

**18.2 2012-2013 FINANCIAL STATEMENT AND AUDITORS REPORTS**

<b>ATTACHMENTS:</b>	<b>1. AUDITORS REPORTS - GENERAL PURPOSE FINANCIAL REPORTS</b> <b>2. AUDITORS REPORT - SPECIAL PURPOSE FINANCIAL REPORTS</b>
<b>RESPONSIBLE OFFICER:</b>	<b>TONY PIZZUTO - FINANCIAL SERVICES DIRECTOR</b>
<b>AUTHOR:</b>	<b>MARK MCDONALD - FINANCIAL SERVICES MANAGER</b>
<b>CITY STRATEGY LINK:</b>	<b>6.3.1 COUNCIL MAINTAINS A STRONG SUSTAINABLE FINANCIAL POSITION</b>
<b>MEETING DATE:</b>	<b>4 NOVEMBER 2013</b>

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**Purpose of Report**

To present the Council's 2012/2013 Financial Statements and PricewaterhouseCoopers Auditor's reports to the public as required under the Local Government Act.

**Background**

Mr Dennis Banicevic, Director, Local Government Services, PricewaterhouseCoopers will be in attendance at the Council meeting and present the Auditor's Reports, which are attached to the report.

The adopted 2012/2013 Financial Statements and Auditor's Reports were placed on public exhibition at the Administrative Building, at the Willoughby City Library and on Council's website. Key financial information was summarised and advertised in the North Shore Times on 16 October 2013.

At the time of preparing this report, no submissions have been received in respect to the 2012/2013 Financial Statements and Auditor's Reports.

Copies of the Auditors Reports for both the General and Special Purpose Reports are attached and a full set of the Financial Statements has been included with the Business Paper as a separate document.

Council's Income Statement for 2012/2013 discloses a net operating surplus of \$15.067M which reduces to \$3.868M with the exclusion grants and contributions for capital purposes.

The Council's cash & investment holdings increased by \$9.764M in 2012/2013 largely resultant from income which is currently held as a restricted asset ie Section 94.

The 2012/2013 Financial Statements contain a number of performance indicators/ratios which are disclosed in Note 13 and are summarised as follows:

<b>Ratio</b>	<b>2012/2013</b>	<b>2011/2012</b>	<b>2010/2011</b>
Unrestricted Current Ratio	3.45:1	3.04:1	3.51:1
Debt Service Ratio	9.38%	7.80%	4.06%

Rates & Annual Charges Coverage Ratio	47.27%	47.95%	43.51%
Rates & Annual Charges Outstanding Ratio	2.04%	2.77%	2.95%
Infrastructure Renewal Ratio	44.90%	55.90%	66.51%

**UCR** – This ratio is unique to Local Government and allows an adjustment on Liabilities which are not considered to be payable in the following 12 months. It also eliminates funds such as Section 94 funds, grants that have been received at year end but unspent, surplus Domestic Waste funds and LIRS loan funds. The State Government suggests a ratio of \$1.50 for every \$1 of debt. Council's rating is strong and as shown in the table has improved over the last 12 months.

**DSR** – This ratio measures principal and interest as a percentage of revenue from continuing operations excluding capital items and specific purpose grants and contributions. The State Government suggests that anything up to 10% is acceptable. It should be noted that early loan payments relating to The Concourse have largely contributed to the increase in the percentage.

**RATES & ANNUAL CHARGES COVERAGE RATIO** – This ratio measures the reliance on rates and annual charges as a revenue source for Councils. This indicator has marginally improved on 2012 however it should be treated with caution as variable revenue from capital grants and contributions together with fair valuation increments play a role in the resultant indicator.

**RATES & ANNUAL CHARGES OUTSTANDING RATIO** - This ratio measures the effectiveness of policies relating to the collection of rates and domestic waste debts. This ratio has improved significantly over the last 3 years. On a metropolitan council comparison it is an excellent result.

**INFRASTRUCTURE RENEWAL RATIO** – This ratio measures renewal expenditure on existing infrastructure assets as a percentage of their annual depreciation. A level of 1:1 is the industry benchmark. The impact of capitalisation and maintenance policies together with the level of depreciation are critical to the result. Staff will be reviewing both during 13/14.

Council is considered to be in a sound and stable financial position. The bulk of indicators compare better than accepted industry benchmarks.

The actual working funds position of Council at 30 June 2013 is \$2.237M, an increase of \$219K from the preliminary June 2013 result.

**Working Funds Movement as at 30/6/13  
Surplus/(Deficit)**

<b>Unrestricted Working Funds 1/7/12</b>	<b>\$1,919,600</b>
Adopted Original Budget Surplus	\$ 22,400
12/13	
Variations – September 2012 review	\$ 87,500
Variations – December 2012 review	\$ (221,200)
Variations – March 2013 review	\$ (63,100)
Variations – June 2013 review	\$1,702,750
<b>Projected Unrestricted Working Funds 30/6/13</b>	<b>\$3,447,950</b>
Actual variation from End of Year Accounts	\$ 218,750
<b>Actual Unrestricted Working Funds 30/6/13</b>	<b>\$3,666,700</b>
Less Carryover to 2013/2014 funded by General Fund	\$1,429,700
<b>Actual Working Funds 30/6/13</b>	<b>\$2,237,000</b>

**OFFICER'S RECOMMENDATION**

That Council note the revised working funds position at 30 June 2013 and the presentation to the public of the 2012/2013 Financial Statements and Auditor's Reports.

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The Mayor  
Councillor P Reilly  
Willoughby City Council  
31 Victor Street  
CHATSWOOD NSW 2067

Dear Councillor Reilly

### **Report on the conduct of the Audit for year ended 30 June 2013 – Section 417(3)**

We have completed our audit of the financial reports of the Willoughby Council for the year ended 30 June 2013, in accordance with Section 415 of the Local Government Act 1993.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial reports are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial reports, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial reports are presented fairly in accordance with Australian Accounting Standards as well as statutory requirements so as to present a view which is consistent with our understanding of the Council's financial position, the results of its operations and its cash flows.

This report should be read in conjunction with our audit opinion on the general purpose financial statements provided under Section 417(2) of the Local Government Act 1993.

Flowing from our audit, there are a number of comments we wish to raise concerning the trends in Council's finances. These are set out below.

#### **Operating Result**

Council's operating surplus improved from \$7 million to \$15 million during the period under review. The result before capital items was a surplus of \$3.8 m up from \$471k in the previous year. Higher capital grants and contributions contributed to this improvement.

#### **Cash Position**

Council's overall cash position increased from \$45 million to \$55 million during the period under review. The following table highlights the composition of cash.

	June 2013 \$m	June 2012 \$m
Externally restricted	18	14
Internally restricted	29	26
Unrestricted	8	5
<b>Total</b>	<b>55</b>	<b>45</b>

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### **Working Capital**

Council's net current assets increased from \$26 million to \$30 million during the period under review.

The value of net current assets needs to be adjusted in order to establish Council's available working capital.

	June 2013 \$m	June 2012 \$m
Net current assets	30	26
Less:		
External restrictions	14	10
Internal restrictions	29	26
	(13)	(10)
Add:		
Current Liabilities not expected to be settled in next 12 months	15	12
Available Working Capital	2	2

The effective unrestricted or available working capital upon which Council could build its 2013/14 budget upon was \$2 million.

### **Performance Indicators**

The financial reports disclose a number of indicators in Note 13 and these are detailed below:

	June 2013 %	June 2012 %
Unrestricted current ratio	345	304
Debt service ratio	9.38	7.8
Rate coverage ratio	47	48
Rates outstanding ratio	2.04	2.77
Asset renewals ratio	45	56

The Unrestricted Current Ratio declined but remained well above the accepted benchmark for the industry of 100%.

The Debt Service Ratio increased to 9.38% of revenue but remained below the industry benchmark of 10%.

The Rate Coverage Ratio declined to 47% of total revenue due to the higher capital grants and contributions received during the period.

The Rates Outstanding Ratio improved during the period and remains better than the accepted industry benchmark of 5%.

The Asset Renewals Ratio indicates that Council is only renewing assets at 45% of the rate at which they are depreciating.

Council is considered to be in a sound and stable financial position. All indicators are generally better than accepted industry benchmarks.

**General**

The books of accounts and records inspected by us have been kept in an accurate and conscientious manner.

We thank the General Manager and his staff for the co-operation and courtesy extended to us during the course of our audit.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'P L Buchholz', written in a cursive style.

P L Buchholz  
Partner  
Sydney

15 October, 2013

**Willoughby City Council****Independent auditor's report  
Report on the special purpose financial report****Report on the financial report**

We have audited the accompanying financial report, being a special purpose financial report, of **Willoughby City Council** (the Council), which comprises the Statement of Financial Position by Business Activity for the year ended 30 June 2013, the Income Statements by Business Activity for the year then ended, Notes to the financial report for the business activities identified by Council and the Statement by Councillors and Management for Council for the year ended 30 June 2013.

*Councillors' responsibility for the financial report*

The Councillors of the Council are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies described in note 1 to the financial statements which form part of the financial report, are appropriate to meet the requirements of the Local Government Code of Accounting Practice and Financial Reporting. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to error or fraud.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report 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 the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Councillors, as well as evaluating the overall presentation of the financial report.

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

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*Auditor's opinion:*

In our opinion, the financial report presents fairly, in all material respects, the financial position by Business Activities of **Willoughby City Council** as of 30 June 2013 and its financial performance by Business Activities for the year then ended in accordance with the requirements of those applicable Accounting Standards detailed in Note 1 to the financial report, and the Local Government Code of Accounting Practice and Financial Reporting.

*Basis of Accounting and Restriction on Distribution and Use*

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the Local Government Code of Accounting Practice and Financial Reporting. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the Council.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'P. Buchholz'.

Peter Buchholz  
Partner

Sydney  
15 October, 2013





## **Willoughby City Council**

### **Independent auditor's report to the Council – s417(2) Report on the general purpose financial statements**

#### **Report on the financial statements**

We have audited the accompany financial statements of Willoughby City Council, which comprise the statement of financial position as at 30 June 2013 and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, accompanying notes to the financial statements and the Statement by Councillors and Management in the approved form as required by Section 413(2) of the Local Government Act 1993.

#### *Councillors' responsibility for the financial statements*

The Councillors of the Council are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) 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.

#### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Councillors, as well as evaluating the overall presentation of the financial statements.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial statements.

Our audit responsibility does not extend to the Original Budget Figures included in the Income Statement, Statement of Cash Flows and the Original Budget disclosures in notes 2(a) and 16 and the Projections disclosed in note 17 to the financial statements, nor the attached Special Schedules, and accordingly, we express no opinion on them.

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

*Auditor's opinion:*

In our opinion:

- (a) the Council's accounting records have been kept in accordance with the requirements of the Local Government Act 1993, Chapter 13 part 3 Division 2 (the Division); and
- (b) the financial statements:
  - (i) have been presented, in all material respects, in accordance with the requirements of this Division
  - (ii) are consistent with the Council's accounting records
  - (iii) present fairly, in all material respects, the Council's financial position as of 30 June 2013 and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- (c) all information relevant to the conduct of the audit has been obtained; and
- (d) there are no material deficiencies in the accounting records or financial statements that have come to light during the course of the audit.

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PricewaterhouseCoopers

A handwritten signature in blue ink, identified as Peter Buchholz.

Peter Buchholz  
Partner

Sydney  
15 October, 2013