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MINUTES OF THE AUDIT COMMITTEE MEETING

Held on Monday, 29 August 2016
Darebin Civic Centre, 350 High Street, Preston
at 2.30pm

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**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD AT DAREBIN CIVIC CENTRE
350 HIGH ST, PRESTON ON MONDAY 29 AUGUST 2016**

THE MEETING OPENED AT 2.00 PM

1. PRESENT

Committee Members

Mr Michael Said - Chairperson
Mr Terry Richards - Independent External Member
Ms Lisa Tripodi - Independent External Member
Cr Vince Fontana (Mayor) - Committee Member
Cr Oliver Walsh - Committee Member

Council Officers

Mr Allan Cochrane - A/Director Corporate Services
Ms Jacinta Stevens - Executive Manager, Corporate Governance & Performance
Mr Michael O'Riordan - Financial Accountant
Mr Jim Barrett - Coordinator Performance Support

External Auditors

Mr Tim Loughnan - Victorian Auditor-General's Office
Mr Remy Szpak - Victorian Auditor General's Office

Minutes

Mr Allan Cochrane - A/Director Corporate Services

2. APOLOGIES

Mr Rasiah Dev - Chief Executive
Mr Steve Hamilton - A/Chief Executive

3. DISCLOSURES OF CONFLICTS OF INTEREST

Audit Committee members are required to disclose any conflicts of interest.

No conflicts of interest were declared.

4. REGISTER OF INTERESTS

Audit Committee members were asked to declare any conflicts of interest. Declarations were made by Mr Terry Richards and Ms Lisa Tripodi. The Register of Interests was updated as follows.

Cr Oliver Walsh entered the meeting at 2.45pm.

Mr Michael Said

- Manningham City Council
- Yarra City Council
- Whitehorse City Council
- Whittlesea City Council
- Baw Baw City Council
- Colac Otway Shire Council
- Moorabool Shire Council
- Yarra Plenty Regional Library
- Chisholm Institute of TAFE

Mr Terry Richards

- Latrobe City Council

Ms Lisa Tripodi

- City of Greater Geelong

5. CONFIRMATION OF MINUTES OF THE PREVIOUS AUDIT COMMITTEE MEETING & CONFIDENTIAL AUDIT COMMITTEE MEETING

The Committee agreed to defer confirmation of the minutes of the Audit Committee meeting and the minutes of the Confidential Audit Committee meeting held on Monday 6 June 2016 to the next scheduled meeting to be held on Monday 3 October 2016.

6. STANDING REPORTS

6.1 DECLARATION OF LEGAL COMPLIANCE BY CEO

The CEO confirms that Council is legally compliant in its operations. This is reported via the quarterly Director's Questionnaire, and an end-of-year annual questionnaire which requires all Directors to attest to the legal compliance of their Directorate's activities and to report any known instances of fraud, misappropriation or pending litigation.

Directors are required to confirm full compliance with contractual agreements. All issues that are disclosed via the questionnaire are provided to the CEO.

The annual Director's Questionnaire for 2015/2016 reports no issues that affect Council's legal compliance.

6.2 CEO REPORT

A written report by the CEO was tabled at the meeting and is attached (refer Attachment Item 6.2).

Recommendation

That the Audit Committee notes the report which was tabled at the meeting.

Committee Discussion

The following points were discussed at the meeting:

- The Draft Council budget was presented at the last Audit Committee meeting.
- Highlight of changes through the adoption process held on the 27 June 2016 which was adopted with an underlining surplus of \$5.8M.
- Annual report progress is well advanced – making further improvements based on the feedback received through the awards process in 2015 – City of Darebin receive a silver award for 2014/2015 annual report.
- Organisation restructure – ready for Darebin's future time for change – was released prior to CEO going on leave. The CEO met with the Executive Management Team & Councillors on the proposed restructure to realign the council organisation ready for future. This is currently out for consultation across the Organisation to give staff the opportunity to comment on the restructure. Major change is mainly at high level management changing to 5 directorates rather than 4 which is current.

Timeframe:

- Proposed changes to commence 1 September 2016 pending feedback from consultation process. Information has been sent to CEO whilst on leave.
- Changes will most likely take effect when CEO returns from leave.

Committee Recommendation

MOVED: Cr Vince Fontana
SECONDED: Ms Lisa Tripodi

That the Audit Committee notes the CEO report.

CARRIED

7. ANNUAL STATEMENTS

7.1 EXTERNAL AUDITORS CLOSING REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

AUTHOR: Acting Director Corporate Services

MANAGER: Chief Executive

SUMMARY:

The Audit Act 1994 requires the Auditor-General to form an opinion on Council's Financial Statements and Performance Statement. The audit was conducted to gather sufficient and appropriate evidence to form that opinion.

The audit approach focused on key financial report audit risks. This involved gaining an understanding of significant financial reporting processes and a combination of internal control testing and substantive audit procedures to assess the residual risk of material misstatement of the financial report. The issues of waste, probity and lack of financial prudence in the use of public resources were also considered.

The External Auditors advise that subject to satisfactory resolution of outstanding items outlined in Appendix A (page 9 of the report), they will be recommending to the Auditor-General to issue a clear audit opinion on the Financial Statements and Performance Statement of the Darebin City Council for the 2015/2016 year.

Recommendation

That the Audit Committee receives and notes the Darebin City Council Closing report to the Audit Committee Financial year ended 30 June 2016 as provided by the Victorian Auditor-General's Office.

Committee Discussion

The Closing Report was discussed in detail as Mr Said took the Committee through each and every page. He advised that the audit concluded a satisfactory and clear result.

Councillors would be interested to note that the External Auditors propose to issue an unqualified opinion on both Statements (Paragraph 3 – 'Audit conclusion'), and to also note that Council has sound quality assurance processes in place to assess the reasonableness of the reported figures.

Audit Committee members are to receive a copy of the Management Letter once that has been finalised.

Matters Arising

Audit Committee to receive copy of the Management Letter once that has been finalised.

Committee Recommendation

MOVED: Cr Vince Fontana
SECONDED: Ms Lisa Tripodi

That the Audit Committee:

- (1) Receives and notes the Darebin City Council Closing report to the Audit Committee Financial year ended 30 June 2016 as provided by the Victorian Auditor-General's Office.
- (2) Notes that the External Auditors propose to issue an unqualified opinion on both Statements.
- (3) Notes Council has a sound quality assurance process.

CARRIED

7.2(A) DRAFT FINANCIAL STATEMENTS 2015/2016**AUTHOR: Financial Accountant****MANAGER: Acting Director Corporate Services****SUMMARY:**

This report presents the draft Financial Statements 2015/16 year for Audit Committee review. Key elements in relation to the Statements are discussed together with commentary on the major variances from the previous year and budget in the Financial Statements.

The report proposes that the Audit Committee recommend to Council that it approve in principle the draft Financial Statements 2015/16 and authorise two Councillors to sign the Statements in their final form after any changes recommended, or agreed to, by the Auditor have been made.

CONSULTATION:

Acting Chief Executive Officer
Remy Szpak - Victorian Auditor-General's Office

Recommendation

That the Audit Committee recommends to Council that it:

1. Approves in principle the Financial Statements for the 2015/16 year subject to a management representation letter, minor amendments to the Statements and the Auditor-General's review.
2. Authorises two Councillors to sign the Statements in their final form after any changes recommended, or agreed to, by the Auditor have been made.
3. Note the closing report of the Auditor-General and his recommended opinion being as unqualified.

Report

Background

Section 131 of the *Local Government Act 1989* (the "Act") requires Council to prepare in respect of each financial year an annual report containing:

- A report of operations;
- Audited financial statements;
- An audited performance statement;
- A copy of the auditor's report on the performance statement, prepared under section 132;
- A copy of the auditor's report on the financial statements under Part 3 of the *Audit Act 1994*; and
- Any other matter required by the regulations.

The Act requires that the annual report be submitted to the Minister within three months of the end of the financial year. Council is required to pass a resolution giving approval in principle to each of the Statements. The Act also requires Council to authorise two Councillors to certify each of the Statements after any changes recommended, or agreed to, by the auditor have been made.

Regulations 21 of the *Local Government (Planning and Reporting) Regulations 2014* (the "Regulations"), specify that the Financial Statements must be certified by the Principal Accounting Officer, two Councillors and the Chief Executive Officer, prior to the Auditor-General signing the audit report.

To assist Council in approving in principle the Financial Statements for the 2015/16 year, the Audit Committee should review the draft Statements with the benefit of comments by Council management and the Victorian Auditor-General's Office representative. The Audit Committee, after it is satisfied with comments of Council management and the Victorian Auditor-General's Office representative, should then make a recommendation to Council to adopt in principle the Financial Statements for the 2015/16 year.

Core Issues

Financial statements format

The Financial Statements have been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"). As per Regulation 19 and 20 in part four of the regulation, the financial statements must be prepared in accordance with the Local Government Model Financial Report.

Some of the more significant disclosure changes in the 2015/16 financial statements include:

- Note 16 - Included reference from Cash and Cash Equivalents to Other Financial Assets (note 18) to assist readers in understanding complete cash and investment position.
- Note 21 - Additional summary added at the beginning of Property, Infrastructure, Plant & Equipment which reconciles to the Balance Sheet.
- Note 34 - New separate Superannuation note which collates key accounting standard disclosures.

Financial Statements – overview of reported results

The Comprehensive Income Statement shows that for the year ended 30 June 2016, the Council achieved an operating surplus of \$20.06 million which was an \$14.54 million increase from the 2014/15 result. The main items contributing to this movement between financial years are as follows:

- Rates (\$6.09 million increase) – The increase in general rates is in line with the general increase in rates approved by Council for the 2015/16 year together with supplementary rate income generated and an increase in green waste charges (refer note 3);
- User fees, statutory fees and fines (\$0.95 million increase) – The increase in user fees, statutory fees and fines resulted mainly from an increase in building fees associated with development within Darebin, leisure services fees, health registrations and the annual price increases on most services with some fluctuations within individual services (refer notes 4 and 5);
- Grants – operating (\$5.09 million decrease) – The decrease in operating grants reflects a mix of factors including the advance receipt of the 2015/16 Victorian Grants Commission funding last year, reduced HACC funding for aged care clients, and offset by normal CPI increases in recurrent Government grants (refer note 6);
- Grants – capital (\$1.31 million decrease) – The decrease in capital grants is reflected by the receipt last year of State and Federal funded grants associated with the finalisation of the Reservoir Community & Learning Hub and energy efficient street lighting (refer note 6);
- Contributions – monetary (\$1.66 million increase) – The increase in cash contributions is due to an increase in open space and drainage contributions associated with development within the municipality. The contribution rate on large developments has increased from 3% to 5% of site value. (refer note 7);
- Contributions – non-monetary assets (\$0.22 million decrease) – This movement represents reduced contributed infrastructure assets received from developments within the city (refer note 7);
- Fair value adjustment of investment property (\$1.04 million increase) – The increase in value of investment property is mainly due to the discounted value of the CH Sullivan stadium booked last year (refer note 22);
- Employee costs (\$3.63 million increase) – The increase in employee costs reflects increase in performance increments paid in the 2015/16 year under the current collective agreement, increases in employee provisions for annual leave and long service leave offset by the reduction in the WorkCover premium rate (refer note 10);
- Materials and services (\$1.98 million decrease) – The materials and services category includes contract payments, utilities, major maintenance and other items such as waste disposal fees. The decrease results from lower major maintenance (capital works projects not capitalised), utility charges and fuel and oil (refer note 11);
- Bad and doubtful debts (\$0.17 million decrease) – The decrease in bad and doubtful debts reflects decreases in parking and enforcement related debtors (refer note 12);
- Depreciation and amortisation (\$0.37 million increase) – The increase in depreciation arises from asset additions during the financial year and the full year impact of the previous year revaluation of infrastructure (refer note 13).

The Balance Sheet as at 30 June 2016 shows that net assets increased by \$88.82 million for the year to \$1,267.7 million. The main items contributing to this increase are as follows:

- Cash and cash equivalents (\$1.37 million decrease) – Cash balances at year end decreased due to a number of factors including the receipt in June 2015 of 50% of the 2015/16 VGC funding delays in completing capital works projects, an increase in the level of rates and contributions received during the year (refer note 16);
- Other financial assets (\$15.06 million decrease) - This increase reflects the increase in holdings of term deposits with a greater than 90 day maturity. Overall cash and cash equivalents and other financial increased by \$13.70 million (refer notes 16 and 18);
- Trade and other receivables – current (\$0.52 million increase) – This increase primarily reflects the increase in outstanding parking infringements and other debtors (refer note 17);
- Other assets - current (\$0.34 million increase) – This increase primarily reflects the increase in accrued income including bank and other ADI's interest payments on term deposits and the SRO contribution for the 2016 general revaluation (refer note 20);
- Property, infrastructure, plant and equipment (\$68.83 million increase) – This increase reflects the net impact of the revaluation of property assets, contributed assets, asset disposals, additions and depreciation on all fixed asset classes (refer note 21);
- Intangible assets (\$0.07 million increase) – This increase reflects the net impact of capitalised additions and amortisation charges (refer note 23);
- Trade and other payables (\$7.33 million decrease) – This decrease represents the write-back of the payable provided for last year for the potential obligation to refund unspent developer contributions received under the previous Darebin Development Contribution Plan (DCP). Council has now received approval via Darebin Planning Scheme Amendment C148 to allow for the delivery of a further project to allocate the unspent Developer Contribution Scheme funds to the construction of a multi-purpose sports stadium to be built at John Cain Reserve. Lower trade creditors held at year end offset by an increase in accrued employee costs unpaid at balance date (refer note 24);
- Trust funds and deposits (\$0.52 million increase) – This increase is due to higher asset protection bonds and outstanding Fire Services Property Levy (FSPL) held at year end (refer note 25);
- Provisions (\$1.64 million increase) – This increase is due in large to additional provisions required for excess annual leave, long service leave and personal gratuity leave. (refer note 26);
- Interest bearing loans and borrowings (\$0.17 million decrease) – This decrease is due to the repayments of loan borrowings in accordance with the scheduled repayment terms. Council had nil borrowings as at balance date (refer note 27);
- Reserves (\$77.74 million increase) – The increase in reserves is due to the increase in fair value of property assets, an increase in open space contributions received which are transferred to statutory reserves during the year and the re-instatement of the developer contribution reserve (refer note 28).

The Cash Flow Statement for the year ended 30 June 2016 shows that total cash and investments decreased by \$1.37 million to \$45.44 million. The main movements during the year were a cash inflow from operating activities of \$36.1 million, offset by a cash outflow from investing activities of \$37.29 million and financing cash outflows of \$0.18 million.

The Statement of Capital Works shows that for the year ended 30 June 2016, Council had achieved total Capital Works expenditure of \$21.44 million, a decrease of \$3.20 million from the previous year. The main items of capital works for the year are as follows:

- Property (\$5.24 million) – The main items of expenditure include completion of the CS Sullivan Pavilion (\$0.98 million), Ruthven Reserve (\$0.68 million), Northcote Town Hall (\$0.57 million), Public conveniences (\$0.29 million), Outdoor court refurbishment at Darebin Community Sports Stadium (\$0.71 million) and incomplete works including the Multi-sports stadium (\$0.17 million).
- Plant and equipment (\$4.42 million) – The main items of expenditure include information technology (\$1.28 million), fleet replacement (\$2.3 million) and library resources (\$0.70 million).
- Infrastructure (\$11.78 million) – The main items of expenditure include roads and transport (\$4.76 million), footpaths and cycle ways (\$1.93 million), and parks and open space (\$3.94 million).

Financial Implications

There are no financial implications for Council in approving the 2015/16 Statements.

Future Actions

The draft Statements and a copy of the Audit Committee's recommendations will be forwarded to Council for consideration on 5 September 2016.

Related Documents

Darebin City Council Financial Statements 2015/16

Committee Discussion

The Financial Accountant discussed the 2015/16 significant statement disclosure changes. Of note were:

- Note 21 on page 25 – additional summary on property infrastructure on plant and equipment
- Note 34 – new separate superannuation note
- Note 16 – other financial assets – total cash and cash equivalents.

The Financial Accountant went through the income statement, 30 June 2016. Of particular interest was an Operating surplus of \$20.06M which was an increase of \$14.5M on the previous year.

Committee Recommendation

MOVED: Mr Terry Richards
SECONDED: Cr Oliver Walsh

That the Audit Committee recommends to Council that it:

1. Approves in principle the Financial Statements for the 2015/16 year subject to a management representation letter, minor amendments to the Statements and the Auditor-General's review.
2. Authorises two Councillors to sign the Statements in their final form after any changes recommended, or agreed to, by the Auditor have been made.
3. Note the closing report of the Auditor-General and his recommended opinion being as unqualified.

CARRIED

7.2(B) DRAFT PERFORMANCE STATEMENT 2015/2016**AUTHOR: Financial Accountant****MANAGER: Acting Director Corporate Services****SUMMARY:**

This report presents the draft Performance Statement for the 2015/16 year for Audit Committee review.

The report proposes that the Audit Committee recommends to Council that it approves in principle the draft Performance Statement 2015/2016 and authorise two Councillors to sign the Statement in their final form after any changes recommended, or agreed to, by the Auditor have been made.

CONSULTATION:

Acting Chief Executive Officer
Remy Szpak – Victorian Auditor-General's Office

Recommendation

That the Audit Committee:

- (1) Approves in principle the Performance Statement for the 2015/16 year subject to a management representation letter, minor amendments to the Performance Statement and the Auditor-General's review.
- (2) Authorises two Councillors to sign the Performance Statement in their final form after any changes recommended, or agreed to, by the Auditor have been made.
- (3) Note the closing report of the Auditor-General and his recommended opinion being as unqualified.

Report

Background

Section 131 of the *Local Government Act 1989* (the “Act”) requires Council to prepare in respect of each financial year an annual report containing:

- A report of operations;
- Audited financial statements;
- An audited performance statement;
- A copy of the auditor’s report on the performance statement, prepared under section 132;
- A copy of the auditor’s report on the financial statements under Part 3 of the *Audit Act 1994*; and
- Any other matter required by the regulations.

The Act requires that the annual report be submitted to the Minister within three months of the end of the financial year. Council is required to pass a resolution giving approval in principle to each of the Statements. The Act also requires Council to authorise two Councillors to certify each of the Statements after any changes recommended, or agreed to, by the auditor have been made.

Regulations 18 of the *Local Government (Planning and Reporting) Regulations 2014* (the “Regulations”), specify that the Financial Statements must be certified by the Principal Accounting Officer, two Councillors and the Chief Executive Officer prior to the Auditor-General signing the audit report.

To assist Council in approving in principle the Performance Statement for the 2015/16 year, the Audit Committee should review the draft Performance Statement with the benefit of comments by Council management and the Victorian Auditor-General’s Office representative. The Audit Committee, after it is satisfied with comments of Council management and the Victorian Auditor-General’s Office representative, should then make a recommendation to Council to adopt in principle the Performance Statement for the 2015/16 year.

Issues and Discussion

The performance statement includes the results of the prescribed sustainable capacity, service performance and financial performance indicators and measures together with a description of the municipal district and an explanation of material variations in the results. This statement has been prepared to meet the requirements of the *Local Government Act 1989* and *Local Government (Planning and Reporting) Regulations 2014*. The performance measures cover the following activities:

Sustainable Capacity Indicators

	2015/16	2014/15
• Population		
Expense per head of population	\$936	\$1,024
Infrastructure per head of population	\$4,032	\$3,827
Population density / road length	296	291
• Own-source revenue	\$923	\$879
• Recurrent grants	\$94	\$123
• Socio-eco disadvantage	5	5

Service Performance Indicators

	2015/16	2014/15
• Aquatic facilities	5.6	6.3
• Animal management	3	11
• Food safety	100%	98%
• Governance	66.9	67.8
• Home and community care Participation	19.6%	22.4%
Participation CALD	18.5%	21.1%
• Libraries	16.0%	16.2%
• Maternal and child health services Participation	N/A	75.9%
Participation CALD	N/A	60.5%
• Roads	70.8	69.3
• Statutory planning	60.3%	45.3%
• Waste collection	47.4%	48.3%

Financial Performance Indicators

	2015/16	2014/15
• Revenue level	\$1,448	\$1,381
• Expenditure level	\$2,087	\$2,290
• Staff turnover	4.96%	9.82%
• Working capital	226.8%	159.5%
• Unrestricted cash	91.5%	61.6%
• Asset renewal	66.1%	60.3%
VAGO*	88.7%	90.2%
• Loans and borrowings Compared to rates	0.00%	0.16%
Repayments compared to rates	0.16%	0.14%
• Indebtedness	1.2%	1.1%
• Adjusted underlying result VAGO**	8.0%	(1.9%)
	12.4%	3.5%
• Rates concentration	73.9%	71.4%
• Rates effort	0.25%	0.27%

Notes: *VAGO use capital renewal and upgrade expenditure to calculate the asset renewal ratio.

**VAGO use net result / total revenue to calculate the net result %.

Financial Implications

There are no financial implications for Council in approving the Performance Statement 2015/16.

Future Actions

The draft Performance Statement and a copy of the Audit Committee's recommendations will be forwarded to Council for consideration on 5 September 2016.

Related Documents

Darebin City Council Performance Statement 2015/16

Committee Discussion

The Audit Committee discussed the report in detail.

Committee Recommendation

MOVED: Cr Vince Fontana
SECONDED: Ms Lisa Tripodi

That the Audit Committee:

- (1) Approves in principle the Performance Statement for the 2015/16 year subject to a management representation letter, minor amendments to the Performance Statement and the Auditor-General's review.
- (2) Authorises two Councillors to sign the Performance Statement in their final form after any changes recommended, or agreed to, by the Auditor have been made.
- (3) Note the closing report of the Auditor-General and his recommended opinion being as unqualified.

CARRIED

8. OTHER BUSINESS

The Audit Committee discussed the following matters:

- Organise a Briefing to Councillors – Allan Cochrane.
- Present the Audit Committee plan at the next meeting – Allan Cochrane.
- L.G.A. review updates.
- Parliament has appointed a new Victorian Auditor-General – Mr Andrew Greaves. Mr Greaves held the same position in Queensland.

Committee Recommendation

MOVED: Mr Michael Said
SECONDED: Mr Terry Richards

That the Audit Committee notes the:

- (1) Quality and timeliness of the product delivered by officers.
- (2) Quality and timeliness of the product delivered by the Auditor-General's Office.

CARRIED

9. NEXT MEETING

The next meeting of the Audit Committee will be held at 2:30pm on Monday 3 October 2016 in the Conference Room of Darebin City Council, 350 High Street Preston.

10. IN CAMERA DISCUSSION

In accordance with the Audit Committee Charter, Item 6, Part 5(f) and Part 6(b), an opportunity was provided for the Audit Committee to meet with the internal auditor and external auditor to discuss any matters that the Audit Committee or the internal auditor and/or external auditor believe should be discussed privately. Management left the meeting during discussion of this item.

11. CLOSE OF MEETING

The meeting closed at 3.53pm