

21st September, 2018

AUDIT COMMITTEE MEMBERS

NOTICE is given that the Audit Committee will meet in the Civic Centre, Conference Room, Level 1 on Wednesday 26th September, 2018 at 5:00 p.m.

An agenda for the meeting is enclosed herewith.



Mark McSHANE
CHIEF EXECUTIVE OFFICER

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AGENDA OF ORDINARY AUDIT COMMITTEE MEETING

Meeting to be held at the Committee Room, Civic Centre, 10 Watson Terrace, Mount Gambier
on Wednesday 26th September, 2018 at 5:00 pm

PRESENT	Cr Sonya Meziniec (Presiding Member) Ms Vanessa McDonald Ms Angela Kain Mayor Andrew Lee (Ex Officio)
GUESTS	Mr Tim Muhlhausler - Auditor, Galpins
COUNCIL OFFICERS	Mrs Pamela Lee - General Manager Council Business Services Mr Jeroen Zwijnenburg - Manager Finance and Customer Service Ms Kahli Rolton - Management Accountant

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.

1. APOLOGY/IES

Apology(ies) received from

That the apology from _____ be received.

Moved: _____ Seconded:

2. CONFIRMATION OF AUDIT COMMITTEE MINUTES

That the minutes of the Ordinary Audit Committee meeting held on 30 September 2018 be confirmed as an accurate record of the proceedings of that meeting.

Moved: _____ Seconded:

3. QUESTIONS

3.1. With Notice

Nil submitted.

3.2. Without Notice

4. DEPUTATIONS

Nil

5. COMMITTEE REPORTS

Committee reports commence on the following page.



5.1. Capital Work in Progress Budget Carry Overs from 2017/2018 - Report No. AR18/37381

COMMITTEE	Audit Committee
MEETING DATE:	26 September 2018
REPORT NO.	AR18/37381
RM8 REFERENCE	AF18/108
AUTHOR	Kahli Rolton
SUMMARY	For noting: capital works in progress budget carry over from 2017/2018 to 2018/2019 of \$1,108,500.
COMMUNITY PLAN REFERENCE	Goal 3: Our Diverse Economy

REPORT RECOMMENDATION
(a) That Audit Committee Report No. AR18/37381 titled ' <i>Capital Work in Progress Budget Carry Overs from 2017/2018</i> ' as presented to the Audit Committee on 26 September 2018 be noted.

Moved:

Seconded:



Background

At the Operational Standing Committee and Council meetings held in September 2018 report AR18/32331 Capital Work in Progress Budget Carry Overs from 2017/2018 was presented.

Discussion

Council resolved that \$1,108,500 of capital works that were not completed as at 30 June 2018 be carried forward to the 2018/2019 financial year.

Please refer to:

- Attachment 1 - Operational Standing Committee report AR18/32331; and
- Attachment 2 - detailed schedule of items to be rolled over from 2017/2018 to 2018/2019 financial years.

Conclusion

This report recommends that the Audit Committee note the Capital Work In Progress Budget Carry Overs from 2017/2018.

Attachments

[Attachment 1 \(AR18/32331\): Capital Work in Progress Budget Carry Overs from 2017/2018](#)

[Attachment 2 \(AR18/32302\): Capital Work in Progress Schedule as at 30/06/2018](#)



Kahli ROLTON
MANAGEMENT ACCOUNTANT



Pamela LEE
GENERAL MANAGER COUNCIL BUSINESS SERVICES

10 September 2018
KR



5.2. Control Track Continuous Improvement as at September 2018 - Report No. AR18/38581

COMMITTEE	Audit Committee
MEETING DATE:	26 September 2018
REPORT NO.	AR18/38581
RM8 REFERENCE	AF17/261
AUTHOR	Kahli Rolton
SUMMARY	To provide an update on the progress of control improvement plans that have resulted from the review of mandatory controls for completed assessments.
COMMUNITY PLAN REFERENCE	Goal 3: Our Diverse Economy

REPORT RECOMMENDATION
(a) That Audit Committee Report No. AR18/38581 titled ' <i>Control Track Continuous Improvement September 2018</i> ' as presented to the Audit Committee on 26 September 2018 be noted.

Moved:

Seconded:



Background

Section 125 of the Local Government Act 1999 states that council must ensure appropriate policies, practices and procedures of internal control are implemented.

Report AR18/17848 Internal Financial Controls 2017/2018 was provided to the May 2018 Audit Committee Meeting. Please refer to Attachment 1 of this document for a copy of this report.

Discussion

Control Track has been implemented since early 2018 in relation to internal financial controls and attention is focused on input, maintenance and reliability of information.

Table 1 provides a timeline for further work in relation to the financial controls only.

Table 1 Control Track Financial Control maintenance time line

Activity	Responsible Officer(s)	Status
Follow up of control improvements & report back to Audit Committee with update (this report)	Kahli Rolton	September 2018
Complete residual risk ratings for all risks defined in the Better Practice Model	Kahli Rolton, Jeroen Zwijnenburg, Pamela Lee	Due 21/09/2018
Create risk based assessments for all controls and assign to staff in accordance with agreed review timeframes. <ul style="list-style-type: none"> High & extreme risks = yearly Medium risks = every 2 years Low risks = every 2-3 years 	Kahli Rolton	Due 31/09/2018
Training update with staff regarding control improvements, risk based assessments, general Q & A	Kahli Rolton	TBA
Follow up of control improvements & report back to Audit Committee with update	Kahli Rolton	November 2018
Update Control Track to reflect any changes to operational controls arising from the Internal Financial Controls procedure manual review.	Kahli Rolton	December 2018

A total of 49 improvement plans have been identified following assessment and review by staff of the better practice model controls. Of these 49 improvement plans, 5 have been completed, 14 are in progress and 30 are yet to commence. Please refer to Attachment 2 for a list of all improvement plans identified.

In addition to continuing work in operating Control Track, a major review of the Internal Financial Controls procedure manual has commenced. Due to changes to the organisational structure and the welcoming of new staff, it is timely to complete a review of expectations in relation to such procedures and ensure any alterations are recorded and implemented.

Significant work has been undertaken to progress a whole of Council risk register including identified risks and controls. The Corporate Risk Register is a much larger body of work and is still a work in progress. The Corporate Risk Register will also use the Control Track software tool to assist with implementation, automated notifications and reporting once fully established.



Conclusion

Progress on identified improvement plans is continuing with 5 out of 49 completed and 14 in progress.

The Internal Financial Controls procedure manual is currently under review by management and it is anticipated this will be reported at the next Audit Committee Meeting.

Attachments

[Attachment 1 \(AR18/17848\): Internal Financial Controls 2017/2018](#)

[Attachment 2 \(AR18/38519\): Control Track – Improvements as at September 2018](#)



Kahli ROLTON
MANAGEMENT ACCOUNTANT



Pamela LEE
GENERAL MANAGER COUNCIL BUSINESS SERVICES

17 September 2018
KR



5.3. Annual Financial Statements for 2017/2018 - Report No. AR18/38407

COMMITTEE	Audit Committee
MEETING DATE:	26 September 2018
REPORT NO.	AR18/38407
RM8 REFERENCE	AF11/863
AUTHOR	Jeroen Zwijnenburg
SUMMARY	The purpose of this report is to provide the Audit Committee with the draft annual financial statements for the financial year ended 30 June 2018; and to consider recommending the annual financial statements to Council.
COMMUNITY PLAN REFERENCE	Goal 1: Our People

REPORT RECOMMENDATION

- (a) That Audit Committee Report No. AR17/38407 titled '*Annual Financial Statements for 2017/2018*' as presented to the Audit Committee on 26 September 2018 be noted.
- (b) That in accordance with Section 126 of the Local Government Act 1999, the Audit Committee advises that it has reviewed the draft annual financial statements of Council for the financial year 2017/2018 and is satisfied 'they present fairly the state of affairs of Council'.
- (c) That the Audit Committee recommends to Council for the financial year ended 30 June 2018 that:
 - i. Council adopts the annual financial statements as final, subject to any refinements recommended by Council's auditor.
 - ii. The Chief Executive Officer and the Mayor of the City of Mount Gambier be authorised to certify the financial statements.
- (d) That the Presiding Member of the Audit Committee and the Chief Executive Officer of the City of Mount Gambier be authorised to sign Council's *Certification of Auditor Independence Statement* that will accompany the financial statements for the financial year ended 30 June 2018.
- (e) That the Auditor's representative, Mr Tim Muhlhausler's verbal report providing an overview of the audit report as presented to the Audit Committee Meeting on 26 September 2018 be noted.

Moved:

Seconded:



Background

The following provides an overview of some of the legislative requirements including the Local Government Act 1999 (the Act) applicable to the preparation of the annual financial statements.

Legislative requirements related to Council and the preparation of the annual financial statements include:

- Section 127 of the Local Government Act 1999 (the Act) requires the council to 'prepare financial statements and notes' and 'other statements or documentation relating to the financial affairs of the Council required by regulation'. 'The statements prepared for each financial year must be audited by the council's auditor.'
- Regulation 10 of the Local Government (Financial Management) Regulations 2011 requires a 'report on financial results'. This report compares the audited financial results of each item shown in the statement of comprehensive income and balance sheet compared with the estimated financial results in the budget, presented in a manner consistent with the Model Financial Statements.
 - This report will be tabled at the Audit Committee meeting, due to time between finalising of the draft financial statements and finalising of the Audit Committee agenda.
- Council's annual financial statements are to be prepared in accordance with Regulations 11 to 14 of the Local Government (Financial Management) Regulations. These Regulations indicate the financial statements are prepared:
 - In accordance with all relevant Australian Accounting Standards
 - Full cost attribution for any function, activity, good or service of the council
 - Revaluations of assets occurs in accordance with the requirements of AASB 116; and
 - In accordance with the Model Financial Statements.
- Section 126 of the Act requires that the Council's Audit Committee review the annual financial statements to ensure 'they present fairly the state of affairs of council'.

Legislative requirements relating to the independence of the parties involved in the preparation of the annual financial statements:

- Regulation 22 of the Local Government (Financial Management) Regulations 2011 requires:
 - Council's auditor must provide a statement to certify that they have maintained their independence in accordance with the requirements of APES 110-Code of Ethics for Professional Accountants.
 - The Chief Executive Officer and the Presiding Member of the Audit Committee must provide a statement confirming that the auditor has maintained their independence. A copy of this statement is attached (Attachment 2) to this report.

Legislative requirements relating to the timing of the annual financial statements:

- Pursuant to Section 131 of the Act, Council must, on or before 30 November in each year, prepare and adopt an annual report relating to the operations of the Council for the financial year ending on the preceding 30 June. A copy of the Annual Report must be submitted to the Presiding Members of both Houses of Parliament. The annual financial statements are an integral part of the Annual Report.



Council has prepared the draft AFS of Council in accordance with the South Australian Local Government Association model set of annual financial statements.

Council's external Auditor, Galpins has completed their audit for the financial year ended 30 June 2017.

Discussion

The City of Mount Gambier's annual financial statements for 2017/2018 have been prepared in accordance with the:

- Local Government Act 1999
- South Australian Local Government Association (Financial Management) Regulations 2011
- Australian Accounting Standards; and
- Local Government Model Annual Financial Statements.

Council's Audit partner, Tim Muhlhausler of Galpins will be attending the Audit Committee meeting to present his audit report and to receive and respond to any questions from the Audit Committee.

The draft financial statements and results for the year will be provided to the Council meeting in October 2018. A copy of the report is provided as Attachment 1 for the Audit Committee's reference and review. The Audit Committee will be provided with any updates to the financial statements, if any arise between the issue of this report and the Audit Committee meeting.

Council's financial statements will be published in the Council's Annual Report for the 2017/2018 financial year and will be provided to the:

- Minister for Local Government
- South Australian Local Government Grants Commission and
- Other key stakeholders.

Conclusion

The financial statements are general purpose statements representing the financial performance of the Council for the 2017/2018 financial year and the financial position as at 30 June 2018. The financial statements have been prepared in accordance with the Australian Accounting Standards and Local Government (Financial Management) Regulations 1999.

The financial statements and financial affairs of Council have been audited by Council's auditors, Galpins, in accordance with Section 126 of the Local Government Act 1999.

In conclusion, as the City of Mount Gambier has not engaged its auditor to provide any services outside the scope of their function as Auditor for the 2017/2018 financial year, it is appropriate for the Audit Committee to recommend that the Chief Executive Officer and the Presiding Member of the Audit Committee co-sign the Certification of Auditor Independence Statement.

'To the best of our knowledge and belief, we confirm that, for the purpose of the audit of the City of Mount Gambier for the year ended 30 June 2018, the Council's auditor, Galpins, has maintained its independence in accordance with the requirements of the Local Government Act 1999 and the Local Government (Financial Management) Regulations 2011 made under that Act.'

'This statement is prepared in accordance with the requirements of Regulation 22 (3) Local Government (Financial Management) Regulations 2011'



A copy of the Auditor's draft audit report will be provided to the members of the Audit Committee as soon as it is received by Council. Tim Muhlhausler, Galpins Audit partner for the City of Mount Gambier has confirmed he will attend the Audit Committee meeting and present an overview of the audit report in person.

Contingent upon the satisfaction of the Audit Committee, the Mayor and CEO will sign Council's Certification of Auditor Independence Statement and Council's Auditor will issue their final audit report.

Attachments

[Attachment 1 \(AR18/38403\): Draft Annual Financial Statements for financial year ending 30 June 2018](#)

[Attachment 2 \(AR18/38369\): Certification of Auditor Independence Statement](#)

[Attachment 3 \(AR18/38368\): Audit Clearance report 2018](#)



Jeroen ZWIJNENBURG
MANAGER FINANCE AND CUSTOMER SERVICE



Pamela LEE
GENERAL MANAGER COUNCIL BUSINESS SERVICES

15 September 2017
JZ



5.4. Treasury Management - Annual Review - Report No. AR18/38413

COMMITTEE	Audit Committee
MEETING DATE:	26 September 2018
REPORT NO.	AR18/38413
RM8 REFERENCE	AF11/863
AUTHOR	Pamela Lee
SUMMARY	This report presents Council's annual review of its CAD and banking facilities.
COMMUNITY PLAN REFERENCE	Goal 3: Our Diverse Economy

REPORT RECOMMENDATION
(a) That Audit Committee Report No. AR18/38413 titled ' <i>Treasury Management – Annual Review</i> ' as presented to the Audit Committee on 26 September 2018 be noted.

Moved:

Seconded:



Background

Council's Treasury Management Policy (T150) provides the framework for Council to effectively fulfil its obligations and statutory requirements under the Local Government Act 1999 and the Local Government (Financial Management) Regulations 2011.

Annual reviews of Council's Treasury Management operations including the operation of Council's Local Government Finance Authority (LGFA) Cash Advance Debenture (CAD) variable interest rate loan facility has been completed since that time, this being the eighth such annual review. Refer to Attachment 1 for a copy of the policy.

Council first adopted its Treasury Management Policy in 2008. From 2009 Council commenced introducing associated Treasury Management practices to align with commencement of major capital works projects and/or upgrade program which have included the old Hospital purchase and demolition, Library, Main Corner, CBD redevelopment, Caroline Landfill, Railway Lands redevelopment.

Discussion

Council's Treasury Management Policy (T150) provides for consideration of interest rate risk exposures through the use of fixed and variable interest rate borrowings, the term of the facility and repayment options (principal only, principal and interest).

The following table provides an overview of Council's LGFA loan profile as at 30 June 2017 and 2018.

	As at 30 June 2017		As at 30 June 2018	
	\$	%	\$	%
LGFA CAD Balance of fixed loans	3,028,106	100%	2,790,277	100%
LGFA CAD Balance of variable loans	-	-	-	-
LGFA Gross debt as at 30 June	3,028,106	100%	2,790,277	100%

In relation to Council's future loan profile, no provision has been made in Council's 2018/2019 Budget for any new borrowings.

Council's reporting process via the annual audited financial statements records the Council's debt at the end of the financial year. Council's loan estimate as at 30 June 2019 is \$2,572,888.

Conclusion

Council's Treasury Management Policy is scheduled for review during the first year of the next Council term following the November 2018 local government election.

Should Council increase its capital debt in the future, modelling through the LTFP and annual budget will be required as will consideration of Council's:

- Interest rate risk profile (fixed/variable facility, principal only, principal and interest and duration of the facility); and
- Capacity to repay the loan borrowings at the time.

Council's current Treasury Management Policy is serving the Council appropriately.



Attachments

Attachment 1 (AR11/4120 [v7]): Council Policy - T150 Finance – Treasury Management



Kahli ROLTON
MANAGEMENT ACCOUNTANT



Jeroen ZWIJNENBURG
MANAGER FINANCE AND CUSTOMER SERVICE



Pamela LEE
GENERAL MANAGER COUNCIL BUSINESS SERVICES

17 September 2018



5.5. Resignation of Ms Vanessa McDonald from the Audit Committee - Report No. AR18/37443

COMMITTEE	Audit Committee
MEETING DATE:	26 September 2018
REPORT NO.	AR18/37443
RM8 REFERENCE	AF11/863
AUTHOR	Pamela Lee
SUMMARY	This report advises of the resignation of Ms Vanessa McDonald from Council's Audit Committee.
COMMUNITY PLAN REFERENCE	Goal 3: Our Diverse Economy

REPORT RECOMMENDATION

- (a) That Audit Committee Report No. AR18/3443 titled '*Resignation of Ms Vanessa McDonald from Audit Committee*' as presented to the Audit Committee on 26 September 2018 be noted.
- (b) That Ms McDonald resignation be noted.
- (c) That a letter of appreciation be sent to Ms McDonald for her service to the Audit Committee.

Moved:

Seconded:



Background

The Audit Committee Terms of Reference states under *Section 1 Membership*:

1.6. Resignations of appointment must be in writing.

Ms Vanessa McDonald has formally advised the Audit Committee Presiding Member that effective from the 2018 Local Government Election in November 2018 that she will be retiring from Council's Audit Committee; and that she will attend all Audit Committee meetings up until the Election.

Discussion

Ms McDonald was appointed in September 2016 as an independent member of Council's Audit Committee and attended her first Audit Committee meeting on 4 October 2016. Ms McDonald has attended all subsequent Audit Committee meetings.

Ms McDonald has provided professional expertise, valuable advice, probing questioning and service in her capacity as a member of Council's Audit Committee over the two year period.

Conclusion

In conclusion it is recommended that the Audit Committee:

- Note the resignation of Ms Vanessa McDonald
- Recommend to Council that Ms McDonald's service to the Audit Committee be formally acknowledges with appreciation.

Attachments

Nil



Pamela LEE
GENERAL MANAGER COUNCIL BUSINESS SERVICES



Mark MCSHANE
CHIEF EXECUTIVE OFFICER

10 September 2018
PL



5.6. Recruitment of an independent member of the Audit Committee - Report No. AR18/37454

COMMITTEE	Audit Committee
MEETING DATE:	26 September 2018
REPORT NO.	AR18/37454
RM8 REFERENCE	AF11/863
AUTHOR	Pamela Lee
SUMMARY	Following the recent resignation of Ms Vanessa McDonald a vacancy will exist effective from the 2018 Local Government Election in November 2018. This report requests the Audit Committee recommend to Council that a recruitment process be undertaken to identify and recommend suitably qualified and experienced independent member for Council consideration and appointment to the Audit Committee.
COMMUNITY PLAN REFERENCE	Goal 3: Our Diverse Economy

REPORT RECOMMENDATION
<p>(a) That Audit Committee Report No. AR18/37454 titled '<i>Recruitment of an independent member of the Audit Committee</i>' as presented to the Audit Committee on 26 September 2018 be noted.</p> <p>(b) That the Audit Committee recommend to Council a recruitment process be undertaken by the Chief Executive Office for a new independent member of the Audit Committee for Council's consideration.</p>

Moved:

Seconded:



Background

Council maintains an Audit Committee in accordance with Chapter 8 of the Local Government Act 1999. A copy of the Audit

Council's Audit Committee Terms of Reference (refer Attachment 1) *Section 1 Membership* states:

- 1.1 *Members of the Committee are appointed by Council.*
- 1.2 *The Committee will consist of at least one independent member with at least one additional member from the Elected Members of Council, consistent with any Regulations¹. The size of the committee shall be three (3) members. The Mayor is an ex officio member of the committee.*
- 1.3 *Independent member(s)² of the Committee must meet at least one of the following minimum requirements for membership:*
 - *Have recent and relevant financial qualifications and/or experience in a relevant financial role*
 - *Working knowledge of risk management*
 - *Experience with internal or external auditing.*
- 1.5 *Appointments to the Committee shall be for a period of at least two years, reviewed at a common appointment date every two years. The common appointment date for existing appointees is 31 December. Appointees may be reappointed by Council.*
- 1.6 *Resignation of appointment must be in writing.*
- 1.7 *Members of the Committee, including the Presiding Member are appointed by Council.*

Discussion

Ms Vanessa McDonald formally advised in writing (via email) to the Audit Committee Presiding Member:

- Of her resignation effective from the Local Government Election in November 2018; and
- That she will attend all Audit Committee meetings up until the Election in November 2018.

As a result of Ms McDonald's resignation from the Audit Committee, a vacancy for an appropriately qualified and experienced independent member has arisen.

Conclusion

That the Audit Committee recommend to Council a recruitment process be undertaken to identify and recommend an independent member for the Audit Committee.

¹ Section 126(2) provides that an audit committee may include persons who are not members of Council.

² A person would not be considered independent if he or she was an Elected Member of that Council. Subject to any codes of conduct adopted by Council, this does not preclude an Elected Member or an employee of a Council from being a member of an audit committee of another Council.



Attachments

[Attachment 1 \(AR13/18718 \[v5\]\): Audit Committee Terms of Reference](#)

A handwritten signature in black ink, appearing to read 'Pamela Lee', with a period at the end.

Pamela LEE
GENERAL MANAGER COUNCIL BUSINESS SERVICES

A handwritten signature in black ink, appearing to read 'Mark M Shane', with a period at the end.

Mark MCSHANE
CHIEF EXECUTIVE OFFICER

10 September 2018
PL



6. MOTION(S)

6.1. With Notice

Nil Submitted

6.2. Without Notice

Meeting closed at p.m.

AL



7. REPORT ATTACHMENTS



**REPORT TITLE****Capital Work in Progress Budget Carry Overs from 2017/2018**

COMMITTEE	Operational Standing Committee
MEETING DATE:	11 September 2018
REPORT NO.	AR18/32331
RM8 REFERENCE	AF18/108
AUTHOR	Kahli Rolton
SUMMARY	To advise and adopt capital works in progress budget carry over from 2017/2018 to 2018/2019 of \$1,108,500.
COMMUNITY PLAN REFERENCE	Goal 3: Our Diverse Economy

REPORT RECOMMENDATION

- (a) That Operational Standing Committee Report No. AR18/32331 titled '*Capital Work in Progress Budget Carry Overs from 2017/2018*' as presented to the Operational Standing Committee on 11 September 2018 be noted.
- (b) That the capital work in progress budget carry overs from 2017/2018 of \$1,108,500 be adopted and reflected in the 2018/2019 budget.

Background

The Local Government (Financial Management) Regulations 2011, Sections 6, 7 and 9 require a council to prepare an annual business plan, budget and budget reviews for any given financial year. Whilst Council may budget to complete works within a defined financial year, in reality capital works for a number of factors both within and outside Council's control may see capital expenditure span over more than one financial year.

Council adopted the 2018/2019 Annual Business Plan and Budget on 3 July 2018. Capital expenditure likely to rollover from the 2017/2018 financial year was not known at the time of setting and adopting the 2018/2019 Annual Business Plan and Budget due to the preparation lead time and consultation process required to prepare such a document.

Discussion

As part of Council's budget process for the 2017/2018 financial year, any capital works in progress as at 30 June 2018 that is due to be completed in 2018/2019 financial year requires an addition to be made to the adopted 2018/2019 budget.

An allocation of \$1,108,500 to the 2018/2019 budget is required in order to complete capital works in progress carried over from Council's adopted 2017/2018 budget. Refer to Attachment 1 for details.

For noting, this update refers solely to the allocation of capital works in progress from Council's adopted 2017/2018 budget that were not completed and ready for use as at 30 June 2018. No adjustment has been made to the 2018/2019 budget for capital works that may not be completed by 30 June 2019 as this is not yet known.

Conclusion

In order to complete capital works in progress as at 30 June 2018, an allocation of \$1,108,500 be added to the 2018/2019 budget.

Attachments

[Attachment 1 \(AR18/32302\): Capital Work in Progress Schedule as at 30/06/2018](#)



Kahli ROLTON
MANAGEMENT ACCOUNTANT



Pamela LEE
GENERAL MANAGER COUNCIL BUSINESS SERVICES

10 August 2018
KR



WORK IN PROGRESS SCHEDULE

As at 30th June, 2018

Draft Schedule (pending MET approval)

Acc. No.	Description	Amount \$	Description	Responsibility
	Operating			
	Nil	0		
	Capital			
7300.4013	Staff Vehicles - No 126 Tourism Division	34,000	Tender completed and purchase order raised prior to 30/06/2018. Timing issue.	Nick
7320.4044	Trucks - No 24	66,000	Tender completed and purchase order raised prior to 30/06/2018. Timing issue.	Nick
7320.4045	Trucks - No 25	75,000	Tender completed and purchase order raised prior to 30/06/2018. Timing issue.	Nick
7320.4059	Trucks - No 362 Spraying Utility (Parks & Gardens)	38,000	Tender completed and purchase order raised prior to 30/06/2018. Timing issue.	Nick
7400.4116	Sundry Plant - No 76 Mower	31,000	Tender completed and purchase order raised prior to 30/06/2018. Timing issue.	Nick
7400.4130	Sundry Plant - Mobile Tourism Van	131,000		Judy
7460.4401	Office Equipment - General	13,500	Plan Printer \$12K & Depot Office Furniture \$1.5k)	Nick
7460.4407	Office Equipment - Information Technology	43,000	Projector Screens. Quotes completed and purchase order raised prior to 30/06/2018. Timing Issue.	Pamela
7470.4601	Library Books	12,000	Blue Cloud. To make up difference between amounts ordered in June 2018 but not yet arrived.	Barbara
7500.5002	Civic Centre	50,000	One Customer Counter. Tender completed, contract in process (under review).	Pamela
7560.5161	Other Community Buildings/Structures	20,000	Main Corner Show Controller.	Barbara
7620.5305	Carpark Resurfacing	24,000	Commitments of \$18k made prior to 30/06/2018. Timing issue.	Nick
7640.5401	City Hall Re-development	10,000	Commercial Kitchen - benchtops not included in last tender.	Barbara
7660.5601	Tourism - Lady Nelson	14,500	Digital Wifi	Judy/Nick/Pamela
7665.5651	Street Tree Program	12,000	Ordered prior to 30/06/2018 but not yet received. Supplier issue.	Nick
7665.5652	Energy Efficient & Renewable energy projects	28,000	as per Aaron Izzard.	Barbara
7670.5704	Eucalypt Dr Materials Recovery	241,000	As per Daryl Morgan.	Nick
7670.5705	Waste Transfer Centre - Capital Projects	5,500	Weighbridge Software. Waiting on provider to complete works. Already paid \$30,837.54	Nick
7680.5803	Crater Lakes Area - upgrades	5,000	Crater Lakes new equipment shed - electrical works completed after 30/06/2018.	Nick
7800.0999	Stormwater/Drainage	20,000	Bridges Street.	Nick
7830.1999	Footpaths	6,000	Rail Trail remainder.	Nick
7900.3999	Roads Sealed	201,000	Doughty Street - R2R \$39k, Tollner Rd \$18k, Generic Boundary Roads \$119k, Ferrers St Carpark \$18k, public Artworks Ripley Arcade \$7k	Nick/Barbara
8400.8401	Carinya Gardens	28,000	Spoil Trailer \$11k, lowering trailer \$17k. Items ordered prior to 30/06/2018. Waiting on Fabrication to be completed.	Judy
TOTAL EXPENDITURE		1,108,500		

Comparison to last year
reduction in WIP rollover

1,314,000
- 205,500



COUNCIL RESOLUTION 19/06/2018

13.21 Internal Financial Controls 2017/2018 - Report No. AR18/17848

- (a) That Audit Committee Report No. AR18/17848 titled '*Internal Financial Controls 2017/2018*' as presented to the Audit Committee on 30 May 2018 be noted.

Moved: Cr Lovett

Seconded: Cr Perryman

Carried

REPORT TITLE

Internal Financial Controls 2017/2018 Ref. AR18/17848

COMMITTEE	Audit Committee
MEETING DATE:	30 May 2018
REPORT NO.	AR18/17848
RM8 REFERENCE	AF17/261
AUTHOR	Kahli Rolton
SUMMARY	<p>To provide an update on the assessment and review of mandatory controls as set by the Local Government Association of South Australia Better Practice Model – Internal Financial Controls, using the newly implemented Control Track program.</p> <p>To introduce improvement plans that have resulted from the review of mandatory controls for completed assessments.</p>
COMMUNITY PLAN REFERENCE	Goal 3: Our Diverse Economy

REPORT RECOMMENDATION

- (a) That Audit Committee Report No. AR18/17848 titled '*Internal Financial Controls 2017/2018*' as presented to the Audit Committee on 30 May 2018 be noted.

Background

Section 125 of the Local Government Act 1999 states that Council must ensure appropriate policies, practices and procedures of internal control are implemented.

Report AR17/48838 Control Track Implementation Update was provided at the December 2017 Audit Committee Meeting, please refer to Attachment 1 of this document for a copy of this report.

Following on from report AR17/48838, Table 1 below, provides a further update of the proposed activities to ensure successful implementation of the Control Track program. Please note that items highlighted below represent Council's progression to date.

Table 1: Control Track Implementation Time Line

Activity	Person Delivering	Status
Telephone Conference with Control Track	Adrian Hollins – Control Track	Completed 6/11/2017
Onsite training from Control Track	Adrian Hollins – Control Track	Completed 10/11/2017
Prepare matrix of controls assigning assessors and reviewers (mandatory)	Kahli Rolton/Lisa Hinton	Completed 4/12/2017
Assign control guidance to all controls to assist assessors	Kahli Rolton/Lisa Hinton	Completed where appropriate 31/01/2018
Allocate assessment and review dates for Controls	Kahli Rolton/Lisa Hinton	Completed in January 2018
Input Council's current Risk Register to Risk Manager	Michael McCarthy	In progress
Project group meeting with key stakeholders to review proposed set up, establish a framework, training and communication roll out.	Kahli Rolton/ Jeroen Zwijnenburg/ Michael McCarthy	Completed 9/1/2018
Input details to Control Track program per matrix, dates, guidance etc. prepared above	Kahli Rolton/Lisa Hinton	Completed in January 2018
Training for relevant staff members	Kahli Rolton	25/01/2018
Assessments and Reviews to begin	Key stakeholder staff	From 01/02/2018 to May 2018
Report to Audit Committee following completion of initial assessments	Kahli Rolton	30 May 2018
Post Implementation Review	Kahli Rolton	Not Started
Continuous Improvement and Monitoring	Kahli Rolton	Ongoing

A large proportion of controls were reviewed prior to the interim audit being held 18-20 April 2018. Any remaining controls are continuing to be assessed and reviewed by relevant staff.

Discussion

For the purposes of creating assessments in Control Track, 220 controls were summarised into 33 broad assessment categories.



For the 2017/2018 financial year management decided to review only the mandatory controls as set by the Local Government Association for South Australia, Better Practice Model – Internal Financial Controls, for the following reasons:

- Allowing administrators time for implementation, set up and training of the Control Track program.
- Allowing for familiarisation to the process as prior to Control Track, staff had not been responsible for self-assessment of controls relative to their work areas.
- Managing workloads by focus on mandatory controls, with a future move the additional and operator controls (i.e. non-mandatory controls).
- Acknowledging that there is no a legislative requirement to review additional and operator controls.

The addition of additional and operator controls will be introduced by Management on a needs basis and once staff are familiar with Control Track.

At the time of writing this report 25 out of 33 assessments have been completed.

The Control Track System provides a range of reports. Attachment 2 includes a summary of all assessments, including the number of controls reviewed within each broad assessment category and the number of improvements that have resulted from review of these controls.

A summary of items of focus that the assessors and reviewers have identified through this Control Track self-assessment process includes the following matters:

- Access to Master Files is generally not limited to the authorised officers listed in Council's Internal Financial Controls Procedure Manual. Audit Trails and source documents for making alterations to Master File access requires attention.
- Whole of Council register for all procedures and code of conduct with links to relevant documents is not currently in place. Council intends to implement training to update and ensure staff awareness.
- Detailed timeline to ensure all financial reporting requirements including taxation, statutory, management and audit reports are known and met. At present this is reliant on staff member diligence and knowledge. Establishment of an online calendar will further assist this process.
- Accrual and provisional accounting is not consistently applied and requires improvement.
- Conflict of Interest Declarations not implemented for staff approving grants to community groups and sporting clubs. A process to ensure declarations are completed for all applications is to be implemented.
- Whole of Council register for approval of grant/funding applications is required to ensure resourcing is adequate to meet any obligations of the funding. This has since been set up.
- Contract Management throughout the term of a contract can be further improved. Council has recently purchased a module within its enterprise wide management system to assist with this.
- Lock down of the tenders' email requires attention to ensure adequate segregation of duties at all times.
- Employee reimbursements can be processed without independent authorisation.
- The extent of Project scoping and accurate costing varies greatly and requires improvement.
- There is not one single register for all fixed assets of Council. A combination of multiple registers held on multiple systems is in existence to ensure accuracy of information and improved reporting for financial statements, depreciation, budgets, insurance, management plans and maintenance schedules. Centralisation of this data would improve consistency, completeness and accuracy.
- Signing off and dating of inventory stock take sheets is advised.

Control Track works on a standard rating system; each assessor and reviewer must rate a control using this system. Where a reviewer rates a control as partially effective or below, Control Track



requires the reviewer to establish an improvement plan. Improvement plans have been established for the items listed above.

Table 2: Control Track Rating System

Rating	Description	Improvement Plan Required
1	Ineffective	Yes
2	Requires Significant Improvement	Yes
3	Partially Effective	Yes
4	Majority Effective	No
5	Effective	No

From the assessments completed, 44 improvements have been documented. Please refer to Attachment 3 for a listing of these improvements. This attachment also includes which staff member(s) has been nominated as the control improvement owner and timeframes for start and completion dates.

Automated email notifications are sent to nominated staff in line with relevant timeframes to ensure improvements are addressed on a timely basis. It should be noted that start and completion dates are set by the reviewer of the control who is usually a line manager or in a Management position and generally best placed to set realistic timeframes for nominated control improvement owners. The progression of all continuous improvements established in Control Track will continue to be a regular item on both the Management Executive Team and Audit Committee Agendas.

Management are committed to continuous improvement initiatives.

Control Track is just one means for recording and reporting financial control improvements. A major benefit of the Control Track tool is that it facilitates all actors to be involved in the assessment process.

More broadly across all of Council further continuous improvement initiatives are being documented, reviewed and incorporated using the process improvement plan template (refer Attachment 5).

Conclusion

The customisation and implementation of Control Track for the assessment and review of mandatory controls has been completed. Of the 33 broad assessment categories developed, 25 have been reviewed and completed. Of the 220 controls that were summarised into the 33 broad categories, 44 improvement plans have been documented and assigned to relevant staff with varying start and completion dates.

The progression of improvement plans and review of the remaining eight assessment categories will continue to be regular item on both the Management Executive Team and Audit Committee Agendas.

Attachments

[Attachment 1 \(AR17/48838\): Control Track Implementation Update](#)

[Attachment 2 \(AR18/17862\): Control Track – Summary Assessments including progress 2017/2018](#)

[Attachment 3 \(AR18/18167\): Control Track – Improvements for Completed Assessments – Master List 2017/2018 YES](#)

[Attachment 4 \(AR17/43253\): Process Improvement Plan - Template](#)





Kahli ROLTON
MANAGEMENT ACCOUNTANT



Jeroen ZWIJNENBURG
ACTING GENERAL MANAGER COUNCIL BUSINESS SERVICES

9 May 2018
KR



Improvement ID	Description	over Due		Priority	Start Date	Due Date	Business Unit	Responsible User
		Days	%					
TR-10	Debtor receipting review. Options are as Assessor has suggested. Other options to consider is having Customer Service receipt payments into the system or having invoices raised by relevant offsite locations and therefore allowing a Finance Officer to receipt payment for those specific locations.	108.662	50	Low	01/05/2018	31/05/2018	Finance	Janine Amoroso
TR-13	Incorporation of all outstanding receipts into bank reconciliation process so that bank transaction reconciliation aligns with the bank balance as per the date of reconciliation.	78.6618	30	Low	02/04/2018	30/06/2018	Finance	Janine Amoroso
TR-9	EFT Banking Access	78.9743	50	Low	01/06/2018	30/06/2018	Finance	Jeroen Zwijnenburg
TR-27	Implement an aged debtor report review with sign off and date by the Manager Finance and Customer Service monthly and GM Council Business Services quarterly.	43.6618	0	Low	01/07/2018	04/08/2018	Finance	Jeroen Zwijnenburg
TR-48	Review the report and investigate if we can find an alternative report, either through Civica / Authority, or using an SQL query that can read this information through an excel output.	-44.297	0	Low	01/08/2018	31/10/2018	Finance	Janine Amoroso
TR-38	Restrict Access to Accounts Receivable Master File to cover only those listed in the IFC. Staff to be removed: KM Rolton, L Little, KM Gibbons.	110.662	0	Low	22/05/2018	29/05/2018	Finance	Joanne Fowler
TR-19	General Manager sign off required for all Assets sold, deleted, removed from Asset Registers for current year.	108.662	0	Low	16/05/2018	31/05/2018	MTG	Kahli Rolton
TR-26	Access restrictions required to CVR Master File. Please restrict to personnel listed in the reviewer's reasoning.	117.662	0	Low	15/05/2018	22/05/2018	Finance	Joanne Fowler
TR-17	Asset Register Calculations - set up a procedure to ensure a spot check is completed at least every 1/2 year for a selection of asset transactions. ensure working papers filed in content manager.	-75.297	0	Low	01/07/2018	01/12/2018	Finance	Wendy McLean
TR-20	Prepare a process and incorporate to Council's IFCs to ensure verification of fixed assets to Councils FAR.	37.6618	0	Low	20/07/2018	10/08/2018	Finance	Wendy McLean
TR-29	As per Assessor's comments. Detailed Key Register.	-105.3	0	Low	01/09/2018	31/12/2018	Finance	Wendy McLean
TR-18	Fixed Assets - automated procedure to reconcile capital expenditure and identify which assets are ready for capitalization. Also need to limit who can set up workorders and attach CVR's to those workorders, which will stop a lot of double up work at the outset	-104.59	50	Low	11/05/2018	31/12/2018	MTG	Kahli Rolton
TR-28	Incorporate insurance details in Council's asset register.	78.9743	60	Low	31/05/2018	30/06/2018	MTG	Kahli Rolton
TR-8	Implementation of Inventory Control for significant items at Depot Stores	3.66177	0	Low	13/06/2018	13/09/2018	MTG	Kahli Rolton
TR-14	Main Corner Stock Control	93.6618	100	Low	30/04/2018	15/06/2018	Finance	Janine Amoroso

TR-43	Within fuel there are discrepancies that require further investigation and/or changes in process to capture the variance as when this occurs and followed up by the area of responsibility as soon as this has been identified. Finding is that over the last many month the variances have been reduced and matters are improving. Further confirmation is suggested. Overall financially, an immaterial impact, therefore still assessed as Partially Effective.	-13.338	90	Low	01/08/2018	30/09/2018	Finance	Janine Amoroso
TR-44	The Cash Flow monitoring process is currently primarily based on Week-by-week assessment. The EoM spreadsheet has a first attempt at building a longer term CF Forecast. This will need to be further expanded.	-13.338	0	Low	01/07/2018	30/09/2018	Finance	Jeroen Zwijnenburg
TR-30	Implement an objective independent criteria and ensure all conflicts of interest are documented.	-286.34	0	Low	01/07/2018	30/06/2019	Finance	Barbara Cernovskis
TR-39	More detailed minutes of City Infrastructure meetings with respect to questions/discussions regarding project overspends need to be kept	16.6618	0	Low	01/06/2018	31/08/2018	Finance	Nick Serle
TR-40	Investigate authority controls to ensure suitable approval of scope/budget changes	-105.3	0	Low	01/08/2018	31/12/2018	Finance	Nick Serle
TR-16	Credit Cards - Issue of	-59.297	0	Low	10/10/2018	15/11/2018	Governance	Michael McCarthy
TR-45	Employee Reimbursements - hold training with accounts payable staff to increase knowledge in this area and ensure IFC are upheld. Communicate to all staff via intranet "Did you know"	121.662	0	Low	11/05/2018	18/05/2018	Finance	Janine Amoroso
TR-46	Employee Reimbursements - amend IFC procedure manual to incorporate controls for CEO reimbursements and authorization.	99.9743	90	Low	15/05/2018	09/06/2018	MTG	Kahli Rolton
TR-11	Embedding of regular process (incl. exception reporting, HR salary report sign off)	-13.338	80	Low	01/07/2018	30/09/2018	Finance	Janine Amoroso
TR-12	Review the process of documenting changes to the payroll data for improvement	-13.338	0	Low	09/07/2018	30/09/2018	Finance	Janine Amoroso
TR-15	Removal of unnecessary staff from Supplier maintenance	93.6618	0	Low	17/04/2018	15/06/2018	Finance	Janine Amoroso
TR-21	Locking Down of suppliers to ensure staff can only raise purchase orders with prequalified, preferred, contracted and quoted suppliers.	-104.59	10	Low	11/06/2018	31/12/2018	MTG	Kahli Rolton
TR-22	Contractor Module - set up, implement, train staff & ensure procedure in place so that the program evolves and is dynamic with time.	-44.297	10	Low	02/07/2018	31/10/2018	MTG	Lisa Hinton
TR-24	Investigate secure options both short term and longer term for tender submissions via the tenders@mountgambier.sa.gov.au email address.	-31.297	10	Low	12/07/2018	18/10/2018	MTG	Lisa Hinton
TR-23	Investigate Audit Trail for changes made to purchasing parameters (ie Financial limits) and implement procedure for quarterly reviews of any changes made (similar to payroll master file changes and the checking that occurs with those).	-105.3	0	Low	18/09/2018	31/12/2018	Finance	Janine Amoroso

TR-42	Continuous Training for all staff on Council's Policies and procedures at regular intervals (ie every 2 years). Ensure that when any alterations are made to policies and procedures, staff are kept up to date and knowledgeable.	-13.338	0	Low	01/07/2018	30/09/2018	MTG	Pamela Lee
TR-31	Improvement includes annual / regular refresher training and an organizational wide people and culture framework and strategy.	-284.34	0	Low	02/07/2018	28/06/2019	Finance	Barbara Cernovskis
TR-55	EoY process to ensure we capture all accruals necessary. Process can then be pursued into FY2019 for quarterly / monthly EoM close process.	78.6618	0	Low	01/05/2018	30/06/2018	Finance	Racheal Tilley
TR-53	Confirm the assumptions that are now applied to the provisions (May / June 2018)	93.6618	100	Low	08/05/2018	15/06/2018	Finance	Jeroen Zwijnenburg
TR-54	Monthly journal for AL and LSL provision that properly reflect the changes to this provision on a monthly / fortnightly basis.	86.6618	100	Low	09/05/2018	22/06/2018	Finance	Jeroen Zwijnenburg
TR-33	As part of the QBR include GM sign off confirming that all grant funding within their portfolio is being account for and expended in accordance with the grant funding T&Cs and the Grant Register is up to date.	-284.03	0	Low	02/07/2018	28/06/2019	MTG	Kahli Rolton
TR-32	Grant register required. Life cycle costs associated with grants / grant funded projects to be understood and taken into account in the LTFP and ABP&B.	-1000	100	Low	02/07/2018	28/06/2019	MTG	Kahli Rolton
TR-47	Access to masterfile to be updated per assessors comments	100.662	0	Low	08/05/2018	08/06/2018	Finance	Joanne Fowler
TR-52	Review the implementation of fees and charges within Council's Authority System & Customer Service SOPs	47.6618	0	Low	01/06/2018	31/07/2018	Finance	Leanne Little
TR-56	prepare a full property schedule and ensure that all items including lease payments, utilities, incidentals etc are listed so that finance are fully aware of what is required to be oncharged per the agreements. Another column should be for finance to complete the date and what they billed to the leasee/licensee. Further to this, look into the contractor module to determine if this module could be used to help track and link transactions to the finance module.	-199.03	20	Low	04/01/2019	04/04/2019	Governance	Michael McCarthy
TR-34	Build on the existing strategic management planning framework to include a comprehensive budgeting component to the framework. The Integrated Planning and Budgeting Framework 1 page diagram is a first step.	-226.34	0	Low	03/09/2018	01/05/2019	MTG	Kahli Rolton
TR-51	Remove access from those who should not have access	47.6618	0	Low	01/07/2018	31/07/2018	Finance	Joanne Fowler
TR-35	Improvements identified in the area of more comprehensive documentation, training and business partnering with budget holders and MET; and rigorous alignment of strategic management plans, Community Plan and ABP&B and BUPs; and improved IAMPs particularly for asset class that are not currently documented.	-287.03	0	Low	01/08/2018	01/07/2019	MTG	Pamela Lee
TR-50	Further review of this tool and identification where this could be used.	16.6618	0	Low	01/08/2018	31/08/2018	MTG	Kahli Rolton

TR-41	Improvements required around access to Journal entries and independent sign off of journals for segregation of duties and to ensure accuracy of the general ledger.	16.6618	100	Low	01/06/2018	31/08/2018	Finance	Jeroen Zwijnenburg
TR-25	General Ledger Maintenance Access - please remove all staff not listed as authorized to have access in the IFCs. Please refer to Assessor's comments for further detail.	124.662	0	Low	09/05/2018	15/05/2018	Finance	Joanne Fowler
TR-49	1) Authority Hierarchy 2) GL Code review 3) alignment of BR, Budget and EoM reporting templates 4) creation of Monthly MET report	-196.3	50	Low	27/08/2018	01/04/2019	Finance	Jeroen Zwijnenburg
TR-36	Review / establish a procedures register similar to the Policy Register for council's procedures. Ensure the register is available on Council's Intranet.	-193.03	0	Low	03/09/2018	29/03/2019	Governance	Michael McCarthy
TR-37	Improvements in integration, alignment and forward planning of statutory reporting has been discussed and staff concerned are aware of the need for improvements.	-284.34	70	Low	02/07/2018	28/06/2019	Finance	Jeroen Zwijnenburg

Total Count 49

Summary

- 5 Complete
- 14 In progress
- 30 Not Started

City of Mount Gambier

General Purpose Financial Reports for the year ended 30 June 2018

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City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Certification of Financial Statements

We have been authorised by the Council to certify the financial statements in their final form. In our opinion:

- the accompanying financial statements comply with the *Local Government Act 1999*, *Local Government (Financial Management) Regulations 2011* and Australian Accounting Standards.
- the financial statements present a true and fair view of the Council's financial position at 30 June 2018 and the results of its operations and cash flows for the financial year.
- internal controls implemented by the Council provide a reasonable assurance that the Council's financial records are complete, accurate and reliable and were effective throughout the financial year.
- the financial statements accurately reflect the Council's accounting and other records.

.....
Mark McShane
CHIEF EXECUTIVE OFFICER

.....
Andrew Lee
MAYOR

City of Mount Gambier

Statement of Comprehensive Income for the year ended 30 June 2018

		2018	2017
	Notes	\$'000	\$'000
INCOME			
Rates	2	20,597	19,672
Statutory charges	2	447	421
User charges	2	4,506	4,515
Grants, subsidies and contributions	2	3,906	4,858
Investment income	2	62	35
Reimbursements	2	61	196
Other income	2	522	650
Total Income		<u>30,101</u>	<u>30,347</u>
EXPENSES			
Employee costs	3	11,033	10,728
Materials, contracts & other expenses	3	10,023	10,168
Depreciation, amortisation & impairment	3	7,004	7,331
Finance costs	3	236	269
Total Expenses		<u>28,296</u>	<u>28,496</u>
OPERATING SURPLUS / (DEFICIT)		1,805	1,851
Asset disposal & fair value adjustments	4	(243)	48
Amounts received specifically for new or upgraded assets	2	445	2,189
Physical resources received free of charge	2	463	1,213
NET SURPLUS / (DEFICIT)		<u>2,470</u>	<u>5,301</u>
transferred to Equity Statement			
Other Comprehensive Income			
<i>Amounts which will not be reclassified subsequently to operating result</i>			
Changes in revaluation surplus - infrastructure, property, plant & equipment	9	22,325	(13,457)
Impairment (expense) / recoupments offset to asset revaluation reserve	9	(1,217)	-
Total Other Comprehensive Income		<u>21,108</u>	<u>(13,457)</u>
TOTAL COMPREHENSIVE INCOME		<u>23,578</u>	<u>(8,156)</u>

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

City of Mount Gambier
Statement of Financial Position
as at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	5	4,587	3,028
Trade & other receivables	5	1,524	1,354
Inventories	5	304	32
Total current assets		<u>6,415</u>	<u>4,414</u>
Non-current assets			
Financial assets	6	-	35
Infrastructure, property, plant & equipment	7	246,964	228,257
Total non-current assets		<u>246,964</u>	<u>228,292</u>
Total assets		<u>253,379</u>	<u>232,706</u>
LIABILITIES			
Current liabilities			
Trade & other payables	8	2,429	2,951
Borrowings	8	218	206
Provisions	8	2,332	3,288
Total current liabilities		<u>4,979</u>	<u>6,445</u>
Non-current liabilities			
Borrowings	8	2,572	2,790
Provisions	8	3,593	3,599
Total non-current Liabilities		<u>6,165</u>	<u>6,389</u>
Total liabilities		<u>11,144</u>	<u>12,834</u>
NET ASSETS		<u>242,235</u>	<u>219,872</u>
EQUITY			
Accumulated surplus		64,769	61,333
Asset revaluation reserves	9	176,619	155,509
Other reserves	9	847	3,030
TOTAL EQUITY		<u>242,235</u>	<u>219,872</u>

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

City of Mount Gambier

Statement of Changes in Equity for the year ended 30 June 2018

2018	Notes	Accumulated surplus \$'000	Asset revaluation reserve \$'000	Available for sale financial assets \$'000	Other reserves \$'000	Total equity \$'000
Balance at end of previous reporting period		61,333	155,509	-	3,030	219,872
Net surplus / (deficit) for the year		1,253				1,253
Other Comprehensive Income						
Gain on revaluation of infrastructure, property, plant & equipment	9		22,325			22,325
Impairment (expense) / recoupments offset to asset revaluation reserve			(1,217)			(1,217)
Other equity adjustments		(0)	2		0	2
Transfers between reserves	9	2,183			(2,183)	-
Balance at end of period		64,769	176,619	-	847	242,235
2017	Notes	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at end of previous reporting period		54,680	168,966	-	4,382	228,028
Net surplus / (deficit) for the year		5,301				5,301
Other Comprehensive Income						
Gain on revaluation of infrastructure, property, plant & equipment	9		(13,457)			(13,457)
Other equity adjustments		-				-
Transfers between reserves	9	1,352			(1,352)	-
Balance at end of period		61,333	155,509	-	3,030	219,872

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 2018

	Notes	2018 \$'000	2017 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
<u>Receipts</u>			
Rates - general & other		19,522	19,682
Fees & other charges		447	454
User charges		4,343	4,752
Investment receipts		62	33
Grants utilised for operating purposes		3,906	5,222
Reimbursements		61	216
Other revenues		597	4,034
<u>Payments</u>		-	-
Employee costs		(12,591)	(10,692)
Materials, contracts & other expenses		(8,940)	(13,711)
Finance payments		(172)	(201)
Net cash provided by (or used in) Operating Activities		<u>7,235</u>	<u>9,789</u>
 CASH FLOWS FROM INVESTING ACTIVITIES			
<u>Receipts</u>			
Amounts specifically for new or upgraded assets		445	2,189
Sale of replaced assets		146	407
Sale of surplus assets		71	105
Repayments of loans by community groups		35	40
<u>Payments</u>		-	-
Expenditure on renewal/replacement of assets		(3,920)	(3,253)
Expenditure on new/upgraded assets		(2,247)	(6,322)
Net cash provided by (or used in) Investing Activities		<u>(5,470)</u>	<u>(6,834)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES			
<u>Payments</u>			
Repayments of borrowings		(206)	(874)
Net cash provided by (or used in) Financing Activities		<u>(206)</u>	<u>(874)</u>
Net increase / (decrease) in cash held		1,559	2,081
 Cash & cash equivalents at beginning of period	10	<u>3,028</u>	<u>947</u>
Cash & cash equivalents at end of period	10	<u>4,587</u>	<u>3,028</u>

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 1 – Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1 Basis of preparation

1.1 Compliance with Australian Accounting Standards

This general purpose financial report has been prepared on a going concern basis using the historical cost convention in accordance with Australian Accounting Standards as they apply to not-for-profit entities, other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations and relevant South Australian legislation.

The financial report was authorised for issue by certificate under regulation 14 of the *Local Government (Financial Management) Regulations 2011* dated 16 October 2018.

1.2 Historical cost convention

Except as stated below, these financial statements have been prepared in accordance with the historical cost convention.

1.3 Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates, and requires management to exercise its judgement in applying Council's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are specifically referred to in the relevant sections of these Notes.

1.4 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

2 The Local Government reporting entity

City of Mount Gambier is incorporated under the SA Local Government Act 1999 and has its principal place of business at 10 Watson Terrace, Mount Gambier. These financial statements include the Council's direct operations and all entities through which Council controls resources to carry on its functions. In the process of reporting on the Council as a single unit, all transactions and balances between activity areas and controlled entities have been eliminated.

3 Income recognition

Income is measured at the fair value of the consideration received or receivable. Income is recognised when the Council obtains control over the assets comprising the income, or when the amount due constitutes an enforceable debt, whichever first occurs.

Where grants, contributions and donations recognised as incomes during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the amounts subject to those undischarged conditions are disclosed in these notes. Also disclosed is the amount of grants, contributions and receivables recognised as incomes in a previous reporting period which were obtained in respect of the Council's operations for the current reporting period.

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 1 (cont) – Significant Accounting Policies

In recent years the payment of untied financial assistance grants has varied from the annual allocation as shown in the table below

	Cash Payment Received	Annual Allocation	Difference	
2015/16	\$1,435,554	\$2,752,676	-	\$1,317,122
2016/17	\$3,907,937	\$2,580,055	+	\$1,327,882
2017/18	\$3,171,660	\$3,017,871	-	\$153,789

Because these grants are untied, the Australian Accounting Standards require that payments be recognised upon receipt. Accordingly, the operating results of these periods have been distorted compared to those that would have been reported had the grants been paid in the year to which they were allocated.

The Operating Surplus Ratio disclosed in note 13 has also been calculated after adjusting for the distortions resulting from the differences between the actual grants received and the grants entitlements allocated.

The actual amounts of untied grants received during the reporting periods (including the advance allocations) are disclosed in note 2.

3.1 Construction contracts

Construction works undertaken by Council for third parties are generally on an agency basis where the third party reimburses Council for actual costs incurred, and usually do not extend beyond the reporting period. As there is no profit component, such works are treated as 100% completed. Reimbursements not received are recognised as receivables and reimbursements received in advance are recognised as "payments received in advance".

4 Cash, cash equivalents and other financial instruments

Cash Assets include all amounts readily convertible to cash on hand at Council's option with an insignificant risk of changes in value with a maturity of three months or less from the date of acquisition.

Receivables for rates and annual charges are secured over the subject land, and bear interest at rates determined in accordance with the Local Government Act 1999. Other receivables are generally unsecured and do not bear interest.

All receivables are reviewed as at the reporting date and adequate allowance made for amounts the receipt of which is considered doubtful.

All financial instruments are recognised at fair value at the date of recognition. A detailed statement of the accounting policies applied to financial instruments forms part of note 12.

5 Inventories

Inventories held in respect of stores have been valued by using the weighted average cost on a continual basis, after adjustment for loss of service potential. Inventories held in respect of business undertakings have been valued at the lower of cost and net realisable value. For the reporting year inventories include work in progress, where in the comparison year these were capitalised within the non-current fixed assets.

6 Infrastructure, property, plant & equipment

6.1 Initial recognition

All assets are initially recognised at cost. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition.

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 1 (cont) – Significant Accounting Policies

All non-current assets purchased or constructed are capitalised as the expenditure is incurred and depreciated as soon as the asset is held "ready for use". Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including architects' fees and engineering design fees and all other costs incurred. The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overhead.

6.2 Materiality

Assets with an economic life in excess of one year are only capitalised where the cost of acquisition exceeds materiality thresholds established by Council for each type of asset. In determining (and in annually reviewing) such thresholds, regard is had to the nature of the asset and its estimated service life. Examples of capitalisation thresholds applied during the year are given in Note 7. No capitalisation threshold is applied to the acquisition of land or interests in land.

6.3 Subsequent recognition

All material asset classes are revalued on a regular basis such that the carrying values are not materially different from fair value. For infrastructure and other asset classes where no active market exists, fair value is determined to be the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset. Further detail of existing valuations, methods and valuers are provided at Note 7.

6.4 Depreciation of non-current assets

Other than land, all infrastructure, property, plant and equipment assets recognised are systematically depreciated over their useful lives on a straight-line basis which, in the opinion of Council, best reflects the consumption of the service potential embodied in those assets.

Depreciation methods, useful lives and residual values of classes of assets are reviewed annually.

Major depreciation periods for each class of asset are shown in Note 7. Depreciation periods for infrastructure assets have been estimated based on the best information available to Council, but appropriate records covering the entire life cycle of these assets are not available, and extreme care should be used in interpreting financial information based on these estimates.

6.5 Impairment

Assets that have an indefinite useful life are not subject to depreciation and are reviewed annually for impairment. Assets carried at fair value whose future economic benefits are not dependent on the ability to generate cash flows, and where the future economic benefits would be replaced if Council were deprived thereof, are not assessed for impairment.

Other assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash outflows or value in use).

Where an asset that has been revalued is subsequently impaired, the impairment is first offset against such amount as stands to the credit of that class of assets in Asset Revaluation Reserve, any excess being recognised as an expense.

7 Payables

7.1 Goods & services

Creditors are amounts due to external parties for the supply of goods and services and are recognised as liabilities when the goods and services are received. Creditors are normally paid 30 days after the month of invoice. No interest is payable on these amounts.

City of Mount Gambier

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 1 (cont) – Significant Accounting Policies

7.2 Payments received in advance & deposits

Amounts received from external parties in advance of service delivery, and security deposits held against possible damage to Council assets, are recognised as liabilities until the service is delivered or damage reinstated, or the amount is refunded as the case may be.

8 Borrowings

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period to which it relates, and is recorded as part of "Payables". Interest free loans are carried at their nominal amounts; interest revenues foregone by the lender effectively being a reduction of interest expense in the period to which it relates.

9 Employee benefits

9.1 Salaries, wages & compensated absences

Liabilities for employees' entitlements to salaries, wages and compensated absences expected to be paid or settled within 12 months of reporting date are accrued at nominal amounts (including payroll based oncosts) measured in accordance with AASB 119.

Liabilities for employee benefits not expected to be paid or settled within 12 months are measured as the present value of the estimated future cash outflows (including payroll based oncosts) to be made in respect of services provided by employees up to the reporting date. Present values are calculated using government guaranteed securities rates with similar maturity terms.

Weighted average discount rate	1.94% (2017, 1.63%)
Weighted average settlement period	1 year (2017, 1 year)

No accrual is made for non-vesting sick leave as Council experience indicates that, on average, sick leave taken in each reporting period is less than the entitlement accruing in that period, and this experience is expected to recur in future reporting periods. Council does not make payment for untaken non-vesting sick leave.

An accrual is made for vesting sick leave and Council does make payment for vesting sick leave in accordance with the Enterprise Bargaining Agreement for AWU employees.

9.2 Superannuation

The Council makes employer superannuation contributions in respect of its employees to the Local Government Superannuation Scheme. The Scheme has two types of membership, each of which is funded differently. No changes in accounting policy have occurred during either the current or previous reporting periods. Details of the accounting policies applied and Council's involvement with the schemes are reported in Note 16.

10 Provisions for reinstatement, restoration, rehabilitation, etc.

Capping and restoration costs include the dismantling and demolition of infrastructure, the removal of residual materials and the remediation and rehabilitation of disturbed areas. Estimated close capping and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, and are carried at the net present value of estimated future costs.

Although estimated future costs are based on a closure plan, such plans are based on current environmental requirements which may change, Council's policy to maximise recycling is extending the operational life of these facilities, and significant uncertainty exists in the estimation of the future closure date.

City of Mount Gambier

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 1 (cont) – Significant Accounting Policies

11 GST implications

In accordance with UIG Abstract 1031 *Accounting for the Goods & Services Tax*

- receivables and creditors include GST receivable and payable;
- except in relation to input taxed activities, revenues and operating expenditures exclude GST receivable and payable;
- non-current assets and capital expenditures include GST net of any recoupment, and;
- amounts included in the Statement of Cash Flows are disclosed on a gross basis.

12 New accounting standards

Certain new accounting standards and UIG interpretations have been published that are not mandatory for the 30 June 2017 reporting period and have not been used in preparing these reports.

AASB 7	Financial Instruments – Disclosures
AASB 9	Financial Instruments
AASB 15	Revenue from Contracts with Customers
AASB 16	Leases
AASB 1058	Income of Not-for-Profit Entities

Standards containing consequential amendments to other standards and Interpretations arising from the above - AASB 2010-7, AASB 2014-1, AASB 2014-3, AASB 2014-7, AASB 2014-8, AASB 2014-10, AASB 2015-1, AASB 2015-2, AASB 2015-3, AASB 2015-4, AASB 2015-8, AASB 2015-10, AASB 2016-7 and AASB 2016-8.

(Standards not affecting local government have been excluded from the above list.)

Council is of the view that other than AASB 16 and AASB 1058, none of the above new standards or interpretations will affect any of the amounts recognised in the financial statements, but that they may impact certain information otherwise disclosed.

Accounting Standard AASB 16 *Leases* may have a material effect on the amounts disclosed in these reports, particularly in relation to infrastructure, property, plant & equipment. Accounting Standard AASB 1058 *Income of Not-for-Profit Entities* may have a material effect on the amounts disclosed in these reports, particularly in revenues from grants & subsidies. Neither of these standards commence until the 2019/20 financial period and it is not Council's intention to adopt this standard early.

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 2 - Income

	Notes	2018 \$'000	2017 \$'000
RATES REVENUES			
<u>General Rates</u>		19,594	18,755
Less: Discretionary rebates, remissions & write offs		(221)	(197)
<u>Other Rates</u> (including service charges)			
Natural Resource Management levy		1,079	1,038
<u>Other Charges</u>			
Penalties for late payment		79	76
Legal & other costs recovered		67	-
Total rates revenue		20,597	19,672
STATUTORY CHARGES			
Development Act fees		95	88
Town planning fees		110	97
Health & septic tank inspection fees		21	-
Animal registration fees & fines		143	152
Parking fines / expiation fees		18	32
Other licences, fees, & fines		60	52
Total statutory charges		447	421
USER CHARGES			
Cemetery/crematoria fees		817	969
Green waste collection		472	460
Landfill charges		2,112	1,949
Hall & equipment hire		279	334
Recycling		132	131
Sales - general		441	289
Bus ticketing		242	274
Sales - sundry		11	109
Total user charges		4,506	4,515
INVESTMENT INCOME			
Interest on investments			
Local Government Finance Authority		49	34
Banks & other		13	1
Total investment income		62	35

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

NOTE 2 - Income (continued)

	Notes	2018 \$'000	
REIMBURSEMENTS			
Reimbursements - roadworks		14	44
Reimbursements - private works		63	98
Reimbursements - other		(16)	54
Total reimbursements		61	0
OTHER INCOME			
Insurance & other recoupments - infrastructure, property, plant & equipment		148	473
Donations		57	28
Other income - sundry		317	149
Total other income		522	650
GRANTS, SUBSIDIES, CONTRIBUTIONS			
Amounts received specifically for new or upgraded assets		445	2,189
Other grants, subsidies and contributions			
Untied - Financial Assistance Grant		3,172	3,908
Roads to Recovery		564	763
Grants - tied		-	-
Library & Communications		148	179
Grants, subs, contributions - sundry		22	8
Subtotal - other grants, subsidies and contributions		3,906	4,858
Total grants, subsidies, contributions		4,351	7,047
<i>The functions to which these grants relate are shown in Note 11.</i>			
Sources of grants			
Commonwealth government		564	763
State government		3,787	6,284
		4,351	7,047

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

NOTE 2 - Income (continued)

	2018	2017
Notes	\$'000	\$'000
Conditions over grants & contributions		
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:		
Unexpended at the close of the previous reporting period	130	-
Less: expended during the current period from revenues recognised in previous reporting periods		
Bicycle Funding Program	(40)	-
Salvage Yard	(90)	-
Subtotal	(130)	-
Plus: amounts recognised as revenues in this reporting period but not yet expended in accordance with the conditions		
Bicycle Funding Program	-	40
Salvage Yard	-	90
Rail Trail - Stage 3	250	-
Subtotal	250	130
Unexpended at the close of this reporting period	250	130
 Net increase / (decrease) in assets subject to conditions in the current reporting period	 120	 130
 PHYSICAL RESOURCES RECEIVED FREE OF CHARGE		
Land - free of charge	188	127
Roads & footpaths - free of charge	269	1,086
Art - free of charge	6	-
Total physical resources received free of charge	463	1,213

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 3 - Expenses

	Notes	2018 \$'000	2017 \$'000
EMPLOYEE COSTS			
Salaries and wages		8,785	9,493
Employee leave expense		944	146
Superannuation	16	997	966
Workers' compensation insurance		262	420
Operating employee costs - other		45	61
Total operating employee costs		11,033	10,728
<i>Total number of employees expressed in full time equivalents</i>		125	123
MATERIALS, CONTRACTS & OTHER EXPENSES			
<u>Prescribed expenses</u>			
Audit fees			
- Auditing the financial reports		33	21
Bad and doubtful debts		23	-
Elected members' expenses		459	310
Election expenses		14	8
Subtotal - Prescribed expenses		529	339
<u>Other materials, contracts & expenses</u>			
Contractors		1,528	3,023
Repairs & maintenance		575	-
Contributions / donations		581	763
<u>Individually significant items</u>			
Energy		835	718
Insurance		282	324
Levies paid to government - EPA, ESL & dog levies		1,114	987
NRM levy expense		1,079	1,041
Materials		206	1,345
Training		193	195
Sundry expenses		3,101	1,433
Subtotal - Other materials, contracts & expenses		9,494	9,829
		10,023	10,168

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 3 - Expenses (continued)

	Notes	2018 \$'000	2017 \$'000
DEPRECIATION, AMORTISATION & IMPAIRMENT			
Depreciation			
Buildings & Other Structures		2,363	2,873
Infrastructure			
- Waste management		623	581
- Stormwater drainage		99	99
- Bridges		3	3
- Footpaths & kerbing		702	669
- Roads		1,826	1,753
- Carparks		249	248
Plant & Equipment		701	699
Office Equipment		158	143
Other		280	263
Impairment of derecognised assets		1,217	-
		8,221	7,331
Less: Impairment expense offset to asset revaluation re	9	(1,217)	-
		7,004	7,331
Interest on overdraft and short-term drawdown		-	19
Interest on loans		172	182
Unwinding of present value discounts		64	68
		236	269

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 4 - Gain / (loss) on asset disposal

	2018	2017
Notes	\$'000	\$'000
INFRASTRUCTURE, PROPERTY, PLANT & EQUIPMENT		
<i>Assets renewed or directly replaced</i>		
Proceeds from disposal	146	407
Less: Carrying amount of assets sold	100	403
Gain / (loss) on disposal	46	4
 Asset surplus to requirements		
Proceeds from disposal	71	105
Less: Carrying amount of assets sold	85	61
Gain / (loss) on disposal	(14)	44
 Impairment of disposed assets	 (275)	 -
	(275)	-
NET GAIN/(LOSS) ON DISPOSAL, OR REVALUATION OF ASSETS	(243)	48

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 5 - Current assets

	Notes	2018 \$'000	2017 \$'000
CASH & EQUIVALENT ASSETS			
Cash on hand and at bank		327	152
Deposits at call		3,522	2,876
Short term deposits & bills, etc		738	-
		4,587	3,028
Rates - General & other		430	433
Accrued revenues		11	6
Debtors - general		883	761
GST recoupment		155	141
Prepayments		53	-
Loans to community organisations		35	33
Total		1,567	1,374
Less: Allowance for doubtful debts		43	20
		1,524	1,354
Stores & materials		20	18
Trading stock		10	14
Work in progress		274	-
		304	32

Note 6 - Non-current assets

	Notes	2018 \$'000	2017 \$'000
FINANCIAL ASSETS			
Loans to community organisations		-	35
Total financial assets		-	35

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 7 - Infrastructure, property, plant & equipment

	Fair Value Level	2017 \$'000				2018 \$'000			
		At fair value	At cost	Accumulated depreciation	Carrying amount	At fair value	At cost	Accumulated depreciation	Carrying amount
Land	2	10,063	-	-	10,063	10,063	-	-	10,063
Land	3	41,589	128	-	41,717	41,590	361	-	41,951
Buildings & other structures	2	1,009	9	-	1,018	1,009	9	-	1,018
Buildings & other structures	3	98,446	1,123	(32,620)	66,949	96,041	2,227	(33,793)	64,475
Waste Management	3	7,678	1,169	(5,446)	3,401	7,678	1,198	(6,068)	2,808
<u>Infrastructure</u>		-	-	-	-	-	-	-	-
- Stormwater drainage	3	6,953	96	(1,887)	5,162	6,953	232	(1,986)	5,199
- Bridges	3	164	-	(70)	94	164	-	(73)	91
- Footpaths & kerbing	3	14,755	1,247	(2,348)	13,654	68,200	2,728	(16,555)	54,373
- Roads	3	90,998	2,239	(24,045)	69,192	59,059	4,273	(15,194)	48,138
- Carparks	3	9,955	29	(2,299)	7,685	10,155	76	(2,092)	8,139
Plant & equipment	3	-	7,030	(1,909)	5,121	(118)	7,743	(2,491)	5,134
Office equipment	3	-	1,909	(1,490)	419	-	2,060	(1,648)	412
Ridloch collection	3	-	2,059	-	2,059	1,369	2,065	-	3,434
Other	3	-	2,944	(1,221)	1,723	-	3,232	(1,501)	1,731
Total infrastructure, property, plant & equipment		281,610	19,982	(73,335)	228,257	302,163	26,204	(81,403)	246,964
Comparatives		295,748	2,430	(67,829)	230,349	281,610	19,982	(73,335)	228,257

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 7 - Infrastructure, property, plant & equipment

	2017	Carrying amount movements during the year							2018	
	\$'000	\$'000							\$'000	
	Carrying amount	Additions		Disposals	Depreciation	Impairment	Transfers		Net revaluation	Carrying amount
	New/Upgrade	Renewals	In				Out			
Land	10,063	-	-	-	-	-	-	-	-	10,063
Land	41,717	234	-	-	-	-	-	-	-	41,951
Buildings & other structures	1,018	-	-	-	-	-	-	-	-	1,018
Buildings & other structures	66,949	399	705	-	(2,363)	(1,215)	-	-	-	64,475
Waste Management	3,401	30	-	-	(623)	-	-	-	-	2,808
Infrastructure										
- Stormwater drainage	5,162	4	132	-	(99)	-	-	-	-	5,199
- Bridges	94	-	-	-	(3)	-	-	-	-	91
- Footpaths & kerbing	13,654	1,021	459	(29)	(702)	-	21,290	-	18,679	54,372
- Roads	69,192	252	1,782	(245)	(1,826)	-	-	(21,290)	273	48,138
- Carparks	7,685	47	-	-	(249)	-	-	-	655	8,138
Plant & equipment	5,121	3	897	(185)	(701)	(2)	-	-	-	5,133
Office equipment	419	15	136	-	(158)	-	-	-	-	412
Riddoch collection	2,059	6	-	-	-	-	-	-	1,369	3,434
Other	1,723	236	53	-	(280)	-	-	-	-	1,732
	228,257	2,247	4,164	(459)	(7,004)	(1,217)	21,290	(21,290)	20,976	246,964
Comparatives	234,422	10,621	4,466	(464)	(7,331)	-	-	-	3,932	228,257

This note continues on the following pages.

City of Mount Gambier

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 7 (cont) – Infrastructure, property, plant & equipment

Note 7 – Infrastructure, property, plant & equipment

Valuation of Assets

General Valuation Principles

Accounting procedure:

Upon revaluation, the current new replacement cost and accumulated depreciation are re-stated such that the difference represents the fair value of the asset determined in accordance with AASB 13 Fair Value Measurement: accumulated depreciation is taken to be the difference between current new replacement cost and fair value. In the case of land, revaluations and additions are recorded per the Valuer General's valuation.

Highest and best use:

For land which Council has an unfettered right to sell, the "highest and best use" recognises the possibility of the demolition or substantial modification of some or all of the existing buildings and structures affixed to the land.

Much of the land under Council's care and control is Crown land or has been declared as community land under the provisions of the Local Government Act 1999. Other types of restrictions also exist.

For land subject to these restrictions, the highest and best use is taken to be the "highest and best use" available to Council, with a rebuttable presumption that the current use is the "highest and best use". The reason for the current use of a large proportion of Council's assets being other than the "highest and best use" relates to Council's principal role as the provider of services to the community, rather than the use of those assets for the generation of revenue.

For buildings and other structures on and in the land, including infrastructure, "highest and best use" is determined in accordance with the land on and in which they are situated.

Fair value hierarchy level 2 valuations

Certain land, and the buildings and structures thereon, are shown above as being based on fair value hierarchy level 2 valuation inputs. They are based on prices for similar assets in an active market, with directly or indirectly observable adjustments for specific advantages or disadvantages attaching to the particular asset.

Fair value hierarchy level 3 valuations of land

Valuations of Crown land, community land and land subject to other restrictions on use or disposal, shown above as being based on fair value hierarchy level 3 valuation inputs, are based on prices for similar assets in an active market, but include adjustments for specific advantages or disadvantages attaching to the particular asset that are not directly or indirectly observable in that market, or the number and / or amount of observable adjustments of which are so great that the valuation is more fairly described as being based on level 3 valuation inputs.

Fair value hierarchy level 3 valuations of buildings, infrastructure and other assets

There is no known market for these assets and they are valued at depreciated current replacement cost. This method involves:

- The determination of the cost to construct the asset (or its modern engineering equivalent) using current prices for materials and labour, the quantities of each being estimated based on recent experience of this or similar Councils, or on industry construction guides where these are more appropriate.
- The calculation of the depreciation that would have accumulated since original construction using current estimates of residual value and useful life under the prime cost depreciation method adopted by Council.

This method has significant inherent uncertainties, relying on estimates of quantities of materials and labour, residual values and useful lives, and the possibility of changes in prices for materials and labour, and the potential for development of more efficient construction techniques.

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 7 (cont) – Infrastructure, property, plant & equipment

Capitalisation thresholds used by Council for a representative range of assets are shown below. No capitalisation threshold is applied to the acquisition of land or interests in land.

Office furniture & equipment	\$5,000
Other plant & equipment	\$5,000
Buildings - new construction/extensions	\$5,000
Park & playground furniture & equipment	\$5,000
Road construction & reconstruction	\$5,000
Paving & footpaths, kerb & gutter	\$5,000
Stormwater & drainage	\$5,000
Artworks	\$5,000

These thresholds are indicative only and where an asset is material by its nature rather than value, the capitalisation threshold may be a lesser amount.

Estimated useful lives:

Useful lives are estimated for each individual asset. In estimating useful lives, regard is given to technical and commercial obsolescence, as well as legal and other limitations on continued use. The range of useful lives for a representative range of assets is shown below, although individual assets may have an estimated total useful life of greater or lesser amount. The useful life represents Council's expected availability for use and is in line with Council's planned replacement schedules.

Land	indefinite
Furniture & equipment	
Office equipment & software	3 to 25 years
Office furniture	10 years
Plant & machinery	
Staff vehicles	2 years
Trucks	5 to 25 years
Rollers, loaders, graders & tractors	10 to 25 years
Sundry plant	2 to 15 years
Building & other structures	
Buildings – structure	50 to 100 years
Buildings – roofing	40 years
Buildings – services	40 to 60 years
Buildings – fit-out	15 to 25 years
Park shelters & other structures	20 to 30 years
Playground equipment	20 to 30 years
Benches, seats, etc.	10 to 20 years
Infrastructure	
Sealed roads – seal	12 to 40 years
Sealed roads – pavements	30 to 75 years
Sealed roads – sub pavements	120 to 150 years
Unsealed roads	10 to 20 years
Bridges – concrete	50 years
Footpaths	10 to 70 years
Kerbing & channels	40 to 70 years
Stormwater drainage	70 years
Landfill assets	6 to 12 years
Other Assets	
Library books	10 to 15 years
Artworks	indefinite

City of Mount Gambier

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 7 (cont) – Infrastructure, property, plant & equipment

Land

Council being of the opinion that it is not possible to attribute a value sufficiently reliably to qualify for recognition, land under roads has not been recognised in these reports. Land acquired for road purposes during the year is initially recognised at cost, but transferred to fair value at reporting date, effectively writing off the expenditure.

Freehold land and land over which Council has control, but does not have title, is recognised on the cost basis. No capitalisation threshold is applied to the acquisition of land or interests in land.

Land Improvements

Land improvements, including bulk earthworks with an assessed unlimited useful life, are recognised on the cost basis, originally deriving from a valuation at 30 June 1997 at current replacement cost. Additions are recognised at cost.

Buildings & other structures

Buildings and other structures were revalued as at 1 July 2016 by Richard Wood, AAPI CPV, of Opteon Property Group. Additions are recognised at cost.

Infrastructure

Transportation assets were valued by Council officers at depreciated current replacement cost during the reporting period ended 30 June 2018, based on actual costs incurred during the reporting periods ended 30 June 2018. All acquisitions made after the respective dates of valuation are recorded at cost.

Stormwater drainage infrastructure was valued by Council officers as at 30 June 2018 at depreciated current replacement cost, based on actual costs incurred during the reporting period ended 30 June 2018. All acquisitions made after the respective dates of valuation are recorded at cost.

Landfill

Landfill remediation and cell development assets are amortised on a consumption basis over the individual landfill cell's capacity to receive waste. At the time of construction of a cell, Council includes the present value of estimated costs to cap and close the cell into the landfill cell. This estimate is offset by the recognition of a provision. This recognition of the capping costs is amortised in line with the consumption of the landfill cell's capacity used in any one year.

Plant, furniture & equipment

These assets are recognised at historical cost.

All other assets

These assets are recognised at historical cost. Library books and other lending materials are capitalised in bulk each year and written off when fully depreciated.

The Riddoch art collection was revalued as at 30 June 2018 by Simon Storey Art and Cultural Collection Valuers. These assets are not depreciated.

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 8 - Liabilities

	2018	2017
	\$'000	\$'000
TRADE & OTHER PAYABLES		
Notes		
Goods & services	1,519	2,066
Payments received in advance	153	163
Accrued expenses - employee entitlements	361	292
Accrued expenses - other	247	9
Deposits, retentions & bonds	88	249
Other payables	61	172
Total trade & other payables	2,429	2,951
 BORROWINGS Current		
Loans current	218	206
Total borrowings current	218	206
<i>All interest bearing liabilities are secured over the future revenues of the Council.</i>		
 BORROWINGS Non-current		
Loans non-current	2,572	2,790
Total borrowings non-current	2,572	2,790
 PROVISIONS Current		
Employee entitlements (including oncosts)	2,332	2,288
Future reinstatement / restoration, etc.	-	1,000
Total provisions current	2,332	3,288
 PROVISIONS Non-current		
Employee entitlements (including oncosts)	161	232
Future reinstatement / restoration, etc.	3,432	3,367
Total provisions non-current	3,593	3,599

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 9 - Reserves

EQUITY

Asset Revaluation Reserve	Opening	Net increments (decrements)	Transfers, impairments	Closing
	\$'000	\$'000	\$'000	\$'000
Land	41,311	-	-	41,311
Buildings & structures	57,606	(4,257)	(1,215)	52,134
Infrastructure	52,172	24,425	(2,776)	73,821
Waste management	-	132	2,776	2,908
Plant & equipment	770	-	-	770
Minor plant	34	2	(2)	34
Carparks	-	655	-	655
Other assets	3,616	1,370	-	4,986
TOTAL	155,509	22,327	(1,217)	176,619
<i>Comparatives 30 June 2017</i>	<i>168,966</i>	<i>(13,457)</i>	<i>-</i>	<i>155,509</i>

Other Reserves	Opening	Transfers to reserve	Transfers from reserve	Closing
	\$'000	\$'000	\$'000	\$'000
Long service leave	724	-	(724)	-
Downstream drainage	219	-	(219)	-
Work in progress	1,314	-	(1,314)	-
Mount Gambier Cemetery	696	14	-	710
Mayor Christmas Appeal	-	38	-	38
Christmas Parade	-	13	-	13
Junior Sports Assistance Fund	77	9	-	86
	3,030	74	(2,257)	847
<i>Comparatives 30 June 2017</i>	<i>4,382</i>	<i>1,428</i>	<i>(2,780)</i>	<i>3,030</i>

PURPOSES OF RESERVES

Asset Revaluation Reserve

The asset revaluation reserve is used to record increments and decrements arising from changes in fair value of non-current assets (less any subsequent impairment losses, where applicable).

Other Reserves

Other reserves are used when reserves are maintained for the purpose of specific Council committees or for committed funds of Council.

Long Service Leave

The Long Service Leave reserve represented funds for the purpose of the City of Mount Gambier employee long service leave entitlements (2017). This reserve was discontinued in 2018 as these liabilities are separately accounted for under provisions in the Statement of Financial Position.

Downstream Drainage

The downstream drainage reserve represented funds recently contributed by developers and held by Council to complete drainage obligations and included interest received on the quarantined funds (2017). This reserve was discontinued in 2018 as these liabilities were considered part of the broader expectations of Council to maintain drainage, irrespective of funding.

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Work in Progress

The work in progress reserve represents Council works and projects that are carried over from one budgetary year to the next. It represents work in progress expenditure not yet incurred at the end of the budget year. Transfers from the fund are made as and when required with works and projects normally completed in the year following. This reserve is discontinued from the reporting year onwards.

Mount Gambier Cemetery

The Mount Gambier cemetery reserve represents funds that have been allocated for any development works or projects that may be required at the Carinya Gardens Cemetery and Crematorium. Transfers to the reserve include Cemetery interest received.

Mayor Christmas Appeal

The Mayor Christmas Appeal reserve represents bank funds and payables of the City of Mount Gambier related to the Mayor Christmas Appeal and to be used for that purpose.

Christmas Parade

The Christmas Parade reserve represents bank funds and payables of the City of Mount Gambier related to the Christmas Parade and to be used for that purpose.

Junior Sports Assistance Fund

The Junior Sports Assistance Fund reserve represents bank funds and payables of the City of Mount Gambier related to the Junior Sporting Assistance Fund and to be used for that purpose.

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 10 - Reconciliation of 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 Statement of Financial Position as follows:

	Notes	2018 \$'000	2017 \$'000
Total cash & equivalent assets	5	4,587	3,028
Less: Short-term borrowings	8	-	-
Balances per Cash Flow Statement		<u>4,587</u>	<u>3,028</u>

(b) Reconciliation of change in Net assets to Cash flows from Operating Activities

Net surplus / (deficit)		2,470	5,301
Non-cash items in Income Statement			
Depreciation, amortisation & impairment	3	7,004	7,331
Net increase / (decrease) in unpaid employee benefits		42	36
Premiums & discounts recognised & unwound	3	64	68
Change in allowances for under-recovery		-	-
Non-cash asset acquisitions	2	(463)	(1,213)
Grants for capital acquisitions treated as Investing Activity	2	(445)	(2,189)
Net (gain) / loss on disposals	4	243	(48)
		<u>8,915</u>	<u>9,286</u>
Add / (less): Changes in net current assets			
Net (increase) / decrease in receivables		(170)	(203)
Net (increase) / decrease in inventories		(272)	7
Net (increase) / decrease in other current assets		-	-
Net increase / (decrease) in trade & other payables		(589)	699
Net increase / (decrease) in other provisions		-	-
Net increase / (decrease) in other reserves		(649)	-
Net increase / (decrease) in other liabilities		-	-
Net cash provided by (or used in) operations		<u>7,235</u>	<u>9,789</u>

(c) Non-Cash Financing and Investing Activities

Acquisition of assets by means of:

- Physical resources received free of charge	2	463	1,213
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(d) Financing arrangements

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

Bank overdrafts	250	250
Corporate credit cards	25	29
LGFA Cash Advance Debenture facility	10,000	10,000

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 2018

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)		
2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	
Administration / Support Services	23,768	23,580	2,489	6,724	21,280	16,856	3,172	3,908	57,360	18,934
Community Support	884	1,111	2,203	2,113	(1,319)	(1,002)	3	4	8,854	9,467
Culture	465	549	6,994	3,402	(6,529)	(2,853)	148	179	-	42,602
Economic Development	304	317	2,037	1,977	(1,733)	(1,660)	-	-	21	4,734
Environment	2,994	2,892	5,728	5,315	(2,735)	(2,423)	9	4	8,044	11,834
Recreation	115	73	3,151	2,837	(3,036)	(2,764)	-	-	769	40,235
Regulatory Services	398	430	1,202	1,036	(804)	(606)	-	-	-	-
Transport	578	807	3,014	3,439	(2,436)	(2,632)	564	763	102,769	92,305
Engineering / Indirect	-	-	1,164	1,230	(1,164)	(1,230)	-	-	75,561	7,100
Unclassified Activities	595	588	314	423	280	165	10	-	-	9,467
Total	30,101	30,347	28,296	28,496	1,804	1,851	3,906	4,858	253,378	236,678

Revenues and expenses exclude net gain / (loss) on disposal or revaluation of assets, 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 2018

Note 11 (cont)– Components of functions

The activities relating to Council functions are as follows:

Business undertakings

Private Works and Landfill Facility.

Community Services

Public Order and Safety, Crime Prevention, Emergency Services, Other Fire Protection, Other Public Order and Safety, Health Services, Pest Control – Health, Immunisation, Preventive Health Services, Other Health Services, Community Support, Senior Citizens Facilities, Children and Youth Services, Community Assistance, Other Community Support, Community Amenities, Bus Shelters, Cemeteries / Crematoria, Public Conveniences, Car Parking – non-fee-paying, and Other Community Amenities.

Culture

Library Services, Other Library Services, Cultural Services, Cultural Venues, Heritage, Museums and Art Galleries, and Other Cultural Services.

Economic Development

Regional Development, Tourism, Visitor Information and Other Economic Development.

Environment

Animal/Plant Boards, Waste Management, Domestic Waste, Green Waste, Recycling, Transfer Station, Other Waste Management, Other Environment, Stormwater and Drainage, Street Cleaning, Street Lighting, Streetscaping, Natural Resource Management Levy, and Other Environment.

Recreation

Parks and Gardens, Sports Facilities – Indoor, Sports Facilities – Outdoor, Swimming Centres – Outdoor, and Other Recreation.

Regulatory Services

Dog and Cat Control, Building Control, Town Planning, Clean Air/Pollution Control, Litter Control, Health Inspection, Parking Control, and Other Regulatory Services.

Transport

Bridges, Footpaths and Kerbing, Roads – sealed, Roads – formed, Roads – natural formed, Roads – unformed, Traffic Management and Other Transport.

Unclassified activities

Finance charges and investment revenue, private works and sundry property maintenance.

Council Administration

Governance, Elected Members, Organisational, Support Services, Accounting/Finance, Payroll, Human Resources, Information Technology, Communication, Rates Administration, Records, Occupancy, Customer Service, Other Support Services, Revenues, Separate and Special Rates.

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 12 - Financial instruments

All financial instruments are categorised as *loans and receivables*.

Accounting policies - Recognised financial instruments

Bank, deposits at call, short term deposits

Accounting Policy: Carried at lower of cost and net realisable value; Interest is recognised when earned.

Terms & conditions: Deposits are returning fixed interest rates between 1.5% and 2.15% (2017: 1.5% and 2.15%). Short term deposits have an average maturity of 1 days and an average interest rates of 1.5% (2017: 1days, 1.50%).

Carrying amount: approximates fair value due to the short term to maturity.

Receivables - Rates & associated charges (including legals & penalties for late payment)

Accounting policy: Carried at nominal values less any allowance for doubtful debts. An allowance for doubtful debts is recognised (and re-assessed annually) when collection in full is no longer probable.

Terms & conditions: Secured over the subject land, arrears attract interest of 5.5% (2017: 7%) Although Council is not materially exposed to any individual debtor, credit risk exposure is concentrated within the Council's boundaries in the State.

Carrying amount: approximates fair value (after deduction of any allowance).

Receivables - Fees & other charges

Accounting policy: Carried at nominal values less any allowance for doubtful debts. An allowance for doubtful debts is recognised (and re-assessed annually) when collection in full is no longer probable.

Terms & conditions: Unsecured, and do not bear interest. However, certain charges can be secured to a property where legislative criteria is met. Although Council is not materially exposed to any individual debtor, credit risk exposure is concentrated within the Council boundaries and Council properties immediately surrounding Council boundaries.

Carrying amount: approximates fair value (after deduction of any allowance).

Receivables - other levels of government

Accounting Policy: Carried at nominal value.

Terms & conditions: Amounts due have been calculated in accordance with the terms and conditions of the respective programs following advice of approvals, and do not bear interest. All amounts are due by Departments and Agencies of State and Federal Governments.

Carrying amount: approximates fair value.

Liabilities - Creditors and accruals

Accounting policy: Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Council.

Terms & conditions: Liabilities are normally settled on 30 day terms or in line with the specific terms and conditions of the supplier.

Carrying amount: approximates fair value.

Liabilities - Interest Bearing Borrowings

Accounting policy: Carried at the principal amounts. Interest is charged as an expense as it accrues.

Terms & conditions: secured over future revenues, borrowings are repayable (2 repayments per year with fixed terms of 10 and 15 years); interest is charged at fixed (or variable 3.75% as at 30 June 2018) rates between 5.05% and 5.97% (2017: 5.05% and 5.97%).

Carrying amount: approximates fair value.

Liabilities - Finance leases

Accounting policy: accounted for in accordance with AASB 117.

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 12 (cont) - Financial instruments

Liquidity analysis

2018	Due < 1 year	Due > 1 year; ≤ 5 years	Due > 5 years	Total contractual cash flows	Carrying values
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets					
Cash & equivalents	4,587	-	-	4,587	4,587
Receivables	883	-	-	883	883
Other financial assets	35	-	-	35	35
Total	5,505	-	-	5,505	5,505
Financial liabilities					
Payables	2,429	-	-	2,429	2,429
Current borrowings	218	-	-	218	218
Non-current borrowings	-	852	1,720	2,572	2,572
Total	2,647	852	1,720	5,219	5,219
2017	Due < 1 year	Due > 1 year; < 5 years	Due > 5 years	Total contractual cash flows	Carrying values
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets					
Cash & equivalents	3,028	-	-	3,028	3,028
Receivables	767	-	-	767	767
Other financial assets	33	35	-	68	68
Total	3,828	35	-	3,863	3,863
Financial liabilities					
Payables	2,605	-	-	2,605	2,605
Current borrowings	206	-	-	206	206
Non-current borrowings	-	838	1,952	2,790	2,790
Total	2,811	838	1,952	5,601	5,601

The following interest rates were applicable to Council's borrowings at balance date:

	30 June 2018		30 June 2017	
	Weighted average interest rate %	Carrying value \$'000	Weighted average interest rate %	Carrying value \$'000
Overdraft		-		-
Other variable rates		-		-
Fixed interest rates	5.96%	2,790	5.51	2,996
		<u>2,790</u>		<u>2,996</u>

Net fair value

All carrying values approximate fair value for all recognised financial instruments. There is no recognised market for the financial assets of the Council.

Risk exposures

Credit risk represents the loss that would be recognised if counterparties fail to perform as contracted. The maximum credit risk on financial assets of the Council is the carrying amount, net of any allowance for doubtful debts. All Council investments are made with the SA Local Government Finance Authority and are guaranteed by the SA Government. Except as detailed in Notes 5 and 6 in relation to individual classes of receivables, exposure is concentrated within the Council's boundaries, and there is no material exposure to any individual debtor.

Market risk is the risk that fair values of financial assets will fluctuate as a result of changes in market prices. All of Council's financial assets are denominated in Australian dollars and are not traded on any market, and hence neither market risk nor currency risk apply.

Liquidity risk is the risk that Council will encounter difficulty in meeting obligations with financial liabilities. In accordance with the model Treasury Management Policy (LGA Information Paper 15), liabilities have a range of maturity dates. Council also has available a range of bank overdraft and standby borrowing facilities that it can access.

Interest rate risk is the risk that future cash flows will fluctuate because of changes in market interest rates. Council has a balance of both fixed and variable interest rate borrowings and investments. Cash flow fluctuations are managed holistically in seeking to minimise interest costs over the longer term in a risk averse manner.

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 13 - Financial indicators

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.

	2018	2017
Operating surplus ratio		
$\frac{\text{Operating surplus}}{\text{Total operating revenue}}$	6.0%	6.00%

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

Net financial liabilities ratio

$\frac{\text{Net financial liabilities}}{\text{Total operating revenue}}$	17%	28%
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Net financial liabilities are defined as total liabilities less financial assets. These are expressed as a percentage of total operating revenue.

Adjustments to ratios

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.

Adjusted operating surplus ratio	6.5%	1.8%
Net financial liabilities ratio	17%	29%

Asset sustainability ratio

$\frac{\text{Net asset renewals}}{\text{Infrastructure \& Asset Management Plan required expenditure}}$	72%	63%
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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 2018

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.

	2018 \$'000	2017 \$'000
Income	30,101	30,347
less Expenses	<u>28,296</u>	<u>28,496</u>
Operating surplus / (deficit)	1,805	1,851
less Net outlays on existing assets		
Capital expenditure on renewal and replacement of existing assets	4,193	3,253
Depreciation, amortisation and impairment	(7,004)	(7,331)
Proceeds from sale of replaced assets	<u>(146)</u>	<u>(407)</u>
	(2,957)	(4,485)
less Net outlays on new and upgraded assets		
Capital expenditure on new and upgraded assets <i>(including investment property & real estate developments)</i>	2,247	6,322
Amounts received specifically for new and upgraded assets	(445)	(2,189)
Proceeds from sale of surplus assets <i>(including investment property and real estate developments)</i>	<u>(71)</u>	<u>(105)</u>
	1,731	4,028
Net lending / (borrowing) for financial year	3,031	2,308

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 15 - Operating leases

Lease payment commitments of Council

Council has entered into non-cancellable operating leases for various items of computer and other plant and equipment.

No lease imposes any additional restrictions on Council in relation to additional debt or further leasing. Leases in relation to computer and office equipment permit Council, at expiry of the lease, to elect to re-lease, return or acquire the equipment leased.

No lease contains any escalation clause.

Commitments under non-cancellable operating leases that have not been recognised in the financial statements are as follows:

	2018 \$'000	2017 \$'000
Not later than one year	-	86
Later than one year and not later than 5 years	10	45
Later than 5 years	-	-
	<u>10</u>	<u>131</u>

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 16 - Superannuation

The Council makes employer superannuation contributions in respect of its employees to the superannuation scheme selected by the employee. The default Superannuation Fund is Statewide Super (formerly Local Government Superannuation Scheme). There are two types of membership, each of which is funded differently. Permanent and contract employees of the South Australian Local Government sector with Salarylink benefits prior to 24 November 2009 have the option to contribute to the Accumulation section and/or Salarylink. All other employees (including casuals) have all contributions allocated to the Accumulation section.

Accumulation only Members

Accumulation only members receive both employer and employee contributions on a progressive basis. Employer contributions are based on a fixed percentage of ordinary time earnings in accordance with superannuation guarantee legislation (9.50% in 2017/18 and 2016/17) and enterprise bargaining agreement (1% in 2017/18 and 2016/17). No further liability accrues to the Council as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund.

Salarylink (Defined Benefit Fund) Members

Salarylink is a defined benefit scheme where the benefit payable is based on a formula determined by the member's contribution rate, number of years and level of contribution and final average salary. Council makes employer contributions to Salarylink as determined by the Fund's Trustee based on advice from the appointed Actuary. The rate is currently 6.3% (6.3% in 2016/17) of "superannuation" salary.

In addition, Council makes a separate contribution of 3% of ordinary time earnings for Salarylink members to their Accumulation account plus an additional 1% per enterprise bargaining agreement. Employees also make member contributions to the Salarylink section of the Fund. As such, assets accumulate in the Salarylink section of the Fund to meet the member's benefits, as defined in the Trust Deed, as they accrue.

The Salarylink section is a multi-employer sponsored plan. As the Salarylink section's assets and liabilities are pooled and are not allocated by each employer, and employees may transfer to another employer within the local government sector and retain membership of the Fund, the Actuary is unable to allocate benefit liabilities, assets and costs between employers. As provided by AASB 119.32(b), Council does not use defined benefit accounting for these contributions.

The most recent actuarial investigation was conducted by the Fund's actuary, Willis Towers Watson as at 30 June 2017. The Trustee has determined that the current funding arrangements are adequate for the expected Salarylink liabilities. However, future financial and economic circumstances may require changes to Council's contribution rates at some future time.

Contributions to other superannuation schemes

Council also makes contributions to other superannuation schemes selected by employees under the "choice of fund" legislation. All such schemes are of the accumulation type, where the superannuation benefits accruing to the employee are represented by their share of the net assets of the scheme, and no further liability attaches to the Council.

City of Mount Gambier

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 17 - Contingencies & assets & liabilities not recognised in the balance sheet

The following assets and liabilities do not qualify for recognition in the Balance Sheet but knowledge of those items is considered relevant to users of the financial report in making and evaluating decisions about the allocation of scarce resources.

1. Land under roads

As reported elsewhere in these Statements, Council is of the opinion that it is not possible to attribute a value sufficiently reliably for these assets to qualify for recognition, and accordingly land under roads has not been recognised in these reports. Land acquired for road purposes during the year is initially recognised at cost, but transferred to fair value at reporting date, effectively writing off the expenditure.

At reporting date, Council controlled 228 kilometres of road reserves of average width 20 metres.

2. Potential insurance losses

Council is a multi-purpose organisation providing a large range of buildings, parks infrastructure, playgrounds and other facilities accessible to the public. At any time, it is likely that claims will have been made against Council that remain unsettled.

Council insures against all known insurable risks using a range of insurance policies, each of which is subject to a deductible "insurance excess", the amount of which varies according to the class of insurance.

Council has recognised the potential losses arising from claims known at reporting date based on average historical net cost (including insurance excess) of similar types of claims. Other potential claims not reported to Council may have existed at reporting date.

3. Bank guarantees

Council has guaranteed certain loans and other banking facilities advanced to community organisations and sporting bodies, amounting to \$34,936 (2017: \$110,000) at reporting date.

Council does not expect to incur any loss arising from these guarantees.

4. Legal expenses

Council is the relevant planning authority for its area pursuant to the Development Act 1993. Certain persons aggrieved by a planning decision of Council may appeal against the decision to the Environment, Resources and Development Court. It is normal practice as part of these proceedings that parties bear their own legal costs. At the date of these reports, Council has not received notice of any appeals against planning decisions made prior to reporting date. All known costs have been recognised, but the amount of further costs cannot be known until the appeals are determined.

City of Mount Gambier

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 18 - Related party disclosures

Key Management Personnel

The Key Management Personnel of the Council include the Mayor, Councillors, CEO and certain prescribed officers under section 112 of the Local Government Act 1999. In all, 17 persons were paid the following total compensation:

	2018
	\$'000
Salaries, allowances & other short term benefits	1,169
Post-employment benefits	96
Long term benefits	12
Termination benefits	148
Total	1,425

Other than amounts paid as ratepayers or residents (e.g. rates, swimming pool entry fees, etc.), Council

	2018
	\$'000
Contributions for fringe benefits tax purposes	-
Planning and building applications fees	-
Rentals for Council property	-
Total	-

Parties related to Key Management Personnel

Two Key Management Personnel and/or relatives of Key Management Personnel are members in organisations that received Council support in the year, e.g. through sponsorship of community and sporting.

Key Management Personnel and/or relatives of Key Management Personnel own retail businesses from which various supplies were purchased as required either for cash or on 30 day account. These purchases were made on normal commercial terms on an arms's length basis. No individual purchases from these businesses exceeded \$3,400 during the year.

No Key Management Personnel or close family member (including related parties) lodged a planning application during the year.

City of Mount Gambier

Annual Financial Statements
for the year ended 30 June 2018

Certification of Auditor Independence

To the best of our knowledge and belief, we confirm that, for the purpose of the audit of the City of Mount Gambier for the year ended 30 June 2018, the Council's Auditor, Galpins Accountants, Auditors & Business Consultants., has maintained its independence in accordance with the requirements of the Local Government Act 1999 and the Local Government (Financial Management) Regulations 2011 made under that Act.

This statement is prepared in accordance with the requirements of Regulation 22(3) Local Government (Financial Management) Regulations 2011.

.....
Mark McShane
CHIEF EXECUTIVE OFFICER

.....
Cr Sonya Mezinac
ACTING PRESIDING MEMBER
AUDIT COMMITTEE

City of Mount Gambier

Annual Financial Statements
for the year ended 30 June 2018

Certification of Auditor Independence

To the best of our knowledge and belief, we confirm that, for the purpose of the audit of the City of Mount Gambier for the year ended 30 June 2018, the Council's Auditor, Galpins Accountants, Auditors & Business Consultants., has maintained its independence in accordance with the requirements of the Local Government Act 1999 and the Local Government (Financial Management) Regulations 2011 made under that Act.

This statement is prepared in accordance with the requirements of Regulation 22(3) Local Government (Financial Management) Regulations 2011.

.....
Mark McShane
CHIEF EXECUTIVE OFFICER

.....
Cr Sonya Mezinac
**ACTING PRESIDING MEMBER
AUDIT COMMITTEE**

Galpins

Accountants, Auditors
& Business Consultants

David Chant CA, FCPA
Simon Smith CA, FCPA
David Sullivan CA, CPA
Jason Seidel CA
Renae Nicholson CA
Tim Muhlhausler CA
Aaron Coonan CA
Luke Williams CA, CPA
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under Professional Standards Legislation



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 2017-18

We have recently completed our audit of the financial statements and internal controls of the City of Mount Gambier and intend to issue an unmodified report for both the financial statements and the internal controls opinion, following additional procedures to confirm the allocations and treatment in several Notes to the Financial Statements, specifically Notes 7, 9 & 10.

Australian Auditing Standards require us to advise all the Immaterial Uncorrected Misstatements found during the audit. There are no Immaterial Uncorrected Misstatements to be reported.

I confirm also my intention to sign the Statement by Auditor regarding my independence, and confirm that for the audit of the year ended 30 June 2018 I have maintained my independence in accordance with the requirements of APES 110 – Code of Ethics for Professional Accountants, Section 290, published by the Accounting Professional and Ethical Standards Board, in accordance with the Local Government Act 1999 and the Local Government (Financial Management) Regulations 2011 made under that Act.

Yours faithfully,

GALPINS ACCOUNTANTS, AUDITORS & BUSINESS CONSULTANTS

Tim Muhlhausler CA, Registered Company Auditor
Partner

14/09/2018

 City of Mount Gambier	COUNCIL POLICY T150 TREASURY MANAGEMENT	Version No:	7
		Issued:	16 January 2018
		Next Review:	December 2019

1. INTRODUCTION

This Policy provides direction to Council in relation to the treasury function.

Council is committed to adopting and maintaining a Long Term Financial Plan (LTFP) and operating in a financially sustainable manner to assist it to determine affordable service levels and revenue raising needs. The LTFP also provides projections of future cash flow availability and needs.

2. PURPOSE

The purpose of this policy is to underpin Council's decision-making in the financing of its operations in the context of its annual budget, LTFP, cash flow, borrowings and investments.

3. POLICY STATEMENTS

This policy provides direction to Council in relation to the treasury function and establishes a decision making framework to ensure:

- Funds are available as required to support approved capital and operational expenditure; and
- Interest rate risks and other risks (e.g. liquidity risks and investment credit risks) are acknowledged and responsibly managed, while:
 - Minimising the net interest expenses associated with borrowings and investments over the longer term; and
 - Ensuring that outstanding debt is repaid as quickly as possible and therefore that the gross level of debt held by Council is minimised.

3.1 Treasury Management Strategy

Council's operating and capital expenditure decisions are made on the basis of:

- Identified community needs and benefits relative to other expenditure options;
- Cost effectiveness of the proposed means of service delivery; and
- Affordability of projects and proposals having regard to Council's long term financial sustainability, including consideration of the cost of capital and the impact of the project or proposal on Council's financial and sustainability ratios.

The consideration whether borrowings are required to fund the operating or capital expenditure will be addressed as a separate decision to the commitment to the operating/capital expenditure. However, overall potential impact on the Council's debt and/or equity position will be considered for all major operating and capital expenditure decisions. The treasury management decision will be in accordance with the criteria specified in this policy.

Council manages its finances holistically in accordance with its overall financial sustainability strategies, ratios and targets. This means Council will only borrow funds when it needs funds corporately, rather than basing this decision on the funding requirements of the particular operating or capital project.

**COUNCIL POLICY
T150 TREASURY MANAGEMENT**

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Council recognises that on average the rate of return it can receive from investing money is less than the interest rate charged on borrowed funds. For this reason, it will not retain and/or quarantine money for particular funding purposes (except where so required by legislation or agreement with other parties). Instead, Council will seek to apply any funds it has that are not immediately required to meet approved expenditure, to reduce its level of borrowings or to defer and/or reduce the level of new borrowings that would otherwise be required.

For example: where funds are received for specific purposes, these funds will be pooled by Council based on its treasury management policy, independent of the need to use these funds at a later stage for the specific purposes for which the funding was received.

3.2 Annual Debt Limit

On an annual basis, Council will consider its debt limit to ensure that funds are available as required to support approved outlays and to account for working capital requirements. The annual debt level will vary from the opening and closing debt disclosed in the Annual Business Plan and Budget due to the timing of receipt of funds from income and the timing of payments for the provision of goods and services.

3.3. Fixed and Variable Interest Rate Borrowings

Council recognises that future movements in interest rates are uncertain. It considers that by having a combination of different termed fixed and variable interest rate borrowings it is, in the longer term, well positioned to limit its interest rate risk and therefore its net interest costs over the longer term. Council will review its mix of fixed versus variable borrowings / loans on an annual basis.

In order to spread its exposure to interest rate movements, Council aims, subject to its overall debt level, to have a variety of maturity dates on its borrowings.

Fixed Interest Rate Borrowings may be either of a:

- Credit foncier basis, that is incorporating regular principal and interest repayments; or
- Fixed interest rate payments only, with or without terms that allow the full amount of principal to be repaid, or rolled over at maturity.

Council recognises that there is usually a margin between borrowing and investment rates and that it can generate savings by structuring its portfolio of borrowings so that cash inflows that are surplus to short or medium term needs can be applied, in the first instance, to reduce the level of borrowings that would otherwise be necessary. For this reason Council will, as necessary, restructure its portfolio of borrowings, as old borrowings mature and new ones are raised to provide for this level of flexibility.

Council will make use of variable interest rate borrowings facility (for example the Local Government Financing Authority's (LGFA) Cash Advance Debenture (CAD) facility) that requires interest payments only and that enables any amount of principal to be repaid or redrawn at call. The redraw facility will provide Council with access to liquidity when needed. The outstanding level of draw-downs on the facility may vary significantly during a year and between years with the timing and extent of cash inflows and outflows.

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3.4 Investments

Council is committed to openness and transparency in its financial management practices and sets out to ensure that investments are made in such a way as to maximise returns, while ensuring that risks are minimised and maintaining compliance with appropriate legislation.

The *Local Government Act 1999* sets requirements for councils to review and report on the performance of their investments. All investments are to be made in accordance with the provisions of the Local Government Act 1999, in particular attention to Sections 139 and 140. These requirements obligate the officers who are responsible for investing Council's funds to act with care, diligence and skill that a prudent person of business would exercise in managing the affairs of other persons and be aware of their responsibilities.

To maximise returns to Council for funds invested, the bank account balance of Council is assessed on a regular basis and be set at a level that meets Council's operational requirements. Council management may from time to time invest surplus funds with the LGFA or other financial institutions subject to these investments being capital-guaranteed.

Council funds available for investment will be lodged 'at call' or, having regard to differences in interest rates for fixed term investments of varying maturity dates, may be invested for a fixed term. In the case of fixed term investments the term should not exceed a point in time where the funds otherwise could be applied cost-effectively either by deferring the need to raise a new borrowing or by reducing the level of Council's variable interest rate borrowing facility.

When investing funds, Council will select the investment type which delivers the best value, having regard to investment returns, transaction costs and other relevant and objectively quantifiable factors.

Investments fixed for a period greater than 12 months are to be approved by Council.

3.5 Reporting

At least once a year Council shall receive a specific report regarding treasury management performance relative to this policy document. The report shall highlight:

- For each Council borrowing and investment, the quantum of funds, its interest rate and maturity date, interest income/expense and changes in the quantum since the previous report; and,
- The proportion of fixed interest rate (split between interest-only borrowings and credit foncier borrowings) and variable interest rate borrowings at the end date of the reporting period and an estimate of the average of these proportions across the period along with key reasons for significant variances compared with the targets specified in this policy.

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4. REVIEW & EVALUATION

This policy is scheduled for review by Council's Audit Committee biennially. Additionally, it will be reviewed when considered necessary. For example: following any legislative changes that require update to the policy.

5. AVAILABILITY OF POLICY

This policy will be available for inspection at Council's principal office during ordinary business hours and on the Council's website www.mountgambier.sa.gov.au. Copies will also be provided to interested members of the community upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.

**COUNCIL POLICY
T150 TREASURY MANAGEMENT**

Version No:	7
Issued:	16 January 2018
Next Review:	December 2019

File Reference:	AF11/1742
Applicable Legislation:	Local Government Act, 1999 Local Government (Financial Management) Regulations 2011
Reference: Community Plan 2016 - 2020	Goal 3, Our Diverse Economy
Related Policies:	I105 Internal Controls
Related Procedures:	Nil
Related Documents:	Financial Sustainability Information Papers: <ul style="list-style-type: none"> • 01 Financial Sustainability • 08 Long Term Financial Plans • 09 Financial Indicators • 10 Debt • 15 Treasury Management

DOCUMENT DETAILS

Responsibility:	General Manager Council Business Services Audit Committee
Version:	7.0
Last revised date:	16 January 2018
Effective date:	16 January 2018
Minute reference:	Council Meeting 16 January 2018, Item 13.8
Next review date:	December 2019
<u>Document History</u>	
First Adopted By Council:	15 th April, 2008
Reviewed/Amended:	June 2008, April 2009, December 2012, November 2013, October, 2016, 16 January 2018

1 Membership

- 1.1 Members of the Committee are appointed by Council.
- 1.2 The Committee will consist of at least one independent member with at least one additional member from the Elected Members of Council, consistent with any Regulations¹. The size of the committee shall be three (3) members.

The Mayor is an ex officio member of the committee.

- 1.3 Independent member(s)² of the Committee must meet at least one of the following minimum requirements for membership:
 - Have recent and relevant financial qualifications and/or experience in a relevant financial role
 - Working knowledge of risk management
 - Experience with internal or external auditing.
- 1.3 Only members of the Committee are entitled to vote (move and second) in committee meetings. Members of Council's staff may attend any meeting as observers and be responsible for preparing papers for the committee. In accordance with the principles of open, transparent and informed decision making, committee meetings must be conducted in a place open to the public. The agenda and minutes of the committee meetings, subject to any items that are discussed in confidence under Section 90 of the Local Government Act 1999 and subsequently retained as confidential under Section 91 of the Act, are also required to be made available to the public.
- 1.4 Council's external auditors shall be invited to attend a minimum of two (2) meetings of the Committee each financial year. Attendance is at the external auditor's discretion.
- 1.5 Appointments to the Committee shall be for a period of at least two years, reviewed at a common appointment date every two years. The common appointment date for existing appointees is 31 December. Appointees may be reappointed by Council.
- 1.6 Resignation of appointment must be in writing.
- 1.7 Members of the Committee, including the Presiding Member are appointed by Council.

2 Administrative Resources

The Chief Executive Officer shall provide sufficient administrative resources to the committee to enable it to adequately carry out its functions. This includes, but is not limited to:

- Adequate meeting space
- Adequate human resources to prepare agendas, reports minutes
- Connectivity for video conference, skype, internet connection, if required, etc.

¹ Section 126(2) provides that an audit committee may include persons who are not members of Council.

² A person would not be considered independent if he or she was an Elected Member of that Council. Subject to any codes of conduct adopted by Council, this does not preclude an Elected Member or an employee of a Council from being a member of an audit committee of another Council.

3 Quorum

The quorum necessary for the transaction of business shall be 50% of the number of members³ of the Committee plus one. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

4 Frequency of Meetings

The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required.

5 Notice of Meetings

5.1 Ordinary meetings of the Committee will be held at times and places as determined by the Committee. A special meeting of the Committee may be called in accordance with the Act.

5.2 Notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and supporting papers shall be forwarded to each member of the committee and known observers, no later than three (3) clear days before the date of the meeting.

6 Minutes of Meetings

6.1 The Chief Executive Officer shall ensure that the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance are minuted and that the minutes otherwise comply with the requirements of the Local Government (Procedure at Meetings) Regulations 2013.

6.2 Minutes of the Committee meetings shall be circulated within seven (7) days after a meeting to all members of the Committee and made available to the public.

7 Role of the Committee

7.1 Financial reporting and management

The Committee shall:

7.1.1 Monitor the integrity of the financial statements of the Council, including in its annual report, reviewing significant financial reporting issues and judgements which they contain.

7.1.2 Review and challenge where necessary:

7.1.2.1 The consistency of, and/or any changes to accounting policies.

7.1.2.2 The methods used to account for significant or unusual transactions where different approaches are possible.

7.1.2.3 The compliance with appropriate accounting standards and use of appropriate estimates and judgements, taking into account the views of the external auditors.

³ Where calculating 50% results in a fraction, the fraction is dropped. For example, 3 divided by 1 equals 1.5; drop the fraction of 0.5 and the result is 1.

7.1.2.4 The clarity of disclosure in the Council's financial reports and the context in which statements are made; and

7.1.2.5 All material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

7.1.3 Monitor the budgeting process and the process of review of actuals versus budget.

7.1.4 Monitor that budgets are aligned to the Strategic Management Plans.

7.2 Internal Controls and Risk Management Systems

The Committee shall:

7.2.1 Monitor the effectiveness of the Council's internal controls and risk management systems; and

7.2.2 Review and recommend the approval, where appropriate, of statements to be included in the annual report concerning internal controls and risk management.⁴

7.3 Whistle blowing

The Committee shall review the Council's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure these arrangements allow independent investigation of such matters and appropriate follow-up action.

7.4 Internal audit where Council does not have a separate internal audit function

The Committee shall:

7.4.1 Monitor and review the effectiveness of the Council's internal audit function in the context of the Council's overall risk management system.

7.4.2 Consider and make recommendation on the program of the internal audit function and the adequacy of its resources and access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.

7.4.3 Review all reports on the Council's operations from the external auditors⁵.

7.4.4 Review and monitor management's responsiveness to the findings and recommendations of the external auditors; and

⁴ It is important that the audit committee understand the business of the Council to appreciate the risks it manages on a daily basis, and to ensure that there are appropriate management plans to manage and mitigate this business risk. This will include insurance matters, financial reporting, legal and regulatory compliance, business continuity, and statutory compliance. This can be facilitated by discussions with the external auditors and by presentations by management on how business risks are identified and managed.

⁵ Note that the reports to the audit committee need not be the detailed reports that are presented to management for their review. Ordinarily a high level review report is all that is required detailing the work undertaken, the findings and management response.

7.4.5 Where appropriate, meet the auditor without management being present, to discuss any issues arising from the internal audits carried out. In addition, the external Auditor shall be given the right of direct access to the Mayor of the Council and to the Presiding Member of the Committee.

7.5 External audit

The Committee shall:

7.5.1 Develop and implement a policy on the supply of the statutory audit and non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

7.5.2 Consider and make recommendations to the Council, in relation to the appointment, re-appointment and removal of the Council's external auditor.

The Committee shall oversee the selection process for new external auditor and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.

7.5.3 Oversee Council's relationship with the external auditors including, but not limited to:

7.5.3.1 Recommending the approval of the external auditor's remuneration, whether fees for audit or non-audit services, and recommending whether the level of fees is appropriate to enable an adequate audit to be conducted.

7.5.3.2 Recommending the approval of the external auditor's terms of engagement, including any engagement letter issued at the commencement of each audit and the scope of the audit.

7.5.3.3 Assessing the external auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the extent of Council's relationship with the external auditors, including the provision of any non-audit services.

7.5.3.4 Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Council (other than in the ordinary course of business).

7.5.3.5 Monitoring the external auditor's compliance with legislative requirements on the rotation of audit partners, and

7.5.3.6 Assessing the external auditor's qualifications, expertise and resources and the effectiveness of the audit process (which shall include a report from the external auditors on the Committee's own internal quality procedures).

7.5.3.7 Action(s) to follow up on matters raised by the external auditors.

7.5.4 Meet as needed with the external auditor. The Committee shall meet the external auditor at least once a year (without management being present if requested) to discuss the external auditor's report and any issues arising from the audit.

7.5.5 Review and make recommendations on the annual audit plan, and in particular its consistency with the scope of the external audit engagement.

7.5.6 Review the findings of the audit with the auditor. This shall include, but not be limited to, the following:

- A discussion of any major issues which arose during the external audit
- Any accounting and audit judgements, and
- Levels of errors identified during the external audit.

The Committee shall also review the overall effectiveness of the external auditor.

7.5.7 Review any representation letter(s) requested by the auditor before they are signed by management⁶.

7.5.8 Review the management letter and management's response to the external auditor's findings and recommendations.

8 Reporting responsibilities

The Committee shall make whatever recommendations to Council it deems appropriate on any area within these Terms of Reference where in its view action or improvement is needed.

9 Other matters

The Committee shall:

9.1 Have access to reasonable resources in order to carry out its duties⁷.

9.2 Be provided with appropriate and timely training, both in the form of an induction program for new members and on an ongoing basis for all members.

9.3 Give due consideration to laws and regulations of the Local Government Act, 1999, including all amendments and revisions.

9.4 Oversee any investigation of activities within these Terms of Reference.

9.5 At least once per year, review its own performance; At least once every two years review its constitution and terms of reference, to ensure it is operating at maximum effectiveness and recommend changes it considers necessary to the Council for approval.

Sitting Fees for Audit Committee Members are set by Council.

Audit Committee Meeting 15 December 2017

Last Adopted Date: 16 August 2017

Adopted by Council: 19 December 2017 (TBC)

⁶ Note that these representation letters are a standard practice of any audit and provide the external auditors confirmation from management, (in particular the Chief Executive Officer) that, amongst other matters, accounting standards have been consistently applied, that all matters that need to be disclosed have been so disclosed and that the valuation of assets has been consistently applied.

⁷ Subject to any budget allocation being approved by Council.