

5.5.6 Audit Committee Minutes and Annual Financial Report 2014/2015

Ward:		Date:	24 November 2015
Precinct:		File Ref:	SC243
Attachments:	<u>1</u> – Audit Committee Minutes <u>2</u> – Annual Financial Report 2014/2015		
Tabled Items:	Nil		
Reporting Officer:	Len Kosova, Chief Executive Officer		
Responsible Officer:	Len Kosova, Chief Executive Officer		

OFFICER RECOMMENDATION:

That Council:

1. **RECEIVES** the unconfirmed Minutes of the Audit Committee Meeting held on 24 November 2015, as shown in Attachment 1;
2. **BY ABSOLUTE MAJORITY ACCEPTS** the Annual Financial Report of the City of Vincent for the financial year ending 30 June 2015 and associated Auditor’s Report, as shown in Attachment 2, noting that it differs from the version presented to the Audit Committee in respect to the following adjustments:
 - An amendment to the Rate Setting Statement (page 11 & 12) to include an additional line item “Aged Persons and Senior Citizens Funds Adjustment” of (\$875,631) under the heading ‘Adjustment for Cash Budget Requirements’, together with the consequential adjustments to totals and resulting amendment to the ‘Less Surplus/(Deficit) for 30 June 2015 C/Fwd’ to reduce it to \$1,007,891;
 - Amendment to the Surplus listed on Note 3(c) (page 33) to reduce it to \$1,007,891;
 - Amendment to Note 12 (page 42) to reduce ‘Unrestricted’ by \$875,631 to \$5,905,820 and increase ‘Restricted’ by \$875,631 to \$8,547,436;
 - Amendment to Note 37 (page 78) to reduce the Current Ratio from 1.12 to 1.04;and
3. **APPOINTS BY AN ABSOLUTE MAJORITY** Mr Anthony Macri of Macri Partners as the City of Vincent Auditor for the one year period, 2015/16 financial year, pursuant to section 7.3 of Division 2 of Part 7 of the *Local Government Act 1995*.

PURPOSE OF REPORT:

For Council to receive the unconfirmed Minutes of the Audit Committee Meeting held on 24 November 2015 and to consider the recommendations from the Audit Committee, including the adoption of the Annual Financial Report 2014/2015.

BACKGROUND:

A meeting of the City’s Audit Committee was held on 24 November 2015, with a copy of the Minutes included as **Attachment 1**. The Minutes of the meeting include two items that the Audit Committee have recommended for approval by Council.

DETAILS:

Annual Financial Statement for the Year Ended 30 June 2015

Item 5.2 considered by the Audit Committee dealt with the Audit of the 2014/15 Annual Financial Statements.

In accordance with Section 6.4 of the *Local Government Act 1995* (the Act), the 2014/2015 Annual Financial Report has been prepared and the annual accounts audited by the City's Auditors, Macri Partners. The Audit Committee considered the Annual Financial Report for the year ended 30 June 2015 and Audit Completion Report and resolved as follows:

"That the Audit Committee:

1. *RECEIVES the City Auditor's Report on the Interim Audit Visit for the year ending 30 June 2015 as detailed in Attachment 1; NOTES the City's Management Comments included and NOTES the outstanding items will be listed on an Audit Log and reported to subsequent Audit Committee Meetings for review and monitoring;*
2. *RECEIVES the Audit Completion Report for the year ended 30 June 2015 from the City's Auditors, as detailed in Attachment 2, NOTING the recommendations included in section 5; and*
3. *RECEIVES the Annual Financial Report for the year ending 30 June 2015 as shown in Attachment 3 and RECOMMENDS to Council its adoption."*

A copy of the Annual Financial Report for the year ended 30 June 2015, as presented to the Audit Committee is included as **Attachment 2**.

The Annual Financial Report needs to be considered and accepted by Council in order to hold an Annual General Meeting of Electors, at which the City's Annual Report containing the financial report (or at a minimum the abridged version) will be considered.

Once accepted by Council, a copy of the Annual Financial Report must also be submitted to the Director General of the Department of Local Government.

The Audit Completion Report provided by Macri Partners, included the following statement in respect to the Audit Opinion:

*"We have completed the audit of the City of Vincent's accounts in line with current Australian Auditing Standards and will give an **Unqualified Opinion** [subject to subsequent events procedures] that the financial report of the City of Vincent:*

- a) *Gives a true and fair view of the financial position of the City of Vincent as at 30 June 2015 and of its financial performance for the year ended on that date; and*
- b) *Complies with the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and the Australian Accounting Standards."*

Post Audit Committee Meeting

In response to the request from the City's Auditor, regarding whether there are any other subsequent events that should be recognised in the 2014/15 Financial Report, Administration provided the City's Auditor with relevant information and advice in respect to the Aged Persons and Senior Citizens Reserve (the Reserve), which is dealt with in item 5.3.2 on the current Briefing Agenda. This issue involved the Council's decision to transfer \$745,352 from the Reserve during 2014/15 to deal with the

At the Special Meeting of Council on 3 September 2014, as part of the City's strategy to deal with the potential significant Budget deficit, Council approved by absolute majority, pursuant to section 6.11(2)(b) of the *Local Government Act 1995* (the Act), to give one month local public notice of the proposed use of the past five years of accumulated interest earned from the Reserve, calculated at \$745,352. The transfer was subsequently approved by Council on 18 November 2014.

The Reserve had a closing balance on 30 June 2015 of \$3,238,209. If the transfer from this Reserve had not occurred, and interest earnings had been credited to this Reserve, the balance of the Reserve at 30 June 2015 would have been increased by \$875,631, being the

original transfer of \$745,352 and interest for the year on the full balance of the Reserve, calculated to be \$130,279.

In view of the circumstances involved and legal advice received, the City's Auditor deemed that the matter warranted being recognised in the Financial Report for the year ending 30 June 2015 and proposed an appropriate accounting treatment. Effectively, the treatment will have the effect of recognising the movement of \$875,631 from 'Unrestricted' Cash to 'Restricted' Cash, which in turn will reduce the closing balance from \$1,883,522 (as reported to the Audit Committee) to \$1,007,891.

As a result, the Annual Financial Report 2014/15 as detailed in Attachment 2 has been amended and differs from that reviewed by the Audit Committee in the following specific areas:

Page 11: **Rate Setting Statement**

Under *Adjustments for Cash Budget Requirements: Non-Cash Expenditure and Revenue*

- new line-item inserted for "Aged Persons and Senior Citizens Funds" (\$875,631)
- Total changed from (\$17,355,032) to (\$18,230,663)

Page 12: **Rate Setting Statement**

- The total *Demand from Resources* increased by (\$875,631) from (\$20,835,796) to (\$21,711,427).
- *Less Surplus/(Deficit) 30 June 2015 C/Fwd* reduced by \$875,631 from \$1,883,522 to \$1,007,891

Page 33: **Note 3 (c). Information on Surplus Deficit Brought Forward**

- At the top of the page *Surplus/(Deficit) brought forward* reduces from \$1,883,522 to \$1,007,891
- After the subtotal for *Net Current Assets*, in the section headed *Less:*, insert new line-item for "Restricted - Aged Persons and Senior Citizens Funds" for (\$875,631)
- Reduce *Surplus/(Deficit) total* by \$875,631 to \$1,007,891

Page 42: **Note 12. Cash and Restricted Assets**

- Reduce "Unrestricted" by \$875,631 to \$5,905,820
- Increase "Restricted" by \$875,631 to \$8,547,436
- Total of \$14,453,256 does not change
- In the listing of restrictions, insert new line-item for "Aged Persons and Senior Citizens Funds*" for \$875,631
- Insert footer to this note stating " * Restricted by a Trust obligation"

Page 78: **Note 37. Financial Ratios**

- *Current Ratio* reduces from 1.12 to 1.04.

It is noted that the Opening balance for 2015/16 was estimated at \$576,865, however the annual audit for 2014/15, including the amendment for 'subsequent events' has identified that the actual closing balance for 2014/15 is \$1,007,891, an improvement of \$431,026.

Appointment of City Auditor

Item 5.4 considered by the Audit Committee dealt with the extension of the internal and external auditor contracts and appointment of the City's auditor. As a result the following resolution was adopted:

"That the Audit Committee:

1. *ENDORSES the proposal to exercise the one year option period to Macri Partners for the provision of External Audit Services to the City for the 2015/16 financial year;*

2. *ENDORSES the proposal to exercise the one year option period to Moore Stephens for the provision of Internal Audit Services to the City for the 2015/16 financial year;*
3. *NOTES the Chief Executive Officer will approve the contract extensions in 1 and 2 above under Delegation of Authority 2.1; and*
4. *RECOMMENDS to Council the appointment of Mr Anthony Macri of Macri Partners as the City of Vincent auditor for the one year period 2015/16 financial year, pursuant to section 7.3 of Division 2 of Part 7 of the Local Government Act 1995.*
5. *REQUESTS that the CEO provide a report to the Audit Committee prior to the expiry of the contracts in 1 and 2 above to seek the appointment of new auditors for the subsequent 4 year period."*

CONSULTATION/ADVERTISING:

There is no legislative requirement to consult on the preparation of the Annual Financial Report. The Act requires an Annual General Meeting of Electors to be held and the City's Annual Report incorporating the financial report (or at a minimum, the abridged version) to be made available publicly. The full Annual Financial Report will also be publicly available.

As in previous years, it is intended to make the Annual Financial Report available on the City's website, with only a limited number of printed, bound colour copies being made available for viewing at the Library and Local History Centre and the City's Customer Service Centre.

LEGAL/POLICY:

Local Government (Financial Management) Regulation 51(2) states:

"A copy of the annual financial report of a local government is to be submitted to the Executive Director within 30 days of the receipt by the CEO of the Auditor's Report on that financial report."

Section 5.53 of the *Local Government Act 1995* states:

"5.53 Annual Reports

- (1) *The local government is to prepare an annual report for each financial year.*
- (2) *The annual report is to contain:*
 - (f). *the financial report for the financial year;"*

Section 6.4 of the *Local Government Act* states:

"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.”*

In accordance with section 7.3 of the *Local Government Act 1995*, the Council is required to appoint a person on the recommendation of the City's Audit Committee to be its Auditor.

RISK MANAGEMENT IMPLICATIONS:

High: Not adopting the 2014/2015 Annual Financial Report would result in non-compliance with the *Local Government Act 1995*.

STRATEGIC IMPLICATIONS:

This is in keeping with the City's Strategic Plan 2013-2023

“4.1.2 Manage the organisation in a responsible, efficient and accountable manner.”

SUSTAINABILITY IMPLICATIONS:

Not Applicable.

FINANCIAL/BUDGET IMPLICATIONS:

The Annual Financial Report identifies a final end of year surplus position of \$1,007,891 compared to a deficit of \$4,758,710 the previous year. The surplus is an improvement of \$431,026 on the opening balance forecast in the 2015/16 Budget (\$576,865), which actually related to the 50% advance payment of the Australian Government Financial Assistance Grant, which was required to be recognised in 2014/15 but reflected in the balance carried forward into 2015/16.

The difference between the forecast opening balance from the 2015/16 Budget and the actual surplus is predominately due to spend in materials and contracts and capital infrastructure coming-in below the calculated estimates used in the budget.

Given the 'subsequent event' adjustments to the Annual Financial Report, importantly, the improved outcome has been achieved without the need for the previously agreed transfer from the Aged Persons and Senior Citizens Reserve. The Opening Surplus will positively contribute towards the Municipal funding required for the carry forward projects into 2015/16, which totalled \$2,065,879.

COMMENTS:

The process involved in finalising the Annual Financial Report demonstrates an open and transparent process and compliance with appropriate standards of accounting. The changes proposed have been developed in full cooperation with the City's Auditor, however they are still deemed relatively minor compared to the version presented to and recommended for approval by the Audit Committee.

In order for the City to meet its legislative requirements, it is recommended that Council accepts the Annual Financial Report for the financial year ending 30 June 2015 as amended and detailed in Attachment 2 and appoints Anthony Macri as the City's Auditor for 2015/16.