

minutes

Audit and Risk Committee

MEETING HELD ON **TUESDAY 12 NOVEMBER 2019**

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CITY OF JOONDALUP

MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING HELD IN CONFERENCE ROOM 1, JOONDALUP CIVIC CENTRE, BOAS AVENUE, JOONDALUP ON TUESDAY 12 NOVEMBER 2019.

ATTENDANCE

Committee Members

Cr Tom McLean, JP	<i>Presiding Member</i>	
Mayor Hon. Albert Jacob, JP		
Cr Christine Hamilton-Prime	<i>Deputy Presiding Member</i>	<i>Absent from 5.24pm to 5.26pm</i>
Cr John Logan		
Cr Christopher May		<i>from 5.24pm</i>
Cr Philippa Taylor		
Cr Suzanne Thompson		
Mr Richard Thomas	<i>External Member</i>	

Observer

Cr John Raftis	<i>Absent from 5.30pm to 5.34pm</i>
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Officers

Mr Garry Hunt	Chief Executive Officer
Mr Mike Smith	Acting Director Corporate Services
Mr Brad Sillence	Manager Governance
Ms Christine Robinson	Manager Executive and Risk Services
Mr Roney Oommen	Manager Financial Services
Mr David Murnain	Manager Information Technology
Mr Glenn Heaperman	Manager Human Resources
Mr Peter McGuckin	Internal Auditor
Mrs Vivienne Stampalija	Governance Coordinator
Mrs Lesley Taylor	Governance Officer

Guests

Ms Caroline Spencer	Auditor-General of WA, Office of the Auditor General
Mr Vince Turco	Senior Director - Financial Audit, Office of the Auditor General
Mr Mikey Fiorucci	Assistant Director - Financial Audit, Office of the Auditor General

DECLARATION OF OPENING

The Presiding Member declared the meeting open at 5.17pm.

DECLARATIONS OF INTEREST

Nil.

APOLOGIES / LEAVE OF ABSENCE**Apology:**

Nil.

Leave of Absence Previously Approved:

Cr Russ Fishwick, JP 4 November to 19 December 2019 inclusive.

CONFIRMATION OF MINUTES**MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING HELD ON 6 AUGUST 2019**

That the minutes of the meeting of the Audit and Risk Committee held on 6 August 2019 be confirmed as a true and correct record.

MINUTES OF THE SPECIAL AUDIT AND RISK COMMITTEE MEETING HELD ON 4 NOVEMBER 2019

That the minutes of the special meeting of the Audit and Risk Committee held on 4 November 2019 be confirmed as a true and correct record.

MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING HELD ON 6 AUGUST 2019 AND SPECIAL AUDIT AND RISK COMMITTEE MEETING HELD ON 4 NOVEMBER 2019

MOVED Cr Hamilton-Prime, SECONDED Mayor Jacob that the minutes of the following meetings of the Audit and Risk Committee be confirmed as a true and correct record:

- 1 ordinary meeting of the Audit and Risk Committee held on 6 August 2019;**
- 2 special meeting of the Audit and Risk Committee held on 4 November 2019.**

The Motion was Put and

CARRIED (7/0)

In favour of the Motion: Cr McLean, Mayor Jacob, Crs Hamilton-Prime, Logan, Taylor, Thompson and Mr Thomas.

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.

REPORT**ITEM 1 2018-19 ANNUAL FINANCIAL REPORT**

WARD	All
RESPONSIBLE ACTING DIRECTOR	Mr Mike Smith Corporate Services
FILE NUMBER	107564, 101515
ATTACHMENT	Attachment 1 2018-19 Annual Financial Report Attachment 2 Auditor's Report 2018-19 Attachment 3 Interim Management Letter 2018-19
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 *2018-19 Annual Financial Report* and Auditor's Report.

EXECUTIVE SUMMARY

In accordance with section 6.4 of the *Local Government Act 1995*, the *2018-19 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 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 *2018-19 Annual Report*.

It is therefore recommended that Council:

- 1 *BY AN ABSOLUTE MAJORITY, ACCEPTS the Annual Financial Report of the City of Joondalup and the accompanying Audit Report for the financial year 2018-19, forming Attachments 1 and 2 to this Report;*
- 2 *NOTES the Auditor's Interim Management Letter in respect of the financial audit for the Year Ended 30 June 2019 forming Attachment 3 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 has met those requirements and the City's auditor, the OAG, has completed its audit of the accounts and the *2018-19 Annual Financial Report*.

The OAG undertook its audit in two stages. The interim audit was undertaken during May / June 2019, while the final audit phase commenced in October 2019. After the completion of the interim audit, the OAG issued an interim management letter which incorporated responses from management on the items noted (Attachment 3 refers).

At the conclusion of the final stage of the audit, the OAG determined that there were no additional findings to be reported to management and those charged with governance and, consequently, issued no final management letter.

The *2018-19 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 Financial Audit

The financial audit has been completed with no issues of significance raised and the audit report is unqualified (Attachment 2 refers). The OAG has provided an interim management letter in respect of the financial audit (Attachment 3 refers).

The audit report includes mention of one statutory ratio for the City, namely the Asset Sustainability Ratio. The audit report notes that the City's ratio measurement in this case does not meet the minimum standard assigned to this ratio by DLGSC (in the *Local Government Operational Guideline No.18 – Financial Ratios*).

The *Guideline* 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 2018-19 is 0.66, slightly lower than the prior year's ratio of 0.67 and slightly higher than the 2016-17 ratio of 0.65. 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 in depreciation on renewal and replacement of those assets. This is, therefore, reflected in the City's ratio and the trend over the past three financial years, 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 2019 of \$1,573,189 was used as the opening balance in the 2019-20 Annual Budget. The final end of year Rate Setting Statement surplus for 2018-19 is \$5,581,095, being \$4,007,906 more than estimated.

When comparing the actual end of year results to the estimate shown in the 2019-20 Budget, in summary terms the \$3,893,522 comprises:

Description	Sub Total	Total
Increased Operating Cash Surplus	\$ 8,687,979	
Increased Capital Revenue	\$ 58,673	
Reduced Capital Expenditure	\$ 2,475,145	\$ 11,221,797
Less: Reduced Net Funding Requirements		(\$ 7,213,891)
Net Variance		\$ 4,007,906

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

- Increased operating revenue, including advance receipt of part of the 2018-19 Federal Assistance and Local Roads Grants and decreased capital expenditure for capital works and projects, the bulk representing carry forwards of \$5,537,745 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 incurred, resulting in lower expenditure offset by a lower draw on reserves.

Allowing for these and other minor offsets the adjusted variance in surplus when compared to the estimated end of year position shown in the *2019-20 Annual Budget* is made up of the following:

Description	Sub Total	Total
Increased Operating Cash Surplus	\$ 3,344,619	
Reduced Capital Revenue	(\$ 145,064)	
Reduced Capital Expenditure	\$ 720,490	\$ 3,920,045
Reduced Net Funding Requirements		\$ 87,861
Net Variance		\$ 4,007,906

The drivers for the increased surplus of \$4,007,906 are spread across both operating and capital. The principal components are as follows:

Operating Revenue and Expenditure	Sub Total	Total
Increased Operating Revenue		\$ 823,836
Reduced Operating Expenditure		
- Employee Costs	\$1,307,450	
- Materials and Contracts	\$1,016,049	\$2,323,499
Various other operating and non-cash movements		\$ 197,284
		\$3,344,619

Capital Revenue and Expenditure	Sub Total	Total
Reduced Capital Revenue		
- Capital grants and contributions	(\$ 218,413)	
- Equity distribution - Tamala Park Regional Council	\$ 73,349	(\$ 145,064)
Reduced Capital Expenditure		
- Capital Works	\$ 449,744	
- Other capital projects and fleet replacements	\$ 270,746	\$ 720,490

The reduction in employee costs is partly driven by a writeback of Workers' Compensation provisions of \$722,551 in respect of past claim year 2014-15 that has 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 that year.

Interim Management Letter – Financial Audit

The auditors identified two minor, one moderate and one significant finding after the interim stage of the annual financial audit (Attachment 3 refers).

The significant finding arose from the interpretation of Regulation 17A(5) of the *Local Government (Financial Management) Regulations 1996* which became effective as at 1 July 2018. The clause states as follows:

“An asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of the acquisition by the local government is under \$5,000.”

The OAG's interpretation, which is in line with the interpretation by DLGSC, of this clause is that this applies retrospectively to any asset presently on the City's books that might have been acquired at a fair value below \$5,000 irrespective of the date of acquisition and the current carrying value of the asset.

The affected assets identified in the finding have been written off in the 2018-19 annual financials to ensure compliance with the management letter recommendation. This has had the effect of a number of artworks assets being written off by virtue of having been acquired at values below the threshold although the current fair values were well in excess of the \$5,000 threshold. The City does not consider that retrospective application was the intent of the legislation. Non-compliance with the recommendation, however, would likely have resulted in an adverse audit finding of non-compliance with legislation.

The moderate finding relates to the requirement for an asset stocktake protocol. The recommendation is presently being addressed.

Of the two minor findings, one relates to the requirement to update a documented protocol while the other minor finding is a reiteration of the same finding in the prior year's interim management letter after the 2017-18 audit, relating to the presentation of the November 2018 Financial Activity Statement to the Council meeting held on 19 February 2019 exceeding the two-month timeframe required by Regulation 34(4) of the *Local Government (Financial Management) Regulations 1996*. The City noted in its response to the finding that this arises due to the Christmas and New Year break and is common to several local governments.

Final Management Letter – Financial Audit

The OAG did not make any further findings arising out of the final stage of the financial audit.

Information Systems Audit – Management Letter

Concurrently with the annual financial audit, the OAG also conducted an audit of the City's information systems. While there is no audit report issued in respect of this and this does not form part of the audit opinion expressed in the audit report issued by the Auditor General on the City's annual financial report, the OAG has made findings in respect of its work done, along with recommendations, which are outlined in a management letter issued for this purpose (circulated to elected members and the external member under separate confidential cover).

The management letter notes that the OAG conducted an Information Systems Capability Maturity Assessment of the City and also identifies 18 moderate and two minor findings in respect of information systems at the City. These findings will be aggregated with the results of similar information systems audits by the OAG at other local governments and are expected to be included in a report to Parliament in 2020 about information systems in local government. Individual findings are not expected to be disclosed in that report and the City is not expected to be identified relative to any specific findings.

Legislation / Strategic Community Plan / Policy implications

Legislation

Local Government (Financial Management) Regulations 1996.
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*

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	\$ 1,573,189
Actual amount	\$ 5,581,095
Proposed cost	\$ Not applicable.
Balance	\$ 4,007,906

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 the Customer Service Centre.

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 2018-19.

VOTING REQUIREMENTS

Absolute Majority.

Cr May entered the room at 5.24pm.

Cr Hamilton-Prime left the room at 5.24pm and returned at 5.26pm.

Cr Raftis left the room at 5.30pm and returned at 5.34pm.

MOVED Cr Hamilton-Prime, **SECONDED** Mayor Jacob that Council:

- 1 BY AN ABSOLUTE MAJORITY, ACCEPTS the Draft Annual Financial Report of the City of Joondalup and the accompanying Audit Report for the financial year 2018-19, forming Attachments 1 and 2 to this Report;**
- 2 NOTES the Auditor’s Interim Management Letter in respect of the financial audit for the Year Ended 30 June 2019 forming Attachment 3 to this Report.**

The Motion was Put and

CARRIED (8/0)

In favour of the Motion: Cr McLean, Mayor Jacob, Crs Hamilton-Prime, Logan, May, Taylor, Thompson and Mr Thomas.

Appendix 1 refers

To access this attachment on electronic document, click here: [Attach1agnAUDIT191112.pdf](#)

URGENT BUSINESS

Nil.

MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

Nil.

REQUESTS FOR REPORTS FOR FUTURE CONSIDERATION

Nil.

CLOSURE

There being no further business, the Presiding Member declared the meeting closed at 6.12pm; the following Committee Members being present at that time:

Cr Tom McLean, JP
Mayor Hon. Albert Jacob, JP
Cr Christine Hamilton-Prime
Cr John Logan
Cr Christopher May
Cr Philippa Taylor
Cr Suzanne Thompson
Mr Richard Thomas