

TOWN OF COTTESLOE



AUDIT COMMITTEE

MINUTES

**MAYOR'S PARLOUR, COTTESLOE CIVIC CENTRE
109 BROOME STREET, COTTESLOE
4.00 PM WEDNESDAY 15 NOVEMBER 2017**

**MAT HUMFREY
Chief Executive Officer**

21 November 2017

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1 DECLARATION OF MEETING OPENING AND ANNOUNCEMENT OF VISITORS

The Chief Executive Officer declared the meeting open at 4.05 PM and welcomed Mr Greg Godwin of Moore Stephens to the Town of Cottesloe Audit Committee Meeting.

2 RECORD OF ATTENDANCE / APOLOGIES

Present

Cr Mark Rodda
Cr Lorraine Young
Cr Sandra Boulter

Officers Present

Mr Mat Humfrey	Chief Executive Officer
Mr Garry Bird	Manager Corporate and Community Services
Mr Wayne Richards	Finance Manager
Ms Samantha Hornby	Governance Coordinator

In Attendance

Mr Greg Godwin	Auditor, Moore Stephens Pty Ltd
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Apologies

Nil.

3 APPOINTMENT OF PRESIDING MEMBER AND DEPUTY PRESIDING MEMBER

COMMITTEE RESOLUTION

Cr Boulter nominated Cr Young for the position of Chair – Cr Young declined the nomination.

Cr Rodda nominated for the position of Chair. There being no other nominations, Cr Rodda was declared elected as the Chair of the Audit Committee. Cr Rodda then presided over the remainder of the meeting.

4 DECLARATION OF INTERESTS

Nil.

5 CONFIRMATION OF MINUTES OF PREVIOUS MEETING

Moved Cr Boulter, seconded Cr Rodda

The Minutes of the meeting of the Audit Committee held on 13 June 2017 be confirmed.

CARRIED 3/0

6 OFFICER REPORTS

6.1 ADOPTION OF THE 2016/17 AUDIT REPORT AND MANAGEMENT LETTER

File Ref: SUB/534
Attachments: [2016/17 Audit Report](#)
[2016/17 Management Report](#)
[2016/17 Annual Financial Statements](#)
[Local Government Operational Guideline 18](#)
Responsible Officer: Garry Bird
Manager Corporate & Community Services
Author: Wayne Richards
Finance Manager
Proposed Meeting Date: 15 November 2017
Author Disclosure of Interest: Nil

SUMMARY

A recommendation is made for the Town of Cottesloe Audit Committee to recommend to Council, the adoption of the Audit Report and Management Letter.

BACKGROUND

2016/17 Audit Report

The attached 2016/17 Audit Report did not identify any areas of non-compliance with legislation.

2016/17 Management Report

In addition to the Audit Report, the Auditor has supplied a Management Report which comments on other matters identified during the conduct of the Audit itself. The Report has compared the Town's ratios against target ratios issued by the Department of Local Government and also to five year regional and state averages.

-) The current ratio measures how quickly an asset can be converted to cash. It provides information on the ability of a local government to meet its short-term financial obligations out of unrestricted current assets.
-) The asset sustainability ratio is an approximation of the extent to which assets managed by a local government are being replaced as these reach the end of their useful lives. It is calculated by measuring capital expenditure on renewal or replacement of assets, relative to depreciation.
-) The operating surplus ratio is an indicator of a local government's financial performance.
-) The own source coverage ratio measures a local governments ability to cover its costs through its own taxing and revenue efforts.
-) The asset consumption ratio seeks to highlight the aged condition of a local government's stock of physical assets.

-) The asset renewal funding ratio indicates whether the local government has the capacity to fund asset renewal as required, and to provide existing levels of service in the future.

The Management Report has also made comment in regards to Related Party Transactions. The standard (AASB 124 – “Related Party Transactions”) was issued in March 2015 and extends the scope to include application by not-for-profit entities and the effective operative date for local government is 1 July 2016 (effectively for the year ended 30 June 2017). The knowledge of related party transactions, outstanding balances and relationships is important to understanding and assessing an entity’s operations.

Finally the Management Report makes comment on changes to suppliers bank details in light of many recent incidents of payment scams/frauds within the local government industry.

The comments extracted from the Management Report are as follows:

COMMENT ON RATIOS

Ratios provide useful information when compared to industry and internal benchmarks and assist in identifying trends.

By providing this overview, we aim to improve the understanding of the trends and how they interact. This is beneficial for the allocation of scarce resources and planning for the future.

Information relating to the statutory ratios disclosed in the financial report is summarised in the table below and our commentary is provided on the following pages:

	Target Ratio ¹	Actual 2017	Council's Adjusted Ratios					Council's 5 Year Trend ²	5 Year Average ³	
			2017	2016	2015	2014	2013		Regional	State
Current Ratio	≥ 1	1.35	1.35	1.08	1.03	1.26	1.20	↑	1.46	2.22
Asset Sustainability Ratio	≥ 1.1	0.69	0.69	0.54	0.82	0.49	0.53	↑	1.05	1.18
Debt Service Cover Ratio	> 5	4.49	4.49	4.20	3.03*	3.38	3.89*	↑	22.76	12.41
Operating Surplus Ratio	≥ 0.15	0.06	0.06	0.01	(0.05)*	0.00	0.04*	↑	0.06	(0.11)
Own Source Revenue Coverage Ratio	≥ 0.9	1.01	1.01	0.98	0.91*	0.98	1.01*	↑	0.94	0.67
Asset Consumption Ratio	≥ 0.75	0.87	0.87	0.80	0.89	0.46	0.32	↑	0.70	0.73
Asset Renewal Funding Ratio	≥ 1.05	0.99	0.99	1.06	1.05	1.05	1.05	↓	1.00	0.94

¹ Target ratios per Department of Local Government Guidelines.

² The 5 year trend compares the 2017 ratio to the average of the adjusted ratios for the last 5 years (except for the Asset Consumption and the Asset Renewal Funding ratios which are a 4 year trend).

³ The average in relation to the Regional and State comparisons is a 5 year average of 2012, 2013, 2014 and 2015 and 2016.

* Adjusted for “one-off” timing/non-cash items.

Regional and State 5 Year Averages

Regional and State 5 year averages are based on the statutory ratios which have been reported in published financial reports. They provide a useful reference point as they are indicative of trend.

Commentary on Specific Ratios

• Asset Sustainability Ratio

The Asset Sustainability ratio (ASR) expresses capital expenditure on renewal and replacement of existing assets as a percentage of depreciation costs. This ratio is used to identify any potential decline or improvement in asset conditions. A percentage of less than 100% on an ongoing basis indicates assets may be deteriorating at a greater rate than spending on renewal or replacement.

This ratio has improved in the current year due to a significant increase in capital renewal expenditure for the year and a decrease in depreciation. However, it is still below the target level but trending upwards over the longer term. Continued improvement to this ratio will assist the Town maintain its asset base at current levels into the future.

As mentioned in our management report for the year ended 30 June 2016, further analysis of renewal and replacement expenditure levels and depreciation costs, (particularly with respect to remaining useful life assessments) may provide greater insights to this ratio. We noted one possible reason relates to the Remaining Useful Life (RUL) assessments performed on individual assets especially roads may not have been comprehensive enough to adjust to more realistic conditions which would have resulted in a lower depreciation expense.

We also recommend Council review the useful lives of buildings as there has been a significant increase in values following the revaluation this year.

Interpretation of this ratio should be considered together with the Asset Consumption Ratio (0.87) and the Asset Renewal Funding Ratio (0.99) which are both above target levels.

Summary

Overall, as a general comment, the Town's ratio position, appears consistent with prior years.

Whilst some ratios are below the accepted industry benchmark, given the relative strength of the other ratios and the Town's balance sheet and own source revenue capability, lower ratios may be expected and acceptable in the short term, provided other measures/strategies are maximised.

We would also like to take this opportunity to stress one-off assessments of ratios at a particular point in time can only provide a snapshot of the financial position and operating situation of the Town. As is the case with all ratios and indicators, their interpretation is much improved if they are calculated as an average over time with the relevant trends being considered.

We will continue to monitor the financial position and ratios in future financial years and suggest it is prudent for Council and management to do so also as they strive to manage the scarce resources of the Town.

If the Town requires, we have a report available which is able to compare your ratios against other Local Governments across the State and by Region. The report is also able to incorporate a selection of your peer Local Governments, whether they be of near neighbours or similar type in nature. This may be of particular relevance in your case as you are included in the Metropolitan region when comparison to other, more similar local governments, may be more relevant.

If you are interested in such an expanded report, please contact us.

Related Party Transactions

During the course of our audit we noted the Town did not have procedures in place to collect related party transactions for disclosure in the financial report.

Comment: To help ensure all related party transactions have been properly recorded and disclosed, we recommend a declaration form should be completed by all Council members, the CEO and Directors of the Town who were elected or employed at any time during the financial year.

Changes to supplier's banking details

We are aware of many recent incidents of payment scams/frauds within the local government industry. As a consequence of this activity, we have had a specific focus on the controls around the changes to supplier's banking details within the EFT payment system.

During our review of the procedures surrounding changes in supplier's banking details, we noted the creditor's officer did not phone the suppliers directly to confirm the change in banking details.

Comment: To help ensure all changes to supplier's banking details in the system are correct and hence all payments are bona fide, the creditor's officer should confirm changes to banking details by telephonically confirming the change with the supplier.

STATUTORY IMPLICATIONS

Priority Area 6 – Provide Open and Accountable Local Governance.

Major Strategy 6.2 – Continue to deliver high quality governance, administration, resource management and professional development.

Consideration of the 2016/17 Audit Report and Management Letter is in keeping with this stated strategic objective.

POLICY IMPLICATIONS

Nil

STATUTORY ENVIRONMENT

Local Government Act 1995

Local Government (Financial Management) Regulations 1996

Local Government (Audit) Regulations 1996

The *Local Government Act 1995* prescribes the following duties for the Audit Committee;

An audit committee —

6.1 Is to provide guidance and assistance to the local government —

- i. as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and*
- ii. as to the development of a process to be used to select and appoint a person to be an auditor.*

- 6.2 *May provide guidance and assistance to the local government as to —*
- i. matters to be audited; and*
 - ii. the scope of audits; and*
 - iii. its functions under Part 6 of the Act; and*
 - iv. the carrying out of its functions relating to other audits and other matters related to financial management (LG (Audit) Regulations, Regulation 16).*
- 6.3 *Is to review a report given to it by the CEO under Regulation 17.3 (the Regulations) and is to –*
- i. Report to the Council the results of that review; and*
 - ii. Give a copy of the CEO's report to the Council.*
- 6.4 *Is to meet with the auditor at least once in every year (Section 7.12A of the Act).*
- 6.5 *Is to review the annual Department of Local Government Compliance Audit Return and report to Council the results of that review (Regulation R14 (3A)) of the Regulations)*

FINANCIAL IMPLICATIONS

Nil

STAFFING IMPLICATIONS

Nil

SUSTAINABILITY IMPLICATIONS

Nil

CONSULTATION

Nil

STAFF COMMENT

For the 2016/17 year, the Auditors have commented on Council's financial ratios, highlighting ratios where Council is considered to be below the benchmark levels or there are adverse trends.

The Town's Debt Service Ratio is 4.49 as at 30 June 2017 and meets the Department of Local Governments basic standard of between two and five. It is trending in the right direction as the Town pays down more debt each year and furthermore the ratio does not include the revenue received by the Town from self supporting loans.

The Asset Sustainability Ratio is also marked as below target and the Town is mindful of the need to set aside enough funds each year for asset renewal so that the condition of the Town's assets are being replaced/renewed in an appropriate manner. The Town has over the past several years been transferring monies to various reserves such as the infrastructure, property and waste management reserves with a view to having enough funds set aside to renew its assets in a timely fashion.

VOTING

Simple Majority

OFFICER RECOMMENDATION

Moved Cr Young, seconded Cr Boulter

That the Town of Cottesloe Audit Committee recommends to Council adoption of the 2016/17 Audit Report and Management Letter.

CARRIED 3/0

6.2 REVIEW OF INVESTMENTS POLICY

File Ref: POL/26
Attachments: Draft Investment Policy
Responsible Officer: Mat Humfrey
Chief Executive Officer
Author: Garry Bird
Manager Corporate & Community Services
Proposed Meeting Date: 15 November 2017
Author Disclosure of Interest: Nil

SUMMARY

To consider a review of the Investments Policy as a result of legislative amendments introduced in May 2017.

BACKGROUND

The amendments to the *Local Government (Financial Management) Regulations 1996* gazetted on 12 May 2017, prohibits the investment in foreign currency.

This prohibition was not specified in the existing Investment Policy, and for the avoidance of doubt it was recommended by Moore Stephens Pty Ltd that the Policy be amended to reflect the amendment.

It should be noted that at no time in recent years has the Town invested funds in a foreign currency.

Other changes included in the Draft Investment Policy are:

-) Removal of reference to an investment adviser;
-) Change of policy review to be every four years, not annually;
-) Monthly report to be provided to Council, not to the Finance and Budget Committee;
-) Inclusion of an appendix to explain the Standard and Poors Investment ratings;
-) Removal of the Global Credit Framework Ratings, as it is no longer applicable; and
-) Other minor edits to reflect the Town's long standing investment practices.

The existing Investments Policy was adopted in October 2009 and was reviewed in 2016. There is an additional Investment of Surplus Funds Policy (adopted in 2012), which duplicates the Investments Policy. It is recommended that both of these Policies be repealed and replaced with the new Management of Investments Policy.

STRATEGIC IMPLICATIONS

Priority Area 6 Providing open and accountable local governance

Major Strategy 6.2 Continue to deliver high quality governance, administration, resource management and professional development.

An Investment Policy that is compliant with statutory provisions is in keeping with this major strategy.

POLICY IMPLICATIONS

The Investment Policy will be amended if the Officer Recommendation is accepted.

STATUTORY ENVIRONMENT

Local Government Act 1995

Local Government (Financial Management) Regulations 1996

19C. Investment of money, restrictions on (Act s. 6.14(2)(a))

- (1) *In this regulation —*
authorised institution means —
- (a) *an authorised deposit taking institution as defined in the Banking Act 1959 (Commonwealth) section 5; or*
 - (b) *the Western Australian Treasury Corporation established by the Western Australian Treasury Corporation Act 1986;*
- foreign currency means a currency except the currency of Australia.*
- (2) *When investing money under section 6.14(1), a local government may not do any of the following —*
- (a) *deposit with an institution except an authorised institution;*
 - (b) *deposit for a fixed term of more than 3 years;*
 - (c) *invest in bonds that are not guaranteed by the Commonwealth Government, or a State or Territory government;*
 - (d) *invest in bonds with a term to maturity of more than 3 years;*
 - (e) *invest in a foreign currency.*

FINANCIAL IMPLICATIONS

The Town generates approximately \$330,000 or 3.3% of rates in investment income each year, using the Investment Policy to determine these investment decisions.

STAFFING IMPLICATIONS

There are no perceived staffing implications arising from the Officer Recommendation.

SUSTAINABILITY IMPLICATIONS

There are no perceived sustainability implications arising from the Officer Recommendation.

CONSULTATION

Town of Cottesloe Staff

Moore Stephens Pty Ltd - Auditors

STAFF COMMENT

The Draft Investment policy has been referred to Moore Stephens Pty Ltd for comment with several minor corrections made based on their advice.

VOTING

Simple Majority

OFFICER RECOMMENDATION

That the Town of Cottesloe Audit Committee recommends to Council:

1. The repeal of the Investments and Investment of Surplus Funds Polices; and
2. The adoption of the attached Draft Management of Investments Policy.

PROCEDURAL MOTION

Moved Cr Boulter, seconded Cr Young

That consideration of this Item be deferred until the next Audit Committee Meeting.

CARRIED 3/0

7 NEW BUSINESS OF AN URGENT NATURE INTRODUCED BY ELECTED MEMBERS/OFFICERS BY DECISION OF MEETING

7.1 ITEM 5.4 OF PREVIOUS AUDIT COMMITTEE MINUTES

Cr Young drew attention to the Audit Committee Minutes from 13 June 2017, and queried the present status of the Councillor Motion moved under Item 5.4 Assessment of the Town's Risk Management Practices:

COUNCILLOR MOTION

Moved Cr Rodda, seconded Cr Boulter

That this Item be deferred until the next Audit Committee meeting.

ALL IN FAVOUR

The Chief Executive Officer responded that this Item would be covered in his Risk Assessment report which will be presented to Council in December.

7.2 CONTRACT ACQUISITION PROCEDURE AT TOWN OF COTTESLOE

Cr Boulter requested that the Chief Executive Officer present to the Audit Committee at the next meeting, a chronological break down of the current procedure illustrating how contractors are acquired by the Administration, using the Cardno Bike Plan as an example.

COUNCILLOR MOTION

Moved Cr Boulter, seconded Cr Young

That the history of the 'Town of Cottesloe Local Bike Plan 2015-2025' document developed by Cardno be presented to the Audit Committee at the next meeting.

CARRIED 2/1

For: Crs Boulter and Young

Against: Cr Rodda

8 MEETING CLOSURE

The Chair declared the meeting closed at 5.31 PM