

**ATTACHMENT B**

**AUDIT REPORT ON THE CONDUCT OF THE  
AUDIT**





The Lord Mayor  
 Councillor Clover Moore  
 Council of the City of Sydney  
 DX 1251  
 SYDNEY

Dear Councillor Moore

### **Report on the conduct of the Audit for year ended 30 June 2015 – Section 417(3)**

We have completed our audit of the financial reports of the Council for the year ended 30 June 2015, 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 increased from \$97 million in the previous year to \$211 million in the current period. The net operating result before capital contributions was a surplus of \$8 million against the previous year's \$15 million.

#### ***Cash position***

Council's overall cash position increased from \$566 million to \$624 million during the period under review. The following table highlights the composition of cash.

	<b>2014</b>	<b>2015</b>
	<b>\$m</b>	<b>\$m</b>
Externally restricted	108	129
Internally restricted	379	389
Unrestricted	79	106
<b>Total</b>	<b>566</b>	<b>624</b>



### ***Working capital***

Council's net current assets increased from \$303 million to \$308 million during the period under review. The value of net current assets needs to be adjusted in order to establish the available working capital position.

	<b>2014</b>	<b>2015</b>
	<b>\$m</b>	<b>\$m</b>
Net current assets	303	308
Less: External restrictions	(55)	(36)
Internal restrictions	(202)	(253)
Add: Current liabilities deferred	40	39
<b>Available working capital</b>	<b>86</b>	<b>58</b>

The effective unrestricted or available working capital upon which Council could build its 2016 budget was \$58 million.

### ***Performance indicators***

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

	<b>2014</b>	<b>2015</b>
	<b>%</b>	<b>%</b>
Operating Performance Ratio	4	3
Own Source Operating Revenue Ratio	84	70
Unrestricted Current Ratio	354	361
Debt Service Cover Ratio	-	-
Rates Outstanding Ratio	6.7	1.7
Cash Expense Cover Ratio	10	10

The Operating Performance Ratio declined but remained above the industry benchmark of 0%.

The Own Source Operating Revenue Ratio declined to 70% but remained well above the industry benchmark of 60%. Operating Revenue represented a lower proportion of Total Income from Continuing Operations than in the previous year, largely as a result of significant asset dedications recognised by Council during the period (\$114 million).

The Unrestricted Current Ratio increased and remained well above the industry benchmark of 150%.

The Debt Service Cover Ratio reflects the fact that Council is debt free.

The Rates Outstanding Ratio improved following the collection of a large disputed rate account and now stands significantly better than the benchmark of 5%.



The Cash Expense Cover Ratio indicates that Council could continue to cover its operating costs for 10 months should cash inflows cease. This compares very favourably with the industry benchmark of 3 months.

Council is considered to be in a very strong and stable financial position. All financial indicators are 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 Chief Executive Officer and her staff for the cooperation 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  
28 October 2015