



Audit Committee

Notice of Meeting & Agenda **23 November 2017**

**Meeting to be held at: Shire of Harvey Council Chambers,
7 Mulgara Street, Australind on Thursday 23 November 2017,
commencing at 4:00pm**

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;*
- n) *Facilitate 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.*

Audit Committee Notice of Meeting

Dear Committee Members

The next meeting of the Bunbury-Harvey Regional Council Audit Committee will be held in the Board Room of the Shire of Harvey Offices, 7 Mulgara Street, Australind on 23 November 2017 at 4:00pm.

Tony Battersby
CHIEF EXECUTIVE OFFICER
(Date of Issue: 16 November 2017)

Agenda 23 November 2017

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-Harvey Regional Council.

Committee Members:

Member Name	Title	Representing
Cr Murray Cook	Chairperson	City of Bunbury
Cr Anita Shortland	Deputy Chairperson	Shire of Harvey
Cr James Hayward	Councillor	City of Bunbury
Cr Betty McCleary	Councillor	City of Bunbury
Cr Peter Monagle	Councillor	Shire of Harvey

Invited Officers:

Name	Title	Representing
Mr Tony Battersby	Chief Executive Officer	Bunbury-Harvey Regional Council
Mr Michael Parker	Chief Executive Officer	Shire of Harvey
Mr Malcolm Osborne	A/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

1. Declaration of Opening by the Presiding Member

The Presiding Member declared the meeting open at _____ pm.

2. Disclaimer

Not applicable to this committee.

3. Announcements from the Presiding Member

4. Attendances

4.1 Apologies

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 Minutes

Committee Decision: Moved _____ Seconded _____

The minutes of the Audit Committee Meetings held on 15 December 2016 are confirmed as a true and accurate record.

CARRIED/LOST

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 Auditors Report, Annual Report and Audited Financial Statements for the year ending 30 June 2017

Applicant/Proponent:	Internal
Author:	Chris Welham, Accountant
Executive:	Tony Battersby, Chief Executive Officer
Attachments:	Appendix 1: Auditors Report, Annual Report and Audited Financial Statements for the year ending 30 June 2017

Summary

The 2017 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 2017 is attached at Appendix 1 for the information of the Audit Committee.

Executive Recommendation

That the Audit Committee recommends that Council accept the 2017 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 2017

Committee Decision: Moved _____ Seconded _____

CARRIED/LOST

Background

The Council's auditors, Grant Thornton have audited the 2016/17 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 2016/17 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 2017 include:

	<u>2017</u>	<u>2016</u>
Operating Revenue	\$ 5,677,035	\$ 3,367,317
Operating Expenses	\$ (5,386,559)	\$ (3,127,392)
Operating Surplus	\$ 290,476	\$ 239,925
Net Result (utilised for capital works)	\$ 223,102	\$ 451,125

For the year ending 30 June 2017, the operating surplus was \$290K compared to \$240K in 2016/17, an increase of \$50K. The increase of \$2.3M in revenue is mainly due to increases in tonnages received from outside the Bunbury-Harvey Region. The increase in expenditure is mainly due to provision for a doubtful debt of \$1.06M and higher landfill levy expenditure.

When the profit/loss on disposal of assets and loss on revaluation of civil infrastructure are included, the Net Result was a surplus of \$223K (compared to a surplus of \$451K in 2015/16). The Statement also accounts for the revaluation of non-current assets during the year of \$(126K) resulting in a Total Comprehensive Income for 2016/17 of \$97K compared to \$1.0M in 2015/16.

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 2017.

Key financial figures within the audited Annual Financial Report for the year ended 30 June 2017 include:

	<u>2017</u>	<u>2016</u>
Current Assets	\$ 7,164,890	\$ 7,412,854
Current Liabilities	\$ 549,875	\$ 340,566
Current Assets over Current Liabilities	\$ 6,615,015	\$ 7,072,288
Non-Current Assets	\$ 4,167,603	\$ 3,624,674
Non-Current Liabilities	\$ 32,603	\$ 43,986
Total Equity	\$10,750,015	\$ 10,652,976

Council's current assets exceed current liabilities by \$6.6M compared to \$7.1M in 2015/16. The total Equity as at 30 June 2017 was \$10.7M an increase of \$97K on 2015/16.

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 2017, the Equity increased from \$10.6M to \$10.7M.

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 \$6.8M compared to \$7.1M in 2015/16.

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 2016/17. In 2016/17, \$4.2M in fees and charges were raised, an increase of \$1.3M or 46% on 2015/16 (This was mainly due to increased tonnages coming in from outside the Bunbury-Harvey region to prepare for cell capping at Stanley Road.).

<u>Financial Information by Ratio:</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current Ratio	2.07	3.34	5.34
<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	2.55	1.54	0.98
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Capital renewal and replacement expenditure as a ratio of depreciation expense.

(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 2017.

(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 0.05 0.07 0.14
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 0.83 1.03 1.01
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 2017 Annual Report.

Community Consultation

Community consultation not required.

10.2 2017 Report to the Audit Committee

Applicant/Proponent:	Internal
Responsible Officer:	Chris Welham, Accountant
Executive:	Tony Battersby, Chief Executive Officer
Attachments:	Appendix 2: 2017 Report to the 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 2017 prepared by Council’s auditors Grant Thornton. This report stems from the 2016/17 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 2016/17 Audit.

Executive Recommendation

That the Audit Committee receives the Report to the Audit Committee for the year ended 30 June 2017 prepared by Council’s auditor Grant Thornton as presented.

Committee Decision: Moved _____ Seconded _____

CARRIED/LOST

Background

The Report to the Audit Committee outlines any management or financial issues identified by the Auditor as part of the 2016/17 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 2. No material misstatement or significant control deficiencies were identified by Council’s auditors.

In the report the auditors have made the following comments:

- In performing our audit we have not become aware of any incidence of fraud.
- we have noted no errors or irregularities that would cause the financial report to contain a material misstatement.
- we have been presented with all the necessary books and records and explanations requested of management
- 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 application of the going concern concept
- there have been no significant disagreements with management

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

10.3 Financial Management Systems and Procedures Review

Applicant/Proponent:	Internal
Responsible Officer:	Chris Welham, Accountant
Executive:	Tony Battersby, Chief Executive Officer
Attachments:	Appendix 3: 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.

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 _____ Seconded _____

CARRIED/LOST

Background

During May 2017, 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 3.

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.

10.4 Appointment of Auditor

Applicant/Proponent:	Internal
Responsible Officer:	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 to provide the Audit Committee with information regarding the appointment of auditors for the Bunbury-Harvey Regional Council (BHRC).

Executive Recommendation

That the Audit Committee recommends that Council:

1. Note that the Local Government Amendment (Auditing) Act 2017 was proclaimed on 27 October 2017;
2. Note that the City of Bunbury has been engaged by the BHRC to provide accounting services for the 2017/18 financial year, and that it is cost effective for BHRC to utilise the same auditor as the City of Bunbury as the same accounting systems and software are employed in the same location;
3. Note the procurement processes undertaken by the City of Bunbury in seeking to appoint an Auditor for the 2017/18 financial year;
4. Make a recommendation to the Office of the Auditor General (WA) that Tim Partridge and Maria Cavallo from AMD Chartered Accountants be appointed as the BHRC's auditors based on the procurement processes undertaken by the City of Bunbury prior to the proclamation of the Local Government Amendment (Auditing) Act 2017, and on the recommendation of the City of Bunbury at its Ordinary meeting on 14 November 2017.

Committee Decision: Moved _____ Seconded _____

CARRIED/LOST

Strategic Relevance

BHRC Strategic Community Plan Priorities, Objectives and Performance criteria and the BHRC 10 year Financial Plan include the following strategic objective:

- Deliver sound and cost-effective solutions for waste management.

Background

The Local Government Act 1995 (the Act) requires the accounts and annual financial report of a local government for each financial year be audited by an auditor appointed by the local government.

The contract of the BHRC's current auditor (Michael Hillgrove from Grant Thornton) expires following the audit of the 2016/17 financial statements. Audit Committee members will recall that the original 5 year contract with Grant Thornton was extended by 1 year (for the 2016/17 financial year audit) following the introduction of the Local Government Amendment (Auditing) Bill 2016, which was to result in the Office of the Auditor General (OAG) taking responsibility for local government audits from 1 July 2017.

The Bill did not pass before to the dissolution of Parliament prior to the 2017 WA election, and so the Department of Local Government and Communities (DLG) at the time advised local governments to only renew or extend audit contracts until the 2017/18 financial year audit. The City of Bunbury commenced this procurement process in good faith, but has now been advised by DLG that the Local Government Amendment (Auditing) Act 2017 has been proclaimed, which means that local governments no longer have the power to appoint auditors under the Act; that power now resting with the OAG.

Council Policy Compliance

Council's current Purchasing Policy "A001 V1" applies.

Legislative Compliance

The Local Government Act 1995, Local Government (Audit) Regulations 1996, and Local Government (Financial Management) Regulations 1996 apply, as does the Local Government Amendment (Auditing) Act 2017.

Officer Comments

Notwithstanding the timing issues mentioned above concerning the proclamation of the Local Government Amendment (Auditing) Act 2017, City of Bunbury Officers sought quotes for audit services for the 2017/18 financial year in accordance with Council's policies regarding procurement.

Three submissions were received by the closing date, being from AMD Chartered Accountants; Moore Stephens; and Grant Thornton.

A panel of Officers assessed the submissions against the nominated response criteria, which was weighted as follows:

- a) Demonstrated experience in completing similar audits - 30%
- b) Skills and experience of key personnel (including staff undertaking the audits) - 30%
- c) Methodology to complete the audits - 10%
- d) Price - 30%

The City of Bunbury's Purchasing Policy regarding local procurement was applicable to this process, whereby a 5% price preference is applicable to locally based companies with a permanent office located within the Bunbury-Wellington Group of Councils, but was not, however, a factor in determining the recommended outcome.

Notwithstanding the proclamation of the Local Government Amendment (Auditing) Act 2017, Officers would have ordinarily recommended the appointment of AMD Chartered Accountants as the City's auditors for 2017/18 based on the assessment of submissions received. As this power no longer rests with local government, it is recommended that the outcome of the procurement process be forwarded to OAG for their consideration.

Analysis of Financial and Budget Implications

Audit fees form part of the BHRC's Annual Budget.

Community Consultation

Not applicable.

Councillor/Officer Consultation

This report is presented to the Audit Committee for consideration.

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

13. Urgent Business

Nil

14. Date of Next Meeting

TBA depending on the timing of the BHRC's annual audit and the availability of the newly appointed auditor.

15. Close of Meeting

The Presiding Member closed the meeting at _____pm.