



Audit Committee

4 December 2013

MINUTES



MINUTES OF AN AUDIT COMMITTEE MEETING, HELD IN THE UPSTAIRS MEETING AREA, ON WEDNESDAY, 4 DECEMBER 2013, COMMENCING AT 6.30PM.

INDEX

A12. OPENING OF MEETING

A12.1 Present

A13. ELECTION OF PRESIDING MEMBER

A14. ACKNOWLEDGEMENT OF COUNTRY

A15. WELCOME TO GALLERY

A16. APOLOGIES

A17. PUBLIC QUESTION TIME

A18. CONFIRMATION OF MINUTES

A18.1 Audit Committee Meeting – 26 February 2013

A19. CORRESPONDENCE (LATE RELATING TO ITEMS IN AGENDA)

A20. BUSINESS

A20.1 Interim Audit Management Review Report 2012-2013

A20.2 Annual Financial Audit Report 2012-2013

A21. URGENT BUSINESS WITHOUT NOTICE BY PERMISSION OF THE MEETING

A22. CLOSURE OF MEETING

**MINUTES OF AN AUDIT COMMITTEE MEETING, HELD IN THE UPSTAIRS MEETING AREA, ON WEDNESDAY, 4 DECEMBER 2013, COMMENCING AT 6.30PM****A12. OPENING OF MEETING**

The CEO, Mr Stuart Wearne, opened the meeting in the capacity of Presiding Officer pending a Presiding Member of the Committee being elected.

A12.1 Present

Mr J O'Neill	Mayor
Cr I Cope	
Cr B de Jong	
Cr S Martin	
Cr M McPhail	
Cr M Rico	
Cr A Watkins	
Mr S Wearne	Chief Executive Officer
Mr L Mainwaring	Executive Manager Finance & Administration
Mr Bill Thomas	Anderson Munro and Wylie Chartered Accountants

A13. ELECTION OF PRESIDING MEMBER

The CEO, Mr Stuart Wearne, called for nominations for the position of Presiding Member.

Cr de Jong nominated Cr McPhail who accepted the nomination.

As there were no further nominations, the CEO declared Cr McPhail elected as Presiding Member of the Audit Committee for a two year term.

Cr McPhail assumed the Chair.

A14. ACKNOWLEDGEMENT OF COUNTRY

"On behalf of the Council I would like to acknowledge the Nyoongar people as the traditional custodians of the land on which this meeting is taking place."

A15. WELCOME TO GALLERY

There were no members of the public present.

A16. APOLOGIES

Nil.

A17. PUBLIC QUESTION TIME

Nil.

A18. CONFIRMATION OF MINUTES**A18.1 Audit Committee Meeting – 26 February 2013**

Cr de Jong – Cr Rico

That the Minutes of the Audit Committee held on 26 February 2013 and adopted at the Council Meeting held on 20 March 2012 be confirmed with the following corrections to MB Ref A9.1 Appointment of External Auditors:

- *Cr Olson (not Cr Rico) be minuted as having seconded this motion.*
- *It be shown that Cr Olson had made an impartiality declaration at the commencement of discussion on the same item as he had worked with auditors Macri & Partners in his employment at the Town of Mosman Park.*

CARRIED

**A19. CORRESPONDENCE (LATE RELATING TO ITEMS IN AGENDA)**

Nil.

A20. BUSINESS**A20.1 Interim Audit Management Review Report 2012-2013***By Les Mainwaring Executive Manager Finance & Administration on 11 October 2013***PURPOSE**

To present and facilitate discussion on the findings of the interim audit of the Town's operations for the year ended 30 June 2013 to elected members. **ATTACHMENT**

BACKGROUND

The audit committee is required to examine the reports of the auditor on any relevant matters and determine if any matters raised require action to be taken by the local government.

This report summarises the findings and observations of the interim audit examination and includes recommendations from the auditors that are considered appropriate for the Town to improve its financial systems and procedures, together with the management response.

REPORT

The interim review covered, but was not limited to, the following systems and procedures of the Council:

- Council minutes of meetings
- Taxation matters
- Budget and year to date financial information
- Tender Register
- Delegation Register
- Register of financial interests
- Letters to the Department re: budget and annual financial report
- Local Government Compliance Audit Return
- Valuer General's Rate Rolls
- Property, Plant & Equipment purchasing and disposal records
- Insurance on assets
- Employee entitlements and payroll
- Grants
- Accounts Payable

The examination assessed major controls and considered whether the systems and procedures in place were appropriate and effective for the Council's operations and structure.

At the conclusion of the interim review the auditors advised that their sample testing did not reveal any significant weakness in internal controls or accounting procedures.

However the report did draw attention to three issues noted during the interim audit, with accompanying recommendations.

Development Fee Error***Auditors' Comment:***

A one off instance of an incorrectly calculated development fee was noted, resulting in a small overcharge. This was the result of the use of an incorrect fee calculator spreadsheet by a planning staff member due to that staff member's calculator not having been updated. It was noted that the error had already been detected by planning staff and a refund made.



It was recommended that care should be taken by employees applying the development fee to ensure formulas on the Planning Fee Calculator spreadsheet are up to date in future.

Management Response:

Corrective measures have been taken to ensure that only one centralised version of the fee calculator is used.

Payroll Procedures

Auditors' Comment:

It was noted that no "official salary review letters" or "new employment contracts" were prepared with regard to revised pay rates for employees. The auditors went on to make comment that "we recommend that in future you ensure that all new revised pay rates are supported with official employment contracts or salary review letters and have them signed by the CEO and the employee applicable. These documents are important to evidence authorisation and audit trails and should be kept for future reference."

Management Response:

This finding was of interest because it was not a finding made in any previous annual audit, all of which had considered payroll procedures and documentation.

The auditors also appeared unaware that the Chief Executive Officer, who personally carries out all pay reviews, firstly advises all staff, individually, of the outcome of the review and secondly provides payroll with detailed written advice on the relevant adjustments, with this advice kept on record.

In the Chief Executive Officer's and author's view that documentation provided a sufficient audit trail and it is assumed Council's previous auditors were apparently also of this view.

Nevertheless the new auditor's recommendations will be accepted and implemented.

GST Claimed

Auditors' Comment:

During the audit we found a number of capital acquisitions where GST had not been correctly claimed from or paid over to the ATO as per below;

\$26,696.74 East Fremantle Tricolore Soccer Club (Inc) – GST incorrectly claimed.

\$ 6,919.00 Public Transport Authority grant for disability upgrade at bus shelter.

The auditors recommended that when entering payments into the accounting system, care be taken "to ensure that you correctly claim all GST amounts due to you".

Management Response:

The Tricolore invoice was posted as GST inclusive in error, and was corrected in June.

The disability grant was raised via general journal to reflect the 50% subsidy provided by the Public Transport Authority. The journal was posted GST exclusive, when it should have been GST inclusive, however this entry on both sides of the ledger had no net effect on GST payable to the ATO. Greater care is to be taken for invoice and ledger posting.

RECOMMENDATION

That Council:

- 1 receives the Interim Audit Management Letter 2012-2013
- 2 endorses the Management Responses to the recommendations as provided in the report.



The Executive Manager Finance & Administration briefly outlined the three issues raised by Council's Auditors in the interim management review report.

RECOMMENDATION TO COUNCIL

Cr McPhail – Cr de Jong

That Council:

- 1 receives the Interim Audit Management Letter 2012-2013
- 2 endorses the Management Responses to the recommendations as provided in the report. CARRIED

A20.2 **Annual Financial Audit Report 2012-2013**

By Les Mainwaring Executive Manager Finance & Administration on 29 November 2013

PURPOSE

To present the findings of the annual financial audit report of the Town's operations to Elected Members. The audit committee is required to consider and recommend adoption of the annual financial report, examine the auditor and management reports, and review the report prepared by the CEO.

BACKGROUND

The Audit Committee is required to examine the reports of the auditor after receiving a report from the CEO on the matters and;

1. determine if any matters raised require action to be taken by the local government; and
2. ensure that appropriate action is taken in respect of those matters.

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

Statutory Requirements

6.4. Financial report

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

7.12A. Duties of local government with respect to audits

- (1) A local government is to do everything in its power to —
 - (a) assist the auditor of the local government to conduct an audit and carry out his or her other duties under this Act in respect of the local government; and
 - (b) ensure that audits are conducted successfully and expeditiously.
- (2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.



- (3) A local government is to examine the report of the auditor prepared under section 7.9(1), and any report prepared under section 7.9(3) forwarded to it, and is to —
 - (a) determine if any matters raised by the report, or reports, require action to be taken by the local government; and
 - (b) ensure that appropriate action is taken in respect of those matters.
- (4) A local government is to —
 - (a) prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
 - (b) forward a copy of that report to the Minister,by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.

5.54. Acceptance of annual reports

- (1) Subject to subsection (2), the annual report for a financial year is to be accepted* by the local government no later than 31 December after that financial year.
** Absolute majority required.*
- (2) If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.

REPORT

CEO Report to the Audit Committee

I provide the following report to the Audit Committee on matters arising from the audit report including an overview of the annual financial statements.

Audit Report

The auditors have provided an opinion that the financial report of the Town of East Fremantle gives a true and fair view of the financial position of the Town, and complies with the relevant acts, regulations and accounting standards.

The auditors have also advised that we have achieved all statutory compliances required under the Local Government Act 1995 and the Local Government (Financial Management) Regulations 1996.

2012/2013 Annual Financial Statements

A copy of the Audited Financial Statements is included as an attachment. **ATTACHMENT**

Operating Statement

The year ended with a small operating surplus of \$262,170, refer the bottom of page 8 in the Rate Setting Statement. The operating surplus can be attributed to the balance of an additional 5% in operating revenue against an additional 3% of operating expenditure. The areas of significant revenue variation include \$110,000 in pre-paid federal general purpose grants; \$273,000 in back dated lease fees; \$90,000 in additional operating grants for; recycling initiatives and the East Fremantle Oval study. Areas of significant expenditure variation include \$75,000 additional costs for landfill diversion of waste during the period of recycling plant shutdown, \$93,000 of additional depreciation on Home and Community Care transport, road infrastructure and works plant.



Consolidated Cash Position

The consolidated cash position of the Municipal and Reserve funds for the Town of East Fremantle for the year ended 30 June 2013, see p30 Note 3 Cash and Cash Equivalents, shows a balance of \$2,944,718. This includes Unrestricted Cash \$659,736 (LY \$592,384) and Reserves funds of \$2,944,718 (LY \$3,013,029). Reserves are used by Council to fund future development and renewal of assets of the Town of East Fremantle. Council invests surplus funds in short term deposits with banks to provide a secure return on its investments, and no investment is subject to market linked variations of the capital sum. Interest earnings for 2012/2013 were \$275,761 (LY \$380,689), and included \$118,877 (LY \$147,639) for the benefit of Council's Reserve Funds, refer p26 Note 2(a)(ii) Crediting as Revenue. Investment returns were affected by the fall in interest rates during 2012/2013.

Statement of Changes in Equity and Statement of Financial Position

Property, Plant and Equipment Assets have a carrying value of \$7,928,572 (LY \$7,834,547), see p31 Note 5 Property, Plant and Equipment. Infrastructure is \$14,504,588 (LY \$12,558,165) which has increased by over \$2 million from the annual capital works program, see p33 Note 6 Infrastructure.

The statement provides for the net result of the Town of East Fremantle, where the net assets have increased during 2012/2013 by \$1,515,323 (LY \$1,426,915), refer p6 Statement of Changes in Equity.

Intangibles

The Town was required to discover and value all easements held for the benefit of the Town. The number and value of the easements was deemed to be insignificant, therefore Council has chosen to disclose by way of note, see p35 Note 7 Intangibles.

Joint Venture Arrangements

Council has a 2.92% (\$42,443) stake in the Southern Metropolitan Regional Council (SMRC), and a 3.3% (\$701,195) stake in the Regional Resource Recovery Centre, a major trading undertaking of the SMRC, which fulfils a strategic role in Council's recycling objectives. There is also a 7.38% (\$13,472) stake in the South West Group of Councils which is a VROC concerned with shared service opportunities, refer p41 Note 16(a) and 16(b) Joint Venture.

Financial Ratios

In assessing the performance trends of the Town's financial resources, the financial statements include ratios which provide a comparison between the last three financial years of reporting. For the 2012/2013 reporting year new ratios have been added to measure the financial sustainability of local governments. Generally the ratios give an indication of a low risk organisation with a high level of financial sustainability, which is a sound platform for continuing operations, refer p42 Note 18 Financial Ratios and p55 Supplementary Ratio Information. The ratios include:-

Current Ratio 110% (Risk: Low >100%)

The current ratio assesses the adequacy of working capital and the ability to satisfy short term obligations. The objective is to maintain a ratio greater than 1 and the Town has maintained this level at balance date.

Asset Sustainability Ratio 335% (Risk: Low >110%)

Measures the extent to which assets are being renewed/replaced compared to the amount consumed. Indicates investment in asset renewal/replacement to the degree that offsets the current consumption of assets 100% and provides for the effect of inflation. High Risk <90% indicates difficulty undertaking a sustained capital investment program sufficient to renew/replace assets while also negating the effect of inflation on purchasing power over time. This ratio is likely to reduce when fair values for buildings and infrastructure are brought to account through to 2014/2015.

**Debt Service Cover Ratio 9.3 (Risk: Low >5)**

Measures the ability to service debt out of surplus funds available from operations. Audit wisdom suggests a risk range of Low >10 or High <5 for small councils dependant on external funding. The Department of Local Government Integrated Planning and Advisory Standard set a risk profile of Low >5 High <2 which may be a little low. The Town is a small council, but not dependant on external funding, therefore the current debt risk is low which indicates that Council has been operating within funding constraints without relying on debt to expand services.

Operating Surplus Ratio 9% (Risk: Low >15% High <0%)

Effectively highlights the scale/extent of any operating surplus or deficit in relation to the overall size of the local government. A ratio of >15% provides a strong operating surplus which gives future flexibility in relation to operational service levels and the asset base. A high risk of <0% indicates an operating deficit which if sustained will erode the ability to maintain operational service levels and the asset base. The Town's position indicates that we need to be watchful that this ratio does not decline, and that we need to maintain or improve operating surpluses.

Own Source Revenue Coverage Ratio 95% (Risk: Low >90%)

Measures the ability to cover operating expenses from own source revenue. The higher the ratio the more self reliant allowing greater flexibility as less external funds are required for operational purposes. Audit wisdom suggests a risk range of Low >90% High <60%, however there are no Department of Local Government guidelines for this risk assessment. The Town has a high ratio that indicates a high level of financial self autonomy with a low reliance on external funding providers.

Asset Consumption Ratio 87% (Risk: Low >60%)

Measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost, highlighting the aged condition of depreciable assets. A ration >60% indicates investment in asset renewal to a level where a high percentage of assets are in "as new" condition. Risk becomes high at <50% indicating difficulty in undertaking a sustained capital investment program sufficient to maintain the average "aged" condition of the assets. The current indicator is very low however the true position of the Town will be known when fair values for buildings and infrastructure are brought to account through to 2014/2015.

Asset Renewal Funding Ratio N/A (Risk: Low >95%)

Measures the extent to which assets are being renewed compared to the amount consumed, providing an indication of financial capacity to fund asset renewals. A ratio >95% indicates investment in asset renewal to the degree that offsets the current consumption of assets. Risk becomes high at <75% indicating difficulty in undertaking a sustained capital investment program sufficient to renew assets while also negating the effect of inflation on purchasing power over time. This ratio was not calculated because the true position of required capital expenditure in the Town will not be known until fair values for buildings and infrastructure are brought to account through to 2014/2015.

Operating Surplus

The Town closed on 30 June 2013 with a carried forward balance of \$262,170 (LY \$297,199), which was made up of the estimated carried forward of \$134,550 used to fund the 2013/2014 budget, plus an additional \$127,620 net operating surplus.

The addition of the \$127,620 net operating surplus would shift the estimated closing position of the 2012/2013 budget from a \$23,000 to a \$150,620 surplus, subject to the half yearly budget review or any interim reallocations to one off projects or reserve funded capital projects. It is prudent not to use surplus operating funds as a funding source to increase recurrent operating expenditure given the inherently unreliable nature of net operating results.



In the absence of any immediate project requirements for budget amendment, staff propose that the \$127,620 net operating surplus be carried forward as an operating surplus providing an estimated closing position of \$150,620.

Relevant Council Policies

F8.7 Significant Accounting Policies

Strategic Plan Implications

Nil

Financial/Resource/Budget Implications

Nil.

Conclusion

The attached Annual Financial Audit Report is presented to the Audit Committee for recommendation to Council for acceptance.

RECOMMENDATION

That the Audit Committee recommends that Council:

1. receives the CEO's Report relating to the 2012-2013 annual financial audit.
2. receives the annual financial audit report and management report dated 29 November 2013.
3. accepts the annual financial report. **Absolute Majority Required**

The Executive Manager Finance & Administration provided an overview of Council's financial position as at 30 June 2013.

A Management Letter from Council's auditors regarding accrued annual leave was circulated to elected members. **ATTACHMENT**

Council's auditor, Mr Bill Thomas, answered questions regarding the Management Letter and aspects of Council's annual financial audit.

RECOMMENDATIONS TO COUNCIL**(A) Cr McPhail – Cr de Jong**

That local government benchmark ratios be included in the annual report to provide context for the financial report. CARRIED

Following questions from Cr McPhail, the Executive Manager Finance & Administration provided some background to the Transport Tramway Fund.

(B) Mayor O'Neill – Cr Martin

That the CEO, in consultation with relevant officer, prepare a report for the next Finance Committee meeting regarding annual leave provisions as outlined in the Auditor's Management Letter dated 29 November 2013. CARRIED

(C) Cr de Jong – Cr Martin

That Council:

1. receives the CEO's Report relating to the 2012-2013 annual financial audit.
2. receives the annual financial audit report and management report dated 29 November 2013.
3. accepts the annual financial report. CARRIED

ABSOLUTE MAJORITY REQUIRED

A21. URGENT BUSINESS WITHOUT NOTICE BY PERMISSION OF THE MEETING

Nil.



A22. CLOSURE OF MEETING

There being no further business, the meeting closed at 7.21pm

*I hereby certify that the Minutes of the meeting of the **Audit Committee** of the Town of East Fremantle, held on **4 December 2013**, Minute Book reference **A12. to A22.** were confirmed at the meeting of the Committee on*

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Presiding Member