

Reference: AF11/863

TO: JEROEN ZWIJNENBURG (PRESIDING MEMBER)  
VANESSA McDONALD  
CR SONYA MEZINEC  
MAYOR LEE (EX OFFICIO)  
CHIEF EXECUTIVE OFFICER  
DIRECTOR - CORPORATE SERVICES  
FINANCE MANAGER  
MANAGEMENT ACCOUNTANT  
TIM MUHLHAUSLER, PARTNER, GALPINS  
SIMON SMITH, PARTNER, GALPINS

CC: ALL MEMBERS  
DIRECTOR - OPERATIONAL SERVICES  
MANAGER - GOVERNANCE AND PROPERTY  
MANAGER, PEOPLE CULTURE AND SAFETY  
TEAM LEADER FINANCE

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NOTICE is given that the Audit Committee will meet in the Civic Centre, Committee Room, Level 4 on Tuesday, 6<sup>th</sup> December, 2016 at 5.30 p.m.

An agenda for the meeting is enclosed herewith.



**Grant HUMPHRIES**  
DIRECTOR - CORPORATE SERVICES

23<sup>rd</sup> November, 2016  
MJT

## CONFLICT OF INTEREST DISCLOSURE FORM

I \_\_\_\_\_,  
(insert name)

have received a copy of the agenda for the ☐ **ordinary** ☐ **special** meeting of the

\_\_\_\_\_ ☐ Council ☐ Committee ☐ Board  
(insert full name of Committee/Sub-Committee/Board)

to be held on: \_\_\_\_\_  
(insert date of meeting)

### CONFLICT OF INTEREST DISCLOSURE

I consider that I have a:

☐ **material** conflict of interest pursuant to section 73 (complete and sign below)

☐ **actual** or ☐ **perceived** conflict of interest pursuant to section 74 (complete and sign overleaf)

of the *Local Government Act 1999* ("the LG Act") in relation to the following agenda item:

\_\_\_\_\_  
(insert details - include Agenda Item No, Report Number, Item/Report Subject Title)

which is to be discussed at that meeting.

## MATERIAL

The nature of my **material** conflict of interest is as follows *[ensure sufficient detail is recorded, including the reasons why you (or a person prescribed in section 73(1) of the LG Act) stands to obtain a benefit or suffer a loss depending on the outcome of the consideration of the matter at the meeting of the Council in relation to the agenda item described above].*

In accordance with section 74(1)(b) I will be leaving the meeting room while the matter is being discussed and voted on.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

In accordance with section 75A(2)(b) I propose ☐ to ☐ not to participate in the meeting in relation to the matter.

## ACTUAL

The nature of my **actual** conflict of interest is as follows *[ensure sufficient detail is recorded, including the reasons why the conflict between your interests and the public interests might lead to a decision that is contrary to the public interest in relation to the agenda item described above].*

Where I have proposed to participate in the meeting I intend to deal with my **actual** conflict of interest in the following transparent and accountable way *[ensure sufficient detail is recorded as to the manner in which you intend to deal with the actual conflict of interest in a transparent and accountable way].*

OR

## PERCEIVED

The nature of the **perceived** conflict of interest is as follows *[ensure sufficient detail is recorded, including the reasons why you consider that an impartial fair-minded person could reasonably consider that you have a perceived conflict of interest in the matter].*

Where I have proposed to participate I intend to deal with the **perceived** conflict of interest in the following transparent and accountable way *[ensure sufficient detail is recorded as to the manner in which you intend to deal with the perceived conflict of interest in a transparent and accountable way].*

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

## AUDIT COMMITTEE

Meeting to be held on Tuesday, 6<sup>th</sup> December, 2016 at 5.30 p.m.  
in the Committee Room, Civic Centre, 10 Watson Terrace, Mount Gambier

### AGENDA

PRESENT: Mr Jeroen Zwijnenburg (Presiding Member)  
Miss Vanessa McDonald  
Cr Sonya Meziniec

APOLOGY/IES: moved that the apology from  
be received.  
seconded

COUNCIL MEMBERS/  
OTHERS AS  
OBSERVERS:

GUESTS:

COUNCIL EMPLOYEES  
IN ATTENDANCE: Mr Grant Humphries, Director - Corporate Services  
Mr Gary Button, Finance Manager  
Ms Kahli Rolton, Management Accountant

OTHER APOLOGIES: Mr Mark McShane, Chief Executive Officer

**WE ACKNOWLEDGE THE BOANDIK PEOPLES AS THE TRADITIONAL CUSTODIANS OF THE LAND WHERE WE MEET TODAY. WE RESPECT THEIR SPIRITUAL RELATIONSHIP WITH THE LAND AND RECOGNISE THE DEEP FEELINGS OF ATTACHMENT OUR INDIGENOUS PEOPLES HAVE WITH THIS LAND.**

MINUTES: moved the minutes of the previous meeting held  
on Tuesday, 4<sup>th</sup> October, 2016 be taken as read and confirmed.  
seconded

### QUESTIONS:

- (a) With Notice – Nil received
- (b) Without Notice –

#### **1. ANNUAL FINANCIAL STATEMENTS 2015/2016 - Correction - Ref. AF16/322**

The Director - Corporate Services reported that:

- (a) reference is made to the attached memo setting out a correction that is required to be made to the recently adopted Annual Financial Statements (AFS) for 2015/2016;
- (b) reference is also made to the letter from Council's Auditor advising that they support the proposed correction and the process required to formalize the correction;
- (c) the following recommendations repeat the October Audit Committee resolutions but with the aforementioned correction.

**RECOMMENDATION NO. 1**

moved it be recommended:

- (a) the report be received;
- (b) In accordance with Section 126(4)(a) of the Local Government Act 1999 the Audit Committee advises that it has reviewed the annual financial statements (corrected) of the Council for the year ended 30 June 2016 and is satisfied they present fairly the state of affairs of Council;
- (c) The Chief Executive Officer and Presiding Member of the City of Mount Gambier Audit Committee sign the statement to certify the independence of the Council Auditor, Galpins.

seconded

**2. EXTERNAL AUDITOR – END OF YEAR REPORT - Ref. AF12/227**

The Director - Corporate Services reported:

- (a) following the recent annual end of year (or statutory) audit, Council has now received the subsequent Audit Management letter;

**RECOMMENDATION NO. 2**

moved it be recommended

- (a) the letter be received and contents noted;
- (b) the Audit findings and recommendations be referred to the Council administration for attention and to the Audit Committee for ongoing monitoring;
- (c) Councils External Auditor be advised of this course of action.

seconded

**3. FINANCIAL INTERNAL CONTROLS - Internal Audit Program - Ref. AF16/164**

The Director - Corporate Services reported:

- (a) As reported previously Council has commenced its Financial Internal Controls Program with regular periodic reports (as attached);
- (b) You will note that from the following Controls being reviewed there are a number of recommendations/improvements that will be actioned and monitored through the MET meeting process;
  - Control 16 Rates/Rates Rebates

**RECOMMENDATION NO. 3**

moved it be recommended:

- (a) the report be received;

Audit Committee Agenda, Tuesday 6<sup>th</sup> December, 2016 cont'd...

- (b) Financial Internal Controls Report (Control 16) be endorsed by Council;  
seconded

4. **NEXT MEETINGS** (all dates tentative)

- Tuesday, 7<sup>th</sup> March, 2017
- Tuesday, 30<sup>th</sup> May, 2017
- Tuesday, 22<sup>nd</sup> August, 2017
- Tuesday, 10<sup>th</sup> October, 2017

The meeting closed at \_\_\_\_\_ p.m.

23<sup>rd</sup> November, 2016  
MJT

## Memorandum

TO: CEO  
DIRECTOR – CORPORATE SERVICES

CC: FINANCE MANAGER  
TEAM LEADER - FINANCE

REF: AF16/322

RE: ANNUAL FINANCIAL STATEMENTS 2015/2016

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During the completion of the Grants Commission 'Local Government Financial Statements & Supplementary Return' an error was identified with the classification of income received from Council's grant funding in 2015/2016. Operating grants were categorised as capital during the course of the financial year.

The incorrect coding resulted in an overstatement of our operating deficit but has no impact on Council's net result. There is no material misstatement by Council, but due to the timing of this information it is appropriate to correct this error now rather than to wait until next financial year to restate the 2016 result.

A review has been completed of all Grants, subsidies and contributions received last financial year, and as a result our operating deficit is now (\$550k) and our operating surplus ratio improves to (2.0%). Adjusting for the distortion due to the Federal Government cessation of the forward payments of the financial assistance grants, the ratio increases to 3.0%.

Our financial Statements have been re-stated to show to the correct financial position as at 30 June 2016, with the following schedules impacted by the changes:-

- Statement of Comprehensive Income
- Statement of Cash Flows
- Note 2 – Income
- Note 10 – Reconciliation to Cash Flow Statement
- Note 11 – Functions
- Note 13 – Financial Indicators
- Note 14 – Uniform Presentation of Finances

This information has been reviewed by our auditors (Galpins Accountants, Auditors & Business Consultants) and they have accepted the adjusted result. Their advice is that due to the immaterial nature of the impact on our financial statements this would not need to be formally reported via the Audit Committee and then to Council, providing:-

- Audit Committee members are advised of the corrections, and
- Agree that there is no material misstatement as a result of this error

To finalise the corrections to our Financial Statements fresh Certificates will need to be signed by the Mayor, CEO, and Presiding Member of the Audit Committee. Once signed, Galpins will prepare a fresh Auditors report and this process will then conclude.

## Memorandum

Due to the timing of this information, the data provided to the Grants Commission will reflect the correct position of Council and will not compromise any financial comparisons to other South Australian Councils.

I will therefore now proceed to correct / finalise this matter as per the advice of Council's external Auditor.

Please contact the undersigned if further information / clarification is required.



**Gary BUTTON**  
FINANCE MANAGER

21<sup>st</sup> November, 2016  
AL

Attachments:

1. Statement of Comprehensive Income
2. Statement of Cash Flows
3. Note 2 – Income
4. Note 10 – Reconciliation to Cash Flow Statement
5. Note 11 – Functions
6. Note 13 – Financial Indicators
7. Note 14 – Uniform Presentation of Finances



# CITY OF MOUNT GAMBIER

## STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 June 2016

	Notes	2016 \$'000	2015 \$'000
<b>INCOME</b>			
Rates	2	18,327	17,641
Statutory charges	2	340	417
User charges	2	3,806	3,706
Grants, subsidies and contributions	2	2,250	3,604
Investment income	2	32	29
Reimbursements	2	274	350
Other income	2	382	363
<b>Total Income</b>		<u>25,411</u>	<u>26,110</u>
<b>EXPENSES</b>			
Employee costs	3	10,066	9,197
Materials, contracts & other expenses	3	8,955	8,920
Depreciation, amortisation & impairment	3	6,704	6,649
Finance costs	3	236	299
<b>Total Expenses</b>		<u>25,961</u>	<u>25,065</u>
<b>OPERATING SURPLUS / (DEFICIT)</b>		<b>(550)</b>	1,045
Asset disposal & fair value adjustments	4	(124)	58
Amounts received specifically for new or upgraded assets	2	585	796
Physical resources received free of charge	2	604	-
<b>NET SURPLUS / (DEFICIT)</b>		<u>515</u>	<u>1,899</u>
transferred to Equity Statement			
<b>Other Comprehensive Income</b>			
<i>Amounts which will not be reclassified subsequently to operating result</i>			
Changes in revaluation surplus - infrastructure, property, plant & equipment	9	3,932	33,460
<b>Total Other Comprehensive Income</b>		<u>3,932</u>	<u>33,460</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<u>4,447</u>	<u>35,359</u>

This Statement is to be read in conjunction with the attached Notes.

# CITY OF MOUNT GAMBIER

## STATEMENT OF CASH FLOWS

for the year ended 30 June 2016

	2016	2015
	Notes	
	\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<u>Receipts</u>		
Rates - general & other	18,345	17,591
Fees & other charges	367	417
User charges	4,298	3,562
Investment receipts	33	28
Grants utilised for operating purposes	2,419	3,604
Reimbursements	301	350
Other revenues	1,569	415
<u>Payments</u>		
Employee costs	(9,778)	(8,762)
Materials, contracts & other expenses	(10,766)	(9,518)
Finance payments	(237)	(339)
<b>Net Cash provided by (or used in) Operating Activities</b>	<b>6,551</b>	<b>7,348</b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<u>Receipts</u>		
Amounts specifically for new or upgraded assets	585	796
Sale of replaced assets	368	299
Sale of surplus assets	-	612
Repayments of loans by community groups	46	60
<u>Payments</u>		
Expenditure on renewal/replacement of assets	(4,579)	(5,156)
Expenditure on new/upgraded assets	(2,154)	(4,091)
<b>Net Cash provided by (or used in) Investing Activities</b>	<b>(5,734)</b>	<b>(7,480)</b>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<u>Receipts</u>		
Proceeds from borrowings	-	-
<u>Payments</u>		
Repayments of borrowings	(839)	(72)
Repayment of finance lease liabilities	-	-
<b>Net Cash provided by (or used in) Financing Activities</b>	<b>(839)</b>	<b>(72)</b>
<b>Net Increase (Decrease) in cash held</b>	<b>(22)</b>	<b>(204)</b>
 Cash & cash equivalents at beginning of period	10 <b>969</b>	1,173
<b>Cash &amp; cash equivalents at end of period</b>	10 <b>947</b>	969

This Statement is to be read in conjunction with the attached Notes

# CITY OF MOUNT GAMBIER

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2016

### Note 2 - INCOME

	Notes	2016 \$'000	2015 \$'000
<b>RATES REVENUES</b>			
<u>General Rates</u>		17,856	17,183
Less: Mandatory rebates		-	-
Less: Discretionary rebates, remissions & write offs		(178)	(166)
		<u>17,678</u>	<u>17,017</u>
<u>Other Rates</u> (including service charges)			
Natural Resource Management levy		579	559
		<u>579</u>	<u>559</u>
<u>Other Charges</u>			
Penalties for late payment		70	65
		<u>70</u>	<u>65</u>
		<u>18,327</u>	<u>17,641</u>
<b>STATUTORY CHARGES</b>			
Development Act fees		80	114
Town planning fees		98	112
Animal registration fees & fines		121	123
Parking fines / expiation fees		31	50
Other licences, fees, & fines		10	18
		<u>340</u>	<u>417</u>
<b>USER CHARGES</b>			
Cemetery/crematoria fees		770	789
Green Waste Collection		431	410
Landfill Charges		1,430	1,319
Hall & equipment hire		344	319
Recycling		124	118
Sales - General		374	391
Bus Ticketing		290	320
Sundry		43	40
		<u>3,806</u>	<u>3,706</u>
<b>INVESTMENT INCOME</b>			
Interest on investments			
Local Government Finance Authority		29	27
Banks & other		2	1
Loans to community groups		1	1
		<u>32</u>	<u>29</u>

# CITY OF MOUNT GAMBIER

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2016

### NOTE 2 - INCOME (continued)

	Notes	2016 \$'000	2015 \$'000
<b>REIMBURSEMENTS</b>			
- for roadworks		16	35
- for private works		86	102
- other		172	213
		<u>274</u>	<u>350</u>
<b>OTHER INCOME</b>			
Insurance & other recoupments - infrastructure, property, plant & equipment		241	235
Donations		25	42
Sundry		116	86
		<u>382</u>	<u>363</u>
<b>GRANTS, SUBSIDIES, CONTRIBUTIONS</b>			
Amounts received specifically for new or upgraded assets		585	796
Other grants, subsidies and contributions			
Untied - Financial Assistance Grant	1,261		3,078
Roads to Recovery	806		280
Library & Communications	174		75
Sundry	9		171
		<u>2,250</u>	<u>3,604</u>
		<u>2,835</u>	<u>4,400</u>
<i>The functions to which these grants relate are shown in Note 11.</i>			
<b>Sources of grants</b>			
Commonwealth government		806	280
State government		2,024	4,120
Other		5	0
		<u>2,835</u>	<u>4,400</u>

# CITY OF MOUNT GAMBIER

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2016

### NOTE 2 - INCOME (continued)

	2016 \$'000	2015 \$'000
Notes		
<b>Conditions over grants &amp; contributions</b>		
<i>Grants and contributions which were obtained on the condition that they be expended for specified purposes or in a future period, but which are not yet expended in accordance with those conditions, are as follows:</i>		
Unexpended at the close of the previous reporting period	100	-
Less: expended during the current period from revenues recognised in previous reporting periods		
Railway Lands Artwork	(100)	-
Subtotal	(100)	
Plus: amounts recognised as revenues in this reporting period but not yet expended in accordance with the conditions		
Railway Lands Artwork	-	100
Subtotal		100
Unexpended at the close of this reporting period	<u>-</u>	<u>100</u>
Net increase (decrease) in assets subject to conditions in the current reporting period	<u>(100)</u>	<u>100</u>
 <b>PHYSICAL RESOURCES RECEIVED FREE OF CHARGE</b>		
Land & Improvements	81	-
Roads, Bridges & Footpaths	523	-
<b>TOTAL PHYSICAL RESOURCES RECEIVED</b>	<u>604</u>	<u>-</u>

# CITY OF MOUNT GAMBIER

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2016

### Note 10 - RECONCILIATION TO CASH FLOW STATEMENT

#### (a) Reconciliation of Cash

Cash Assets comprise highly liquid investments with short periods to maturity subject to insignificant risk of changes of value. Cash at the end of the reporting period as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	Notes	2016 \$'000	2015 \$'000
Total cash & equivalent assets	5	991	969
Less: Short-term borrowings	8	(44)	-
Balances per Cash Flow Statement		<u>947</u>	<u>969</u>

#### (b) Reconciliation of Change in Net Assets to Cash from Operating Activities

Net Surplus (Deficit)		515	1,899
Non-cash items in Income Statement			
Depreciation, amortisation & impairment		6,704	6,649
Net increase (decrease) in unpaid employee benefits		288	435
Change in allowances for under-recovery		-	20
Non-cash asset acquisitions		(604)	-
Grants for capital acquisitions treated as Investing Activity		(585)	(796)
Net (Gain) Loss on Disposals		124	(58)
		<u>6,442</u>	<u>8,149</u>
Add (Less): Changes in Net Current Assets			
Net (increase) decrease in receivables		404	(470)
Net (increase) decrease in inventories		1	(3)
Net increase (decrease) in trade & other payables		(296)	(328)
<b>Net Cash provided by (or used in) operations</b>		<u>6,551</u>	<u>7,348</u>

#### (c) Non-Cash Financing and Investing Activities

Acquisition of assets by means of:

- Physical resources received free of charge

2	604	-
	<u>604</u>	<u>-</u>

#### (d) Financing Arrangements

Unrestricted access was available at balance date to the following lines of credit:

Bank Overdrafts	250	250
Corporate Credit Cards	21	21
LGFA Cash Advance Debenture facility	10,000	12,000

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice.

# CITY OF MOUNT GAMBIER

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2016

### Note 11 - FUNCTIONS

INCOMES, EXPENSES AND ASSETS HAVE BEEN DIRECTLY ATTRIBUTED TO THE FOLLOWING FUNCTIONS & ACTIVITIES									
INCOME		EXPENSES		OPERATING SURPLUS (DEFICIT)		GRANTS INCLUDED IN INCOME		TOTAL ASSETS HELD (CURRENT & NON-CURRENT)	
ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	2016	2015	2016	2015
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
19,492	20,967	5,347	5,143	14,145	15,824	1,261	3,911	18,934	18,345
117	946	2,207	2,221	(2,090)	(1,275)	10	34	9,467	10,430
555	446	2,898	2,994	(2,343)	(2,548)	278	175	42,602	44,258
365	406	1,625	1,622	(1,260)	(1,216)	-	-	4,734	4,024
2,318	2,053	3,740	4,145	(1,422)	(2,092)	-	-	11,834	11,229
116	112	2,586	2,603	(2,470)	(2,491)	300	-	40,235	42,616
398	426	1,157	1,195	(759)	(769)	-	-	-	-
1,646	315	3,247	2,754	(1,601)	(2,439)	981	280	92,305	87,286
-	-	2,331	1,431	(2,331)	(1,431)	-	-	7,100	7,146
404	439	823	957	(419)	(518)	-	-	9,467	7,700
25,411	26,110	25,961	25,065	(550)	1,045	2,830	4,400	236,678	233,034
TOTALS									

Revenues and expenses exclude net gain (loss) on disposal or revaluation of assets, net gain (loss) from joint ventures & associated entities, amounts received specifically for new or upgraded assets and physical resources received free of charge.

# CITY OF MOUNT GAMBIER

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2016

### Note 13 - FINANCIAL INDICATORS

2016                      2015                      2014

These Financial Indicators have been calculated in accordance with *Information Paper 9 - Local Government Financial Indicators* prepared as part of the LGA Financial Sustainability Program for the Local Government Association of South Australia. Detailed methods of calculation are set out in the SA Model Statements.

The Information Paper was revised in May 2015 and the financial indicators for previous years have been re-calculated in accordance with the revised formulas.

#### Operating Surplus Ratio

<u>Operating Surplus</u>	(2.0%)	4.0%	(3.0%)
Total Operating Revenue			

*This ratio expresses the operating surplus as a percentage of total operating revenue.*

#### Adjusted Operating Surplus Ratio

3%                      (1%)                      3%

*In recent years the Federal Government has made advance payments prior to 30th June from future year allocations of financial assistance grants, as explained in Note 1. The **Adjusted Operating Surplus Ratio** adjusts for the resulting distortion in the disclosed operating result for each year.*

#### Net Financial Liabilities Ratio

<u>Net Financial Liabilities</u>	25%	26%	31%
Total Operating Revenue			

*Net Financial Liabilities are defined as total liabilities less financial assets. These are expressed as a percentage of total operating revenue.*

#### Asset Sustainability Ratio

<u>Net Asset Renewals</u>	57%	53%	107%
Infrastructure & Asset Management Plan required expenditure			

*Net asset renewals expenditure is defined as net capital expenditure on the renewal and replacement of existing assets, and excludes new capital expenditure on the acquisition of additional assets.*



# CITY OF MOUNT GAMBIER

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2016

### Note 14 - UNIFORM PRESENTATION OF FINANCES

The following is a high level summary of both operating and capital investment activities of the Council prepared on a simplified Uniform Presentation Framework basis.

All Councils in South Australia have agreed to summarise annual budgets and long-term financial plans on the same basis.

The arrangements ensure that all Councils provide a common 'core' of financial information, which enables meaningful comparisons of each Council's finances

	2016 \$'000	2015 \$'000
Income	25,411	26,110
less Expenses	25,961	25,065
<b>Operating Surplus / (Deficit)</b>	<b>(550)</b>	<b>1,045</b>
<b>less Net Outlays on Existing Assets</b>		
Capital Expenditure on renewal and replacement of Existing Assets	4,579	5,156
Depreciation, Amortisation and Impairment	(6,704)	(6,649)
Proceeds from Sale of Replaced Assets	(368)	(299)
	<b>(2,493)</b>	<b>(1,792)</b>
<b>less Net Outlays on New and Upgraded Assets</b>		
Capital Expenditure on New and Upgraded Assets (including investment property & real estate developments)	2,154	4,091
Amounts received specifically for New and Upgraded Assets	(585)	(796)
Proceeds from Sale of Surplus Assets (including investment property and real estate developments)	-	(612)
	<b>1,569</b>	<b>2,683</b>
<b>Net Lending / (Borrowing) for Financial Year</b>	<b>374</b>	<b>154</b>



Accountants, Auditors  
& Business Consultants

David Chant FCPA

Simon Smith FCPA

David Sullivan CPA

Jason Seidel CA

Renae Nicholson CA

Tim Muhlhausler CA

Aaron Coonan CA

Luke Williams CPA

Mr Mark McShane  
Chief Executive Officer  
City of Mount Gambier  
PO Box 56  
Mount Gambier SA 5290

Dear Mr McShane,

**Re: City of Mount Gambier – Financial Statement Audit 2015-16**

We have recently completed our audit of the financial statements of the City of Mount Gambier and intend to issue an unmodified audit report.

We have enclosed our final management letter which provides a summary of the audit and our findings along with recommended actions and management responses.

Australian Auditing Standards require us to advise that no Immaterial Uncorrected Misstatements were identified during the audit.

Yours faithfully,

**GALPINS ACCOUNTANTS, AUDITORS & BUSINESS CONSULTANTS**

**Simon Smith** FCPA, Registered Company Auditor  
Partner

14 / 10 / 2016

**Mount Gambier**

233 Commercial Street West  
PO Box 246, Mount Gambier SA 5290  
DX 29044

p 08 8725 3068

f 08 8724 9553

e admin@galpins.com.au

**Stirling**

Unit 4/3-5 Mount Barker Road  
PO Box 727, Stirling SA 5152

p 08 8339 1255

f 08 8339 1266

e stirling@galpins.com.au

**Norwood**

3 Kensington Road  
PO Box 4067, Norwood South SA 5067

p 08 8332 3433

f 08 8332 3466

e norwood@galpins.com.au

w www.galpins.com.au

ABN 30 630 511 757

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Accountants, Auditors & Business Consultants

# **City of Mount Gambier**

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## **Management Letter (final audit)**

14/10/2016

# **Table of Contents**

1.1 Background .....	3
1.2 Objectives and Scope .....	3
1.3 Overall Review of the Council's Internal Controls and Financial Statements .....	4
1.4 Category of Findings .....	5
1.5 New Findings Identified in 2015-16 .....	6
1.6 Summary of Repeated Findings from previous years .....	6
2. NEW AUDIT FINDINGS IDENTIFIED IN 2015-16 .....	7
2.1: NIL .....	7
3. REPEATED FINDINGS FROM PREVIOUS YEARS .....	8
3.1: Annual Leave Entitlements .....	8
3.2: Time off in Lieu (TOIL) Balances .....	9

# 1. EXECUTIVE SUMMARY

## 1.1 Background

We recently completed our final audit for the City of Mount Gambier. The staff members were helpful and professional and readily located records we requested.

During our final audit we performed substantive procedures to obtain reasonable assurance about whether the financial statements are free of material misstatement due to error or fraud.

While we assume no responsibility to design audit procedures to identify matters to report to you, we communicate any matters encountered during the course of our audit which we believe should be brought to Council's attention.

This does not mean that there are no other matters of which Council should be aware in meeting its responsibilities, nor does this report absolve Council from taking appropriate action to meet these responsibilities.

## 1.2 Objectives and Scope

The objective of our audit was to obtain reasonable assurance that the financial report presents fairly, in all material respects, the financial position of City of Mount Gambier as at 30 June 2016 and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards, the Local Government Act 1999 and the Local Government (Financial Management) Regulations 2011.

During our interim audit we performed procedures to gain an understanding of the internal controls in place relevant to the financial statements and performed tests of design and effectiveness for these controls. Based on the results of the control testing, we then assessed the audit risks to define the extent and nature of our substantive procedures for our final visit. An interim management letter was issued on 23<sup>rd</sup> May 2016.

During our final audit we focussed on the account balances and notes disclosures presented in the financial report. Examples of substantive procedures performed at final audit include inspection of documents, recalculation, reconciliation, analytical analysis of balances, external confirmation and reperforming procedures adopted by the entity. Our audit opinion is expressed on the auditor's report. We report in this final management letter matters that we believe should be brought to Council's attention.

The audit is not designed or intended to detect all weakness related to internal control, nor is it designed or intended to identify all instances of fraud or error. Limitations of the audit process include that it is not performed continuously throughout the period, internal controls tests are focused on key controls based on professional judgement and risk assessment and the tests performed are on a sample basis. Because of the inherent limitations of any internal controls structure, including the reliance on human intervention and the possibility of management override, it is possible that fraud, error, or non-compliance with laws and regulations may occur and not be detected.

### 1.3 Overall Review of the Council's Internal Controls and Financial Statements

During our final visit we noted that most of the financial controls considered as key controls by the audit were in place and were operating effectively. None of the issues identified during our audit are classified as high risk. There were no new issues that we needed to add to the interim management letter report on internal controls.

The final management letter from last year provides three performance improvement observations related to annual leave and TOIL entitlements, and recognition of assets received free of charge. The table below summarises the performance of the Council in addressing the management letter points from last year.

Areas	Response from Management
Annual Leave Entitlements	Actions in place to monitor and act on excessive balances
TOIL balances	Actions in place to monitor and act on excessive balances
Assets received free of charge	Accounting policy revised to recognise infrastructure received free of charge from developers. Revenue and assets recognised for items transferred in 2015-16

The issues related to annual leave entitlements and TOIL balances have been partially completed as Council has consolidated its internal reporting processes on leave. The number of employees with excessive annual leave balances has increased slightly, while the number of excessive TOIL balances has decreased.

The issue related to assets received free of charge has been completed as the accounting policy has been revised and acted on.

Audit identified no new financial statement related issues in 2015-16.

## 1.4 Category of Findings

In order to assist the Council in setting priorities we have classified our findings in accordance with our risk assessment. This risk assessment is focussed on risk of material misstatements in the financial statements.

The Council should also perform its own assessment based not only on audit risks but also other risks management considers relevant such as non-compliance with pertinent legislation and regulations.

A table defining the risk ratings used by audit to classify the findings can be seen below:

Category	Description
High Risk	The issue described could lead to a material misstatement in the Council's financial statements, and requires immediate attention.
Moderate	The issue described does not represent a material weakness due to the existence of compensating controls. However, the failure of the compensating controls or the existence of any other moderate weakness within the same business cycle may lead to a material misstatement in the Council's financial statements. The issue should be addressed within three months of receiving this report.
Low Risk	The issue described is a low risk weakness due to the existence of compensating controls and the failure or absence of the internal controls does not impact significantly on the Council's financial statements. However, multiple low level risk weakness within the same business cycle may lead to a material weakness in the Council's internal controls and non-compliance with s125 of the Local Government Act. The issue should be addressed within six months of receiving this report..
Better Practice	The issue described has been included in this report as an opportunity for better practice.

## 1.5 New Findings Identified in 2015-16

Finding	Description	Risk
2.1	<u>NIL</u>	

## 1.6 Summary of Repeated Findings from previous years

Finding	Description	Risk
3.1	<u>Annual Leave Entitlements</u>  Audit identified during the 2015-16 final audit that there were a number of staff with annual leave balances in excess of 300 hours	Low
3.2	<u>TOIL Balances</u>  Audit identified during the 2015-16 final audit that there were a number of staff with TOIL balances in excess of 40 hours	Low



**2. NEW AUDIT FINDINGS IDENTIFIED IN 2015-16**

<b>2.1: NIL</b>		

### 3. REPEATED FINDINGS FROM PREVIOUS YEARS

3.1: Annual Leave Entitlements	Low
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Issues and Impact	Recommendations	Management Response
<p><b><u>Issues</u></b></p> <p>Audit noted that as at 30 June 2014 that there were four staff with leave balances in excess of eight weeks (40 days). This increased to eight as at 30 June 2015, and to ten as at 30 June 2016. The largest balance of 55 days is 20% higher than last year. Management has advised us of changes to leave management processes within the financial year.</p> <p><i>Senior Managers are provided with monthly balances of <u>all</u> leave types including annual leave, sick leave, long service leave and TOIL.</i></p> <p><i>In addition the CEO receives a monthly management leave balance report for <u>all</u> employees.</i></p> <p><i>This ongoing, regular monitoring program identifies any excessive leave balances and if necessary leave plans are established to reduce Council's liability.</i></p> <p>It appears that these initiatives have not been successful in reducing the issue of excessive leave balances.</p> <p><b><u>Impact</u></b></p> <p>Leave balances may be excessive and exceed the allowable balances under the relevant EB. Staff not taking leave may lead to health safety and welfare issues and increase the ability to conceal fraud. In the case of promotion, leave may be paid out or taken at a higher rate of pay than that at which it was accrued. Overall costs to Council may increase as employees may sometimes not be replaced when going on leave, but get paid out on termination.</p>	<p>Council to ensure that employees do not accumulate excessive annual leave balances.</p> <p>Council to review the effectiveness of the leave management processes during 2016-17.</p>	<p>The matter be referred to Council's Management executive Team for review of the current leave management process with a recommendation that the former monthly leave reporting process, as part of the agenda for those meetings, be reinstated.</p>

## 3.2: Time off in Lieu (TOIL) Balances

Low

Issues and Impact	Recommendation/s	Management Response
<p><b><u>Issues</u></b></p> <p>There were eight staff (2015: twelve staff) with TOIL balances in excess of 40 hours. This includes inside and outside staff The total value of TOIL for all staff was \$60,000 (2015: \$93,000.)</p> <p><b><u>Impact</u></b></p> <p>TOIL balances may be excessive and exceed the allowable balances under the relevant EB. Staff not taking TOIL may lead to health safety and welfare issues and increase the ability to conceal fraud. In the case of promotion, TOIL may be paid out or taken at a higher rate of pay than that at which it was accrued.</p>	<p>Council to ensure that employees do not accumulate excessive TOIL balances.</p>	<p>This is a continuing focus for Council managers evidenced by the ongoing reduction in toil hours. As of October 2016 the number of staff with toil balances in excess of 40 hours has further decreased to 3 staff and a reduction in the overall value to \$46,000.</p>

## 16: Revenue - Rates / Rates Rebate

**MODERATE**

Issues	Recommendations	Management Response
<p><b>Issues:</b></p> <ol style="list-style-type: none"> <li>1. Access to the rating system is not restricted to authorised personnel.</li> <li>2. Employees responsible for processing rate notices are able to process payment of their own rates.</li> <li>3. Interest flag is switched on for exempt properties.</li> </ol> <p><b>Impact:</b></p> <ol style="list-style-type: none"> <li>1. Where access is not adequately restricted, the integrity of data and set up of the rating system may not remain pertinent and result in incorrect calculation and issuing of rates notices.</li> <li>2. Council may be at risk of cashflow demands where employees inappropriately reduce or receipt thier own rates.</li> <li>3. Incorrect calculations in rates can lead to ratepayer dissatisfaction.</li> </ol> <p><b>Background:</b></p> <ol style="list-style-type: none"> <li>3. Senior Rates Officer suggested changing interest flag to yes for exempt properties would be detrimental to her existing process for raising interest, as the crosscheck is to ensure all properties have interest flag set to yes so that interest is not missed being applied.</li> </ol>	<ol style="list-style-type: none"> <li>1. The following staff be removed from having access to the Rates Master File: R Tilley, Cashier 1, Cashier 2, S Durbidge, L Little, A Telfer, A Lavia. Please note this is not intended to remove their ability to look up assessments or input Green Waste tags.</li> <li>2. Inherent risk that employees can process/receipt their own rates payments is mitigated per the Financial Internal Controls and crosscheck of such controls. No Change recommended, just noted for management.</li> <li>3. In light of this, recommend Senior Rates Officer completes additional check to ensure all non-rateable properties rates are set to \$0. This will ensure no interest penalties are accidentally applied.</li> </ol> <p>Overall, nothing significant to report.</p>	<p>Support Recommendation</p> <p>Noted. No further action required.</p> <p>Support Recommendation</p>

Date: 10/11/2016