

ATTACHMENT B

**AUDITOR'S REPORT ON THE
2015/16 FINANCIAL STATEMENTS**



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 2016 – Section 417(3)

We have completed our audit of the financial reports of the Council for the year ended 30 June 2016, 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 declined from \$211 million in the previous year to \$112 million in the current period. The net operating result before capital contributions was a deficit of \$15 million against the previous year's surplus of \$8 million. Higher contributions towards the Light Rail Project (up \$29m) contributed to this movement.

Cash position

Council's overall cash position declined from \$624 million to \$570 million during the period under review. The following table highlights the composition of cash.

	2016 \$m	2015 \$m
Externally restricted	142	129
Internally restricted	346	389
Unrestricted	82	106
Total	570	624

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Working capital

Council’s net current assets declined from \$308 million to \$245 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.

	2016	2015
	\$m	\$m
Net current assets	245	308
Less: External restrictions	(55)	(36)
Internal restrictions	(197)	(253)
Add: Current liabilities deferred	40	39
Available working capital	33	58

The effective unrestricted or available working capital upon which Council could build its 2017 budget was \$33 million.

Performance indicators

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

	2016	2015
	%	%
Operating Performance Ratio	2	3
Own Source Operating Revenue Ratio	79	70
Unrestricted Current Ratio	292	361
Debt Service Cover Ratio	-	-
Rates Outstanding Ratio	1.2	1.7
Cash Expense Cover Ratio	7	10

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

The Own Source Operating Revenue Ratio improved to 79% and remained well above the industry benchmark of 60%.

The Unrestricted Current Ratio declined but 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 and is significantly better than the benchmark of 5%.

The Cash Expense Cover Ratio indicates that Council could continue to cover its operating costs for 7 months should cash inflows cease. This compares very favourably with the industry benchmark of 3 months.



Council is considered to be in a 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 co-operation and courtesy extended to us during the course of our audit.

Yours faithfully

PricewaterhouseCoopers

Marc Upcroft
Partner

Sydney