



Audit and Risk Committee

AGENDA

Tuesday 16 November 2021

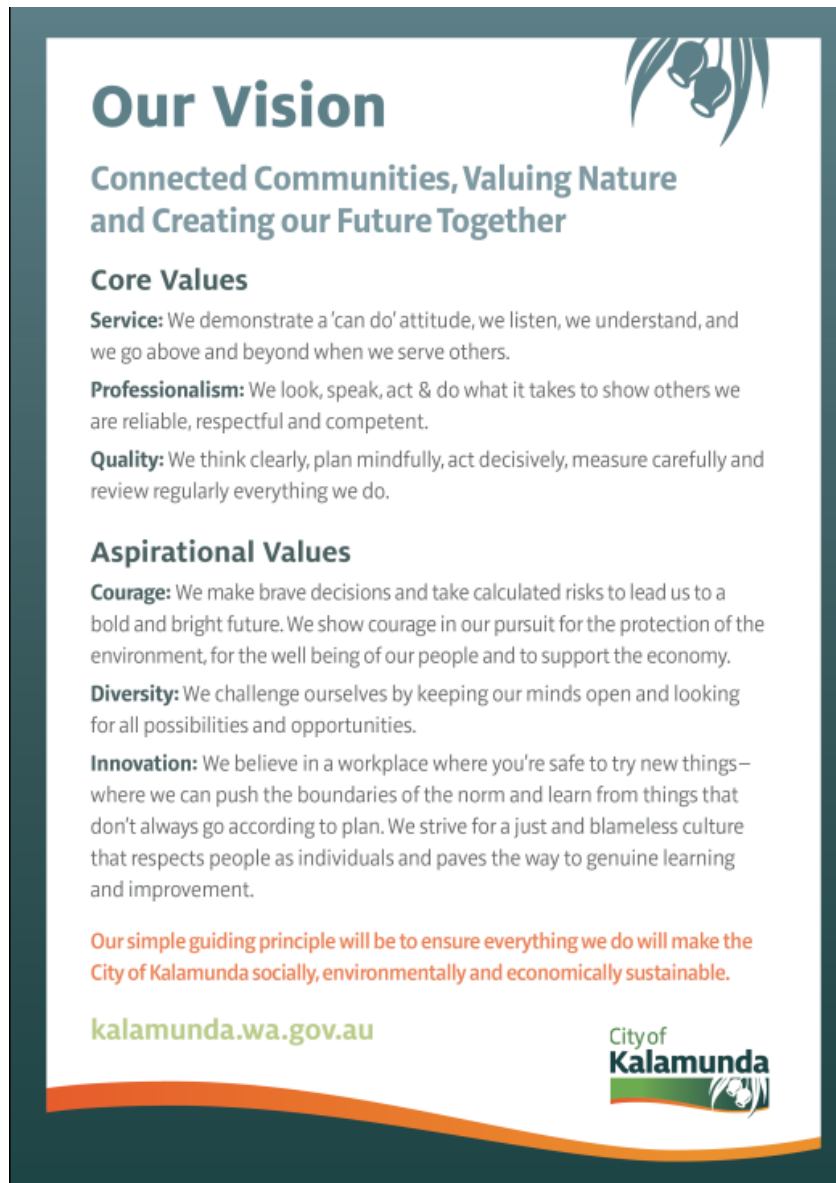
NOTICE OF MEETING AUDIT & RISK COMMITTEE

Dear Councillors

Notice is hereby given that the next meeting of the Audit & Risk Committee will be held in the Council Chambers, Administration Centre, 2 Railway Road, Kalamunda on **Tuesday 16 November 2021 at 6.30pm.**



Rhonda Hardy
Chief Executive Officer
12 November 2021



Our Vision

Connected Communities, Valuing Nature and Creating our Future Together

Core Values

Service: We demonstrate a 'can do' attitude, we listen, we understand, and we go above and beyond when we serve others.

Professionalism: We look, speak, act & do what it takes to show others we are reliable, respectful and competent.

Quality: We think clearly, plan mindfully, act decisively, measure carefully and review regularly everything we do.

Aspirational Values


Courage: We make brave decisions and take calculated risks to lead us to a bold and bright future. We show courage in our pursuit for the protection of the environment, for the well being of our people and to support the economy.

Diversity: We challenge ourselves by keeping our minds open and looking for all possibilities and opportunities.

Innovation: We believe in a workplace where you're safe to try new things—where we can push the boundaries of the norm and learn from things that don't always go according to plan. We strive for a just and blameless culture that respects people as individuals and paves the way to genuine learning and improvement.

Our simple guiding principle will be to ensure everything we do will make the City of Kalamunda socially, environmentally and economically sustainable.

kalamunda.wa.gov.au



INFORMATION FOR THE PUBLIC ATTENDING COUNCIL MEETINGS

Welcome to this evening's meeting. The following information is provided on the meeting and matters which may affect members of the public.

If you have any queries related to procedural matters, please contact a member of staff.

Audit & Risk Committee Meeting Procedure

1. Audit & Risk Committee has a membership of all Councillors.
2. The Committee makes recommendations only to Full Council (held on the fourth Tuesday of each month at 6.30pm)
3. All other arrangements are in general accordance with Council's Audit & Risk Committee Terms of Reference February 2013.

Acknowledgement of Traditional Owners

We wish to acknowledge the traditional custodians of the land we are meeting on, the Whadjuk Noongar people. We wish to acknowledge their Elders' past, present and future and respect their continuing culture and the contribution they make to the life of this City and this Region.

Emergency Procedures

Please view the position of the Exits, Fire Extinguishers and Outdoor Assembly Area as displayed on the wall of Council Chambers.

In case of an emergency follow the instructions given by City Personnel.

We ask that you do not move your vehicle as this could potentially block access for emergency services vehicles.

Please remain at the assembly point until advised it is safe to leave.

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1. Official Opening

The Mayor is to preside until the election of the presiding member under item 3.0

2. Attendance, Apologies and Leave of Absence Previously Approved

3. Election of Presiding Member

Section 5.12 of the *Local Government Act 1995* states the same procedure as applying to the election to the office of Mayor. If more than one nomination is received for the position of Presiding Member or Deputy Presiding Member, the members of the committee are to vote as they would in a normal election, to elect a Committee Member to both of these positions.

4. Election of Deputy Presiding Member

5. Public Question Time

A period of not less than 15 minutes is provided to allow questions from the gallery on matters relating to the functions of Council. For the purposes of Minuting, these questions and answers will be summarised.

6. Petitions/Deputations

7. Confirmation of Minutes from Previous Meeting

7.1 That the minutes of the Audit and Risk Committee held on 21 September 2021, as published and circulated, are confirmed as a true and accurate record of the proceedings.

Moved:

Seconded:

Vote:

Statement by Presiding Member

"On the basis of the above Motion, I now sign the Minutes as a true and accurate record of the meeting of 21 September."

8. Announcements by the Member Presiding Without Discussion

9. Matters for Which the Meeting may be Closed

Nil.

10. Disclosure of Interest

10.1. Disclosure of Financial and Proximity Interests

a. Members must disclose the nature of their interest in matter to be discussed at the meeting. (Section 5.56 of the *Local Government Act 1995*.)

b. Employees must disclose the nature of their interest in reports or advice when giving the report or advice to the meeting. (Section 5.70 of the *Local Government Act 1995*.)

10.2. Disclosure of Interest Affecting Impartiality

a. Members and staff must disclose their interest in matters to be discussed at the meeting in respect of which the member or employee had given or will give advice.

11. Reports to Council

11.1. Chief Executive Officer Reports

11.1.1. Adoption of Annual Financial Report 2020/2021

Declaration of financial / conflict of interests to be recorded prior to dealing with each item.

Previous Items	Nil.
Directorate	Chief Executive Officer
Business Unit	Office of the Chief Executive Officer
File Reference	
Applicant	N/A
Owner	N/A
Attachments	<ol style="list-style-type: none"> 1. City of Kalamunda 2020-2021 - CEO signed Annual Financial Statements [11.1.1.1 - 63 pages] 2. Memo to the Minister [11.1.1.2 - 4 pages]

TYPE OF REPORT

- Advocacy When Council is advocating on behalf of the community to another level of government/body/agency
- Executive When Council is undertaking its substantive role of direction setting and oversight (eg accepting tenders, adopting plans and budgets)
- Information For Council to note
- Legislative Includes adopting Local Laws, Town Planning Schemes, and Policies. When the Council determines a matter that directly impacts a person's rights and interests where the principles of natural justice apply. Examples include town planning applications, building licenses, other permits or licenses issued under other Legislation or matters that could be subject to appeal to the State Administrative Tribunal

STRATEGIC PLANNING ALIGNMENT

Kalamunda Advancing Strategic Community Plan to 2031

Priority 4: Kalamunda Leads

Objective 4.1 - To provide leadership through transparent governance.

Strategy 4.1.1 - Provide good governance.

EXECUTIVE SUMMARY

1. The purpose of this report is to provide Council with the Audited Financial Report for the 2020/2021 Financial Year (Attachment 1) together with the memorandum prepared to address the significant adverse trend mentioned in the auditor's report. (Attachment 2).
2. The Audit of the Financial Report was undertaken by the Office of the Auditor General (OAG) who completed an audit of the report for the financial year ending 30 June 2021. The audit did not identify any material adverse findings. This is an exceptional outcome for the City.
3. The City achieved a Financial Health Indicator (FHI) of 68 for the 2020/2021 financial year. The FHI is a measurement of a local government's overall financial health.
4. It is recommended that the Council:
 1. ACCEPT the 2020/2021 Annual Financial Report (Attachment 1) according to *Section 6.4 of the Local Government Act 1995*.
 2. NOTE the content of the memorandum prepared to address the significant adverse trend mentioned in the auditor's report. (Attachment 2).

BACKGROUND

5. *Section 6.4 (1) of the Local Government Act 1995* (The Act) requires a local government to prepare an Annual Financial Report for each financial year and details what the Annual Financial Report is to contain.
6. *Section 6.4 (2) of the Act* requires a local government to submit by 30 September following each financial year, or as such time as the Minister allows, 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.
7. *Section 7.12A (3) of the Act* requires the local government to examine the report of the auditor, under section 7.9 (1) and any other report prepared under section 7.9 (3) forwarded to it, and is to –
 - (a) Determine if any matters raised by the report or reports require action to be taken by the local government; and
 - (b) Ensure that appropriate action is taken in respect of those matters.

8. *Section 7.12A (4)* of the Act requires the City to –
- a) Prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and
 - b) Forward a copy of that report to the Minister, within three months after the audit report is received by the local government.
9. The City continues to strengthen its financial position with a surplus of \$8.8 million for the year before non-cash adjustments flowing from the revaluation of certain non-current assets. The overall surplus as reported in the Rate Setting Statement amounted to \$3.5 million. The net assets of the City increased by \$8.2 million to \$541 million mainly due to the net surplus reported during the year.

DETAILS AND ANALYSIS

Annual Financial Report

10. The 2020/2021 Annual Financial Report is presented for Council's acceptance and compared with the results of 2019/2020.

Comprehensive Income Statement

11. a) In comparison with 2019/2020, revenue decreased by 4%, or \$2.5 million.
- i. Rates rose by \$0.48 million predominately due to rates on new properties.
 - ii. Contributions, reimbursements, and donations decreased by \$3.8 million. The decrease is mainly due to in 2019/2020 the City received a contribution from Eastern Metropolitan Regional Council (EMRC) for the Food organics and Green organics project.
 - iii. Operating grants and subsidies increased by \$0.2 million mainly due to the rural fire mitigation grant received in 2020/2021 from the Department of Fire and Emergency Services.
 - iv. Fees and Charges increased by \$0.7 million. The variance is primarily due to;
 - A. Building application approval fees are higher in 2020/2021 by \$0.2 million.
 - B. Income received from development application fees is higher in 2020/2021 than the income received in 2019/2020 by \$0.3 million.

- v. Interest earnings decreased by \$0.2 million. This is primarily due to the lower interest rates offered in the market during the year.
- b) Operating expenditure decreased by 3% or \$1.6 million compared to 2019/2020.
 - i. Employment costs were decreased by \$0.3 million. This is primarily due to vacant positions and the aggregate result of minor variances in various business units.
 - ii. Materials and Contracts decreased by \$2.2 million. This is mainly attributed to;
 - A. Consultancy and contractor costs for various non-recurrent projects planned under the development and traffic engineering section being underspent by \$1.2 million.
 - iii. Depreciation expense was increased by \$2 million. This is mainly due to the changes in the remaining useful life of certain building assets resulting from 30 June 2020 land and building assets revaluation.
 - iv. Other expenditure was decreased by \$1.2 million. The decrease was mainly due to the CELL 9 land acquisition costs for road projects in 2019/2020. The amounts paid for CELL 9 infrastructure works are reimbursed by the CELL 9 trust account.
- c) Non-operating grants, subsidies, and contributions increased by \$3.5 million primarily as a result of the grant funding received for the construction of the Kalamunda Community Centre.
- d) Loss on disposal of assets decreased by \$2.3 million.

Statement of Financial Position

- 12.
 - a) Cash increased by \$7.9 million due mainly to an increased level of contributions and capital grants.
 - b) The value of the investment in the EMRC decreased by \$0.2 million due to the decrease in the share of net assets in EMRC.
 - c) The value of the Property, Plant & Equipment, and Infrastructure increased by \$5.1 million mainly due to the new additions during 2020/2021.
 - d) Current leave provisions increased by \$0.3 million. The variance is predominantly due to the increase in the current portion of the long service leave liability as more employees become eligible based on the calculation criteria.
 - e) Borrowings increased by \$2 million. During 2020/2021 the City borrowed \$3 million in new loans as planned in the original budget for 2020/2021.
 - f) In Equity, the cash-backed reserves increased by \$9 million. The variance in reserves is primarily due to the adjustments made to

unexpended capital works and specific purpose grants reserve and waste management reserve.

Statement of Cash Flows

- 13. a) Operating Activities produced \$13.2 million as compared to \$9.5 million in 2020.
- b) A total of \$19.2 million was invested in capital works during the year.

Audit Report

- 14. The Auditors, (OAG), conducted the fieldwork in May and October 2021 and issued their report in November 2021.
- 15. The Auditors did not identify any significant financial control issues during the financial audit 2020/2021 and did not issue a final management letter. This is an exceptional result for the City.
- 16. A summary of the key financial indicators is given below.

Financial Ratios	2021	2020	Standard
Current ratio	1.36	1.54	1.00
Asset consumption ratio	0.94	0.96	0.50
Asset renewal funding ratio	1.42	0.95	0.75
Asset sustainability ratio	0.39	0.91	0.90
Debt service cover ratio	8.67	6.36	2.00
Operating surplus ratio	(0.04)	(0.10)	0.01
Own source revenue coverage ratio	0.91	0.90	0.60

The City achieved a Financial Health Indicator (FHI) of 68 for the 2020/2021 financial year. The FHI is a measurement of a local government’s overall financial health. It is calculated from the seven financial ratios that local governments are required to calculate annually. An FHI result of 70 and above indicates sound financial health. Last year the City achieved a 75 FHI, the reduction in the 2020/2021 financial year is due to the underperformance of the Asset Sustainability Ratio and the Operating Surplus Ratio.

With the onset of COVID-19, State Government made various grant funding opportunities available to Local Governments. The City took up grant funded projects as part of the budget 2020/2021 stimulus strategy. With the increased spend on new projects it resulted in less renewal capital spend for the year. Due to the lower renewal capital spend this

resulted in the underperformance of the Asset Sustainability Ratio. Council considered the potential impact on the FHI as part of budget deliberations, however, the benefits of taking up grant funding outweighed the reduction in the ratios and FHI.

Whilst a FHI of 68 is a satisfactory result, OAG identified an adverse trend in the Operating Surplus Ratio.

17. OAG has identified in their audit report under section “Report on Other Legal and Regulatory requirements” that the City indicates a significant adverse trend for the Operating Surplus ratio.

The Operating Surplus Ratio is essentially a measure of the local government’s ability to cover its operational costs and has revenues available to fund capital and other purposes. It is calculated as follows:

Operating Surplus Ratio	
Operating Surplus Ratio =	$\frac{(\text{Operating Revenue MINUS Operating Expense})}{\text{Own Source Operating Revenue}}$
Purpose:	This ratio is a measure of a local government’s ability to cover its operational costs and have revenues available for capital funding or other purposes.
Standards:	Basic Standard between 1% and 15% (0.01 and 0.15) Advanced Standard > 15% (>0.15).
Definitions:	
‘Operating Revenue’	Means the revenue that is operating revenue for the purposes of the AAS, excluding grants and contributions for the development or acquisition of assets.
‘Operating Expense’	Means the expense that is operating expense for the purposes of the AAS.
‘Own Source Operating Revenue’	Means revenue from rates and service charges, fees and user charges, reimbursements and recoveries *, interest income and profit on disposal of assets.

The Operating Surplus ratio is below the standard ratio prescribed by the Department of Local Government, Sport, and Cultural Industries due to the significant non-cash adjustments to the operating results of the City. A memorandum addressing the significant adverse trend is attached (Attachment 2).

The administration will present to the Councillors at the strategic retreat early in 2022 on financial strategies to address the adverse trend of one of the six ratios being the operating surplus ratio, including:

- a. Undertake a review of all operating expenditure services and assets that could reduce expenditure levels;
- b. Identify opportunities and issues associated with increasing revenues through rates, fees, and charges or exploring new revenue increasing opportunities;

- c. Identify the risk appetite of the Council to either accept the adverse trend of this ratio or to address the trend by decreasing operational expenditure or increasing revenue streams.

The agreed strategies will then be incorporated into the preparation of the annual budget for 2022/2023 and the Long-term Financial Plan.

18. Reserves have increased by \$9 million over the year. The variance in reserves is primarily due to the adjustments made to unexpended capital works and specific purpose grants reserve and waste management reserve.
19. The City's reserves will continue to be closely monitored to ensure the long-term financial sustainability of the City.

APPLICABLE LAW

20. Sections 6.4, 7.9, 7.12A of the *Local Government Act 1995*.
21. Regulation 51 of the *Local Government (Financial Management) Regulations 1996*.

APPLICABLE POLICY

22. There are no policy implications.

STAKEHOLDER ENGAGEMENT

23. The City worked closely with the Auditors and the Executive were briefed on the findings associated with the Annual Financial Report for 2020/2021.
24. Although no community engagement consultation is required in the preparation of the Annual Financial Report, Section 5.55 of the Act requires that the Chief Executive Officer give local public notice of the availability of the Annual Report as soon as the practicable following acceptance of the Annual Report by the local government. The Annual Financial Report forms one component of the Annual Report.

FINANCIAL CONSIDERATIONS

25. The 2020/2021 Budget includes provision for the cost of having the accounts and the Annual Financial Report audited by an externally appointed registered auditor.

SUSTAINABILITY

Social Implications

26. Nil.

Economic Implications

27. Nil.

Environmental Implications

28. Nil.

RISK MANAGEMENT

29.	Risk: The audit Certificate is qualified by the external auditor		
	Consequence	Likelihood	Rating
	Unlikely	Moderate	Low
	Action/Strategy		
	Employ qualified suitably skilled staff. Maintain controls and compliance with the policy. Ensure an effective internal audit program.		
	Risk: Failure to lodge the Annual Financial Report with the Local Government Department within the required timeframe.		
	Consequence	Likelihood	Rating
	Rare	Moderate	Low
	Action/Strategy		
	Lodge the report with the Department of Local Government within 30 days of the signing of the auditor's report.		

CONCLUSION

30. The 2020/2021 Annual Financial Report includes:
- a) Statement by the Chief Executive Officer
 - b) Statement of Comprehensive Income by Nature and Type
 - c) Statement of Comprehensive Income by Program
 - d) Statement on Financial Position
 - e) Statement of Changes in Equity
 - f) Statement of Cash Flows.
 - g) Rate Setting Statement

- h) Notes to and forming part of the Financial Report
- i) Independent Auditor's Report

- 31. A significant outcome is that the Audit Report did not identify any matters of a material nature affecting the City's operations.
- 32. Regulation 51 of the *Local Government (Financial Management) Regulations 1996* requires the Chief Executive Officer to provide a copy of the Annual Financial Report to the Department of Local Government, Sport, and Cultural Industries within 30 days of the receipt of the auditor's report on that financial report.
- 33. The City achieved a Financial Health Indicator (FHI) of 68 for the 2020/2021 financial year. The FHI is a measurement of a local government's overall financial health. This is a satisfactory result for the City considering the current economic environment and the City continued to deliver on the Strategic Community Plan.

Voting Requirements: Absolute Majority

COMMITTEE RECOMMENDATION

That Council:

- 1. ACCEPT the 2020/2021 Annual Financial Report (Attachment 1) according to Section 6.4 of the *Local Government Act 1995*.
- 2. NOTE the content of the memorandum prepared to address the significant adverse trend mentioned in the auditor's report. (Attachment 2).

- 12. Motions of Which Previous Notice has been Given**
- 13. Questions by Members Without Notice**
- 14. Questions by Members of Which Due Notice has been Given**
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- 16. Meeting Closed to the Public**
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