
TOWN OF
EAST FREMANTLE



MINUTES

Audit Committee Meeting

Wednesday, 6 December 2017 at 6.15pm

CONTENTS

1.	OFFICIAL OPENING	1
2.	ELECTION OF PRESIDING MEMBER	1
3.	ACKNOWLEDGEMENT OF COUNTRY	1
4.	RECORD OF ATTENDANCE	1
4.1	Attendance	1
4.2	Apologies	1
4.3	Leave of Absence	1
5.	MEMORANDUM OF OUTSTANDING BUSINESS	1
6.	DISCLOSURES OF INTEREST	2
6.1	Financial	2
6.2	Proximity	2
6.3	Impartiality	2
7.	PUBLIC QUESTION TIME	2
8.	CONFIRMATION OF MINUTES	2
8.1	Meeting of Audit Committee (6 September 2017)	2
9.	ANNOUNCEMENTS BY THE PRESIDING MEMBER	2
10.	REPORTS	3
10.1	Audited Annual Financial Report 2016-2017	3
10.2	Financial Management Review – Inadequate Control Update	8
11.	MATTERS BEHIND CLOSED DOORS	8
12.	CLOSURE OF MEETING	9

MINUTES OF THE ORDINARY MEETING OF THE AUDIT COMMITTEE HELD AT DOVENBY HOUSE, 1 COUNCIL PLACE EAST FREMANTLE ON WEDNESDAY 6 DECEMBER 2017.

1. OFFICIAL OPENING

The Chief Executive Officer opened the meeting at 6.15pm and called for nominations for the position of Presiding Member.

2. ELECTION OF PRESIDING MEMBER

Cr White nominated Cr M McPhail for the position of Presiding Member.

Cr M McPhail accepted the nomination.

Moved Cr White, seconded Cr Watkins

That Cr M McPhail be nominated for the position of Presiding Member of the Audit Committee for a period of two years. (CARRIED UNANIMOUSLY)

Cr M McPhail assumed the Chair.

3. 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."

4. RECORD OF ATTENDANCE

4.1 Attendance

The following members were in attendance:

Cr M McPhail Presiding Member
Cr A McPhail
Cr T Natale
Cr T Watkins
Cr A White

The following staff were in attendance:

Mr G Tuffin Chief Executive Officer
Mr D Taylor Executive Manager Corporate & Community Services

Council's auditors Billy-Joe Thomas and Michael St John of Anderson Munro & Wyllie were in attendance via telephone conference.

There were no members of the gallery in attendance

4.2 Apologies

Mayor J O'Neill

4.3 Leave of Absence

Nil.

5. MEMORANDUM OF OUTSTANDING BUSINESS

None.

6. DISCLOSURES OF INTEREST

6.1 Financial
Nil.

6.2 Proximity
Nil.

6.3 Impartiality

6.3.1 Cr A McPhail

As a consequence of having a past and ongoing business relationship using the audit services of Anderson, Munro and Wyllie for some clients there may be a perception that my impartiality on the matter may be affected. I declare that I will consider this matter on its merits in terms of the benefit to the Town and vote accordingly.

6.3.2. Cr White

As a consequence of engaging the services of Anderson, Munro and Wyllie to manage my superannuation fund, there may be a perception that my impartiality on the matter may be affected. I declare that I will consider this matter on its merits in terms of the benefit to the Town and vote accordingly.

7. PUBLIC QUESTION TIME
Nil.

8. CONFIRMATION OF MINUTES

8.1 Meeting of Audit Committee (6 September 2017)

8.1 OFFICER RECOMMENDATION

Moved Cr A McPhail, seconded Cr Watkins

That the minutes of the meeting of the Audit Committee held on Wednesday, 6 September 2017 be confirmed as a true and correct record of proceedings.

(CARRIED UNANIMOUSLY)

9. ANNOUNCEMENTS BY THE PRESIDING MEMBER
Nil.

10. REPORTS

10.1 Audited Annual Financial Report 2016-2017

File ref	F/FNS3
Prepared by	David Taylor, Executive Manager Corporate and Community Services
Supervised by	Gary Tuffin, Chief Executive Officer
Meeting Date	6 December 2017
Voting requirements	Absolute Majority
Documents tabled	Nil
Attachments	1. Audited Annual Financial Statements

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.

Executive Summary

The audit of the Town of East Fremantle Annual Financial Statements for the year ended 30 June 2017 has been completed by Anderson Munro and Wylie. The Town has received an unqualified audit report.

This report recommends that the Auditor's Report, Audited Financial Statements and Management Report of the Town of East Fremantle for the financial year ending 30 June 2017 be received.

Background

The Town's auditors, Anderson Munro and Wylie have audited the 2016/17 Annual Financial Statements and have provided an Independent Auditor's Report as required under the relevant provisions of the Local Government Act 1995 (the Act).

The Town received an unqualified audit report and a management report that provides a summary of audit findings. There were no significant issues raised in the management report.

In accordance with section 7.12A(2) of the Local Government Act 1995 and the Local Government (Audit) Regulations 1996 council is required to meet with the external auditor at least once per year.

Bill-Joe Thomas from Anderson Munro and Wylie will meet with the Audit Committee on the 6th of December and further Council at the Ordinary Council meeting to be held on the 12th December 2017.

Consultation

Nil

Statutory Environment

Section 7.12A(2) of the Local Government Act 1995 and associated Audit Regulations require a local government to meet with its auditor at least once in every year.

Section 7.9(1) of the Local Government Act 1995 requires the auditor to submit a report to the local government by 31 December each year.

Policy Implications

F8.7 Significant Accounting Policies

Financial Implications

Audited Surplus of \$1,386,955 compared to a 2017/18 budgeted brought forward surplus of \$1,364,725 resulting in an additional \$22,230 of surplus funds available.

Strategic Implications

Nil

Site Inspection

Not applicable

Triple Bottom Line Assessment

Economic implications

Any additional surplus that is greater than the budgeted brought forward surplus may be used for existing or additional projects or allocated to reserve funds for future projects.

Social implications

There are no known significant social implications associated with this item.

Environmental implications

There are no known significant environmental implications associated with this item.

Comment

There are five (5) primary financial statements:

- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flows
- Rate Setting Statement

Statement of Comprehensive Income

The Statement of Comprehensive Income (refer to pages 3 and 4 of the Financial Statements) shows the extent to which operating expenditure has exceeded operating revenue during the financial year.

An analysis of actual outcomes compared with the original budget for the year ended 30 June 2017 includes;

Net Operating Result

Actual end of year operating result ended in a \$39,310 deficit, a favourable variance of \$843,890 compared to the original budgeted deficit of \$883,200. These changes resulted from;

Operating Income (favourable \$538,059), with the main variances being:

- There was \$351,000 worth of additional grant monies received during the year. \$235,000 of this being changes in the timing of when the Financial Assistance Grant Scheme operational grant was received.
- An additional \$70,000 in interest has been received in relation to reserve fund investments and rates penalty interest.

- It is noted that there was a re-classification of \$150,000 grant from Fees and Charges to Operational Grants.

Operating Expenditure (favourable \$369,646), with the main variance being:

- Favourable savings salaries and wages, materials and contracts and utilities of \$475,379.
- Unfavourable variance of \$76,575 in other expenditure, mainly due to higher BCITF payments.

Non-Operating Income and Expenditure, with the main variances being:

- Additional \$20,000 received for non-operational grant in relation to the swan river erosion control project.
- The inclusion of Profit on sale of assets to the value of \$44,057. Details regarding these can be found in Note 21 of the Financial Report.
- The inclusion of Loss on sale of assets the value of \$127,872. Details regarding these can be found in Note 21 of the Financial Report.

Statement of Financial Position

The Statement of Financial Position (refer to page 5 of the Financial Statements) shows the assets and liabilities that comprise equity as at 30 June 2017.

Key financial figures within the audited Financial Report for the year ended 30 June 2017 include;

	2016	2017
Current Assets	5,173,567	4,813,245
Current Liabilities	(932,055)	(1,218,071)
Net Current Assets	4,241,512	3,595,174
Non-Current Assets	71,004,490	70,961,703
Non-Current Liabilities	(8,451)	(58,872)
Total Equity	75,237,551	74,498,005

Council's current assets exceed current liabilities by \$4.241m compared to \$3.595m last in the previous year.

Statement of Changes in Equity

The Statement of Changes in Equity (refer to Page 6 of the Financial Report) shows the extent to which equity has been increased by the net result of the year's activities.

For the year ending 30 June 2017, equity increased by \$739,546 which is a result of the net operating deficit from the Statement of Comprehensive Income of \$39,310 and a net change of \$778,856 of the revaluation reserve which comes as a direct result of the fair valuations of land and buildings.

Statement of Cash Flows

The Statement of Cash Flows (refer to page 7 of the Financial Report) shows the nature and amount of Council's cash inflows and out flows from all activities. Council's cash held at the end of the reporting period was \$4.892m compared to \$4,577 in the previous year.

Rate Setting Statement

The Rate Setting Statement (refer to page 8 of the Financial Report) shows the amount of rates required to be raised to fund the Town's operations during 2016/17, which was \$7.370m.

Capital Works

Actual capital expenditure of \$1.95m less than the original budget was incurred due to the following projects being deferred or partially completed and carried forward into the next financial year;

- Town Hall Renovation
- East Fremantle Junior football clubrooms
- John Tonkin interpretation node
- Foreshore Erosion Control
- East Fremantle Club Court Resurfacing
- Bicentennial Falls Retaining Walls
- IG Handcock Reserve – Stage 2
- Merv Cowan Drainage Realignment

Financial Ratio

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. The following are the five main ratios that are reported and can be found on page 39 of the financial report;

1. Current Ratio (Risk: Low >100%) – The current ratio assess the adequacy of working capital and the Town's ability to satisfy short-term liabilities. Over the past three years the current ratio has improved from 1.07 to 3.59, this is due to the higher than budgeted cash balances which is a direct result of lower expenditure during the year.
2. Asset Sustainability Ratio (Risk: Low >110% High <90%) – This ratio measures the extent to which assets are being renewed/replaced compared to the amount consumed/depreciated. This ratio is influenced greatly by prior fair valuations and depreciation rates. Over the past three years this ratio has decreased from 1.32 to 0.76, this is an indication that the Town's assets are being consumed at a faster rate than they are being renewed. (i.e. they are depreciating quicker than they are being renewed). This ratio is greatly affected by fair valuations and associated depreciation rates. In particular, the deferred projects for 2016/17 financial year affected this ratio as those planned projects were not included in the renewal calculations. The Town is currently undergoing a review of its Asset Management Plan and Long Term Financial Plans which has a strong emphasis on addressing asset sustainability.
3. Debt Service Coverage Ratio (Risk: Low >5 High <2) – This ratio measures the Town's ability to service debt out of surplus funds from operating activities. The Town currently has no debt and therefore this ratio is not applicable.
4. Operating Surplus Ratio (Risk: Low >15% High <0%) – This ratio highlights the extent/scale of any operating surplus or deficit to overall revenue of the Town. This ratio has decreased from 0.09 to (0.01) over the past three years. This ratio is directly related to net operating surplus or deficit over own source revenue.
5. Own Source Revenue Coverage Ratio (Risk: Low >90% High <60%) – this ratio measures the ability to cover operating expenses against the Town's own source revenue (i.e. excludes grants and subsidies). This ratio over the past three years has decreased from 0.94 to 0.85. It is important that this ratio does not decline as this is a critical sustainability measure. The higher this ratio the more self-reliant the Town is; the lower this ratio, the more reliant the Town is on external funding sources.

Generally these ratios give an indication that the Town needs to continue focusing on asset and service level sustainability through robust asset management and long term financial planning.

10.1 OFFICER RECOMMENDATION/COMMITTEE RESOLUTION A011217

Moved Cr A McPhail, seconded Cr Natale

That the Audit Committee recommends that Council:

- 1. receives the Auditors Report and Audited Financial Statements of the Town of East Fremantle for the year ending 30 June 2017.**
- 2. receives the Management Report pertaining to the year ending 30 June 2017.**
- 3. accepts the annual financial report for the year ending 30 June 2017.**

(CARRIED UNANIMOUSLY)

The Committee thanked the CEO, Executive Manager Corporate & Community Services, Manager Admin & Finance and Auditors for their efforts in preparing the annual financial statements.

The telephone conference with Council's Auditors was terminated at 7.08pm.

10.2 Financial Management Review – Inadequate Control Update

<u>Item</u>	<u>Update</u>
<u>Bank Reconciliations</u> – to be evidenced as reviewed and have a copy of the bank statements.	This has been implemented July 2017.
<u>Trust Fund Reconciliations</u> – to be reconciled to the last calendar day of each month.	This has been implemented July 2017.
<u>Payments / Creditors</u> – GST treatment needs review when posting transactions in order to correctly records GST and correctly submit the BAS.	This is ongoing. Has been reviewed with further clarification/training provided to staff involved.
<u>Long outstanding purchase orders</u> – Recommended to implement procedures to ensure completed orders are cleared from the creditors listing once the creditor has been paid.	Processes have been developed. Month end process has been modified to include review of all outstanding purchase orders in order to identify and clear completed orders.
<u>Credit Card Procedure and Use</u> – recommend policy be reviewed in order to effectively detect any purchases that include elements which are private.	Credit Card policy is earmarked for review in conjunction with all other finance related policies and procedures.
<u>Payroll</u> – it was noted that there are a number of staff with large accrued leave balances.	This is ongoing. A strategy has been commenced to address the staff with large leave balances. The CEO has provided verbal guidance that leave balances are to be maintained no more than 8 weeks of accrued leave (in alignment with the Local Government Industry Award 2010) unless prior authorisation is permitted.
<u>Minutes of Meetings</u> – ensuring that the signed as confirmed copy of Council minutes be made available on-line on the Town’s website once signed and confirmed.	This has been rectified and is now on the website.
<u>Financial Reports</u> – financial ratios are below basic standard.	This is an ongoing issue that will needs addressing. The Town is undergoing a review of its Asset Management and Long term Financial Planning with sustainability being the key focus.
<u>Record keeping and storage of documents and data</u> – that a Disaster Recovery and Business Continuity Plan and necessary policies be developed.	These are currently being worked on and should be completed in the early parts of the new year.
<u>Audit Committee</u> – recommend that the Audit Committee implement controls in order to manage each risk identified as having inadequate controls.	Controls were set at the previous meeting whereby an update is provided on the progress of addressing the inadequate controls at each Audit Committee meeting.

The Committee noted this information.

11. MATTERS BEHIND CLOSED DOORS

Nil.

12. CLOSURE OF MEETING

There being no further business, the Presiding Member declared the meeting closed at 7.31pm.

*I hereby certify that the Minutes of the ordinary meeting of the **Audit Committee** of the Town of East Fremantle, held on **6 December 2017**, Minute Book reference **1 to 12** were confirmed at the meeting of the Committee on*

[Signature]
.....

20 March 2018

or Michael Martin
Presiding Member