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***Agenda***

***Audit & Risk Committee Meeting***

 ***14 November 2019***

**ATTENTION**

This Agenda has yet to be dealt with by the Committee.

The Administration Recommendations, shown at the beginning of each item, have yet to be considered by the Committee and are not to be interpreted as being the position of either the Committee or Council.

The Minutes of the meeting held to discuss this Agenda should be read to ascertain the decision of the Committee.

Before acting on any recommendation of the Committee a check must also be made in the Ordinary Council Minutes following the Committee Meeting to ensure that Council did not make a decision at variance to the Committee Recommendation.

Mark Goodlet

Chief Executive Officer

11 November 2019

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**City of Nedlands**

**Notice of a meeting of the Audit & Risk Committee to be held in the Council Chambers at the City of Nedlands, 71 Stirling Highway, Nedlands** **on 14 November 2019 at 5.30 pm.**

###### Audit & Risk Committee Agenda

# Declaration of Opening

The Presiding Member will declare the meeting open at 5.30 pm and will draw attention to the disclaimer below.

(NOTE: Council at its meeting on 24 August 2004 resolved that should the meeting time reach 11.00 p.m. the meeting is to consider an adjournment motion to reconvene the next day).

# Present and Apologies and Leave of Absence (Previously Approved)

**Leave of Absence** None at distribution of agenda.

**(Previously Approved)**

**Apologies** None at distribution of agenda.

**Disclaimer**

Members of the public who attend Council meetings should not act immediately on anything they hear at the meetings, without first seeking clarification of Council’s position. For example by reference to the confirmed Minutes of Council meeting. Members of the public are also advised to wait for written advice from the Council prior to taking action on any matter that they may have before Council.

Any plans or documents in agendas and minutes may be subject to copyright. The express permission of the copyright owner must be obtained before copying any copyright material.

# Appointment of Chair

Committee to appoint Chairperson for the Audit & Risk Committee.

# Public Question Time

A member of the public wishing to ask a question should register that interest by notification in writing to the CEO in advance, setting out the text or substance of the question. Questions tabled at the meeting may be unable to be answered due to the requirement for technical research and will therefore be answered directly afterwards.

Questions must relate to a matter contained within the agenda of this meeting.

# Addresses By Members of the Public (only for items listed on the agenda)

Addresses by members of the public who have completed Public Address Session Forms will be invited to be made at this point.

# Disclosures of Financial Interest

The Presiding Member to remind Councillors and Staff of the requirements of Section 5.65 of the Local Government Act to disclose any interest during the meeting when the matter is discussed.

A declaration under this section requires that the nature of the interest must be disclosed. Consequently a member who has made a declaration must not preside, participate in, or be present during any discussion or decision making procedure relating to the matter the subject of the declaration.

However, other members may allow participation of the declarant if the member further discloses the extent of the interest. Any such declarant who wishes to participate in the meeting on the matter, shall leave the meeting, after making their declaration and request to participate, while other members consider and decide upon whether the interest is trivial or insignificant or is common to a significant number of electors or ratepayers.

# Disclosures of Interests Affecting Impartiality

The Presiding Member to remind Councillors and Staff of the requirements of Council’s Code of Conduct in accordance with Section 5.103 of the Local Government Act.

Councillors and staff are required, in addition to declaring any financial interests to declare any interest that may affect their impartiality in considering a matter. This declaration does not restrict any right to participate in or be present during the decision-making procedure.

The following pro forma declaration is provided to assist in making the disclosure.

“With regard to …… the matter in item x….. I disclose that I have an association with the applicant (or person seeking a decision). As a consequence, there may be a perception that my impartiality on the matter may be affected. I declare that I will consider this matter on its merits and vote accordingly.”

The member or employee is encouraged to disclose the nature of the association.

# Declarations by Members That They Have Not Given Due Consideration to Papers

Members who have not read the business papers to make declarations at this point.

# Confirmation of Minutes

## Audit & Risk Committee Meeting 7 October 2019

The minutes of the Audit & Risk Committee held 7 October 2019 are to be confirmed.

# Matters for Which the Meeting May Be Closed

Council, in accordance with Standing Orders and for the convenience of the public, is to identify any matter which is to be discussed behind closed doors at this meeting, and that matter is to be deferred for consideration as the last item of this meeting.

# Items for Discussion

Note: Regulation 11(da) of the *Local Government (Administration) Regulations 1996* requires written reasons for each decision made at the meeting that is significantly different from the relevant written recommendation of a committee or an employee as defined in section 5.70, but not a decision to only note the matter or to return the recommendation for further consideration.

# Review Audit and Risk CommitteeTerms of Reference & Appointment Community Members

|  |  |
| --- | --- |
| **Owner** | City of Nedlands  |
| **Employee Disclosure under *section 5.70 Local Government Act 1995*** |  Nil. |
| **Director** | Lorraine Driscoll - Director Corporate & Strategy |
| **CEO** | Mark Goodlet |
| **Attachments** | Mr Paul Setchell’s CV – Confidential Attachment |

**Executive Summary**

The purpose of this report is consider recommendations to amend the Terms of Reference and appoint Community Members for the Audit & Risk Committee.

**Recommendation to Committee**

**Council:**

1. **adopts the Terms of Reference of the Audit & Risk Committee as per below with track changes;**
2. **recommends to Council to appoint Mr Paul Setchell as Community Member on the Audit & Risk Committee; and**
3. **readvertises for expressions interest for a second community member and if no further expressions are received amends the Membership in the Terms of Reference to allow the appointment of one (1) only non-Councillor Members, being residents of The City of Nedlands.**

**Discussion/Overview**

**Background**

The Audit and Risk Committee assists the Council to meet its statutory audit requirements under the Local Government Act 1995 and related regulations.

The purpose of the Audit and Risk Committee (the Committee) is to assist the Council to discharge its responsibilities with regard to the exercise of due care, diligence and skill in relation to:

1. the reporting of financial information, the application of accounting policies, and the management of the financial affairs of the City, and
2. the assessment of the adequacy of the management of Risk.

The terms of reference set out the scope of the Committee, its membership, staff support and meetings.

The appointment of elected members to the Committee were confirmed at the Special Council meeting of 5 November 2019 for a Committee for a period ending immediately prior to the next Local Government elections in 2021. It is current practice for the first meeting of the Committee to review the terms of reference and if necessary recommend changes for Council’s consideration.

The CEO called for expressions of interest for Community Members by way of advertising in the POST Newspaper and the submission period closed on the 28th October 2019 and no expressions of interest were received.

In response to an advertisement in the local press, Administration received one expression of interest from Residents.

The following nomination from residents are presented for consideration:

* Mr Paul Setchell.

A copy of Mr Setchell’s CV has been provided to Council Members under confidential cover.

Two options are presented in the recommendation either the City readvertises for expressions of interest for an additional Community Member or alternatively the Committee amends the membership in the terms of reference to allow the appointment of one (1) non-Councillor Members, being residents of The City of Nedlands.

**Consultation**

Required by legislation: Yes [ ]  No [x]

Required by City of Nedlands policy: Yes [x]  No [ ]

All committees are requested to review the terms of reference at their first meeting and to make recommendation to Council for any changes.

**Legislation / Policy**

Section 5.8 of the Local Government Act 1995 sets out the requirements for the appointment of committees.

**Budget/Financial Implications**

Within current approved budget: Yes [x]  No [ ]

Requires further budget consideration: Yes [ ]  No [x]

The there are no financial impacts with this proposal.

**Risk Management**

The Committee assists the Council to meet its obligations for financial management and risk.

**Terms of Reference of Audit & Risk Management Committee**

**Purpose**

This Committee is established by Council in accordance with the Local Government Act 1995, part 7, to assist the Council under Regulation 16 of the Local Government (Audit) Regulations 1995 to discharge its responsibilities with regard to the exercise of due care, diligence and skill in relation to:

* The reporting of financial information, the application of accounting policies, and the management of the financial affairs of the City,
* The assessment of the adequacy of the management of Risk.

**Scope**

**Local Government (Audit) Regulations 1995**

**Regulation 16 - Functions of audit committee**

An audit committee has the following functions —

(a) to guide and assist the local government in carrying out —

(i) its functions under Part 6 of the Act; and

(ii) its functions relating to other audits and other matters related to financial management;

(b) to guide and assist the local government in carrying out the local government’s functions in relation to audits conducted under Part 7 of the Act;

(c) to review a report given to it by the CEO under regulation 17(3) (the CEO’s Report)and is to —

(i) report to the council the results of that review; and

(ii) give a copy of the CEO’s report to the council;

(d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —

(i) regulation 17(1); and

(ii) the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);

(e) to support the auditor of the local government to conduct an audit and carry out the auditor’s other duties under the Act in respect of the local government;

(f) to oversee the implementation of any action that the local government —

(i) is required to take by section 7.12A(3); and

(ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and

(iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and

(iv) has accepted should be taken following receipt of a report of a review conducted under the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);

(g) to perform any other function conferred on the audit committee by these regulations or another written law.

The committee shall have as its primary duties and responsibilities the following tasks:

**Audit**

1. To consider and approve the brief for the provision of audit services;

2. To evaluate the responses to the request for the provision of audit services and to make a recommendation to Council on the appointment of an auditor;

3. To meet with Council’s external auditors and review the Audit Plan prior to the conduct of the interim audit each year;

4. To ensure that the audit is being conducted in accordance with the brief and the terms of appointment and that matters of concern to the Council and/or the Committee are being addressed;

5. Ensure that the Council’s financial affairs and systems and processes are being managed and reported in accordance with statutory requirements and Australian Accounting Standards;

6. Ensure that relevant financial information is reported to Council in a form that meets the needs and expectations of Council, clearly setting out the key relevant financial data, such that the Council can confidently understand the financial performance of the Council’s affairs;

7. Review the audit report and make appropriate recommendations to Council; and

8. Where appropriate and with the approval of Council seek advice and/or assistance in relation to matters pertaining to the audit or financial affairs of the City.

9. Monitor the implementation of the Audit Management Plan.

**Risk Management**

At least once every year consider a report in relation to the management of risk within the City of Nedlands and satisfy itself that appropriate controls and processes are in operation and are adequate for dealing with the risks that impact on the City.

Replace the above with the following:

“Twice yearly consider a report in relation to the management of risk within the City of Nedlands and satisfy itself that appropriate controls and processes are in operation and are adequate for dealing with the risks that impact on the City.”

To address any specific requests referred to it from Council in relation to issues of risk and risk management.

Monitor the implementation of the Strategic Risk Management Plan.

**Membership**

1. The membership of the committee shall comprise the Mayor and one Councillor from each ward with the Councillors being determined by nomination and if necessary, a ballot conducted at a Council Meeting and up to two non-Councillor Members, being residents of The City of Nedlands.
2. Council will appoint one Councillor from each ward as deputy members of the committee.
3. If a vacancy on the committee occurs for whatever reason, then Council shall appoint a replacement in accordance with the same arrangements as for the original appointment.
4. The term of the presiding member and committee members will expire immediately prior to the next ordinary Council election.
5. The presiding member shall be determined by election amongst the members of the committee. The election will take place at the first meeting following the reconstitution of the committee after each ordinary Council election. The Mayor is eligible to vote for a presiding member but is not eligible to sit as the presiding member.
6. Should the elected presiding member not be present during a meeting of the committee then a temporary presiding member shall be elected in accordance with 5 above.
7. Community members shall have appropriate qualifications in Audit and10.6/or Risk.

Add the following clause:

1. If a Committee member is unable to attend a meeting, an apology or an approved leave of absence is required. The Committee may resolve to relinquish membership after three or more unexcused absences.

**Staff**

The following staff will attend committee meetings to provide technical support and advice:

* Chief Executive Officer
* Director of Corporate & Strategy
* Manager Financial Services

Other staff may attend committee meetings when requested by the Committee through the Chief Executive Officer.

**Invitees/Attendees**

The Committee may invite relevant persons to attend and address or advise the committee, within the ambit of its scope and where necessary with the approval of Council (eg if authorisation of funding is required), as it sees fit including but not limited to:

* The external auditor or his/her representative
* Internal auditors
* Relevant consultants

**Meetings**

1. The Council Committee operates under the Council’s Standing Orders Local Law.
2. The Committee shall have flexibility in relation to when it needs to meet, but as a minimum shall meet twice a year. (Replace the first sentence with “The Committee shall formally meet at least quarterly. A schedule of meetings will be developed and agreed to by the members. Additional meetings may be called by the Presiding member.”) It is the responsibility of the presiding member to call the meetings of the committee. As a minimum the following business shall be conducted either at each or collectively over the two meetings:
* Meet with the internal auditor with regards to the Audit Plan
* Consider a report in relation to the management of risk and review the insurance requirements of the City of Nedlands
* Meet with the auditor with regards to the Annual Audit and the issue of the interim and/or final Audit Report
1. The quorum for a meeting will be 50% of the offices of the Audit & Risk Committee as per section 5.19 of the Local Government Act 1995.

Add the following clause:

1. The Committee’s Administrator will be non-voting member and an employee of the City. The Administrator’s responsibility is to serve as a secretariat to the Committee by preparing agendas and minutes and ensuring timely distribution to all members; to ensure that meetings are effectively organised and recorded; and to provide administrative support for the purposes of the Committee.

Include a new heading and add the following:

**Reporting**

The Committee shall report annually to the Council summarising its activities during the previous financial year.

**Delegated Authority**

The Audit and Risk Committee will have delegated authority to meet with the auditor in accordance with Section 7.12A(2) of the Local Government Act 1995.

# Office of the Auditor General – Exit Meeting and Financial Statement Finalisation

|  |  |
| --- | --- |
| **Owner** | City of Nedlands |
| **Employee Disclosure under *section 5.70 Local Government Act 1995*** | Nil. |
| **Director** | Lorraine Driscoll – Director Corporate & Strategy |
| **CEO** | Mark Goodlet |
| **Attachments** | Nil |

**Executive Summary**

The auditors have requested to meet with the Audit & Risk Committee members and the relevant staff members the at 3pm – 4pm on 14November to discuss the audit of the financial statement for the year ended 30 June 2019.

**Recommendation to Committee**

**The Audit and Risk Committee receives the verbal update.**

**Discussion/Overview**

It is the norm for the auditors to attend the Audit and Risk Committee meeting wherein the Audited Financial Report, Audit opinion and Audit Completion report are discussed. The auditors being unable to attend the Audit and Risk Committee meeting have requested for an Exit meeting to discuss matters arising from the audit, their audit opinion and actions for next year’s audit. This meeting will be held at 3pm to 4pm on 14th November 2019. It is envisaged that not all councillors are able to attend this meeting and hence the Director Corporate & Strategy will provide a verbal update on the matters discussed at this meeting.

**Key Relevant Previous Council Decisions:**

Nil

**Consultation**

Nil

**Budget/Financial Implications**

Nil.

Any actions requiring expenditure that is not allocated to an existing budget will be considered by Council during budget deliberations.

# Annual Financial Statements for year ended 30 June 2019

|  |  |
| --- | --- |
| **Owner** | City of Nedlands  |
| **Employee Disclosure under *section 5.70 Local Government Act 1995*** |  Nil. |
| **Director** | Lorraine Driscoll - Director Corporate & Strategy |
| **CEO** | Mark Goodlet |
| **Attachments** | 1. Draft 2018 – 2019 Annual Financial Report
2. Draft Audit Opinion

3. Audit Completion Report 4. Audit Representation Letter |

**Executive Summary**

The Annual Financial Report for the year ended 30 June 2019, including Auditor’s Report and the Audit Completion Report by The Auditor General, is presented to the Audit & Risk Committee for its review. The Committee is requested to recommend to Council that it be received, and be included as part of the City’s Annual Report for discussion at the Annual Electors’ Meeting.

The Audit Representation Letter is also presented for its review.

**Recommendation to Committee**

**That the Committee recommends to Council:**

1. **that it accepts the Financial Report for the City of Nedlands for the year ended 30 June 2019 comprising the Financial Report and the Auditor’s Report; and**
2. **that it accepts the 2019 Audit Completion report as presented.**

**Discussion/Overview**

**Background**

*Section 6.4 of the Local Government Act 1995* requires a Local Government to prepare an Annual Report Report in the manner and form prescribed and by 30 September submit to its Auditor the accounts balanced up to the last day of the preceding year and the annual financial report.for each financial year.

*Section 5.53 of the Local Government Act 1995* requires a Local Government to prepare an Annual Report for each financial year. The Annual Report is to contain a report from the Mayor, a report from the Chief Executive Officer, the Financial Report for the Financial Year, the Auditor’s Report for the Financial Year, a number of other matters in relation to principal activities and such other information as may be prescribed.

Once received Council is then required by *Section 5.27* of the *Local Government Act 1995* to hold a General Meeting of Electors once every financial year to discuss the contents of the Annual Report for the previous financial year and any other general business.

**Proposal Detail**

Attached is the Financial Report for the year ended 30 June 2019 including the Independent Auditor’s Report.

The Financial Report comprising the Annual Financial Statements for the year ended 30 June 2019 was completed and submitted to Council’s Auditor on 17 September 2019 who completed their audit in November 2019.

**Consultation**

Required by legislation: Yes [ ]  No [x]

Required by City of Nedlands policy: Yes [ ]  No [x]

**Legislation**

*Sections 5.27, 5.29, 5.53, 5.54 and 6.4 of the Local Government Act 1995* respectively deal with the requirement for a General Meeting of Electors each financial year and the requirement for an Annual Financial Report.

**Budget/Financial Implications**

**Financial Performance**

The City completed the 2018/19 financial year with a surplus net result in the Statement of Comprehensive Income of $2,493,592 compared to the adopted budget deficit of $594,370. The Statement of Comprehensive Income includes all operating revenues and expenses, both cash and non-cash and grants & contributions. In terms of setting its rates Council does not budget to raise rates to recover the non-cash costs of depreciation but does budget to generate sufficient operating revenue to fund its capital works program and financing activities. Any shortfall is covered by borrowings and/or transfers from reserves.

Key factors contributing to the variances by ‘Nature or Type’ between actual and adopted budget are provided in this report.

The significant reasons for the variances are:

1. Operating revenue for the year was $36,900,467 compared to the budget of $33,607,060, which represents an increase of $3,293,407 (9.80%).
2. Rates levied were $332,483 (1.44%) higher than budget due to increased revenue from interim rates.
3. Operating Grants & Contributions received was $505,513 (31.18%) higher than budget. This was mainly due to the receipt of $555,076 operating grants for 2019/20 which was received in advance in this financial year and therefore recorded as income in 2018/19.
4. Fees and Charges raised were higher than budget by $441,836 (6.74%). The higher income was due to increased course fees, Point Resolute Child Care fees and Planning fees.
5. Service charges for the Hollywood underground power project were higher than budget by $2,246,530 (193.68%) due to higher uptake of up-front payment and inclusion of revenue from future instalments receivable.
6. Interest income from investments were higher by $65,924 (11.37%) than budget due to improved cashflow management during the year.
7. Other Revenue was lower than the budget by $298,879 (53.21%). This was largely due to the certain WESROC Projects not undertaken and therefore less amounts were invoiced to the member councils in 2018/19 financial year.

**Operating Expenses**

1. Operating expenses for the year were $30,585,391 compared to the budget of $34,843,085, a decrease of $4,257,694 (12.22%).

1. Employee costs was lower by $129,371 (0.96%) compared to the budget. This is mainly due to increased cost control measures by management and delay in replacing staff immediately upon resignation.
2. Materials and Contracts costs decreased by $1,374,360 (11.13%) compared to the budget. This is due to the deferment of some operating projects due to factors outside the City’s control and savings due to constant monitoring of expenses. The Hollywood underground power project cost was less than budgeted and Western Power subsequently refunded the City $750,906.
3. Interest charges was lower by $79,743 (21.05%) due to a higher uptake of up-front payments for the underground power project compared to instalments, thus reducing the borrowings to fund the project. Further due to a lower capital works completed the City did not require the budgeted borrowings of $1 million for capital works.

**Capital Income**

During the financial year, the City received lower non-operating grants, subsidies and contributions by $1,459,302 (37.94%) due to lower grants received for the following projects:

**Projects**  ($)

Safe Active Street 530,000

Birdwood Parade 172,000

All Abilities Play Space 168,000

Various Parks Projects 255,500

Various Footpath Rebalitation 148,619

**Capital Works**

During the financial year the City spent $9,679,074 in carrying out its Capital Works program of which $7,619,246 was spent on improving infrastructure assets – roads, footpaths, drainage, parks and gardens and $2,059,828 was spent on upgrading and renovating the City’s buildings and purchase of plant and equipment.

The 2018/19 capital budget was $13,885,100, of which $11,316,100, was for improving infrastructure assets and $2,569,000 was for upgrading and renovating the City’s buildings and purchase of plant and equipment. However, a number of infrastructure projects were not completed during the year and are carried forward to the 2019/20 financial year and have been re-budgeted in the 2019/20 Budget adopted in June 2019, which include the following:

**Projects**  ($)

Grant Funded Project - Safe Active Street 1,250,000

Grant Funded Project - Waratah Ave Alexander Rd 205,000

Grant Funded Project - Birdwood Parade 172,000

Charles Ct Reserve Riverwall 437,080

Asquith Reserve – Parking and redevelopment 278,200

Pt Resolution Reserve - Upgrade Irrigation System 204,000

Hollywood Reserve - Upgrade Pathways 142,800

Swanbourne Beach Oval – Rehabilitation 153,000

**Projects**

The following projects were completed below budget due to improved project management leading to cost savings

**Projects**  ($)

All Abilities Play Space 178,000

The following projects were not carried out in 2018/19 due to change in external factors:

**Projects** ($)

Footpath Rehabilitation – Waratah Avenue 414,900

Hackett Hall Renovation 210,000

College Park Irrigation Upgrade 432,480

St John’s Wood Blv – Playground 136,000

Of the total funds expended on capital works, $2,386,090 were funded from grants and contributions and the balance of $7,292,984 was funded from operating surplus, transfers from reserves and sale of plant.

The values of capital works completed in each of the past 5 years is shown in the following chart. It is to be noted that the major projects contributing to the high value of capital works in 2017/18 was due to All Abilities Play Space, Road works at Birkdale Street, Browne Street, Shann Street, Brockway Road and Brockway/Brookdale, whilst in 2016/17 it was due to All Abilities Play Space, Allen Park Lower Pavilion Renovations and Road Rehabilitation works at Gallop Road, Boronia Avenue, Leon Road and Princess Road.

**Cash and Cash Equivalents**

The cash and cash equivalent balance at 30 June 2019 was $8,170,423 compared to $5,097,698, an increase of $3,072,725 (60.28%). This is due to bonds and retention amount of $1,874,670 being accounted for as part of City’s restricted funds and Term Deposits increased by $2,296,460 due to change in classification of deposits placed for more than 90 days.

**Receivables**

The increase in Receivables in 2018/19 of $2,208,421 compared to the previous year. This is mainly due to a refund receivable from Western Power of $750,509, service charges on instalments of $874,254 accounted for upfront in 2019 and increased GST receivable due to increase in trade payables. As a %, the rates outstanding compared to rates revenue for this financial year is 3.97% compared to 3.55% for the previous financial year, a slight increase due to interim rates being levied later in the financial year.

**Payables**

The increase in payables of $2,695,742 was as a result of the change in the accounting treatment of bonds and deposits which in previous years were excluded from the financial statement but effective 2018/19 are being included in the financial statements. The amount of bonds and deposits held at year end was $1,874,670. Furthermore, large amounts of capital works were completed towards the end of financial year which resulted in an increased sundry creditors of $520,178. $234,603 of the refund from Western Power was set aside as a liability as this amount is refundable to the affected owners.

**Borrowings**

The City had additional long term borrowing of $806,734 for the underground power project. However, the City managed to finance all capital works without having to borrow the $1 million budgeted for that purpose. As at 30 June 2019, the City had total borrowings of $7,555,716 after principal repayment of $1,597,168 compared to 2017/18 total borrowings of $8,346,150.

The short term borrowings of $1,652,524 as at 30 June 2018 was fully repaid during 2018/19 financial year.

**Financial Performance Indicators**

The Financial Ratios in Note 37 to the accounts give an overview of the financial performance of the City in 2018/19 compared with the previous two years. All the ratios except for the Asset Consumption ratio are within recommended standard benchmarks set by the Department of Local Government.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ratio** | **Target** | **2019** | **2018** | **2017** |
| Liquidity - Current Ratio | >1.00 | 0.98 | 0.85 | 1.31 |
| Debt Ratio - Debt Service Cover Ratio | >2.00 | 5.61 | 1.83 | 6.44 |
| Coverage Ratio - Own Source Revenue Coverage Ratio | >40% |  114% | 84% | 94% |
| Financial Performance - Operating Surplus Ratio | >1% |  18% |  -12% | 2% |
| Asset Management Ratios - Asset Sustainability Ratio | >90-110% | 233% | 145% | 165% |
| Asset Consumption Asset Consumption Ratio | >50% >>%>50% | 58% | 57% | 67% |
| Asset Renewal Funding Ratio | 75-95% |  92% |  86% | 88% |

The current ratio is slightly below the target of >1.00 due to increased capital works completed in June, increasing the accounts payable by $745,000.

**Audit Report**

The Auditor General has completed the audit of the Annual Financial Statements in line with current Australian Standards and have stated that they will give an Unqualified Opinion following the meeting with the Audit and Risk Committee.

The Auditor General has made the following comments in their Report on Other Legal and Regulatory Requirements:

1. The following material matters indicating non-compliance with Part 6 of the *Local Government Act 1995, the Local Government (Financial Management) Regulations 1996* or applicable financial controls of any other written law were identified during the course of my audit:
2. The City has continued to procure goods and services from two suppliers after the contract expiry, without a valid extension.
3. Although accounting journal entries are approved in a record-keeping system before being entered in the accounting system, there is no independent review of journals that have been input to the accounting system. This could result in unauthorised journals being posted in the accounting system without detection.

In relation to (a) above, further explanation is provided as follows:

* The City has continued to procure goods and services without a valid contract between 30th June 2018 and 26th February 2019. The goods and services related to maintenance of natural areas and the supplier was formally approved by Council on 26th February 2019, with a value of $59,500
* The second supply was with the City’s Insurance Broker for a value of $22,500 per annum. This contract was extended at a formal contract renewal meeting with the supplier, - all terms and formalities were agreed by both parties at this meeting.

In relation to (b) above, the City has subsequently amended the journal entry process to include a check by an independent officer on the journal entered in the accounting system.

**Risk Management**

Not applicable.

# Moore Stephens Strategic Internal Audit Plan for 2nd Year and Update on Audit Function

|  |  |
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| **Owner**  | City of Nedlands |
| **Employee Disclosure under *section 5.70 Local Government Act 1995*** | Nil. |
| **Director** | Lorraine Driscoll – Director Corporate & Strategy  |
| **CEO** | Mark Goodlet |
| **Attachments** | 1. CONFIDENTIAL - Moore Stephens – Draft Strategic Audit Plan
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**Executive Summary**

This report is prepared to present the Strategic Internal Audit Plan prepared by the City’s Internal Auditors Moore Stephens and to inform the Audit and Risk Committee about the review of the Business Continuity Management to be conducted as the first audit area for 2nd year. The Draft Strategic Internal Audit Plan was presented to the Audit and Risk Committee in the meeting held on 2 September 2019. The objective of the Strategic Internal Audit Plan is to inform the newly appointed Audit and Risk Committee about the internal audit areas covered in 2018/19 Financial Year and provide an outline of the areas considered to be of priority for the review in 2019/20 Financial Year. The areas to be considered in the 2019/20 Financial Year have been endorsed by the CEO and the prior Audit & Risk Committee.

**Recommendation to Committee**

**The Audit and Risk Committee:**

1. **receives the Strategic Internal Audit Plan prepared by the City’s Internal Auditors Moore Stephens; and**
2. **observes that the review of the Business Continuity Plan is going to be held as the first audit area for 2nd year internal audit.**

**Discussion/Overview**

Regulation 17 of the Local Government (Audit) Regulations 1996 requires the CEO to conduct a triennial review of the appropriateness and effectiveness of a Local Government’s systems and procedures in relation to risk management, legislative compliance and internal control. Internal audit is an essential function in meeting the requirements of this regulation.

The internal audit function facilitates continuous improvement and positive change within the City. This independent review and advice service assists management in improving the City’s business performance and in achieving desired outcomes.

The internal auditor reports functionally to the Audit Committee and administratively to the CEO. In accordance with section 5.41 of the Local Government Act 1995, the CEO is responsible for the day to day management of council activities which implicitly includes the internal audit function.

The Strategic Internal Audit Plan has been designed to ensure that the activities of Internal Audit are focused on the risks that matter to the Council. Further, the plan has been prepared with input from the Executive Management, Senior Staff and the Internal Auditor. The plan seeks to adapt to the changing environment the City operates in and be flexible and responsive to the City’s needs. This high-level plan has been developed and designed to:

* Strategically align with existing IT projects;
* Support governance focus;
* Provide an end to end review providing assurance around compliance, adequacy of controls and efficiency of processes;
* Identify increased risks due to high value capital projects, initiatives, large scale changes to legislative requirements, etc.; and
* Identify any areas which will provide the Council with greater value add from Internal Audit scrutiny.

Where matters of higher priority arise over the course of the three year plan, they will be considered and the detail of the plan may be revised to accommodate the new risk and the changes will be communicated where necessary.

The internal audit areas considered to be of priority for the review in 2019/20 Financial Year are:

1. Accounts Receivables End to End Process Review;
2. Business Continuity Management Review (carried forward from Year 1); and
3. Payroll Compliance Audit.

Accordingly, the audit of Business Continuity Management Review is going to be conducted prior to 31 January 2020. The scope and objective of the audit will be to assess the adequacy of the City’s policies, practices and procedures to manage business continuity in the following areas:

* BCP Plan;
* Data back-up procedures, schedules and execution;
* Data restore testing procedures, schedules and results; and
* Review of Disaster Recovery Plan and execution.

**Key Relevant Previous Council Decisions:**

Nil.

**Consultation**

Nil.

**Budget/Financial Implications**

The cost of External Audit fees was within the City’s existing monetary budget limits for the 2019/20 Financial Year.

# Internal Audit Actions Log

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| --- | --- |
| **Owner** | City of Nedlands |
| **Employee Disclosure under *section 5.70 Local Government Act 1995*** | Nil. |
| **Director** | Lorraine Driscoll – Director Corporate & Strategy |
| **CEO** | Mark Goodlet |
| **Attachments** | 1. CONFIDENTIAL - Internal Audit Actions Log
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**Executive Summary**

The attached Internal Audit Actions Log contains details of the matters raised by the auditors during the City’s Internal Audit program. The list apportions information detailing the Log Reference, Audit Name, Original and Revised Due Dates, Action Owner details, Item Status and Status Comments.

The recently updated internal audit Actions Log is presented to the Audit and Risk Committee for their information.

**Recommendation to Committee**

**The Audit and Risk Committee receives the internal audit Actions Log.**

**Discussion/Overview**

An audit is a process through which internal control effectiveness is examined and assessed. The objective is to provide an audit for compliance with relevant management policies and procedures. Each internal audit undertaken results in actions being recommended to the City’s Administration. These actions are monitored for completion using the internal audit Actions Log.

The attached list contains details of the Actions raised and outcome.

The recently updated internal audit Actions Log is presented to the Audit and Risk Committee for their information.

**Key Relevant Previous Council Decisions:**

Nil

**Consultation**

Nil

**Budget/Financial Implications**

Nil.

Any actions requiring expenditure that is not allocated to an existing budget will be considered by Council during budget deliberations.

# Borrowings Analysis

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| --- | --- |
| **Owner** | City of Nedlands |
| **Employee Disclosure under *section 5.70 Local Government Act 1995*** | Nil. |
| **Director** | Lorraine Driscoll – Director Corporate & Strategy |
| **CEO** | Mark Goodlet |
| **Attachments** | 1. Borrowings Analysis Report 30 September 2019
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**Executive Summary**

The report is prepared to present the borrowings analysis report as at 30 September 2019. The City has total borrowings of $7,508,431 as at 30 September 2019 at various interest rates ranging from 2.48% to 6.04%. No additional borrowings have been budgeted in the financial year 2019/20 and the balance at year end is estimated to be $5,864,653.

**Recommendation to Committee**

**The Audit and Risk Committee receives the borrowings analysis report.**

**Discussion/Overview**

As at 30 September 2019, the City has a total of 11 borrowings, as follows:

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| --- | --- | --- |
| **Purpose** | **Number of loans** | **Value of loans** |
| Capital works | 6 | $3,955,765 |
| Underground Power Project - City | 1 | $2,300,963 |
| Self-supporting – Dalkeith Bowling Club | 1 | $89,077 |
| Underground Power Projects – West Hollywood, Alfred Rd & Alderbury Res | 3 | $730,093 |
| Total | 11 | $7,075,898 |

**Key Relevant Previous Council Decisions:**

Nil.

**Consultation**

Nil.

**Budget/Financial Implications**

The cost of interest on borrowings was within the City’s existing monetary budget limits for the 2019/20 Financial Year.

# Confidential Items

Nil.

# Date of next meeting

The next meeting of the Audit and Risk Committee is to be advised.

# Declaration of Closure

There being no further business, the Presiding Member will declare the meeting closed.