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26 October 2018

Mr G Henley
Mayor
City of Busselton
Locked Bag 1
BUSSELTON WA 6280

Dear Grant

CITY OF BUSSELTON
30 JUNE 2018 MANAGEMENT REPORT

Following completion of our 30 June 2018 audit, we provide our Management Report and audit recommendations.

1.0 Our Audit Approach

The Australian Auditing Standards are the professional Standards applicable to all audit engagements. Accordingly, our audit was conducted in accordance with Australian Auditing Standards, with testing designed solely to enable the expression of an opinion on the financial report of the City of Busselton. This involved us making an assessment of the risk of material misstatement, whether due to fraud or error, and then using our professional judgement, applying audit procedures to mitigate that risk.

To assist Council in understanding our role as external auditor, we have previously detailed our audit responsibilities and scope of work to be performed to meet those responsibilities in our audit engagement letter.

Australian Auditing Standards require us to document and evaluate City of Busselton's system of internal control to establish the level of reliance on the internal control system in determining the nature, timing and extent of other auditing procedures necessary to enable us to complete our audit. This work is not primarily directed towards the discovery of weaknesses or the detection of fraud or other irregularities and should not, therefore, be taken to assume that no other weaknesses exist. Accordingly the comments within this letter refer only to those matters that have come to our attention during the course of our normal audit work and may not identify all possible improvements that an internal controls review may detect.

Our audit approach is based on a risk analysis methodology which relies upon our understanding of City of Busselton's operations, strategies and risks. We performed a review of applicable accounting systems and tested those during our audit. The level of testing performed by us is determined by the degree of reliance we place on the internal control systems in place which has a resulting impact on the amount of substantive testing required during our audit procedures. The level of testing performed is also aligned with what is required to form an overall opinion on the financial statements which may not coincide with what the City of Busselton perceives should be tested.

Our audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and judgements, as well as evaluating the overall presentation of the financial report.

There were no areas of disagreement either in the accounting estimates or judgements or in the presentation and disclosures made in the financial report.

2.0 Assessment of Fraud and Error

The primary responsibility for the prevention and detection of fraud is that of Council and management. As a result, it is important that management with the oversight of Council place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and resulting consequences.

In accordance with Australian Auditing Standards we are required to obtain reasonable assurance that the financial report taken as a whole is free from material misstatement, whether caused by fraud or error. While our procedures are designed to identify material weaknesses and misstatements from fraud and error, there is an unavoidable risk that even some material misstatements may remain undiscovered. This unavoidable risk is due to the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system.

We have confirmed that nothing has come to management's attention that may constitute an incident of fraud. In addition our audit procedures did not identify any instances of suspected or actual fraud. We take this opportunity to remind you that our audit is not designed to detect fraud and therefore our audit procedures are not designed for that purpose.

3.0 Significant Difficulties Encountered during the Audit

During the course of our audit, there were no areas where we experienced significant difficulties.

4.0 Audit Adjustments and Unadjusted Audit Differences

During the course of our audit, we did not identify any misstatements considered to be material at a financial report level and therefore no adjustment was required to be reflected within the final audited financial report.

5.0 Accounting Policies

We confirm to you that we are not aware of any changes to the accounting policies of the City of Busselton since 30 June 2017 in respect of the preparation of the 30 June 2018 financial report other than those changes required under Australian Accounting Standards and the Local Government Act and Regulations which are adequately disclosed.

6.0 Commitments and Contingencies

On completion of our audit and subsequent discussions with management, we did not identify any additional commitments or contingencies that required disclosure within the financial report of the City of Busselton, apart from those already disclosed.

7.0 Subsequent Events

We did not identify any additional subsequent events up until the date of this report that required disclosure within the financial report of the City of Busselton, apart from those already disclosed.

8.0 Local Government Act Compliance Measures

In conjunction with our review of the financial statements, we also perform a review of the City of Busselton's compliance with the Local Government Act and Local Government Financial Management Regulations.

Our review of compliance with the Local Government Act and Financial Management Regulations identified one instance of non-compliance which require reporting within the compliance section of our 30 June 2018 audit report as follows;

- a. The monthly financial statements for July 2017 and August 2017 were not presented at an ordinary council meeting within two months after the end of the month to which the financial statements relate; as required by Regulation 34(4) of the Local Government (Financial Management) Regulations 1996.

9.0 Financial Ratios

Note 28 to Council's financial report includes 7 financial ratios as required to be reported by the Local Government (Financial Management) Regulation 1996. For the year ended 30 June 2018, Council has either met or exceeded the standard set by the Department of Local Government, Sport and Cultural Industries for 5 of the 7 ratios.

Councils' current ratio reported at 0.88 as at 30 June 2018 (0.81 at 30 June 2017 and 0.75 at 30 June 2016) is less than the standard set at 1.0 by the Department.

However, as we have acknowledged in prior years; the current ratio calculation excludes Council's restricted assets of \$67.5m at 30 June 2018 and within this balance are Council's significant level of cash backed reserves of \$48m as at 30 June 2018.

We also note that Council's operating surplus ratio is reported at -0.04 for the year ending 30 June 2018 being below the Department's standard of +0.01, however in the previous 2015, 2016 and 2017 years, this ratio has met the Standard having ranged between +0.46 to +0.58.

10.0 Audit Recommendations

Please refer to Appendix 1 for audit recommendations identified during our 30 June 2018 audit. We provide these comments and recommendations to suggest improvements to the City of Busselton's internal controls and procedures.

We believe the minimal recommendations raised by us reflect the proactive approach taken by the finance and corporate services team in seeking continuous improvement and by implementing recommendations previously raised by us.

Our management report is on an exception basis, and therefore we have not commented on the various internal controls in place within your accounting systems.

11.0 Other Matters

Our audit indicated procedures and controls in respect to the City of Busselton's internal processes, procedures and financial reporting framework are adequately designed and have been maintained to high standards throughout the audit period.

We would like to take this opportunity to thank Kim, Ehab and the finance and corporate services team for the assistance provided to us during our audit.

Should you have any questions concerning the above or would like to discuss any other aspect of our audit, please do not hesitate to contact me.

Yours sincerely

AMD Chartered Accountants



TIM PARTRIDGE FCA
Partner

cc Mike Archer
 Chief Executive Officer

APPENDIX 1
Audit Recommendations for the year ended 30 June 2018

GUIDANCE TO FINDINGS RATING / IMPLICATION

Findings identified during the final audit have been weighted in accordance with the following scale:

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

Moderate: Those findings which are of sufficient concern to warrant action being taken by the entity as soon as possible.

Minor: Those findings that are not of primary concern however still warrant action being taken.

AUDIT FINDINGS

1. COMPLIANCE AUDIT RETURN

Finding Rating: Significant

The compliance audit return was not submitted to the Department of Local Government prior to 31 March 2018 in accordance with Regulation 15 of the Local Government (Audit) Regulations 1997.

Implication

Breach of Regulation 15 of the Local Government (Audit) Regulations 1997.

Recommendation

Ensure the compliance audit return is lodged with the Department of Local Government prior to 31 March.

Management Comment

The Compliance Audit Return (CAR) was considered by the Audit Committee at its meeting on 14 March 2018 and adopted by Council at its meeting held 28 March 2018. The CAR was subsequently signed and lodged with the Department 9 April 2017; this late lodgment was as a result of illness of a staff member and further complicated by the Easter Public holidays of Friday 30 March and Monday 2 April 2018.

APPENDIX 1
Audit Recommendations for the year ended 30 June 2018

2. CONDITION ASSESSMENT OF INFRASTRUCTURE ASSETS

Finding Rating: Significant

Our 2018 audit included an assessment of management's methodology relating to the 30 June 2018 revaluation of infrastructure assets fair values (refer Note 9) as required by Local Government (Financial Management) Regulations 1996, Regulation 17 A.

Our assessment of management's 2018 revaluation identified that condition reassessments had not been made for all infrastructure asset classes revalued as noted below:

Infrastructure Asset Class	Date of Last Condition Assessment
Roads	2014/ 2015
Car Parks	2016
Other Infrastructure	"As Time Permits"

Implication

Risk of material misstatement in respect of the fair value assessment of Council's infrastructure assets, due to asset condition ratings on which revaluations are based being out of date.

Recommendation

We recommend a condition reassessment timeline be established that outlines the actions to be taken to ensure asset revaluations are completed in accordance with regulation 17A of the Local Government (Financial Management) Regulations 1996 which incorporates a re-assessment of asset conditions by infrastructure asset class.

We draw attention to the value of Council's road network reported at \$290.5m as at 30 June 2018; representing approximately 52% of Council's infrastructure assets and 38% of Council's total assets. We therefore recommend road conditions be re-assessed during 2018/19, with the fair value of Council's road network updated accordingly.

Management Comment

Noted.

APPENDIX 1
Audit Recommendations for the year ended 30 June 2018

3. LIABILITY FOR TIME OFF IN LIEU

Finding Rating: Minor

We identified an error in the calculation of the liability recorded for Time Off in Lieu ("TOIL") owed to employees (as reported in the balance of sundry creditors within note 11 to the 30 June financial report). We note the error has resulted in the liability being understated as at 30 June 2018, however the impact of the error is immaterial and therefore has not been adjusted within the financial report for 30 June 2018.

Implication

Risk of misstatement of TOIL employee entitlements.

Recommendation

We recommend the balance of all employee entitlements reflects hours owed to each individual employee, multiplied by the employees pay rates. The entitlement balances should be regularly reconciled and updated for any change to pay rates.

Management Comment

New processes will be put into place to ensure entitlement balances are regularly reconciled and updated for any change to pay rates.

4. EXCESSIVE LEAVE BALANCES

Finding Rating: Minor

We noted 23 employees who have an annual leave balance in excess of eight weeks at year end, furthermore 17 of these employees have long service leave benefits due. Details of the employees identified can be provided upon request.

Implication

The cost to City of Busselton is greater if leave is not paid out on a regular basis due to:

- The cumulative effect of salary increases over a period of time;
- Recreational leave enhances employee performance; and
- It is a fundamental principle of good internal control that all employees take regular leave.

Recommendation

Whilst we understand management recently implemented a strategy to reduce excessive leave balances, we recommend employees take regular leave through the ongoing management of leave scheduling and leave liabilities.

Management Comment

The finding in relation to excessive leave balances for some employees is acknowledged and a process has been put in place following similar findings over the last few years.

The City continues to adopt an approach of endeavoring to achieve an overall reduction in long outstanding leave balances while still meeting the needs of the organisation. It should be noted this is an issue in relation to a few employees only; and the City does not generally have a problem with excessive leave balances.

This issue will obviously be the subject of continual review prior to and at next year's financial audit.

APPENDIX 1
Audit Recommendations for the year ended 30 June 2018

5. TERMINATED EMPLOYEE CHECKLIST

Finding Rating: Minor

We acknowledge the City of Busselton has a pro-forma Terminated Employee Checklist in place however, our testing identified one instance where this checklist was not completed following an employee's resignation. Further details can be provided on request.

Implication

Risks that procedures required to be undertaken following an employee's departure are not completed on a timely basis.

Recommendation

Termination checklists should be completed following the departure of employees to ensure, return of Council property, removal of building and IT access rights, amendment of payroll records as required and other actions relevant to the employee's position and responsibility level.

Management comment

Noted.