> <li>Inability to reconcile the year end position;</li> </ul>	<p>Council has engaged the external assistance of Moore Stephens to achieve an up-to-date an accurate Long Term Financial Management Plan and Asset Management Plan in conjunction with Council</p> <p>The Shire has engaged Moore Stephens to undertake an independent compliance check, by undertaking a Financial Management Review, to be undertaken over the next quarter.</p>	<p>LTFP &amp; AMP work shop with Council in Derby</p> <p>Moore Stephens to undertake a Financial Management Review by September 30, 2019</p>	<p>18/19 July 2019</p> <p>TBC</p>	<p>Plans completed. Endorsed by Compliance &amp; Strategic Review Committee 12/09/19. To be adopted at OCM 21/11/19. <b>OUTCOME: COMPLETE</b></p> <p>Plan completed. Endorsed by Compliance &amp; Strategic Review Committee 12/09/19. To be adopted at OCM 21/11/19. <b>OUTCOME: COMPLETE</b></p>



Issue Identified		Shire Comment	Action to be undertaken	Time Frame	Progress at 31 October 2019
	<ul style="list-style-type: none"> <li>Year End Audit Readiness and Efficiency.</li> </ul>	<p>The Shire is working to increase the resourcing of the Finance Team and improve long term retention issues. This week The CEO has engaged the services of 3 extra experienced staff to undertake, audit readiness, reconciling review and improve financial management practices across the Shire.</p>	<p>Senior Finance Officer employed through HAYS for 4 months to support Audit Readiness, Senior Finance Officer employed locally and previous experienced Staff member contracted back locally to help meet immediate concerns.</p>	<p>2 x Staff to start on the 8 July 2019 and 1 x Staff commenced 17 June 2019</p>	<p>End of year accounts balanced, completed draft annual financial statements/report to Auditors by 30/9/19. Auditors completed site visit week of 7/10/19. Currently finalising annual financial statements to meeting 31/12 deadline to Auditor General <b>OUTCOME: ON TARGET</b></p>
	<p>Operating Ratio below the industry bench mark;</p>	<p>The Shires Operating Ratio has been impacted by the significant project works associated with WANDRRA, These works are due to be finalised during the 2019/20 Financial Year and this should improve these ratios.</p> <p><b>**Council has been working to improve its operations and decrease operation spend as much as possible. A 20 year loan for works that have been carried out for life time projects such as the Derby Airport and Derby Wharf will be secured this financial year to improve cash flow and distribute the impost generationally, rather than the short term intention previously considered by Council.</b></p>			<p>Council has claimed \$2.1M in WANDRRA funding, with \$0.68M left to claim. <b>OUTCOME: ON TARGET</b></p> <p>Finalisation of Annual Financial Statements will enable securing of loan with Treasury. <b>OUTCOME: ON TARGET</b></p>



Issue Identified		Shire Comment	Action to be undertaken	Time Frame	Progress at 31 October 2019
	<p>Non Compliance Issues</p> <ul style="list-style-type: none"> <li>• Lateness of the Audit Report</li> <li>• Journal entries posted without being reviewed</li> </ul>	<p>Council notes that in both these instances the Shire was non-compliant and as mentioned above is working to ensure that these issues do not occur again.</p> <p>Compliance has a new priority within the Organisation, and a complete review of all finance related internal controls is being implemented, the Shire is working with our Neighbouring Shire of Broome and Wyndham East Kimberley to share resources and seek mentoring and training opportunities.</p> <p>Internal controls have been implemented to ensure that all Journals are reviewed by Senior Staff.</p>	<p>New Forms implemented to document that the review has been undertaken and signed off by Reviewing Officer</p>	<p>10 June 2019</p>	<p>New forms implemented and signed off by reviewing officer  <b>OUTCOME: COMPLETE</b></p>
		<p>A full review of all Finance Internal Controls is being undertaken and it is proposed that any improvements that may be identified are implemented by September 30 2019.</p>	<p>Review of finance Department Internal Controls and implementation of improvements</p>	<p>30 September 2019</p>	<p>Plan completed. Endorsed by Compliance &amp; Strategic Review Committee 12/09/19. To be adopted at OCM 21/11/19.  <b>OUTCOME: COMPLETE</b></p>



Issue Identified		Shire Comment	Action to be undertaken	Time Frame	Progress at 31 October 2019
<p><b>2. Management Report Issues</b></p>	<ul style="list-style-type: none"> <li>Meeting with the Auditor cancelled;</li> <li>Year End Efficiency and Readiness;</li> </ul>	<p>The following issues have been duly considered and the Shires response is: The Meeting with the Auditor was cancelled as the Shire had experienced Staff issues and identified serious misconduct (unauthorised deleting of accounting data), it was considered to be an appropriate course of action, given the distance and resources involved in the Auditor attending an onsite meeting in Derby. This was appropriately relayed to the Auditor at the time.</p> <p>Due to the above event, the Shire was seriously underprepared and had to rework many of the year end requirements to provide data for the Audit to proceed – This matter is resolved and the Shire is working to increase resources to rectify this matter immediately.</p>	<p>Staff member was dismissed.</p> <p>The Shire is actively recruiting, has engaged Moore Stephens, and 2 x New Staff to help improve Financial operations.</p>	<p>Finalised</p> <p>Ongoing</p>	<p><b>OUTCOME: COMPLETE</b></p> <p>Staff were recruited. End of year accounts balanced, completed draft annual financial statements/report to Auditors by 30/9/19. Auditors completed site visit week of 7/10/19. Currently finalising annual financial statements to meeting 31/12 deadline to Auditor General</p> <p><b>OUTCOME: ON TARGET</b></p>



Issue Identified		Shire Comment	Action to be undertaken	Time Frame	Progress at 31 October 2019
	<ul style="list-style-type: none"> <li>Lateness of accounts and financial report (partly due to deleting of accounting data);</li> </ul>	The Shire had experienced Staff issues and identified serious misconduct (unauthorised deleting of accounting data), this impacted considerably on the ability to present audit data on time and this has been rectified, and will not occur again.	Finalised	Finalised	<b>OUTCOME: COMPLETE</b>
	<ul style="list-style-type: none"> <li>Asset Management Plan and Long Term Financial Management Plan not up to date;</li> </ul>	Moore Stephens was engaged in February 2019 to undertake these reviews, they have been delayed to date due to resourcing issues and issues finalising the 2018/19 year end etc. Elected Member workshops and Management Review have been booked to occur in Derby during July, to have these reports finalised to influence the budget, long term Strategic planning and investment strategies	Elected Member Workshop and Management Review 18/19 July 2019	To be finalised by August 30 2019	Plans completed. Workshopped with Councillors prior to presentation to CSRC. Endorsed by Compliance & Strategic Review Committee 12/09/19. To be adopted at OCM 21/11/19. <b>OUTCOME: COMPLETE</b>
	<ul style="list-style-type: none"> <li>Credit Card Agreement form left unsigned;</li> </ul>	This matter is being reviewed and will be rectified by 30 July 2019.	Review being undertaken in July 2019	30 July 2019	New agreement form has been developed and process implemented for issue of credit cards. <b>OUTCOME: COMPLETE</b>





Issue Identified		Shire Comment	Action to be undertaken	Time Frame	Progress at 31 October 2019
	<ul style="list-style-type: none"> <li>Financial Interest Register, errors in returns;</li> </ul>	<p>Council notes this has occurred and has implemented the ATTAIN Governance Management System to improve Governance across the Organisation and for Elected Members. The system supports completion of Primary and Annual Returns, Financial Interests and delegation reporting. The system is online and is accessible to all Councillors and authorised Staff. The system has forcing functions to ensure no fields are left blank and forces responses when required.</p>	Finalised	Finalised	OUTCOME: COMPLETE
	<ul style="list-style-type: none"> <li>Lateness on public notice on the availability of the Annual Report;</li> </ul>	<p>Once again the Shire acknowledges this occurred, after investigation of the matter it appears that a number of factors contributed to the outcome including Officer error, Christmas shutdown and Shire operations etc Council has implemented internal controls to ensure that this incident does not occur again into the future.</p>	Finalised	Finalised	OUTCOME: COMPLETE



Issue Identified		Shire Comment	Action to be undertaken	Time Frame	Progress at 31 October 2019
	<ul style="list-style-type: none"> <li>• Lateness of the submission of the Annual Budget and Budget Review to the Department;</li> </ul>	<p>The Shire and Council are committed to working with the Auditor General Auditors this financial year to ensure that these incidents do not occur again into the future. An internal reporting time line has been implemented outlining key governance requirements and reporting deadlines. Extra resource has been recruited to support the internal operations of finance</p>	Ongoing	Ongoing	OUTCOME: ON TARGET
	<ul style="list-style-type: none"> <li>• Tender Register insufficient;</li> </ul>	<p>In this instance it appears the two matters referred to were open tenders listed in the register, where the closing date had not been reached. The Tender Register is complete and available for further inspection. Internal Controls are in place and adequate.</p>	Finalised	Finalised	OUTCOME: COMPLETE



Issue Identified		Shire Comment	Action to be undertaken	Time Frame	Progress at 31 October 2019
	<ul style="list-style-type: none"> <li>No review of the Strategic Community Plan and Corporate Business Plan as required;</li> </ul>	<p>Council has not attended to these reviews to date, it appears this has occurred due to the resignation of the CEO (12 months' notice was given), and the lack of financial and human resourcing to undertake the reviews. The Corporate Business Plan is currently being reviewed with the support of Moore Stephens prior to the adoption of the Annual Budget to ensure ongoing compliance and the Strategic Community Plan will be reviewed over the next 12 months in conjunction with Elected Members and the Community.</p>	<p>Corporate Business Plan Review to be completed by 30 August 2019</p>	30 August 2019	<p>Plan completed. Endorsed by Compliance &amp; Strategic Review Committee 12/09/19. To be adopted at OCM 21/11/19.</p> <p><b>OUTCOME: COMPLETE</b></p>
	<ul style="list-style-type: none"> <li>No evidence of month end reconciliations was reviewed by senior staff;</li> </ul>	<p>This has been implemented with the help and support of Moore Stephens and Month End Process and Procedures now guide Staff in their actions to ensure compliance in these matters.</p>	<p>Strategic Community Plan to be reviewed and completed by 30 June 2020.</p>	June 30 2020	<p>Sourcing quotes from suitably experienced consultants</p> <p><b>OUTCOME: ON TARGET</b></p>
	<ul style="list-style-type: none"> <li>No evidence of Journal entries reviewed nor authorised by senior staff</li> </ul>	<p>An appropriate internal Control has been implemented to ensure this occurs into the future.</p>	<p>Finalised</p>	Finalised	<p><b>OUTCOME: COMPLETE</b></p>



Issue Identified		Shire Comment	Action to be undertaken	Time Frame	Progress at 31 October 2019
<b>3. 2018 – 2019 Budget Review</b>					
	<ul style="list-style-type: none"> <li>Proposed unlawful transfers to reserves</li> </ul>	<p>The current Shire Administration does not intend to undertake any unlawful actions in relation to the Budget Review. The Shire has engaged Moore Stephens Senior Consultants to support and mentor our Finance Manager in regards to what is appropriate actions and to ensure the finalisation of the financials is lawful. The Shire will definitely present the Budget Review in a timelier manner going forward and will ensure compliance at this level.</p>	<p>Ongoing – mentoring and oversight to be provided through Moore Stephens, Office of the CEO and during the undertaking of the Financial Management Review.</p>	<p>December 2019</p>	<p><b>OUTCOME: ON TARGET</b></p>
	<ul style="list-style-type: none"> <li>Concerns over Budget examination prior to adoption</li> </ul>	<p>In regards to the Financial Management Comments, due to the changes in senior staff from the CEO to Senior Finance Staff, we are unable to comment at this time. As discussed previously the NEW Shire Administration Team is and will continue to remain committed to providing Elected Members with timely, accurate reports, providing them with the appropriate tools to make informed decisions.</p>	<p>Ongoing</p>		<p><b>OUTCOME: ON TARGET</b></p>



Issue Identified		Shire Comment	Action to be undertaken	Time Frame	Progress at 31 October 2019
	<ul style="list-style-type: none"> <li>Discrepancy regarding closing and opening balance</li> </ul>	<p>Response supplied to department by email on the 3 May 2019 - The Shire prepared and adopted the Budget Review, prior to finalised Audited Annual Financial Statements being available. The figure used in the Budget Review was an estimate. The 17/18 financials were being audited at the same time, and during this time there was some issues with how a number of end of year journals were treated. On advice from the auditors, journals were reversed which had the identified impact on final figures. Due to Staff leave Journals not available at this time, to validate response – aim to provide to Department by 19 July 2019.</p>	<p>Provide Journals to the department by the 19 July 2019</p>	<p>19 July 2019</p>	<p>Final Report being collated and waiting on finalisation of the 2018/19 Annual Audit to validate closing and opening balances. Report to be sent to the Department by Nov 30 2019 <b>OUTCOME: OVERDUE</b></p>



Issue Identified		Shire Comment	Action to be undertaken	Time Frame	Progress at 31 October 2019
<b>4. Compliance Audit Return 2018</b>					
	<ul style="list-style-type: none"> <li>Response inconsistent with Auditors Report</li> </ul>	<p>Due to the significant staff changes at the Shire over the last 3-6 months, it is difficult to understand fully what occurred in this matter, however as explained previously the Shire has moved to the ATTAIN Governance Management System to improve Governance across the Organisation and for Elected Members. The system supports completion of Primary and Annual Returns, Financial Interests and delegation reporting. The system is online and is accessible to all Councillors and authorised Staff. The system has forcing functions to ensure no fields are left blank and forces responses when required. This will provide easy access to accurate evidence. The Shire Administration do not anticipate this occurring again.</p>	Finalised	Finalised	<b>OUTCOME: COMPLETE</b>
	<ul style="list-style-type: none"> <li>Non compliance with statutory requirements:-</li> <li>1. The Shires Strategic Community Plan has not been reviewed every 4 years as required</li> </ul>	<p>Due to the significant staff changes at the Shire over the last 3-6 months, it is difficult to understand fully why the Strategic Community Plan has not undergone review, Council and the Shire Administration are committed to 30 June 2020.</p>	Full review of the Strategic Community Plan to be undertaken by 30 June 2020.	30 June 2020	<p>Sourcing quotes from suitably experienced consultants</p> <p><b>OUTCOME: ON TARGET</b></p>



Issue Identified		Shire Comment	Action to be undertaken	Time Frame	Progress at 31 October 2019
	2. The Shires Corporate Business Plan has not been reviewed annual as is required.	Due to the significant staff changes at the Shire over the last 3-6 months, it is difficult to understand fully why the Corporate Business Plan has not undergone review – other than significant resourcing limitation. However a review is currently underway to ensure that the Corporate Business Plan is reviewed Prior to the adoption of the 2019/20 Annual Budget.	Review to be completed 30 August 2019	30 August 2019.	Plan completed. Endorsed by Compliance & Strategic Review Committee 12/09/19. To be adopted at OCM 21/11/19. <b>OUTCOME: COMPLETE</b>

**7 NEW BUSINESS OF AN URGENT NATURE**

**8 DATE OF NEXT MEETING**

The next meeting of Compliance and Strategic Review Committee will be held Thursday, 5 December 2019 in the Council Chambers, Clarendon Street, Derby.

**9 CLOSURE OF MEETING**