



Audit Committee

6 December 2012

MINUTES

Town of East Fremantle

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MINUTES OF AN AUDIT COMMITTEE MEETING, HELD IN THE UPSTAIRS MEETING AREA, ON THURSDAY, 6 DECEMBER 2012, COMMENCING AT 4.000PM.

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MINUTES OF AN AUDIT COMMITTEE MEETING, HELD IN THE UPSTAIRS MEETING AREA, ON THURSDAY, 6 DECEMBER, 2012 COMMENCING AT 4.07PM.

A11. OPENING OF MEETING

The Presiding Member declared the meeting open.

A11.1 Present

Mayor A Ferris	(From 4.09pm)
Cr R Olson	Presiding Member
Cr B de Jong	(From 4.11pm)
Cr R Lilleyman	
Cr M Rico	
Mr S Wearne	Chief Executive Officer
Mr L Mainwaring	Executive Manager Finance & Administration
Mr A Macri	Macri & Partners
Mr T Tan	Macri & Partners

A12. 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.”

A13. WELCOME TO GALLERY

There were no members of the public present.

A14. APOLOGIES

Nil.

A15. PUBLIC QUESTION TIME

Nil.

A16. CONFIRMATION OF MINUTES

A16.1 Audit Committee Meeting – 12 March 2012

Cr Olson – Cr Lilleyman

That the Minutes of the Audit Committee Meeting held on 12 March 2012, and adopted at the Council Meeting held on 20 March 2012 be confirmed. CARRIED

The Mayor entered the meeting at 4.09pm.

A17. CORRESPONDENCE (LATE RELATING TO ITEMS IN AGENDA)

Nil.

A18. BUSINESS

A18.1 Financial Management Review Report 2011-2012

By Les Mainwaring Executive Manager Finance & Administration on 22 October 2012

PURPOSE

To present the findings of the financial management review of the Town's operations to elected members.

BACKGROUND

As part of the financial management duties of the CEO, the Local Government (Financial Management) Regulations 1996 require that the CEO undertake reviews of the



appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 4 financial years) and report on the local government the results of those reviews. The Town has used the services of the incumbent auditors Macri and Partners to conduct the review.

The objective of the engagement was to test the financial management system of the Town of East Fremantle and receive a report on the appropriateness and effectiveness of the control environment within, as required by FM Reg 5(2)(c).

This report summarises the findings and observations of the audit examination and includes recommendations from the auditors that are considered appropriate for the Town to improve any weaknesses in systems and controls.

REPORT

The review covered the following financial systems and procedures of the Council:

- Investments
- Sundry Debtors
- Asset Register
- Tenders Register

The examination was mainly on overview of the above areas, assessing major controls and considering whether the systems and procedures in place are appropriate and effective for the Council's current level of operations and structure. They did not necessarily examine compliance with provisions of the Act or Regulations, which were not financial in nature.

The conclusion was that the overall effectiveness of the financial management systems and procedures of the Council with respect to the areas covered by the review are reasonable and appropriate for the Town of East Fremantle's current level of operations and structure.

The report contains several recommendations which should ensure that the financial systems operate in a more efficient and effective manner.

Investments

The investment policy is to be reviewed in line with changes to Local Government (Financial Management) Regulation 19 and Department of Local Government Guidelines, together with formalised internal control procedures. An Investment Purchase form has been developed and implemented that covers all the required elements of delegation, regulation, policy and procedure for new and rolled over investments.

Sundry Debtors

Requires a review and documenting of procedures in practice.

Asset Register

Landgate titles are being reconciled with asset records, with all titles to be electronically uploaded to records by 2012/2013. Full physical checks of assets will occur during the asset management review and fair value implementation, together with preparation of asset management plans by 2013/2014. This will include a data pick up and condition assessment project for infrastructure assets by 2013/2014.

Tenders Register

Secure tender files are now utilised for associated tender documents, leaving the tender register to contain only that information required by regulation and suitable for a public register.

Statutory Requirements

Local Government (Financial Management) Regulations 1996 (As amended)



Regulation 5 - Financial management duties of the Chief Executive Officer:

- (1) *Efficient systems and procedures are to be established by the CEO of a local government —*
 - (a) *for the proper collection of all money owing to the local government;*
 - (b) *for the safe custody and security of all money collected or held by the local government;*
 - (c) *for the proper maintenance and security of the financial records of the local government (whether maintained in written form or by electronic or other means or process);*
 - (d) *to ensure proper accounting for municipal or trust —*
 - (i) *revenue received or receivable;*
 - (ii) *expenses paid or payable; and*
 - (iii) *assets and liabilities;*
 - (e) *to ensure proper authorisation for the incurring of liabilities and the making of payments;*
 - (f) *for the maintenance of payroll, stock control and costing records; and*
 - (g) *to assist in the preparation of budgets, budget reviews, accounts and reports required by the Act or these regulations.*
- (2) *The CEO is to —*
 - (a) *ensure that the resources of the local government are effectively and efficiently managed;*
 - (b) *assist the council to undertake reviews of fees and charges regularly (and not less than once in every financial year); and*
 - (c) *undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 4 financial years) and report to the local government the results of those reviews.*

Relevant Council Policies

F3.1 Investment

F8.7 Significant Accounting Policies

Strategic Plan Implications

Nil

Financial/Resource/Budget Implications

Nil.

Conclusion

The attached Financial Management Review Report is presented to Council for information.

ATTACHMENT

RECOMMENDATION

That the Audit Committee recommends that Council:

1. receives the Financial Management Review Report 2011-2012
2. implements actions to the recommendations as provided in the report.

Cr de Jong entered the meeting at 4.11pm.

Messrs Macri and Tan gave an overview of the Financial Management Review Report and together with the Executive Manager, Finance & Administration, answered questions raised by elected members.

**RECOMMENDATION TO COUNCIL****Cr Rico – Cr de Jong****That the Audit Committee recommends that Council:**

- 1. receives the Financial Management Review Report 2011-2012**
- 2. implements actions to the recommendations as provided in the report. CARRIED**

A18.2 Annual Financial Report 2011-2012*By Les Mainwaring Executive Manager Finance & Administration on 2 November 2012***PURPOSE**

To present the findings of the annual financial report of the Town's operations to elected members. The audit committee is required to examine the auditor and management reports and recommend endorsement of the annual financial report.

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.

REPORTCEO 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.

2011/2012 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 \$297,199, refer the bottom of p8 in the Rate Setting Statement. The operating surplus can be attributed to an additional 11% in operating revenue against an additional 4% of operating expenditure. The areas of significant revenue variation include \$118,000 in pre-paid federal general purpose grants; \$48,000 parking fines brought to account from cash to accrual; \$355,000 in additional recoverable works and \$82,000 additional reserve interest earnings. Areas of significant expenditure variation include savings on employment costs from staff vacancies and outside staff switching from contract to permanent, against \$277,000 additional costs of recoverable works and \$51,000 additional government utility charges.

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 2012 shows a balance of \$3,605,413. This



includes Unrestricted Cash of \$592,384 and Reserves funds of \$3,013,029 refer p29 Note 3, of the Annual Financial Statement. 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 2011/2012 year were \$380,689, refer p25 Note 2(a)(ii), and included \$147,639 for the benefit of Council's Reserve Funds.

Statement of Changes in Equity and Statement of Financial Position

This statement provides for the net assets of the Town of East Fremantle, where the net assets have increased during 2011/2012 by \$1,426,915, compared to \$1,010,617 in 2010/2011, refer p6.

Trade and Other Payables

All bonds and deposits held on behalf of third parties have been moved to Trust, refer p34 Note 7.

Joint Venture Arrangements

Council continues to have a 2.18% stake in the Southern Metropolitan Regional Council (SMRC), and a 2.42% stake in the Regional Resource Recovery Centre major trading undertaking of the SMRC. Council also has a 6.68% stake in the South West Group. Refer p39 Note 14(a) and 14(b).

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, refer p40 Note 16. Generally the ratios give an indication of an organisation with low debt and adequate cash flow management to meet operations, which is a sound platform for future operations. The ratios include:-

Current Ratio 0.98

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.

Debt Ratio 7.62%

The debt ratio identifies exposure to debt as a proportion of total assets, with the lower the ratio the stronger the financial position. The trend over the past three years indicates a strengthening of the balance sheet with the ratio decreasing from 10.24% to 7.62%.

Debt Service Ratio 2.03%

The debt service ratio measures the degree to which available revenues are committed to debt repayment, with a ratio of less than 10% considered desirable. The Town has a very low debt service ratio which indicates that Council has been operating within funding constraints without relying on debt to expand services.

Rate Coverage Ratio 61.70%

The rate coverage ratio indicates the level of autonomy that Council has compared to other sources of revenue, with the higher the level the better. There has been a slowly falling trend over the past three years from 64.70% to 61.70%; therefore it indicates that there is both an increasing reliance on other revenues and those other revenues are growing faster than the growth in rates.

Outstanding Rates Ratio 0.80%

The outstanding rates ratio measures the cash flow impact of uncollected rates and the adequacy of recovery effort. A ratio of less than 5% is considered desirable therefore a ratio of less than 1% indicates the level of effort in maintaining effective debt collection control and the corresponding benefit to cash flow from the collection of \$5.4 million in revenue.



Operating Surplus

The Town closed on 30 June 2012 with a carried forward balance of \$297,199, which was made up of the estimated carried forward of \$167,000 used to fund the 2012/2013 budget, plus an additional \$130,199 net operating surplus.

The addition of the \$130,199 net operating surplus would shift the estimated closing position of the 2012/2013 budget from a \$60,520 to a \$190,819 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.

Staff propose an allocation of the \$130,199 net operating surplus as follows:

\$30,000 Additional cost of Glasson Park project, being \$20,000 for additional play equipment items as a result of public consultation, \$7000 for an additional BBQ and seating to reflect usage based on community responses and \$3000 for contingencies. The total project would be \$150,000.

\$6000 Additional bbq for Raceway Park, following advice from the Mayor re queuing occurring on some days. This allows about \$300 for contingencies.

In the absence of any further specific projects:

\$94,199 Allocation to be carried forward as an operating surplus providing an estimated closing position of \$154,719.

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.

Relevant Council Policies

Nil

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 2011-2012 annual financial audit.
- 2 receives the annual financial report dated 31 October 2012.
- 3 endorses the annual financial report.
4. allocates \$130,199 of the net operating surplus to the following for the purposes of:

\$44,000	E11673 Glasson Park Project
\$ 6,000	E11259 Raceway Park BBQ
\$65,000	E11246 East Fremantle Oval Master Plan
\$15,199	carried forward as an operating surplus

Absolute Majority Required

Messrs Macri & Tan (auditors) and the Executive Manager Finance & Administration answered queries regarding the 2011-2012 annual financial audit.

The Executive Manager Finance & Administration and the CEO answered queries regarding the various allocations recommended with respect to the net operating surplus.



Revised officer recommendations with regard to the various allocations recommended with respect to the net operating surplus were tabled.

RECOMMENDATION TO COUNCIL

Cr Lilleyman – Cr de Jong

That Council:

1. receives the CEO’s Report relating to the 2011-2012 annual financial audit.
2. receives the annual financial report and management report dated 31 October 2012.
3. accepts the annual financial report.
4. allocates \$130,199 of the net operating surplus to the following for the purposes of:

\$44,000	E11673 Glasson Park Project
\$ 6,000	E11259 Raceway Park BBQ
\$65,000	E11246 East Fremantle Oval Master Plan
\$15,199	carried forward as an operating surplus

CARRIED
ABSOLUTE MAJORITY RESOLUTION REQUIRED

A19. URGENT BUSINESS WITHOUT NOTICE BY PERMISSION OF THE MEETING

A19.1 Business Process Improvement

Cr Lilleyman raised this issue which had been the subject of a report by the former Executive Manager Finance & Administration in July 2011, which Council had, in August 2011, voted to receive.

Following considerable discussion, it was agreed that the Mayor would approach an appropriate company with a view to inviting the submission of a concept plan or expression of interest, with respect to a proposal involving a business efficiency audit, to be carried out conjointly with the requirements of the Integrated Planning Workforce Plan.

A20. CLOSURE OF MEETING

There being no further business, the meeting closed at 5.15pm.

*I hereby certify that the Minutes of the meeting of the **Audit Committee** of the Town of East Fremantle, held on Monday, **6 December 2012**, Minute Book reference **A11.** to **A20.** were confirmed at the meeting of the Committee on*

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with the following correction to MB Ref A18.2 Annual Financial Report 2011-2012:

That the 1st paragraph on page 8 be amended to read:
“The officers provided the following summary of recommended changes to the original officer recommendation with regard to the various allocations recommended for the net operating surplus and tabled a revised recommendation:

- ***An additional \$14,000 allocation to E11673 Glasson Park for existing swings softfall and steel refurbishment***
- ***An additional \$65,000 allocation to E11246 East Fremantle Oval Masterplan for a communications strategy***
- ***A reduction of the carried forward operating surplus allocation to \$15,199.”***

CARRIED

Presiding Member

