



Standing Committee (Audit and Risk)

Minutes

Monday 14 February 2022

BELMONT
CITY OF OPPORTUNITY



CITY OF BELMONT

Standing Committee (Audit and Risk)

Minutes

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Attachments Index

- Attachment 11.1.1 – Item 11.1 refers
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Confidential Attachments Index

- Confidential Attachment 10.1.1 – Item 10.1 refers
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- Confidential Attachment 11.2.3 – Item 11.2 refers

Minutes from the Standing Committee (Audit and Risk) held in the Rivervale Room, City of Belmont Civic Centre, 215 Wright Street, Cloverdale on Monday 14 February 2022 commencing at 6.38pm.

Minutes

Present

Cr J Davis (Presiding Member)	South Ward
Cr M Bass (Deputy Presiding Member)	East Ward
Cr P Marks, Mayor (Ex Officio)	East Ward
Cr R Rossi	West Ward
Mr R Back	Independent Member

In attendance

Mr J Christie	Chief Executive Officer
Ms M Bell	Director Corporate and Governance
Mr B Godfrey	Internal Auditor
Ms V Govender	Manager Finance
Mr M Smith	Manager Information Technology
Mrs M Lymon	Acting Manager Governance
Mrs J Cherry-Murphy	Senior Governance Officer

Guests

Mr M Ambrose	Senior Director, Office of the Auditor General
Ms I Yap	Principal Auditor, Office of the Auditor General
Mr M Chumak	Senior Information Systems Auditor, Office of the Auditor General

I Official Opening

6.38pm The Presiding Member welcomed all those in attendance and declared the meeting open.

The Presiding Member read aloud the Acknowledgement of Country.

Acknowledgement of Country

Before I begin, I would like to acknowledge the Noongar Whadjuk people as the Traditional Owners of this land and pay my respects to Elders past, present and emerging.

I further acknowledge their cultural heritage, beliefs, connection and relationship with this land which continues today.

2 Apologies and leave of absence

Nil.

3 Declarations of interest that might cause a conflict

3.1 Financial interests

Nil.

3.2 Disclosure of interest that may affect impartiality

Nil.

4 Announcements by the Presiding Member (without discussion)

4.1 Announcements

Nil.

4.2 Declarations by Members who have not given due considerations to all matters contained in the business papers presently before the meeting

Nil.

5 Confirmation of Minutes

5.1 Standing Committee (Audit and Risk) Meeting held 24 November 2021

Officer Recommendation

Marks moved, Rossi seconded

That the Minutes of the Standing Committee (Audit and Risk) Meeting held on 24 November 2021 be confirmed as a true and accurate record.

Carried Unanimously 5 votes to 0

6 Questions by Members on which due notice has been given (without discussion)

Nil.

7 New business of an urgent nature approved by the person presiding or by decision

Nil.

8 Questions by members without notice

8.1 Committee member name

Nil.

9 Business adjourned from a previous meeting

Nil.

10 Information items

10.1 Audit Log – Office of the Auditor General (OAG) Audits

Attachment details

Attachment No and title
1. CONFIDENTIAL - City of Belmont Audit Log (Confidential Matter in accordance with the Local Government Act 1995 Section 5.23(2)(f)ii) [10.1.1 - 11 pages]

An Audit Log (refer Confidential Attachment 10.1.1) has been developed to capture and report on progress of all recommended actions from previous audit reports as requested by the Standing Committee (Audit and Risk).

The Audit Log will be included for information on all Standing Committee (Audit and Risk) Agendas. Questions from Committee Members are welcome.

A question was asked and responded to as follows:

- A number of the audit findings that are still progressing are expected to be completed in the next two to three months.

10.2 Information Systems (IT General Controls) Audit Findings - Year Ended 30 June 2021

Attachment details

Attachment No and title
1. CONFIDENTIAL - Final Management Letter Confidential Matter in Accordance with Local Government Act 1995 Section 5_2 [10.2.1 - 28 pages]

Reasons for Confidentiality

This report is confidential in accordance with Section 5.23(2) of the *Local Government Act 1995* which permits the meeting to be closed to the public for business relating to the following:

h. such other matters as may be prescribed.

Officer Recommendation

Davis moved, Bass seconded

That the Standing Committee (Audit and Risk) note the Report and information provided, and the upcoming reports to the Standing Committee (Audit and Risk).

Carried Unanimously 5 votes to 0

10.3 Financial Management Review

Attachment details

Attachment No and title	
1.	CONFIDENTIAL - Engagement letter Regulation 5 (Confidential Matter in Accordance with Local Government Act 1995 Section 5.23(2)(c)) [10.3.1 - 2 pages]
2.	CONFIDENTIAL - Engagement letter Regulation 17 (Confidential Matter in Accordance with Local Government Act 1995 Section 5.23(2)(c)) [10.3.2 - 2 pages]

Regulation 5 (2) (c) of the *Local Government (Financial Management) Regulations 1996* requires the Chief Executive Officer (CEO) to undertake a review of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (not less than once in every three financial years) and report to the Audit and Risk Committee the results of the review.

Further, Regulation 17 of the *Local Government (Audit) Regulations 1996* requires the CEO to undertake reviews of the appropriateness and effectiveness of a local government's systems and procedures in relation to —

1. risk management; and
2. internal control; and
3. legislative compliance.

This review is to be performed not less than once in every three financial years and the CEO is to report to the Standing Committee (Audit and Risk) the results of the review.

The last Financial Management Review was performed in 2019 by Grant Thornton Pty Ltd. In December 2021 the City requested quotations for the services of a financial consultant to:

1. undertake the Financial Management Review and Systems and Procedures Review on behalf of the CEO; and
2. submit a report to Audit and Risk Committee outlining their findings.

Paxon Business and Financial Services Pty Ltd was successful in securing this contract due to their experience and capacity to provide the required services. The review will be conducted during the period January 2022 to March 2022 with the final report to be provided to the Standing Committee (Audit and Risk) .

The details of the engagement letter for these reviews are included at Attachment 10.3.1 and 10.3.2.

A question was asked and responded to as follows:

- The Manager Finance confirmed this meets the City's Procurement Strategy.

11 Items requiring recommendation to Council

11.1 Statutory Compliance Audit Return 2021

Attachment details

Attachment No and title

1. 2021 Compliance Audit Return [11.1.1 - 17 pages]

Voting Requirement	:	Simple Majority
Subject Index	:	39/005 Statutory Compliance Return
Location/Property Index	:	N/A
Application Index	:	N/A
Disclosure of any Interest	:	Nil
Previous Items	:	22 February 2021 SC (AR) - Item 11.1 23 March 2021 OCM - Item 12.2
Applicant	:	N/A
Owner	:	N/A
Responsible Division	:	Corporate and Governance

Council role

- Advocacy** When Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.
- Executive** The substantial direction setting and oversight role of the Council e.g. adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.
- Legislative** Includes adopting local laws, local planning schemes and policies.
- Review** When Council reviews decisions made by Officers.
- Quasi-Judicial** When Council determines an application/matter that directly affect a person's right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. Examples of quasi-judicial authority include local planning applications, building licences, applications for other permits/licences (e.g. under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.

Purpose of report

To provide Council with the outcomes of the Statutory Compliance Audit Return for the period 1 January 2021 to 31 December 2021 as provided for in Attachment 11.1.1.

Summary and key issues

It is a requirement of the *Local Government Act 1995* that all local governments carry out an audit of compliance in the prescribed manner and form approved by the Minister. The Department of Local Government, Sport and Cultural Industries provided a set of questions via the Departmental Portal in January 2022. The 2021 audit questions focus on key areas of potential non-compliance as in previous years.

The City of Belmont's 2021 compliance score is 99%. This is up from 94% in 2020. The area of non-compliance is addressed within the Officer Comment of the report with an explanation.

Location

Not applicable.

Consultation

There has been no specific consultation undertaken in respect to this matter.

Strategic Community Plan implications

In accordance with the 2020 – 2040 Strategic Community Plan:

Goal 5: Responsible Belmont

Strategy: 5.6 Deliver effective, fair and transparent leadership and decision-making, reflective of community needs and aspirations.

Policy implications

There are no policy implications associated with this report.

Statutory environment

Regulation 14 of the *Local Government (Audit) Regulations 1996* requires that a compliance audit for the period 1 January to 31 December is completed each year in a form approved by the Minister. Regulation 14 also requires the Standing Committee (Audit and Risk) to review the Compliance Audit Return and present those results to Council. The Compliance Audit Return is then to be adopted by Council and recorded in the minutes.

Regulation 15 of the *Local Government (Audit) Regulations 1996* requires that after the adoption by Council of the Compliance Audit Return, a certified copy (signed by both the Mayor and Chief Executive Officer) of the return, together with a copy of the minutes of the

meeting in which the return was adopted and any additional information is required to be submitted to the Executive Director of the Department of Local Government, Sport and Cultural Industries by 31 March 2022.

Background

The compliance audit period is 1 January to 31 December 2021. Once the audit is completed the City is required to:

1. Present the Compliance Audit Return to the Standing Committee (Audit and Risk).
2. Present the Compliance Audit Return to Council.
3. Seek Council's endorsement of the completed Compliance Audit Return.
4. Return the endorsed and certified Compliance Audit Return, along with a copy of the Council Minutes, to the Department of Local Government, Sport and Cultural Industries by no later than 31 March 2022.

In completing the Compliance Audit Return, the Chief Executive Officer and other designated officers have undertaken:

- an audit of the City's activities, practices and procedures applicable to each section; and
- ensures the requirement is met that the return ensures that an independent, thorough and rigorous process is undertaken.

The audit questions for the 2021 period focused on key areas of potential non-compliance and areas affected by regulatory change.

The Compliance Audit Return is required to be completed online through the Department of Local Government, Sport and Cultural Industries website. A copy of the completed return is provided as Attachment 11.1.1 to this report and is a printout of the City's registered responses.

Once Council has resolved its satisfaction with the contents of the return, it can be jointly certified by the Mayor and Chief Executive Officer and submitted to the Department of Local Government, Sport and Cultural Industries via the Departmental Portal Smart Hub.

Results of the Compliance Audit Return are published on the My Council website by the Department of Local Government, Sport and Cultural Industries.

Officer comment

Following receipt of the Compliance Audit Return questions through the Department of Local Government, Sport and Cultural Industries portal in January 2022, City of Belmont Officers conducted an internal audit to determine responses to questions in the Compliance Audit Return. To further substantiate responses, the City has opted to provide evidence through citation of items from the City's Council Meeting Minutes and documents registered

in the Electronic Document Management System (ECM). Reference is also made to information contained in hard copy files, which includes original copies of Elected Member and designated officer Primary and Annual Returns.

When reading the questions shown in the Compliance Audit Return

(refer Attachment 11.1.1) they should be read in conjunction with the relevant extract of the *Local Government Act 1995* (the Act) and / or associated Regulations.

The 2021 Statutory Compliance Audit Return contains a total of 98 questions. This is a decrease of four questions from the 2020 return. There has been rewording of previous questions and new questions relating to the 2021 amendments to the *Local Government Act 1995* and associated Regulations. A summary of the compliance areas and the City of Belmont assessment is as follows:

Compliance Area (Total Questions for Area)	Full Compliance / Not Applicable	Non-Compliance
Commercial Enterprises by Local Government (5)	5	0
Delegation of Power / Duty (13)	13	0
Disclosure of Interest (25)	24	0
Disposal of Property (2)	2	0
Elections (3)	3	0
Finance (7)	6	1
Integrated Planning and Reporting (3)	3	0
Local Government Employees (6)	6	0
Official Conduct (3)	3	0
Optional Questions (Pertaining to Financial Management and Policy (9)	9	0
Tenders for Providing Goods and Services (22)	22	0
Total Questions (98)	97	1

The City of Belmont 2021 Compliance Score is 99%.

Responses provided by City Officers have been considered by Governance Officers to check for compliance and evidence. Further clarification and communication has taken place with business units where required.

Area of Non-Compliance

Finance

This non-compliance has occurred as a result of the Office of the Auditor General (OAG) not being able to complete the auditor's report for the financial year ending 30 June 2021 by 31 December 2021. The audit had been carried out, though the OAG advised by email on 23 December 2021 of the inability to meet the deadline to provide the report by

31 December 2021 due to resourcing issues experienced by the OAG.

The auditor's report has now been received from the OAG and is the subject of a separate item for Standing Committee (Audit and Risk) consideration.

Financial implications

There are no financial implications evident at this time.

Environmental implications

There are no environmental implications associated with this report.

Social implications

There are no social implications associated with this report.

Officer Recommendation

Rossi moved, Davis seconded

That the Standing Committee (Audit and Risk) recommend that Council:

1. Receive and adopt the 2021 Compliance Audit Return as provided in Attachment 11.1.1.
2. Authorise the Mayor and Chief Executive Officer to complete the Joint Certification of the 2021 Compliance Audit Return.
3. Direct the Chief Executive Officer to submit the certified 2021 Compliance Audit Return and a copy of the minutes relative to this report to the Department of Local Government, Sport and Cultural Industries by 31 March 2022 in accordance with the *Local Government (Audit) Regulations 1996*.
4. Direct the Chief Executive Officer to provide a report to the next meeting of the Standing Committee (Audit and Risk) outlining the actions taken addressing the areas of non-compliance.

Carried Unanimously 5 votes to 0

11.2 2020-2021 Annual Audited Financial Statement

Attachment details

Attachment No and title

1. 2020-2021 Annual Financial Statement [11.2.1 - 66 pages]
2. City of Belmont - 30 June 2021 - Final management letter [11.2.2 - 4 pages]
3. CONFIDENTIAL - City of Belmont - 30 June 2021 - Exit meeting - closing report [11.2.3 - 6 pages]
4. City of Belmont 30 June 2021 Representation letter [11.2.4 - 5 pages]

Voting Requirement	:	Simple Majority
Subject Index	:	19/001-Report of Council Audit
Location/Property Index	:	Not Applicable
Application Index	:	Not Applicable
Disclosure of any Interest	:	Nil
Previous Items	:	Not Applicable
Applicant	:	Not Applicable
Owner	:	Not Applicable
Responsible Division	:	Corporate and Governance

Council role

- Advocacy** When Council advocates on its own behalf or on behalf of its community to another level of government/body/agency.
- Executive** The substantial direction setting and oversight role of the Council eg adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.
- Legislative** Includes adopting local laws, local planning schemes and policies.
- Review** When Council reviews decisions made by Officers.
- Quasi-Judicial** When Council determines an application/matter that directly affect a person's right and interests. The judicial character arises from the obligation to abide by the principles of natural justice. Examples of quasi-judicial authority include local planning applications, building licences, applications for other permits/licences (eg under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.

Purpose of report

To provide the Audit and Risk Committee ('the Committee') with details of the outcomes of the 30 June 2021 financial audit, present the audited Annual Financial Statements, Management Letter and Exit Closing Report for the year ended 30 June 2021.

Summary and key issues

The Local Government Act 1995 and *Local Government (Financial Management) Regulations 1996* requires the preparation and audit of a Local Government Annual Financial Statements. Subsequent to the audit the Audited Financial statement is incorporated in the City's Annual Report each year.

Location

Not applicable.

Consultation

There has been no specific consultation undertaken in respect to this matter.

Strategic Community Plan implications

In accordance with the 2020 – 2040 Strategic Community Plan:

Goal 5: Responsible Belmont

Strategy: 5.2 Manage the City's assets and financial resources in a responsible manner and provide the best possible services for the community

Policy implications

The policy implications evident is to ensure that the Accounting Policies detailed in the Annual Financial Report comply with legislative and Australian Accounting Standards requirements.

Statutory environment

Sections 6.4 and 7.9 of the *Local Government Act 1995* requires the annual financial reporting and audit process as follows:

6.4 Financial Report

- (1) A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed.
- (2) The financial report is to –
 - (a) Be prepared and presented in the manner and form prescribed; and
 - (b) Contain the prescribed information.

- (3) By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its Auditor –
 - (a) The accounts of the local government, balanced up to the last day of the preceding financial year; and
 - (b) The annual financial report of the local government for the preceding financial year.

7.9. Audit to be conducted

The auditor is required to examine the accounts and annual financial report submitted for audit and prepare a report thereon and forward a copy of that report to —

- (a) the mayor or president; and
- (b) the CEO of the local government; and
- (c) the Minister.

Section 7.12A (2) of the Act provides that the auditor must meet with the local government at least once every financial year.

The Local Government (Audit) Regulations 1996 prescribe the following relating to the audit procedures:

9. Performance of audit

- (1) An Audit is to be carried out in accordance with the “Auditing Standards” and “Auditing Guidance Statements” adopted from time to time by the Australian Society of Certified Practising Accountants and The Institute of Chartered Accountants in Australia.
- (2) An Auditor is to carry out such work as is necessary to form an opinion as to whether —
 - (a) the accounts are properly kept; and
 - (b) the annual financial report —
 - (i) is prepared in accordance with the financial records; and
 - (ii) represents fairly the results of the operations of the local government and the financial position of the local government at 30 June in accordance with the Australian Accounting Standards and the Act.

Regulation 10 of the Local Government (Audit) Regulations 1996 prescribes the following:

10. Report by auditor

- (1) An auditor’s report is to be forwarded to the persons specified in section 7.9(1) within 30 days of completing the audit.
- (2) The report is to give the auditor’s opinion on —
 - (a) the financial position of the local government; and
 - (b) the results of the operations of the local government.

- (3) The report is to include —
 - (a) any material matters that in the opinion of the auditor indicate significant adverse trends in the financial position or the financial management practices of the local government; and
 - (b) any matters indicating non-compliance with Part 6 of the Act, the Local Government (Financial Management) Regulations 1996 or applicable financial controls in any other written law; and
 - (c) details of whether information and explanations were obtained by the auditor; and
 - (d) a report on the conduct of the audit; and
 - (e) the opinion of the auditor as to whether or not the following financial ratios included in the annual financial report are supported by verifiable information and reasonable assumptions —
 - (i) the asset consumption ratio; and
 - (ii) the asset renewal funding ratio.
- (4) Where it is considered by the auditor to be appropriate to do so, the auditor is to prepare a management report to accompany the auditor's report and to forward a copy of the management report to the persons specified in section 7.9(1) with the auditor's report.

Background

The Office of the Auditor General (OAG) has performed its third consecutive audit for the City of Belmont. Prior to commencing the financial audit OAG also performed the City's information systems audit. This preliminary audit determines the extent of testing that will be performed during the financial audit. The findings from the information systems audit is covered in a separate report to the Standing Committee (Audit and Risk) (item number 10.2).

In accordance with the Terms of Reference of the Standing Committee (Audit and Risk), the Committee must review the Audited Annual Financial Statements and audit findings (Attachments 11.2.1 and 11.2.2). Approval is also sought for the Committee to endorse the Annual Financial Statements together with the representation letter. The audited financial statement, a key component of the City's Annual Report is scheduled to be presented at the Annual General Meeting of Electors on the 16 March 2022.

In addition, a copy of the Audited Annual Financial Statements is also required to be submitted to the Director General of the Department of Local Government, Sport and Cultural Industries within 30 days of receipt of the Auditor's Report.

Officer comment

Section 6.4 of the *Local Government Act 1995* (Act) requires the Annual financial statements for the year ended 30 June 2021 to be prepared and presented to the auditor by 30 September 2021. Accordingly, the City submitted the completed 2020-2021 Draft Annual Financial Statement to OAG for review on 23 September 2021.

In accordance with Section 7.9 of the *Local Government Act 1995* (Act), the OAG is required to submit a report of the City's Audited Annual Financial Statement by

30 December 2021. The City received the Exit Closing report on the 3 February 2022. The Auditor General for Western Australia, Caroline Spencer has forwarded correspondence to the CEO and the Mayor providing the following reasons for the delay in the provision of the report:

- Increasingly complex reporting and audit issues resulting in longer audits for the entire public sector;
- Carryover of work from OAG's state Sector Audits; and
- Labour shortages experienced by OAG due to COVID-19 border closures;

The City will ensure ongoing conversations are held with OAG to ensure the annual audit timeframes for 2021-2022 are adhered to.

The City will again be presented with an unqualified audit opinion which is to be signed by the auditors following the Annual Financial Statement being accepted by the Committee.

Representatives from the OAG will attend the Committee Meeting to present the Audited Financial Statements, management letter (Attachments 11.2.1 and 11.2.2) and Exit meeting closing report (Attachment 11.2.3). Some of the highlights of the report includes:

1. Implementation of new Accounting standards

The City implemented *AASB 1059 – Service Concession Arrangements: Grantors*, this year.

AASB 1059 – Service Concession Arrangements: Grantors - the standard defines service concession assets as those assets where a third-party operator contracts assets for the City, upgrades existing assets of the City to operate and maintain the assets to provide a public service, for a specified period of time. Where in these circumstances, the third-party operator provides a public service on behalf of the City and is deemed to manage at least some of the services under its own discretion, the assets are classified as service concession assets.

The City has made an assessment and concluded that it does not have any service concession arrangements.

2. Audit Findings

The Management Findings for the Financial Audit are shown at Attachment 11.2.2. The two findings relating to assets will be actioned by 31 March 2022 and the finding for the timely completion of payroll reconciliation has been completed. These additional findings will be added and tracked on the City's audit database.

3. Actions for next years audit:

- To review the financial accounting treatment for the withdrawal from the Eastern Metropolitan Regional Council (EMRC) and determination of exiting payments / receipts
- Financial statement template to be revised and updated

4. Financial Ratios

Financial Ratios are derived from the financial results and are reflected in Note 28 of the financial statements.

FINANCIAL RATIOS	2019	2020	2021	DLGSCI Benchmark	Status
Current ratio	1.27	1.47	1.69	1	Met
Asset consumption ratio	0.74	0.75	0.75	0.5	Met
Asset renewal funding ratio	1	1	1	0.75	Met
Asset sustainability ratio	0.93	1.14	0.86	0.9	Not met
Debt service cover ratio	6.35	8.5	7.18	2	Met
Operating surplus ratio	-0.78	5.76	-0.39	0.01	Not met
Own source revenue coverage ratio	0.94	0.95	0.92	0.4	Met

Current Ratio – compares current assets (mainly cash and receivables) with current liabilities (accounts payable, employee provisions and borrowings to be repaid within 12 months). A result of 1.00 or more is desirable and means that current assets exceed current liabilities.

The City’s 2020/2021 result of 1.69 compares favorably to the 2019/2020 result of 1.47 and maintains the continued upward trend over the last 3 years.

Asset Consumption Ratio - seeks to highlight the aged condition of a local government’s stock of physical assets. The standard is met if the ratio can be measured and is 50% or greater. The standard is improving if the ratio is between 60% and 75% (0.60 and 0.75).

The ratio for 2020/2021 is 0.75 and was similar in 2019/2020.

A 0.75 ratio indicates the City’s depreciation correlates well with the current rate at which assets are being replaced.

Asset Renewal Funding Ratio - indicates whether the local government has the financial capacity to fund asset renewal as required, and whether it can continue to provide existing

levels of service into the future, without additional operating income or reductions in operating expenses. A benchmark of greater than 0.5 is considered favorable.

This ratio indicates a very favorable position for the City as it can fund asset renewals.

Asset Sustainability Ratio – compares the renewal and replacement of assets with the consumption of assets (depreciation). This ratio approximates the extent to which assets managed by a local government are being replaced as they reach the end of their useful lives. A ratio of 0.9 or greater is considered good and indicates that the organisation is renewing and replacing assets at a rate consistent or higher than the consumption of the assets.

The City's result for 2020/2021 is 0.86, comparing unfavorably to the 2019/2020 result of 1.14. A greater focus on replacement of assets at their end of their useful life will need to be the key component of future asset management plans and the City's asset management strategy.

Debt Service Ratio - measures a Council's ability to service debt out of its uncommitted or general-purpose fund available for its operations. A result of five or greater is considered an advanced standard.

The City's score is 7.18 in 2020/2021 compared to 8.5 in 2019/2020. The decrease in revenue is a contributing factor to the declining trend of this ratio.

Operating Surplus Ratio - highlights the scale of the operating surplus or deficit in relation to the overall size of the local government. A sustained period of deficit will erode a local government's ability to maintain both its operational service level and asset base. A ratio of 0.15 or greater is desirable and indicates that the organisation is providing a strong operating surplus which will offer flexibility in the provision of operational service levels and maintaining a strong Asset base.

The City's 2020/2021 result is negative 0.78 compared to a positive result of 5.76 in 2019/2020. This result highlights the impact of COVID-19 and also indicates City need to explore opportunities to increase its operating surplus.

Own-Source Revenue Coverage Ratio – measures an organisation's ability to cover its operating expenses from its own revenue sources. A result that is greater than 0.9 is considered satisfactory.

The City achieved a result of 0.92 in 2020/2021 compared to 0.95 for 2019/2020. The slight decline in trend indicates the impact of COVID-19. This trend needs to be continuously monitored.

Financial implications

The preparation, audit and distribution of the Annual Financial Statements are a statutory obligation. Audit fees are determined by the OAG on a cost recovery basis and are expected to be \$57,000 exclusive of GST.

Environmental implications

There are no environmental implications associated with this report.

Social implications

There are no social implications associated with this report.

Questions were asked and responded to as follows:

- An operating surplus is when operating expenses exceeds income. There was a reduced income due to the waiving of fees and charges due to COVID-19 and grant income was less than the previous year, which was a high income year due to grants received for Belmont Hub.
- The small reduction in sustainability is due to the current condition of some large assets. Options for these assets are currently being researched.
- The Chief Executive Officer confirmed the Asset Management Strategy has been endorsed and following review to ensure they are 'reader-friendly', will be available on the City's website.

The Director Corporate and Governance outlined additional information that had been omitted from the report as follows:

Asset Sustainability Ratio

Ensuring that assets are replaced at (or prior to) the end of their useful life is a key component of best practice asset management, however at times the City may determine that an asset will not be renewed or replaced at the end of its useful life, which can impact the Asset Sustainability Ratio.

Operating Surplus Ratio

The City's 2020/2021 result is negative 0.78 compared to a positive result of 5.76 in 2019/2020. This result highlights the impact of COVID-19 and also indicates the City need to explore opportunities to increase its operating surplus by looking at additional sources of revenue from grants, fees and charges or rates or reducing expenditure.

Own-Source Revenue Coverage Ratio

The City achieved a result of 0.92 in 2020-2021, a very favourable outcome compared to the benchmark of 0.9. The ratio indicates the City has sufficient income to offset its operating expenses, which attributes to it being in a financially sustainable position.

Officer Recommendation

Davis moved, Marks seconded

The Standing Committee (Audit and Risk) recommend that Council:

1. Accept the Annual Financial Statement for the period ending 30 June 2021 at Attachment 11.2.1.
2. Accept the Auditors Management Letter (Financial Audit) and Exit Closing Report, prepared for the year ended 30 June 2021 at Attachments 11.2.2 and 11.2.3; and
3. Approve the Chief Executive Officer to sign the Annual Financial Report for the period ending 30 June 2021 and Management Representation Letter at Attachments 11.2.1 and 11.2.4.

Carried Unanimously 5 votes to 0

I2 Next Meeting

The next meeting of the Standing Committee (Audit and Risk) will be advised.

I3 Closure

There being no further business, the Presiding Member thanked everyone for their attendance and closed the meeting at 7.46pm.