

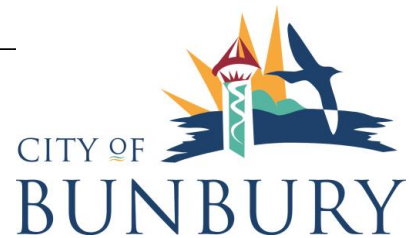
Audit Committee

Minutes

11 October 2018

City of Bunbury
4 Stephen Street
Bunbury WA 6230
Western Australia

Correspondence to:
Post Office Box 21
Bunbury WA 6231



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 and matters related to financial management;*
 - b) *Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions;*
 - c) *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;*
 - d) *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*
 - *oversee the implementation of any action so determined in respect of those matters;*
 - e) *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;*
 - f) *Review the scope of the internal audit plan and program and its effectiveness;*
 - g) *Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or the CEO;*
 - h) *Review the level of resources allocated to internal audit and the scope of its authority;*
 - i) *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;*
 - j) *Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs;*
 - k) *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;*
 - l) *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;*
 - m) *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;*
 - n) *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;*
 - o) *Review the annual Compliance Audit Return and report to the council the results of that review,*
 - p) *Having regard to the culture and capability of the organisation, consider the CEO's 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;*
 - q) *Monitor and advise the CEO when the CEO is carrying out functions in relation to a review of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance;*
 - r) *Oversee the implementation of any action required following receipt of the review of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance;*
 - s) *Monitor and advise the CEO when the CEO is carrying out functions in relation to a review of the appropriateness and effectiveness of the financial management systems and procedures;*
 - t) *Oversee the implementation of any action required following receipt of a review of the appropriateness and effectiveness of the financial management systems and procedures.*
-

Minutes

11 October 2018

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 Presiding Member declared the meeting open at 11.00am.

2. Disclaimer

Not applicable to this committee.

3. Announcements from the Presiding Member

The Deputy Mayor welcomed Carly Meagher from OAG as well as Tim Partridge and Maria Cavallo from AMD to the meeting.

4. Attendances

Committee Members:

Member Name	Representing
Cr Jaysen Miguel (Presiding Member)	City of Bunbury
Cr Michelle Steck	City of Bunbury
Mr Stephen Foster	Community Member
Mr John Barratt	Community Member

Support Staff/Visitors:

Name	Title
Mr Greg Golinski	Manager Governance
Mr Mal Osborne	Chief Executive Officer
Mr David Ransom	Manager Finance
Mrs Vicki Gregg	Team Leader Financial Accounting
Carly Meagher	Director Financial Audit, OAG
Tim Partridge	Director, AMD
Maria Cavallo	Director, AMD

4.1 Apologies

Mayor Gary Brennan was an apology.

4.2 Approved Leave of Absence

Nil

5. Declaration of Interest

Nil

6. Public Question Time

Not applicable to this committee.

7. Confirmation of Minutes

Committee Decision: Moved: Mr Foster Seconded: Mr Barratt

The minutes of the Audit Committee Meeting held on 30 August 2018 are confirmed as a true and accurate record.

CARRIED

8. Presentations

The presentation by Carly Meagher, Tim Partridge and Maria Cavallo in relation to the City of Bunbury audit for the year ending 30 June 2018 was delivered as part of item 10.1 on this agenda.

9. Method of Dealing with Agenda Business

There was only 1 item of business being item 10.1 on the agenda.

10. Reports

10.1 Draft Auditors Report and Annual Financial Statements for the year ending 30 June 2018

Applicant/Proponent:	Internal
Responsible Officer:	David Ransom, Manager Finance
Responsible Manager:	David Ransom, Manager Finance
Executive:	Mal Osborne, Chief Executive Officer
Authority/Discretion	<input type="checkbox"/> Advocacy <input type="checkbox"/> Review <input type="checkbox"/> Executive/Strategic <input type="checkbox"/> Quasi-Judicial <input checked="" type="checkbox"/> Legislative <input type="checkbox"/> Information Purposes
Attachments:	Appendix 2: Draft Auditor's Report and Annual Financial Report

Summary

The draft Auditor's Report and draft Annual Financial Report of the City of Bunbury for the financial year ending 30 June 2018 are attached at Appendix 2 for the information of the Audit Committee.

These reports are in 'draft' as Ms Carly Meagher, Director Financial Audit, from the Office of the Auditor General WA is required to meet with the Audit Committee prior to the signing of the Auditors Report. Ms Meagher will be attending this meeting to brief the Committee on the audit and to answer any questions. Following this meeting both the Auditors Report and Statement by the Chief Executive Officer will be signed and will then be presented to Council.

There are no qualifications to the audit opinion; however the Auditor's Report does note that the Asset Sustainability Ratio and Operating Surplus Ratio are below the Department of Local Government, Sport and Cultural Industries standard for the last 3 years.

Executive Recommendation

That the Audit Committee recommends that Council accept the Auditor's Report and the Audited Annual Financial Report of the City of Bunbury for the financial year ending 30 June 2018.

Background

The Auditor General has audited the 2017/18 Annual Financial Report and have provided a draft Independent Auditor's Report (refer Pages 70 - 72 in the attached Annual Financial Report) as required under the relevant provisions of the *Local Government Act 1995* (the Act). The draft Auditor's Report and Annual Financial Report 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.

Ms Carly Meagher, Director Financial Audit, from the Office of the Auditor General WA, who is representing the Auditor General will be in attendance to discuss with the Committee the audit and any queries arising from the 2017/18 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

The City'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 the City's financial position, financial management practices and compliance with the requirements of the 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 3 to 5 of the Financial Report) shows the extent to which operating expenditure has exceeded operating income during the financial year (i.e. operating deficit).

Key financial figures within the audited Annual Financial Report for the year ended 30 June 2018 include:

	<u>2018</u>	<u>2017</u>
Operating Revenue	\$ 56,243,651	\$ 56,515,216
Operating Expenses	\$ 58,023,133	\$ 55,739,045
Operating Surplus / (Deficit)	\$ (1,779,481)	\$ 776,171
Net Result	\$ 6,459,257	\$ 3,840,772

For the year ending 30 June 2018, the operating deficit was \$1.78M compared to an operating surplus of \$776K in 2016/17, a decrease of \$2.55M. Revenue decreased by \$271K and expenditure increased by \$2.28M.

Operating Revenue –The City received \$271K less in 2017/18 than in 2016/17. This was mainly due to receiving less Operating Grants & Subsidies (\$725K), Contributions, Reimbursement & Donations (\$207K) and Fees & Charges (\$1.12M); which was partially offset by receiving more in Rates (\$1.57M) and Interest Earnings (\$221K). Note: Operating Grants were greater in 2016/17 due to receiving an advance payment for 2017/18 of \$821K, and Fees and Charges were down in 2017/18 mainly due to lower Parking Fee income of \$1.07M.

Operating Expenditure – The increase in operating expenditure of \$2.28M from the previous year was mainly due to an increase in expenditure of Employee Costs (\$552K), Depreciation on Non-Current Assets (\$1.12M) and Materials and Contract (\$645K). While offset by a reduction in the following expenditure: Consultants (\$144K), Insurance (\$119K) and Interest Expenses (\$65K).

Net Result - When Capital Grants (\$6.90M) and the Net Profit on Asset Disposal (\$1.49M) etc. are included, the Net Result was a surplus of \$6.46M. This compares to a surplus of \$3.84M in 2016/17.

The Statement also accounts for the Changes on Revaluation of Non-Current assets which was a decrease of \$2.18M in 2017/18 resulting in Total Comprehensive Income for 2017/18 of \$4.28M.

Statement of Financial Position: The Statement of Financial Position (shown on page 6 of the Financial Report) shows the assets and liabilities which make up the community equity as at the 30 June 2018.

Key financial figures within the Annual Financial Report for the year ended 30 June 2018 include:

	<u>2017</u>	<u>2017</u>
Current Assets	\$ 39,244,271	\$ 45,864,990
Current Liabilities	\$ 10,371,209	\$ 10,330,650
Current Assets over Current Liabilities	\$ 28,873,062	\$ 35,534,340
Non-Current Assets	\$ 577,992,363	\$ 567,260,965
Non-Current Liabilities	\$ 13,431,449	\$ 13,638,280
Total Equity	\$ 593,433,975	\$ 589,157,025

The City's Current Assets exceed Current Liabilities by \$28.87M compared to \$35.53M in 2016/17, a decrease of \$6.66M. This is mainly due to a decrease in Unspent Grants of \$11.50M used for the Koombana Bay Foreshore expansion and upgrade, and a decrease in the following cash backed reserves: Asset Management and Renewal (\$2.36M), and Depot Construction (\$2.28M). This was offset by an increase in the General Parking reserve of \$6.23M mainly from the sale proceeds of the Cornwall Street Car Park; and an increase in the Building Restoration and Maintenance reserve of \$2.18M.

These changes together with a decrease in the Revaluation Surplus of \$2.18M (from the Revaluation of Non-Current Assets), increased the total community equity at 30 June 2018 by \$4.28M to \$593.43M.

Statement of Changes in Equity: The Statement of Changes in Equity (shown on page 7 of the Financial Report) 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 2018, the Community Equity increased from \$589.15M to \$593.43M, an increase of \$4.28M.

Statement of Cash Flows: The Statement of Cash Flows (shown on page 8 of the Financial Report) shows the nature and amount of City's cash inflows and out flows from all activities. The City's cash held at the end of the reporting period was \$36.31M compared to \$42.55M in 2016/17.

Rate Setting Statement: The Rate Setting Statement (shown on pages 9 and 10 of the Financial Report) shows the amount of rates required to be raised to fund the City's operations during 2017/18. In 2017/18 \$37.18M in rates were raised, an increase of \$1.57M or 4.4% on 2016/17.

Financial Information by Ratio:	2018	2017	2016
Current Ratio <i>Current Assets as a ratio of Current Liabilities.</i>	1.297	1.246	1.111

(Measure of short term liquidity, i.e. the ability of the City to meet its liabilities when they fall due. A ratio of greater than 1.0 indicates the City has more current assets than current liabilities. The Department of Local Government indicates that the standard is met if the ratio is greater than 1.00).

Asset Sustainability Ratio <i>Capital renewal and replacement expenditure as a ratio of depreciation expense.</i>	0.707	0.643	0.524
---	-------	-------	-------

(Measures the extent to which assets are being renewed/replaced compared to the amount consumed i.e. depreciation. The Department of Local Government indicates that the standard is met if the ratio is greater than 0.90, and is improving if the ratio is between 0.90 and 1.10. To improve this ratio the City will need to allocate more capital expenditure on the renewal or upgrade of existing assets).

Asset Consumption Ratio <i>Depreciated replacement costs of assets as a ratio of current replacement costs of depreciable assets.</i>	0.601	0.621	0.620
---	-------	-------	-------

(Measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost. The Department of Local Government indicates that the standard is met if the ratio is greater than 0.50, and is improving if the ratio is between 0.60 and 0.75).

Asset Renewal Funding Ratio <i>NPV of planning renewal over 10 years as a ratio of NPV of required capital expenditure over 10 years.</i>	0.943	0.743	0.748
---	-------	-------	-------

(Measures the ability of a local government to fund its projected asset renewal / replacements in the future. The Department of Local Government indicates that the standard is met if the ratio is between 0.75 and 0.95).

Debt Service Cover Ratio <i>Operating Surplus before Interest and Depreciation as a ratio of principal and interest expense for borrowings.</i>	3.592*	4.492	3.287
---	--------	-------	-------

(Measures the City'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).

**Note: The Debt Service Cover Ratio is distorted in the 2018 Financial Year as the City received an early repayment of a self-supporting loan from DFES. If this was ignored, the calculation disclosed in the 2018 column above would be 4.891*

Operating Surplus Ratio	(0.009)	(0.005)	(0.066)
--------------------------------	---------	---------	---------

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

(A result of lower than zero indicates that the City has an operating deficit. The Department of Local Government indicates that a Basic standard is achieved if the ratio is greater than zero. To improve this ratio the City needs to either reduce operating expenditure and/or increase operating revenue. Note: A significant operating expense is depreciation which was \$14.2M in 2017/18. This expenditure is currently being reviewed to ensure that this is not overstated).

Own Source Revenue Coverage Ratio	0.953	0.948	0.948
--	-------	-------	-------

Own source operating revenue as a ratio of operating expense.

(Measures the City'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).

Analysis of Financial and Budget Implications

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

Community Consultation

An abridged Annual Financial Report will be included in the City's 2017/18 Annual Report.

Outcome of Meeting – 11 October 2018

Carly Meagher from OAG and Tim Partridge and Maria Cavallo from AMD provided the committee with a general overview of the outcomes of the City's 2017/18 audit, and answered general questions from the Committee.

Mr Partridge noted that all issues raised in the OAG interim management letter dated 31 July 2018 had been actioned, and that no issues were identified as part of the year end audit.

Whilst there are no qualifications to the audit opinion, Mr Partridge did note that the Asset Sustainability and Operating Surplus ratios were below the standard set by the Department of Local Government, Sport and Cultural Industries. As ratios are only a snapshot at a particular point in time, Mr Partridge did emphasise that the long-term trending of ratios is a more appropriate measure, a point agreed to by Ms Meagher. The City's trend for these ratios is improving. Ms Meagher also noted that no local government that OAG have audited has had an Operating Surplus ratio that met the standards set by the Department, and this was a benchmark that may need to be looked at.

The executive recommendation was moved by Mr Foster and was seconded by Mr Barratt and was carried unanimously as follows:

That the Audit Committee recommends that Council accept the Auditor's Report and the Audited Annual Financial Report of the City of Bunbury for the financial year ending 30 June 2018.

11. Questions from Members

11.1 Response to Previous Questions from Members taken on Notice

Nil

11.2 Committee Discussion and Questions from Members

Nil

12. Urgent Business

Nil

13. Date of Next Meeting

TBA

14. Close of Meeting

The Presiding Member closed the meeting at 11.35am.

These minutes were confirmed as a true and accurate record by the Audit Committee at its meeting held on _____

Signed: _____

Cr Jaysen Miguel - Chair
