

# minutes

## Audit and Risk Committee

MEETING HELD ON **WEDNESDAY 16 DECEMBER 2020**

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## CITY OF JOONDALUP

MINUTES OF THE SPECIAL AUDIT AND RISK COMMITTEE MEETING HELD IN CONFERENCE ROOM 1, JOONDALUP CIVIC CENTRE, BOAS AVENUE, JOONDALUP ON WEDNESDAY 16 DECEMBER 2020.

### ATTENDANCE

#### Committee Members

Cr Tom McLean, JP *Presiding Member*  
Mayor Hon. Albert Jacob, JP  
Cr Christine Hamilton-Prime, JP *Deputy Presiding Member*  
Cr John Logan  
Cr Philippa Taylor  
Cr Suzanne Thompson

#### Observers

Cr Russell Poliwka  
Cr John Raftis *from 5.33pm*

#### Guest

Mr Mikey Fiorucci *Acting Director Financial Audit Office of the Auditor General*

#### Officers

Mr Garry Hunt	Chief Executive Officer
Mr Mat Humfrey	Director Corporate Services
Mr Jamie Parry	Director Governance and Strategy
Ms Christine Robinson	Manager Audit and Risk Services
Mr Roney Oommen	Manager Financial Services
Mrs Vivienne Stampalija	Governance Coordinator
Mrs Wendy Cowley	Governance Officer

### DECLARATION OF OPENING

The Presiding Member declared the meeting open at 5.05pm.

**DECLARATIONS OF INTEREST**

Nil.

**APOLOGIES / LEAVE OF ABSENCE**

**Apologies:**

Cr Christopher May  
Mr Richard Thomas

**Leave of Absence Previously Approved:**

Mayor Albert Jacob, JP	18 to 22 January 2021 inclusive; 8 to 10 February 2021 inclusive; 17 to 19 February 2021 inclusive.
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**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                    2019-20 ANNUAL FINANCIAL REPORT**

<b>WARD</b>	All
<b>RESPONSIBLE DIRECTOR</b>	Mr Mat Humfrey Corporate Services
<b>FILE NUMBER</b>	101515
<b>ATTACHMENT / S</b>	Attachment 1    2019-20 Annual Financial Report Attachment 2    Independent Auditor's Report
<b>AUTHORITY / DISCRETION</b>	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 *2019-20 Annual Financial Report* and Independent Auditor's Report.

**EXECUTIVE SUMMARY**

In accordance with Section 6.4 of the *Local Government Act 1995*, the *2019-20 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 the Independent Auditor's Report has been issued. The *Annual Financial Report* will form part of the City's *2019-20 Annual Report*.

*It is therefore recommended that Council:*

- 1     *BY AN ABSOLUTE MAJORITY, ACCEPTS the Annual Financial Report of the City of Joondalup for the financial year 2019-20, forming Attachment 1 to this Report;*
- 2     *BY AN ABSOLUTE MAJORITY, ACCEPTS the Independent Auditor's Report for the financial year 2019-20, forming Attachment 2 to this Report;*
- 3     *NOTES that no interim or final Management Letter has been issued in respect of the financial audit for the year ended 30 June 2020.*

## 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, the OAG, has completed its audit of the accounts and the *2019-20 Annual Financial Report*.

The OAG undertook its audit in two stages. The interim audit was undertaken during May 2020, while the final audit commenced in October 2020.

At the conclusion of the final stage of the audit, the OAG determined that there were no findings to be reported and, consequently, has issued no interim or final management letter.

The *2019-20 Annual Financial Report* is included as Attachment 1 to this Report.

## DETAILS

### Issues and options considered

The preparation and submission of the Annual Financial Report to the auditors for audit are statutory requirements under the *Local Government Act 1995*.

The Annual Financial Report is required to be accepted by Council prior to the holding of the 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. The OAG has not issued a management letter in respect of the 2019-20 financial audit.

The audit report identifies that the City's Asset Sustainability Ratio does not meet the minimum standard assigned to this ratio by DLGSC (in the *Local Government Operational Guideline No.18 – Financial Ratios*) and the audit report is required to note this in accordance with the requirements of *Local Government Act 1995* and Regulations.

The *Guideline* requires that the Asset Sustainability Ratio meets 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 2019-20 is 0.45, which is lower than the prior year's ratio of 0.66 and the 2017-18 ratio of 0.67. 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 annual 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 2020 of \$17,321,507 was used as the opening balance in the 2020-21 Annual Budget. The final end of year Rate Setting Statement surplus for 2019-20 is \$19,608,893, being \$2,287,386 more than estimated.

When comparing the actual end of year results to the estimate shown in the 2020-21 Budget, in summary terms the \$2,287,386 comprises:

Description	Sub Total	Total
Increased Operating Cash Surplus	\$ 10,545,338	
Increased Capital Revenue	\$ 375,421	
Reduced Capital Expenditure	\$ 3,370,660	\$ 14,291,419
Less: Reduced Net Funding		(\$ 12,004,033)
<b>Net Variance</b>		<b>\$ 2,287,386</b>

There are a number of offsets between revenue, expenditure and funding requirements of which the most significant include:

- increased operating revenue, including advance receipt of part of the 2020-21 Federal Assistance and Local Roads Grants and contribution from Cleanaway towards additional recycling processing costs incurred by the City subsequent to the fire at Cleanaway's recycling facility, increased capital revenue and reduced operating as well as reduced capital works and capital projects expenditure, the bulk representing carry forwards of \$10,252,814
- operating and capital reserve funded projects that that did not advance as far as anticipated or for which no reserve funded expenditure was incurred, resulting in lower expenditure offset by a lower drawdown on reserves.

Allowing for these and other offsets the adjusted variance in closing funds when compared to the estimated end of year position shown in the 2020-21 Budget is made up of:

Description	Sub Total	Total
Increased Operating Cash Surplus	\$3,907,741	
Increased Capital Revenue	\$ 21,421	
Reduced Capital Expenditure	\$ 199,482	\$ 4,128,644
Less: Reduced Net Funding		(\$1,841,258)
<b>Net Variance</b>		<b>\$ 2,287,386</b>

The drivers for the increased closing surplus of \$2,287,386 compared to the estimate are mainly:

<b>Operating Cash Surplus</b>		
Increased Operating Revenue		\$ 2,049,259
Reduced Operating Expenditure		
- Employee Costs	\$ 399,471	
- Utilities	\$ 258,507	
- Other	\$ 59,968	\$ 717,946
Non-current movements		\$ 1,140,536
		<b>\$ 3,907,741</b>

The increase in operating revenue includes the following:

- Other revenue of \$613,710 mainly representing accumulated interest in the Trust Fund, cumulatively earned on amounts held within the Trust Fund until the prior financial year, now transferred into the Municipal Fund, and recognised as revenue, following the change in treatment of bonds in the previous financial year.
- Other revenue of \$353,871 representing the opening value of library stock now reported as fixed assets following a change in the treatment of library stock by the State Library at the end of 2019-20.
- Additional interest earnings \$397,813 being the cumulative impact of:
  - higher net volumes under investment than estimated due to progress on certain capital and other projects
  - earlier than expected re-opening of leisure and community facilities closed due to COVID-19 and cash inflow as a consequence
  - additional revenue inflows due to advance Federal Assistance and Local Roads grants.
- Higher than estimated fees and charges from parking \$293,341 and leisure facilities \$169,120 due to earlier than anticipated reopening of facilities and local businesses following the COVID-19 closures.

The reduced employee costs of \$399,471 include a workers' compensation provision write back of \$831,381 in respect of the 2016-17 claim year now closed by the City's insurers, offset by higher employment costs of \$589,571 incurred in respect of leisure centres, libraries and community facilities as a result of these facilities and venues being opened earlier than anticipated following closure due to COVID-19.

The non-current movements include \$1,559,091 from the recognition of land held for sale as a current asset (inventory) being a transfer from fixed assets, in accordance with accounting standards.

No interim or final audit findings have been made by the OAG, and consequently, no management letter has been issued.

## **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

<b>Account no.</b>	Not applicable.
<b>Budget Item</b>	Closing surplus.
<b>Budget amount</b>	\$ 17,321,507
<b>Actual amount</b>	\$ 19,608,893
<b>Proposed cost</b>	\$ Not applicable.
<b>Balance</b>	\$ 2,287,386

Future financial year impact

<b>Annual operating cost</b>	Not applicable.
<b>Estimated annual income</b>	Not applicable.
<b>Capital replacement</b>	Not applicable.
<b>20 Year Strategic Financial Plan impact</b>	Subject to application of closing surplus.
<b>Impact year</b>	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, although the *Local Government Act 1995* requires the local government to hold an Annual General Meeting of Electors and the City's Annual Report, incorporating the Annual Financial Report is to be made available publicly.

**COMMENT**

The completion of the 2019-20 audit was delayed due to the timing of amendments to the *Local Government (Financial Management) Regulations 1996* that were gazetted on 6 November 2020, at which time the City would normally have received its audit report in prior years.

The Annual Financial Report for 2019-20 reflects the City's financial performance and position for the year ended 30 June 2020. The impacts of COVID-19 closures were not as severe as initially anticipated due to the lifting of restrictions earlier in Western Australia than expected.

The Annual Financial Report will be made available on the City's public website. A limited 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 2019-20.

**VOTING REQUIREMENTS**

Absolute Majority.

*Cr Raftis entered the Chamber at 5.33pm.*

**MOVED Cr Logan, SECONDED Mayor Jacob that Council:**

- 1 BY AN ABSOLUTE MAJORITY, ACCEPTS the Annual Financial Report of the City of Joondalup for the financial year 2019-20, forming Attachment 1 to this Report;**
- 2 BY AN ABSOLUTE MAJORITY, ACCEPTS the Independent Auditor's Report for the financial year 2019-20, forming Attachment 2 to this Report;**
- 3 NOTES that no interim or final Management Letter has been issued in respect of the financial audit for the year ended 30 June 2020.**

**The Motion was Put and**

**CARRIED (6/0)**

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

*Appendix 1 refers*

*To access this attachment on electronic document, click here: [Attach1agnAUDIT201216.pdf](#)*

## **CLOSURE**

There being no further business, the Presiding Member declared the meeting closed at 5.40pm; the following Committee Members being present at that time:

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