

MEETING NOTICE

A meeting of the
Extraordinary Risk & Audit Committee
will be held in the Level 2 Conference Room
Administration Building, Rockdale
on **Thursday 30 January 2020 at 6.30pm.**

AGENDA

1 ACKNOWLEDGEMENT OF COUNTRY

Bayside Council respects the traditional custodians of the land, elders past, present and emerging, on which this meeting takes place, and acknowledges the Gadigal and Bidjigal Clans of the Eora Nation.

2 APOLOGIES

3 DISCLOSURES OF INTEREST

4 REPORTS

4.1 Audited 2018/19 Financial Statements and Audit Report2

5 GENERAL BUSINESS

6 NEXT MEETING

Meredith Wallace
General Manager

Extraordinary Risk & Audit Committee

30/01/2020

Item No	4.1
Subject	Audited 2018/19 Financial Statements and Audit Report
Report by	Rodney Sanjivi, Acting Manager Finance
File	SF19/9514

Summary

The Acting Manager Finance will provide an update to the Risk and Audit Committee (R&AC) on the finalisation of the audit for the financial year ended 30 June 2019. Provided at attachment 4 to this report is a copy of the finalised 2018/19 Financial Statements and Audit Reports for the year ended 30 June 2019, along with other special purpose reports and the respective Auditor's reports.

In addition, the Assistant Auditor General and Audit Director from the Audit Office of NSW will also be in attendance to answer any questions or queries from the Risk and Audit Committee.

Officer Recommendation

That the finalised 2018/19 Financial Statements and Audit Reports for the year ended 30 June 2019, along with other special purpose reports and the respective Auditor's reports be received and noted.

Background

By way of background, at the last R&AC meeting held on 28 November 2019, the committee was provided with an update on the status of the audit of the General Purpose Financial Statements (GPFS) for the financial year ended 30 June 2019.

At that meeting, the Audit Director advised that the Audit Office of NSW would be issuing a disclaimer of opinion for the GPFS for the year ended 30 June 2019. The basis of the disclaimer of opinion was largely related to material limitations in gathering audit evidence over the completeness and accuracy of the Councils stormwater and drainage assets.

As a consequence of Council being notified by the Audit Office of NSW that a disclaimer of opinion would be issued, it was necessary for the Statement by Councillors and Management to be amended and re-signed at the next Council meeting. On 11 December 2019, Council then signed a revised "Statement by Councillors & Management for the 2018/2019 Financial Statements" in order to achieve consistency with the Auditor's report in respect of the basis of their disclaimer.

At that stage, it was also necessary for Council to seek a further extension from the Office of Local Government (OLG) for the lodgement of the Audited GPFS for the year ended 30 June 2019. This request was submitted to the OLG on 28 November 2019, who subsequently provided Council with an extension up until 28 February 2020 for Council to finalise and lodge its audited GPFS for the year ended 30 June 2019.

As part of finalising the GPFS for the year ended 30 June 2019, a number of audit adjustments were agreed between management and the Audit Office, and are reflected in the finalised GPFS attached to this report. These adjustments are summarised below:

Corrected Audit Differences (affecting primary statements):

1. Reversal of a duplicate liability amounting to \$2.2m;
2. Adjustment to clear unsupported bond liabilities amounting to \$2.6m;
3. Adjustment to asset remediation provision amounting to \$117k; and
4. Adjustment to amortisation of intangibles amounting to \$17k.

Corrected Audit Differences (disclosures):

1. Note 10&11 – Update to disclosures in respect of estimated useful lives of assets;
2. Note 13(a) – Update to financial disclosures in respect of current and non-current split of restricted assets; and
3. Note 23 – Update to financial disclosures in respect of key management compensation.

On 20 January 2020, Council received the following finalised reports from the Audit Office of NSW (dated 16 January 2020):

1. Independent Auditor's Report on the General Purpose financial statements (attachment 1)
2. Report on the Conduct of the Audit for the year ended 30 June 2019 (attachment 2)
3. Independent Auditor's Report on Special Schedule - Permissible income for general rates (attachment 3)
4. Independent Auditor's Report on Chief Executive Officer's Financial Statement for the Roads to Recovery Program under the National Land Transport Act 2014
5. Independent Auditor's Report on Application for Payment of Pensioner Concession Subsidy

The audit reports identified at items 1, 2 & 3 above are included within the finalised audited 2018/19 Financial Statements and are attached to this report for the committees reference.

The audited 2018/19 Financial Statements and Audit Reports (attachment 4) were lodged with the OLG on 22 January 2020.

The Acting Manager Finance and Assistant Auditor General and Audit Director from the Audit of NSW will be in attendance to answer any questions that the committee may have on the financial statements and (or) the Auditor's report.

Attachments

- 1 GPFR Independent Auditors Report 2018-19 [↓](#)

- 2 Report on the Conduct of the Audit 2018-19 [↓](#)
- 3 Special Schedule - Permissible income for rates - IAR 2018-19 [↓](#)
- 4 Bayside Council - Audited Financial Statements - 2018-19 (under separate cover)



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Bayside Council

To the Councillors of Bayside Council

Disclaimer of Opinion

I am required to audit the accompanying general purpose financial statements (the financial statements) of Bayside Council (the Council), which comprise the Statement by Councillors and Management, Income Statement and Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended and Notes to the Financial Statements comprising a summary of significant accounting policies and other explanatory information.

I do not express an opinion on the accompanying financial statements of the Council. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

My disclaimer of opinion should be read in conjunction with the rest of this report.

Basis for Disclaimer of Opinion

In previous years, significant breakdowns in administrative, financial and governance internal controls materially and pervasively impacted the reliability of the Council's financial reporting.

Impact on opening balances at 1 July 2018

Councillors and Management declared, in the Statement required by Councillors and Management under section 413(2)(c) of the *Local Government Act 1993*, they were unable to warrant the completeness and reliability of the financial statements for the year ended 30 June 2018. As a result, I disclaimed my opinion on the financial statements for the year then ended.

The disclaimer of opinion on the financial statements for the year ended 30 June 2018 affected my ability to obtain sufficient appropriate audit evidence on the opening balances at 1 July 2018. I was also unable to determine whether any adjustments were necessary in the opening balances for the 2018-19 financial year. This impacts items in the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, Note 2(a): Council functions/activities – financial information, Note 3: Income from continuing operations, Note 4: Expenses from continuing operations, Note 5: Gain or loss from the disposal, replacement and de-recognition of assets, Note 10(a): Infrastructure, property, plant and equipment, Note 13(c): Description of and movements in provisions, Note 15: Statement of cash flows – additional information, Note 20: Material budget variations, Note 22(4): Fair value measurements using significant unobservable inputs (level 3), Note 23: Related party transactions, Note 24: Statement of developer contributions and Note 25(a): Statement of performance measures – consolidated results.

Stormwater drainage assets

Council discloses \$84.5 million of stormwater drainage assets in Note 10(a): Infrastructure, property, plant and equipment. I was unable to obtain sufficient appropriate audit evidence to support the completeness and accuracy of stormwater drainage assets recorded in the financial statements as at 30 June 2019, or determine the impact on the net operating result or total comprehensive income for the year ended 30 June 2019.

The pervasiveness of these issues mean I cannot express an opinion on the accompanying financial statements for the year ended 30 June 2019.

The Councillor's Responsibilities for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the Local Government Act 1993, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors must assess the Council's ability to continue as a going concern unless the Council is dissolved or amalgamated by an Act of Parliament. The assessment must disclose, as applicable, matters related to going concern and the appropriateness of using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have also fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament further promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.



Aaron Green
Assistant Auditor-General

Delegate of the Auditor-General for New South Wales

16 January 2020
SYDNEY



Joe Awada
Mayor
Bayside Council
PO Box 21
ROCKDALE NSW 2216

Contact: Aaron Green
Phone no: 02 9275 7209
Our ref: D1928066/1689

16 January 2020

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2019
Bayside Council**

I have audited the general purpose financial statements of Bayside Council (the Council) for the year ended 30 June 2019 as required by section 415 of the *Local Government Act 1993* (the Act).

I issued a disclaimer of opinion on the Council's general purpose financial statements.

This Report on the Conduct of the Audit (the Report) for the Council is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

SIGNIFICANT AUDIT ISSUES AND OBSERVATIONS

The following significant matters came to my attention during the audit:

- I disclaimed my opinion on the financial statements for the year ended 30 June 2018 which meant I was unable to obtain sufficient appropriate audit evidence on the opening balances at 1 July 2018. This impacts items in the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and related notes accompanying the financial statements for the year ended 30 June 2019.
- I was unable to obtain sufficient appropriate audit evidence to support the completeness and accuracy of stormwater drainage assets recorded in the financial statements.
- There was an inadequate system of internal controls to support accurate financial reporting and to mitigate the risk of fraud or error.
- Council did not maintain adequate accounting records as required by Section 412 of the *Local Government Act 1993*.

As a result, I was unable to obtain sufficient appropriate audit evidence to issue an opinion on the financial statements and have issued a disclaimer of opinion.

FINANCIAL INFORMATION AND PERFORMANCE RATIOS

I have not included commentary on Financial Information or Performance Ratios in this report for the reasons outlined above.

Other Matters

Legislative compliance

Council did not maintain adequate accounting records as required by Section 412 of the *Local Government Act 1993*. The Council's accounting records were not maintained in a manner and form that facilitated the preparation and the effective audit of the general purpose financial statements. Council staff were unable to provide all accounting records and information relevant to the audit.



Aaron Green
Assistant Auditor-General

Delegate of the Auditor-General for New South Wales

cc: Meredith Wallace, General Manager
Jennifer Whitten, Chair of Audit and Risk Committee
Jim Betts, Secretary of the Department of Planning, Industry and Environment



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Bayside Council

To the Councillors of Bayside Council

Opinion

I have audited the accompanying Special Schedule – Permissible income for general rates (the Schedule) of Bayside Council (the Council) for the year ending 30 June 2020.

In my opinion, the Schedule is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting – update number 27 (LG Code), and is in accordance with the books and records of the Council.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Schedule' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to the special purpose framework used to prepare the Schedule. The Schedule has been prepared for the purpose of fulfilling the Council's reporting obligations under the LG Code. As a result, the Schedule may not be suitable for another purpose.

Other Matter

Without modifying my opinion, I draw attention to the audit of the general purpose financial report for Bayside Council for the year ended 30 June 2019 which was disclaimed on the following basis:

In previous years, significant breakdowns in administrative, financial and governance internal controls materially and pervasively impacted the reliability of the Council's financial reporting.

Impact on opening balances at 1 July 2018

Councillors and Management declared they were unable to warrant the completeness and reliability of the financial statements for the year ended 30 June 2018. As a result, I disclaimed my opinion on the financial statements for the year then ended.

The disclaimer of opinion on the financial statements for the year ended 30 June 2018 affected my ability to obtain sufficient appropriate audit evidence on the opening balances at 1 July 2018. I was also unable to determine whether any adjustments were necessary in the opening balances for the 2018–19 financial year. This impacts items in the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows.

Stormwater drainage assets

Council discloses \$84.5 million of stormwater drainage assets in Note 10(a): Infrastructure, property, plant and equipment. I was unable to obtain sufficient appropriate audit evidence to support the completeness and accuracy of stormwater drainage assets recorded in the financial statements as at 30 June 2019, or determine the impact on the net operating result or total comprehensive income for the year ended 30 June 2019.

The pervasiveness of these issues meant I could not express an opinion on the financial statements of Council for the year ended 30 June 2019."

Notwithstanding, the amounts disclosed in the accompanying Statement are, in all material respects, based on and in agreement with proper accounts and records.

Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements.

My opinion on the Schedule does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements.

In connection with my audit of the Schedule, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Schedule or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

The Councillors are responsible for the preparation of the Schedule in accordance with the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of the Schedule that is free from material misstatement, whether due to fraud or error.

In preparing the Schedule, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

- obtain reasonable assurance whether the Schedule as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the Schedule.

A description of my responsibilities for the audit of the Schedule is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar8.pdf. The description forms part of my auditor's report.

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited Schedule on any website where it may be presented
- about any other information which may have been hyperlinked to/from the Schedule.



Aaron Green
Assistant Auditor-General

Delegate of the Auditor-General for New South Wales

16 January 2020
SYDNEY