

minutes

Audit and Risk Committee

MEETING HELD ON **TUESDAY 13 NOVEMBER 2018**

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CITY OF JOONDALUP

MINUTES OF THE SPECIAL AUDIT AND RISK COMMITTEE MEETING HELD IN CONFERENCE ROOM 2, JOONDALUP CIVIC CENTRE, BOAS AVENUE, JOONDALUP ON TUESDAY 13 NOVEMBER 2018.

ATTENDANCE

Committee Members

Cr Christine Hamilton-Prime	<i>Presiding Member</i>	
Mayor Hon. Albert Jacob, JP		<i>to 6.06pm</i>
Cr Tom McLean, JP		
Cr Nige Jones		
Cr Christopher May		
Cr John Logan	<i>Deputy Presiding Member</i>	<i>from 5.49pm</i>
Cr Sophie Dwyer		<i>from 5.49pm</i>
Mr Richard Thomas	<i>External Member</i>	

Observer

Cr Russell Poliwka

Officers

Mr Garry Hunt	Chief Executive Officer
Mr Mike Tidy	Director Corporate Services
Mr Brad Sillence	Manager Governance
Ms Christine Robinson	Acting Manager Compliance and Regulatory Services <i>absent from 6.11pm to 6.13pm</i>
Mr Roney Oommen	Manager Financial Services
Mr Peter McGuckin	Acting Manager Executive and Risk Services
Mr John Byrne	Governance Coordinator
Mrs Deborah Gouges	Governance Officer

Guest

Mr Greg Godwin	Auditor, Moore Stephens
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DECLARATION OF OPENING

The Presiding Member declared the meeting open at 5.45pm. The Presiding Member welcomed the external member, Mr Thomas to his first meeting of the Audit and Risk Committee.

DECLARATIONS OF INTEREST

Nil.

APOLOGIES/LEAVE OF ABSENCE**Leave of Absence previously approved**

Mayor Albert Jacob, JP 18 January to 25 January 2019 inclusive.

ANNOUNCEMENTS BY THE PRESIDING MEMBER WITHOUT DISCUSSION

Nil.

IDENTIFICATION OF MATTERS FOR WHICH THE MEETING MAY BE CLOSED TO THE PUBLIC

In accordance with Clause 5.2 of the City's *Meeting Procedures Local Law 2013*, this meeting was not open to the public.

PETITIONS AND DEPUTATIONS

Nil.

REPORTS**ITEM 1 2017-18 ANNUAL FINANCIAL REPORT**

WARD	All	
RESPONSIBLE DIRECTOR	Mr Mike Tidy Corporate Services	
FILE NUMBER	107214, 101515	
ATTACHMENT	Attachment 1	Draft 2017-18 Annual Financial Report
	Attachment 2	Draft Auditor's Report 2017-18
AUTHORITY / DISCRETION	Executive - The substantial direction setting and oversight role of Council, such as adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.	

PURPOSE

For Council to consider and accept the *2017-18 Annual Financial Report* and Auditor's Report.

EXECUTIVE SUMMARY

In accordance with Section 6.4 of the *Local Government Act 1995*, the *2017-18 Annual Financial Report* has been prepared and, together with the City's accounts, has been submitted to the Office of the Auditor General of Western Australia (OAG) to conduct the annual audit.

The OAG, through its designated representative Moore Stephens, has completed its audit, in accordance with the terms of their engagement and the requirements of Part 7 Division 3 of the *Local Government Act 1995*, and has submitted its Audit Report. The Annual Financial Report will form part of the City's *2017-18 Annual Report*.

It is therefore recommended that Council BY AN ABSOLUTE MAJORITY, ACCEPTS the Draft Annual Financial Report of the City of Joondalup and the accompanying Audit Report for the financial year 2017-18, forming Attachments 1 and 2 to this Report.

BACKGROUND

Section 6.4 of the *Local Government Act 1995* requires local governments to prepare an annual financial report and to submit both the report and its accounts to its auditor by 30 September each year. The City of Joondalup has met those requirements and the City's auditor has completed its audit of the accounts and the *2017-18 Annual Financial Report*.

The *2017-18 Annual Financial Report* is included as Attachment 1 to this Report.

DETAILS

Issues and options considered

The preparation of an Annual Financial Report and the submission of the report and the City's accounts to the auditors for audit are statutory requirements of the *Local Government Act 1995*.

The Annual Financial Report needs to be accepted by Council in order to enable the holding of an Annual General Meeting of Electors, at which the City's Annual Report containing the Annual Financial Report will be considered. The Annual Financial Report is also required to be submitted to the Department of Local Government, Sport and Cultural Industries (DLGSC).

Outcome of the Audit

The audit has been completed with no issues of significance raised and the audit report is unqualified (Attachment 2 refers).

The audit report includes mention of two statutory ratios for the City, namely the Operating Surplus ratio and the Asset Sustainability Ratio. The audit report notes that the City's ratio measurements in these two cases does not meet the minimum standards assigned to these ratios by DLGSCI (in the *Local Government Operational Guideline No.18 – Financial Ratios* (the Guideline)).

The Guideline requires that an Operating Surplus ratio meet at least a Basic Standard of 0.01. The Operating Surplus ratio is calculated as follows:

Operating Revenue minus Operating Expenses

Own Source Operating Revenue

The City's Operating Surplus ratio for 2017-18 is (0.02), which has improved considerably from the prior year's ratio of (0.05) but still does not meet the Basic Standard set in the Guideline. A significant contributor to operating expenses at the City is depreciation which, while not an outlay of cash, does have a significant impact on the Operating Surplus ratio. If cash revenues and cash costs alone are considered, the City generated a significant cash operating surplus in the year ended 30 June 2018. In addition, the City has taken, and is taking, various cost reduction and revenue generation measures to overcome and reverse the operating deficit in the short term, as outlined in the recently adopted *20 Year Strategic Financial Plan*.

The Guideline also requires that the Asset Sustainability ratio meet a Standard of at least 0.90. The Asset Sustainability ratio is calculated as follows:

Capital Renewal and Replacement Expenditure

Depreciation

The City's Asset Sustainability ratio for 2017-18 is 0.67, slightly higher than the prior year's ratio of 0.65. The City has infrastructure of a relatively young age. While assets are depreciated on a straight-line basis reflecting consumption evenly over the expected life of those assets, the age of these assets means that the City would not need to expend an amount equivalent to depreciation in renewal and replacement of these assets.

This is, therefore, reflected in the City's ratio; however, the Standard set in the Guideline does not accommodate such circumstances.

End of Financial Year Position

The City has finished the financial year with a Rate Setting Statement surplus higher than estimated. An anticipated end of year surplus at 30 June 2018 \$534,903 was used as the opening balance in the 2018-19 Annual Budget. The final end of year Rate Setting Statement surplus for 2017-18 is \$4,428,425, being \$3,893,522 more than estimated.

When comparing the actual end of year results to the estimate shown in the 2018-19 Budget, in summary terms the \$3,893,522 variance comprises:

Description	Sub Total	Total
Increased Operating Cash Surplus	\$ 6,488,130	
Increased Capital Revenue	\$ 341,701	
Reduced Capital Expenditure	\$ 3,355,839	\$ 10,185,670
Less: Reduced Net Funding Requirements		(\$ 6,292,148)
Net Variance		\$ 3,893,522

There are a number of offsets between revenue, expenditure and funding requirements of which the major ones are as follows:

- Increased operating and capital revenue, including advance receipt of part of the 2018-19 Federal Assistance and Local Roads Grants and decreased capital expenditure for works and plant, the bulk representing carry forwards of \$4,452,752 which are offset by a transfer to the Capital Works Carried Forward Reserve.
- A number of operating and capital reserve funded projects that did not advance as far as anticipated or for which there was no reserve funded expenditure, resulting in lower expenditure offset by a lower drawn on reserves.
- Profit and loss on asset sales have been impacted by property disposal transactions through Tamala Park land sales, offset by equity transactions.

After allowing for these and other minor offsets the adjusted variance in surplus when compared to the estimated end of year position shown in the 2018-19 Budget is made up of:

Description	Sub Total	Total
Increased Operating Cash Surplus	\$ 4,102,557	
Reduced Capital Revenue	(\$ 1,566,318)	
Reduced Capital Expenditure	\$ 1,368,933	\$ 3,905,172
Reduced Net Funding Requirements		(\$ 11,650)
Net Variance		\$ 3,893,522

The drivers for the net increased surplus of \$3,893,522 are spread across both operating and capital. The principal components of these are as follows:

Operating Revenue and Expenditure		
Increased Operating Revenue		\$ 959,669
Reduced Operating Expenditure		
- Employee Costs	\$ 2,398,132	
- Materials and Contracts	\$ 824,678	\$ 3,222,810
Various other operating and non-cash adjustments		(\$ 79,922)
		\$ 4,102,557

Capital Revenue and Expenditure		
Reduced Capital Revenue		
- Capital grants and contributions	(\$ 1,618,652)	
- Equity distribution - Tamala Park Regional Council	\$ 52,334	(\$ 1,566,318)
Reduced Capital Expenditure		
- Capital Works	\$ 1,078,381	
- Other capital projects and fleet replacements	\$ 290,552	\$ 1,368,933

The reduction in employee costs is partly driven by a writeback of Workers' Compensation provisions of \$1,915,121 in respect of past claim years 2013-14 and 2015-16 that have been closed by the City's insurance provider Local Government Insurance Services, as a result of the City's better-than-expected claims history for those years.

Legislation / Strategic Community Plan / policy implications

Legislation

Local Government (Financial Management) Regulation 51(2) states:

"A copy of the annual financial report of a local government is to be submitted to the Departmental CEO within 30 days of the receipt by the local government's CEO of the auditor's report on that financial report."

Section 5.53 of the *Local Government Act 1995* states:

5.53 Annual Reports

- (1) *The local government is to prepare an annual report for each financial year.*
- (2) *The annual report is to contain:*
 - (f) *the financial report for the financial year;*

Section 5.54 of the *Local Government Act 1995* states:

5.54 Acceptance of annual reports

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

** Absolute majority required.*

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

Section 6.4 of the *Local Government Act 1995* states:

6.4 Financial Report

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

Strategic Community Plan

Key theme	Financial Sustainability.
Objective	Effective management.
Strategic initiative	Not applicable.
Policy	Not applicable.

Risk management considerations

Not applicable

Financial / budget implications

Current financial year impact

Account no.	Not applicable.
Budget Item	Closing surplus.
Budget amount	\$ 534,903
Amount spent to date	\$ 4,428,425
Proposed cost	Not applicable.
Balance	\$ 3,893,522

Future financial year impact

Annual operating cost	Not applicable.
Estimated annual income	Not applicable.
Capital replacement	Not applicable.
20 Year Strategic Financial Plan impact	Subject to application of closing surplus.
Impact year	Not applicable.

All amounts quoted in this report are exclusive of GST.

Regional significance

Not applicable.

Sustainability implications

Not applicable.

Consultation

There is no legislative requirement to consult on the preparation of the Annual Financial Report, but the *Local Government Act 1995* requires a General Meeting of Electors to be held and the City's Annual Report, incorporating the Annual Financial Report, to be made available publicly.

COMMENT

The Annual Financial Report will be made available on the City's public website. A minimal number of printed, bound colour copies will be available for viewing at Libraries, Leisure Centres and Customer Service Centres.

In order for the City to meet its legislative requirements, it is recommended that the Council accepts the Annual Financial Report for the financial year 2017-18.

VOTING REQUIREMENTS

Absolute Majority.

Cr Dwyer and Cr Logan entered the room at 5.49pm.

Mayor Jacob left the room at 6.06pm.

The Acting Manager Compliance and Regulatory Services left the room at 6.11pm and returned at 6.13pm.

MOVED Cr May, **SECONDED** Cr McLean that Council **BY AN ABSOLUTE MAJORITY, ACCEPTS** the Draft Annual Financial Report of the City of Joondalup and the accompanying Audit Report for the financial year 2017-18, forming Attachments 1 and 2 to this Report.

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Crs Hamilton-Prime, Dwyer, Jones, Logan, McLean and May and Mr Thomas.

Appendix 1 refers

To access this attachment on electronic document, click here: [Attach1agnAUDIT181113.pdf](#)

CLOSURE

There being no further business, the Presiding Member declared the meeting closed at 6.14pm; the following Committee Members being present at that time:

Cr Christine Hamilton-Prime
Cr Tom McLean, JP
Cr Nige Jones
Cr Christopher May
Cr John Logan
Cr Sophie Dwyer
Mr Richard Thomas