



BUNBURY-HARVEY REGIONAL COUNCIL

AUDIT COMMITTEE

[Note: This committee does not have any delegated authority to act on behalf of Council]

Terms of Reference:

The Audit Committee is to provide guidance and assistance to Council as to –

1. The carrying out of Council's functions in relation to audits carried out under Part 7 (Audit) of the Act.
2. The development of a process to be used to select and appoint a person to be an auditor.

The Audit Committee may also provide guidance and assistance to Council as to –

3. Matters to be audited.
4. The scope of audits.
5. Council's functions under Part 6 (Financial Management) of the Act.
6. The carrying out of Council's functions relating to other audits and other matters related to financial management.

MINUTES

15 DECEMBER 2016

Minutes of the Audit Committee held in Council Chambers of the Shire of Harvey Offices, Mulgara Street, Australind, on Thursday 15 December 2016.

1. **DECLARATION OF OPENING BY THE PRESIDING MEMBER**

The meeting commenced at 3:10pm.

Member Name	Title	Representing
Ms Judy Jones	Chairman	City of Bunbury
Mr Murray Cook	Councillor	City of Bunbury
Mr Jaysen Miguel	Councillor	City of Bunbury
Mr Bill Adams	Councillor	Shire of Harvey
Mr Peter Monagle	Councillor	Shire of Harvey
Invited Officers		
Mr Tony Battersby	Chief Executive Officer	Bunbury-Harvey Regional Council
Mr Michael Parker	Chief Executive Officer	Shire of Harvey
Mr Andrew Brien	Chief Executive Officer	City of Bunbury
Mr David Ransom	Manager Finance	City of Bunbury
Mr Chris Welham	Accountant	Bunbury-Harvey Regional Council
Mr Michael Hillgrove	Partner – Audit & Assurance	Grant Thornton Audit Pty Ltd

2. **DISCLAIMER**

Not applicable to this committee.

3. **ANNOUNCEMENTS FROM THE PRESIDING MEMBER**

Nil

4. **ATTENDANCE, APOLOGIES OR LEAVE OF ABSENCE**

4.1 **Apologies**

Cr Jaysen Miguel apology

Michael Parker – apology

Andrew Brien – apology

4.2 **Approved Leave of Absence**

Nil

5. **DECLARATION OF INTEREST**

IMPORTANT: Committee members to complete a “Disclosure of Interest” form for each item on the agenda in which they wish to disclose a financial/proximity/impartiality interest. They should give the form to the Presiding Member before the meeting commences. After the meeting, the form is to be forwarded to the Administration Services Section for inclusion in the Corporate Financial Disclosures Register.

6. **PUBLIC QUESTION TIME**

Not applicable to this committee.

7. **CONFIRMATION OF PREVIOUS MINUTES**

A copy of the minutes (**Appendix 1**) of the Audit Committee held 26 November 2015 and 22 September 2016 has been circulated.

RECOMMENDATION

The minutes (**Appendix 1**) of the Audit Committee held 26 November 2015 and 22 September 2016, be confirmed as a true and accurate record.

RESOLUTION

That the minutes (**Appendix 1**) of the Audit Committee held 26 November 2015, be confirmed as a true and accurate record.

Committee Decision: Moved: **Cr Murray Cook**

Seconded: **Cr Bill Adams**

CARRIED/LOST

4/0

That the minutes (**Appendix 1**) of the Audit Committee held 22 September 2016, be confirmed as a true and accurate record.

Committee Decision: Moved: **Cr Murray Cook**

Seconded: **Cr Peter Monagle**

CARRIED/LOST

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8. PRESENTATIONS

8.1 Petitions
Nil

8.2 Presentations
Nil

8.3 Deputations
Nil

9. METHOD OF DEALING WITH AGENDA BUSINESS

(As per the order in the agenda or otherwise)

10. RECEPTION OF REPORTS & RECOMMENDATIONS

10.1 2016 Annual Report

Applicant/Proponent:	Internal
Author:	Chris Welham, Accountant
Executive:	Tony Battersby, Chief Executive Officer
Attachments:	Appendix 2: 2016 Annual Report

Summary

The 2016 Annual Report which includes the audited Annual Financial Statements and Auditor's Report of the Bunbury-Harvey Regional Council for the financial year ending 30 June 2016 are attached at Appendix 2 for the information of the Audit Committee.

Background

The Council's auditors, Grant Thornton have audited the 2015/16 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 Council's appointed Auditor and will be in attendance to discuss with the Committee any queries arising from the 2015/16 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 Council'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
- Fee Setting Statement

Statement of Comprehensive Income: The Statement of Comprehensive Income (shown on pages 1 to 2 of the Financial Statements) shows the extent to which operating revenue has exceeded operating expenditure during the financial year (i.e. operating surplus).

Key financial figures within the audited Annual Financial Report for the year ended 30 June 2016 include:

	<u>2016</u>	<u>2015</u>
Operating Revenue	\$ 3,367,320	\$ 4,342,766
Operating Expenses	\$ (3,127,392)	\$ (3,762,053)
Operating Surplus	\$ 239,928	\$ 580,713
Net Result (utilised for capital works)	\$ 451,128	\$ 597,202

For the year ending 30 June 2016, the operating surplus was \$240K compared to \$581K in 2014/15, a decrease of \$341K. The decrease of \$341K in revenue is mainly due to decreases in tonnages received from outside the Bunbury-Harvey Region.

When capital grants and profit/loss on disposal of assets are included, the Net Result was a surplus of \$451K (compared to a surplus of \$597K in 2014/15). The Statement also accounts for the revaluation of non-current assets during the year of \$553K resulting in a Total Comprehensive Income for 2015/16 of \$1.0M compared to \$613K in 2014/15.

Statement of Financial Position: The Statement of Financial Position (shown on page 3 of the Financial Statements) shows the assets and liabilities which make up the Equity as at the 30 June 2016.

Key financial figures within the audited Annual Financial Report for the year ended 30 June 2016 include:

	<u>2016</u>	<u>2015</u>
Current Assets	\$ 7,412,856	\$ 7,331,238
Current Liabilities	\$ 340,564	\$ 489,620
Current Assets over Current Liabilities	\$ 7,072,292	\$ 6,841,618
Non-Current Assets	\$ 3,624,675	\$ 2,843,650
Non-Current Liability	\$ 43,986	\$ 36,917
Total Equity	\$10,652,981	\$ 9,648,351

Council's current assets exceed current liabilities by \$7.1M compared to \$6.8M in 2014/15. The total Equity as at 30 June 2016 was \$10.6M an increase of \$1.0M on 2014/15.

Statement of Changes in Equity: The Statement of Changes in Equity (shown on page 4 of the Financial Statements) shows the extent to which the Equity has been increased by the net result of the year's activities. For the year ending 30 June 2016, the Equity increased from \$9.6M to \$10.6M.

Statement of Cash Flows: The Statement of Cash Flows (shown on page 5 of the Financial Statements) shows the nature and amount of Council's cash inflows and out flows from all activities. Council's cash held at the end of the reporting period was \$7.1M compared to \$6.9M in 2014/15.

Fee Setting Statement: The Fee Setting Statement (shown on page 6 of the Financial Statements) shows the amount of fees and charges required to be raised to fund the Council's operating during 2015/16. In 2015/16, \$2.9M in fees and charges were raised, a decrease of \$581K or 17% on 2014/15 (Council restricted tonnages coming in from outside the Bunbury-Harvey region pending the Department of Environment Regulation's approval of Post Closure plans for existing cells).

<u>Financial Information by Ratio:</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current Ratio	3.34	5.34	4.96
<i>Current Assets as a ratio of Current Liabilities.</i>			

(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)

Asset Sustainability Ratio	1.54	0.98	2.25
<i>Capital renewal and replacement expenditure as a ratio of depreciation expense.</i>			

(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 Nil Nil Nil
Operating Surplus before Interest and Depreciation as a ratio of principal and interest expense for borrowings.
 Council had no borrowings as at 30 June 2016.

(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)

Operating Surplus Ratio 0.07 0.14 0.33
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 0.01 and 0.15)

Own Source Revenue Coverage Ratio 1.03 1.01 1.20
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)

Analysis of Financial and Budget Implications

There are no financial or budget implications for Council to accept the 2016 Annual Report.

Community Consultation

Community consultation not required.

Executive Recommendation

That the Audit Committee recommends that Council accept the 2016 Annual Report which includes the audited Annual Financial Statements and Auditor's Report of the Bunbury-Harvey Regional Council for the financial year ending 30 June 2016

Committee Decision: Moved: **Cr Bill Adams** Seconded: **Cr Peter Monagle**

CARRIED/LOST
4/0

10.2 2016 Auditor's Report to the Audit Committee

Applicant/Proponent:	Internal
Author:	Chris Welham, Accountant
Executive:	Tony Battersby, Chief Executive Officer
Attachments:	Appendix 3: Report to Audit Committee

Summary

The purpose of this report is for the Audit Committee to receive the Report to the Audit Committee for the year ended 30 June 2016 prepared by Council's auditors Grant Thornton. This report stems from the 2015/16 financial audit of the Bunbury-Harvey Regional Council.

Mr Michael Hillgrove from Grant Thornton is the Council's appointed Auditor and will be in attendance to discuss with the Committee any queries arising from the 2015/16 Audit.

Background

The Report to the Audit Committee outlines any management or financial issues identified by the Auditor as part of the 2015/16 financial audit of the Bunbury-Harvey Regional Council 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 Report to the Audit Committee is provided by the Council's Auditor as part of the Council's annual audit report completed under section 7.9(1) of the *Local Government Act 1995*.

Officer Comments

The Report to the Audit Committee is presented at Appendix 3. No material misstatement or significant control deficiencies were identified by Council's auditors.

In the report the auditors have made the following comments:

- We have not become aware of any incidence of fraud
- There are no instances of fraud that management are aware of
- We have noted no errors or irregularities that would cause the financial report to contain a material misstatement.
- We have been presented with all necessary books and records and explanations requested of management.
- In performing our audit procedures we have not become aware of any non-compliance with applicable laws or regulations

- We consider that the accounting policies adopted in the financial statements are appropriately disclosed
- We have assessed and agreed with the conclusions reached by Council and management concerning the going concern concept
- There have been no significant disagreements with management during the course of the audit
- Internal independence checks are performed every twelve months before commencement of the full year engagements to ensure that firm-wide no conflicts have arisen.

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

Executive Recommendation

That the Audit Committee receives the Report to the Audit Committee for the year ended 30 June 2016 prepared by Council's auditor Grant Thornton as presented and that Council endorse Cr Cook's compliment to excellent work Chris Welham and David Ransom has put into preparing reports.

Committee Decision: **Moved:** Cr Murray Cook **Seconded:** Cr Bill Adams

CARRIED/LOST
4/0

10.3 Financial Management Systems and Procedures Review

Applicant/Proponent:	Internal
Author:	Chris Welham, Accountant
Executive:	Tony Battersby, Chief Executive Officer
Attachments:	Appendix 4: Financial Management Systems and Procedures Review Report

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 Council's auditors.

Background

During May 2016, Council'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 4.

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
- Other Revenue
- Fixed Assets

The report as presented at Appendix 4 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.

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.

Committee Decision: Moved: **Cr Murray Cook** Seconded: **Cr Peter Monagle**

CARRIED/LOST
4/0

11. MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

NIL

12. QUESTIONS FORM MEMBERS

12.1 Response to Previous Questions from Members taken on Notice

Nil

12.2 Questions from Members

Nil

13. URGENT BUSINESS

Nil

14. DATE OF NEXT MEETING

The next meeting is planned for November 2017 to review the Council's Annual Financial Report and Audit Report for the year ended 30 June 2017.

15. CLOSURE OF MEETING

THE PRESIDING MEMBER CLOSED THE MEETING AT 3:26PM