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TOWN OF  
EAST FREMANTLE

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# MINUTES

**Audit Committee Meeting**

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**Thursday, 3 December 2015 at 6.10pm**

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**MINUTES OF AN AUDIT COMMITTEE MEETING, HELD IN THE COMMITTEE MEETING ROOM, ON THURSDAY, 3 DECEMBER, 2015 COMMENCING AT 6.10PM.**

1. DECLARATION OF OPENING OF MEETING/ANNOUNCEMENT OF VISITORS
2. ACKNOWLEDGEMENT OF COUNTRY
3. RECORD OF ATTENDANCE/APOLOGIES
4. PRESENTATIONS/DEPUTATIONS/PETITIONS/SUBMISSIONS
5. RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE
6. PUBLIC QUESTION TIME
7. CONFIRMATION OF MINUTES OF PREVIOUS MEETING
  - 7.1 *Minutes of Audit Committee Meeting 25 February 2015*
8. DISCLOSURES OF INTEREST BY MEMBERS
9. LATE ITEMS NOTED
10. REPORTS OF OFFICERS
  - 10.1 *Annual Financial Audit Report 2014-15* *Page 3*
11. CONFIDENTIAL BUSINESS
12. NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY DECISION OF THE MEETING – ELECTED MEMBERS, OFFICERS
13. CLOSURE OF MEETING

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**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD IN THE COMMITTEE MEETING ROOM ON THURSDAY, 3 DECEMBER 2015 AT 6.10PM.**

**1. DECLARATION OF OPENING OF MEETING/ANNOUNCEMENT OF VISITORS**

The Executive Manager Finance & Administration opened the meeting and called for nominations for Presiding Member.

Cr A McPhail nominated Cr M McPhail for the position. Cr M McPhail accepted the nomination.

As there were no further nominations, the Executive Manager Finance & Administration declared Cr M McPhail as the Presiding Member of the Audit Committee for a period of two years.

Cr M McPhail assumed the Chair.

**2. ACKNOWLEDGEMENT OF COUNTRY**

The Presiding Member made the following acknowledgement:

*“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.”*

**3. RECORD OF ATTENDANCE/APOLOGIES**

Cr Michael McPhail	Presiding Member
Mayor Jim O’Neill	
Cr Andrew McPhail	
Cr Lukus Nicholson	
Cr Andrew White	
Mr Les Mainwaring	Executive Manager Finance & Administration
Mr Bill Thomas	Principal Auditor (Anderson Munro & Wyllie)

Cr Tony Watkins was an apology for this meeting.

There were no members of the gallery in attendance.

**4. PRESENTATIONS/DEPUTATIONS/PETITIONS/SUBMISSIONS**

Nil.

**5. RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE**

Nil.

**6. PUBLIC QUESTION TIME**

Nil.

**7. CONFIRMATION OF MINUTES OF PREVIOUS MEETING**

**7.1 Minutes of Audit Committee Meeting 25 February 2015**

Mayor O’Neill moved, seconded Cr M McPhail

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That the Minutes of the Audit Committee Meeting of 25 February 2015 be confirmed as a true and accurate record. CARRIED 5:0

**8. DISCLOSURES OF INTEREST BY MEMBERS**

Nil.

**9. LATE ITEMS NOTED**

Nil.

**10. REPORTS OF OFFICERS**

The Executive Manager Finance & Administration gave an overview of the results of the annual financial report and received various questions from the Committee. The Principal Auditor also engaged in various questions from the Committee regarding the contents of the annual financial report and the audit management letter.

## REPORT NO 10.1

### Annual Financial Audit Report 2014-2015

By Les Mainwaring Executive Manager Finance & Administration on 20 November 2015

#### 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.

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- (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 2015 and confirm that no significant weaknesses in internal controls or accounting procedures were revealed during the audit. However they did draw our attention to the following matter;

On-costs on Provision for Annual Leave – It was noted that when calculating unused annual leave liability, the calculation mechanism had not previously included a provision for employment related on-costs of workers compensation and superannuation in addition to the base leave calculation. Auditors did not recommend an adjustment to this year’s financial accounts, given the amount was not considered material; however the imperative will be to include on-costs in the annual leave calculation for 2015/2016.

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2014/2015 Annual Financial Statements

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

**ATTACHMENT**

Operating Statement

See page 3 Statement of Comprehensive Income. The year ended with a favourable operating balance of \$100,513 compared to the original budget. The areas of significant revenue variation were Operating Grants, Subsidies and Contributions which included \$119,000 federal financial assistance grants paid in advance (it is still unclear why the federal government thought it fiscally necessary to reintroduce payments of grants in advance) and Home and Community Care \$27,000 in additional growth funding. Areas of significant expenditure variation include Employments Costs, mainly due to administration salaries \$207,000 which included termination payments; also \$33,000 in greater than expected leave taken by Depot staff, plus \$32,000 of Depot wages not allocated to capital programs. Savings in the Materials and Contracts area included \$97,000 in consultants/legal expenditure, \$58,000 local government reform which ceased in February 2015, \$55,000 saving in implementation of strategy and scheme amendments not progressed through delays with State planning, \$33,000 saving in kerbing maintenance from reduced program, \$27,000 saving from cessation of visioning program, and \$22,000 saving in building administration.

The year ended with a surplus of \$523,436, refer to page 52 of Note 22(b). The surplus has come about through a combination of the additional carried forward from 1 July 2014 \$162,448, the favourable operating result \$100,513, less variations in non-cash adjustments of depreciation, provisions and P&L on asset disposals \$90,756, add variation in planned capital works expenditure \$848,401 less the net reduction in reserve funding movements \$497,172.

The 2015/2016 budget used an estimated carried forward surplus of \$119,000; therefore the additional carried forward surplus for 1 July 2015 is \$404,436.

Consolidated Cash Position

Council invests surplus funds in short term deposits with AA rated approved deposit taking institutions to provide a secure return on investments, and furthermore investments are not subject to market linked variations of the capital sum. Interest earnings for 2014/2015 were \$180,179 (LY \$274,156), and included \$74,572 for the benefit of Council's Reserve Funds, refer p26 Interest Earnings Note 2(a)(ii). Investment returns were affected by sharply falling interest rates during 2014/2015.

The consolidated cash position of the Municipal and Reserve funds for the Town of East Fremantle for the year ended 30 June 2015, see p31 Note 3 Cash and Cash Equivalents, has increased to a balance of \$3,314,488. This includes Unrestricted Cash \$1,454,753 (LY \$829,364) and Reserves funds of \$1,859,735 (LY \$2,401,563). Reserves are used by Council to fund future development and renewal of assets of the Town of East Fremantle, with the majority of reserve drawdowns during the year required for plant replacement, civic building, infrastructure and leave provisions.

Statement of Changes in Equity and Statement of Financial Position

Property, Plant and Equipment Assets have a carrying value of \$16,768,615 (LY \$16,873,817), see p32 Note 5 Property, Plant and Equipment, which has decreased by \$105,000 after depreciation has exceeded the annual capital works program. Buildings were valued at fair value in 2014/2015 and will now require further asset management analysis to confirm the appropriate renewal expenditure level to maintain assets.

Infrastructure has been revalued at \$55,668,000 (LY \$15,067,399) which is an increase of \$40,600,000 as a result of fair valuations carried out this year, see p35 Note 6 Infrastructure. Infrastructure is the final asset class that has now been valued on a fair value basis and further asset management analysis will be required to confirm the appropriate renewal level to maintain assets for the future.

The Statement of Changes in Equity provides for the net result of the Town of East Fremantle, and this year the net assets have increased during 2014/2015 by \$40,410,444 (LY \$9,772,468), refer p6 Statement of Changes in Equity. The majority of this increase is a result of the revaluation of infrastructure assets at fair value.

#### Borrowings

Outstanding borrowings have reduced to \$0 (LY \$41,568), see p39 Note 9 Long-Term Borrowings, therefore the Town is currently debt free.

#### Joint Venture Arrangements

Council has a 2.71% (\$55,280) stake in the Southern Metropolitan Regional Council (SMRC), and a 3.10 (\$564,952) stake in the Regional Resource Recovery Centre, a major trading undertaking of the SMRC, which fulfils a strategic role in Council's waste diversion objectives. There is also a 7.37% (\$11,237) stake in the South West Group of Councils which is a VROC concerned with shared service opportunities, refer p46 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 2014/2015 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 p47 Note 18 Financial Ratios and p60 Supplementary Ratio Information. The ratios include:-

#### **Current Ratio 107% (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 a reasonably steady trend.

#### **Asset Sustainability Ratio 132% (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 were brought to account though the ratio is still healthy at this point. A further reduction can be expected in 2015/2016 when the infrastructure class of assets are brought to account and depreciated at fair value.

#### **Debt Service Cover Ratio 38.9 (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. This ratio has risen favourable as the Town has reduced debt to zero.

**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 a medium risk where we need to be watchful that this ratio does not decline, and that we need to maintain or improve operating surpluses if we are to continue into the future.

**Own Source Revenue Coverage Ratio 94% (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 currently 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 79% (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 need to be monitored now that fair values for all classes of asset have been brought to account.

**Asset Renewal Funding Ratio 141% (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 need to be monitored now that fair values for all classes of asset have been brought to account and included within the long term financial plan.

Operating Surplus

The Town closed on 30 June 2015 with a carried forward balance of \$523,436 (LY \$250,948), which was made up of the estimated carried forward of \$119,000 used to fund the 2015/2016 budget, together with an additional \$404,436 net operating surplus.

The addition of the \$404,436 net operating surplus would shift the estimated closing position of the 2015/2016 budget from a \$20,900 to a \$425,336 surplus, subject to the half yearly budget review or any interim reallocations to one off projects or reserve funded capital projects. It is

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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 proposes that the \$404,436 net operating surplus be carried forward as an operating surplus providing an estimated closing position of \$425,336.

**Relevant Council Policies**

F8.7 Significant Accounting Policies

**Strategic Plan Implications**

Nil

**Financial/Resource/Budget Implications**

Additional surplus funds of \$404,436.

The attached Annual Financial Report and 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 2014-2015 annual financial audit.
2. Receives the annual financial audit report and management report dated 11 November 2015.
3. Accepts the annual financial report.

**Absolute Majority Required**

**Cr White moved, seconded M McPhail**

**That the Audit Committee recommends that Council:**

1. receives the CEO's Report relating to the 2014-2015 annual financial audit.
2. receives the annual financial audit report and management report dated 11 November 2015.
3. accepts the annual financial report.
4. gives a note of thanks to the Executive Manager Finance & Administration and the finance team and the Principal Auditor and the audit team for the preparation of the annual financial report.

CARRIED 5:0

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**11. CONFIDENTIAL BUSINESS**

Nil.

**12. NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY DECISION OF THE MEETING – ELECTED MEMBERS, OFFICERS**

Nil.

**13. CLOSURE OF MEETING**

There being no further business, the Presiding Member declared the meeting closed at 7.05pm.

*I hereby certify that the Minutes of the ordinary meeting of the **Audit Committee** of the Town of East Fremantle, held on **3 December 2015**, Minute Book reference **1. to 13.** were confirmed at the meeting of the Committee on*

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*Presiding Member*