Audit Committee
Minutes

22 October 2018

Our Vision

A City which values its heritage, cultural diversity, sense of place and natural environment.

A progressive City which is prosperous, sustainable and socially cohesive, with a strong community spirit.
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1. CONFIRMATION OF MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 23 JULY 2018

Mayor Bria moved that the minutes of the Audit Committee meeting held on 23 July 2018 be taken as read and confirmed. Seconded by Mr Peter Holmes and carried.

2. PRESIDING MEMBER’S COMMUNICATION

Nil

3. QUESTIONS WITHOUT NOTICE

Nil

4. QUESTIONS WITH NOTICE

Nil

5. WRITTEN NOTICES OF MOTION

Nil

6. STAFF REPORTS
6.1 ANNUAL FINANCIAL STATEMENTS FOR YEAR END 30 JUNE 2018

REPORT AUTHOR: Financial Services Manager
GENERAL MANAGER: General Manager, Corporate services
CONTACT NUMBER: 8366 4585
FILE REFERENCE: S/02919
ATTACHMENTS: A – D

PURPOSE OF REPORT
The purpose of this report is to present the 2017-2018 Financial Statements to the Audit Committee for review and recommendation to the Council for adoption.

BACKGROUND
Pursuant to Section 127 of the Local Government Act 1999 (the Act), the Council must prepare Annual Financial Statements in accordance with the Local Government (Financial Management) Regulations 2011 (the Regulations).

Section 13 of the Regulations requires that the Financial Statements of a Council be prepared in accordance with the requirements set out in the Model Financial Statements. The City of Norwood, Payneham & St Peters has prepared the Annual Financial Statements in accordance with the Model Financial Statements.

Section 126 (4) (a) of the Act requires that the functions of an Audit Committee to include “reviewing annual financial statements to ensure that they present fairly the state of affairs of the council”.

A copy of the Annual Financial Statements is contained in Attachment A.

RELEVANT STRATEGIC DIRECTIONS & POLICIES
The Council’s Long Term Strategic directions are outlined in the City Plan 2030 – Shaping our Future. The 2017-2018 Annual Business Plan and supporting Budget, set out the services and programs and initiatives for the 2017-2018 Financial Year.

The Council highlighted in the 2017-2018 Annual Business Plan, that financial sustainability was a high priority. In adopting the 2017-2018 Budget, the Council forecast an Operating Surplus of $3.081 million for the 2017-2018 Financial Year.

FINANCIAL AND BUDGET IMPLICATIONS

Statement of Comprehensive Income


After capital items, the Council is reporting a Net Surplus of $4.923 million (2016-2017: $6.399 million).

EXTERNAL ECONOMIC IMPLICATIONS

Nil

SOCIAL ISSUES

Nil

CULTURAL ISSUES

Nil
ENVIRONMENTAL ISSUES
Nil

RESOURCE ISSUES
Nil

RISK MANAGEMENT
Nil

CONSULTATION

- Elected Members
  Nil

- Community
  Not Applicable.

- Staff
  Responsible Officers, General Managers and the Council's External Auditors.

- Other Agencies
  Nil

DISCUSSION

Statement of Comprehensive Income

Operating Result

As detailed in Figure 1 below, the Council concluded the financial year with an Operating Surplus of $4.092 million (2016-2017: $4.222 million), a decrease of $0.130 million or 3.1% on 2016-2017. The primary driver for the decrease in reported Operating Surplus is an increase in employee expenses due to vacant positions being filled during 2017-2018.

As the Committee is aware, the Federal Government has made advance payments of the Financial Assistance Grants. Adjusting for the effect of the advanced payments, the underlying Operating Surplus is $4.044 million for 2017-2018, a 11% increase on the 2016-2017 Adjusted Operating Surplus of $3.657 million.

FIGURE 1: OPERATING SURPLUS (DEFICIT) - $'000

Detailed explanations are provided later in this report.
FIGURE 2: NON-RATE REVENUES - $’000

As detailed in Figure 2 above, non-rate revenues decreased by 1.5% ($0.154 million) compared to the 2016-2017 financial year.

The primary factors contributing to the decrease is a reduction in Financial Assistance Grants, which decreased by $0.355 million compared to 2016-2017. During 2017-2018, the Council received the standard four (4) quarters of grant funding compared to six (6) quarters received in 2016-2017 due to the an advance of two (2) quarters in June 2017. Offsetting the reduction of Grant funding, Investment income was $0.103 million higher than 2016-2017. The increase was due to increased balance of cash held on deposit with the Local Government Financing Authority.

The cost to deliver the Council’s continuing services (i.e. Recurrent Operating Costs) increased by 1.5% ($0.554 million) compared to 2016-2017. This increase was predominantly due to vacant positions being filled and thereby having an increase in employee expenses.

The Council incurred a net cost of $0.128 million ($55,000 in 2016-2017) across twenty nine (29) Operating Projects. Major components of Operating Projects were:

- Building Maintenance & Painting Program;
- Review of the City’s Flood Map and mitigation strategies;
- Hosting of the Adelaide Fashion Festival;
- Various Heritage, Cultural, Youth and Arts Programs and Festivals; and
- Hosting the start of a Stage of the Tour Down Under and associated street event.

Ownership costs, which incorporate interest paid on long term borrowings and depreciation increased by 0.7% ($59,000). The increase is attributed to depreciation costs.

Non-Operating Items

A Non-Operating Surplus of $0.830 million is reported for 2017-2018 (2016-2017 Non-Operating Deficit $2.177 million). The 2017-2018 Non-Operating Surplus comprised of:

- Loss on Sale and Write off of Infrastructure Assets renewed as part of the Capital Works program. ($0.910 million)
- Grant Income received for Capital Projects including:
  - Felixstow Reserve Project $1.050 million
  - State Government Local Infrastructure $0.200 million
  - Library Book Acquisition $0.101 million
  - Beulah Road Bicycle Boulevard $0.098 million
  - Kent Town Street Scape Project $0.075 million
Other Comprehensive Income

Other Comprehensive Income comprises items of income and expenses that are not recognised in the Net Surplus (Deficit) for the year, as required or permitted by other Australian Accounting Standards. Such items include the impact of changes in asset values due to revaluations. The value of Other Comprehensive Income reported in the Statement of Comprehensive Income, is a Deficit of $150 million.

The major factor contributing to the Deficit is the revaluation of the Councils’ Land and Building assets. In line with the Councils Asset Revaluation Policy, independent valuations of the major long term asset classes are undertaken on a rolling five (5) year period. For the 2017-2018 financial year, JLL Infrastructure Advisory Pty Ltd were appointed to undertake the independent valuation of the Councils Land and Building assets. The revaluation is the first independent review since revision of AASB13: Fair Value which requires the classification of assets into the fair value hierarchy. The Community Land classification of properties which impacts the ability of the Council to dispose of assets was taken into account and all Land and Building assets were subsequently reclassified to a Level 3 category. This resulted in a decrease of $156 million in the valuation of this asset class.

Balance Sheet

The Net Assets of the Council at 30 June 2018 is $443.5 million, a decrease of $145.5m from 2016-2017. Major movements include:

- **Assets**
  
  Current Assets have increased by $5.260 million, predominately due to increased cash held with the Local Government Financing Authority.

  Non-Current Assets have decreased by $151 million, predominately due to the review and subsequent revaluation of the Land and Building asset carrying values.

- **Liabilities**

  During 2017-2018 Financial Year, total liabilities decreased by $0.387 million. The decrease was due to the combined impact of an increase in value of the expenses accrued at the end of year ($2.056 million) being offset by a reduction in the Councils level of borrowing ($2.045 million) and trade payables ($0.362 million).

- **Revaluations**

  In line with the Councils Asset Revaluation Policy, formal valuations of the major asset classes are undertaken on a rolling five (5) year period resulting in a decrease of $150 million. The carrying values of other Asset Classes were reviewed and adjusted where appropriate.

  The revaluation impact for each asset class is detailed in Table 2.
TABLE 2: IMPACT OF ASSET REVALUATION

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Revaluation Increase/(Decrease) $million</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>(174.982)</td>
<td>Represents a 54.3% decrease in the Fair Value. This decrease is due to the revaluation undertaken during the year and the impact of community land classifications.</td>
</tr>
<tr>
<td>Buildings and Other Structures</td>
<td>18.547</td>
<td>Represents a 36.4% increase in the Fair value. This is due to the revaluation undertaken during the year.</td>
</tr>
<tr>
<td>Open space Assets</td>
<td>1.693</td>
<td>Represents a 30% increase in Fair Value, based on the condition assessment undertaken by Tonkin Consulting.</td>
</tr>
<tr>
<td>Road Infrastructure</td>
<td>0.941</td>
<td>Represents a 1.9% decrease in Fair Value based on a unit cost review by Tonkin Consulting.</td>
</tr>
<tr>
<td>Kerbing</td>
<td>2.483</td>
<td>Represents a 5.1% increase in Fair Value based on a unit cost review by Tonkin Consulting.</td>
</tr>
<tr>
<td>Footpaths</td>
<td>0.857</td>
<td>Represents a 3.4% increase in Fair Value based on a unit cost review by Tonkin Consulting.</td>
</tr>
<tr>
<td>Linear Park</td>
<td>0.010</td>
<td>Represents a 3.0% increase in Fair Value based on a unit cost review by Tonkin Consulting.</td>
</tr>
<tr>
<td>Stormwater Drainage</td>
<td>0.993</td>
<td>Represents a 2.9% increase in Fair Value, based on conditional assessment by Tonkin Consulting.</td>
</tr>
<tr>
<td>Off- Roads Carparks</td>
<td>0.052</td>
<td>Represents a 3.5% increase in Fair Value, based on a unit cost review by Tonkin Consulting.</td>
</tr>
<tr>
<td>Traffic Control Assets</td>
<td>0.098</td>
<td>Represents a 3.4% increase in Fair Value, based on a unit cost review by Tonkin Consulting.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>150.421</strong></td>
<td></td>
</tr>
</tbody>
</table>

Overall, the revaluation decrease for the 2017-2018 financial year is $150.421 million, compared to an increase of $12.806 million for the 2016-2017 financial year. The decrease predominately due to the first time application of AASB13: Fair Value, and the reclassification of the Councils land assets to Level 3 due to the Community Land Classification, which prevent the Council from disposing of the properties unless the Community Land Classification applying to each property is revoked.

**Statement of Cash Flows**

For the 2017-2018 Financial year, the Council is reporting a net increase in cash and cash equivalents of $5.860 million an increase of $1.198 million from 2016-2017. The Council generated $14.746 million from operating activities, with the funds used to complete the Councils Capital undertakings ($6.841 million), which covered 36 asset replacement/renewal projects and principal and interest repayments ($2.045 million) associated with the Councils borrowings.

Section 126 (4) (a) of the Local Government Act 1999, requires that the functions of an Audit Committee are to include the review of the Annual Financial Statements to ensure that they present fairly the state of affairs of the Council. To ensure that the Audit Committee discharges its responsibilities under the Act, the following papers are provided for review.

**Attachment B** - contains further clarification to the Significant Accounting Policies used in the preparation of the 2017-2018 Financial Statements.

**Attachment C** - contains answers to the most common questions expected from Elected Members in respect of the preparation of the 2017-2018 Financial Statements.

**Attachment D** - contains a copy of the management letter provided to the Councils' External Auditors, BDO Advisory (SA) Pty Ltd.

BDO Advisory (SA) Pty Ltd have completed their audit of the Financial Statements and they have advised that they will sign an unqualified Independent Auditors’ Reports in the prescribed form, upon the Presiding Member of the Audit Committee signing the “Council Certificate of Audit Independence”. There were no significant issues raised during the audit of this year’s Financial Statements.
Financial Ratios

The Model Financial Statements requires the Council to disclose in the Financial Statements, the following three (3) Financial Ratios:

- Operating Surplus Ratio (refer to Figure 3)
- Net Financial Liabilities Ratio (refer to Figure 4)
- Asset Sustainability Ratio (refer to Figure 5)

FIGURE 3: OPERATING SURPLUS RATIO

The Operating Surplus/(Deficit) Ratio expresses the Council’s Operating Surplus/(Deficit) as a percentage of Rate Revenue (net of the Natural Resources Management Levy).

Figure 3 above shows the Adjusted Operating Surplus Ratio, which takes into account for the effect of the advance payments of the Financial Assistance Grants in each of the respective years. The advance payments which have been adjusted for are detailed in Table 3 below;

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Number of Quarters Advanced</th>
<th>Increase in Operating Surplus (Value of Advance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017-2018</td>
<td>2</td>
<td>$0.602m</td>
</tr>
<tr>
<td>2016-2017</td>
<td>2</td>
<td>$0.602m</td>
</tr>
<tr>
<td>2015-2016</td>
<td>-</td>
<td>$0.000m</td>
</tr>
<tr>
<td>2014-2015</td>
<td>2</td>
<td>$0.584m</td>
</tr>
<tr>
<td>2013-2014</td>
<td>-</td>
<td>$0.000m</td>
</tr>
</tbody>
</table>
The Net Financial Liabilities Ratio measures the extent to which the net amount owed by the Council is met by its Operating Revenue (net of the Natural Resources Management Levy). Net Financial Liabilities are represented by Total Liabilities less Current Assets.

The Council’s Long Term Financial Plan has set a target of less than 75%. This Ratio has been decreasing due to the commencement of a number of major capital works projects being delayed, resulting in no new long term borrowings being drawn down combined with an increase in cash reserves resulting from the carrying forward of a number of capital projects included in the Council’s Whole of Life Infrastructure renewal program.

The Asset Sustainability Ratio measures whether the Council is renewing or replacing existing physical assets (roads, footpaths, buildings etc.), at the same rate the stock of assets is “wearing out”. Asset Sustainability measures the extent of the renewal expenditure incurred, against the planned renewal expenditure, as set out in the Council Asset Management Plans.

The Council’s Long Term Financial Plan has set a target of between 90% and 110%, on a three (3) year rolling average. For the 2017-2018 financial year, the three (3) year rolling average is marginally below the target rate at 89%, based on the renewal expenditure proposed in the Council’s Infrastructure and Asset Management Plans.
OPTIONS

There are no options associated with this matter.

CONCLUSION


After Capital Items, which includes grant funding specifically for asset upgrades or renewals and asset disposals, the Council is reporting a Net Surplus of $4.923 million (2016-2017: $6.399 million).

The Council’s Auditor, BDO Advisory (SA) Pty Ltd, have completed the audit of the Council’s Financial Statements and have advised that they will sign an unqualified Independent Auditors’ Reports in the form prescribed, upon the Presiding Member of the Audit Committee signing the "Council Certificate of Audit Independence".

There were no significant issues raised during the audit of this year’s Financial Statements which would prevent the Audit Committee recommending to the Council to adopt the 2017-2018 Financial Statement.

COMMENTS

Nil

RECOMMENDATION

That the Audit Committee recommend to the Council that:


b. The Annual Financial Statements for the year ended 30 June 2018, be dated 5 November 2018 and be signed on behalf of Elected Members by the Mayor.

c. The Asset Revaluations as set out in Table 2 of this report, be adopted.

Mr Peter Holmes moved:

That the Audit Committee recommend to the Council that:


b. The Annual Financial Statements for the year ended 30 June 2018, be dated 5 November 2018 and be signed on behalf of Elected Members by the Mayor.

Seconded by Cr Shepherdson and carried.
## 6.2 FINANCIAL SUMMARY – 2017-2018 ACTUAL RESULTS V ADOPTED BUDGET

<table>
<thead>
<tr>
<th>REPORT AUTHOR:</th>
<th>Financial Services Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>GENERAL MANAGER:</td>
<td>General Manager, Corporate Services</td>
</tr>
<tr>
<td>CONTACT NUMBER:</td>
<td>8366 4585</td>
</tr>
<tr>
<td>FILE REFERENCE:</td>
<td>S/02516</td>
</tr>
<tr>
<td>ATTACHMENTS:</td>
<td>A</td>
</tr>
</tbody>
</table>

### PURPOSE OF REPORT

This report provides a summary of the 2017-2018 Audited result and explanations for variations from the 2017-2018 Adopted Budget.

### BACKGROUND

Pursuant to Section 127 of the *Local Government Act 1999* (the Act), the Council must prepare Annual Financial Statements in accordance with the *Local Government (Financial Management) Regulations 2011* (the Regulations).

Section 10 of the Regulations, requires the Council to prepare and consider a report, no later than 31 December in each year, showing the audited financial results of the Council for the previous financial year, compared with the estimated financial results set out in the budget presented in a manner consistent with the Model Financial Statements.

### RELEVANT STRATEGIC DIRECTIONS & POLICIES

The financial information contained in this report is based on the 2017-2018 Annual Financial Statements, the 2017-2018 Adopted Budget and the various policies adopted by the Council as they impact the Council's financial performance (eg. Rating Policy).

### FINANCIAL AND BUDGET IMPLICATIONS

The Council concluded the Financial Year with an Operating Surplus of $4.092 million, compared to the Council's Adopted Operating Budget, which forecast an Operating Surplus of $3.081 million. Details of the drivers behind the variances from the Adopted Operating Surplus, are contained in the Discussion Section of this report.

After capital items, the Council is reporting a Net Surplus of $4.923 million against an Adopted Net Surplus of $9.785 million.

### EXTERNAL ECONOMIC IMPLICATIONS

Nil

### SOCIAL ISSUES

Nil

### CULTURAL ISSUES

Nil

### ENVIRONMENTAL ISSUES

Nil

### RESOURCE ISSUES

Nil
RISK MANAGEMENT

Nil

CONSULTATION

- **Elected Members**
  Elected Members have received regular reports on the Council’s financial performance throughout the year.

- **Community**
  Not Applicable

- **Staff**
  Responsible Officers, General Managers and Council’s External Auditors.

- **Other Agencies**
  Not Applicable

DISCUSSION

The 2017-2018 Annual Financial Statements have been finalised and will be presented to the Council for adoption at the Council Meeting to be held on 5 November 2018. A separate report has been provided on the 2017-2018 Annual Financial Statements for consideration by the Audit Committee.

Statement of Comprehensive Income

Operating Result

The Council is reporting an Operating Surplus of $4.092 million, compared to the Council Adopted Operating Budget, which forecasted an Operating Surplus of $3.081 million, a favourable variance of $1.011 million. The major variances from the Adopted Operating Surplus are outlined in Table 1 below.

<table>
<thead>
<tr>
<th>TABLE1: MAJOR VARIANCES FROM ADOPTED OPERATING SURPLUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasons for the Variance</td>
</tr>
<tr>
<td>Statutory Charges were $88,906 (5.1%) favourable to the adopted budget driven primarily by:</td>
</tr>
<tr>
<td>higher than anticipated number of Parking Infringement Notices being issued ($33,760);</td>
</tr>
<tr>
<td>higher than anticipated number and value of Development Applications being lodged ($20,144); and</td>
</tr>
<tr>
<td>increased number of Hoarding Permits being issued ($20,169).</td>
</tr>
<tr>
<td>Grant funding received was $239,053 unfavourable to the Adopted Budget driven primarily by:</td>
</tr>
<tr>
<td>Roads-to-Recovery funding from 2016-2017 was budgeted to be recognised in the 2017-2018 financial year. However, due to the grant being untied to expenditure, it was required to be recognised in the 2016-2017 financial year upon receipt. ($601,325); and</td>
</tr>
<tr>
<td>as part of the 2017-2018 Federal Budget indexation was applied to the Financial Assistance Grants and additional Local Road Funding was made to the Council resulting in an additional $260,356 of funding compared to the Adopted Budget.</td>
</tr>
<tr>
<td>Other Income was $409,505 favourable to the Adopted Budget driven primary by:</td>
</tr>
<tr>
<td>rebates from the Local Government Association Workers Compensation Scheme, General Insurance and Special Surplus Fund Distribution by Local Government Association Asset Mutual Fund relating to the 2016-2017 insurance premiums were greater than anticipated, resulting in a favourable variance. ($267,189); and</td>
</tr>
<tr>
<td>return of surplus for 2016-2017 from East Waste which was not included in the Adopted Budget ($55,388).</td>
</tr>
</tbody>
</table>
### Reasons for the Variance

<table>
<thead>
<tr>
<th>Reasons for the Variance</th>
<th>Amount ($'million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unfilled staff positions, combined with extended time periods to fill vacant positions have resulted in a favourable variance ($1.382 million) in Employee Expenses. The favourable variance has been offset by the use of temporary/contract staff to back fill vacant positions ($0.547 million).</td>
<td>0.835</td>
</tr>
<tr>
<td>The Line Marking Programme was unfavourable to the Adopted Budget due to an additional scope of works being endorsed by the Council at the Council Meeting held on 5 February 2018.</td>
<td>(0.175)</td>
</tr>
<tr>
<td>Due to sufficient cash reserves, combined with timing of key infrastructure works there was no need to take out new long term borrowings to fund the Council’s capital program, resulting in reduced financing costs.</td>
<td>0.213</td>
</tr>
</tbody>
</table>

### Non-Operating Income

After Non-Operating Income, the Council is reporting a Net Surplus of $4.923 million, against an Adopted Budget Surplus of $9.785 million. Non-Operating Income includes grant funding specifically for asset upgrades or renewals and gain/(loss) on asset disposals and assets received free of charge. Non-Operating income for the year was a surplus of $0.831 million against the Adopted Budget Surplus of $6.216 million, an unfavourable variance of $6.704 million. The unfavourable variance is set out in Table 2 below.

### TABLE 2: MAJOR VARIANCES FROM ADOPTED NON-OPERATING INCOME

<table>
<thead>
<tr>
<th>Reasons for the Variance</th>
<th>Amount ($'million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss on the sale and or disposal of the Council’s small Plant and Equipment at the end of its operational life, combined with write off of the carrying values of the Council Civil Infrastructure, upon renewal.</td>
<td>(0.934)</td>
</tr>
<tr>
<td>Amounts budgeted to be received specifically for new or upgraded assets that have been delayed due to project timings were:</td>
<td>(1.619)</td>
</tr>
<tr>
<td>- Upgrade of Paynham Oval Facilities</td>
<td>$0.500 million</td>
</tr>
<tr>
<td>- Beulah Road Bicycle Boulevard</td>
<td>$0.403 million</td>
</tr>
<tr>
<td>While the Grant funding application for Felixstow Reserve Redevelopment Project was successful, the Council only received $1.050 million compared to the Adopted Budget of $1.750 million.</td>
<td></td>
</tr>
<tr>
<td>Physical resources received free of charge were budgeted for as part of the Norwood Oval Member Facilities and Clubrooms however, this Project is yet to be completed, as such the redeveloped assets are yet to be capitalised and recognised on the Councils Asset Register.</td>
<td>(3.320)</td>
</tr>
</tbody>
</table>

### Other Comprehensive Income

Other Comprehensive Income comprises items of income and expenses that are not recognised in the Net Surplus (Deficit) for the year, as required or permitted by Australian Accounting Standards. Such items include the impact of changes in asset values due to revaluations. The value of Other Comprehensive Income reported in the Statement of Comprehensive Income, is a Deficit of $150 million.

The major factor driving the deficit is the revaluation of the Councils Land and Building assets. In line with the Councils Asset Revaluation Policy, independent valuations of the major long term asset classes are undertaken on a rolling five (5) year period. For the 2017-2018 Financial year, JLL Infrastructure Advisory Pty Ltd were appointed to independently value the Councils Land and Building assets.

During the revaluation process the community land classification of properties was considered as it impacts the ability of the Council to dispose of assets. This resulted in a decrease of $156 million in the valuation of this asset class.
Balance Sheet

The Net Assets of the Council at 30 June 2018 is $444 million, against an Adopted Budget of $586 million, an unfavourable variance of $142 million.

Major reasons for the variance in the Net Assets include:

- **Assets**
  
  Cash deposits with the Local Government Financing Authority is favourable by $13.7 million, with the variance resulting from the commencement of several major capital projects and advance payments of Roads-to-Recovery and Financial Assistance Grant funding.

  Infrastructure, Property, Plant & Equipment is unfavourable with a variance of $162.5 million, resulting from the reduction in the Fair Value of the Councils Land and Building assets, due to the application of AASB13: Fair Value and the reclassification of Land Assets to Level 3 due to Community Land classification.

  Other Non-current assets – a favourable variance of $2.9 million is due to the later than anticipated commencement and hence scheduled completion dates of the Felixstow Reserve Redevelopment Project, River Torrens Linear Park Path Upgrade Project and the Norwood Oval Clubrooms & Members Facilities Project.

  Non-Current Financial Assets – an unfavourable variance of $2.7 million due to the commencement date of the Norwood Oval Clubrooms & Members Facilities Project and the subsequent deferring the loan to Norwood Football Club to fund their share of the Project.

- **Liabilities**
  
  Borrowings – a favourable variance of $4.8 million

  The favourable variance is due to the timings associated with several major capital projects which are to be funded through new loans. Such projects include, Norwood Oval Clubrooms & Members Facilities and associated public realm works, Beulah Road Bike Boulevard Project and Payneham Oval Clubrooms Project.

**Attachment A** contains the 2017-2018 Financial Statements comparing the actual result to the 2017-2018 Adopted Budget as required by Section 10 of the Regulations.

**Bad and Doubtful Debts**

The Council’s accounts receivable balance has been reviewed at the end of the financial year for the recoverability of the outstanding debts. The outstanding amounts which make up the reported Accounts Receivable balance are considered to be recoverable.

**OPTIONS**

There are no options associated with this issue.

**CONCLUSION**

Nil

**COMMENTS**

Nil

**RECOMMENDATION**

That the report be received and noted.
Ms Julie Wobber moved:

That the report be received and noted.

Seconded by Mr Peter Holmes and carried.
6.3 EXTERNAL AUDITORS CORRESPONDENCE

REPORT AUTHOR: General Manager, Corporate Services
GENERAL MANAGER: Chief Executive Officer
CONTACT NUMBER: 8366 4585
FILE REFERENCE: S/00238
ATTACHMENTS: A

PURPOSE OF REPORT

The purpose of this report is to provide the Audit Committee with a copy of the Council’s External Auditors Management Letter for the Financial Year ended 30 June 2018 and the Council’s response to the issues raised.

BACKGROUND

The Audit Committee Work Program provides for the Audit Committee to:

- discuss any points of concern by the External Auditor in their interim audit; and
- assess the appropriateness of the Council’s response to matters raised in the interim audit.

RELEVANT STRATEGIC DIRECTIONS & POLICIES

Not Applicable.

FINANCIAL AND BUDGET IMPLICATIONS

There are no financial implications associated with this issue

EXTERNAL ECONOMIC IMPLICATIONS

Nil

SOCIAL ISSUES

Nil

CULTURAL ISSUES

Nil

ENVIRONMENTAL ISSUES

Nil

RESOURCE ISSUES

There are no resource issues arising from this report.

RISK MANAGEMENT

There are no risk management issues arising from this issue.
CONSULTATION

- Committee Members
  Not Applicable

- Community
  Not applicable

- Staff
  Nil

- Other Agencies
  Nil

DISCUSSION

As part of the 2017-2018 External Audit Program, the Council’s External Auditors, BDO Audit (SA) Pty Ltd (BDO), attended the Council offices from 28 May 2018 until 31 May 2018 and from 3 September 2018 until 14 September 2018, to undertake the Audit of the Council’s activities.

The Council was provided the opportunity to provide a management response to the issues arising from the audit activities prior to the Audit Completion Report being issued by BDO. A copy of the Audit Completion Report is contained in Attachment A. No matters have been identified by the Auditors which would impact upon the Audit opinion for the 2017-2018 Financial Year. A draft of the Audit Report on the Financial Statements and the Council’s Internal Controls, is contained in Appendix 1 of the Audit Completion Report which is contained in Attachment A.

OPTIONS

Nil

CONCLUSION

Nil

COMMENTS

Nil

RECOMMENDATION

That the report be received and noted.

Cr Shepherdson moved:

That the report be received and noted.

Seconded by Ms Julie Wobber and carried.
6.4 FINANCE POLICIES

REPORT AUTHOR: Financial Services Manager  
GENERAL MANAGER: General Manager, Corporate Services  
CONTACT NUMBER: 8366 4585  
FILE REFERENCE: S/01823  
ATTACHMENTS: A - E

PURPOSE OF REPORT

The purpose of this report is to provide the Audit Committee with a number of Finance Policies for consideration and endorsement prior to the Policies being presented to the Council for consideration and adoption.

BACKGROUND

Pursuant to Section 125 of the Local Government Act 1999, the Council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the Council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the Council's assets, and to secure (as far as possible) the accuracy and reliability of the Council's records.

The 2017-2018 Audit Committee Work Program requires the Audit Committee to review the appropriateness of the range and content of the Council's financial policies and practices.

RELEVANT STRATEGIC DIRECTIONS & POLICIES

Not Applicable.

FINANCIAL AND BUDGET IMPLICATIONS

Not Applicable.

EXTERNAL ECONOMIC IMPLICATIONS

Nil

SOCIAL ISSUES

Nil

CULTURAL ISSUES

Nil

ENVIRONMENTAL ISSUES

Nil

RESOURCE ISSUES

Nil

RISK MANAGEMENT

Documentation of finance policies relating to the Council's financial transactions improves transparency and ensures consistent treatment over subsequent reporting periods unless Accounting Standards or legislation changes.
CONSULTATION

- Committee Members
  Nil

- Community
  Nil

- Staff
  Nil

- Other Agencies
  Nil

DISCUSSION

In line with the Finance Policy Timetable a review of the following Policies has been undertaken;

Budget Review Policy and Guidelines (Attachment A);
Fraud and Corruption Prevention Policy (Attachment B);
Goods & Services Tax (Attachment C).

Following the review, It has been determined the principles and content of the Policies are consistent with the Council’s current practice and procedures and therefore no amendments are recommended to the Policies set out above.

The Council’s Risk Management Plan identified Contract and Contract Management as a risk which requires mitigation to minimise the residual risk from a medium risk rating to a low risk rating. To address this, the Procurement and Contract Management Project, which was undertaken as part of the Council’s Organisational Strategy, identified that a Centre Led Procurement and Contract Management framework, best meets the Council’s procurement and contract management requirements. In addition to addressing the risks, the framework developed addresses the findings identified in both External and Internal Audit reviews, which relate to the governance, records management and staff awareness of the Councils procurement practices. A copy of the Procurement Framework is contained in Attachment D.

As part of the development of the Centre Led Procurement and Contract Management framework, the Procurement Policy and Guidelines have been reviewed and while the Policy itself was considered appropriate and reflects the Procurement framework, the minimum thresholds for complex purchases (greater than $10,000) have been re-aligned to better reflect the Councils Expenditure Policy, in particular, the market approach methods for complex purchases which include:

- Request for Quote ($10,001 to $100,000). The upper limit was increased from $50,000 to $100,000.
- Select Tender ($100,001 to $250,000). The minimum threshold limit was increased from $50,001 to $100,001 and the upper limit was increased from $100,000 to $250,000.
- Open Tender ($250,000 plus). The upper limit was increased from $100,001 to plus $250,000.

In line with the Expenditure Policy, the nominated positions within the organisation which has been assigned the delegation to approve complex purchasing recommendations are as follows:

- Request for Quote General Managers
- Select Tenders Chief Executive Officer
- Open Tenders:
  - less than $250,000 Chief Executive Officer
  - greater than $250,000 Council
For simple purchases, which are less than $10,000, the financial delegation rests with Managers and Responsible Officers as set out in the Schedule 1 of the Expenditure Policy.

Due to the formal development of the Centre-led Procurement Framework, which incorporates greater governance and records management requirements, the recommended increases to the Purchasing Thresholds as set out above does not expose the Council to an increased level of risk.

A copy of the reviewed Procurement Policy and Guidelines is contained in Attachment E.

OPTIONS

The adoption of the Policies can be recommended to the Council with or without amendment.

CONCLUSION

To ensure compliance with Section 125 of the Act, the Council must have in place appropriate policies, practices and procedures which assist the Council to carry out its activities in an efficient and orderly manner. It is important to ensure that the policies adopted by the Council are regularly reviewed to ensure that they reflect the current operating environment and continue to meet the Council’s overall objectives.

COMMENTS

Nil

RECOMMENDATION

1. That the Audit Committee notes that the suite of Finance Policies (as set out below) have been reviewed and notes that no amendments have been proposed:

   - Budget Review Policy and Guidelines;
   - Fraud and Corruption Prevention Policy; and
   - Goods & Services Tax.

2. That the Audit Committee notes that the Procurement Policy has been reviewed and the Purchasing Thresholds are recommended to be amended to reflect the following:

<table>
<thead>
<tr>
<th>Market Approach</th>
<th>Minimum Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Purchase</td>
<td>Up to $3,000</td>
</tr>
<tr>
<td>Verbal Quote</td>
<td>$3,001 to $5,000</td>
</tr>
<tr>
<td>Written Quote (informal)</td>
<td>$5,001 to $10,000</td>
</tr>
<tr>
<td>Request for Quote (formal)</td>
<td>$10,001 to $100,000</td>
</tr>
<tr>
<td>Select Tender</td>
<td>$100,001 to $250,000</td>
</tr>
<tr>
<td>Open Tender</td>
<td>$250,001 plus</td>
</tr>
</tbody>
</table>

3. That the Audit Committee recommends to the Council that the Financial Policies as set out below be approved:

   - Budget Review Policy and Guidelines (Attachment A);
   - Fraud and Corruption Prevention Policy (Attachment B);
   - Goods & Services Tax (Attachment C);
   - Procurement Policy and Guidelines (Attachment E).
Mr Peter Holmes moved:

1. That the Audit Committee notes that the suite of Finance Policies (as set out below) have been reviewed and notes that no amendments have been proposed:
   - Budget Review Policy and Guidelines;
   - Fraud and Corruption Prevention Policy; and
   - Goods & Services Tax.

2. That the Audit Committee notes that the Procurement Policy has been reviewed and the Purchasing Thresholds are recommended to be amended to reflect the following:

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</tr>
</tbody>
</table>

3. That the Audit Committee recommends to the Council that the Financial Policies as set out below be approved:
   - Budget Review Policy and Guidelines (Attachment A);
   - Fraud and Corruption Prevention Policy (Attachment B);
   - Goods & Services Tax (Attachment C);
   - Procurement Policy and Guidelines (Attachment E).

Seconded by Ms Julie Wobber and carried.
6.5 REGIONAL SUBSIDIARIES – ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

REPORT AUTHOR: General Manager, Corporate Services
GENERAL MANAGER: Chief Executive Officer
CONTACT NUMBER: 8366 4585
FILE REFERENCE: S/01296 S/00045 S/01914 S/00046
ATTACHMENTS: A - D

PURPOSE OF REPORT

The purpose of this report is to provide the Committee with the 2017-2018 Audited Financial Statements for the Regional Subsidiaries of which this Council is a Member.

BACKGROUND

Section 16 (4) of the Local Government (Financial Management) Regulations 1999 requires that:

“The Chief Executive Officer of a council must ensure that any audited financial statements of a subsidiary received for the purposes of clause 12 (3) (a) or 28 (2) (a) of Schedule 2 of the Act are laid before the council at the first meeting of the council following their receipt by the Chief Executive Officer on behalf of the council.”

RELEVANT STRATEGIC DIRECTIONS & POLICIES

Not Applicable.

FINANCIAL AND BUDGET IMPLICATIONS

There are no financial and budget implications resulting from the preparation of this report.

The financial performance of the Regional Subsidiaries of which this Council is a member, is accounted for in the Council’s Annual Financial Statements which are submitted concurrently.

EXTERNAL ECONOMIC IMPLICATIONS

Nil

SOCIAL ISSUES

Nil

CULTURAL ISSUES

Nil

ENVIRONMENTAL ISSUES

Nil

RESOURCE ISSUES

Nil

RISK MANAGEMENT

There are no risk management issues arising from the preparation this report.
CONSULTATION

- **Committee Members**
  Mr Peter Holmes is a member of the Audit Committee of ERA Water and Highbury Landfill Inc. In addition, a number of the Council’s Elected Members are Board Members or Deputy Board Members of various Regional Subsidiaries.

- **Community**
  Not Applicable

- **Staff**
  Not Applicable.

- **Other Agencies**
  Not Applicable.

DISCUSSION

The audited Financial Statements have been received from the following Regional Subsidiaries:

- Eastern Health Authority Inc. (Attachment A)
- Highbury Landfill Authority Inc. (Attachment B)
- Eastern Waste Management Authority Inc. (Attachment C)
- ERA Water (Attachment D).

The Operating Surplus (Deficit) of the respective Regional Subsidiary for the year ended 30 June 2018, together with the Council’s share of the operating result which has been accounted for in the Council’s Financial Statements, is set out in Table 1 below.

**TABLE 1: REGIONAL SUBSIDIARY OPERATING SURPLUS/(DEFICIT)**

<table>
<thead>
<tr>
<th>REGIONAL SUBSIDIARY</th>
<th>NET OPERATING SURPLUS / (DEFICIT)</th>
<th>COUNCILS SHARE OF NET OPERATING SURPLUS / (DEFICIT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Health Authority</td>
<td>138,569</td>
<td>30.46% $42,208</td>
</tr>
<tr>
<td>Highbury Landfill Authority</td>
<td>(194,820)</td>
<td>40.36% $(78,624)</td>
</tr>
<tr>
<td>Eastern Waste Management Authority</td>
<td>(321,819)</td>
<td>14.30% $(45,974)</td>
</tr>
<tr>
<td>ERA Water</td>
<td>(205,267)</td>
<td>33.33% $(68,415)</td>
</tr>
</tbody>
</table>

Important points to highlight resulting from the 2017-2018 Financial year are:

- **Eastern Health Authority**
  The Eastern Health Authority Inc. reported a Net Operating Surplus of $0.139m, compared to a budgeted breakeven result. The favourable results have been driven by reduced Employee Expenses due to inability to source appropriate staff to fill vacancies and additional income from the increase in Meningococcal B Vaccine being purchased at clinics.

- **Highbury Landfill Authority Inc.**
  The Highbury Landfill Authority Inc. reported an Operating Deficit of $0.195m. To meet the legislative requirements associated with the post closure of a landfill, the Highbury Landfill Authority Inc., must estimate the future costs to manage the post closure phase of the landfill. A review of the adequacy of the provision to cover the estimated cost of monitoring the landfill was undertaken by Golder Associates (Consultants) to ensure the value of the provision reflect the latest information on future expenditure and interest rates. As a result of the review, a re-measurement adjustment of $0.178m was processed against the post closure provision.
• Eastern Waste Management Authority

During the 2017-2018 Financial year, the City of Prospect was admitted as a Constituent Council of the Eastern Waste Management Authority (East Waste), thereby reducing the ownership share of the existing Constituent Councils from 16.7% to 14.3%. For 2017-2018, East Waste reported an Operating Deficit of $0.322m. The unfavourable result is due to East Waste returning the 2016-2017 Operating Surplus ($0.338m) which included excess collection cost to Constituent Council in the 2017-2018 Financial Year.

• ERA Water

ERA Water reported an Operating Deficit was $0.205m. It should be noted that ERA Water is within the commissioning of the Stormwater Harvesting System and as such, is not at this stage generating revenues from the sale of water.

OPTIONS

Not Applicable.

CONCLUSION

The Council’s 2017-2018 Annual Financial Statements is reporting a Net Loss on Equity Accounted Council Businesses of $0.151m (2016-2017:$ 0.034m).

COMMENTS

Nil

RECOMMENDATION

That the report be received and noted.

Ms Julie Wobber moved:

That the report be received and noted.

Seconded by Cr Shepherdson and carried.
7. CONFIDENTIAL REPORTS
   Nil

8. OTHER BUSINESS

8.1 Presiding Member – Thank You

   The Presiding Member, Cr John Minney, thanked the Independent Members for their contribution to the Audit Committee over the last term of the Committee.

   Cr Minney also thanked staff for their support provided to the Committee and wished the Elected Members all the best in their Election campaign.

9. NEXT MEETING

   To be advised.

10. CLOSURE

   There being no further business the Presiding Member declared the meeting closed at 7.50pm.

Cr John Minney
PRESIDING MEMBER

Minutes Confirmed on _______________________________ (date)