

Draft Minutes

AUDIT & RISK MANAGEMENT COMMITTEE MEETING (ARMC 02/21)

1 April 2021
Commenced at 5.00pm

Town of Mosman Park
Memorial Park
Cnr Bay View Terrace and Memorial Drive
Mosman Park WA 6012

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1. DECLARATION OF OPENING

The Chairman, Cr. Haynes, declared the meeting open at 5.03 PM.

2. RECORD OF ATTENDANCE AND APOLOGIES

Committee Member

Cr. B Haynes	Chairman	Town of Claremont
Cr. C Hohnen	Member	Shire of Peppermint Grove
Cr. P MacFarlane	Member	Town of Cottesloe

Staff

Mr. S Frodsham	Chief Executive Officer	WMRC
Ms. A Bell	Manager Finance & Governance	WMRC
Ms. E Mickels	Customer Services & Finance Officer	WMRC

Apologies

Cr. P Shaw	Member	Town of Mosman Park
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3. CONFIRMATION OF PREVIOUS MINUTES

Minutes of the Audit Committee meeting which was held on 4 February 2021 were circulated previously under a separate cover and are included at Attachment 3.1A.

Moved: Cr. Hohnen Seconded: Cr. Haynes

RESPONSIBLE OFFICER'S RECOMMENDATION

- 3.1.1 Audit and Risk Management Committee confirm the minutes of the WMRC Audit and Risk Committee meeting held on 4 February 2021 as a true and correct record.**
CARRIED 3/0

4. REPORTS OF COMMITTEES AND OFFICERS

4.1 SIGNIFICANT MATTERS IDENTIFIED BY THE AUDITORS:

Responsible Officer:	Finance and Governance Manager
Date:	25 March 2021
Attachment:	4.1A WMRC Operating Surplus Ratio Letter

SUMMARY

To present to the Audit Committee a report addressing significant matters identified by the auditor.

BACKGROUND

In the 2019/2020 External Audit, Butler Settineri and the Office of the Auditor General found that the Western Metropolitan Regional Council has an Operating Surplus Ratio (ASR) that has been below Department standards for the last three years. The Office of the Auditor General identified this as a significant issue in its Audit Report dated 14 December 2020.

Section 7.12A(4) of the *Local Government Act 1995* states that a local government must prepare a report stating the intended action to address matters identified as significant by the auditor. The report must:

- state what action the local government has taken or intends to take with respect to each of those matters.
- give a copy of the report to the Minister within three months of the audit report being received by the local government.
- within 14 days of providing a report to the Minister, the CEO must publish a copy of the report on the local government's official website.

The WMRC responded to the above requirements in respect of the deficiencies in its Operating Surplus Ratio in a letter dated 12 January 2021. A response to this letter has not been received at the time of writing this report.

DETAIL

The Operating Surplus Ratio

The Operating Surplus Ratio (OSR) indicates whether the WMRC can cover its operational costs. The calculation of the OSR is as per the below equation:

$$\text{OSR} = \frac{\text{Operating Revenue} - \text{Operating Expense}}{\text{Own Source Operating Revenue}}$$

Required level of OSR

The standard is met if the OSR is between 0.01 and 0.15. A positive ratio indicates that a local government is likely to cover its own expenditure and direct any surpluses towards proposed capital expenditure, transfers to cash reserves or to debt reduction. A negative ratio indicates that a local government is not breaking-even in its income and expenditure and is likely utilising reserves to cover operating expenses.

As stated to the Minister (Attachment 4.1A), a balanced budget will allow the WMRC to meet the required level for the OSR. The WMRC is working towards reaching a settlement so that future budgets can be balanced.

STATUTORY ENVIRONMENT

Section 7.12A(4) of the Local Government Act 1995

CONSULTATION

Nil

REPORT IMPLICATIONS

Policy Implications

Nil

Financial Implications

Nil

Strategic Implications

Strategy 5: Develop a strong and capable organisation

COMMENTS

Achievement and maintenance of the ASR will be addressed in the 2020/21 budget proposal.

VOTING REQUIREMENT

Simple majority.

Moved: Cr. Hohnen Seconded: Cr. MacFarlane

RESPONSIBLE OFFICER RECOMMENDATION

- 4.1.1 The Audit and Risk Management Committee endorse the attached report and note that it has been sent to the Minister for Local Government and published on the WMRC website.**

CARRIED 3/0

5. CONFIDENTIAL REPORTS

Nil

6. GENERAL BUSINESS

Moved: Cr. Hohnen Seconded: Cr. MacFarlane

Cr. Haynes recommendation

6.1.1 Staff be complimented on the way the accounts were prepared & audited this year.

CARRIED 3/0

7. CLOSURE OF MEETING

The Chairman, Cr. Haynes, declared the meeting closed at 5.08 PM.

8. NEXT MEETING

TBA

4.1A

Enquiries
Phone: (08) 9384 4003
Our ref:

12 January 2021

Hon. David Templeman
Minister for Local Government
7th Floor, Dumas House
2 Havelock Street
WEST PERTH WA 6005

Dear Minister

REPORT ADDRESSING SIGNIFICANT MATTERS IDENTIFIED BY THE AUDITOR

Section 7.12A(4) of the *Local Government Act 1995* requires a local government to prepare a report stating the intended action to address matters identified as significant by the auditor. In the 2019-2020 External Audit, the Office of the Auditor General found that the WMRC has an Operating Surplus Ratio that has been below the required 0.01 target for the last three financial years.

Due to a serious contractual dispute, the WMRC has had significant legal expenses. The dispute meant that the mid to long-term future of the WMRC was uncertain. Accordingly, the WMRC Council directed the administration to write a balanced budget with the exception for legal fees which have been paid from WMRC reserve funds. The result of budgeting in this manner is an adverse (though improving) trend in the Operating Surplus Ratio:

Annual Budget	Operating Surplus Ratio
2017/2018	(0.23)
2018/2019	(0.20)
2019/2020	(0.09)
2020/2021	(0.04)

The WMRC administration is currently negotiating settlement terms with a view to ending the long-running contractual dispute. Once the matter is settled, the WMRC intends to operate to a balanced budget which will see the Operating Surplus Ratio return to meet or exceed the required target.

Yours sincerely



Stefan Frodsham
Chief Executive Officer