

13.1 FINANCIAL STATEMENTS FY19

Author: Director Corporate Services
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Disclosure of Interest: The Author and Authorising Officer declare that they do not have any conflicts of interest in relation to this item.

OFFICER'S RECOMMENDATION

That the Committee receive and endorse to Council the Audited Annual Financial Report, Independent Auditor's Report, Closing Report and Management Letter of Audit Findings for the financial year ended 30 June 2019.

SIMPLE MAJORITY VOTE REQUIRED

PURPOSE

The purpose of this report is for the Audit, Risk and Governance Committee (Committee) to consider the Audited Annual Financial Report, Independent Auditor's Report, Closing Report and Management Letter of Audit Findings for the financial year ended 30 June 2019, and to endorse all reports to Council.

The Committee is to report to Council and provide appropriate advice and recommendations on matters relevant to the Committee's terms of reference. One of the Committee's principal duties is to make recommendations to Council regarding external audit reporting.

RSM Australia Pty Ltd, the Town's auditors (Auditors) have advised that they will be issuing an unqualified audit opinion for the financial year ended 30 June 2019.

DETAIL

This report presents to the Committee the audited Annual Financial Report (AFR), Closing Report and Management Letter of Audit Findings from the Town's Auditors, RSM Australia Pty Ltd, for the year ended 30 June 2019. The Independent Auditor's Report for attachment to the financial statements will be available on 13 November 2019 per standard audit process.

RSM Australia Pty Ltd issued the Town with an unqualified audit opinion with respect to the financial statements, meaning that the Town of Port Hedland financial records and statements are fairly and appropriately presented, and in accordance with General Accepted Accounting Principles (GAAP).

The Auditors have presented four matters for consideration as identified in confidential attachment 2 being.

Each year, the Town is required to prepare general purpose financial reports and refer them to the Auditors as soon as practicable, no later than 30 September following the end of the financial year (Section 6.4 of the *Local Government Act 1995*). The draft annual

financial report for the year-ended 30 June 2019 was submitted to the Auditors on 27 September 2019.

The Annual Financial Report is prepared in accordance with *Australian Accounting Standards*; the *Local Government Act 1995*; and the *Local Government (Financial Management) Regulations 1996*. Management's responsibility is to prepare it in accordance with the Standards, Act and Regulations and to ensure that the reports fairly present the financial performance and position of the Town.

The Town's Auditors, RSM Australia, conducted the end of year audit onsite from 14-20 October 2019. The role of the Auditor is to provide an opinion based on their audit as to whether Management has fulfilled these obligations. The Auditors also prepare a separate, more detailed report for Management, identifying any issues arising from the conduct of the audit, and recommending any corrective actions. An unqualified opinion was issued with respect to the financial statements, meaning that the Town's financial records and statements are fairly and appropriately presented, and in accordance with General Accepted Accounting Principles (GAAP).

Under section 5.54 of the *Local Government Act 1995*, the annual financial statements and audit report must be accepted by 31 December, provided the auditor's report is available. If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.

The financial statements are expected to be signed off by the auditors on 13 November 2019, with the Committee meeting with the Auditors on 12 November 2019. Council's Audit, Risk and Governance Committee has delegated authority to liaise with the Auditor, and receive and examine the Auditor's report and any Management Letters arising from the conduct of the audit

SUMMARY OF FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2019

Continuing Operations

A municipal surplus occurs where an opening balance carried forward plus revenue exceeds expenditure in a particular financial year. The Town has recognised a closing municipal surplus of \$2.5M from 2018/19 to be carried forward to the 2019/20 financial year (refer to page 8 of the financial statements). The surplus was realised mainly due to unfinished capital projects which have been re-budgeted in 2019/20 for completion, and an increase in rates revenue from previously unrated properties.

The Town has realised a net operating surplus of \$16.2M from continuing operations (excludes capital expenditure) and an operating surplus ratio of 0.23%.

The Town's operating revenue streams increased overall by 61%, mainly due to an increase in rates revenue from previously non-rated properties.

The Town's operating expenses increased by 16% due to higher material and contracts costs and other expenditure. However the Town was under budget for operating expenses overall due mainly to materials and contracts costs attributed to unfinished projects.

The Town is non-compliant with the debt service cover ratio and asset sustainability ratio, as determined by the Department of Local Government, Sport and Cultural Industries. The debt service cover ratio is irrelevant with all debt repaid by the Town in June 2019. The asset sustainability ratio was 0.61, against a target of 0.9. The asset renewal programme for FY2019 was under budget, with works scheduled for quarter four disrupted by TC Veronica.

Throughout the 2018/19 financial year, interest earned on investments was re-invested where possible to continue to maximise revenue generating opportunities. All investment funds are held in authorised deposit institutions, in line with the *Local Government Financial Management Regulations (1995)* and the Town's Investment Policy.

Management Letter Audit Findings

RSM has identified four matters for consideration to be addressed by Management. Please refer to confidential attachment 2 for findings and management response/action plan.

LEVEL OF SIGNIFICANCE

In accordance with Policy 4/009 'Significant Decision Making', this matter is considered to be of medium significance as it summarises the financial position of the Town for the financial year ended 30 June 2019 and reflects performance against the Strategic Community Plan and Corporate Business Plan in existence at the time. Risks associated with the audit findings are set out in this report under the heading 'Risk Management Considerations'.

CONSULTATION

Internal

The AFR and audit was completed with the input and assistance of the Executive Leadership Team, the Financial Services team and the Governance team.

External Agencies

- The Town's Auditors, RSM Australia
- Moore Stephens for assistance with technical accounting matters
- AssetVal Pty Ltd for valuation of investment property

Community

Nil

LEGISLATION AND POLICY CONSIDERATIONS

Part 7 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996* details the requirements for audit.

The Department of Local Government, Sport and Cultural Industries has also prepared Operational Guideline Number 9 to provide guidelines for the Committee relating to Audit in Local Government.

Regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996* details the CEO's duties in regards to financial management.

Under section 5.54 of the *Local Government Act 1995*, the annual financial statements and audit report must be accepted by 31 December, provided the auditor's report is available. If the auditor's report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor's report becomes available.

FINANCIAL AND RESOURCES IMPLICATIONS

The costs associated with conducting the interim audit and end of financial year audit are included in the 2018/19 budget and financial statements.

Completion of the Annual Financial Report will present a confirmed closing municipal surplus of \$2.5M from 2018/19 to be carried forward to the 2019/20 financial year. This will be included as part of the mid-year budget review.

STRATEGIC AND SUSTAINABILITY IMPLICATIONS

The following sections of the Town's Strategic Community Plan 2018-2028 are applicable in the consideration of this item:

- 4.b.1 Sound long-term financial planning is implemented
- 4.b.2 Transparent and regular financial reporting and communication to the community is undertaken
- 4.b.3 Transparent and regular governance reporting and communication to the community is undertaken

There are no significant identifiable environmental, social or economic impacts relating to this item.

Corporate Business Plan

The following actions of the Town's Corporate Business Plan 2018-2022 apply in relation to this item:

- 4.b.2.1 – Ensure the Town's finances are managed efficiently and effectively in line with legislated requirements.
- 4.b.3.1 – Ensure governance information provided to the community is in line with legislated requirements.

RISK MANAGEMENT CONSIDERATIONS

Per the risk matrix contained in policy 1/022 'Risk Management', the level of risk is considered to be Medium (9), with risk managed by adequate controls, managed by specific procedures and subject to regular monitoring.

RSM has identified four matters for consideration to be addressed by Management. A summarised table of the findings and management response/action plan in confidential attachment 2.

The Audit Report is to be accepted by Council no later than 31 December 2019 to comply with section 5.54 of the *Local Government Act 1995*. Not accepting the report by this time will be a breach of the Act. As per the risk matrix contained in policy 1/022 'Risk Management', the level of risk is considered to be Medium (9).

OPTIONS

Option 1 – Adopt officer's recommendation

Option 2 – Do not adopt officer's recommendation

CONCLUSION

The 2018/19 Annual Financial Report, Closing Report and Management Letter of Audit Findings are attached for the Committee's review. The Independent Auditor's Report for attachment to the Financial Statements will be available on 13 November 2019.

The Town is continuously working towards improvements in the financial management area and there will be a focus on creating stronger internal controls within financial management and processes in accordance with the Town's values and long-term sustainability.

ATTACHMENTS

1. Annual Financial Report 2019 with Audit Report (Confidential, under separate cover)
2. Management Letter of Audit Findings (Confidential, under separate cover)
3. Management Letter to Auditors (Confidential, under separate cover)