

## **MEETING NOTICE**

The **Extraordinary Meeting** of  
**Bayside Council**  
will be held in the Rockdale Town Hall, Council Chambers,  
Level 1, 448 Princes Highway, Rockdale  
on **Wednesday 18 September 2019** at **7:00 pm**

## **AGENDA**

**1 ACKNOWLEDGEMENT OF COUNTRY**

**2 OPENING PRAYER**

**3 APOLOGIES**

**4 DISCLOSURES OF INTEREST**

**5 MAYORAL MINUTES**

**6 PUBLIC FORUM**

Members of the public, who have applied to speak at the meeting, will be invited to address the meeting.

Any item the subject of the Public Forum will be brought forward and considered after the conclusion of the speakers for that item.

**7 REPORTS**

7.1 Proposed Performance Improvement Order - Council's Response .....2

The meeting will be video recorded and live streamed to the community via Council's Facebook page, in accordance with Council's Code of Meeting Practice.

Meredith Wallace  
**General Manager**

## Extraordinary Council Meeting

18/09/2019

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Item No	7.1
Subject	<b>Proposed Performance Improvement Order - Council's Response</b>
Report by	Michael Mamo, Director City Performance
File	F19/996

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### Summary

The Minister for Local Government has provided Council with an opportunity to respond to her intention to issue a performance improvement order (PIO). Should the order be issued it will require Council to lodge, within 28 days, the complete and audited financial reports for 2016/17 and 2017/18.

Council has already lodged the critical components of its financial reports mentioned by the Minister. Some schedules remain to be lodged including permissible income returns for those years. These have been with the Audit Office of NSW (AO) since May 2019 for auditing. Council has been open and transparent in the challenges facing it since merger to resolve significant legacy issues let alone the harmonisation of two councils. Council has regularly communicated with the Office of Local Government (OLG), the AO and Council's Risk & Audit Committee on its progress in dealing with the challenges it faces. Therefore the Notice comes without warning and as a complete surprise.

The legacy issues have impacted on the quality and reliability of information to satisfy the AO in respect of the permissible income return for the financial reports of 2016/17. In order to provide an audit opinion, the AO may be required to undertake full testing of the rates levied on the 60,000 plus properties with the Bayside local government area. Council estimates this will cost at least \$250,000 and take 3-6 months. Even so, the AO may still be required to issue a disclaimer of audit opinion. It is noted that to remedy the significant failings of management at the former City of Botany Bay Council and other issues, it is estimated to cost, when complete, in the vicinity of \$2.5 million. This is on top of the total audit fees for the first 3 years since Bayside was formed which is estimated to exceed \$2 million. Going forward, Council had recognised the imperative to redirect significant resources to bring Council in compliance for the 2018/19 and 2019/20 financial reports and initiated Project 2020 to do so. This is on track.

Therefore, Council believes it futile to expend such significant funds on less critical elements of Council's previous financial statements. While the consequence of a disclaimer of opinion on a permissible income return (PIR) is unknown, Council has requested that the AO issue its opinion on the PIR for the financial reports. Council will then complete lodgement of those reports anticipated to be before the end of September 2019.

The attached submission clearly outlines Council's position to the Minister.

### Officer Recommendation

- 1 That Council authorises the General Manager and Mayor to respond to the Minister for Local Government, on the Notice of Intention to issue a Performance Improvement Order, in terms of lodgement of the submission attached to this report.
  - 2 That Council reaffirms its ongoing commitment to the principles of sound financial
-

management, and the implementation of Project 2020 which addresses Council's compliance for 2019/20 and onwards.

## Background

The Minister for Local Government, the Hon Shelley Hancock MP, has issued Council with a notice of intention to issue a PIO. The proposed order requires Council to submit the completed set of audited financial reports for the 2016-17 and 2017-18 financial years within 28 days of the Order. Council may make a submission in respect of the proposed Order before the Minister makes a final decision.

Council is clearly mindful of its legislative responsibilities and Councillors are aware of the considerable time, resources and energy that has been devoted to harmonising and improving Council's financial management practices since Bayside's formation in September 2016. There has been a concerted effort and significant resources channelled to have the financial reports audited and then submitted. The Project 2020 initiative currently underway is aimed at achieving legislative compliance for the 2018/19 financial reports and onwards. This is on track.

Council has been open and transparent in its issues and endeavours to remedy the situation since merger with ongoing discussions with the OLG, the AO and its own Risk & Audit Committee. In essence Council considers that no useful purpose will be served by the Minister issuing a PIO to lodged completed audited statements within 28 days, when in fact both the Council and the AO are and have been working to achieve the same result.

Documents	2016/2017	2017/18
General Purpose Financial Statements & Audit Report	✓ Lodged	✓ Lodged
Special Purpose Financial Statements & Audit Report (Airport)	✓ Lodged	✓ NA
Special Schedules (except Permissible Income Return - PIR)	Completed awaiting PIR	Completed awaiting PIR
Permissible Income Return - PIR)	Submitted to Audit Office	Submitted Audit Office

In simple terms, Council has submitted its financial reports for both years to the AO for audit in May this year. One element of the financial reports ie PIR (commonly known as the rating return) have been submitted for audit but the AO has not provided an audit opinion. Indications are that even with all the information and responses provided by Council and the considerable audit testing already undertaken, the AO may not be able to provide even a modified audit opinion for the rating year that will accompany the 2016/17 financial reports. To do so may require the AO to undertake full testing of the 60,000 plus rateable properties, which could take 3-6 months with an estimated cost of at least \$250,000. It seems that the AO is satisfied with the rating return that will accompany the 2017/18 financial reports.

Importantly, the previous Minister for Local Government has been made aware of the significant cost Bayside Council has paid the AO since it was formed. The total audit fees for the first 3 years since Bayside was formed is expected to exceed \$2 million.

The AO has met with the OLG to seek clarification of the consequence of the permissible income return for the 2016/17 financial reports being disclaimed. The resolution with the OLG

of the legislative consequences of a disclaimed audit opinion on permissible income returns would then allow the AO and Council to have an informed basis for determining the next steps. The issue remains unresolved.

The expenditure of ratepayer monies to the magnitude mentioned above to obtain an audit opinion, which ultimately may be a disclaimed one, serves no useful purpose. As such Council has requested the AO to provide an audit opinion on the basis of the returns and information already submitted by Council. The receipt of these opinions will then enable Council to finalise the lodgement the audited financial reports. This is anticipated to be by the end of September 2019.

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## Financial Implications

Not applicable	<input checked="" type="checkbox"/>
Included in existing approved budget	<input type="checkbox"/>
Additional funds required	<input type="checkbox"/>

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## Community Engagement

Not Applicable

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## Attachments

- 1 A631408 - Bayside Council - Notice of Intention [↓](#)
- 2 A631408 - MR - Bayside - Tab 2 - Own motion - financial returns NOI - draft order [↓](#)
- 3 Draft response to the Minister regarding Notice of Intention to issue a Performance Improvement Order [↓](#)



**The Hon. Shelley Hancock MP**  
Minister for Local Government

Doc ID: A631408

Clr Bill Saravinovski and Ms Meredith Wallace  
Mayor and General Manager  
Bayside Council  
PO Box 21  
ROCKDALE NSW 2216

By email: [mayor@bayside.nsw.gov.au](mailto:mayor@bayside.nsw.gov.au)  
[meredith.wallace@bayside.nsw.gov.au](mailto:meredith.wallace@bayside.nsw.gov.au)

Dear Clr Saravinovski and Ms Wallace

**NOTICE OF INTENTION TO ISSUE A PERFORMANCE IMPROVEMENT ORDER  
TO BAYSIDE COUNCIL UNDER SECTION 438A OF THE  
LOCAL GOVERNMENT ACT 1993**

In accordance with section 438C of the *Local Government Act 1993* (the Act), I hereby give notice of my intention to issue a Performance Improvement Order (PIO) under section 438A of the Act, for actions to be taken, as identified in the draft PIO, to improve the performance of Council.

I have serious concerns that the failure by Council to submit a complete set of audited financial reports within the four month statutory period, in two consecutive financial years, demonstrates it is not functioning effectively. The disclosure of a council's financial reports is a crucial way in which it remains accountable to its ratepayers.

The timelines for financial reporting under the Act are not optional; they are mandatory obligations. Every council in NSW must adhere to these obligations and every council in NSW is given ample time to return their financial reports.

The reports provide vital information to councillors and the local community about the progress of Council's implementation of the key activities it has committed to, as well as its audited financial statements, in order for Council to remain accountable to its ratepayers. It is vital they are submitted on time.

Section 438B(2) of the Act requires me to consider the performance improvement criteria prescribed by clause 413D of the *Local Government (General) Regulation 2005* before issuing a PIO:

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- (a) whether the council concerned has failed to comply with its legislative responsibilities, standards or guidelines;*
- (b) whether there are significant risks facing the council that are not being addressed;*
- (c) whether previous intervention attempts have failed;*
- (d) whether council business is being disrupted and the council is failing to exercise its functions;*
- (e) repealed;*
- (f) whether there is a pattern of poor or inappropriate behaviour, either by one or more councillors or members of staff of the council, that has not been rectified;*
- (g) any other matter that, in the opinion of the Minister, is relevant to the issuing of the order.*

I have considered these mandatory criteria in the context of the factual findings listed below. On balance, I have decided that action must be taken to improve the Council's performance.

**The reasons why I, as Minister, am considering issuing a Performance Improvement Order (section 438A(3)(a))**

1. A failure of Council to have its financial reports prepared in accordance with the *Local Government Code of Accounting Practice and Financial Reporting* (Code) and audited within four months after the end of the financial year, or within the extension of time granted by the Deputy Secretary, Local Government, Planning and Policy, is contrary to the requirements of sections 413 and 416 of the Act. Further, Council has failed to submit to the Office of Local Government (OLG) a complete set of its audited financial reports for both the 2016-17 financial year and the 2017-18 financial year in accordance with the Code. (Criterion 413D(a)).
2. I am concerned that the failure by Council to prepare audited financial reports within the four month statutory period demonstrates that the Council is not functioning effectively, particularly considering Council's failure to meet its financial reporting obligations in both the 2016-17 financial year and 2017-18 financial year. (Criterion 413D(a)).
3. I believe that the maintenance of effective financial governance and reporting frameworks at a council are crucial to manage and minimise risks and, ultimately, to provide transparency and confidence to the community. The timely presentation of audited financial reports is the primary statutory mechanism by which councils meet their financial reporting obligations. That Council has failed to meet its financial reporting obligations in two consecutive financial years is therefore a matter of serious concern. (Criterion 413D(b)).

**The terms of the proposed performance improvement order, including the period for compliance with the order (section 438C(2)(a) of the Act)**

The attached proposed PIO is intended to form part of this notice. As required by section 438C(2)(a) of the Act, the terms and period for compliance are specified in the proposed PIO. As required by section 438A(3)(b) of the Act, the action required to be taken to improve the performance of the Council is specified in the proposed PIO.

**The actions that may be taken by me, as Minister, if a performance improvement order is not complied with (section 438C(2)(c) of the Act)**

If a PIO is not complied with, I may consider:

- i. issuing a further PIO; and/or
- ii. temporarily suspending the Council under Chapter 13, Part 7 of the Act.

**Invitation to make submissions to me regarding the proposed Order (sections 438C(3) and (4) of the Act)**

I invite Council to make submissions to me in respect of the proposed PIO. Should Council choose to make submissions, they must be provided to me no later than seven days from the date upon which this notice is served on it.

I will consider all submissions made to me by Council during this period before deciding whether to issue a PIO.

It is suggested that Council tables this notice at an open Council meeting and provides its submissions by way of resolution of the Council.

I have attached an information sheet about the process for the issuing of PIOs.

Signed on this Friday 6th day of September 2019



**Shelley Hancock MP**  
Minister for Local Government

**Local Government Act 1993****Order under section 438A**

I, the Minister for Local Government, issue this Performance Improvement Order to the Council and/or persons specified in Schedule 1 to undertake the actions described in Schedule 2 within the period specified in Schedule 2.

This Order takes effect upon service on the Council.

Dated:

The Hon. Shelley Hancock MP  
Minister for Local Government

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**SCHEDULE 1****BAYSIDE COUNCIL**

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**SCHEDULE 2****Reasons for Order – section 438A(3)(a)**

Pursuant to the *Local Government Act 1993* (Act) (section 413) the Council must have its financial reports prepared in accordance with the Local Government Code of Accounting Practice and Financial Reporting (the Code) and pursuant to section 416 of the Act, audited within four months after the end of the financial year, or within the extension of time granted by the Deputy Secretary Local Government, Planning and Policy. The Council is presently in breach of the Act.

Further, Council has also failed to submit to the Office of Local Government (OLG) a complete set of its audited financial reports for both the 2016-17 financial year and the 2017-18 financial year, prepared in accordance with the Code.

I am concerned that the failure by Council to prepare and present audited financial reports within the four month statutory period demonstrates that the Council is not functioning effectively, particularly considering Council's failure to meet its financial reporting obligations in both the 2016-17 financial year and 2017-18 financial year.

I believe that the maintenance of effective financial governance and reporting frameworks at a council are crucial to manage and minimise risks and, ultimately, to provide transparency and confidence to the community. The timely presentation of audited financial reports is the primary statutory mechanism by which councils meet their financial reporting obligations. That Council has failed to meet its financial reporting obligations in two consecutive financial years is therefore a matter of serious concern.



<b>Action required to improve performance – section 438A(3)(b)</b>
That Council submit a complete set of its audited financial reports for the 2016-17 financial year and the 2017-18 financial year within 28 days of the date of this Order.
<b>Period for compliance with Order</b>
Council must provide the Minister with its audited financial reports within four weeks of the date of service.
<b>Evidence to be provided with the compliance report</b>
A copy of Council's audited financial reports for the 2016-17 financial year and a copy of Council's audited financial reports for the 2017-18 financial year.



18 September 2019

Our Ref: 19/268292

Contact: Meredith Wallace - 0414 980 612

The Hon Shelley Hancock MP  
Minister for Local Government  
GPO Box 5341  
SYDNEY NSW 2001

Dear Minister

Please accept this letter, and the attached detailed submission, as Council's formal response to the Notice of Intention to issue a Performance Improvement Order (PIO) dated 6 September 2019 (reissued via email on 10 September 2019 at 17:05).

In responding, Council assumes you have been fully briefed on the complexity and challenges Bayside has been dealing with since the amalgamation of the former City of Botany Bay and Rockdale City Councils. It is presumed the detailed action plan we put in place, known as Project 2020, to return Council to a compliant reporting schedule, has also been explained to you and that the Office of Local Government (OLG) has adequately briefed you on the causes for the delay in completing the financial reporting.

It is important to note that Council and the Audit Office of NSW (AO) has in recent weeks been seeking advice from the OLG on how to deal with some of the audit related issues that are unique to our circumstance and have not been experienced elsewhere in the sector. The intent being for the OLG to provide guidance to Council and the AO to reach an acceptable resolution to the audit issues raised and minimise any further unnecessary costs for the ratepayers of Bayside. To date the OLG has not assisted either Council or the AO in this regard, with meeting requests with the OLG Chief Executive being denied to Council.

Council trusts that this submission will persuade you that in Bayside's circumstances, somewhat unique to the other councils who have had a PIO issued, and the transparency and active measures Council has and is taking, that a PIO is not required.

Should you have any questions please contact Council's General Manager, Meredith Wallace, on 0414 980 612.

Yours faithfully

Councillor Bill Saravinovski  
Mayor

Meredith Wallace  
General Manager

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**Telephone Interpreter Services - 131 450**

Τηλεφωνικές Υπηρεσίες Διερμηνέων

بخدمه الترجمة الهاتفية

電話傳譯服務處

Служба за преведување по телефон



## Detailed Submission - Notice of Intention to issue a Performance Improvement Order

### EXECUTIVE SUMMARY

At the outset Council wishes to reassure the Minister that it has always been fully aware of its legislative obligations and continues to make a determined effort to remedy the issues that have challenged the organisation's financial legislative compliance.

Council has been completely open and transparent about the issues it has faced post-merger, and through ongoing discussions with the Audit Office of NSW (AO), the Office of Local Government (OLG), and our Risk & Audit Committee, has rigorously endeavoured to remedy them.

In December 2018 the AO notified Council of its decision to issue an audit disclaimer of opinion for the 2016/17 Financial Statements. At that stage, Council made the very difficult decision to proceed with accepting a second audit disclaimer of opinion on the 2017/18 Financial Statements. This decision was made in order to allow Council officers to focus on remediating the issues causing the audit disclaimers as part of preparing the 2018/19 Financial Statements. This decision was carefully considered as it provided Council a way to prudently move forward and relieve Council of the burden of the legacy issues inherited from the former City of Botany Bay Council. At this stage the Audited financial statements (General Purpose & Special Purpose) for the 2016/17 and 2017/18 financial years were made public and lodged with the OLG.

Council's commitment to getting back on track and delivering the best for our new larger community was evident when Project 2020 was launched in early 2019. The detailed project plan for Project 2020 set the milestones for the organisation to refocus on the future and through deliberate efforts achieve the sole goal of remediating the Audit Disclaimer as part of finalising the 2018/19 Financial Statements. The project plan was presented to both the Auditor General from the AO and representatives from the OLG, receiving endorsement from both as the most efficient and practical way forward.

The combined additional cost to date since amalgamation incurred by the Bayside ratepayers for remediating the issues inherited as a consequence of the maladministration at the former City of Botany Bay is in the order of \$4.5 million. This includes responding to the ICAC findings, and magnitude of issues identified by the AO. Bayside Council has incurred these significant costs through engaging legal, audit and technical expertise. These extraordinary costs are set to continue until we can resolve all issues before us.

To date there have been many successes from this concerted effort which has put Council in the position of being confident in our ability to be able to meet the statutory deadlines for lodgement of the 2018/19 Financial Statements with the OLG by 31 October 2019. We are continuing to refine our processes and systems and believe that in the future, Bayside Council will be regarded as a leader in financial management and governance by the sector.

Council contends that our ongoing honesty and transparency, along with the considerable effort and cost to bring our records up to compliance, shows that we are in fact functioning effectively. We have been taking these issues very seriously and have prioritised the importance of returning sound financial management to the organisation. Something which we are proud is well and truly advanced at this point in time compared to what was handed over to the new administration at the time of amalgamation in September 2016. This has been achieved with no additional support or funding from the State Government.

To this end, Council believes that there would be no benefit obtained by the Minister issuing a Performance Improvement Order (PIO), when Council and the AO are currently working vigorously together to lodge the completed audited statements as quickly as possible. The critical elements of the financial reports for 2016/17 and 2017/18 have been audited and lodged with the OLG. To complete Council's statutory reporting obligations, lodgement of the Special Schedules (including audited Permissible Income Returns) to the financial reports for both periods in question is required.

In attempts to address the underlying issues resulting in the draft PIO being issued, Council sought a meeting on 18 September 2019 with the Chief Executive from the OLG and AO. Unfortunately the OLG declined in no uncertain terms attendance at this meeting, offering no advice on the issues.

The purpose of this meeting was for the AO and Council to clarify the consequence of the AO issuing an audit disclaimer of opinion for at least one of the two outstanding Permissible Income Returns (PIR).

In summary, the course of action we have and are taking is as follows:

1. We have requested the AO to refer the draft audit reports for the outstanding PIRs to the Audit Office of NSW Technical Issues Committee without any delay.
2. The AO has advised this will occur by no later than Wednesday 25 September 2019.
3. Subject to the review by the Audit Office of NSW Technical Issues Committee, the audit reports for the outstanding PIRs will be provided to Council. This is anticipated to be before the end of September 2019.
4. Following receipt of the audit reports in point 3 above, the outstanding schedules for the 2016/17 and 2017/18 financial reports will be submitted to the OLG. This is also anticipated to be completed before the end of September 2019.

As evidence that these actions are in progress, we have attached to this submission a copy of the outstanding documents required for completion of the 2016/17 and 2017/18 financial reports being:

- 2016/17 Special Schedules (including Permissible Income Returns excluding the audit opinions)
- 2017/18 Special Schedules (including Permissible Income Returns excluding the audit opinions)

In deciding to take this course of action, Council and the AO are satisfied that its remedial work as evidenced in the 2018/19 Permissible Income Return has resolved the previous legacy issues and has a robust framework to meet our legislative and audit requirements into the future.

The alternate course of action to that outlined above would require a 100% audit of our rateable properties (in excess of 60,000), which would likely take between 3 to 6 months and cost in excess of \$250,000. This is not considered to be the best use of ratepayer's funds.

Based on our detailed submission, we believe and maintain there is no basis for the draft PIO to be formally issued.

## BACKGROUND

The following table is a summary of the status of the various elements which make up the financial reports for each financial year in question.

Documents	2016/17	2017/18
General Purpose Financial Statements & Audit Report	✓ Lodged	✓ Lodged
Special Purpose Financial Statements & Audit Report	✓ Lodged	✓ N/A
Special Schedules [except Permissible Income Return (PIR)]	Completed awaiting PIR	Completed awaiting PIR
Permissible Income Return	Submitted to AO	Submitted AO

Council's ability to lodge complete audited financial reports for the two years in questions is reliant on the AO completing their audit of the 'Permissible Income Returns' for the 2016/17 and 2017/18 financial reports.

### 2016/17 Financial Reports

Audited Bayside Council 2016/17 General Purpose and Special Purpose Financial Reports were lodged with the OLG on 26 February 2019. At that time, the OLG was advised that Council was in the process of finalising the Permissible Income Return for the Special Schedules and once completed the PIRs would be provided for audit and then the Special Schedules would be lodged.

### 2017/18 Financial Reports

Council applied and received an extension to lodge its 2017/18 financial reports by 31 May 2019. Council lodged its audited 2017/18 general purpose financial reports with the OLG on 5 June 2019. The OLG was advised on lodgement that the audit of the outstanding Permissible Income Return was in progress and once completed the Special Schedules would be lodged with the OLG. It should be noted that Council had resolved that as the Airport Business Unit was a discontinued operation it would not prepare 2017/18 Special Purpose Financial Reports.

Council contends that the critical elements of Council's financial reports for 2016/17 and 2017/18 have been audited and lodged. To complete Council's statutory reporting obligations it is required to lodge Special Schedules (that include audited PIRs) for both periods.

### Audit Dilemma - The Local Government Act

It appears that the Local Government Act is not clear as to the consequence of a disclaimer of audit opinion on a Permissible Income Return, which is the most likely outcome for the 2016/17 financial reports. The AO has met with the OLG to seek clarification of the consequence of the Permissible Income Return for the 2016/17 financial reports being disclaimed, however the AO is still no clearer on their concerns.

Following discussions between Council and the AO on 10 September 2019, it was agreed that representatives of Council and the AO would seek to arrange a further meeting with the OLG Chief Executive to clarify the legislative consequence of the preferred approach. This meeting request was declined by the OLG Chief Executive.

If the OLG were to advise on the legislative consequences of a disclaimed audit opinion on PIRs, it would allow the AO and Council to take the current course of action on an informed basis.

### Permissible Income Returns

Council has previously provided all the available information to the AO to enable them to form an audit opinion. As explained above, the dilemma for the AO appears to be more about the legislative interpretation of the Local Government Act and the uncertainty about what the consequence would be if a disclaimer of opinion were issued on a Permissible Income Return.

The Permissible Income Returns (PIR) are the auditable part of the Special Schedules and in a normal course of audit the supporting documentation is typically:

- Copy of the completed return;
- Valuer Generals Report as at 30 June and associated reconciliation;
- Copy of Council report for making the rates; and
- Rate Levy / Prediction Report.

These were provided to the AO for both financial reporting periods on 7 May 2019.

In Council's opinion the PIRs for each year are materially correct and reflect that the Permissible Income was generated accurately.

#### 2016/17 PIRs

In order to complete its PIR for 2016/17, Council was required to complete significant reviews of the former City of Botany Bay property system to prepare the returns for audit and Council resources were focused on the priority of completing the General Purpose Financial Reports.

Council has requested the AO to issue their audit opinion based on the information and audit work undertaken to date for this PIR. The AO has indicated, for this PIR an audit disclaimer of opinion will most likely be issued. This audit opinion is expected to be available before the end of September 2019.

This decision has been made on the basis that the likely issuance of an audit disclaimer of opinion for this period has no impact on the financial position of Council or the financial reports completed and presented for audit. This is also based on discussions with the AO, who have confirmed that they believe it would be an unnecessary extra expense to incur the additional audit fees for no material benefit. To complete a satisfactory audit of the PIR for this period, the AO would most likely need to undertake a 100% audit of the rateable assessments. This is equivalent to in excess of 60,000 rateable properties and would take at least 3 to 6 months at an estimated cost of more than \$250,000.

#### 2017/18 PIRs

The audits of the Permissible Income Return to accompany the 2017/18 financial reports has included substantive testing of the data in the Land Information System and Council has provided responses to all audit queries. The AO has indicated that they have completed all required audit processes and subject to a review by the AO technical issues committee, could issue an unmodified audit report.

Council has requested the AO to issue their audit opinion based on the information and audit work undertaken to date for this PIR. The AO has indicated, for this PIR an unmodified (unqualified) audit opinion will most likely be issued. This audit opinion is expected to be available before the end of September 2019.

#### Future PIRs

Council has made all efforts to return to compliance and has now provided all documentation required for audit to the AO. For both 2016/17 and 2017/18 the rating levy was generated under two land information systems as a legacy of the merger.

One of Council's many harmonisation projects was to consolidate to a single Land Information System and this was completed in April 2018. Therefore as a result, and in stark contrast to previous years, the AO has undertaken a detailed audit of the 2018/19 return as it's the most recent return which was completed on one Land Information System.

This should provide the Minister confidence that Council has made concerted efforts to remedy a significant previous issue in the finalisation of future financial reports.

**Other pro-active action Council has already taken - Project 2020**

Council recognised the imperative to direct significant effort and resources to bring Council in compliance for the 2018/19 and 2019/20 financial reports and initiated Project 2020.

The resources allocated to Project 2020 include:

- Dedicated internal resources, removed from day to day activities;
- External Consultants - Infrastructure Assets, Accounting Services, Financial Modelling experts;
- Inventory and Revaluation of Open Space / Recreation Asset Class; and
- External Project Manager.

Council briefed both the AO (in February 2019) and the OLG (in March 2019) on this project (copy of the presentation included) and has kept them up-to-date on progress. Project 2020 is a standing agenda item for the Risk and Audit Committee (of which AO attends and the OLG has a standing invitation) and the Executive Committee of Council is updated originally fortnightly, now weekly, on its progress.

This detailed action plan runs over a number of financial years with a target of transition to a qualified audit opinion for the 2018/19 financial reports and a clear audit for 2019/20.

Improvements that already exist in the 2018/19 financial year

- Controls (system based) of journal postings;
- One payroll system (iChris);
- Harmonised employee award and salary structure;
- One rates debtor management system (Pathway);
- Civica integrated with TechnologyOne;
- Majority of revenue generated in one core revenue system (Pathway);
- Established a monthly financial reporting and reconciliation framework;
- Implemented a new budgeting system for monthly and quarterly budget reviews;
- Completed majority of ICAC actions with 4 outstanding actions significantly progressed;
- Delivered financial management training to all Managers;
- Engaged experience staff and contractors in finance to support the change and improvement program;
- Improved IT controls (user access, segregation of duties, system workflows);
- Implemented strong controls and monitoring for procurement;
- Established a new Business Improvement Unit in 2018/19 for continuous service improvements across the organisation;
- Adopted and implemented 18 new core Business Process and Controls; and
- Standardised financial management KPI's are mandatory in Manager's work plans.

It is important to note that the Risk & Audit Committee raised concerns about staff wellbeing, due to the highly pressurised environment and the required workloads over extended periods of time to meet the Project 2020 action plan objectives on top of business as usual and the finalisation of projects resulting from the merger. Council is monitoring this area and has engaged external assistance where appropriate.

When considering Council's effective functioning, the Minister should also take into account the other achievements to date, including:

- Established an effective internal audit function and independent Risk & Audit Committee (2017).
- Harmonised to one Land Information Management System (April 2018).
- Harmonised to one Financial Management System (Procurement & Expenditure - June 2017).
- Harmonised to one Financial Management System (Revenue - July 2018).
- Harmonised to one payroll system (July 2018).
- Harmonised employment conditions (July 2018).
- Harmonised key policies.
- Harmonised electronic document management systems (November 2018).
- Completed majority of ICAC actions for former City of Botany Bay Council (December 2018).

- Established robust business process & control framework based on risk profile (December 2018).
- Implemented a new budgeting system for monthly and quarterly budget reviews (July 2018).
- Migrated regulatory functions to one core system (May 2019).
- Implemented new IP&R and Risk Management software (January 2019).
- Implemented financial and IT control framework addressing audit issues (in-progress).
- Migrated IT infrastructure to GovDC (95% complete).

The Minister should also be reassured that Council has implemented substantial improvements and continues to reform systems, processes and business control frameworks. As previously stated to the former Minister, with this effort, Council is confident that in the future Bayside Council will be regarded as a leader in financial management and governance by the sector.

#### **Unique Circumstances - Legacy Costs**

The Minister should note that in responding to the ICAC findings, and magnitude of issues identified by the AO, Bayside Council has incurred significant additional costs including legal, audit and technical expertise. The combined cost to date for Bayside ratepayers is in the order of \$4.5 million and this is expected to continue to increase over the next 12 months as we complete Council's transition back to compliance.

The total audit fees for the first 3 years since Bayside was formed will exceed \$2 million. The previous Minister was made aware of the significant cost Bayside Council has paid the AO. This value includes the final audit of the former City of Botany Bay Council. Council has included an estimated audit costs of approximately \$500,000 for the 2018/19 audit.

In addition, Council has spent in the order of \$2.5 million on consulting and technical support to remediate the inherited legacy issues

The ingrained lack of process and controls at the former City of Botany Bay Council, that were inherited as part of the amalgamation to create Bayside Council, has significantly impacted our ability to prepare auditable financial statements. Due to these failings, the new Council has, and continues to experience, far more scrutiny by the AO than any other council in NSW and are being asked to achieve an audit standard that has not yet been applied elsewhere in this state. This has, as a consequence, created a far greater cost for us to bear in establishing the robust governance, procurement and financial reform required.

Council is strong in its belief that the findings of the ICAC investigation, in the absence of the amalgamation, would have required the NSW State Government to appoint a financial controller to manage the City of Botany Bay Council for effective and sustainable change to occur. This cost would have therefore been borne by the NSW State Government. Bayside Council has taken on that responsibility with no additional financial support being provided.

These expenses are over and above what other amalgamated councils have had to spend to implement the NSW Local Government Reform program. The costs have also been exacerbated by Bayside Council being proclaimed 4 months after all other mergers, giving it less time to meet the deadlines set by the Department of Premier & Cabinet and requiring us to buy-in technical expertise to implement change at a faster rate.

While Council has previously reached out to the State Government for much needed financial support to help remove this financial burden on Council's ratepayers by agreeing to fund the total additional costs incurred by Bayside to remedy the legacy of issues Council inherited, it was rejected. This financial support would have been used specifically for the additional costs incurred as part of remedying the significant failings of management at the former City of Botany Bay Council.

Notwithstanding, Council has continued to manage its responsibilities effectively and within its budgetary constraints.



**Strengthening the Internal Audit Function**

The new Council recognised the importance of a robust internal audit function and independent Risk & Audit Committee, so much so it was one of the first things addressed by the new Council at its first ordinary meeting.

Council is committed to ensuring this critical element of good governance is functioning well and is resourced sufficiently to meet its responsibilities. As such Council has in place an Internal Auditor and has provided a significant budget increase to fund an effective internal audit program. The independent Committee meets regularly and is apprised of the significant issues facing Council.

Supporting this the Chair of the Risk and Audit Committee has issued the attached letter to the Mayor in response to the receipt on the Notice of Intention to issue a PIO. This letter attests to the progress and efforts that have been made to remediate the enormity of the issues being managed by Council.

To support Council's good governance processes, Council has a strong commitment to risk management as evidenced recently by an independent audit supported by a sound Risk Management Policy and Strategy. Council since early 2019 has implemented a new risk management system providing Council and the Risk & Audit Committee with regular reports on Council's strategic and operational risks and treatments.

**Conclusion**

In summary Council addresses the Minister's reasons for the Notice as follows:

1. *A failure to lodge completed set of its audited financial reports within the required timeframes.*

For all intents and purposes the critical elements of Council's financial reports for 2016/17 and 2017/18 have been audited and lodged with the OLG. To complete Council's statutory obligations it is required to lodge audited PIRs for both periods. These have been with the AO for some time. Council has requested the AO to finalise the audit opinions for both financial years regardless of the opinion. This will enable Council to finalise lodgement of the 2016/17 and 2017/18 financial reports before the end of September 2019.

2. *A failure to prepare audited financial reports within the statutory period on two occasions means that Council is not functioning effectively.*

The reasons for the delay in lodging audited financial reports has been detailed above. Having regard to the circumstances of Council's case it does not simply lead to the conclusion that Council is not functioning effectively.

3. *A failure to meet financial reporting obligations in two consecutive financial years raises serious concerns about its ability to manage and minimise risks management and provide transparency and confidence to the community.*

Council has openly communicated to the State Government, AO, Risk & Audit Committee and its community on the issues facing Council and the steps it has in place to remedy past legacies. It has been transparent in its dealings at all levels.

Project 2020 addresses compliance for ongoing years and the audit of the 2018/19 Permissible Income Return should provide further confidence that the legacy issues plaguing the newly merged council have been resolved.

On this evidence Council would strenuously argue that the Minister has no basis to form the view that there are significant risks facing council that are not being addressed. In fact all the evidence leads to the conclusion that Council is well aware of the risks, has developed sound mitigation to reduce those risks and actively monitors and reports on them demonstrating good governance and duty of care.

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## Bayside Council

SPECIAL SCHEDULES  
for the year ended 30 June 2018

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## Bayside Council

Special Schedules  
for the year ended 30 June 2018

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<sup>1</sup> Special Schedules are not audited (with the exception of Special Schedule 2).

**Background**

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
- the NSW Grants Commission
  - the Australian Bureau of Statistics (ABS),
  - the NSW Office of Water (NOW), and
  - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
- the allocation of Financial Assistance Grants,
  - the incorporation of Local Government financial figures in national statistics,
  - the monitoring of loan approvals,
  - the allocation of borrowing rights, and
  - the monitoring of the financial activities of specific services.

Special Schedules 2018

## Bayside Council

Special Schedule 1 – Net Cost of Services  
for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
<b>Governance</b>	<b>1,542</b>	<b>5</b>	<b>–</b>	<b>(1,537)</b>
<b>Administration</b>	<b>78,865</b>	<b>29,599</b>	<b>48,445</b>	<b>(821)</b>
<b>Public order and safety</b>				
Fire service levy, fire protection, emergency services	–	–	–	–
Beach control	252	4	–	(248)
Enforcement of local government regulations	4,318	4,845	–	527
Animal control	208	126	–	(82)
Other	1,665	1,728	–	63
<b>Total public order and safety</b>	<b>6,443</b>	<b>6,703</b>	<b>–</b>	<b>260</b>
<b>Health</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Environment</b>				
Noxious plants and insect/vermin control	6	5	–	(1)
Other environmental protection	1,089	110	67	(912)
Solid waste management	24,902	28,904	–	4,002
Street cleaning	3,327	9	–	(3,318)
Drainage	505	–	633	128
Stormwater management	16	–	–	(16)
<b>Total environment</b>	<b>29,845</b>	<b>29,028</b>	<b>700</b>	<b>(117)</b>
<b>Community services and education</b>				
Administration and education	–	–	–	–
Social protection (welfare)	–	–	–	–
Aged persons and disabled	568	436	–	(132)
Children's services	3,486	4,176	139	829
<b>Total community services and education</b>	<b>4,054</b>	<b>4,612</b>	<b>139</b>	<b>697</b>
<b>Housing and community amenities</b>				
Public cemeteries	–	–	–	–
Public conveniences	34	–	–	(34)
Street lighting	1,012	–	–	(1,012)
Town planning	5,472	2,759	5,816	3,103
Other community amenities	–	80	–	80
<b>Total housing and community amenities</b>	<b>6,518</b>	<b>2,839</b>	<b>5,816</b>	<b>2,137</b>
<b>Water supplies</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Sewerage services</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

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Special Schedules 2018

## Bayside Council

Special Schedule 1 – Net Cost of Services (continued)  
for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
<b>Recreation and culture</b>				
Public libraries	4,224	410	–	(3,814)
Museums	1	–	–	(1)
Art galleries	–	–	–	–
Community centres and halls	482	138	38	(306)
Performing arts venues	–	–	–	–
Other performing arts	–	–	–	–
Other cultural services	54	–	–	(54)
Sporting grounds and venues	1,724	55	7,791	6,122
Swimming pools	1,415	403	39	(973)
Parks and gardens (lakes)	13,228	83	2,727	(10,418)
Other sport and recreation	339	557	–	218
<b>Total recreation and culture</b>	<b>21,467</b>	<b>1,646</b>	<b>10,595</b>	<b>(9,226)</b>
<b>Fuel and energy</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Agriculture</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Mining, manufacturing and construction</b>				
Building control	–	–	–	–
Other mining, manufacturing and construction	–	–	–	–
<b>Total mining, manufacturing and const.</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Transport and communication</b>				
Urban roads (UR) – local	5,858	2,137	243	(3,478)
Urban roads – regional	45	–	–	(45)
Sealed rural roads (SRR) – local	–	–	–	–
Sealed rural roads (SRR) – regional	–	–	–	–
Unsealed rural roads (URR) – local	–	–	–	–
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	–	–	–	–
Bridges on SRR – local	–	–	–	–
Bridges on URR – local	–	–	–	–
Bridges on regional roads	–	–	–	–
Parking areas	140	–	–	(140)
Footpaths	155	–	23	(132)
Aerodromes	5,902	5,832	–	(70)
Other transport and communication	791	353	328	(110)
<b>Total transport and communication</b>	<b>12,891</b>	<b>8,322</b>	<b>594</b>	<b>(3,975)</b>
<b>Economic affairs</b>				
Camping areas and caravan parks	–	–	–	–
Other economic affairs	190	63	–	(127)
<b>Total economic affairs</b>	<b>190</b>	<b>63</b>	<b>–</b>	<b>(127)</b>
<b>Totals – functions</b>	<b>161,815</b>	<b>82,817</b>	<b>66,289</b>	<b>(12,709)</b>
<b>General purpose revenues <sup>(1)</sup></b>		<b>81,039</b>		<b>81,039</b>
<b>Share of interests – joint ventures and associates using the equity method</b>	<b>–</b>	<b>667</b>		<b>667</b>
<b>NET OPERATING RESULT <sup>(2)</sup></b>	<b>161,815</b>	<b>164,523</b>	<b>66,289</b>	<b>68,997</b>

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges (2) As reported in the Income Statement

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Special Schedules 2018

## Bayside Council

Special Schedule 2 – Permissible income for general rates  
for the year ended 30 June 2019

\$'000		2018/19	2018/19	2018/19	2017/18	2017/18	2017/18
		Former Rockdale City Council	Former Botany City Council	Bayside Council	Former Rockdale City Council	Former Botany City Council	Bayside Council
<b>Notional general income calculation <sup>(1)</sup></b>							
Last year notional general income yield	a	56,188	28,997	85,185	51,975	28,109	80,084
Plus or minus adjustments <sup>(2)</sup>	b	336	(113)	223	970	570	1,540
<b>Notional general income</b>	c = (a + b)	<b>56,524</b>	<b>28,884</b>	<b>85,408</b>	<b>52,945</b>	<b>28,679</b>	<b>81,624</b>
<b>Permissible income calculation</b>							
Special variation percentage <sup>(3)</sup>	d	0.00%	0.00%		6.00%	0.00%	
Or rate peg percentage	e	2.30%	2.30%		1.50%	1.50%	
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%		0.00%	0.00%	
Less expiring special variation amount	g	—	—	—	—	—	—
Plus special variation amount	h = d x (c - g)	—	—	—	3,177	—	3,177
Or plus rate peg amount	i = c x e	1,300	664	1,964	—	430	430
Or plus Crown land adjustment and rate peg amount	j = c x f	—	—	—	—	—	—
<b>Sub-total</b>	k = (c + g + h + i + j)	<b>57,824</b>	<b>29,548</b>	<b>87,372</b>	<b>56,122</b>	<b>29,109</b>	<b>85,231</b>
Plus (or minus) last year's carry forward total	l	(66)	106	40	—	(7)	(7)
Less valuation objections claimed in the previous year	m	—	—	—	—	—	—
<b>Sub-total</b>	n = (l + m)	<b>(66)</b>	<b>106</b>	<b>40</b>	<b>—</b>	<b>(7)</b>	<b>(7)</b>
<b>Total permissible income</b>	o = k + n	<b>57,758</b>	<b>29,654</b>	<b>87,412</b>	<b>56,122</b>	<b>29,102</b>	<b>85,224</b>
Less notional general income yield	p	57,703	29,398	87,101	56,188	28,997	85,185
<b>Catch-up or (excess) result</b>	q = o - p	<b>55</b>	<b>256</b>	<b>311</b>	<b>(66)</b>	<b>105</b>	<b>39</b>
Plus income lost due to valuation objections claimed <sup>(4)</sup>	r	—	—	—	—	—	—
Less unused catch-up <sup>(5)</sup>	s	—	—	—	—	—	—
<b>Carry forward to next year</b>	t = q + r - s	<b>55</b>	<b>256</b>	<b>311</b>	<b>(66)</b>	<b>105</b>	<b>39</b>

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## Bayside Council

Special Schedule 2 – Permissible income for general rates (continued)  
for the year ended 30 June 2019**Notes**

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual account which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the Valuation of Land Act 1916.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils claim the value of the income lost due to valuation objections in any single year.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a return (FDR) to administer this process.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the NSW Government Gazette in accordance with section 512 of the Local Government Act 1993. The OLG will extract these amounts from Council's Special Schedule 2 in the financial data return (FDR) to administer this process.

Special Schedules 2018

Bayside Council

Special Schedule 2 – Independent Auditors Report  
for the year ended 30 June 2019

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**Report on Special Schedule 2**

Insert here signed Independent Auditors Report

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Special Schedules 2018

## Bayside Council

## Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2017/18 Required maintenance <sup>a</sup>	2017/18 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings	2,507	17,013	3,677	3,063	170,876	238,782	33%	34%	27%	6%	0%
	<b>Sub-total</b>	<b>2,507</b>	<b>17,013</b>	<b>3,677</b>	<b>3,063</b>	<b>170,876</b>	<b>238,782</b>	<b>33.0%</b>	<b>34.0%</b>	<b>27.0%</b>	<b>6.0%</b>	<b>0.0%</b>
Other structures	Other structures	1,039	4,525	1,842	1,469	36,501	52,616	19%	48%	24%	8%	1%
	<b>Sub-total</b>	<b>1,039</b>	<b>4,525</b>	<b>1,842</b>	<b>1,469</b>	<b>36,501</b>	<b>52,616</b>	<b>19.0%</b>	<b>48.0%</b>	<b>24.0%</b>	<b>8.0%</b>	<b>1.0%</b>
Roads	Sealed roads & Other Road Assets	3,411	16,571	2,681	3,046	359,278	487,375	41%	36%	19%	4%	0%
	Bridges	68	402	32	–	6,969	7,992	49%	50%	0%	0%	2%
	Footpaths	1,217	6,607	1,639	1,343	54,417	99,355	4%	13%	76%	7%	0%
	Bulk earthworks	–	–	–	–	62,930	62,930	100%	–	–	–	0%
	<b>Sub-total</b>	<b>4,696</b>	<b>23,280</b>	<b>4,352</b>	<b>4,389</b>	<b>483,594</b>	<b>657,652</b>	<b>41.2%</b>	<b>29.2%</b>	<b>25.6%</b>	<b>4.0%</b>	<b>0.0%</b>

Special Schedules 2018

## Bayside Council

## Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018 (continued)

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2017/18 Required maintenance <sup>a</sup>	2017/18 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Stormwater drainage	1,049	3,219	434	591	85,199	139,935	4%	36%	58%	1%	1%
	Sub-total	1,049	3,219	434	591	85,199	139,935	4.0%	36.0%	58.0%	1.0%	1.0%
Open space/recreational assets	Swimming pools	257	634	53	76	6,392	6,856	70%	5%	10%	5%	5%
	Other					–	–					
	Sub-total	257	634	53	76	6,392	6,856	70.0%	5.0%	10.0%	5.0%	5.0%
	TOTAL – ALL ASSETS	9,548	48,671	10,358	9,588	782,562	1,095,841	33.7%	31.9%	29.8%	4.3%	0.2%

## Notes:

<sup>a</sup> Required maintenance is the amount identified in Council's asset management plans.

## Infrastructure asset condition assessment 'key'

1	Excellent/very good	No work required (normal maintenance)
2	Good	Only minor maintenance work required
3	Satisfactory	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

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## Bayside Council

Special Schedule 7 – Report on Infrastructure Assets (continued)  
for the year ended 30 June 2018

	Amounts 2018	Indicator 2018	Indicator 2017	Benchmark
<b>Infrastructure asset performance indicators * consolidated</b>				
<b>1. Buildings and infrastructure renewals ratio <sup>(1)</sup></b>				
Asset renewals <sup>(2)</sup>	7,339	43.65%	128.00%	>= 100%
Depreciation, amortisation and impairment	16,814			
<b>2. Infrastructure backlog ratio <sup>(1)</sup></b>				
Estimated cost to bring assets to a satisfactory standard	9,548	1.19%	1.26%	< 2.00%
Net carrying amount of infrastructure assets	804,080			
<b>3. Asset maintenance ratio</b>				
Actual asset maintenance	9,588	92.56%	66.00%	> 100%
Required asset maintenance	10,368			
<b>4. Cost to bring assets to agreed service level</b>				
Estimated cost to bring assets to an agreed service level set by Council	48,671	4.44%	4.20%	
Gross replacement cost	1,095,841			

## Notes

\* All asset performance indicators are calculated using the asset classes identified in the previous table.

<sup>(1)</sup> Excludes Work In Progress (WIP)

<sup>(2)</sup> Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity / performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

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## Bayside Council

SPECIAL SCHEDULES  
for the period 10 Sep 2016 to 30 June 2017

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## Bayside Council

### Special Schedules

for the period 10 Sep 2016 to 30 June 2017

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<sup>1</sup> Special Schedules are not audited (with the exception of Special Schedule 8).

#### Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
- the NSW Grants Commission
  - the Australian Bureau of Statistics (ABS),
  - the NSW Office of Water (NOW), and
  - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
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  - the incorporation of Local Government financial figures in national statistics,
  - the monitoring of loan approvals,
  - the allocation of borrowing rights, and
  - the monitoring of the financial activities of specific services.

Special Schedules 2017

## Bayside Council

Special Schedule 1 – Net Cost of Services  
for the period 10 Sep 2016 to 30 June 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
<b>Governance</b>	<b>5,470</b>	<b>–</b>	<b>–</b>	<b>(5,470)</b>
<b>Administration</b>	<b>29,545</b>	<b>15,325</b>	<b>762</b>	<b>(13,458)</b>
<b>Public order and safety</b>				
Fire service levy, fire protection, emergency services	370	–	–	(370)
Beach control	373	–	70	(303)
Enforcement of local government regulations	2,021	2,832	–	811
Animal control	785	112	–	(673)
Other	1,503	1,020	–	(483)
<b>Total public order and safety</b>	<b>5,052</b>	<b>3,964</b>	<b>70</b>	<b>(1,018)</b>
<b>Health</b>	<b>717</b>	<b>739</b>	<b>–</b>	<b>22</b>
<b>Environment</b>				
Noxious plants and insect/vermin control	–	–	–	–
Other environmental protection	4,956	153	285	(4,518)
Solid waste management	20,301	20,620	–	319
Street cleaning	2,525	–	–	(2,525)
Drainage	416	(11)	–	(427)
Stormwater management	–	–	–	–
<b>Total environment</b>	<b>28,198</b>	<b>20,762</b>	<b>285</b>	<b>(7,151)</b>
<b>Community services and education</b>				
Administration and education	906	53	9,000	8,147
Social protection (welfare)	–	–	–	–
Aged persons and disabled	502	368	–	(134)
Children's services	2,456	2,989	31	564
<b>Total community services and education</b>	<b>3,864</b>	<b>3,410</b>	<b>9,031</b>	<b>8,577</b>
<b>Housing and community amenities</b>				
Public cemeteries	–	–	–	–
Public conveniences	1,726	–	–	(1,726)
Street lighting	2,122	568	121	(1,433)
Town planning	5,515	1,125	–	(4,390)
Other community amenities	–	13	722	735
<b>Total housing and community amenities</b>	<b>9,363</b>	<b>1,706</b>	<b>843</b>	<b>(6,814)</b>

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Special Schedules 2017

## Bayside Council

Special Schedule 1 – Net Cost of Services (continued)  
for the period 10 Sep 2016 to 30 June 2017

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
<b>Recreation and culture</b>				
Public libraries	3,542	473	451	(2,618)
Museums	44	—	—	(44)
Art galleries	—	—	—	—
Community centres and halls	428	196	2,337	2,105
Performing arts venues	—	—	—	—
Other performing arts	—	—	—	—
Other cultural services	104	6	—	(98)
Sporting grounds and venues	1,620	399	—	(1,221)
Swimming pools	9,931	463	311	(9,157)
Parks and gardens (lakes)	5,073	130	21,228	16,285
Other sport and recreation	2,333	607	—	(1,726)
<b>Total recreation and culture</b>	<b>23,075</b>	<b>2,274</b>	<b>24,327</b>	<b>3,526</b>
<b>Fuel and energy</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Agriculture</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Mining, manufacturing and construction</b>				
Building control	—	—	—	—
Other mining, manufacturing and construction	2,382	14,643	—	12,261
<b>Total mining, manufacturing and const.</b>	<b>2,382</b>	<b>14,643</b>	<b>—</b>	<b>12,261</b>
<b>Transport and communication</b>				
Urban roads (UR) – local	4,340	151	3,315	(874)
Urban roads – regional	12	—	—	(12)
Sealed rural roads (SRR) – local	—	—	—	—
Sealed rural roads (SRR) – regional	—	—	—	—
Unsealed rural roads (URR) – local	—	—	—	—
Unsealed rural roads (URR) – regional	—	—	—	—
Bridges on UR – local	—	—	—	—
Bridges on SRR – local	—	—	—	—
Bridges on URR – local	—	—	—	—
Bridges on regional roads	—	—	—	—
Parking areas	125	49	11,878	11,802
Footpaths	2,550	—	24	(2,526)
Aerodromes	4	—	—	(4)
Other transport and communication	320	2,026	1,110	2,816
<b>Total transport and communication</b>	<b>7,351</b>	<b>2,226</b>	<b>16,327</b>	<b>11,202</b>
<b>Economic affairs</b>				
Camping areas and caravan parks	—	—	—	—
Other economic affairs	4,678	4,604	151	77
<b>Total economic affairs</b>	<b>4,678</b>	<b>4,604</b>	<b>151</b>	<b>77</b>
<b>Totals – functions</b>	<b>119,695</b>	<b>69,653</b>	<b>51,796</b>	<b>1,754</b>
<b>General purpose revenues <sup>(1)</sup></b>		<b>8,465</b>		<b>8,465</b>
<b>Share of interests – joint ventures and associates using the equity method</b>	<b>—</b>	<b>560</b>		<b>560</b>
<b>NET OPERATING RESULT <sup>(2)</sup></b>	<b>119,695</b>	<b>78,678</b>	<b>51,796</b>	<b>10,779</b>

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges (2) As reported in the Income Statement

page 3

Special Schedules 2017

## Bayside Council

Special Schedule 2(a) – Statement of Long Term Debt (all purpose)  
for the period 10 Sep 2016 to 30 June 2017

\$'000

Classification of debt	Principal outstanding at beginning of the year (former Councils)			New loans raised during the year	Debt redemption during the year		Transfers to sinking funds	Interest applicable for year	Principal outstanding at the end of the year		
	Current	Non-current	Total		From revenue	Sinking funds			Current	Non-current	Total
<b>Loans (by source)</b>											
Commonwealth Government	–	–	–	–	–	–	–	–	–	–	–
NSW Treasury Corporation	106	506	612	–	150	–	–	–	150	312	462
Other State Government	–	–	–	–	–	–	–	–	–	–	–
Public subscription	–	–	–	–	–	–	–	–	–	–	–
Financial institutions	1,056	5,379	6,435	–	840	–	–	229	951	4,644	5,595
Other	–	–	–	–	–	–	–	–	–	–	–
<b>Total loans</b>	<b>1,162</b>	<b>5,885</b>	<b>7,047</b>	<b>–</b>	<b>990</b>	<b>–</b>	<b>–</b>	<b>229</b>	<b>1,101</b>	<b>4,956</b>	<b>6,057</b>
<b>Other long term debt</b>											
Ratepayers advances	–	–	–	–	–	–	–	–	–	–	–
Government advances	–	–	–	–	–	–	–	–	–	–	–
Finance leases	–	–	–	–	–	–	–	–	–	–	–
Deferred payments	–	–	–	–	–	–	–	–	–	–	–
<b>Total long term debt</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total debt</b>	<b>1,162</b>	<b>5,885</b>	<b>7,047</b>	<b>–</b>	<b>990</b>	<b>–</b>	<b>–</b>	<b>229</b>	<b>1,101</b>	<b>4,956</b>	<b>6,057</b>

Notes: excludes (i) internal loans and (ii) principal inflows/outflows relating to loan re-financing.

This schedule is prepared using the **face value** of debt obligations, rather than **fair value** (which are reported in the GPFS).

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Special Schedules 2017

## Bayside Council

## Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2017

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance <sup>a</sup>	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings – non-specialised	614	3,860	905	265	44,318	70,895	32%	35%	26%	6%	1%
	Buildings – specialised	2,975	12,980	2,926	1,711	121,919	159,562	34%	32%	27%	6%	1%
	<b>Sub-total</b>	<b>3,589</b>	<b>16,840</b>	<b>3,831</b>	<b>1,976</b>	<b>166,237</b>	<b>230,457</b>	<b>33.4%</b>	<b>32.9%</b>	<b>26.7%</b>	<b>6.0%</b>	<b>1.0%</b>
Other structures	Other structures	984	4,480	1,666	653	35,808	52,616	19%	48%	24%	8%	1%
	<b>Sub-total</b>	<b>984</b>	<b>4,480</b>	<b>1,666</b>	<b>653</b>	<b>35,808</b>	<b>52,616</b>	<b>19.0%</b>	<b>48.0%</b>	<b>24.0%</b>	<b>8.0%</b>	<b>1.0%</b>
Roads	Sealed roads & Other Road Assets	2,729	15,249	2,727	2,437	363,058	484,966	41%	36%	19%	4%	0%
	Bridges	–	–	29	–	7,050	7,992	49%	51%	0%	0%	0%
	Footpaths	1,023	5,808	1,333	926	54,440	97,564	4%	13%	76%	7%	0%
	Bulk earthworks	–	–	–	–	61,056	61,056	100%				0%
	<b>Sub-total</b>	<b>3,752</b>	<b>21,057</b>	<b>4,089</b>	<b>3,363</b>	<b>485,604</b>	<b>651,578</b>	<b>41.1%</b>	<b>29.4%</b>	<b>25.5%</b>	<b>4.0%</b>	<b>0.0%</b>

Special Schedules 2017

## Bayside Council

## Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2017 (continued)

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2016/17 Required maintenance <sup>a</sup>	2016/17 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Stormwater drainage	956	2,963	394	514	85,792	138,770	4%	36%	58%	1%	1%
	<b>Sub-total</b>	<b>956</b>	<b>2,963</b>	<b>394</b>	<b>514</b>	<b>85,792</b>	<b>138,770</b>	<b>4.0%</b>	<b>36.0%</b>	<b>58.0%</b>	<b>1.0%</b>	<b>1.0%</b>
Open space/recreational assets	Swimming pools	–	–	64	106	6,174	6,442	70%	5%	5%	5%	15%
	<b>Sub-total</b>	<b>–</b>	<b>–</b>	<b>64</b>	<b>106</b>	<b>6,174</b>	<b>6,442</b>	<b>70.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>15.0%</b>
<b>TOTAL – ALL ASSETS</b>		<b>9,281</b>	<b>45,340</b>	<b>10,044</b>	<b>6,612</b>	<b>779,615</b>	<b>1,079,863</b>	<b>33.8%</b>	<b>31.7%</b>	<b>29.7%</b>	<b>4.3%</b>	<b>0.5%</b>

## Notes:

<sup>a</sup> Required maintenance is the amount identified in Council's asset management plans.

## Infrastructure asset condition assessment 'key'

1	<b>Excellent</b>	No work required (normal maintenance)
2	<b>Good</b>	Only minor maintenance work required
3	<b>Average</b>	Maintenance work required
4	<b>Poor</b>	Renewal required
5	<b>Very poor</b>	Urgent renewal/upgrading required

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Special Schedules 2017

## Bayside Council

Special Schedule 7 – Report on Infrastructure Assets (continued)  
for the period 10 Sep 2016 to 30 June 2017

\$ '000	Amounts 2017	Indicator 2017
Infrastructure asset performance indicators * consolidated		
1. Infrastructure renewals ratio		
Asset renewals <sup>(1)</sup>	16,772	128.00%
Depreciation, amortisation and impairment	13,103	
2. Infrastructure backlog ratio		
Estimated cost to bring assets to a satisfactory standard	9,281	1.26%
Net carrying amount of infrastructure assets	738,345	
3. Asset maintenance ratio		
Actual asset maintenance	6,612	0.66
Required asset maintenance	10,044	
4. Cost to bring assets to agreed service level		
Estimated cost to bring assets to an agreed service level set by Council	45,340	4.20%
Gross replacement cost	1,079,863	

## Notes

\* All asset performance indicators are calculated using the asset classes identified in the previous table.

<sup>(1)</sup> Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Special Schedules 2017

## Bayside Council

Special Schedule 8 – Permissible Income Calculation  
for the year ended 30 June 2018

		Calculation 2017/18	Calculation 2017/18	Calculation 2017/18
		Former Rockdale City Council	Former Botany City Council	Total
<b>Notional general income calculation <sup>(1)</sup></b>				
Last year notional general income yield	a	51,975	28,109	80,084
Plus or minus adjustments <sup>(2)</sup>	b	970	570	1,540
<b>Notional general income</b>	$c = (a + b)$	<b>52,945</b>	<b>28,679</b>	<b>81,624</b>
<b>Permissible income calculation</b>				
Special variation percentage <sup>(3)</sup>	d	6.00%	0.00%	
Or rate peg percentage	e	1.50%	1.50%	
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%	
Less expiring special variation amount	g	–	–	–
Plus special variation amount	$h = d \times (c - g)$	3,177	–	3,177
Or plus rate peg amount	$i = c \times e$	–	430	430
Or plus Crown land adjustment and rate peg amount	$j = c \times f$	–	–	–
<b>Sub-total</b>	$k = (c + g + h + i + j)$	<b>56,122</b>	<b>29,109</b>	<b>85,231</b>
Plus (or minus) last year's carry forward total	l	–	(7)	(7)
Less valuation objections claimed in the previous year	m	–	–	–
<b>Sub-total</b>	$n = (l + m)$	<b>–</b>	<b>(7)</b>	<b>(7)</b>
<b>Total permissible income</b>	$o = k + n$	<b>56,122</b>	<b>29,102</b>	<b>85,224</b>
Less notional general income yield	p	56,188	28,997	85,185
<b>Catch-up or (excess) result</b>	$q = o - p$	<b>(66)</b>	<b>105</b>	<b>39</b>
Plus income lost due to valuation objections claimed <sup>(4)</sup>	r	–	–	–
Less unused catch-up <sup>(5)</sup>	s	–	–	–
<b>Carry forward to next year</b>	$t = q + r - s$	<b>(66)</b>	<b>105</b>	<b>39</b>

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## Bayside Council

Special Schedule 8 – Permissible Income Calculation (continued)  
for the year ended 30 June 2018

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\$'000

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**Notes**

- (1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.
- (2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the *Valuation of Land Act 1916*.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a nominal carry forward figure. These amounts can be adjusted for in setting the rates in a future year.
- (6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the NSW Government Gazette in accordance with section 512 of the *Local Government Act 1993*. The OLG will extract these amounts from Council's Special Schedule 8 in the financial data return (FDR) to administer this process.

## Bayside Council

### Special Schedule 8 – Independent Auditors Report for the year ended 30 June 2018

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#### Report on Special Schedule 8

We have audited the accompanying special purpose financial statement comprising the reconciliation of total permissible general income (Special Schedule 8) of Bayside Council for the year ending 30 June 2018.

#### Responsibility of Council for Special Schedule 8

The Council is responsible for the preparation and fair presentation of Special Schedule 8 in accordance with the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) Update No. 23. This responsibility includes the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Special Schedule 8 that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditors' responsibility

Our responsibility is to express an opinion on Special Schedule 8 based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether Special Schedule 8 is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in Special Schedule 8. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of Special Schedule 8, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of Special Schedule 8.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

In making our risk assessments, we consider internal controls relevant to the entity's preparation of Special Schedule 8 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

**Audit opinion**

In our opinion, Special Schedule 8 of Bayside Council for 2017/18 is properly drawn up in accordance with the requirements of the Office of Local Government and in accordance with the books and records of the Council.

**Basis of accounting**

Without modifying our opinion, we advise that this schedule has been prepared for distribution to the Office of Local Government for the purposes of confirming that Council's reconciliation of Council's total permissible general income is presented fairly. As a result, the schedule may not be suitable for another purpose.

FIRM NAME

\_\_\_\_\_  
Partner Name here...

**Partner**

Dated at Sydney this XXth day of XXXXXXXX, 2017



# Project 2020

## 2017/18 & 2018/19 Financial Statements (Remediation of Audit Disclaimer)



OFFICE OF LOCAL GOVERNMENT – 21 MARCH 2019



## Why are we here?



- ▶ **Audit Office support for our 'Project 2020', specifically:**
  - ▶ 2017/18 Financial Statements prepared on basis of Disclaimer of Opinion;
  - ▶ Reduced 2017/18 audit program:
    - ▶ focus only on identified items being actioned; and
    - ▶ to minimise audit cost.
  - ▶ 2017/18 Audit Report finalised by end of April/mid May 2019;
  - ▶ 2018/19 audit program:
    - ▶ Remediate identified issues in 2016/17 CSR;
    - ▶ Targeting a qualified audit (removal of audit disclaimer);
    - ▶ Progressive audit from May to October 2019;
    - ▶ Early identification of audit concerns; and
    - ▶ Enable compliance with legislation (ie lodge statements with OLG by 31 October 2019).

## Key factors impacting audit



- ▶ ICAC:
  - ▶ Former City of Botany Bay Council - extensive fraud, corruption and pervasive breakdown in internal controls.
- ▶ Complexity of amalgamation:
  - ▶ Merging of operations;
  - ▶ Merging of systems and implementation of new systems; and
  - ▶ Required resources and skills.
- ▶ Level of audit risk rating (Extreme):
  - ▶ Legacy audit issues of former councils; and
  - ▶ Extensive audit program due to inability to rely on previous audit work.

# Complexity of core IT systems summary



Module	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
<ul style="list-style-type: none"> <li>▪ <b>General Ledger</b></li> <li>▪ <b>Budgeting</b></li> <li>▪ <b>Accounts Payable</b></li> <li>▪ <b>Procurement</b></li> <li>▪ <b>Treasury</b></li> <li>▪ <b>Asset registers</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ E1 (RCC <i>till Dec 16</i>)</li> <li>▪ TechnologyOne (RCC <i>Dec 16 onwards</i>)</li> <li>▪ Civica (CoBB)</li> <li>▪ BIS (RCC)</li> <li>▪ Excel (assets)</li> </ul>	<ul style="list-style-type: none"> <li>▪ TechnologyOne (Bayside)</li> <li>▪ Civica (CoBB)</li> <li>▪ Excel (assets)</li> </ul>	<ul style="list-style-type: none"> <li>▪ TechnologyOne (Bayside)</li> <li>▪ Civica (CoBB)</li> <li>▪ Excel (assets)</li> </ul>	<ul style="list-style-type: none"> <li>▪ TechnologyOne (Bayside)</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Revenue:</b></li> <li>▪ <b>Rates</b></li> <li>▪ <b>Regulatory</b></li> <li>▪ <b>Sundry</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Pathway (RCC)</li> <li>▪ Civica (CoBB)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Pathway (RCC)</li> <li>▪ Civica (<i>April 18 - rates, property, NAR migration</i>)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Pathway</li> <li>▪ Civica (Integrated with TechnologyOne)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Pathway</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Payroll</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ Chris21 (RCC)</li> <li>▪ Chris21 (CoBB)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Chris21 (RCC)</li> <li>▪ Chris21 (CoBB)</li> </ul>	<ul style="list-style-type: none"> <li>▪ iChris</li> </ul>	<ul style="list-style-type: none"> <li>▪ iChris</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Records Management</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ TRIM (RCC)</li> <li>▪ TRIM (CoBB)</li> </ul>	<ul style="list-style-type: none"> <li>▪ TRIM (RCC)</li> <li>▪ TRIM (CoBB)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Content Manager (Nov 2018 onwards)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Content Manager</li> </ul>

## Progress to date



- ▶ Controls (system based) of journal postings.
- ▶ Improved IT controls (user access, segregation of duties, system workflows).
- ▶ One payroll system (iChris), harmonised employee award & salary structure.
- ▶ One rates debtor management system (Pathway).
- ▶ Civica integrated with TechnologyOne.
- ▶ Re-established a monthly financial reporting and reconciliation framework.
- ▶ Implemented a new budgeting system for monthly and quarterly budget reviews, including financial management training to all Managers.
- ▶ Completed majority of ICAC (Operation Ricco) actions - only 4 outstanding actions which are significantly progressed.
- ▶ Reviewed and expanded internal audit program.

## Proposed resolution



- ▶ Establish a project team for 'Project 2020' with 4 key work streams:
  - ▶ Finance;
  - ▶ IT;
  - ▶ Payroll; and
  - ▶ Assets.
- ▶ Detailed project plan with clear:
  - ▶ delivery milestones & accountability; and
  - ▶ governance, reporting and monitoring framework.
- ▶ Independent project management.
- ▶ Allocation of dedicated key resources.
- ▶ Alignment with interrelated projects.

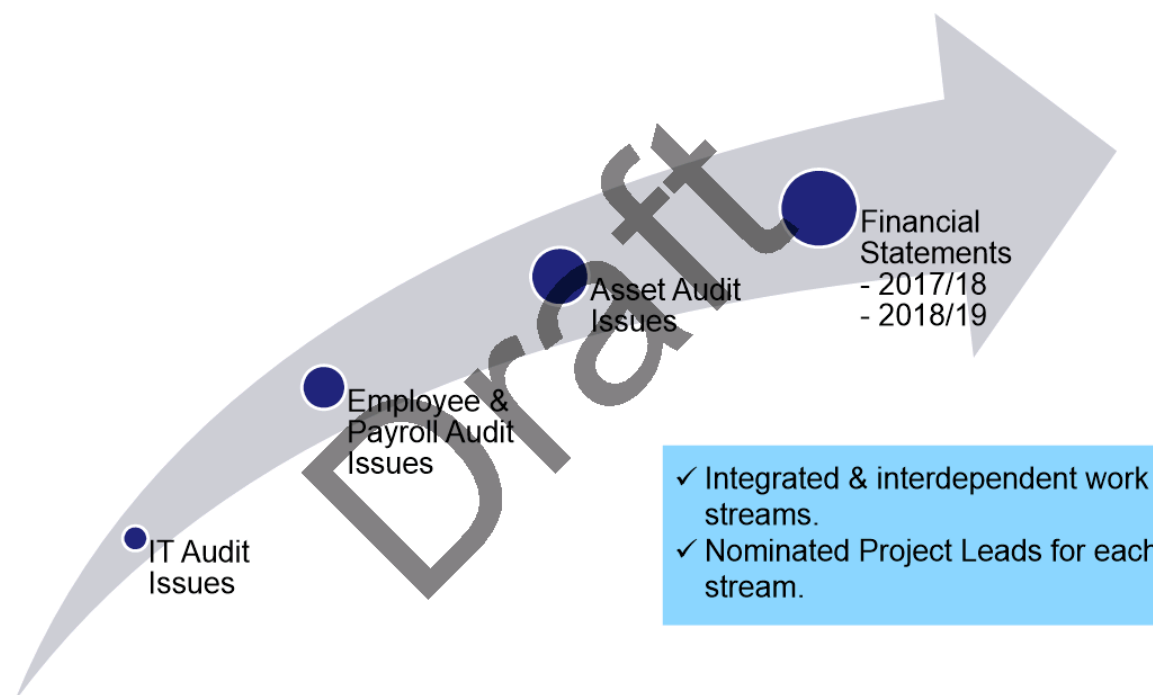
## Project 2020 - Objectives



- ▶ Finalise the 2017/18 financial statements and refer to audit at the April 2019 Council meeting.
- ▶ Finalise and adopt the 2018/19 financial statements in accordance with statutory reporting requirements by 31 October 2019.
- ▶ Obtain an Audit opinion on the 2018/19 financial statements and remove the 'Disclaimer of Audit Opinion'.
- ▶ Manage dependencies, risks and issues to reduce the potential for further audit issues emerging that would give rise to additional audit qualifications or further disclaimer of the 2018/19 financial statements.

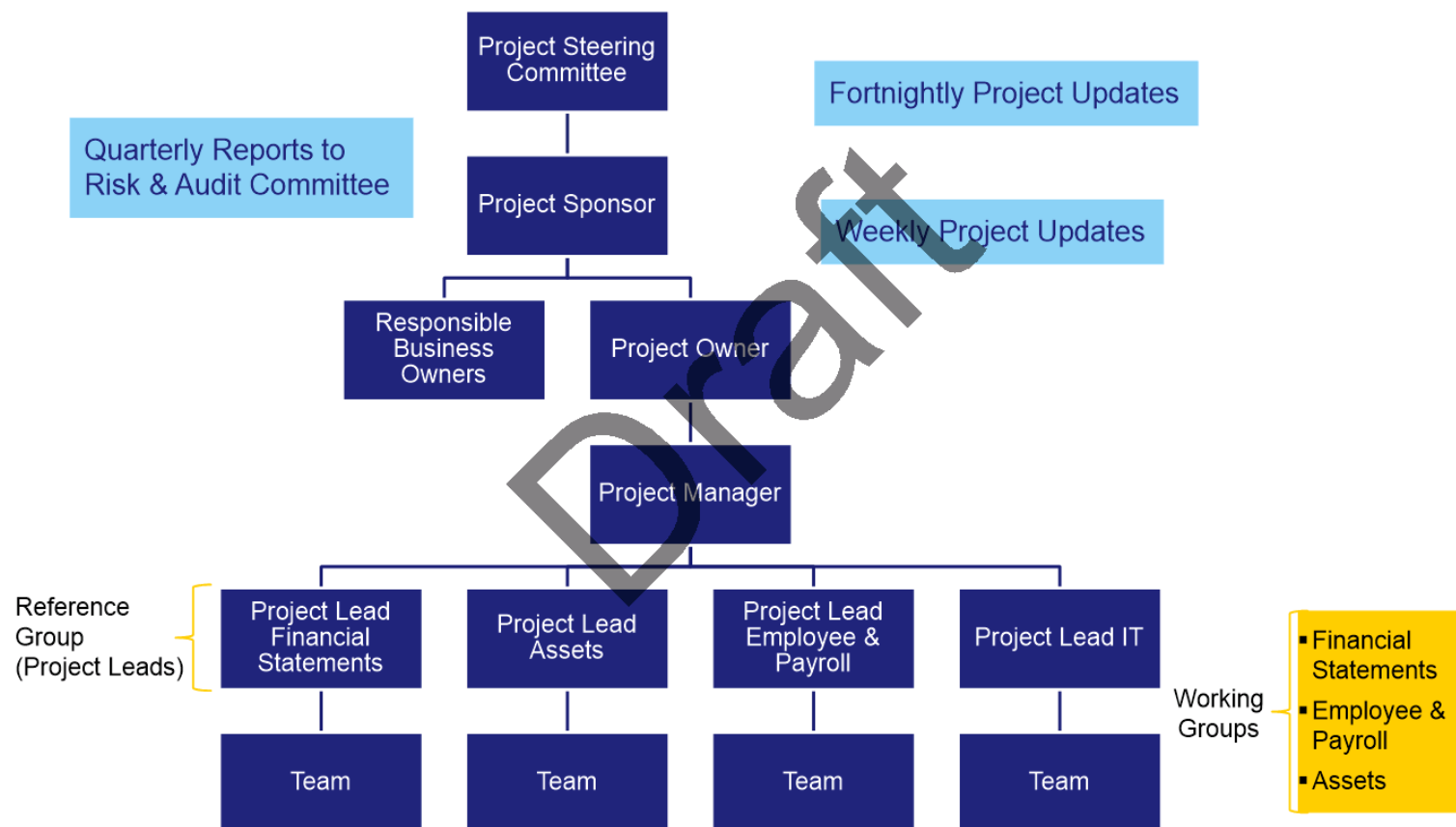
Project 2020

## Structure - 4 Key Work Packages



Project 2020

# Governance, Reporting & Monitoring



Project 2020



## Key milestones



Milestones	Complete by
Financial Statements 2017/18	Council refer to audit <b>10/04/2019</b>
Receive 2017/18 Audit Reports (to be disclaimer of audit opinion)	Late April/Mid May 2019
Lodge Audited 2017/18 Financial Statements with OLG	End May 2019
IT Audit Issues	30/04/2019
Employee Leave Entitlements & Payroll Audit Issues	31/03/2019
Asset Audit Issues	Audit finalised by 30/05/2019 Final year end 31/07/2019
Financial Statements 2018/19 (to be a qualified audit opinion)	Council refer to audit <b>14/10/2019</b>
Receive 2018/19 Audit Reports	18/10/2019
Lodge Audited 2018/19 Financial Statements with OLG	31/10/2019

Project 2020

## Expected Benefits



- ▶ Improved financial management across Council.
- ▶ Improved quality of financial year end work papers and reconciliations presented for audit.
- ▶ Improved integrity of source systems and verified data.
- ▶ Resolution of audit issues causing audit disclaimer.
- ▶ Removal of audit disclaimer on 2018/19 financial statements and minimisation of audit qualifications.
- ▶ Reduction in annual audit fees and timeframes.
- ▶ Documented accounting policies and procedures.
- ▶ Embedded compliance of overall business process and controls.
- ▶ Improved staff skill, capability and job satisfaction.

Project 2020

## Key Assumptions



- ▶ Audit Office support.
- ▶ Bayside to prioritise Project 2020 by resourcing with required level of skill, knowledge and capacity.
- ▶ Availability of external technical experts.
- ▶ Audit Disclaimer of Opinion to be issued for 2017/18.
- ▶ Progressive audit program applied for 2018/19.

Project 2020

## Key Risks



- ▶ Key assumptions aren't met.
- ▶ Staff fatigue / morale.
- ▶ BAU / Other Project Resource conflicts.
- ▶ Further issues may be identified that need to be resolved.
- ▶ Outcome of NSW State election.

Project 2020

# Stakeholder Engagement



Stakeholder	Date	Future Frequency
Executive Committee	31 January 2019	Fortnightly
Risk & Audit Committee	31 January 2019	Quarterly and as required
NSW Audit Office (Audit Director)	31 January 2019	As required (weekly to fortnightly)
Project 2020 - Project Team	1 February 2019	Weekly and as required
Business unit Managers	1 February 2019	As required
Council (GM Briefing)	6 February 2019	Quarterly and as required
NSW Audit Office (Auditor General)	8 February 2019	As required
Office of Local Government	21 March 2019	As required

Project 2020



Draft

# Feedback / Comments?

Jennifer Whitten  
Chair, Risk and Audit Committee  
Bayside Council

Mayor Bill Saravinovski  
Bayside Council  
PO Box 21  
Rockdale NSW 2216

16 September 2019

**Re: Notice of Intent to Issue a Performance Improvement Order**

Dear Mayor

I am writing on behalf of the Risk and Audit Committee (Committee) in relation to the Notice of Intent to Issue a Performance Improvement Order received by Bayside Council from the Minister for Local Council. The purpose of this letter is to convey the Committee's observations in relation to the efforts undertaken in relation to Bayside Council's 2016-17 and 2017-18 financial statements, as well as progress on the upcoming 2018-19 financial statements.

***2016-17 and 2017-18 Financial Statements***

The Committee serves an important governance, as opposed to management, role in relation to Bayside Council's external financial reporting and accountability. Specifically, our Committee Charter details our responsibilities to:

- Satisfy ourselves that the annual financial reports comply with applicable Australian Accounting Standards and are supported by appropriate management sign-off on the statements, as well as with the adequacy of internal controls
- Provide input and feedback on the audit coverage proposed by external audit
- Review audit reports and opinions, and monitor the implementation of audit recommendations by management
- Consider contentious financial reporting matters in conjunction with Council's management and external auditors

Over the term of the Committee, we have considered the 2015-16 former City of Botany Bay financial statements, as well as the 2016-17 and 2017-18 Bayside Council financial statements, receiving regular reports from Council's management and the appointed external auditor (NSW Audit Office) at our scheduled and extraordinary meetings.

The commencement of our term coincided with the release of the ICAC Operation Ricco findings into the former City of Botany Bay, and the Committee has had governance oversight over Council management's response to the findings and Project Ricochet, established to improve processes and controls in line with the findings.

Despite the significant efforts invested by Council staff and the Audit Office into investigating the accounts and trying to rebuild internal control systems following the material fraud committed at the former City of Botany Bay, Council management has not been able to warrant the completeness and reliability of the financial statements, the core issues being:

- The pervasive, material fraud and systemic lack of control and recordkeeping at the former City of Botany Bay
- Complexity of merging and managing operations across the newly formed Bayside Council
- Consolidation of the former Rockdale Council and City of Botany Bay's operating and financial systems
- Identification of audit issues relating to legacy issues and systems across both Councils, including the maintenance of adequate accounting records

As each Statement by Councillors and Management was limited, under Australian Accounting Standards, the external auditor was required to issue a disclaimer of opinion. The Committee has therefore recommended that each set of financial statements be signed by Council accordingly. The audited financial statements were presented at Council meetings in February and June 2019.

To our knowledge, the only outstanding activities relating to the finalisation of the 2016-17 and 2017-18 statements are the external audit rating returns/audit certificates and accompanying schedules.

While the Committee has not been informed of the reason for the external auditor's delay in finalising the rating returns, it appears to be more of an administrative matter than a matter of substance, due to the known disclaimer of opinion and public release of the audited financial statements.

#### ***2018-19 Financial Statements***

As the external auditor has noted in its planning letters, each of the above factors individually would present a high-risk audit. In combination, they have necessitated extensive analysis to reconstruct financial records and build effective control systems across the merged organisation. The attention to detail of the new external auditor has further identified historical issues that were not raised by either of the former councils' previous auditors. Due to the scale of these issues, the Committee agreed with Council management that the ongoing audit costs for the 2017-18 accounts did not justify the potential return, and that management effort would be better invested in ensuring the 2018-19 financial statements were delivered on time and without a disclaimer of opinion.



In December 2018, the Committee requested that a project plan be prepared by Council management to address the issues causing the disclaimer of opinion. This plan was presented to the Committee in January 2019, as well as to the Audit Office and the Office of Local Government, with a target of completing the audit of the 2018-19 financial statements on time and without a disclaimer of opinion, and to achieve an unqualified audit opinion by 2019-20.

The Committee has subsequently focused its efforts on seeing measurable progress towards the 2018-19 target, supported by independent assurance over the outcomes.

The Committee has received regular reports on the progress is being made to address the core underlying issues targeted by the project plan, namely:

- Asset management
- Employee leave and payroll
- IT general controls

We have also received internal audit reports confirming the progressive completion of management actions.

As at the Committee's last meeting on 22 August, the 2018-19 audit engagement plan had been received from the external auditor, and initial accounts (excluding assets) were due to be submitted to the external auditor in line with the plan on 23 August.

In conclusion, while the outcome of a number of years of disclaimed accounts is certainly not desirable, the Committee believes that due to the magnitude of the issues identified, that outcome was simply unavoidable. Ultimately, the Bayside Council financial statements must be accurate, compliant, and transparent, and supported by adequate internal controls.

The Committee can attest to the diligence and effort that the external auditor and Council management and staff are taking to resolve these complex issues, and we are satisfied with the progress being made. We look forward to receiving the 2018-19 accounts at our October meeting, in line with the agreed project plan.

Regards



Jennifer Whitten  
Chair, Risk and Audit Committee