

# Audit & Risk Committee Meeting

Minutes for Tuesday 10 December 2019

## UNCONFIRMED



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**1. Official Opening**

The Presiding Member opened the meeting at 6:55pm and welcomed Councillors, Staff and representative of the Office of the Auditors General and Crowe. 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 (arrived at 7:16pm)  
Brooke O'Donnell (Presiding Member)

**North West Ward**

Sue Bilich  
Lisa Cooper  
Dylan O'Connor

**North Ward**

Kathy Ritchie

**Members of Staff**

**Chief Executive Officer**

Rhonda Hardy

**Executive Team**

Gary Ticehurst - Director Corporate Services  
Brett Jackson - Director Asset Services  
Andrew Fowler-Tutt - Acting Director Development Services  
Simon Di Rosso - General Counsel & Executive Advisor

**Management Team**

Alida Ferreira - Manager Financial Services  
Jamie Paterson - Manager Information Technology  
Waruni De Silva - Coordinator Financial Services

**Administration Support**

Darrell Forrest - Governance Advisor  
Donna McPherson - Executive Assistant to the CEO

**Guests**

Representative – Office of Auditor General 2  
Representative – Crowe 2

**Members of the Public 0**

**Members of the Press Nil.**

**Apologies**

Cr Margaret Thomas JP (Mayor)

Cr Cameron Blair

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 6 August 2019, as published and circulated, are confirmed as a true and accurate record of the proceedings.

Moved: **Cr Lesley Boyd**

Seconded: **Cr John Giardina**

Vote: **CARRIED UNANIMOUSLY (9/0)**

5.2 That the Minutes of the Special Audit & Risk Committee Meeting held on the 29 October 2019, as published and circulated, are confirmed as a true and accurate record of the proceedings.

Moved: **Cr Geoff Stallard**

Seconded: **Cr Dylan O'Connor**

Vote: **CARRIED UNANIMOUSLY (9/0)**

**6. Announcements by the Member Presiding Without Discussion**

6.1 Nil.

**7. Matters for Which the Meeting may be Closed**

- 7.1 Item 9.2.1. Internal Audit Report December 2019 – CONFIDENTIAL ATTACHMENTS – 1. ICT Governance Audit Report, 2. Private Cloud Migration and Operational Review, 3. Bushfire Management Audit Report, 4. Sustainable Environment Audit Report, 5. Internal Audit Year in Review 2019, 6. Internal Audit Recommendation Tracker 2019

*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".*

- 7.2 Item 9.3.1. Adoption of Annual Financial Report 2018/2019 – CONFIDENTIAL ATTACHMENT – 1. Final Management Letter Attachment - City of Kalamunda - 30 June 2019

*Reason for Confidentiality: Local Government Act 1995 S5.23 (2) (c) – "a contract entered into, or which may be entered into, by the local government which relates to a matter to be discussed at the meeting".*

**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.

8.1.2 Nil.

## 9. Reports to Council

### 9.1. Asset Services Reports

#### 9.1.1. Bushfire Risk Management Plan

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

Previous Items	N/A
Directorate	Asset Services
Business Unit	Parks & Environmental Services
File Reference	3.009199
Applicant	N/A
Owner	City of Kalamunda

Attachments	1. Kalamunda Bushfire Risk Management Plan [ <b>9.1.1.1</b> - 57 pages]
	2. OBRM letter of endorsement - City of Kalamunda 20190925 [ <b>9.1.1.2</b> - 1 page]
	3. BRM Treatments [ <b>9.1.1.3</b> - 51 pages]

#### **EXECUTIVE SUMMARY**

1. The purpose of this report is to seek Council adoption of the City of Kalamunda (the City) Bushfire Risk Management Plan (Plan) which is necessary within the State's Emergency Management Legislative framework. The Plan is provided as Attachment 1 to this report.
2. The Plan is a strategic document prepared for the City to identify specific bushfire risks for the City and its residents. The Plan identifies assets, assesses the bushfire risk in various contexts, evaluates and treats risks, prescribes monitoring and review of pertinent information and how the communication strategy is implemented.
3. It is recommended that Council adopt this Plan which will facilitate the City to seek grant funding from the State to undertake further risk mitigation works.

#### **BACKGROUND**

4. The Perth Hills bushfires in 2011 generated investigations into the preparedness of relevant agencies in planning and dealing with bushfires. This investigation "A Shared Responsibility": The Report of the Perth Hills Bushfire February 2011 Review (the Keelty Report) made some recommendations which have since been enshrined in a regulatory regime.
5. Local Governments in identified bushfire prone areas are to prepare a Bushfire Risk Management Plan in line with structure and layout endorsed by the Office of Bushfire Management (OBRM).

6. The City with the support of the Department of Fire and Emergency Services (DFES) and OBRM undertook the necessary investigations, analysis, mapping and other tasks to develop a draft Plan in early 2019. This Plan was then assessed by OBRM. The City has since received advice from OBRM (Attachment 2) advising that the draft Plan meets their required standard and as such can be adopted by Council.

## **DETAILS**

7. The aim of the Plan is to document a coordinated and efficient approach toward the identification, assessment and treatment of assets exposed to bushfire risk within the City. The objective of the Plan is to effectively manage bushfire risk within the City in order to protect people, assets and other things of local value. Specifically, the objectives of this Plan is to:
- a) guide and coordinate a tenure blind, multi-agency bushfire risk management program over a five-year period;
  - b) document the process used to identify, analyse and evaluate risk, determine priorities and develop a plan to systematically treat risk;
  - c) facilitate the effective use of the financial and physical resources available for bushfire risk management activities;
  - d) integrate bushfire risk management into the business processes of local government, landowners and other agencies;
  - e) ensure there is integration between landowners and bushfire risk management programs and activities; and
  - f) monitor and review the implementation of treatments to ensure treatment plans are adaptable and risk is managed at an acceptable level.
8. One key outcome is to identify a plan of works that can be conducted to mitigate risks. The City has been maintaining this register of works since 2011/12 which has helped guide seasonal bushfire mitigation activities.
9. With an adopted Plan, the City can then apply for grant funding from DFES under their Mitigation Action Fund – Emergency Services Levy to undertake further mitigation works. The City has met with DFES and has identified up to \$1.9m of works that would be subject to a grant funding application in the next round (April 2020). This grant does not require any matching municipal funding.
10. Works that would be undertaken are primarily in improving firebreaks in high risk areas.
11. It is worthy of noting that the work plans identified in Attachment 3 relate to City / State managed areas (reserves, state forests, City owned facilities etc). The City manages the bushfire risks within private properties through the seasonal Bushfire Notice and inspection processes via the Development Services Directorate.

## **STATUTORY AND LEGAL CONSIDERATIONS**

12. There are a multitude of Statutory instruments relating to this Plan with the *Emergency Management Act 2005* seen as the lead instrument in this matter.

## **POLICY CONSIDERATIONS**

13. The City's Risk Policy "Governance 8: Risk Management" applies.

## **COMMUNITY ENGAGEMENT REQUIREMENTS**

### **Internal Referrals**

14. This Plan was developed in consultation with Development Services and the Community Emergency Safety Manager.

### **External Referrals**

15. The lead agencies in the development of this Plan were DFES and OBRM. Other agencies will be informed, consulted and tasks coordinated as the actions are rolled out.

## **FINANCIAL CONSIDERATIONS**

16. Grant funding of up to \$1.9m will allow most of the mitigation activities to be undertaken within 12 months. Ongoing maintenance of firebreaks, trails and other works will be included in recurring operational budgets at similar levels that exist.

## **STRATEGIC COMMUNITY PLAN**

### **Strategic Planning Alignment**

17. *Kalamunda Advancing Strategic Community Plan to 2027*

#### **Priority 1: Kalamunda Cares and Interacts**

**Objective 1.2** - To provide a safe and healthy environment for community to enjoy.

**Strategy - 1.2.1** Facilitate a safe community environment.

## **SUSTAINABILITY**

### **Social Implications**

18. The devastation to a community from bushfires is well documented and Local Governments have an active role to play in mitigation.

### **Economic Implications**

19. Many agriculture, tourism and leisure businesses operate in this City and are prone to bushfire risk.

**Environmental Implications**

- 20. Loss of biodiversity due to major fire events.

**RISK MANAGEMENT CONSIDERATIONS**

21.	<b>Risk:</b> The City will fail to meet Compliance requirements resulting in substantive reputational impacts.		
	<b>Consequence</b>	<b>Likelihood</b>	<b>Rating</b>
	Major	Almost Certain	Extreme
	<b>Action/Strategy</b>		
	The City has developed a 'meets requirements' Bushfire Risk Management Plan. Adoption of this Plan and ongoing actions from the Plan will mitigate this risk.		

It is to be noted that the Plan itself uses a different Risk Matrix than the City as the matrix is developed solely for the Bushfire Risk Management.

**OFFICER COMMENT**

- 22. The Plan will provide the City with a guiding document to set in place proper risk management tasks.

**Voting Requirements: Simple Majority**

**COMMITTEE RECOMMENDATION TO COUNCIL**

That Council ADOPT the Bushfire Risk Management Plan shown as Attachment 1 to this report, subject to final minor formatting and editing changes.

Moved: **Cr Janelle Sewell**

Seconded: **Cr Lesley Boyd**

Vote: **CARRIED UNANIMOUSLY (9/0)**

## 9.2. Corporate Services Reports

### 9.2.1. Internal Audit Report December 2019

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

Previous Items	
Directorate	Corporate Services
Business Unit	Corporate Services
File Reference	
Applicant	N/A
Owner	N/A
Attachments	Nil
Confidential Attachments	<ol style="list-style-type: none"><li>1. ICT Governance Audit Report</li><li>2. Private Cloud Migration and Operational Review</li><li>3. Bushfire Management Audit Report</li><li>4. Sustainable Environment Audit Report</li><li>5. Internal Audit Year in Review 2019</li><li>6. Internal Audit Recommendation Tracker 2019</li></ol>

*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".*

#### **EXECUTIVE SUMMARY**

1. The purpose of this report is to provide Council with:
  - a) Details of Internal Audit Reviews conducted during the past quarter
  - b) Details of the 2019 Audit Year in review
  - c) Details of the Internal Audit Recommendation Tracker for the 2019 year.
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:
  - a) The details of Internal Audit Reviews conducted during the last quarter.
  - b) Details of the 2019 Audit Year in review.
  - c) Details of the Internal Audit Recommendation Tracker for the 2019 year.

**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. During the inaugural year of the Plan, a total of nine engagements were completed.

During the second year of the plan, 12 engagements from the internal audit plan was completed. Other work undertaken by Crowe Pty Ltd included:

- a) 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: which concentrate primarily on the entity’s (or their suppliers’) compliance with legislation, regulations, directions, policies, plans and procedures.
  - b) Financial Audits: which are concerned with 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: which is an audit of all or a part of an entity’s activities to assess 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.
7. The Internal Audit Reviews undertaken during the past quarter have been focused on:
- a) ICT Governance
  - b) Private Cloud Migration and Operational Review
  - c) Bushfire Management Audit Report
  - d) Sustainable Environment Audit Report
8. The completed Internal Audit Reviews during the past quarter did not identify any material control deficiencies

## **DETAILS**

9. **ICT Governance**  
The objective of the review was to assess the adequacy and effectiveness of the City's ICT governance practices, including the following:
- a) Strategic alignment;
  - b) ICT value proposition and alignment with business objectives with respect to ICT services and ICT projects;
  - c) ICT enabling the business to maximise benefits, including ICT cost effectiveness and value for money;
  - d) ICT critical resources (vendors / 3rd party, people, infrastructure, applications, data/information and processes) are managed appropriately including adequate ICT capability to support current and expected future business requirements;
  - e) ICT risk awareness and management, including the appropriate allocation of responsibilities; and
  - f) ICT activities are effectively monitored to ensure effective service delivery.
10. The results of the ICT Governance Audit are detailed in Confidential Attachment 1.
11. **Private Cloud Migration and Operational Review**  
The objective of the Internal Audit was to assess the adequacy and effectiveness of controls in place to mitigate against technology migration and operation risks in a third-party data center.  
The following scope items have been selected for assessment:
- a) Risk Management and Compliance
    - i. Organisational Risk - analysis and management of incremental risks and probability introduced by third-party data centre services;
    - ii. Protection levels and controls to mitigate risks and ownership;
    - iii. Review of compliance requirements and practices; and
    - iv. IT related Project Governance.
  - b) Delivery and Architecture
    - i) Vulnerability Management, single point of failure and notification controls;
    - ii) Management and isolation of sensitive data via public networks e.g. Wi-Fi; and

- iii) Performance measures of third-party technology services, applications, network latency.
  - c) Infrastructure Security
    - i) Physical security of IT equipment inc. end devices – NTUs;
    - ii) Network & Application Security, controls applied to eliminate unauthorised access to technology services; and
    - iii) Third-party and internal patch management.
  - d) IT Operations
    - i) Oversight, monitoring and reporting of third-party services;
    - ii) Change Management aligned with business process;
    - iii) Incident management – technical support; and
    - iv) Notifications should an unaccepted event occur, ability to meet business continuity and recovery.
12. The results of the Private Cloud Migration and Operational Review are detailed in Confidential Attachment 2.
13. **Bushfire Management**  
The objective of the Internal Audit was to:
- a) assess the current controls, processes and policies to ensure the operation of a safe and effective bushfire management service for prevention/mitigation and preparedness; and
  - b) establish if responsibilities for the City in relation to the Bush Fire Act (1954) have been complied with, in particular, the Chief Bush Fire Control Officer (CBFCO) role and other associated responsibilities in respect of prevention/mitigation and preparedness.
- The scope of this internal audit included the following:
- a) Stakeholder engagement including MOUs and agreements with stakeholders such as DFES, Water Corporation, etc.
  - b) Bushfire management plan.
  - c) Inspection regime.
  - d) Staff training.
  - e) Volunteers.
  - f) Risk assessment.
  - g) Roles and responsibilities.
  - h) Review efficacy of education/ community awareness
- Our high-level review focussed on the process of prevention and mitigation of bushfire management rather than the performance of the individual business units.
14. The results of the Bushfire Management Audit are detailed in Confidential Attachment 3.
15. **Sustainable Environment**  
The objective of the review was to assess the adequacy and effectiveness of the City's policies, processes and activities in the Development Approvals area that consider and deal with the City's biodiversity profile.  
The scope included the following:
- a) Environmental strategy, planning and policies;
  - b) Strategic initiatives performed by the City to respond to a drying climate;
  - c) Effectiveness of the City's Public Open Space strategy;

d) Cross-divisional responsibilities; and  
Planning review and how decision making takes the City's biodiversity profile into account.

16. The results of the Sustainable Environment Audit are detailed in Confidential Attachment 4.

The 2019 Audit Year in Review (Confidential Attachment 5) provides a high-level summary of the key themes that have emerged during the 2019 audit year.

17. The City monitors the status of audit recommendations arising from each Internal Audit Review (Confidential Attachment 6). Recommendations are monitored to ensure that they are managed and implemented in a timely fashion. The majority of recommendations are either complete or in progress.

### **STATUTORY AND LEGAL CONSIDERATIONS**

18. *Local Government Act 1995*  
*Local Government (Financial Management) Regulations 1996*  
*Local Government (Functions and General) Regulations 1996*

### **POLICY CONSIDERATIONS**

19. Nil.

### **COMMUNITY ENGAGEMENT REQUIREMENTS**

#### **Internal Referrals**

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

#### **External Referrals**

21. Nil.

### **FINANCIAL CONSIDERATIONS**

22. 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.

**STRATEGIC COMMUNITY PLAN**

**Strategic Planning Alignment**

23. *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.

**SUSTAINABILITY**

**Social Implications**

24. Nil.

**Economic Implications**

25. Nil.

**Environmental Implications**

26. Nil.

**RISK MANAGEMENT CONSIDERATIONS**

27.	<b>Risk:</b> Internal Audit fails to identify material non-compliance or control deficiencies.						
	<table border="1"> <thead> <tr> <th>Likelihood</th> <th>Consequence</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td>Unlikely</td> <td>Moderate</td> <td>Low</td> </tr> </tbody> </table>	Likelihood	Consequence	Rating	Unlikely	Moderate	Low
Likelihood	Consequence	Rating					
Unlikely	Moderate	Low					
	<b>Action/Strategy</b>						
	Internal Audit Plan developed and reviewed annually. Internal Audit working papers reviewed by External Auditors. Key controls are evaluated for the identified processes.						

28.	<b>Risk:</b> Audit recommendations are not implemented in a timely fashion.						
	<table border="1"> <thead> <tr> <th>Likelihood</th> <th>Consequence</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td>Unlikely</td> <td>Moderate</td> <td>Low</td> </tr> </tbody> </table>	Likelihood	Consequence	Rating	Unlikely	Moderate	Low
Likelihood	Consequence	Rating					
Unlikely	Moderate	Low					
	<b>Action/Strategy</b>						
	Internal Audit Plan developed and reviewed annually. Monitoring and review of implementation of audit recommendations.						

## **OFFICER COMMENT**

29. The Internal Audit was completed in accordance with the provisions of the *Local Government Act 1995*, associated regulations, and the *Australian Accounting Standards*.

The City monitors the status of Internal Audit recommendations arising from each Internal Audit Review (Confidential Attachment 6). Recommendations are monitored and the majority of recommendations are either complete or in progress.

<b>Voting Requirements: Simple Majority</b>
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## **COMMITTEE RECOMMENDATION TO COUNCIL**

That Council:

1. RECEIVE the details of the Internal Audit Reviews conducted during the past quarter.
2. RECEIVE the details of the 2019 Audit Year in review.
3. NOTE the status of the Internal Audit Tracker for the 2019 year.

Moved: **Cr Kathy Ritchie**

Seconded: **Cr Dylan O'Connor**

Vote: **CARRIED UNANIMOUSLY (10/0)**

### 9.3. Chief Executive Officer Reports

#### 9.3.1. Adoption of Annual Financial Report 2018/2019

*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 1. Annual Financial Report 2018/19 [**9.3.1.1** - 68 pages]

Confidential Attachments 1. Final Management Letter Attachment - City of Kalamunda - 30 June 2019

*Reason for Confidentiality: Local Government Act 1995 S5.23 (2) (c) – "a contract entered into, or which may be entered into, by the local government which relates to a matter to be discussed at the meeting".*

#### EXECUTIVE SUMMARY

1. The purpose of this report is to provide Council with the Audited Financial Report for the 2018/2019 Financial Year (The Report - Attachment 1) together with the management letter (Confidential Attachment 1).
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 2019. The Audit did not identify any material adverse findings affecting the City of Kalamunda's (the City) operations. This is a significant outcome for the City.
3. In accordance with legislation, it is a requirement for the City 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 Auditors report. The report was submitted to the Department on 22 November 2019.
4. It is recommended that Council accept the 2018/2019 Annual Financial Report. (Attachment 1).

#### 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 proceeding 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; andEnsure 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. The City continues to strengthen its financial position with a surplus of \$3.4 million for the year prior to non-cash adjustments flowing from the revaluation of certain non-current assets. The overall surplus as reported in the Rate Setting Statement amounted to \$4.0 million. The net assets of the City increased by \$3.9 million to \$566.8 million mainly due to the surplus generated from operations.

## **DETAILS**

10. The 2018/2019 Annual Financial Report is presented for Council's acceptance and compared with the results of 2017/2018.

### **Comprehensive Income Statement**

- a) In comparison with 2017/2018, revenue increased by 0.3% or \$0.2 million.
  - i. Rates rose by \$1.4 million with an increase of the rate in the dollar and rates on new properties.
  - ii. Contributions, reimbursements, and donations decreased by \$0.7 million mainly due to the reduced operational expenditure reimbursements from the CELL9 Trust account.
  - iii. Operating grants and subsidies increased by \$0.2 million mainly due to the increase in financial assistance grants received for 2018/2019.
  - iv. Fees and Charges decreased by \$0.5 million. Fees and charges for 2017/2018 was impacted by a one-off transaction.
- b) Operating expenditure increased by 2% or \$1.3 million compared to 2017/2018

- i. Employment costs were increased by \$1.2 million. This is primarily due to the leave provision adjustments for 2018/2019 and a provision to meet the expected increase related to the Enterprise Bargaining Agreement which is currently under negotiation.
  - ii. Depreciation expense was increased by \$0.7 million due to the higher depreciation resulted from the revaluation surplus of \$198 million in the infrastructure assets category as of 1 July 2018.
  - iii. Utilities were decreased by \$0.4 million mainly due to the reclassification of telephone expenses under the materials and contracts category.
- 
- c) Non-operating grants were increased by \$0.8 million mainly as a result of the grant funding received for the construction of the Kalamunda Community Centre.
  - d) The revaluation of infrastructure assets has resulted in a \$0.6 million increase in the revaluation surplus in other comprehensive income.

### **Statement of Financial Position**

- a) Cash increased by \$0.9 million due mainly to an increased level of capital grants and improved efficiency in debt collection.
- b) The value of the investment in the Eastern Metropolitan Regional Council (EMRC) increased by \$0.8 million due to the increase in the share of net assets in EMRC.
- c) The value of the Property, Plant & Equipment and Infrastructure increased by \$3.8 million mainly due to the asset additions in 2018/2019.
- d) Current leave provisions increased by \$0.5 million. The variance is mainly due to the increase in the current portion of the long service leave liability as more employees become entitled based on the calculation criteria.
- e) Borrowings did not change significantly.
- f) In Equity, the retained surplus increased with the net result for the year of \$3.4 million-plus the revaluation surplus of \$0.6 million.

### **Statement of Cash Flows**

- a) Operating Activities produced \$9.1 million as compared to \$7.3 million in 2018.
  - b) A total of \$15.2 million was invested in capital works during the year.
  - c) Developer contributions of \$1.3 million continued to fund expenditure in the Forrestfield Industrial Area Scheme Stage1 and Cell 9.
- 
- 11. The Auditors, (OAG), conducted the fieldwork in May and October 2019 and issued their report in November 2019. The audit certificate is provided on pages 66-68 of the Annual Financial Report.
  - 12. In accordance with standard practice, the Auditors also issued a Management Letter (Confidential Attachment 1), with no significant deficiencies identified in the report.

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

Financial Ratios	2019	2018	Standard
Current ratio	1.30	1.43	1.00
Asset consumption ratio	0.97	0.98	0.50
Asset renewal funding ratio	0.95	0.82	0.75
Asset sustainability ratio	0.67	0.51	0.90
Debt service cover ratio	9.58	9.94	2.00
Operating surplus ratio	(0.04)	0.01	0.01
Own source revenue coverage ratio	0.90	0.93	0.60

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 Asset Sustainability ratio.

The Asset sustainability ratio is below the standard ratio prescribed by the Department of Local Government, Sport and Cultural Industries due to the significant increase in the depreciation over the recent years resulting from the increment in asset revaluations. This is also impacted by the City's investment in new assets rather than renewal of assets in constrained financial capital investment environment.

14. Reserves have decreased by \$1 million over the year. This reduction is mainly attributable to the fall of \$0.8 million in the Forrestfield Industrial Scheme Stage 1 Reserve, as capital works are expended in this development.
15. The City's reserves will continue to be closely monitored to ensure the long term financial sustainability of the City.

### **STATUTORY AND LEGAL CONSIDERATIONS**

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

### **POLICY CONSIDERATIONS**

18. There are no policy implications.

### **COMMUNITY ENGAGEMENT REQUIREMENTS**

#### **Internal Referrals**

19. The Administration Team worked closely with the Auditors and Executives were briefed on the findings associated with the Annual Financial Report 2018/2019.

**External Referrals**

20. 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**

21. The 2018/2019 Budget includes provision for the cost of having the accounts and the Annual Financial Report audited by an externally appointed registered auditor.

**STRATEGIC COMMUNITY PLAN**

**Strategic Planning Alignment**

22. *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.

**SUSTAINABILITY**

**Social Implications**

23. Nil.

**Economic Implications**

24. Nil.

**Environmental Implications**

25. Nil.

**RISK MANAGEMENT CONSIDERATIONS**

26.	<b>Risk:</b> Audit Certificate is qualified by the external auditor		
	<b>Likelihood</b>	<b>Consequence</b>	<b>Rating</b>
	Unlikely	Moderate	Low
	<b>Action/Strategy</b>		
	Employ qualified suitably skilled staff. Maintain controls and compliance with the policy. Ensure an effective internal audit program.		

27.

<b>Risk:</b> Failure to lodge the Annual Financial Report with the Local Government Department within the required timeframe.		
<b>Likelihood</b>	<b>Consequence</b>	<b>Rating</b>
Rare	Moderate	Low
<b>Action/Strategy</b>		
Lodge the report with the Department of Local Government within 30 days of the signing of the auditor's report.		

**OFFICER COMMENT**

28.

The 2018/2019 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

29.

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

30.

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 by the auditor's report on that financial report. The report signed on 13 November 2019 was provided to the Department on 22 November 2019.

**Voting Requirements: Absolute Majority**

**COMMITTEE RECOMMENDATION TO COUNCIL**

That Council:

ACCEPT the 2018/2019 Annual Financial Report (Attachment 1) according to Section 6.4 of the *Local Government Act 1995*.

Moved: **Cr John Giardina**

Seconded: **Cr Janelle Sewell**

Vote: **CARRIED UNANIMOUSLY (10/0)**

**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. That the meeting close to the public to consider confidential matters.

Moved: **Cr Lesley Boyd**

Seconded: **Cr Geoff Stallard**

Vote: **CARRIED UNANIMOUSLY (9/0)**

The meeting closed to the public at 7:04pm. All members of Council and staff remained. The Committee received reports from a representative of Crowe and the Office of the Auditor General during this period.

14.2. That the meeting opened to the public following consideration of confidential matters.

Moved: **Cr Lesley Boyd**

Seconded: **Cr Janelle Sewell**

Vote: **CARRIED UNANIMOUSLY (10/0)**

The meeting opened to the public at 7:38pm.

**15. Closure**

There being no further business, the Presiding Member declared the Meeting closed at 7:40pm.

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

Signed: \_\_\_\_\_  
Presiding Member

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2019.