



City of Nedlands

# ***Minutes***

## ***Audit & Risk Committee Meeting***

***5 November 2018***

### **ATTENTION**

**These Minutes are subject to confirmation**

This is a committee which has only made recommendations to Council. No action should be taken on any recommendation contained in these Minutes. The council resolution pertaining to an item will be made at the Ordinary Council Meeting next following this meeting.

## Table of Contents

Declaration of Opening .....	3
Present and Apologies and Leave of Absence (Previously Approved) .....	3
1. Public Question Time .....	4
2. Addresses By Members of the Public (only for items listed on the agenda) .....	4
3. Disclosures of Financial Interest .....	4
4. Disclosures of Interests Affecting Impartiality .....	4
5. Declarations by Members That They Have Not Given Due Consideration to Papers.....	4
6. Confirmation of Minutes .....	5
6.1 Audit & Risk Committee Meeting 16 August 2018 .....	5
7. Items for Discussion.....	5
7.1 Internal Audit Actions .....	6
7.2 Annual Financial Statements for year ended 30 June 2018.....	8
7.3 Report on Interest Expense and Investment Income .....	15
8 Confidential Items .....	17
8.1 2018/19 Insurance Renewal .....	17
9 Date of next meeting .....	17
Declaration of Closure .....	17

## City of Nedlands

**Minutes meeting of the Audit & Risk Committee held in the Meeting Room at the City of Nedlands on Thursday 5 November 2018 at 5.30 pm.**

---

### **Audit & Risk Committee Agenda**

#### **Declaration of Opening**

The Presiding Member declared the meeting open at 5.30 pm and drew 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)**

<b>Councillors</b>	Councillor I S Argyle	Dalkeith Ward (Presiding Member)
	His Worship the Mayor	R M C Hipkins
	Councillor G A R Hay	Melvista Ward
	Councillor L J McManus	Coastal Districts Ward
	Councillor B G Hodsdon	Hollywood Ward
	Mr R Senathirajah	Community Member
	Mr P Setchell	Community Member
	Mr K Eastwood	Community Member

<b>Staff</b>	Mr G K Trevaskis	Chief Executive Officer
	Mrs L M Driscoll	Director Corporate & Strategy
	Mrs V Jayaraman	Manager Financial Services
	Mr A D Melville	Manager Health & Compliance
	Mr A Khetani	Senior Finance Officer - Governance
	Mrs S C Gibson	PA to Director Corporate & Strategy

<b>Guests</b>	Ms A Cheng	Moore Stephens, Risk & Advisory
	Mr T Macri	Macri Partners, Partner
	Mr S Herathmudalige	Macri partners
	Councillor A Mangao	Dalkeith Ward

**Public** There were no members of the public present.

**Press** There were no members of the press present.

**Leave of Absence** Nil.  
**(Previously Approved)**

**Absent** Nil.

## **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.

### **1. Public Question Time**

Nil.

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

Nil.

### **3. Disclosures of Financial Interest**

The Presiding Member to reminded 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.

There were no disclosures of financial interest.

### **4. 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.

There were no disclosures affecting impartiality.

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

Nil.

**6. Confirmation of Minutes**

**6.1 Audit & Risk Committee Meeting 16 August 2018**

Moved –Mr K Eastwood  
Seconded – Mr P Setchell

The minutes of the Audit & Risk Committee held 16 August 2018 be confirmed.

**CARRIED UNANIMOUSLY 8/-**

**7. 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.

## 7.1 Internal Audit Actions

<b>Owner</b>	City of Nedlands
<b>Officer</b>	Andrew Melville – Manager Health & Compliance
<b>Director</b>	Lorraine Driscoll – Director Corporate & Strategy
<b>Disclosure of Interest</b>	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
<b>Attachments</b>	1. Internal Audit Actions List

Moved – Mr P Setchell  
 Seconded – Mayor Hipkins

### **Committee Recommendation / Recommendation to Committee**

**The Audit and Risk Committee receives the Internal Audit Actions List.**

**CARRIED UNANIMOUSLY 8/-**

### **Executive Summary**

The attached Internal Audit Actions List contains details of the matters raised by the auditors throughout the City’s Internal Audit program. The list allocates the Action, Action Owner, its Status and Outcome.

The recently updated Internal Audit Actions List is presented to the Audit and Risk Committee for their information.

### **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 List.

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

The recently updated Internal Audit Actions List 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.

## 7.2 Annual Financial Statements for year ended 30 June 2018

<b>Owner</b>	City of Nedlands
<b>Officer</b>	Vanaja Jayaraman – Manager Financial Services
<b>Director</b>	Lorraine Driscoll – Director Corporate & Strategy
<b>Disclosure of Interest</b>	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
<b>Attachments</b>	1. Draft 2017 – 2018 Annual Financial Report ; 2. Audit Representation Letter; and 3. Audit Completion Report by Macri Partners.

Moved – Councillor McManus  
Seconded – Councillor Hodsdon

### **Committee Recommendation / Recommendation to Committee**

**Committee receives the Financial Report for the City of Nedlands for the year ended 30 June 2018 comprising the Financial Report and the Independent Auditor’s Report, and recommends that Council accept the report.**

**CARRIED UNANIMOUSLY 8/-**

### **Executive Summary**

The Annual Financial Report for the year ended 30 June 2018, including the Audit Representation Letter and the Audit Completion Report by Macri Partners, 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.

### **Discussion/Overview**

#### **Background**

*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 2018 including the Independent Auditor's Report.

The Financial Report comprising the Annual Financial Statements for the year ended 30 June 2018 was completed and submitted to Council's Auditor Macri Partners who completed their audit in October 2018.

## Consultation

Required by legislation: Yes  No   
Required by City of Nedlands policy: Yes  No

## 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 2017/18 financial year with a surplus net result in the Statement of Comprehensive Income of \$2,201,756 compared to the adopted budget deficit of \$264,279. 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 \$32,635,622 compared to the budget of \$31,752,578, which represents an increase of \$833,044 (2.78%).
2. Rates levied were \$55,481 (0.25%) higher than budget due to a small increase of 18 properties.
3. Operating Grants & Contributions received was \$412,693 (25.21%) higher than budget. This was mainly due to the receipt of \$395,032 operating grants for 2018/19 which was received in advance in this financial year and therefore recorded as income in 2017/18.

4. Fees and Charges raised were higher than budget by \$132,716 (1.95%). The higher income was due to increased course fees, facility charges and extra revenue on infrastructure services for the Montario Quarter subdivision supervision fees.
5. Interest income from investments were higher by \$26,728 (4.80%) than budget due to improved cashflow management during the year.
6. Other Revenue was higher than the budget by \$255,426 (80.50%). This was largely due to the WESROC Project expenses of \$127,672 incurred in 2016/17, which was invoiced to the member councils in 2017/18 financial year. The Hollywood parking contract was extended and we received income of \$86k versus a nil budget.

### **Operating Expenses**

1. Operating expenses for the year were \$35,537,511 compared to the budget of \$38,449,616, a decrease of \$2,912,105 (7.57%).
2. Employee costs was lower by \$244,404 (1.86%) compared to the budget. This is mainly due to increased cost control measures by management and delay in replacing staff who resigned.
3. Materials and Contracts costs decreased by \$1,329,829 (8.46%) 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.
4. Utility charges increased by \$106,469 or (17.49%) due to a higher than expected increase in charges and some electricity invoices for the 2016/17 financial year received after audit completion date and therefore accounted in the 2017/18 financial year.
5. Other Expenditure decreased by \$206,119 (21.44%). This was due partly to reduced grants provided by Council.

### **Capital Works**

During the financial year the City spent \$10,763,771 in carrying out its Capital Works program of which \$9,212,125 was spent on improving infrastructure assets – roads, footpaths, drainage, parks and gardens and \$1,551,646 was spent on upgrading and renovating the City's buildings and purchase of plant and equipment.

The 2017/18 capital budget was \$15,778,700, of which \$13,497,940, was for improving infrastructure assets and \$2,280,760 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 2018/19 financial year and have been re-budgeted in the 2018/19 Budget adopted in June 2018, which include the following:

<b>Projects</b>	<b>Amount (\$)</b>
Stirling Highway	260,600
Carrington Street	260,000

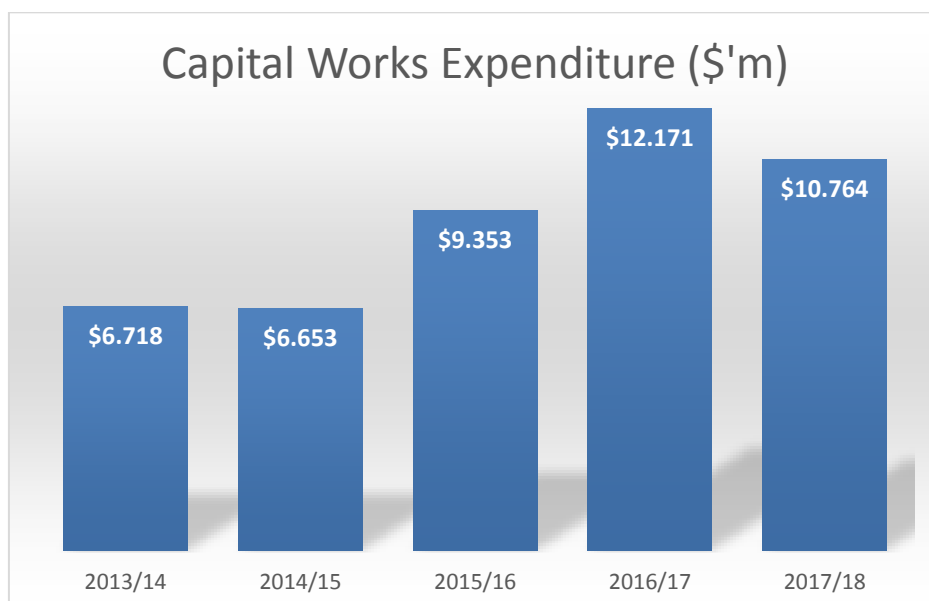
<b>Projects</b>	<b>Amount (\$)</b>
Broome Street Depot	143,000
Asquith Reserve	278,200
College Park	468,000
Riverwall Restoration	500,800

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

<b>Projects</b>	<b>Amount (\$)</b>
Allen Park	255,600
Beaton Park	900,000
David Cruickshank	299,000

Of the total funds expended on capital works, \$2,609,259 were from grants and contributions and the balance was made up of 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 2018 was \$11,135,046 compared to \$11,020,622, a slight increase of \$114,424 (1.04%). Reserves included in this balance amounted to \$6,037,349 or 54.21% of the total.

## **Receivables**

The decrease in Receivables in 2017/18 of \$142,097 compared to the previous year was mainly due to the improved collection efforts. As a %, the rates and sundry debtors outstanding compared to rates, and fees and charges revenue for this financial year is 1.56% compared to 2.76% for the previous financial year.

One of the risk factors evaluated in the Notes to the Accounts (Note 4) is receivables – the risk that the debts may not be collected by the City. Credit risk on rates and annual charges is minimal as they are charges on the associated properties, and the City has the ability to recover these debts from the sale of the properties if necessary.

## **Payables**

The decrease in payables of \$647,734 was as a result of overall lower capital and materials and contracts expenditure during the year compared to the last financial year.

## **Borrowings**

The City had additional long term borrowing of \$3,233,761 and short term borrowings of \$1,652,524 for the underground power project. However, the City managed to finance all capital works without having to borrow the \$1 M budgeted for that purpose. As at 30 June 2018, the City had total borrowings of \$9,998,674 after principal repayment of \$1,135,626 compare to 2016/17 total borrowings of \$6,248,015.

## **Provisions**

The leave provision showed a decrease of \$112,264 due to better management of annual leave and long service leave.

## **Financial Performance Indicators**

The Financial Ratios in Note 33 to the accounts give an overview of the financial performance of the City in 2017/18 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	2018	2017	2016
Liquidity - Current Ratio	>1.00	0.85	1.31	2.00
Debt Ratio - Debt Service Cover Ratio	>2.00	1.83	6.44	5.94
Coverage Ratio - Own Source Revenue Coverage	>40%	84%	94%	92%
Financial Performance - Operating Surplus	>1%	-12%	2%	-3%
Asset Management Ratios - Asset Sustainability Ratio	>50%	145%	165%	129%
Asset Consumption Ratio	90-110%	57%	67%	59%
Asset Renewal Funding Ratio	75-95%	86%	88%	86%

The current ratio is below the target of >1.00 as the City has taken short term borrowings of \$1,652,524 for the owners' portion of the Underground Power Project which was subsequently paid in October, to be replaced by a long term borrowing.

The Asset Consumption Ratio is lower than target due to the aging nature of the City's assets which is being addressed by planned increase in capital expenditure in the coming years.

The current ratio, debt ratio and operating surplus ratio were distorted by the early receipt of Financial Assistance Grants.

The debt ratio and the financial performance ratio are below the respective targets, and the coverage ratio is distorted, by the spend on the Underground Power Project of \$4.5m, and impairment loss of infrastructure assets of \$1,232,307 through profit or loss.

If the above events did not occur, the impacted ratios would be as follows:

Ratio	Target	2018	2017	2016
Liquidity - Current Ratio	>1.00	1.02	1.27	N/A
Debt Ratio - Debt Service Cover Ratio	>2.00	5.89	6.12	6.30
Coverage Ratio - Own Source Revenue Coverage Ratio	>40%	100%	N/A	N/A
Financial Performance - Operating Surplus Ratio	>1%	7%	1%	-2%

### Audit Report

The City's Auditor, Macri Partners, have 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.

**Risk Management**

Not applicable.

**Conclusion**

That the Committee recommends to Council the acceptance of the Financial Report for the City of Nedlands for the year ended 30 June 2018 comprising the Financial Report and the Auditor's Report.

Councillor McManus, Mr Macri and Mr Herathmudalige from Macri and Ms Cheng from Moore Stephens departed the meeting at 6.20 pm and did not return.

### 7.3 Report on Interest Expense and Investment Income

<b>Owner</b>	City of Nedlands
<b>Officer</b>	Vanaja Jayaraman – Manager Financial Services
<b>Director</b>	Lorraine Driscoll – Director Corporate & Strategy
<b>Disclosure of Interest</b>	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
<b>Attachments</b>	1. Borrowings Report 2. Investments Report

Moved – Councillor Hodsdon

Seconded – Mr K Eastwood

#### **Committee Recommendation / Recommendation to Committee**

**The Audit and Risk Committee receives the Report and approves the additional reporting to the Council.**

**CARRIED UNANIMOUSLY 7/-**

#### **Executive Summary**

The report is presented to the Audit and Risk Committee to recommend additional reporting on interest expense and income to the Council as requested.

#### **Discussion/Overview**

The City has been requested by Council at its meeting of 23<sup>rd</sup> October 2018 to provide additional reporting on the interest expense incurred as part of its borrowings and income earned from monies placed on deposit. At present Administration provides 2 reports as part of its monthly financial reporting to Council; 1 on borrowings showing the brought forward principal amount, additional borrowings, principal repayments and the balance as at end of the reporting month and a 2nd report on investments for reserves, and excess funds, showing the bank and investment details, together with the interest income as at end of the reporting month on each investment.

Both the above reports are attached.

Following the request of Council, the City’s recommendation is to include the interest actual and budget expense in the borrowings report, which is highlighted in yellow in the Borrowings Report. Additionally, we will include the interest expense and income as part of the Report, providing any explanations for variance between the actuals and the budgets. Below is a sample the report to be included:

	YTD Actual September 2018 \$	YTD Budget September 2018 \$	Variance \$
Interest Income			
Interest Expense			
Nett Income/ (Expense)			

Based on the actual variance, the City will provide an explanation accordingly in the report.

**Key Relevant Previous Council Decisions:**

Nil

**Consultation**

Nil

**Budget/Financial Implications**

Nil



**8 Confidential Items**

**8.1 2018/19 Insurance Renewal**

<b>Owner</b>	City of Nedlands
<b>Officer</b>	Amit Khetani – Senior Finance Officer (Governance)
<b>Director</b>	Lorraine Driscoll – Director Corporate & Strategy
<b>Disclosure of Interest</b>	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
<b>Attachments</b>	Nil.

Moved – Councillor Hodsdon  
 Seconded – Councillor Argyle

**Committee Recommendation / Recommendation to Committee**

**The Audit and Risk Committee receives the Insurance Renewal report and notes the critical information and contents of the report.**

**CARRIED UNANIMOUSLY 7/-**

**9 Date of next meeting**

The date of the next meeting of this Committee is to be advised.

**Declaration of Closure**

There being no further business, the Presiding Member declared the meeting closed at 6.30 pm.