



Audit & Risk Committee

Minutes

Tuesday 1 December 2020

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1. Official Opening

The Presiding Member opened the meeting at 6:30pm and welcomed Councillors, Staff and Members of the Public Gallery. The Presiding Member also acknowledged the Traditional Owners of the land on which we meet the Whadjuk Noongar people.

2. Attendance, Apologies and Leave of Absence Previously Approved

Councillors

South East Ward

John Giardina
Janelle Sewell
Geoff Stallard

South West Ward

Lesley Boyd
Mary Cannon
Brooke O'Donnell (Presiding Member)

North West Ward

Sue Bilich
Lisa Cooper
Dylan O'Connor

North Ward

Cameron Blair
Kathy Ritchie
Margaret Thomas JP (Mayor)

Members of Staff

Chief Executive Officer

Rhonda Hardy

Executive Team

Gary Ticehurst - Director Corporate Services
Brett Jackson - Director Asset Services
James Wickens - Acting Director Development Services

Management Team

Alida Ferriera - Manager Financial Services

Administration Support

Darrell Forrest - Governance Advisor
Cam Jones - IT Coordination
Donna McPherson - Executive Assistant to the CEO

Guests

Suraj Karki - Office of the Auditor General
Patrick Arulsingham - Office of the Auditor General
Andrew Zavitsanos - Crowe Australasia

Members of the Public Nil.

Members of the Press Nil.

Apologies

Peter Varelis –Director Development Services

Leave of Absence Previously Approved Nil.

3. 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.

3.1 Nil.

4. Petitions/Deputations

4.1 Nil.

5. Confirmation of Minutes from Previous Meeting

5.1 That the Minutes of the Audit & Risk Committee Meeting held on the 21 July 2020, as published and circulated, are confirmed as a true and accurate record of the proceedings.

Moved: **Cr Margaret Thomas**

Seconded: **Cr Geoff Stallard**

Vote: **CARRIED UNANIMOUSLY (12/0)**

6. Announcements by the Member Presiding Without Discussion

6.1 Nil.

7. Matters for Which the Meeting may be Closed

7.1 Item 9.3.1 - Internal Audit Report October 2020 – CONFIDENTIAL
ATTACHMENT 1. Final Report – Management of Consumer Food Safety.
Reason for Confidentiality: *Local Government Act 1995 (WA) Section 5.23 (2) (f) – “a matter that if disclosed, could be reasonably expected to – (i) impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law; (ii) endanger the security of the local government’s property; or (iii)*

prejudice the maintenance or enforcement of a lawful measure for protecting public safety”.

8. Disclosure of Interest

8.1. 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*.)

8.1.1 Nil.

8.2. 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.

8.2.1 Nil.

9. Reports to Council

9.1. Corporate Services Reports

9.1.1. Internal Audit Report October 2020

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

The Presiding Member welcomed Mr Andrew Zavitsanos from Crowe Australasia to the meeting (via virtual medium). Mr Zavitsanos presented the findings of the internal audit to the meeting.

Councillors sought clarification on several issues raised within the report. Mr Zavitsanos provided clarification.

The Presiding Member thanked Mr Zavitsanos and Crowe Australasia for the report provided.

Previous
Items

Directorate Corporate Services

Business Unit Corporate Services

File Reference

Applicant

Owner

Attachments Nil

Confidential Attachments 1. Management of Consumer Food Safety Audit Report

Reason for Confidentiality: *Local Government Act 1995 (WA) Section 5.23 (2) (f) - "a matter that if disclosed, could be reasonably expected to - (i) impair the effectiveness of any lawful method or procedure for preventing, detecting, investigating or dealing with any contravention or possible contravention of the law; (ii) endanger the security of the local government's property; or (iii) prejudice the maintenance or enforcement of a lawful measure for protecting public safety".*

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 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 licences, other permits or licences 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 2027

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 details of the Internal Audit Review conducted during the past quarter
2. The Internal Audit was completed in accordance with the provisions of the *Local Government Act 1995*, associated regulations, *Australian Accounting Standards*. The Internal Audit has identified a number of improvement opportunities which the City of Kalamunda (the City) is committed to implementing.
3. It is recommended that Council RECEIVE The details of Internal Audit Review conducted during the last quarter.

BACKGROUND

4. The Internal Audit program is delivered in line with the City's three-year Strategic Internal Audit Plan (the Plan) which contains a mix of compliance, financial, and performance / operational audits.

Since the commencement of this plan 28 engagements from the internal audit plan were completed through the City's appointed internal auditor Crowe Pty Ltd (formerly Crowe Howarth) Other work undertaken by Crowe Pty Ltd ('Crowe') included:

- a. the setting of the strategic internal audit plan;
- b. attendance and presentation of internal audit reports to the Audit & Risk Committee; and
- c. client liaison and engagement.

5. Internal Audit is a core element of the City's risk management and governance framework. The relationship between Internal Audit and the City can be summarised using the "Three Lines of Defence model illustrated below



6. Broadly, Internal Audit reviews are focused on:
 - a. Compliance Audits: Focused primarily on the entity's (or their suppliers') compliance with legislation, regulations, directions, policies, plans, and procedures.
 - b. Financial Audits: Focused primarily on practices and activities relating to the accounting and reporting of financial transactions including budget commitments, approvals, and the receipt and disbursement of funds, as well as the reliability and integrity of financial information and the safeguarding of the assets.
 - c. Performance (Operational) Audits: Focused primarily on an audit of all or a part of an entity's activities to assess the economy, efficiency and effectiveness and focuses on:
 - i. the adequacy of an internal control structure or specific internal controls to ensure due regard for economy and effectiveness;

- ii. the extent to which resources have been managed economically and efficiently; and
- iii. the extent to which activities have been effective in achieving organisational objectives.

DETAILS AND ANALYSIS

7. The Internal Audit Reviews undertaken during the past quarter have been focused on:

- a) Management of Consumer Food Safety

8. **Management of Consumer Food Safety Internal Audit**

The objective of the review was to assess the adequacy of processes, systems and controls in place to effectively regulate consumer food safety in local food businesses.

The scope of the review included the following:

- a. Food safety policies and procedures;
- b. Food business registrations and inspections, including practices to manage compliance with the *Food Act 2008*, *Food Regulations 2009* and ANZ Standards;
- c. Food business inspection processes, including inspection cycles;
- d. Management and investigation of customer complaints, including incident reporting, follow up and enforcement processes;
- e. Segregation of duties of Environmental Health Officers (EHOs); and
- f. Training and education to food businesses and EHOs.

9. The results of the Management of Consumer Food Safety Audit are detailed in Confidential Attachment 1.

10. The City monitors the status of audit recommendations arising from each Internal Audit Review. Recommendations are monitored to ensure that they are managed and implemented in a timely fashion.

APPLICABLE LAW

11. *Local Government Act 1995*
Local Government (Financial Management) Regulations 1996
Local Government (Functions and General) Regulations 1996
Food Act 2008, Food Regulations 2009 and ANZ Standards;

APPLICABLE POLICY

12. Nil.

STAKEHOLDER ENGAGEMENT

- 13. Internal Audit findings were discussed with relevant business unit managers and have been reviewed by the City's Executive Management Team.

FINANCIAL CONSIDERATIONS

- 14. The cost of the Internal Audit program is provisioned within the City's annual budget. Further, monitoring and review of internal controls within the Internal Audit program will reduce the risk and likely exposure of potential loss to the City.

SUSTAINABILITY

Social Implications

- 15. Nil.

Economic Implications

- 16. Nil.

Environmental Implications

- 17. Nil.

RISK MANAGEMENT

18.	Risk: Internal Audit fails to identify material non-compliance or control deficiencies.						
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%; padding: 5px;">Consequence</th> <th style="width: 33%; padding: 5px;">Likelihood</th> <th style="width: 33%; padding: 5px;">Rating</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">Moderate</td> <td style="padding: 5px;">Unlikely</td> <td style="padding: 5px;">Low</td> </tr> </tbody> </table>	Consequence	Likelihood	Rating	Moderate	Unlikely	Low
Consequence	Likelihood	Rating					
Moderate	Unlikely	Low					
	<p>Action/Strategy</p> <p>Internal Audit Plan developed and reviewed annually. Internal Audit working papers reviewed by External Auditors. Key controls are evaluated for the identified processes.</p>						

19.

Risk: Audit recommendations are not implemented in a timely fashion.		
Consequence	Likelihood	Rating
Moderate	Unlikely	Low
Action/Strategy		
Internal Audit Plan developed and reviewed annually. Monitoring and review of the implementation of audit recommendations.		

CONCLUSION

20. The City monitors the status of Internal Audit recommendations arising from each Internal Audit Review (Confidential Attachment 3). Recommendations are monitored and the majority of recommendations are either complete or in progress.

Voting Requirements: Simple Majority

COMMITTEE RECOMMENDATION TO COUNCIL

That Council RECEIVE the details of the Internal Audit Review conducted during the past quarter (Attachment 1).

Moved: **Cr Dylan O'Connor**

Seconded: **Cr John Giardina**

Vote: **CARRIED UNANIMOUSLY (12/0)**

9.1.2. City of Kalamunda Risk Profile

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

Councillors sought clarification on matters within the report. The Director Corporate Services provided clarification and responses to the queries raised.

Previous Items	OCM 46/2018, OCM 155/2018, OCM 219/2018; OCM 204/2019
Directorate	Corporate Services
Business Unit	Corporate Services
File Reference	N/A
Applicant	N/A
Owner	N/A

Attachments	<ol style="list-style-type: none"> 1. Risk Profile [9.1.2.1 - 1 page] 2. Strategic Risk Register [9.1.2.2 - 4 pages] 3. City of Kalamunda - Risk Appetite Statement [9.1.2.3 - 4 pages] 4. Integrated Risk Management Plan [9.1.2.4 - 25 pages]
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STRATEGIC PLANNING ALIGNMENT

Kalamunda Advancing Strategic Community Plan to 2027

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:
 - a) provide Council with an update of the City of Kalamunda's (City) Risk Profile consisting of the top fourteen reported risks at 30 June 2020 (Attachment 1); and
 - b) seek Council endorsement of the City's updated Integrated Risk Management Plan (Attachment 4).
2. The City's Risk Profile has been prepared in accordance with the adopted Integrated Risk Management Plan (Plan). The Risk Profile outlines the top 14 ranked risks facing the organisation.
3. The Risk Profile and Strategic Risk Register is reviewed quarterly and updated by the City's administration and is submitted for Council endorsement at Audit and Risk Committee Meetings.
4. It is recommended that the Committee advise Council to:
 - a) endorse the Risk Profile (Attachment 1).
 - b) notes the Strategic Risk Register (Attachment 2).
 - c) notes the Risk Appetite Statement (Attachment 3).
 - d) adopts the updated Integrated Risk Management Plan (Attachment 4)

BACKGROUND

5. Risk management is a core component of corporate governance and an integral part of contemporary management practices. Risk management refers to the coordination of activities that direct and control the organisation with regard to risk. It is acknowledged risk management involves both the management of potentially adverse impacts together with the realisation of opportunities.
6. The management of risk is focused on:
 - a) maintaining high levels of integrity for services provided by the City;
 - b) protecting the City's physical, and non-physical assets including employees, elected members, financial and property;
 - c) achieving and maintaining legislative and regulatory compliance, including codes of conduct and professional standards;

- d) creating an environment where all employees assume responsibility for the proactive management of risk; and
 - e) demonstrating transparent and responsible risk management processes aligned to accepted best practice so as to address uncertainty and to deliver continuous improvement.
7. The Risk Profile has been adopted in accordance with the Integrated Risk Management Plan and is structured around *AS/NZS/ISO 31000:2018* and the requirements under the *Local Government (Audit) Regulations 1996*.
8. The Risk Profile captures those risks that are likely to:
- a) adversely impact the City's capacity to deliver current and future services;
 - b) have an organisational wide focus or impact;
 - c) have a significant adverse financial impact; and
 - d) result in significant reputational or political damage.

DETAILS AND ANALYSIS

9. The purpose of risk management is the creation and protection of value. It improves performance, encourages innovation and supports the achievement of objectives. The following principles contained within (*AS/NZS ISO 31000:2018*) provide guidance on the characteristics of effective and efficient risk management and are the foundation for managing risk.
- These principles are:-
- a) Integrated – Risk Management is an integral part of all organisational activities.
 - b) Structured and comprehensive – contributing to consistent and comparable results.
 - c) Customised – the Risk Management Framework and process are customised and proportionate to the organisations internal and external context relating to its objectives.
 - d) Inclusive – Appropriate and timely involvement of stakeholders enables their knowledge, views and perceptions to be considered.
 - e) Dynamic – Risks can emerge, change or disappear as an organisations internal and external context changes. Risk Management is responsive to those changes.
 - f) Best available information – inputs to risk management are based on current and historical information as well as on future expectations. Risk Management explicitly takes into account any limitations and uncertainties associated with such information and expectations.

- g) Human and cultural factors – human behaviour and culture significantly influence all aspects of risk management at each level and stage.
 - h) Continual improvement – risk management is continually improved through learning and experience.
- 10. Risk management is a focal element of the City's strategy to promote accountability through good governance and robust business practices, contributing to maintaining a sustainable organisation focused on the effective management of resources and operations.
- 11. In recognising that risk management is integral to good business practices, Enterprise Risk Management is comprised of the following elements:
 - a) the City of Kalamunda's Risk Management Framework;
 - b) Risk Management Policy and Management Procedures;
 - c) Senior Management Team commitment to leading and championing risk management practices and thinking;
 - d) management systems to establish and report on the profile and treatment of risks; and
 - e) broad based training and awareness raising to enhance risk management understanding.
- 12. The City's Administration recently undertook a workshop to review and update the Strategic Risk Register. From the workshop, the Risk Profile was reviewed based on the top fourteen strategic risks likely to impact the City's ability to achieve its strategic objectives.
- 13. Following endorsement by Council, the Administration will adopt the revised risk ratings in the ongoing assessment and reporting of risks. The Strategic Risk Register was workshopped with Council in July 2020.
- 14. The City's Strategic Risk Register has been developed so as to:
 - a) identify any new risk events;
 - b) highlight risk trends between the current and previous years; and
 - c) identify priority treatment actions planned for the next 12 months.
- 15. The City's Risk Appetite is assessed against the main areas of risk consequence expressed with the Risk Management Plan.
- 16. The City's culture is focused on innovation and continuous improvement with a strong emphasis on enhancing service delivery, which may result in additional exposure to risk.

17. The City's risk appetite is generally higher when it can be demonstrated that the benefits created through innovation out-weigh the associated costs.

APPLICABLE LAW

18. *Local Government (Audit) Regulations 1996 (WA) Amendment.*

Amendments to the *Local Government (Audit) Regulations 1996* came into effect on 8 February 2013. Specifically, Regulation 17 which states:

"17. CEO to review certain systems and procedures

(1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to –

- (a) risk management; and*
- (b) internal control; and*
- (c) legislative compliance*

(2) The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.

(3) The CEO is to report to the audit committee the results of that review."

In addition to the requirement for the CEO to prepare a report as outlined in Regulation 17, the Regulations also stipulate an additional responsibility for the Audit Committee as detailed in Regulation 16(c) which states the Audit Committee:

"(c) is 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."*

APPLICABLE POLICY

19. The City's Risk Profile has been developed in accordance with the Integrated Risk Management Plan and the City's Risk Management Policy (C-HR06).

STAKEHOLDER ENGAGEMENT

20. The Risk Profile was developed following an assessment and review of the City’s strategic risks. The Risk Profile was subsequently reviewed by the City’s Administration and workshopped with Councillors.

FINANCIAL CONSIDERATIONS

21. Nil.

SUSTAINABILITY

Social Implications

22. Nil.

Economic Implications

23. Nil.

Environmental Implications

24. Nil.

RISK MANAGEMENT

25.	<p>Risk: Without an effective enterprise risk management system, the City would not be fulfilling its obligations of duty of care and due diligence as prescribed by the <i>Local Government Act 1995</i>.</p>		
	Consequence	Likelihood	Rating
	Possible	Moderate	Medium
	Action/Strategy		
	<p>Ensure the City has an enterprise risk management system in place that complies with Australian Standards and contains the following elements:</p> <ul style="list-style-type: none"> a) Risk Appetite Statement; b) Risk Assessment based on the Risk Policy, Risk Management Plan, risk registers and established standard; and c) Risk Profile reviewed quarterly by the Administration and Council. 		

Risk: The City fails to effectively manage risks impacting the delivery of objectives.		
Consequence	Likelihood	Rating
Possible	Moderate	Medium
Action/Strategy		
a) Ensure the City has an enterprise risk management system in place that complies with Australian Standards.		
b) Undertake a review of the City's Risk Profile by the Administration and Council on a regular basis.		

CONCLUSION

26. As a result of the review of the City's Risk Profile identifying the top fourteen risks the City is well placed to manage its risk (Attachment 1). The Officers recommend that the Committee endorse the revised Risk Profile, Strategic Risk Register, Risk Appetite Statement and the Integrated Risk Management Plan.

Voting Requirements: Simple Majority

COMMITTEE RECOMMENDATION TO COUNCIL

That Council:

1. ENDORSE the Risk Profile (Attachment 1).
2. NOTES the Strategic Risk Register (Attachment 2).
3. NOTES the Risk Appetite Statement (Attachment 3).
4. ADOPTS the updated Integrated Risk Management Plan (Attachment 4).

Moved: **Cr Dylan O'Connor**

Seconded: **Cr John Giardina**

Vote:

For

Cr John Giardina
Cr Lesley Boyd
Cr Mary Cannon
Cr Brooke O'Donnell
Cr Sue Bilich
Cr Lisa Cooper
Cr Dylan O'Connor
Cr Cameron Blair
Cr Margaret Thomas
Cr Kathy Ritchie

Against

Cr Janelle Sewell
Cr Geoff Stallard

CARRIED (10/2)

9.2. Chief Executive Officer Reports

9.2.1. Adoption of Annual Financial Report 2019/2020

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

The Presiding Member welcomed Mr Suraj Karki and Mr Patrick Arulsingham, representing the Office of the Auditor General.

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 Draft Annual Financial Report 2019-2020 [9.2.1.1 - 59 pages] 2. Memo to the Minister [9.2.1.2 - 3 pages]

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STRATEGIC PLANNING ALIGNMENT

Kalamunda Advancing Strategic Community Plan to 2027

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 2019/2020 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 2020. 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 75 for the 2019/2020 financial year. The FHI is a measurement of a local government's overall financial health. An FHI result of 70 and above indicates sound financial health.
4. It is recommended that the Council:
 1. ACCEPT the 2019/2020 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, by the end of the next financial year, or six months after the last report prepared under section 7.9 is received by the local government, whichever is the latest time.
9. At the Special Council meeting held on 7 April 2020, the Council adopted the City's COVID-19 Financial Hardship policy, changes to budget 2019/2020, and recommendations on how to relieve some of the financial distress experienced by the community as a result of the current global situation.
10. The City continues to strengthen its financial position with a surplus of \$1.7 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 \$6.6 million. The net assets of the City decreased by \$34 million to \$533 million mainly due to the asset revaluation loss incurred from Land and Building revaluations.

DETAILS AND ANALYSIS

Annual Financial Report

11. The 2019/2020 Annual Financial Report is presented for Council's acceptance and compared with the results of 2018/2019.
12. The COVID-19 pandemic was underway for the last few months of the financial year. Despite this, the City continued to deliver on key strategies adopted by the Council and maintained high levels of services across all programs.

Comprehensive Income Statement

13. a) In comparison with 2018/2019, revenue increased by 7% or \$4.2 million.
- i. Rates rose by \$0.4 million predominately due to rates on new properties.
 - ii. Contributions, reimbursements, and donations increased by \$4.3 million mainly due to the contribution received from

- Eastern Metropolitan Regional Council (EMRC) for the Food organics and Green organics project.
- iii. Operating grants and subsidies decreased by \$0.2 million mainly due to the decrease in financial assistance grants received for 2019/2020.
 - iv. Fees and Charges decreased by \$0.06 million. This is an aggregate result of minor variances in individual fee categories.
 - v. Interest earnings decreased by \$0.2 million. This is primarily due to the lower interest rates offered in the market during the latter part of the year.
- b) Operating expenditure increased by 6% or \$3.4 million compared to 2018/2019.
- i. Employment costs were decreased by \$0.1 million. This is primarily due to vacant positions and the aggregate result of minor variances in various business units.
 - ii. Materials and Contracts increased by \$2 million. This is mainly attributed to;
 - Recognition of transfer of ownership for library books from State library on 30 June 2020 - \$0.6 million
 - Increase in waste collection costs by \$0.4 million.
 - iii. Depreciation expense was increased by \$0.3 million. This is mainly due to the higher depreciation resulting from the revaluation surplus of \$198 million in the infrastructure assets category as of 1 July 2019.
 - iv. Other expenditure was increased by \$1.2 million. The increase was mainly due to the CELL 9 land acquisition costs for road projects. The amounts paid for CELL 9 infrastructure works are reimbursed by the CELL 9 trust account.
- c) Non-operating grants increased by \$1.8 million primarily as a result of the grant funding received for the construction of the Kalamunda Community Centre.
- d) Loss on disposal of assets increased by \$1.6 million. The increase in loss was largely due to the disposal of the Peter Anderton building. The City entered into a peppercorn lease agreement with the Department of Health to give access to the building. The building was written-off from the City's assets as the remaining lease agreement period was less than 12 months.
- e) The revaluation of land and building assets has resulted in a \$32 million decrease in the revaluation surplus in other comprehensive income.

Statement of Financial Position

- 14.
- a) Cash increased by \$3.5 million due mainly to an increased level of contributions, capital grants, and improved efficiency in debt collection.
 - b) The value of the investment in the EMRC decreased by \$2.2 million due to the decrease in the share of net assets in EMRC. In 2019/2020 EMRC initiated a distribution process to its member Councils in form of dividends and contribution to the food organics and green organics project. This distribution resulted in a decrease in net assets of EMRC.
 - c) The value of the Property, Plant & Equipment and Infrastructure decreased by \$29 million mainly due to the land and building revaluation loss.
 - d) Current leave provisions increased by \$0.5 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 \$3 million. During 2019/2020 the City borrowed \$3.7 million in new loans as planned in the original budget for 2019/2020.
 - f) In Equity, the retained surplus increased with the net result for the year of \$0.6 million. The revaluation surplus decreased by \$32 million due to the revaluation loss in land and building categories.

Statement of Cash Flows

- 15.
- a) Operating Activities produced \$9.6 million as compared to \$9.1 million in 2019.
 - b) A total of \$17.7 million was invested in capital works during the year.

Audit Report

16. The Auditors, (OAG), conducted the fieldwork in May and October 2020 and issued their report in November 2020. The audit certificate is provided on pages 57 to 59 of the Annual Financial Report.
17. The Auditors did not identify any significant financial control issues during the financial audit 2019/2020 and did not issue a management letter. This is an exceptional result for the City.

18. A summary of the key financial indicators is given below.

Financial Ratios	2020	2019	Standard
Current ratio	1.54	1.30	1.00
Asset consumption ratio	0.96	0.97	0.50
Asset renewal funding ratio	0.95	0.95	0.75
Asset sustainability ratio	0.91	0.67	0.90
Debt service cover ratio	6.36	9.58	2.00
Operating surplus ratio	(0.10)	(0.04)	0.01
Own source revenue coverage ratio	0.90	0.90	0.60

The City achieved a Financial Health Indicator (FHI) of 75 for the 2019/2020 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.

19. OAG has mentioned 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 have 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 to present to the Councillors at the strategic retreat early in 2021 on financial strategies for consideration and approval. Options to address the adverse trend of one of the six ratios being the operating surplus ratio:

- 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. Undertake a review of depreciation rates;
- d. Identify the risk appetite of 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 2020/2022 and the Long-term Financial Plan.

20. Reserves have decreased by \$2.7 million over the year. This reduction is mainly attributable to the decrease in amounts transferred to the unexpended capital works and specific purpose grants reserve. The City observed a reduction in capital works carry-forwards for 2020/2021 during the original budget process 2020/2021.
21. The City's reserves will continue to be closely monitored to ensure the long-term financial sustainability of the City.

APPLICABLE LAW

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

APPLICABLE POLICY

24. There are no policy implications.

STAKEHOLDER ENGAGEMENT

25. The City worked closely with the Auditors and Executives were briefed on the findings associated with the Annual Financial Report for 2019/2020.

26. 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 practicable following acceptance of the Annual Report by the local government. The Annual Financial Report forms one component of the Annual Report.

FINANCIAL CONSIDERATIONS

27. The 2019/2020 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

28. Nil.

Economic Implications

29. Nil.

Environmental Implications

30. Nil.

RISK MANAGEMENT

31.	Risk: 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

- 32. The 2019/2020 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

- 33. A significant outcome is that the Audit Report did not identify any matters of a material nature affecting the City’s operations.

- 34. 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. The report was signed on 24 November 2020 and will be provided to the Department within the required timeframe of 30 days.

- 35. The COVID-19 pandemic was underway for the last few months of the financial year. Despite this, the City continued to deliver on key strategies adopted by the Council and maintained high levels of services across all programs.

- 36. The City achieved a Financial Health Indicator (FHI) of 75 for the 2019/2020 financial year. The FHI is a measurement of a local government’s overall financial health. An FHI result of 70 and above indicates sound financial health.

Voting Requirements: Simple Majority

COMMITTEE RECOMMENDATION TO COUNCIL

That Council:

1. ACCEPT the 2019/2020 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).

Moved: **Cr Margaret Thomas**

Seconded: **Cr Geoff Stallard**

Vote: **CARRIED UNANIMOUSLY (12/0)**

10. Motions of Which Previous Notice has been Given

10.1 Nil.

11. Questions by Members Without Notice

11.1 Nil.

12. Questions by Members of Which Due Notice has been Given

12.1 Nil.

13. Urgent Business Approved by the Presiding Member or by Decision

13.1 Nil.

14. Meeting Closed to the Public

14.1 Nil.

15. Closure

There being no further business, the Presiding Member declared the Meeting closed at 7:07pm.

I confirm these Minutes to be a true and accurate record of the proceedings of this Council.

Signed: _____
Presiding Member

Dated this _____ day of _____ 2020.