



Audit Committee

Notice of Meeting & Agenda 25 October 2018

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.
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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 25 October 2018 at 4:00pm.



Tony Battersby
CHIEF EXECUTIVE OFFICER
(Date of Issue: 22 October 2018)

Agenda 25 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-Harvey Regional Council.

Committee Members:

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

Invited Officers:

Name	Title	Representing
Mr Tony Battersby	Chief Executive Officer	Bunbury-Harvey Regional Council
Mr Shane Collie	A/Chief Executive Officer	Shire of Harvey
Mr Malcolm Osborne	Chief Executive Officer	City of Bunbury
Mr David Ransom	Manager Finance	City of Bunbury
Mr Chris Welham	Accountant	Bunbury-Harvey Regional Council
Ms Carly Meager (via Phone)	Director Financial Audit	Office of the Auditor General WA
Ms Emily McKelvie	Client Advisor - Audit	AMD Chartered Accountants

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 <u>before</u> 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.
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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 23 November 2017 are confirmed as a true and accurate record.

CARRIED/LOST

8. Presentations

8.1 Petitions

Nil

8.2 Presentations

Carly Meagher and Emily McKelvie will deliver a presentation to the Committee as an exit meeting in relation to the recent financial audit of the Bunbury-Harvey Regional Council. Relevant documentation is contained at Appendix 1.

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

Applicant/Proponent:	Internal
Author:	Chris Welham, Accountant
Executive:	Tony Battersby, Chief Executive Officer
Attachments:	Appendix 2: Draft Auditors Report and Annual Financial Statements for the year ending 30 June 2018

Summary

The Draft Auditor's Report and draft Annual Financial Report of the Bunbury-Harvey Regional Council 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 participating this meeting via a telephone conference call 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 at a future meeting.

There are no qualifications to the audit opinion.

Executive Recommendation

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

Background

The Auditor General has audited the 2017/18 Annual Financial Statements and have provided an Independent Auditor’s Report (refer pages iv to vi 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 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.

Ms Carly Meagher, Director Financial Audit, from the Office of the Auditor General WA, who is representing the Auditor General, will be participating this meeting via a telephone conference call to discuss the audit with the Committee and to answer 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

Council's financial 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. The Financial Management Systems Review for 2018 and the Interim Audit Report were received by Council at the Ordinary Council Meeting on 27 September 2018.

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
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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 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 2018 include:

	<u>2018</u>	<u>2017</u>
Operating Revenue	\$ 3,880,750	\$ 5,677,035
Operating Expenses	\$ (4,794,690)	\$ (5,386,559)
Operating Surplus,(Deficit)	\$ (913,940)	\$ 290,476
Net Result (utilised for capital works)	\$ (969,733)	\$ 223,102
Net Result (net of site rehabilitation expenses)	\$ 521,375	\$ 434,773

For the year ending 30 June 2018, the operating deficit was \$913K compared to a surplus of \$290K in 2016/17, a decrease of \$1.8M. The decrease of \$1.80M in revenue is mainly due to decreases in tonnages received from outside the Bunbury-Harvey region. The decrease in expenditure of \$592K is mainly due to a \$695K reduction in landfill levy expenditure and a \$1.06M reduction in doubtful debts expenditure, which was offset by a \$1.28M increase in reserve funded site rehabilitation expenditure.

When the profit/loss on disposal of assets and loss on revaluation of infrastructure are included, the Net Result was a deficit of \$970K (compared to a surplus of \$223K in 2016/17). The Statement also accounts for the revaluation of non-current assets during the year of \$(61)K resulting in a Total Comprehensive Income for 2017/18 of \$(1.03)M compared to \$97K in 2016/17.

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 2018.

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

	<u>2018</u>	<u>2017</u>
Current Assets	\$ 5,702,569	\$ 7,164,890
Current Liabilities	\$ 669,080	\$ 549,875
Current Assets over Current Liabilities	\$ 5,033,489	\$ 6,615,015
Non-Current Assets	\$ 4,719,504	\$ 4,167,603
Non-Current Liabilities	\$ 33,935	\$ 32,603
Total Equity	\$ 9,719,060	\$ 10,750,015

Council's current assets exceed current liabilities by \$5M compared to \$6.6M in 2016/17. The total Equity as at 30 June 2018 was \$9.7M a decrease of \$1M on 2016/17.

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 2018, the Equity decreased from \$10.7M to \$9.7M.

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 \$5.3M compared to \$6.8M in 2016/17.

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 2017/18. In 2017/18, \$3.2M in fees and charges were raised, a decrease of \$1.03M or 24% on 2016/17. This was mainly due to decreased tonnages coming in from outside the Bunbury-Harvey region.

Financial Information by Ratio:	2018	2017	2016
Current Ratio	1.99	2.07	3.34
<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	2.43	2.55	1.54
<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)

Asset Consumption Ratio	0.89	0.98	0.97
<i>Depreciated replacement cost of assets as a ratio of Current replacement cost of assets.</i>			

(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	0.77	0.87	0.90
<i>NPV of planning renewal over 10 years as a ratio of NPV of required capital expenditure over 10 years.</i>			

(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	Nil	Nil	Nil
<i>Operating Surplus before Interest and Depreciation as a ratio of principal and interest expense for borrowings. Council had no borrowings as at 30 June 2018.</i>			

(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	-0.25	0.04	0.07
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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).

Operating Surplus Ratio (Revised)	0.89	0.96
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Operating Revenue minus Operating Expenditure (excluding site rehabilitation expenditure) as a ratio of own source operating revenue.

Own Source Revenue Coverage Ratio	0.77	1.02	1.03
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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. A basic standard is achieved if the ratio is between 0.4 and 0.6)

Analysis of Financial and Budget Implications

There are no financial or budget implications for Council to accept the 2018 Annual Report.

Community Consultation

Community consultation not required.

10.2 2018 Management Letter

Applicant/Proponent:	Internal
Responsible Officer:	Chris Welham, Accountant
Executive:	Tony Battersby, Chief Executive Officer
Attachments:	Appendix 2: 2018 Management Letter

Summary

The purpose of this report is for the Audit Committee to receive the management letter for the year ended 30 June 2018 prepared by the Auditor General. This report stems from the 2017/18 financial audit of the Bunbury-Harvey Regional Council.

Ms Carly Meager, Director Financial Audit, from the Office of the Auditor General, is representing the Auditor General and will be available via a conference call to discuss with the Committee any queries arising from the 2017/18 Audit.

Executive Recommendation

That the Audit Committee receives the Management Letter from the Office of the Auditor General for the year ended 30 June 2018.

Background

Findings Identified During the Year End Audit outlines any management or financial issues identified by the Auditor as part of the 2017/18 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 Management Report is attached at Appendix 2 and lists the following findings during the 2017/18 audit:

1. Related Parties
2. Aged Debtors Balance.

A management comment to each of these findings is included in the Management Report .

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

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

To be advised.

15. Close of Meeting

The Presiding Member closed the meeting at ____pm.
