



Audit Committee

4 December 2014

MINUTES



MINUTES OF AN AUDIT COMMITTEE MEETING, HELD IN THE UPSTAIRS MEETING AREA, ON THURSDAY, 4 DECEMBER, 2014, COMMENCING AT 6:03PM.

INDEX

- A12. OPENING OF MEETING**
- T13. 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 – 25 February 2014*
- A19. CORRESPONDENCE (LATE RELATING TO ITEMS IN AGENDA)**
- A20. BUSINESS**
- A20.1 Annual Financial Audit Report 2013-2014*
- A21. NOTICE OF MOTION FOR CONSIDERATION AT THE FOLLOWING MEETING**
- A22. URGENT BUSINESS WITHOUT NOTICE BY PERMISSION OF THE MEETING**
- A23. CLOSURE OF MEETING**

**MINUTES OF AN AUDIT COMMITTEE MEETING, HELD IN THE UPSTAIRS MEETING AREA, ON THURSDAY, 4 DECEMBER, 2014, COMMENCING AT 6:03PM****A12. OPENING OF MEETING**

The Acting Chief Executive Officer, Mr Gary Clark, opened the meeting and advised that as Cr McPhail was an apology for this evening's meeting, nominations would be called for Presiding Member.

A12.1 Present

Mayor J O'Neill	Mayor
Cr S Martin	
Cr J Amor	
Cr M Handcock	
Mr G Clark	Acting Chief Executive Officer
Mr L Mainwaring	Executive Manager Finance & Administration
Mr B Thomas	Principal Auditor

T13. ELECTION OF PRESIDING MEMBER

The Acting Chief Executive Officer, Mr Gary Clark, called for nominations for the position of Presiding Member in the absence of Cr McPhail.

Cr Amor nominated Mayor O'Neill who accepted the nomination. The nomination was seconded by Cr Handcock.

Mayor O'Neill 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

Cr M McPhail
Cr M Rico
Cr A Watkins

A17. PUBLIC QUESTION TIME

Nil.

A18. CONFIRMATION OF MINUTES**A18.1 Audit Committee Meeting – 25 February 2014**

Cr Martin – Cr Amor

That the Minutes of the Audit Committee held on 25 February 2014 and adopted at the Council Meeting held on 18 March 2014 be confirmed. CARRIED

A19. CORRESPONDENCE (LATE RELATING TO ITEMS IN AGENDA)

Nil.

**A20. BUSINESS****A20.1 Annual Financial Audit Report 2013-2014**

By Les Mainwaring Executive Manager Finance & Administration on 19 November 2014

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 has been properly drawn up so as to give a true and fair view of the state of affairs of the Town, and complies with the relevant acts, regulations and accounting standards.

The auditors have also advised that the Town has achieved all statutory compliances required under the Local Government Act 1995 and the Local Government (Financial Management) Regulations 1996, therefore the Town has received an unqualified audit report.

Audit Management Report

The auditors advise that they have completed our final audit for 30 June 2014 and confirm that no significant weaknesses in internal controls or accounting procedures were revealed during the audit. However they did draw our attention to two issues as follows;

Annual Returns – It was noted that one financial interest return from a councillor was not in the prescribed form in that the record of disclosures sections had been left blank, where they should have been recorded as “not applicable” instead of non-disclosure. Staff will make sure that all sections of returns are completed as required.



Annual Leave – Auditors noted that some employees have accrued leave in excess of their annual entitlements. The CEO has taken substantial leave since the audit and other relevant staff are actively encouraged to submit leave plans for 2014/2015.

2013/2014 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 \$250,948, refer the bottom of page 8 in the Rate Setting Statement. The operating surplus can be attributed to the balance of an additional 15% in operating revenue against an additional 2% of operating expenditure. The areas of significant revenue variation include \$209,000 allocated from the closure of the Fremantle - East Fremantle Tramway Trust which was transferred to reserve; \$75,000 in growth funding for the Home and Community Care program; \$159,000 in collections for the Building Construction Industry Training Fund and Builders Services Levies due to the commencement of major building projects. Areas of significant expenditure variation include the effect on Governance of a \$251,000 reduction in cost allocation mainly because of the additional tramway trust revenue recognised as administrative revenue, additional costs for \$70,000 road maintenance and \$56,000 verge maintenance, \$58,000 of additional depreciation road infrastructure and works plant.

Consolidated Cash Position

Council invests surplus funds in short term deposits with banks to provide a secure return on its investments, and investments are not subject to market linked variations of the capital sum. Interest earnings for 2013/2014 were \$274,156 (LY \$275,761), and included \$87,034 for the benefit of Council's Reserve Funds, refer p26 Interest Earnings Note 2(a)(ii). Investment returns were relatively steady during 2013/2014.

The consolidated cash position of the Municipal and Reserve funds for the Town of East Fremantle for the year ended 30 June 2014, see p30 Note 3 Cash and Cash Equivalents, has increased to a balance of \$3,230,927. This includes Unrestricted Cash \$829,364 (LY \$659,736) and Reserves funds of \$2,401,563 (LY \$2,284,982). Reserves are used by Council to fund future development and renewal of assets of the Town of East Fremantle.

Statement of Changes in Equity and Statement of Financial Position

Property, Plant and Equipment Assets have a carrying value of \$16,873,817 (LY \$7,928,572), see p31 Note 5 Property, Plant and Equipment, which has increased by approximately \$9,000,000 after revaluing buildings at fair value.

Infrastructure is \$15,067,399 (LY \$14,504,588) has increased by \$500,000 from the annual capital works program, see p33 Note 6 Infrastructure, and will be revalued at fair value during 2014/2015.

The statement provides for the net result of the Town of East Fremantle, where the net assets have increased during 2013/2014 by \$9,772,468 (LY \$1,515,323), refer p6 Statement of Changes in Equity. The majority of this increase is a result of the revaluation of building assets at fair value.

Borrowings

Outstanding borrowings have reduced to \$41,568 (LY \$175,444), see p35 Note 9 Long-Term Borrowings, and these will be fully paid in the following year.

Joint Venture Arrangements

Council has a 2.74% (\$51,846) stake in the Southern Metropolitan Regional Council (SMRC), and a 3.12 (\$507,052) 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% (\$15,313) 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 2013/2014 reporting year seven ratios 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 125% (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 with an increasing trend.

Asset Sustainability Ratio 148% (Risk: Low >110% High <90%)

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 and provides for the effect of inflation, hence a marker of 110%. 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. As predicted from last year, this ratio was likely to reduce when fair values for buildings were brought to account though the ratio is still healthy at this point. A further reduction can be expected in 2014/2015 when the infrastructure class of assets are brought to account at fair value.

Debt Service Cover Ratio 11.3 (Risk: Low >5 High <2)

Measures the ability to service debt out of surplus funds available from operations. WA Treasury suggests a risk range of Low >10 or High <5 for small councils dependant on external funding. The Department of Local Government 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 8% (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 a medium risk where we need to be watchful that this ratio does not continue to decline, and that we need to maintain or improve operating surpluses if we are to continue into the future.

Own Source Revenue Coverage Ratio 97% (Risk: Low >90% High <60%)

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. WA Treasury use 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 low risk ratio that indicates a high level of financial self-autonomy and a low reliance on external funding providers.

Asset Consumption Ratio 88% (Risk: Low >60% High <50%)

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 ratio >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 risk indicator is very low however the true position of the Town will be known when fair values for infrastructure are brought to account in 2014/2015.

Asset Renewal Funding Ratio 220% (Risk: Low >95% High <75%)

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. The current risk indicator is very low however the true position of the Town will be known when fair values for infrastructure are brought to account in 2014/2015 and analysed within the long term financial plan.

Operating Surplus

The Town closed on 30 June 2014 with a carried forward balance of \$250,948 (LY \$262,170), which was made up of the estimated carried forward of \$88,500 used to fund the 2014/2015 budget, together with an additional \$162,448 net operating surplus.

The addition of the \$162,448 net operating surplus would shift the estimated closing position of the 2013/2014 budget from a \$2,500 to a \$164,948 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 \$162,448 net operating surplus be carried forward as an operating surplus providing an estimated closing position of \$164,948.

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 2013-2014 annual financial audit.
2. receives the annual financial audit report and management report dated 19 November 2014.
3. accepts the annual financial report.

Absolute Majority Required

RECOMMENDATION TO COUNCIL

Cr Handcock – Cr Amor

That the Audit Committee recommends that Council:

1. receives the CEO’s Report relating to the 2013-2014 annual financial audit.
2. receives the annual financial audit report and management report dated 19 November 2014.
3. accepts the annual financial report.



- 4. requests the Acting CEO to prepare a report on matters arising out of the audit management report, in relation to leave liability. CARRIED UNANIMOUSLY

A21. NOTICE OF MOTION FOR CONSIDERATION AT THE FOLLOWING MEETING

Nil.

A22. URGENT BUSINESS WITHOUT NOTICE BY PERMISSION OF THE MEETING

Nil.

A23. CLOSURE OF MEETING

There being no further business, the meeting closed at 7:01pm.

*I hereby certify that the Minutes of the meeting of the **Audit Committee** of the Town of East Fremantle, held on **4 December 2014**, Minute Book reference **A12. to A23.** were confirmed at the meeting of the Committee on*

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Presiding Member