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Financial Statements FY18 (*File No. 14/06/0001*)

Author	Acting Manager Financial Services
Authorising Officer	Director Corporate and Performance
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 Council endorse the Updated Closing Report and Management Letter of Audit Findings for the financial year ended 30 June 2018.

SIMPLE MAJORITY VOTE REQUIRED

PURPOSE

The purpose of this report is for Council to consider the endorsement of the Updated Closing Report and Management Letter of Audit Findings from the Town's Auditors, RSM Australia Pty Ltd, for the year ended 30 June 2018.

DETAIL

RSM Australia Pty Ltd (auditors) 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).

RSM presented six matters for consideration to be presented during next year's audit as identified in Annexure A Management Letter in February 2019. However, due to an administrative oversight the Town did not respond to the outstanding finding that carried over from the 2017/2018 financial year. To comply with Section 7.12A(4) of the *Local Government Act 1995* we need to respond to the outstanding finding.

This item was presented to the Town's Audit, Risk and Governance (ARG) Committee on 13 August 2019 for their consideration and they have recommended that Council endorse the Updated Closing Report and Management Letter of Audit Findings for the financial year ended 30 June 2018.

The Council adopted the audited accounts on 13 Feb 2019 (refer Council decision 11.1.4).

On 28 June 2019 we received a letter from the Department informing us we were currently not compliant with Section 7.12A(4) as we had not provided a report to the Department on a matter identified as significant by the auditor.

Section 7.12A(4) states:

“A local government is 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 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.”*

Due to an administrative error, the open matter from 2017/2018 financial report was missed and not reported to Council and published with the financial statements.

The other significant matters and the audit report had been previously received by the Council on 12 February 2019.

The only outstanding matter was the Town not meeting acceptable banding for legislated ratios. The two ratios that did not meet the Department's standards was the Debt Service Ratio and the Operating Surplus Ratio.

This was due to loss on revaluation of \$12.7m relating to infrastructure assets. This revaluation contributed to the net operating deficit of \$15.8m. Without this non-cash expense the Town would have been above the acceptable target for the ratios. The Town does not expect a revaluation expense as large in the 2018/2019 financial year. It should be noted that the devaluation was essentially a reversal of the revaluation booked in 2014/2015, with both entries being non-cash.

In relation to the Debt Service Cover Ratio, the Town has paid out all loans as at 17 June 2019. The Town is now above the standards required by the Local Government Operational Guidelines and will be compliant in the 2018/2019 financial year.

The Town improved on the Asset Sustainability Ratio to reach the acceptable banding from 2017/2018 financial year to the 2018/2019 financial year.

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 2018 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

Executive Leadership Team
Financial Services Team
Governance team.

External Agencies

The Town's Auditors, RSM Australia
Moore Stephens

LEGISLATION AND POLICY CONSIDERATIONS

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

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

FINANCIAL AND RESOURCES IMPLICATIONS

The costs associated with conducting the interim audit and end of financial year audit were included in the 2017/18 budget and financial statements.

STRATEGIC AND SUSTAINABILITY IMPLICATIONS

The following section of the Council's *Strategic Community Plan 2018-2028* is 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.

RISK MANAGEMENT CONSIDERATIONS

Per the risk matrix contained in policy 1/022 'Risk Management', the level of risk is considered to be Medium (6), with risk managed by adequate controls, managed by specific procedures and subject to regular monitoring.

RSM identified seven matters for consideration to be addressed by Management. Six matters have already been endorsed by the ARG and Council. Management require endorsement for the outstanding finding for ratios, further detail is available in Annexure A of the Closing Report.

The Audit Report is to be accepted by Council no later than 27 August 2019 to comply with the letter received from the Department and remedy the non-compliance. As per the risk matrix contained in policy 1/022 'Risk Management', the level of risk is considered to be Medium (6). As the date of the meeting is 28 August 2019. We are not compliant by one day, this non-compliance is purely administrative and has been received by council through the ARG committee. We have contacted the Department to inform them of this breach.

OPTIONS

Option 1 - Adopt Officer's Recommendation

Option 2 – Do not adopt Officer's Recommendation

CONCLUSION

The updated Closing Report and Annexure A Management Letter of Audit Findings are attached for Councils review. 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. Town of Port Hedland Closing Report and Annexure A Management Letter (Under Separate Cover)