



BUNBURY HARVEY
REGIONAL COUNCIL
HARVESTING RESOURCES FROM YOUR WASTE

Audit Committee Meeting

Notice of Meeting & Agenda

28 November 2019

*Meeting to be held at: The Shire of Harvey Council Chambers, 7 Mulgara Street,
Australind on Thursday 28 November 2019, commencing at 4:15pm*

**NOTE: THIS COMMITTEE DOES NOT HAVE ANY DELEGATED
AUTHORITY TO ACT ON BEHALF OF COUNCIL**

Bunbury-Harvey Regional Council
Lot 45 Stanley Road, Wellesley
Western Australia 6233

Correspondence to:
Post Office Box 111
Australind WA 6233

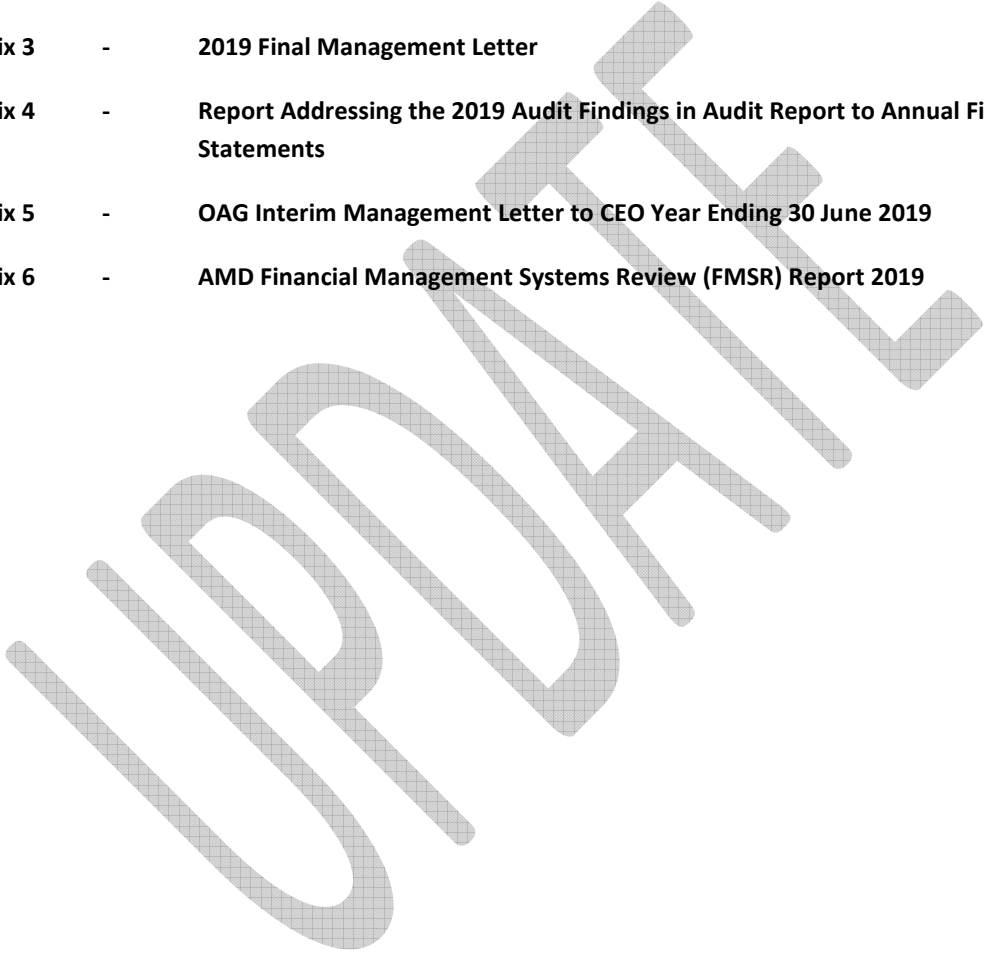
Table of Contents

1.	Declaration of Opening / Announcement of Visitors.....	6
2.	Disclaimer.....	6
3.	Announcement from the Presiding Member.....	6
4.	Attendances, Apologies and Approved Leave of Absence.....	6
4.1	Attendances.....	6
4.2	Apologies.....	6
4.3	Approved Leave of Absence.....	6
5.	Declaration of Interest.....	6
6.	Public Question Time.....	6
7.	Confirmation of Minutes.....	7
8.	Presentations.....	7
8.1	Petitions.....	7
8.2	Presentations.....	7
8.3	Deputations.....	7
9.	Method of Dealing with Agenda Business.....	7
10.	Reception of Reports and Recommendations.....	7
10.1	Amendment of the Terms of Reference for the Audit Committee.....	7
10.2	Draft Auditors Report and Annual Financial Statements for the Year Ending 30 June 2019.....	11
10.3	2019 Management Letter.....	15
10.4	2018/2019 Annual Financial Report Audit Findings.....	16
10.5	Interim Audit Report and Financial Management Systems Review.....	17
11.	Motions of Which Previous Notice has been given.....	19
12.	Questions from Members.....	19
12.1	Response to Previous Questions from Members taken on Notice.....	19
12.2	Questions from Members.....	19

13. Urgent business approved by the Presiding Member or by decision of the Council.....	19
14. Confidential Business (Meeting Closed to the Public)	19
15. Next Meeting.....	19
16. Close of Meeting	19

APPENDICES

Appendix 1	-	2019 BHRC Exit Meeting Agenda and Attachments
Appendix 2	-	Annual Financial Report Year Ending 30 June 2019 (Draft)
Appendix 3	-	2019 Final Management Letter
Appendix 4	-	Report Addressing the 2019 Audit Findings in Audit Report to Annual Financial Statements
Appendix 5	-	OAG Interim Management Letter to CEO Year Ending 30 June 2019
Appendix 6	-	AMD Financial Management Systems Review (FMSR) Report 2019



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 and appropriate process for the selection and appointment of a person as the local governments 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 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 six (6) month 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;
 - change 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.

Bunbury-Harvey Regional Council Audit Committee Notice of Meeting

Dear Committee Members,

The next meeting of the Bunbury-Harvey Regional Council Audit Committee will be held at the Shire of Harvey Council Chambers, Mulgara Street, Australind on Thursday 28 November 2019 at 4:15pm.



Signed:

Tony Battersby

Chief Executive Officer

(Date of Issue: 22 November 2019)

AGENDA

Note: 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!

Council Members:	Representing
Cr Jaysen Miguel	City of Bunbury
Cr Tresslyn Smith	City of Bunbury
Cr Karen Turner	City of Bunbury
Cr Bill Adams	Shire of Harvey
Cr Tania Jackson	Shire of Harvey
Executive Leadership Team (Non-Voting)	Representing
Mr Tony Battersby	Chief Executive Officer (BHRC)
Ms Annie Riordan	Chief Executive Officer (Shire of Harvey)
Mr Mal Osborne	Chief Executive Officer (City of Bunbury)
Officers (Non-Voting)	Representing
Mr Gavin Harris	Director Works and Services (City of Bunbury)
Mr Dave Chandler	Director Strategy and Organisational Performance (City of Bunbury)
Mr David Ransom	Manager Finance (City of Bunbury)
Chris Welham	Accountant
Miss Martinette Pieterse	Council Meeting Support Officer

<i>Others(Non-Voting)</i>	Representing
Ms Carly Meagher (via Phone)	Director Financial Audit (Officer of the Auditor General WA)
Ms Emily McKelvie	Client Advisor – Audit (AMD Chartered Accountants)

1. Declaration of Opening / Announcement of Visitors

The Presiding Member Declares Meeting open _____

2. Disclaimer

Not applicable to this committee

3. Announcement from the Presiding Member

4. Attendances, Apologies and Approved Leave of Absence

4.1 Attendances

4.2 Apologies

4.3 Approved Leave of Absence

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 Disclosure Register.

6. Public Question Time

Not Applicable to this committee

7. Confirmation of Minutes

Receive and accept the Minutes of the Audit Meeting held on 25 October 2018 presented to Council as true and accurate record.

MOVED BY: _____ SECONDED BY: _____

RESULT: CARRIED / LOST _____

RESOLUTION: AC281119-

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 within Appendix 1.

8.3 Deputations

Nil

9. Method of Dealing with Agenda Business

As per the order of the Agenda or otherwise

10. Reception of Reports and Recommendations

10.1 Amendment of the Terms of Reference for the Audit Committee

Applicant / Proponent:	Internal
Responsible Officer:	Chris Welham, Accountant
Executive:	Tony Battersby, Chief Executive Officer
Attachment(s):	-

Summary

The purpose of this report is for the Audit Committee (the Committee) to consider making some amendments to its terms of reference (ToR) in light of recent amendments to the local government Financial Management and Audit regulations.

Executive Recommendation

That the Audit Committee recommends that Council:

1. Adopts the revised terms of reference for the Audit Committee as presented; and
2. Notes that these changes reflect the recent amendment to the Audit provisions within the Local Government Act 1995 and associated Regulations.

COMMITTEE DECISION:

MOVED BY: _____ **SECONDED BY:** _____

RESULT: CARRIED / LOST _____

RESOLUTION: AC281119-

Strategic Relevance

Long Term Financial Plan objectives: financial sustainability in the long term, through sound financial management practices.

Background

At its last meeting the Committee recommended some changes to its terms of reference to reflect amendments to the *Local Government Act 1995* (the Act) which removed power from local governments to appoint their own auditors. These changes were subsequently supported by Council. The Local Government Audit and Financial Management Regulations have since also been amended to reflect the changes in the Act, and some further refinement to the Committee's terms of reference is suggested consistent with the changes to the regulations.

Committee members are referred to the Audit Committee Terms of Reference as detailed below, which have been updated as above to reflect the recent amendment to the Audit provisions within the Local Government Act 1995 and associated Regulations.

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.

Council Policy Compliance

N/A

Legislative Compliance

The proposed changes to the Terms of Reference for the committee would ensure that they stay within the parameters of the amended legislation.

Officer Comments

The following amendments to the *Local Government (Financial Management) Regulations 1996* have been made:

Timeframe for review of financial management systems

Regulation 5 regarding the CEO's duties as to financial management has been amended to require the CEO to undertake a review of the appropriateness and effectiveness of the financial management systems and procedures from no less than once in every four financial years to no less than three financial years.

Assets valued under \$5,000

Amendments to Regulation 17A will exclude assets in a local government annual financial report valued under \$5,000. In order to ensure effective asset management of low value assets that are susceptible to theft or loss, local governments will be required to maintain a property register of portable and attractive items. This change brings local governments in line with State Government agencies as specified in Treasurer's Instruction 410 Record of Assets.

Timeframe for local governments to revalue assets

Regulation 17A(4)(b) has been amended to set the timeframe for local governments to revalue their assets to between three and five years, which is consistent with Australian Accounting Standards Board standard 116: Property, Plant and Equipment. The following amendments to the *Local Government (Audit) Regulations 1996* have been made:

Role of the Audit Committee

The role of the Audit Committee will be amended so that the Audit Committee will have greater involvement in assisting the CEO to carry out the review under Regulation 17 of the Audit Regulations of systems and procedures concerning risk management, internal control, and legislative compliance.

This will include helping the CEO to formulate recommendations to council to address issues identified in the reviews. The Audit Committee will also support the auditor as required and have functions to oversee:

- the implementation of audit recommendations made by the auditor, which have been accepted by council; and
- accepted recommendations arising from reviews of local government systems and procedures.

Role of the council assisting the auditor

Local governments will be required to provide the auditor with a copy of their adopted Long Term Financial Plan, Asset Management Plan, Corporate Business Plan and Strategic Community Plan.

Timeframe for reviewing audit systems and procedures

An amendment to Regulation 17(2) will require the CEO to undertake a review of audit systems and procedures no less than once in every three financial years (currently 2 years).

Accordingly, the following changes to the ToR are suggested:

- Provide guidance and assistance to Council as to the carrying out of the functions of the local government in relation to audits and matters related to financial management;*
- Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions;*
- 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;*
- 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;*
- 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;*
- Review the scope of the audit plan and program and its effectiveness;*
- Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or CEO;*
- Review the level of resources allocated to internal audit and the scope of its authority;*
- 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;*
- Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs;*
- 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, and
- p) 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
- a) legislative compliance, required to be provided to the committee, and report to the council the results of those reviews.
- q) Having regard to the culture and capability of the organisation, 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.

Analysis of Financial and Budget Implications

There are no financial or budget implications relating to the recommendations in this report.

Community Consultation

Nil

10.2 Draft Auditors Report and Annual Financial Statements for the Year Ending 30 June 2019

Applicant / Proponent:	Internal
Responsible Officer:	Chris Welham, Accountant
Executive:	Tony Battersby, Chief Executive Officer
Attachment(s):	Appendix 2: Draft Auditors Report and Annual Financial Statements for the Year Ending 30 June 2019

Summary

The Draft Auditor's Report and draft Annual Financial Report of the Bunbury-Harvey Regional Council for the financial year ending 30 June 2019 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; however the Auditor's Report does note that the Operating Surplus Ratio is below the Department of Local Government, Sport and Cultural Industries standard for the last 3 years. Further information on this is provided in Item 10.4 - 2018/19 Annual Financial Report Audit Findings, in this agenda.

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 2019.

COMMITTEE DECISION:

MOVED BY: _____ **SECONDED BY:** _____

RESULT: CARRIED / LOST _____

RESOLUTION: AC281119-

Background

The Auditor General has audited the 2018/19 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 2018/19 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 2019 and the Interim Audit Report are tabled at Item 10.4 of this agenda.

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 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 2019 include:

	<u>2019</u>	<u>2018</u>
Operating Revenue	\$ 3,859,531	\$ 3,880,750
Operating Expenses	\$ (4,420,892)	\$ (4,794,690)
Operating Surplus,(Deficit)	\$ (561,541)	\$ (913,940)
Net Result (utilised for capital works)	\$ (583,769)	\$ (969,733)
Net Result (net of site rehabilitation expenses)	\$ 552,550	\$ 521,375

For the year ending 30 June 2019, the operating deficit was \$561K compared to a deficit of \$914K in, a decrease of \$353K. The decrease of \$21K in revenue is mainly due to increases in casual tipping fees (\$33K) and sale of scrap metal (\$80K), which were offset by a decrease in landfill levy income (\$134K). The \$374K decrease in expenditure is mainly due to reductions in employee costs (\$86K), site rehabilitation expenditure (\$345K), landfill levy expenditure (\$120K), and a GST recoup in relation to bad debts written off (\$68K); which were offset by increases in organics expenditure (\$43K), skip bin recycling costs (\$137K), bore monitoring expenses (\$39K) and technical services (\$26K).

When the profit/loss on disposal of assets and loss on revaluation of infrastructure are included, the Net Result was a deficit of \$584K (compared to a deficit of \$970K in 2017/18).

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 2019. Key financial figures within the audited Annual Financial Report for the year ended 30 June 2019 include:

	<u>2019</u>	<u>2018</u>
Current Assets	\$ 4,363,836	\$ 5,702,569
Current Liabilities	\$ 410,505	\$ 669,080
Current Assets over Current Liabilities	\$ 3,953,331	\$ 5,033,489
Non-Current Assets	\$ 5,188,615	\$ 4,719,504
Non-Current Liabilities	\$ 6,654	\$ 33,935
Total Equity	\$ 9,135,291	\$ 9,719,060

Council's current assets exceed current liabilities by \$3.9M compared to \$5M in 2017/18. The total Equity as at 30 June 2019 was \$9.1M a decrease of \$584K on 2017/18.

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 decreased by the net result of the year's activities. For the year ending 30 June 2019, the Equity decreased from \$9.7M to \$9.1M.

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 \$3.9M compared to \$5.3M in 2017/18.

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 2018/19. In 2018/19, \$3.3M in fees and charges were raised, an increase of \$112K, or 3%, on. This was mainly due to increased sales of scrap metal.

Financial Information by Ratio:	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current Ratio	2.32	1.99	2.07
<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	0.57	2.43	2.55
<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	0.81	0.89	0.98
--------------------------------	------	------	------

Depreciated replacement cost of assets as a ratio of Current replacement cost of assets.

(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	0.81	0.77	0.87
------------------------------------	------	------	------

NPV of planning renewal over 10 years as a ratio of NPV of required capital expenditure over 10 years.
(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
---------------------------------	-----	-----	-----

Operating Surplus before Interest and Depreciation as a ratio of principal and interest expense for borrowings. Council had no borrowings as at 30 June 2019.

(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	-0.16	-0.25	-0.04
--------------------------------	-------	-------	-------

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)	0.94	0.89	0.96
--	------	------	------

Operating Revenue minus Operating Expenditure (excluding site rehabilitation expenditure) as a ratio of own source operating revenue.

Own Source Revenue Ratio	0.84	0.77	1.02
---------------------------------	------	------	------

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 2019 Annual Report.

Community Consultation

Community consultation not required.

10.3 2019 Management Letter

Applicant / Proponent:	Internal
Responsible Officer:	Chris Welham, Accountant
Executive:	Tony Battersby, Chief Executive Officer
Attachment(s):	Appendix 3: 2019 Management Letter

Summary

The purpose of this report is for the Audit Committee to receive the management letter for the year ended 30 June 2019 prepared by the Auditor General. This report stems from the 2018/19 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 2018/19 Audit.

Executive Recommendation

That the Audit Committee receives the Management Letter from the Office of the Auditor General for the year ended 30 June 2019.

COMMITTEE DECISION:

MOVED BY: _____ **SECONDED BY:** _____

RESULT: CARRIED / LOST _____

RESOLUTION: AC281119-

Background

Findings Identified During the Year End Audit outlines any management or financial issues identified by the Auditor as part of the 2018/19 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 3 and lists the following findings during the 2018/19 audit:

1. High Leave Accruals at Year End.
2. FMSR and Interim Recommendations.

Findings Reports in the Prior Year

3. Missing Leave Forms.

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

10.4 2018/2019 Annual Financial Report Audit Findings

Applicant / Proponent:	Internal
Responsible Officer:	Chris Welham, Accountant
Executive:	Tony Battersby, Chief Executive Officer
Attachment(s):	Appendix 4: Annual Financial Report Audit Findings

Summary

The Auditor General in the draft Auditor's Report for the 2018/19 financial year (attached at Appendix 2, has identified that the Operating Surplus Ratio is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) ratio standard. A report addressing these findings is attached at Appendix 4.

This report is to bring this matter to the attention of the Audit Committee as required under Section 7.12A(4) of the Local Government Act.

Committee Recommendation

That the Audit Committee recommends that Council:

1. Notes the findings by the Auditor General in the Auditor's Report for the 2018/19 financial year, and
2. Receives the report addressing the 2018/19 Auditor's Report findings.

COMMITTEE DECISION:

MOVED BY: _____ **SECONDED BY:** _____

RESULT: CARRIED / LOST _____

RESOLUTION: AC281119-

Strategic Relevance

Long Term Financial Plan objectives: financial sustainability in the long term, through sound financial management practices.

Background

The Auditor's Report for the year ended 30 June 2019 indicates that Operating Surplus Ratio is below the Department's standard for the last 3 years.

The Local Government Act, Section 7.12A(4) requires local governments to examine the audit report it receives and implement appropriate actions in respect to the significant matters raised.

A report addressing the significant matters identified in the audit report must be prepared and then considered by the Audit Committee before being adopted by Council.

Council Policy Compliance

There are no Council policies relating to this report.

Legislative Compliance

Local Government Act, Section 7.12A(4) – Duties of local governments; with respect to matters identified as significant by the auditor.

Officer Comments

A report has been prepared for the Audit Committee’s information on the adverse ratio trends identified in the 2019 Auditor’s Report, their implications to the financial position of the Council and how these ratios can be improved (refer Appendix 4).

This report will be provided to the Minister within three months of receiving the audit report and within 14 days after giving the report to the Minister, the Council will publish a copy of this report on the Council’s website as required by the Local Government Act.

Analysis of Financial and Budget Implications

Nil

Community Consultation

A copy of the report on the 2018/19 Audit Findings will be published on the Council’s website.

Councillor/Officer Consultation

This report is to bring this matter to the attention of the Audit Committee.

10.5 Interim Audit Report and Financial Management Systems Review

Applicant / Proponent:	Audit Committee			
Responsible Officer:	Chris Welham, Accountant			
Executive:	Tony Battersby, Chief Executive Officer			
Authority / Discretion:	Advocacy	<input checked="" type="checkbox"/>	Review	<input checked="" type="checkbox"/>
	Executive/Strategic	<input checked="" type="checkbox"/>	Quasi-Judicial	<input type="checkbox"/>
	Legislative	<input checked="" type="checkbox"/>	Information Purposes	<input type="checkbox"/>
Attachment(s):	Appendix 5 – Interim Audit Report 30 June 2019 Appendix 6 – 2019 Financial Management Systems Review			

Summary

The purpose of this report is for the Audit Committee to receive the Interim Audit Report for the year ending 30 June 2019 and the Financial Management Systems Review (FMSR) June 2019 prepared by the Office of the Auditor General (OAG) and AMD Chartered Accountants respectively.

Executive Recommendation

That Council:

That the Audit Committee recommends that Council receive the Interim Audit Report for the year ending 30 June 2019 and Financial Management Systems Review June 2019 as presented.

MOVED BY: _____ **SECONDED BY:** _____

RESULT: CARRIED / LOST _____

RESOLUTION: AC281119-

Voting Requirement

Simple Majority

Strategic Relevance

Long Term Financial Plan objectives: financial sustainability in the long term, through sound financial management practices.

Background

In May 2019, AMD Chartered Accountants conducted the Interim Audit for the year ending 30 June 2019 on behalf of the Council's Auditor, the Auditor General. During this audit, AMD also undertook a review of the Council's financial management systems and procedures in accordance with Regulation 5(1) of the Local Government (Financial Management) Regulations 1996.

The resulting reports have now been completed and are presented to the Audit Committee for information. A copy of these reports is attached at Appendices 5 and 6.

Council Policy Compliance

There is no current Council Policy relevant to this item.

Legislative Compliance

The Interim Audit is completed as part of the Annual Audit required under Section 7.2 of the Local Government Act 1995 that requires the accounts and annual financial report to be audited. Regulation 5(1) of the Local Government (Financial Management) Regulations 1996 outlines the Chief Executive Officer's duties as to financial management.

Officer Comments

Both reports include recommendations to improve the City's internal controls and a management response to each of these recommendations.

Findings identified during the interim audit were in the following areas:

1. Payroll master file changes
2. Termination pay Procedures

Findings Reported in the Prior year

3. Daily receipting procedures
4. Non-compliance with legal and regulatory requirements
5. Purchase orders dated after invoice
6. Audit Committee Meetings

The areas that were reviewed as part of the Financial Management Systems Review were:

1. Collection of money
2. Custody and security of money
3. Maintenance and security of financial records
4. Accounting for municipal or trust transactions
5. Authorisation for incurring liabilities and making payments
6. Maintenance of payroll, stock control and costing records
7. Preparation of budgets, budget reviews, accounts and reports required by the Act or the Regulations

AMD have provided the following comment in the FMSR report:

Following the completion of our review and subject to the recommendations outlined within sections 2 to 8, we are pleased to report that in context of the Council's overall internal control environment, policies, procedures and processes in place are appropriate, and have been operating effectively at the time of the review.

Analysis of Financial and Budget Implications

Nil

Community Consultation

Community Consultation has not been sought on this matter.

Applicant Consultation

Not applicable

Councillor/Officer Consultation

This report is presented to the Audit Committee meeting held 28 November 2019.

11. Motions of Which Previous Notice has been given

12. Questions from Members

12.1 Response to Previous Questions from Members taken on Notice

12.2 Questions from Members

13. Urgent business approved by the Presiding Member or by decision of the Council

14. Confidential Business (Meeting Closed to the Public)

15. Next Meeting

Date to be established depending on the timing of the Council's Annual Audit and the availability of the newly appointed auditor.

16. Close of Meeting

The Presiding Member declares meeting closed at _____