



MISSION AND VALUES OF COUNCIL

"A Sustainable Community that is inclusive, attractive, healthy and pleasant to live in, that uses our land so as to preserve our history and environment, respects the rights and equality of our citizens and manages our future growth wisely."

CONFIRMED MINUTES

OF THE

AUDIT COMMITTEE MEETING

13 OCTOBER 2015

OUR VISION

"A thriving and friendly community that recognises our history and embraces cultural diversity and economic opportunity, whilst nurturing our unique natural and built environment."

OUR MISSION

"To deliver affordable and quality Local Government services."

CORE VALUES OF THE SHIRE

The core values that underpin the achievement of the mission will be based on a strong customer service focus and a positive attitude:

Communication

Integrity

Respect

Innovation

Transparency

Courtesy

DISCLAIMER

The purpose of Council Meetings is to discuss, and where possible, make resolutions about items appearing on the agenda. Whilst Council has the power to resolve such items and may in fact, appear to have done so at the meeting, no person should rely on or act on the basis of such decision or on any advice or information provided by a Member or Officer, or on the content of any discussion occurring, during the course of the meeting.

Persons should be aware that the provisions of the Local Government Act 1995 (Section 5.25 (e)) establish procedures for revocation or rescission of a Council decision. No person should rely on the decisions made by Council until formal advice of the Council decision is received by that person. The Shire of Broome expressly disclaims liability for any loss or damage suffered by any person as a result of relying on or acting on the basis of any resolution of Council, or any advice or information provided by a Member or Officer, or the content of any discussion occurring, during the course of the Council meeting.

SHIRE OF BROOME
AUDIT COMMITTEE MEETING
TUESDAY 13 OCTOBER 2015
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NOTICE OF MEETING

Dear Council Member,

The next Audit Committee of the Shire of Broome will be held on Tuesday, 13 October 2015 in the Council Chambers, Corner Weld and Haas Streets, Broome, commencing at 3:30 PM.

Regards



K R DONOHOE
Chief Executive Officer

07/10/2015

**MINUTES OF THE AUDIT COMMITTEE MEETING OF THE SHIRE OF BROOME,
HELD IN THE COUNCIL CHAMBERS, CORNER WELD AND HAAS STREETS, BROOME,
ON TUESDAY 13 OCTOBER 2015, COMMENCING AT 3:30 PM.**

1. OFFICIAL OPENING

The Chairman welcomed Councillors, Officers and declared the meeting open at 3:35 PM.

2. ATTENDANCE AND APOLOGIES

Attendance:	Cr C Campbell	Shire President
	Cr H Tracey	Deputy Shire President

Leave of Absence: Nil

Apologies: Cr D Male

Officers:	Kenn Donohoe	Chief Executive Officer (from 3:45pm)
	Paul Martin	Deputy Chief Executive Officer
	Sam Mastroleambo	Director Corporate Services
	Andre Schonfeldt	Director Development Services
	Michael Dale	Director Infrastructure Services
	Theresa Bengtson	Manager Financial Services

3. DECLARATIONS OF FINANCIAL INTEREST / IMPARTIALITY

Councillor	Item No	Item	Nature of Interest
Nil			

4. CONFIRMATION OF MINUTES

COUNCIL RESOLUTION:
Moved: Cr H Tracey **Seconded: Cr G Campbell**
That the Minutes of the Audit Committee held on 25 August 2015 be confirmed as a true and accurate record of that meeting.
CARRIED UNANIMOUSLY 2/0

Chairperson Date.....

5. REPORT OF OFFICERS

5.1 REQUEST FOR TENDER 15/06 - KIMBERLEY COUNCILS AUDIT TENDER 2015	
LOCATION/ADDRESS:	Nil
APPLICANT:	Nil
FILE:	ADM03
AUTHOR:	Manager Financial Services
CONTRIBUTOR/S:	Nil
RESPONSIBLE OFFICER:	Director Corporate Services
DISCLOSURE OF INTEREST:	Nil
DATE OF REPORT:	30 September 2015

SUMMARY: Following expiry of the current Audit Agreement on 30 June 2015, Council is required to appoint an Auditor from 1 July 2015. The Request For Tender (RFT) 15/06 - Kimberley Councils Audit Tender 2015 closed on 23 September 2015 and the recommendation of the evaluation panel is now presented to each member Council's Audit Committee for recommendation to each Council to appoint a new auditor.

BACKGROUND

Previous Considerations

OMC 28 August 2014	Item 10.2
OMC 2 June 2015	Item 9.4.3
OMC 25 August 2015	Item 12.1

At the Ordinary Meeting of Council held 25 August 2015 Council resolved:

- In accordance with regulation 16(a)(ii) of the Local Government (Audit) Regulations 1996 accepts the Audit Specifications and the Procurement Plan as attached in the Audit Committee minutes, as the tender process to be used to select and appoint a person to be an auditor for the Kimberley Councils jointly and/or severally with the Shires of Derby West Kimberley and Halls Creek for the financial years commencing 1 July 2015 to 30 June 2018.*

(ABSOLUTE MAJORITY REQUIRED)

The adopted audit tender procurement plan was adopted by Council via recommendation from the Audit Committee which contained the evaluation methodology. The evaluation methodology outlines the criteria and associated weighting which will be applied to the assessment of each tender submitted and detailed as follows:

EVALUATION METHODOLOGY	
Criteria	Weighting
Lead Partners/Audit Managers experience and performance	25%
Depth of understanding of Local Government and the region	20%
Audit resources allocated	25%

Chairperson Date.....

Detailed and well-articulated audit plan	15%
Fees and control of fees	15%

The procurement plan outlined the timeframes which aim to complete the tender process by the end of October 2015. The evaluation report is attached to this report and a recommendation is made for consideration of the Audit Committee to present to Council.

COMMENT

RFT 15/06 was advertised in the West Australian newspaper to invite submissions from 5 September 2015 and closed 4pm 23 September 2015. The tender submissions were opened in the presence of the Manager Financial Services and Manager Governance (Shire of Broome). A total of 10 submissions were received prior to the deadline and opened in the following order:

- Byfields Pty Ltd
- Butler Settineri (Audit) Pty Ltd
- RSM Bird Cameron
- Moore Stephens
- Anderson Munro & Wyllie
- William Buck
- KPMG
- MACLEOD Corporation Pty Ltd
- Grant Thornton
- AMD Chartered Accountants

An Evaluation Panel review meeting was held at the Shire of Broome on 25 September 2015 to review the submissions. This was attended by panel members:

- Manager Financial Services (Shire of Broome)
- Financial Services Manager (Shire of Halls Creek)
- Manager Finance (Shire of Derby West Kimberley)

Additionally the meeting was attended by the Executive Manager Corporate Services (Shire of Derby/West Kimberley) to provide as a handover due to the pending departure of their Manager of Finance. The attached confidential report discloses the individual evaluation scoring matrix of all submissions and provides a recommendation to the Audit Committee as to the proposed tender submitter based on performance against the Audit Specifications and weighted criteria as was adopted in the tender procurement plan. The Audit Committee is requested to consider the evaluation outcome and recommend to Council to appoint the successful tenderer as Council's auditor from 1 July 2015 to 30 June 2018 (3 years).

CONSULTATION

Shire Derby West Kimberley
 Shire Halls Creek

STATUTORY ENVIRONMENT

Local Government Act 1995

Chairperson Date.....

Section 1.8 Statewide public notice

Where under this Act Statewide public notice of a matter is required to be given, section 1.7 applies except that the newspaper referred to in section 1.7(1)(a) is required to circulate generally throughout the State.

Section 3.57 Tenders for providing goods or services

- (1) A local government is required to invite tenders before it enters into a contract of a prescribed kind under which another person is to supply good or services.
- (2) Regulations may make provision about tenders

*Division 2 — Appointment of auditors**7.2. Audit*

The accounts and annual financial report of a local government for each financial year are required to be audited by an auditor appointed by the local government.

7.3. Appointment of auditors

- (1) A local government is to, from time to time whenever such an appointment is necessary or expedient, appoint* a person, on the recommendation of the audit committee, to be its auditor.

* Absolute majority required.

- (2) The local government may appoint one or more persons as its auditor.
- (3) The local government's auditor is to be a person who is —
 - (a) a registered company auditor; or
 - (b) an approved auditor.

[Section 7.3 amended by No. 49 of 2004 s. 6.]

7.4. Disqualified person not to be auditor

- (1) A person may not be appointed as a local government's auditor if that person is a disqualified person.
- (2) In this section —

disqualified person means a person who —

 - (a) is a councillor or an employee of the local government; or
 - (b) is a person who is in debt for more than the prescribed amount to the local government for a period of more than 35 days after —
 - (i) in the case of that part of the debt which is for a rate or service charge under Part 6, the date the rate notice was issued; or
 - (ii) in the case of that part of the debt which is not for a rate or service charge, the date an account was rendered to the person by the local government;
 or
 - (c) is an employee of, or a member of the governing body of, an entity of a kind prescribed for the purposes of this paragraph; or
 - (d) is a member of a class of persons prescribed for the purposes of this subsection.

7.6. Term of office of auditor

Chairperson Date.....

- (1) The appointment of a local government's auditor is to have effect in respect of the audit of the accounts and annual financial report of the local government for a term of not more than 5 financial years, but an auditor is eligible for re-appointment.
- (2) The appointment of an auditor of a local government ceases to have effect if —
 - (a) his or her registration as a registered company auditor is cancelled; or
 - (b) his or her approval as an approved auditor is withdrawn; or
 - (c) he or she dies; or
 - (d) the auditor ceases to be qualified to hold office as auditor or becomes a disqualified person; or
 - (e) the auditor resigns by notice in writing addressed to the local government; or
 - (f) the appointment is terminated by the local government by notice in writing.
- (3) Where —
 - (a) the registration of a local government's auditor as a registered company auditor is suspended; or
 - (b) a local government's auditor becomes unable or unwilling to carry out all or part of his or her duties,

the local government is to appoint* a person to conduct the audit or to complete that part of the audit which remains to be conducted, as the case requires.

* Absolute majority required.

Local Government (Audit) Regulations 1996

16. Audit committee, functions of

An audit committee —

- (a) 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;
- and
- (b) 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; and
- (c) is to review a report given to it by the CEO under regulation 17(3) (the CEO's report) 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.

Local Government (Functions and General) Regulations 1996

Section 5 R14 Requirements for publicly inviting tenders

- (1) When regulation 11(1), 12 or 13 requires tenders to be publicly invited, Statewide public notice of the invitation is to be given.
- (2) If the CEO has, under regulation 23(4), prepared a list of acceptable tenderers, instead of giving Statewide public notice the CEO is required to give notice of the invitation to each acceptable tenderer listed.

- (2a) If a local government —
 - (a) is required to invite a tender; or
 - (b) not being required to invite a tender, decides to invite a tender, the local government must, before tenders are publicly invited, determine in writing the criteria for deciding which tender should be accepted.

- (3) The notice, whether under subregulation (1) or (2), is required to include —
 - (a) a brief description of the goods or services required;
 - (b) particulars identifying a person from whom more detailed information as to may be obtained;
 - (c) information as to where and how tenders may be submitted; and
 - (d) the date and time after which tenders cannot be submitted.

- (4) In subregulation (3)(b) a reference to detailed information includes a reference to —
 - (a) such information as the local government decides should be disclosed to those interested in submitting a tender;
 - (b) detailed specifications of the goods or services required;
 - (c) the criteria for deciding which tender should be accepted;
 - (d) whether or not the local government has decided to submit a tender; and
 - (e) whether or not the CEO has decided to allow tenders to be submitted by facsimile or other electronic means, and if so, how tenders may so be submitted.

After a notice has been given under subregulation (1) or (2), a local government may vary the information referred to in subregulation (3) by taking reasonable steps to give each person who has sought copies of the tender documents or each acceptable tenderer, as the case may be, notice of the variation.

[Regulation 14 amended in Gazette 29 Jun 2001 p. 3130.]

Section 5 R15 Minimum time to be allowed for submitting tenders

- (1) If the notice is published in the newspaper as part of giving Statewide public notice, the time specified in the notice as the time after which tenders cannot be submitted has to be at least 14 days after the notice is first published in the newspaper as part of giving Statewide public notice.
- (2) If the notice is given to a person listed as an acceptable tenderer, the time specified in the notice as the time after which tenders cannot be submitted has to be at least 14 days after the notice is given.

Clause 2.4 The Local Government (Functions and General) Regulations 1996, Part 4, Division 2, regulation 18, paragraph (2)

- (1) A tender that is submitted at a place, and within the time, specified in the invitation for tenders but that fails to comply with any other requirement specified in the invitation may be rejected without considering the merits of the tender.

POLICY IMPLICATIONS

Policy 2.3.7 Purchasing
 Policy 1.2.9 Local Regional Price Reference

Chairperson Date.....

FINANCIAL IMPLICATIONS

The three Councils combined budgeted expenditure proposed for the 2015/2016 financial year for external audit services ranges between \$90K to \$120K per annum. The Shire of Broome has a total expenditure budget for all audit related expenses including external audit services and separate audits allocated to general ledger account code 22200 *Audit Fees Op Exp - Other Governance* of \$45K for 2015/2016.

RISK

The *Kimberley Councils Audit Tender 2015* is a strategic outcome identified by the Kimberley Zone of WALGA Regional Collaborative Group. Its aim is to facilitate an increased level of collaboration between the member Councils of the Zone and achieve resource efficiencies. Should the recommendation of this report not be adopted, the risk of not achieving the above objective has been assessed at a high level, resulting in the Kimberley Zone and each member Council experiencing a possible likelihood of significant delays in appointing an auditor within the procurement deadlines to meet the February 2016 interim audit deadline. Additionally, it is a matter of legislative compliance for the Audit Committee to provide guidance and advice to Council on the appointment of Council's auditors.

To mitigate this risk officers of the three Councils have ensured the evaluation process was conducted in a fair and transparent manner in full consultation with each participating Council. The evaluation report and templates were obtained from the Western Australia Local Government Association procurement handbook and resources which meet the minimum tender compliance requirements.

STRATEGIC IMPLICATIONS

Our People Goal – Foster a community environment that is accessible, affordable, inclusive, healthy and safe:

Effective communication

Affordable services and initiatives to satisfy community need

Our Prosperity Goal – Create the means to enable local jobs creation and lifestyle affordability for the current and future population:

Affordable and equitable services and infrastructure

Our Organisation Goal – Continually enhance the Shire's organisational capacity to service the needs of a growing community:

An organisational culture that strives for service excellence

Sustainable and integrated strategic and operational plans

Responsible resource allocation

Effective community engagement

Improved systems, processes and compliance

Chairperson Date.....

VOTING REQUIREMENTS

Absolute Majority

COMMITTEE RESOLUTION:
(REPORT RECOMMENDATION):

Moved: Cr H Tracey

Seconded: Cr G Campbell

That the Audit Committee recommends that Council:

- 1. Endorses the recommendation as contained in the confidential tender evaluation report RFT 15/06 for the Provision of External Audit Services for a period of 3 years (1 July 2015 – 30 June 2018) to appoint the nominated person(s) as the Shire’s registered company auditor in accordance with Section 7.3(1) of the Local Government Act.**
- 2. Notes details of the successful tenderer will be available for public information in the Tender Register in accordance with Regulation 17 of the Local Government Act (Functions and General) Regulations 1996.**
- 3. Authorises the Chief Executive Officer to sign the letter of engagement.**

CARRIED UNANIMOUSLY BY ABSOLUTE MAJORITY 2/0

Attachments

1. RFT 15/06 EVALUATION REPORT - KIMBERLEY COUNCILS AUDIT (*Confidential to Councillors and Directors Only*)

This attachment is confidential in accordance with Section 5.23(2) of the Local Government Act 1995 section 5.23(2)(c) as it contains “a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting”.

The Manager Financial Services tabled correspondence received from the Department of Local Government and Communities received on the 13 October 2015 regarding the disclosure of infrastructure revaluation changes.

5.2 ANNUAL FINANCIAL REPORT & AUDIT REPORT 2014/2015	
LOCATION/ADDRESS:	Nil
APPLICANT:	Nil
FILE:	FRE02
AUTHOR:	Manager Financial Services
CONTRIBUTOR/S:	Nil
RESPONSIBLE OFFICER:	Director Corporate Services
DISCLOSURE OF INTEREST:	Nil
DATE OF REPORT:	2 October 2015

SUMMARY: The Audit Committee is required to consider and recommend to Council, the adoption of the annual financial report, examine the audit and management reports, and review the report prepared by the Chief Executive Officer.

BACKGROUND

Previous Considerations

Nil

Pursuant to Section 7.9 of the *Local Government Act 1995* (the 'Act'), an Auditor is required to examine the accounts and annual financial report submitted by a local government for audit. The Auditor is also required, by 31 December following the financial year to which the accounts and report relate, prepare a report thereon and forward a copy of that report to:

- (a) Mayor or President; and
- (b) The Chief Executive Officer; and
- (c) The Minister

Furthermore, in accordance with Regulation 10(4) of the *Local Government (Audit) Regulations 1996*, where it is considered appropriate to do so, the Auditor may prepare a Management Report to accompany the Auditor's Report, which is also to be forwarded to the persons specified in Section 7.9 of the Act.

On finalisation of the Shire's 2014/2015 final audit, the Auditors presented their initial findings to the Audit Committee for consideration at an informal briefing session held Wednesday 16 September 2015 which was attended by Councillors Graeme Campbell and Desiree Male.

The Audit Committee is required to examine the reports of the auditor after receiving a report from the Chief Executive Officer (CEO) on the matters reported and:

- 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.

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The Audit Committee is also required to review a report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and presents the report to Council for adoption. A copy of the report is to be forwarded to the Minister 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.

2014/2015 Operating Result

An analysis of the 2014/2015 operating result is provided in this report and how it compares to the forecasted outcomes of the Shire's adopted Integrated Planning and Reporting Framework. As a background, the 2014/2015 Annual Financial Report discloses the results of the second year of implementation of the newly legislated Integrated Planning and Reporting Framework. The plans contained in the framework provide funding strategies to ensure Council can meet its adopted strategic objectives, while maintaining and forecasting impacts on the Shire's future financial sustainability.

As reported to Council in the two preceding years in regards to the 2012/2013 and 2013/2014 Annual Financial Reports, the Shire's 2014/2015 Annual Budget process continued to place significant focus on a number of 'informing strategies'. As part of the budget finalisation it was still evident in the second year since the introduction of the integrated planning framework, that the desired allocations toward capital renewal outlined within the prepared Asset Management Plans are not being achieved.

Effectively, the intended annual allocations to Capital Reserves were either not provided for in the 2014/2015 Annual Budget or; in some cases Capital Reserves drawn to enable Capital Works programs to be sufficiently funded. This is not sustainable over the longer term, triggering a review of the 2013-2028 Long Term Financial Plan (LTFP) previously adopted by Council at the Ordinary Meeting of Council held 27 October 2013.

The draft 2015-2030 Shire of Broome Long Term Financial Plan was presented to Councillors at a workshop held on 6 February 2015, as a follow on from a two day workshop held on 14 and 15 November 2014. At these workshops, the draft Strategic Community Plan 2015-2025 and Corporate Business Plan 2015-2019 were presented, containing the results of the interim desktop review.

The Shire's LTFP was reviewed with consideration for these revised documents. As part of this process a review was conducted to prioritise projects within the organisation's financial capacity. The objective of the revised LTFP was to reduce the overall reliance on reserve funding and to prioritise the funding capacity for the forecasted expenditure detailed in the Shire's proposed Capital Renewal program. Funding of renewal expenditure through municipal funds, provides for long term financial viability and there has been a focus on achieving an improved operating surplus.

The draft LTFP contained some key assumptions which included organisational savings of \$1.4M and a dividend from Waste operations of approximately \$1M to offset operations. The SCP and CBP were adopted at the SMC held 19 February 2015, including the organisational restructure which resulted in \$1.8M savings in employee costs per annum. The savings identified in 2014/2015 have been carried through to the 2015/2016 financial year and are a one off event as a result of the management decisions implemented to ensure the long term financial sustainability of the Shire. The revised 2015-2030 LTFP was adopted by Council at the Special Meeting of Council (SMC) held 13 August 2015.

The Audit Committee is requested to consider and recommend adoption of the annual financial report to Council.

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COMMENT

Chief Executive Officer’s Report to the Audit Committee

Following is the CEO’s report to the Audit Committee on matters arising from the audit and management reports. Extracts from the audit and management reports are indented in italics.

Audit Report

There were no matters of statutory non-compliance reported.

Management Report

The Auditor’s Management Report provides an overview of the approach undertaken in respect of the annual audit process and the associated outcomes of the audit. The Management Report also identifies any findings that, whilst generally not material in relation to the overall audit of the financial report, are considered relevant to the day to day operations of the Shire.

1. Matters Identified

As part of the 2014/2015 final audit, the Auditor identified five areas in which further improvements to the Shire’s current processes and procedures could be considered for implementation. These areas have also been assigned a finding rating, as detailed in the following table:

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
New issues identified from 2015 Interim audit:			
1. High annual leave accrual at year end		✓	
2. Monthly Reconciliation		✓	
3. Overhead allocation		✓	
4. Issued Credit Notes for incorrect GST treatment		✓	
5. AARB Condition Based Valuation		✓	

Key To Ratings

The Ratings in this management letter are based on the audit team’s assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

Significant - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A

significant rating could indicate the need for a modified audit opinion in the current year, or in a subsequent reporting period if not addressed. However even if the issue is not likely to impact the audit opinion, it should be addressed promptly.

- Moderate - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.*
- Minor - Those findings that are not of primary concern but still warrant action being taken.*

Each item is specifically discussed within the Management Report, as appended to the 2014/2015 Annual Financial Report as attached to this report, along with the Shire's management response. In terms of the management responses, appropriate actions are proposed to be implemented where required to address each of the findings.

2. Internal Financial Controls

During the audit, the Auditor examined the design and implementation of the internal controls surrounding the accounting and financial control systems. The matters that relate to internal control have been identified and discussed in the matters identified in section 1 of the aforementioned Management Report (none identified).

3. Audit Adjustments

Following the presentation of the Draft 2014/2015 Financial Report to the Auditor, officers actioned the following amendments that needed to be made:

- Adjustment for the current and non-current annual leave and long service leave provision. The schedule had been updated and the provision calculated and the timing of processing the journal occurred post on-site audit.
- Adjustment for the provision for doubtful rates debtors. The increase represented an immaterial value however, as officers are now basing the calculation of the provision on actual rates debts, rather than an arbitrary percentage, the journal was processed post on-site audit after due consideration was made to the list of outstanding rates debtors.
- Adjustment for the revaluation of infrastructure and furniture and fittings. The delay of receipt of the final, signed valuation report from AARB resulted in the journal being processed post on-site audit to recognise the change in valuation.

These adjustments have no material affect on the Shire of Broome's financial situation.

4. Other Matters

There were no identified matters of fraud to report and there were no disagreements with management about significant accounting matters.

2014/2015 Operating Result

The year end operating surplus result for 2014/2015 occurred through a number of factors. This included initiating a number of management directives and reviews to realise organisational savings across the Shire. These include unspent materials and contracts across operating and capital activities/projects, leased staff housing and other expenses of \$413K. Savings in utilities of \$346K include anticipated increases in electricity utilities

Chairperson Date.....

which did not occur as previously estimated and implementation of public open space strategies to reduce water usage. The organisational restructure and subsequent freeze on recruitment for the rest of the financial year resulted in additional savings of \$248K. Interim rates have sourced additional rates revenue of \$448K as developments have finalised, plus a review of non-rateable properties in the Shire's database has resulted in additional \$162K of back rates being raised for properties such as telecommunication towers, exempt properties with an expired exempt land use and new parcels not previously advised from Landgate.

However, these savings were offset by a number of shortfalls in some areas. These include user charges from fees and charges revenue including BRAC Ovals due to North West Expo being relocated and overall BRAC visitor usage being down, Civic Centre venue user charges, rent concession for the Magabala Books tenancy as granted by Council, subdivision engineering supervision charges, and sanitation general refuse. Statutory and regulatory fees, licences and fines revenue was down \$62,000.

The year end result was also impacted by the recognition of the revaluation of the Shire's infrastructure and furniture and fittings assets at fair value in accordance with regulation 17A of the *Local Government (Financial Management) Regulations 1996*. This is the third and final stage of fair value revaluations with the cycle recommencing in the 2015/2016 financial year for the recognition of plant and equipment assets to be recognised at fair value.

The financial year ended 30 June 2015 resulted in the following carried forward operating surplus:

\$2,305,519	2015/2016 Budgeted brought forward operating surplus
<u>\$1,133,125</u>	2014/2015 Net Actual operating surplus
\$3,438,644	Total 2015/2016 Carried forward operating surplus

The 2015/2016 Annual Budget that was adopted at the Special Meeting of Council (SMC) held 13 August 2015, adopted an estimated brought forward operating surplus of \$2,305,519. This was comprised of the following projects estimated to be carried forward for inclusion in the 2015/2016 Annual Budget:

Project/Activity Description	Allocation
Sanctuary Caravan Park Op Exp - Tourism & Area Promotion	10,000
Project - Heritage Style Guide - Op Exp - Other Culture	30,000
Youth Development Program ((Net Grant Funding of \$15K)	10,000
Consultant – Trails Master Plan (Net Grant Funding of \$25K)	15,000
BRAC Building Renewal – Dry – Hard Court (Net Grant Funding of \$47,626)	47,874
Cable Beach Road East (south side) – At TAFE in existing Bus Bay	16,900
Amphitheatre Project Outlet Structure Renewal (Stage 1 & 2) Muni Funded	20,000
Rates Review	13,000
BRAC Website Development	12,000
Intranet Upgrade	95,000
Payroll System Upgrade	66,000
Town Beach Boat Ramp	8,500

Chairperson Date.....

Catalyse Research and Strategy	27,900
Lorrikeet Drive Extension	23,000
Archer Street Design	15,000
Infrastructure Fair Value	68,500
Morgan Road upgrade – final invoices	19,500
St John Ambulance – repairs from 14/15	17,000
Vehicle Renewal – Water truck – Hino	180,000
Vehicle Renewal – D-MAX Tilt Tray	12,066
Vehicle Renewal - - Squirrel	70,000
Prepaid 15/16 Financial Assistance Grants and Roads Grants	1,486,197
Unallocated Estimated Surplus	42,082
TOTAL	\$2,305,519

The unallocated balance of \$42,082 represents a provision for the estimated operating surplus pending end of year adjustments and audit were finalised after the adoption of the budget. The total carried forward operating surplus is \$3,438,644, resulting in an actual unallocated net operating surplus of \$1,175,207.

This report contains recommendations for Council's consideration of the allocation of the \$1,175,207 net actual operating surplus. It is proposed for this to be fully allocated against significant initiatives in the 2015/2016 Adopted Annual Budget identified to require loan funding by transferring the funds to the respective Reserve account.

The initiatives identified include:

Project/Activity Description	15/16 Total Expenditure	15/16 Loan Funding	Proposed Allocation
Chinatown Revitalisation - Cap Exp GL Code 1367402	11,700,000	1,700,000	388,000
Economic Development - KRO3 Building Upgrade GL Code 1482446	4,280,000	2,880,000	670,000
Plant & Equip Renewal/Replacement - Cap Exp - BRAC – Aquatic GL Code 117132	3,320,000	496,722	117,207
TOTAL	\$19,300,000	\$5,076,722	\$1,175,207

CONSULTATION

Nil

STATUTORY ENVIRONMENT

Local Government Act 1995

6.4. *Financial report*

- (1) *A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed.*
- (2) *The financial report is to —*

Chairperson Date.....

- (a) be prepared and presented in the manner and form prescribed; and
- (b) contain the prescribed information.
- (3) By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor —
 - (a) the accounts of the local government, balanced up to the last day of the preceding financial year; and
 - (b) the annual financial report of the local government for the preceding financial year.

7.9. Audit to be conducted

- (1) An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to —
 - (a) the mayor or president; and
 - (b) the CEO of the local government; and
 - (c) the Minister.
- (2) Without limiting the generality of subsection (1), where the auditor considers that —
 - (a) there is any error or deficiency in an account or financial report submitted for audit; or
 - (b) any money paid from, or due to, any fund or account of a local government has been or may have been misapplied to purposes not authorised by law; or
 - (c) there is a matter arising from the examination of the accounts and annual financial report that needs to be addressed by the local government, details of that error, deficiency, misapplication or matter, are to be included in the report by the auditor.
- (3) The Minister may direct the auditor of a local government to examine a particular aspect of the accounts and the annual financial report submitted for audit by that local government and to —
 - (a) prepare a report thereon; and
 - (b) forward a copy of that report to the Minister, and that direction has effect according to its terms.
- (4) If the Minister considers it appropriate to do so, the Minister is to forward a copy of the report referred to in subsection (3), or part of that report, to the CEO of the local government to be dealt with under section 7.12A.

7.12A. Duties of local government with respect to audits

- (1) A local government is to do everything in its power to —
 - (a) assist the auditor of the local government to conduct an audit and carry out his or her other duties under this Act in respect of the local government; and
 - (b) ensure that audits are conducted successfully and expeditiously.
- (2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.
- (3) A local government is to examine the report of the auditor prepared under section 7.9(1), and any report prepared under section 7.9(3) forwarded to it, and is to —
 - (a) determine if any matters raised by the report, or reports, require action to be taken by the local government; and
 - (b) ensure that appropriate action is taken in respect of those matters.

- (4) A local government is to —
 - (a) prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
 - (b) forward a copy of that report to the Minister, by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.

5.54. Acceptance of annual reports

- (1) Subject to subsection (2), the annual report for a financial year is to be accepted* by the local government no later than 31 December after that financial year.

* Absolute majority required.

- (2) If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.

POLICY IMPLICATIONS

2.1.1 - Materiality in Financial Reporting

2.1.4 - Significant Accounting Policies

FINANCIAL IMPLICATIONS

The proposed allocation of the surplus is based on the principle of reducing Council's borrowings. The \$1,175,207 unallocated 2014/2015 operating surplus is to be transferred to the respective reserve account to offset any significant loan funded initiatives budgeted for the 2015/2016 financial year.

In terms of materiality, the unallocated surplus amount represents a variance of 3% compared to budgeted operating revenue for 2014/2015 of \$36,801,700 (excluding grants and contributions for assets and profit on sale of assets). This is 2% over the adopted threshold of 1% (\$368,017) as per policy 2.1.1 Materiality in Financial Reporting.

RISK

The audited Annual Financial Report is a key control measure used to report to Council and its stakeholders to provide assurance that all systems, processes and controls have been established by the CEO to minimise the risk of any material misstatement or loss caused by fraud or error. The audit findings indicate areas requiring improvement and management have implemented measures to review processes. The report measures Council's financial capacity to achieve its adopted strategic and operational objectives. A material variance indicates areas requiring investigation such as budget estimation/formulation, workforce management and Council's overall resource capacity to achieve its strategic objectives.

The recommendation by the Audit Committee to Council for the adoption of the Annual Financial Report, Audit and Management Report and CEO's report is a key statutory compliance matter. Should this not be recommended for adoption, this will cause a delay in Council's adoption of the 2014/2015 Annual Report to be presented at the October Ordinary Meeting of Council (OMC), which will flow on to delaying the Annual Electors Meeting (AEM). This poses a high risk due to the possible likelihood of occurring and the impact of a significant delay to major deliverables.

Chairperson Date.....

In regards to the proposed allocation of the 2014/2015 surplus, should the Audit Committee make alternative recommendations, the long term financial impacts of such should be analysed to ensure there are no adverse impacts to Council's future financial sustainability and should be in line with the adopted LTFP. Surplus funds are not recommended to be committed to ongoing operational programs and activities which will further reduce Council's future ability to maintain optimal operating surpluses to fund capital renewal priorities as per the LTFP. This risk is assessed as extreme where the financial impact is greater than \$150,000 and the likelihood of this occurring is possible. To mitigate these risks, the report recommendations are required to be adopted.

STRATEGIC IMPLICATIONS

Our People Goal – Foster a community environment that is accessible, affordable, inclusive, healthy and safe:

Encourage communication.

Identify affordable services and initiatives to satisfy community needs.

Our Prosperity Goal – Create the means to enable local jobs creation and lifestyle affordability for the current and future population:

Encourage the provision of affordable land for residential, industrial, commercial and community use.

Our Organisation Goal – Continually enhance the Shire's organisational capacity to service the needs of a growing community:

Develop an organisational culture that strives for service excellence.

Review and analyse strategic and operational plans.

Manage resource allocation.

Manage staff attraction and retention.

Improve systems, processes and compliance.

VOTING REQUIREMENTS

Absolute Majority

REPORT RECOMMENDATION:

That Council on recommendation from the Audit Committee:

1. *Receives the Chief Executive Officer's report relating to the audit.*
2. *Receives the Audit Report and Audit Management Report dated 5 October 2015.*
3. *Adopts the Annual Financial Report for the year ended 30 June 2015.*
4. *Allocates the net operating surplus from the 2014/2015 financial year to the following initiatives:*

Chairperson Date.....

Project/Activity Description	GL Code	Allocation
Chinatown Revitalisation - Cap Exp GL Code 1367402	1367403 - Transfer to Road Reserve - Cap Exp - Other Economic Services	\$388,000
Economic Development - KRO3 Building Upgrade GL Code 1482446	147950 - Transfer to Building Reserve - Cap Exp - Office Properties Leased	\$670,000
Plant & Equip Renewal/Replacement - Cap Exp - BRAC – Aquatic GL Code 117132	117131 - Transfer to Building Reserve - Cap Exp - BRAC Aquatic	\$117,207
TOTAL		\$1,175,207

(ABSOLUTE MAJORITY REQUIRED)

COMMITTEE RESOLUTION:
Moved: Cr G Campbell **Seconded: Cr H Tracey**
That Standing Orders be suspended at 3:45PM

CARRIED UNANIMOUSLY 2/0

COMMITTEE RESOLUTION:
Moved: Cr G Campbell **Seconded: Cr H Tracey**
That Standing Orders be reinstated at 3:53PM

CARRIED UNANIMOUSLY 2/0

COMMITTEE RESOLUTION:
Moved: Cr G Campbell **Seconded: Cr H Tracey**
That Council on recommendation from the Audit Committee:

1. **Receives the Chief Executive Officer’s report relating to the audit.**
2. **Receives the Audit Report and Audit Management Report dated 5 October 2015.**
3. **Adopts the Annual Financial Report for the year ended 30 June 2015 subject to the amendments relating to the separate disclosure of infrastructure revaluation increments and decrements for each asset class as identified by the Department of Local Government and Communities, to be reflected in the 2015/2016 Annual Financial Report for the 2014/2015 comparative figures.**
4. **Allocates the net operating surplus from the 2014/2015 financial year to the following initiatives:**

Project/Activity Description	GL Code	Allocation
Chinatown Revitalisation - Cap Exp GL Code 1367402	1367403 - Transfer to Road Reserve - Cap Exp - Other Economic Services	\$388,000
Economic Development - KRO3 Building Upgrade GL Code 1482446	147950 - Transfer to Building Reserve - Cap Exp - Office Properties Leased	\$670,000

Plant & Equip Renewal/Replacement - Cap Exp - BRAC – Aquatic GL Code 117132	117131 - Transfer to Building Reserve - Cap Exp - BRAC Aquatic	\$117,207
TOTAL		\$1,175,207

5. Requests the Chief Executive Officer to provide a report to then next Audit Committee meeting on property rates assessments that are outstanding for over 2 years.

CARRIED UNANIMOUSLY BY ABSOLUTE MAJORITY 2/0

Reason:

A letter from the Department of Local Government and Communities dated 9 October 2015 which was received via email on 13 October 2015, as advised by the Shire of Broome’s auditor RSM Bird Cameron, was tabled at the meeting which identified a matter regarding the disclosure of the fair value revaluation increments and decrements which is required to be disclosed separately for each asset class in accordance with Australian Accounting Standard 116 Property, Plant and Equipment. As the 2014/2015 report had already been audited, further advice from the Department confirmed that the amendments were required to be disclosed in the 2014/2015 comparative year within next year’s 2015/2016 Annual Financial Report.

To inform Council of the outstanding property rates assessments as part of Council’s adopted policy 2.1.3 Rates Debt Recovery.

Attachments

1. Annual Financial Report 2014/2015
2. Audit Management Letter 2014/2015

6. MOTIONS WITHOUT NOTICE

Nil

7. MATTERS BEHIND CLOSED DOORS

Nil

8. MEETING CLOSURE

There being no further business the Chairman declared the meeting closed at 3:59PM.