Audit Committee

Minutes
2 November 2015
Audit Committee Terms of Reference

The duties and responsibilities of the committee will be:

a) Provide guidance and assistance to Council as to the carrying out the functions of the local government in relation to audits;
b) Develop and recommend to Council an appropriate process for the selection and appointment of a person as the local government’s auditor;
c) Develop and recommend to Council:
   • a list of those matters to be audited; and
   • the scope of the audit to be undertaken;
d) Recommend to Council the person or persons to be appointed as auditor;
e) Develop and recommend to Council a written agreement for the appointment of the external auditor. The agreement is to include:
   • the objectives of the audit;
   • the scope of the audit;
   • a plan of the audit;
   • details of the remuneration and expenses to be paid to the auditor; and
   • the method to be used by the local government to communicate with, and supply information to, the auditor;
f) Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions;
g) Liaise with the CEO to ensure that the local government does everything in its power to:
   • assist the auditor to conduct the audit and carry out his or her other duties under the Local Government Act 1995; and
   • ensure that audits are conducted successfully and expeditiously;
h) Examine the reports of the auditor after receiving a report from the CEO on the matters to:
   • determine if any matters raised require action to be taken by the local government; and
   • ensure that appropriate action is taken in respect of those matters;
i) Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and presenting the report to Council for adoption 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;
j) Review the scope of the audit plan and program and its effectiveness;
k) Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or CEO;
l) Review the level of resources allocated to internal audit and the scope of its authority;
m) Review reports of internal audits, monitor the implementation of recommendations made by the audit and review the extent to which Council and management reacts to matters raised;

Review liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs;
o) Review the local government’s draft annual financial report, focusing on:
   • accounting policies and practices;
   • changes to accounting policies and practices;
   • the process used in making significant accounting estimates;
   • significant adjustments to the financial report (if any) arising from the audit process;
   • compliance with accounting standards and other reporting requirements; and
   • significant variances from prior years;
p) Consider and recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the annual financial report is signed;
q) Address issues brought to the attention of the committee, including responding to requests from Council for advice that are within the parameters of the committee’s terms of reference;
r) Seek information or obtain expert advice through the CEO on matters of concern within the scope of the committee’s terms of reference following authorisation from the Council;
s) Review the annual Compliance Audit Return and report to the council the results of that review, and
t) Consider the CEO’s biennial reviews of the appropriateness and effectiveness of the local government’s systems and procedures in regard to risk management, internal control and legislative compliance, required to be provided to the committee, and report to the council the results of those reviews.
Members of the public to note that recommendations made by this committee are not final and will be subject to adoption (or otherwise) at a future meeting of the Bunbury City Council.

1. Declaration of Opening

The Chief Executive Officer declared the meeting open at 10:32am.

As this is the first meeting of the Audit Committee since the 2015 local government elections, the committee was required to elect a Presiding Member in accordance with Section 5.12 of the Local Government Act 1995. The Chief Executive Officer called for nominations for the position of Presiding Member.

Cr. McCleary nominated Cr. Miguel as the Presiding member. No other nominations were received and Councillor Cr. Miguel was elected to the position unanimously.

Moved: Cr. McCleary  Seconded: Mr. Foster

2. Disclaimer

Not applicable to this committee.

3. Announcements from the Presiding Member

Nil

4. Attendances

Committee Members:

<table>
<thead>
<tr>
<th>Member Name</th>
<th>Representing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cr. Betty McCleary</td>
<td>City of Bunbury</td>
</tr>
<tr>
<td>Cr. Jaysen Miguel</td>
<td>City of Bunbury</td>
</tr>
<tr>
<td>Mr Stephen Foster</td>
<td>Community Member</td>
</tr>
<tr>
<td>Mr John Barratt</td>
<td>Community Member</td>
</tr>
</tbody>
</table>
Support Staff:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr David Russell (Minute Taker)</td>
<td>Manager Governance (Acting)</td>
</tr>
<tr>
<td>Mr James Shepherd</td>
<td>Manager Assets and Projects</td>
</tr>
<tr>
<td>Mr Rick Harding</td>
<td>Manager Information Communications and Technology</td>
</tr>
<tr>
<td>Miss Stephanie Addison-Brown</td>
<td>Director Corporate and Community Services</td>
</tr>
<tr>
<td>Mr Andrew Brien</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Mrs Aileen Clemens</td>
<td>Manager Organisational Development and Human Resources</td>
</tr>
<tr>
<td>Mr David Ransom</td>
<td>Manager Finance</td>
</tr>
<tr>
<td>Michael Hillgrove</td>
<td>Auditor - Grant Thornton</td>
</tr>
</tbody>
</table>

4.1 Apologies

Nil

4.2 Approved Leave of Absence

Nil

5. Declaration of Interest

6. Public Question Time

Not applicable to this committee.

7. Confirmation of Minutes

Committee Decision: Moved: Mr Barratt Seconded: Mr Foster

The minutes of the Audit Committee Meeting held on 28 May 2015 are confirmed as a true and accurate record.

CARRIED

8. Presentations

8.1 Petitions

Nil
8.2 Presentations

Overview of the City’s 2014/15 Financial Statements – David Ransom (Manager Finance)
Overview of the DRAFT Asset Management Plan – James Shepherd (Manager Assets and Projects)

8.3 Deputations

Nil

9. Method of Dealing with Agenda Business

Items were dealt with in the order that appeared on the Agenda
10. Reports

10.1 Internal Audit Programme IT – Recommendations Update

<table>
<thead>
<tr>
<th>Applicant/Proponent:</th>
<th>Internal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Author:</td>
<td>Rick Harding, Manager ICT</td>
</tr>
<tr>
<td>Executive:</td>
<td>Stephanie Addison-Brown, Director Corporate and Community Services</td>
</tr>
<tr>
<td>Attachments:</td>
<td>Appendix 1: Internal Audit Recommendations Update – IT</td>
</tr>
</tbody>
</table>

Summary

The purpose of this item is to present the Audit Committee with an update as to the implementation of the recommendations from the Information Technology (IT) audit conducted by AMD Chartered Accountants (AMD) between March and May 2014.

Executive Recommendation

That the Audit Committee:

1. Receive the information as presented; and
2. Note that all recommendations have been completed.

Background

The Audit Committee has previously received the final report and recommendations relating to the IT audit as provided by AMD. The Committee requested that subsequent updates be provided outlining progress achieved in relation to the implementation of the recommendations contained therein.

Council Policy Compliance

N/A

Legislative Compliance

N/A

Officer Comments

The Information Technology Audit encompassed the following areas:

- Planning the IT environment;
- Development and delivery services;
- Operation of the IT environment;
- Organising and monitoring IT processes;
• Ensure appropriateness of internal control policies and procedures and ensure these are adhered to in respect to IT systems, including access controls, backup procedures and recovery procedures;
• Review system security ensuring access restricted based on level of personnel;
• Assess identification and risk in respect to IT planning;
• Document procedures in respect to identifying IT needs and related procurement procedures;
• Review system support and ensure appropriate back-up personnel trained and available;
• Review of virus detection procedures; and
• Review procedures and plans for determining the needs for changes/improvements to existing IT systems and processes in place to implement such changes.

Two recommendations were still outstanding at the Audit Committee meeting on 28 May 2015, these were;
• FN01-01
• FN03-02

As per Appendix 1, the outstanding recommendations have been completed with no items outstanding from the audit.

Analysis of Financial and Budget Implications

Nil

Councillor/Officer Consultation

The attached reports are presented to the Audit Committee for information and discussion as necessary.

Outcome of Meeting – 2 November 2015

The Audit Committee extended their appreciation to staff for the completion of the remaining items. The Executive Recommendation was moved by Mr. Barratt and seconded by Mr. Foster and was carried unanimously as follows:

That the Committee:

1. Receive the information as presented; and
2. Note that all recommendations have been completed.
10.2 WALGA Procurement Audit – Recommendations Update

<table>
<thead>
<tr>
<th>Applicant/Proponent:</th>
<th>Internal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Author:</td>
<td>David Russell, Senior Procurement Officer</td>
</tr>
<tr>
<td>Executive:</td>
<td>Andrew Brien, Chief Executive Officer</td>
</tr>
<tr>
<td>Attachments:</td>
<td>Appendix 2: Procurement Audit Recommendations Update</td>
</tr>
</tbody>
</table>

Summary

The purpose of this report is to provide an update to the Audit Committee regarding the Procurement Probity Review that WALGA Procurement Consultancy Service provided in May 2013.

This report and attachment provides the committee with details as to which recommendations have been implemented, and which recommendations are still outstanding.

Executive Recommendation

That the Audit Committee:

1. Receive the updated information as presented; and
2. Note that all recommendations from the WALGA Procurement Audit have been completed.

Background

In April/May 2013 a Procurement Probity Review was undertaken by WALGA, which provided 46 recommendations to Council for consideration.

The objective of the review was to determine the City’s current level of compliance against relevant purchasing legislation and regulations and to offer a series of recommendations that, once implemented, would ensure full compliance and also facilitate the City moving towards achieving best practice in procurement.

The below extract from the Council Minutes from 27th September 2013 refers (Decision 266/13):

1. That Council note the outcomes of the Procurement Probity Audit.
2. Council endorse the 46 recommendations contained in the report; and
3. The CEO to provide a further report to Council outlining how each of the recommendations has been implemented.

In relation to the above decision, the following summary is provided:

Part 1: Completed
Part 2: Completed
Part 3: Completed (as per Appendix 2)
Council Policy Compliance

N/A

Legislative Compliance

The recommendations accord with the provisions of the Local Government (Functions and General) Regulations 1996

Officer Comments

Of the 46 recommendations, three (3) were still outstanding at the time of the last Audit Committee meeting held on 28 May 2015. Since that meeting the remaining audit items have been completed as attached at Appendix 2.

Analysis of Financial and Budget Implications

Implementation of the recommendations will continue to aid in reducing operational and capital expenditure by adopting best practice in providing a strategic approach to procurement, and will ensure that the best prices and quality of service are provided.

Councillor/Officer Consultation

Relevant Officers have been consulted in relation to the implementation of these audit recommendations.

Outcome of Meeting – 2 November 2015

The Audit Committee extended their appreciation to staff for the completion of the remaining items. The Executive Recommendation was moved by Mr. Foster and seconded by Mr. Barratt and was carried unanimously as follows:

That the Committee:

1. Receive the updated information as presented; and
2. Note that all recommendations from the WALGA Procurement Audit have been completed.
10.3 Annual Leave Accruals

<table>
<thead>
<tr>
<th>Applicant/Proponent:</th>
<th>Internal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Author:</td>
<td>Aileen Clemens, Manager Organisational Development</td>
</tr>
<tr>
<td>Executive:</td>
<td>Andrew Brien, Chief Executive Officer</td>
</tr>
<tr>
<td>Attachments:</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Summary

The purpose of this report is to provide the Audit Committee with information relating to Annual Leave Accruals for City staff.

Executive Recommendation

That the Audit Committee:

1. Receive the update leave liabilities table;
2. Note the legislation defines “excessive leave” as having more than 8 weeks accrued; and
3. Receive future reports based on Council Policy and legislative requirements.

Background

At the meeting of the Audit Committee held on 30 October 2014, the CEO was requested to provide the Committee with a list of accrued leave in excess of 4 weeks at each subsequent meeting. This report fulfils this requirement.

Council Policy Compliance

N/A

Legislative Compliance

Over the last twelve months the City has directed staff to use any accrued leave in excess of four weeks in line with the requirements of Council. The Local Government Industry Award 2010 (the award) has been through legislative change which will effect the current direction of Council in regards to excess accrued leave. Clause 25.5(b) states;

25.5 Requirement to take annual leave – excessive accrual and annual shutdown

An employer may require an employee to take annual leave by giving at least four weeks’ notice in the following circumstances:

(a) As part of a close-down of its operations; or
(b) Where more than eight week’s leave is accrued, provided that the employee retains a balance of at least eight weeks.
**Officer Comments**

The tables and graphs overleaf detail the City’s leave liabilities to **30 June 2015**. Note that the figures represent liabilities in excess of annual entitlements.

The request from the Audit Committee to the CEO to provide a list of accrued leave in excess of four weeks was made on 30 October 2014. Processes have since been put into place for affected staff to either utilise leave, or submit leave plans detailing how they intend on clearing leave balances in excess of their annual entitlement. The data shows a reduction in excess leave of approximately $107,744 when comparing 30 June 2015 to 30 June 2014.

It is recommended that recurring reports be presented to the Audit Committee to include both a four week and eight week report identifying accrued leave. This can be used to measure leave liability and clearly distinguish between accrued leave and excess leave that the City can direct employee’s to clear as per the legislation.

**Analysis of Financial and Budget Implications**

Financial details relating to outstanding leave accruals are outlined within the body of this report.

**Community Consultation**

N/A

**Councillor/Officer Consultation**

The Manager Finance and Manager Organisational Development and HR have been consulted in relation to the development of this report.

**Outcome of Meeting – 2 November 2015**

The Chief Executive Officer stated that although the legislation had changed, employees would be encouraged to take leave where practicable to minimise leave liability. The Executive Recommendation was moved by Mr. Barratt and seconded by Mr. Foster and was carried unanimously as follows:

**That the Committee:**

1. Receive the update leave liabilities table;
2. Note the legislation defines “excessive leave” as having more than 8 weeks accrued; and
3. Receive future reports based on Council Policy and legislative requirements.
Annual Leave Liability in excess of Annual Entitlements

<table>
<thead>
<tr>
<th>Directorate</th>
<th>Number of Employees</th>
<th>Liability 30-Jun-15</th>
<th>Number of Employees</th>
<th>Liability 30-Jun-14</th>
<th>Number of Employees</th>
<th>Liability 30-Jun-13</th>
<th>Liability 30-Jun-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the CEO</td>
<td>10</td>
<td>22,065</td>
<td>10</td>
<td>27,457</td>
<td>8</td>
<td>18,438</td>
<td></td>
</tr>
<tr>
<td>Community and Corporate Services</td>
<td>20</td>
<td>28,194</td>
<td>15</td>
<td>57,409</td>
<td>14</td>
<td>53,447</td>
<td></td>
</tr>
<tr>
<td>Planning and Development</td>
<td>10</td>
<td>84,781</td>
<td>11</td>
<td>120,985</td>
<td>10</td>
<td>103,017</td>
<td></td>
</tr>
<tr>
<td>Works and Services</td>
<td>18</td>
<td>88,386</td>
<td>26</td>
<td>146,665</td>
<td>21</td>
<td>106,477</td>
<td></td>
</tr>
<tr>
<td></td>
<td>58</td>
<td>223,425</td>
<td>62</td>
<td>352,516</td>
<td>53</td>
<td>281,379</td>
<td></td>
</tr>
</tbody>
</table>

Total Annual Leave Liability

1,736,923

1,844,667

1,714,066

% of Annual Leave excess of Annual Leave entitlements

13%

19%

16%

Excess Annual Leave Liability by Directorate

[Graph showing excess annual leave liability by Directorate for each year.]
Summary

The Auditor’s Report and Audited Annual Financial Statements of the City of Bunbury for the financial year ending 30 June 2015 are attached at Appendix 1 for the information of the Audit Committee.

Executive Recommendation

That the Audit Committee recommends that Council accept the Auditor’s Report and the Audited Annual Financial Statements of the City of Bunbury for the financial year ending 30 June 2015.

Background

The City’s auditors, Grant Thornton have audited the 2014/15 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 Auditor’s Report and Annual Financial Statements are now presented to the Audit Committee for information.

Furthermore, section 7.12A(2) of the Act requires a local government to meet with its Auditor at least once in every year.

Mr Michael Hillgrove from Grant Thornton is the City’s appointed Auditor and will be in attendance to discuss with the Committee any queries arising from the 2014/15 Audit.

Council Policy Compliance

N/A

Legislative Compliance

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

Section 7.12A(2) of the Act requires a local government to meet with its Auditor at least once each year.

Officer Comments

Council’s management and internal control systems are sound. In addition to being monitored internally on a daily and monthly basis they are also strengthened by an independent assessment each year on the City’s financial management systems and external audit reporting. The independent assessment reviews Council’s financial position, financial management practices and compliance with the requirements of the Local Government Act, the Local Government (Financial Management) Regulations, and Accounting Standards.
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 (shown on pages 4 to 6 of the Financial Statements) shows the extent to which operating expenditure has exceeded operating revenue during the financial year (i.e. operating deficit).

Key financial figures within the audited Annual Financial Report for the year ended 30 June 2015 include:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenue</td>
<td>$ 52,869,639</td>
<td>$ 48,109,366</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$ 53,821,631</td>
<td>$ 53,556,585</td>
</tr>
<tr>
<td>Operating Deficit</td>
<td>$ 951,992</td>
<td>$ 5,447,219</td>
</tr>
<tr>
<td>Net Result (utilised for capital works)</td>
<td>$ 4,867,534</td>
<td>$ 806,674</td>
</tr>
</tbody>
</table>

For the year ending 30 June 2015, the operating deficit was $952K compared to $5.4M in 2013/14, a decrease of $4.5M. While revenue increased by $4.8M, expenditure only increased by $265K. The increase of $4.8M in revenue is mainly due to increases in Rates ($2.1M) and Operating Grants ($2.7M).

The Rates increase was due to residential properties increasing on average by 4.0%, while the average increase for non-residential properties was 10.5%. The 2014/15 financial year introduced a change to the rating system from 4 differential rating categories to a single rate in the dollar, and was also affected by the review of each properties Gross Rental Valuation by Landgate.

The City received more Operating Grants in 2014/15 including an advance payment of the 2015/16 General Purpose Grants from the Federal Government ($804K). In 2013/14 no advance payment was received, however an advance payment of $849K was received in the 2012/13 financial year for 2013/14. The City also received a grant from the South West Development Commission of $1.0M for the Bunbury Marine Facilities funding.

When capital grants and profit/loss on disposal of assets etc. are included, the Net Result was a surplus of $4.9M (compared to a surplus of $807K in 2013/14). The Statement also accounts for the revaluation of non-current assets during the year of $109.6M resulting in a Total Comprehensive Income for 2014/15 of $114.5M.

**Statement of Financial Position**: The Statement of Financial Position (shown on page 7 of the Financial Statements) shows the assets and liabilities which make up the community equity as at the 30 June 2015.
Key financial figures within the audited Annual Financial Report for the year ended 30 June 2015 include:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>$25,471,223</td>
<td>$19,657,697</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>$9,500,592</td>
<td>$9,535,619</td>
</tr>
<tr>
<td>Current Assets over Current Liabilities</td>
<td>$15,970,631</td>
<td>$10,122,078</td>
</tr>
<tr>
<td>Non-Current Assets</td>
<td>$539,742,227</td>
<td>$428,231,265</td>
</tr>
<tr>
<td>Non-Current Liabilities</td>
<td>$16,161,228</td>
<td>$13,274,445</td>
</tr>
<tr>
<td>Total Equity</td>
<td>$539,551,630</td>
<td>$425,078,898</td>
</tr>
</tbody>
</table>

Council’s current assets exceed current liabilities by $16.0M compared to $10.1M in 2013/14. The total community equity as at 30 June 2015 was $539.5M an increase of $114.5M on 2013/14 mainly due to the revaluation of non-current assets.

Statement of Changes in Equity: The Statement of Changes in Equity (shown on page 8 of the Financial Statements) shows the extent to which the community equity has been increased by the net result of the year’s activities. For the year ending 30 June 2015, the Community Equity increased from $425.1M to $539.5M.

Statement of Cash Flows: The Statement of Cash Flows (shown on page 9 of the Financial Statements) shows the nature and amount of Council’s cash inflows and outflows from all activities. Council’s cash held at the end of the reporting period was $22.8M compared to $17.2M in 2013/14.

Rate Setting Statement: The Rate Setting Statement (shown on pages 10 and 11) shows the amount of rates required to be raised to fund the City's operating during 2014/15. In 2014/15 $32.4M in rates were raised, an increase of $2.1M or 6.9% on 2013/14 (residential properties increased by an average of 4.0%, non-residential properties increased on average by 10.5% and a 0.28% increase in property growth).

Financial Information by Ratio:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Ratio</strong></td>
<td>1.418</td>
<td>1.214</td>
<td>1.529</td>
</tr>
<tr>
<td>(Current Assets as a ratio of Current Liabilities)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Measure of short term liquidity, i.e. the ability of Council to meet its liabilities when they fall due. A ratio of greater than 1.0 indicates Council has more current assets than current liabilities. Target is > 1.0)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset Sustainability Ratio</strong></td>
<td>0.812</td>
<td>0.423</td>
<td>1.060</td>
</tr>
<tr>
<td>(Capital renewal and replacement expenditure as a ratio of depreciation expense)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Measures the extent to which assets are being renewed/replaced compared to the amount consumed i.e. depreciation. A ratio of greater than 1.0 indicates that council is investing in asset renewal/replacement greater than current consumption)
**Debt Service Cover Ratio**

Operating Surplus before Interest and Depreciation as a ratio of principal and interest expense for borrowings.

(Measures Council’s ability to service debt out of its uncommitted or general purpose funds available for its operations. The Department of Local Government indicates that a Basic standard is achieved if ≥ 2.0. An Advanced standard is ≥ 5.0)

<table>
<thead>
<tr>
<th></th>
<th>4.167</th>
<th>2.852</th>
<th>3.167</th>
</tr>
</thead>
</table>

**Operating Surplus Ratio**

Operating Revenue minus Operating Expenditure as a ratio of own source operating revenue.

(A result of lower than zero indicates that the Council has an operating deficit. The Department of Local Government indicates that a Basic standard is achieved if between 0.4 and 0.6)

<table>
<thead>
<tr>
<th></th>
<th>(0.035)</th>
<th>(0.122)</th>
<th>(0.112)</th>
</tr>
</thead>
</table>

**Own Source Revenue Coverage Ratio**

Own source operating revenue as a ratio of operating expense.

(Measures Council’s ability to cover operating expenses from own source revenue. The higher the ratio, the more self-reliant the local government is. The Department of Local Government indicates that an Advanced standard is achieved if the ratio is greater than 0.9)

<table>
<thead>
<tr>
<th></th>
<th>0.886</th>
<th>0.861</th>
<th>0.839</th>
</tr>
</thead>
</table>

**Analysis of Financial and Budget Implications**

There are no financial or budget implications for Council to accept the Annual Financial Statements and Auditor’s Report.

**Community Consultation**

An abridged Annual Financial Report will be included in the City’s 2014/15 Annual Report.

**Outcome of Meeting – 2 November 2015**

Mr. Michael Hillgrove from Grant Thornton provided a verbal overview of the Auditor’s Report and Annual Financial Statements. Mr Hillgrove stated that “robust controls are in place” and that there is no concerns with the Audit. The Audit Committee and Mr. Hillgrove commended the Finance Team on their performance.

The Executive Recommendation was moved by Mr. Foster and seconded by Cr. McCleary and was carried unanimously as follows:

**That the Committee:**

Recommends that Council accept the Auditor’s Report and the Audited Annual Financial Statements of the City of Bunbury for the financial year ending 30 June 2015.
10.5 2014/15 Audit Findings Report

<table>
<thead>
<tr>
<th>Applicant/Proponent:</th>
<th>Internal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible Officer:</td>
<td>David Ransom, Manager Finance</td>
</tr>
<tr>
<td>Executive:</td>
<td>Andrew Brien, Chief Executive Officer</td>
</tr>
<tr>
<td>Attachments:</td>
<td>Appendix 4: Audit Findings Report</td>
</tr>
</tbody>
</table>

Summary

The purpose of this report is for the Audit Committee to receive the 2014/15 Audit Findings Report prepared by Council’s auditors Grant Thornton, which stems from the 2014/15 financial audit of the City of Bunbury.

Mr Michael Hillgrove from Grant Thornton is the City’s appointed Auditor and will be in attendance to discuss with the Committee any queries arising from the 2014/15 Audit Findings Report.

Executive Recommendation

That the Audit Committee receive the 2014/15 Audit Findings Report as presented.

Background

The Audit Findings Report outlines any management issues identified by the Auditor as part of the 2014/15 financial audit of the City of Bunbury that were not material enough to qualify the overall audit, but relevant enough to be brought to the attention of the Audit Committee.

Council Policy Compliance

N/A

Legislative Compliance

The Audit Findings Report is provided by the City’s Auditor as part of the City’s annual audit report completed under section 7.9(1) of the Local Government Act 1995.

Officer Comments

The Audit Findings Report is presented at Appendix 4. No material misstatement or significant control deficiencies were identified by the City’s auditors.

In the report the auditors have made the following comments:

- We have not become aware of any material irregularities or illegal acts
- We have not become aware of any material non-compliance with laws and regulations
- We have been presented with all the necessary books and records and explanations requested of management
- We have not detected any material deficiencies in the accounting policies disclosed
- We have not detected any material deficiencies in management’s assessment of the going concern assumption.
- We have had no material disagreements with management
- National internal independence checks are performed annually

**Analysis of Financial and Budget Implications**

There are no financial or budget implications arising from the recommendations contained within this report.

**Community Consultation**

N/A

**Outcome of Meeting – 2 November 2015**

Mr. Michael Hillgrove from Grant Thornton provided a verbal overview of the Audit Findings Report. The Audit Committee and Mr. Hillgrove commended the Finance Team on their performance. Mr. Foster queried Mr. Hillgrove in regards to an “X” placed in the “risk” and “Management/judgement” columns of the Audit Findings Report. Mr Hillgrove stated that the report was a new format and that an “X” was the equivalent of a “not applicable” rating. This will be amended for future reports so to that there is a clear understanding.

The Executive Recommendation was moved by Cr. McCleary and seconded by Mr Barratt. And was carried unanimously as follows;

**That the Audit Committee receive the 2014/15 Audit Findings Report as presented.**
10.6 Financial Management Systems and Procedures Review

<table>
<thead>
<tr>
<th>Applicant/Proponent:</th>
<th>Internal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible Officer:</td>
<td>David Ransom, Manager Finance</td>
</tr>
<tr>
<td>Executive:</td>
<td>Andrew Brien, Chief Executive Officer</td>
</tr>
</tbody>
</table>

Summary

The purpose of this report is for the Audit Committee to receive the Financial Management Systems and Procedures Review report, which is undertaken annually by the City’s auditors.

Executive Recommendation

That the Audit Committee receive the Financial Management Systems and Procedures Review report as presented, and notes that no financial management control weakness were identified.

Background

During May 2015, the City’s auditors (Grant Thornton) undertook a financial management systems and procedures review in accordance with Regulation 5(1) of the Local Government (Financial Management) Regulations 1996.

The resulting report has now been completed and is presented to the Audit Committee for their information. A copy of the report is at Appendix 5.

Council Policy Compliance

There are no Council policies relating to this report.

Legislative Compliance

Regulation 5(1) of the Local Government (Financial Management) Regulations 1996 outlines the CEO’s duties as to financial management.

Officer Comments

The areas that were reviewed as part of the financial management systems and procedures review included:

- Purchases/Payments/Payables
- Receipts/Receivables/Cash Management
- Payroll
- Rates
- Other Revenue; and
- Fixed Assets
The report as presented at Appendix 3 is self-explanatory, and indicates that no areas of concern or weakness were identified across any of the areas audited.

**Analysis of Financial and Budget Implications**

Nil

**Community Consultation**

N/A

**Councillor/Officer Consultation**

This report is presented for the information of the Audit Committee.

**Outcome of Meeting – 2 November 2015**

Mr. Michael Hillgrove from Grant Thornton provided a verbal overview of the Financial Management Systems and Procedures Review Report. Mr Hillgrove stated that “robust controls are in place” and that there are no concerns with the review. The Audit Committee and Mr. Hillgrove commended the Finance Team on their performance.

The Executive Recommendation was moved by Cr. McCleary and seconded by Mr. Foster and was carried unanimously as follows:

**That the Audit Committee receive the Financial Management Systems and Procedures Review report as presented, and notes that no financial management control weakness were identified.**
10.7 **Asset Management Plan 2015**

<table>
<thead>
<tr>
<th>Applicant/Proponent:</th>
<th>Internal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Author:</td>
<td>James Shepherd, Manager Assets and Projects</td>
</tr>
<tr>
<td>Executive:</td>
<td>Andrew Brien, Chief Executive Officer</td>
</tr>
<tr>
<td>Attachments:</td>
<td>Appendix 6 – Draft Asset Management Plan 2014/5-23/24</td>
</tr>
</tbody>
</table>

**Summary**

The purpose of this report is for the Audit Committee to receive the City’s draft Asset Management Plan 2014/15-2023/24 as provided in Appendix 6.

**Executive Recommendation**

That the Audit Committee recommends that Council:

1. Receive the draft Asset Management Plan 2015 as presented;
2. That Council utilises information from the Asset Management Plan 2015 as part of the development of the Long Term Financial Plan; and
3. Establish a working group comprising two elected members with relevant experience and Officers to progress appropriate service level benchmarks and asset strategy recommendations for future consideration by Council.

**Background**

As part of the Integrated Planning and Reporting Framework, the City of Bunbury is required to develop asset management plans to inform the City’s long term financial planning, and in particular the development of the Long Term Financial Plan, Corporate Business Plan, and Annual Budget. Primarily, asset management plans outline the funding requirements for the lifecycle management of the City’s assets, whilst taking into consideration applicable service standards.

**Council Policy Compliance**

Council Policy: Asset Management requires Council to give priority in its annual budget and long term financial plan for the maintenance, operation and renewal of existing assets where need demonstrates their retention.

**Legislative Compliance**

Section 5.56 of the *Local Government Act* and Division 3 of Part 5 of the *Local Government (Administration) Regulations* deal with local government future planning.

**Officer Comments**

The draft Asset Management Plan 2014/15-2023/24 provides information for each of the City’s 12 asset classes at a network level, outlining the funding requirements to adequately maintain and renew each class of asset.
The development of the Long Term Financial Plan and Corporate Business Plan to meet the aspirations of
the Strategic Community Plan requires Council to consider the findings of the Asset Management Plan
when determining the City’s ability to maintain and renew its asset base, whilst at the same time
establishing requirements to upgrade or provide new assets to meet increasing demand and changing
service level expectations.

Officers will provide the Committee with a presentation to summarise the content of the draft Asset
Management Plan.

Analysis of Financial and Budget Implications

In accordance with the Asset Management Policy, priority will be given to ensuring that budgets for
maintenance, operations and asset renewal over and above the provision of new assets. Asset upgrades
should be established as part of the renewal process and determined on an as needed basis. Any renewal
projects identified must also demonstrate their need for retention to meet community need and Council’s
risk management responsibilities.

The draft Asset Management Plan identifies a total funding gap of $58.8m; in accordance with the Asset
resolve the funding shortfall through:

1. Reducing the City’s asset base to reduce lifecycle cost liabilities;
2. Change levels of service; and
3. Increase revenue to meet in whole or part the shortfall.

In all cases reviews with regard to the above should be made in line with the Strategic Community Plan

The information contained with the draft Asset Management Plan will inform the development of future
iterations of the City’s Long Term Financial Plan and Corporate Business Plan.

Councillor/Officer Consultation

This matter is presented to the Audit Committee for consideration.

Outcome of Meeting – 2 November 2015

The Manager Assets and Projects provided a powerpoint presentation and a verbal overview of the draft
Asset Management Plan. The Audit Committee thanked the Manager Assets and Projects on an
informative presentation which provided a common sense approach to asset management. Discussion
centred on the following key issues;

- Community consultation to establish service levels and provide data on whether rate payers
  would support additional rate increase to fund asset renewal and upgrade.
- Cr Mc Cleary stated that the “average” rate payer would not be aware of the “actual cost” in
  maintaining assets and that work could be done in this area to educate and inform through
  community consultation.
✓ How does the City of Bunbury placed or benchmarked against other local governments.
✓ Cr. Miguel queried who in local government leads in asset management. The Manager of Assets and Projects responded that WA is behind other states due to the legislative requirements of Integrated Planning Framework and that other states are more progressed than Western Australia.
✓ The regularity of asset valuations (12 monthly)
✓ Increase in rates to assist funding of assets and infrastructure.

Mr Foster queried the Chief Executive Officer in regards to the Audit Committee role in the Asset Management Plan process. The Chief Executive responded that it was important that the Audit Committee understood the vision for the draft Asset Management Plan and assist in mapping a plan going forwards.

The Executive Recommendation was moved by Cr. Mc Cleary and seconded by Mr. Foster and was carried unanimously as follows:

That the Audit Committee recommends that Council:

1. Receive the draft Asset Management Plan 2015 as presented;
2. That Council utilises information from the Asset Management Plan 2015 as part of the development of the Long Term Financial Plan; and
3. Establish a working group comprising two elected members with relevant experience and Officers to progress appropriate service level benchmarks and asset strategy recommendations for future consideration by Council.
11. **Motions of Which Previous Notice has been given**

Nil

12. **Questions from Members**

   12.1 **Response to Previous Questions from Members taken on Notice**

Nil

   12.2 **Questions from Members**

**12.2.1** Cr. McCleary queried if both the Overview of the City’s 2014/15 Financial Statements and the draft Asset Management Plan could be presented to Council at the earliest convenience as it provides valuable information to Councillors as part of the Long Term Financial Plan.

The motion was moved by Cr. Miguel and seconded by Mr Foster and was carried unanimously as follows:

*That the Audit Committee recommends to Council that:*

1. The Manager Assets and Projects present to Council an overview of the draft Asset Management Plan; and
2. The Manager Finance presents to Council an overview of the City’s 2015/15 Financial Statements.*

**12.2.2** Mr Foster queried why an update on the Audit Regulation 17 was not included in the agenda. Manager Governance (acting) stated that this was due to the number of items already on the agenda including the Auditor overview. The Manager Governance (acting) stated that the intention is to include as a standard item in future agenda’s.

The motion was moved by Mr. Foster and seconded by Cr. Miguel and was carried unanimously as follows:

*That the Audit Committee shall be presented an update on Audit Regulation 17 at each meeting by the Manager Governance as part of the ongoing reporting process.*

13. **Urgent Business**

Nil

14. **Date of Next Meeting**

The next meeting will be held in February 2016 at a date to be confirmed with the Committee.

15. **Close of Meeting**

The Presiding Member closed the meeting at 12:10pm.