

ATTACHMENT B

**AUDITOR'S REPORT ON THE 2016/17
FINANCIAL STATEMENTS**

ATTACHMENT B

Ms Clover Moore
 Lord Mayor
 City of Sydney Council
 Town Hall House,
 456 Kent Street
 SYDNEY NSW 2000

Contact: Bola Oyetunji
 Phone no: 02 9725 7165
 Our ref: D1724678/1791

12 October 2017

Dear Lord Mayor

**Report on the Conduct of the Audit
 for the year ended 30 June 2017
 City of Sydney Council**

I have audited the general purpose financial statements of the City of Sydney Council (the Council) for the year ended 30 June 2017 as required by s415 of the *Local Government Act 1993* (the Act).

I will express an unmodified opinion on the Council's general purpose financial statements. The Independent Auditor's Report will be signed after the signed financial statements are received.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2017 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.

INCOME STATEMENT

Operating result

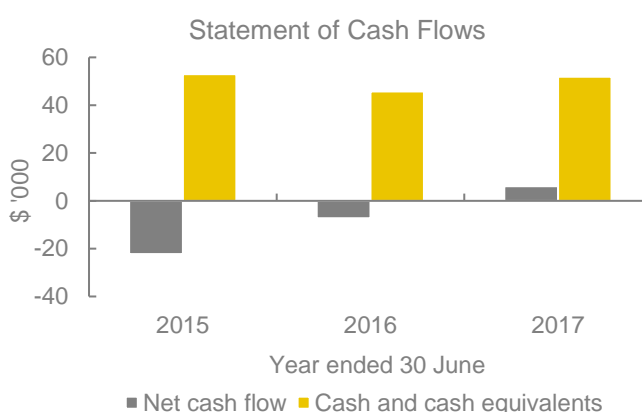
	2017 \$m	2016 \$m	Variance %
Rates and annual charges revenue	312.7	300.2	4.2% ↑
Grants and contributions revenue	137.4	140.3	2.1% ↓
Operating result for the year	144.0	111.5	29.1% ↑
Net operating result before capital amounts	24.9	(15.6)	259.6% ↑

- Rates and annual charges revenue increased by \$12.5 million or 4.2 per cent. This was mainly due to additional rates revenue from Barangaroo and Darling Live precincts and the allowable rate increase by IPART of 1.8 per cent.
- Grants and contributions revenue decreased marginally by \$2.9 million or 2.1 per cent mainly due to the timing of the receipts.
- Council's operating result was \$32.5 million or 29.1 per cent higher than 2015-16 because of the \$27.4 million increase in the value of investment properties and additional rates revenue described above.

STATEMENT OF CASH FLOWS

Over the past three years, Council's net cash flows ranged from net cash outflows of \$7.3 million in 2015-16 to net cash inflows of \$6.1 million in 2016-17. Over this period, the council generated enough operating cash flow surpluses to maintain, renew and develop community infrastructure.

Council's cash and cash equivalents remained largely consistent over the past three years.



FINANCIAL POSITION

Cash and Investments

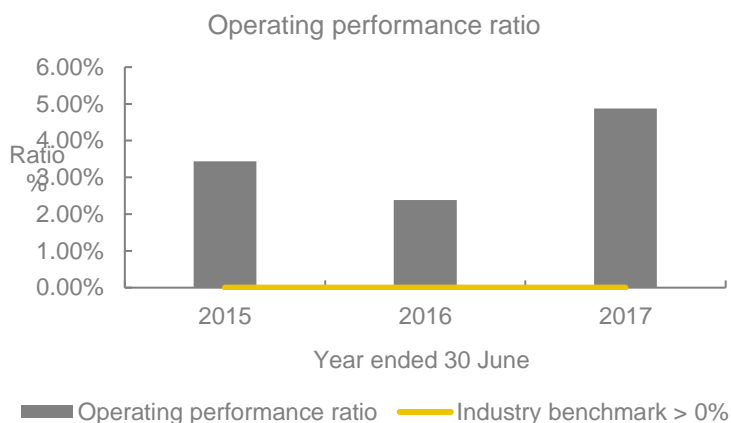
Restricted Cash and Investments	2017	2016	Commentary
	\$m	\$m	
External restrictions	100.7	141.6	Externally restricted balances include cash reserve earmarked for specific purposes such as developer contributions and domestic waste management charges.
Internal restrictions	301.4	346.1	
Unrestricted	113.7	82.2	
Cash and investments	515.8	569.9	Council also imposes Internal restrictions due to policy or decisions for forward planning. This include cash and investments held for the city centre transformation reserve and the Green square reserve.
			Unrestricted balances provide liquidity for day-to-day operations.

PERFORMANCE RATIOS

The definition of each ratio analysed below (except for the ‘building and infrastructure renewals ratio’) is included in Note 13 of the Council’s audited general purpose financial statements. The ‘building and infrastructure renewals ratio’ is defined in Council’s Special Schedule 7.

Operating performance ratio

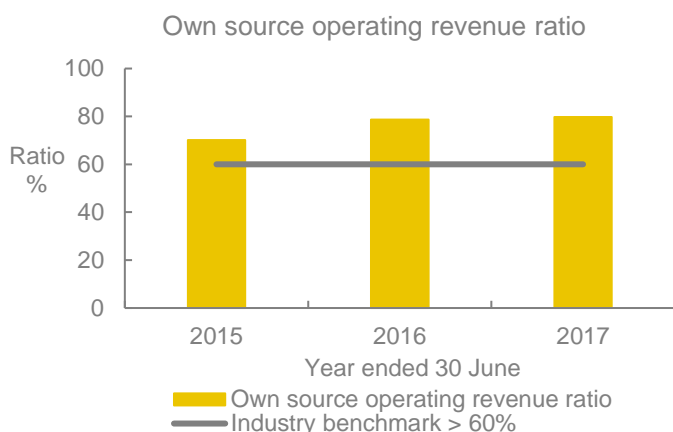
The Council’s operating performance, after adjusting for capital related contribution to the light rail project, is above the benchmark level. The ‘operating performance ratio’ measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the Office of Local Government (OLG) is a ratio “greater than zero per cent”.



Own source operating revenue ratio

The Council’s own source operating revenue exceeded the industry benchmark over the past three years. This increased from 78.7 per cent in 2016 to 79.7 per cent in 2017.

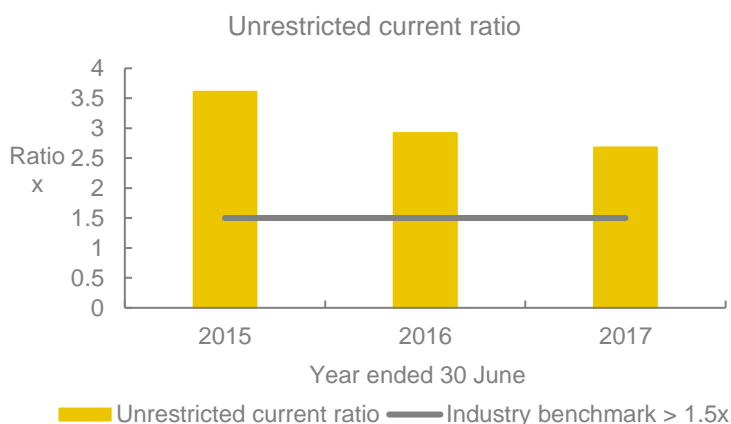
The ‘own source operating revenue ratio’ measures council’s fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.



Unrestricted current ratio

Council’s unrestricted current ratio exceeded the industry benchmark over the past three years. The reduced ratio in the past two years was mainly due to the contributions to Transport NSW for light rail project.

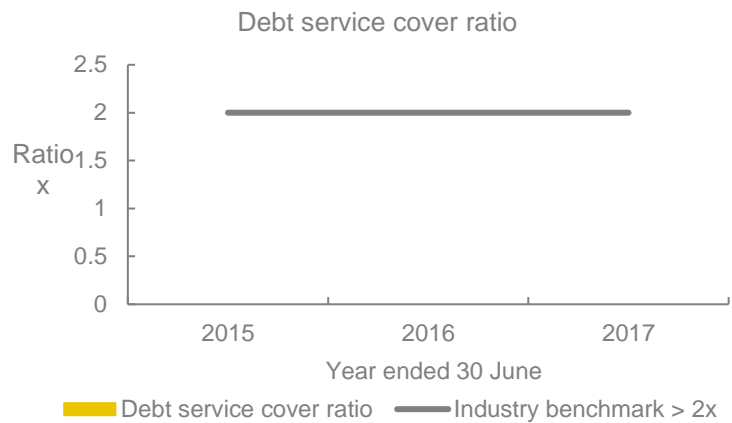
The ‘unrestricted current ratio’ is specific to local government and represents council’s ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.



Debt service cover ratio

Council does not currently use debt financing to meet delivery of its programs.

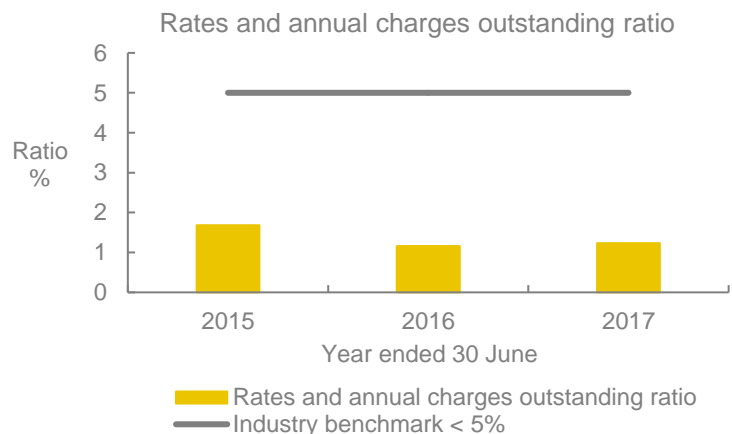
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.



Rates and annual charges outstanding ratio

Council's rates and annual charge percentages have been below 2 per cent over the past three years, significantly exceeding the benchmark level expectation.

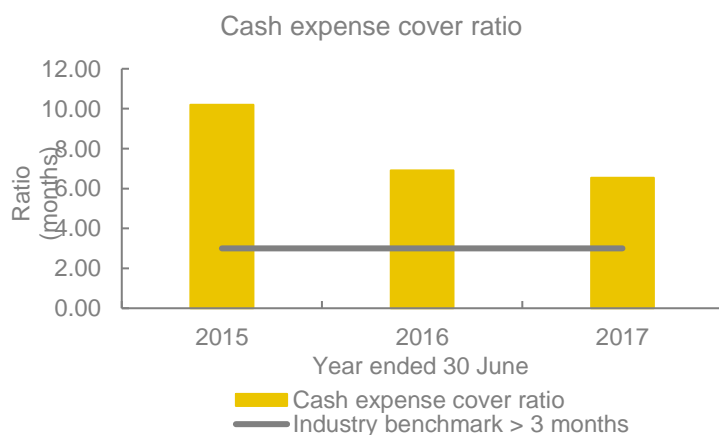
The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 5 per cent for metro councils.



Cash expense cover ratio

Council's cash expense ratio exceeded the industry benchmark over the past three years. Consistent with the Long Term Financial Plan, cash and investment balances is expected to reduce over the next five years with the delivery of major projects and contributions toward the Transport for NSW Light Rail Project.

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by OLG is greater than three months.



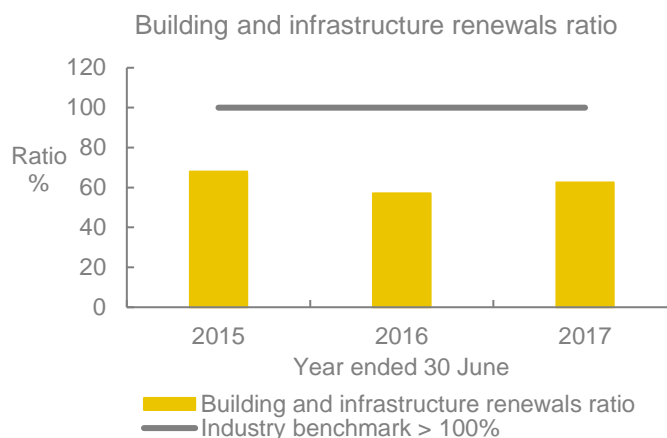
Building and infrastructure renewals ratio

Council's building and infrastructure renewals ratio increased from 57.0 per cent in 2016 to 62.6 per cent in 2017. The Council's rate of asset renewal is lower than the relative rate at which assets are depreciated. This ratio can be impacted by a Council's asset renewal cycle. The Council ensures it matches the required expenditure for asset renewal with the actual condition assessment of the assets through its assets management program.

This ratio needs to be considered in conjunction with other financial indicators in determining Council's financial position and sustainability.

The 'building and infrastructure renewals ratio assesses the rate at which these assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG is greater than 100 per cent.

This ratio is sourced from council's Special Schedule 7 which has not been audited.



OTHER MATTERS

New accounting standards implemented

AASB 124 'Related Party Disclosures'

Effective for annual reporting periods beginning on or 1 July 2016

AASB 2015-6 extended the scope of AASB 124 to include not-for-profit public sector entities. As a result, Council's financial statements disclosed the:

- compensation paid to their key management personnel
- nature of their related party relationships
- amount and nature of their related party transactions, outstanding balances and commitments and outstanding balances (including commitments).

Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial reports. The Council's:

- accounting records were maintained in a manner and form to allow the general purpose financial statements to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.

The Council's:

- accounting records were maintained in a manner and form that facilitated the preparation and the effective audit of the general purpose financial statements
- staff provided all accounting records and information relevant to the audit.

Bola Oyetunji
Director, Financial Audit Services

12 October 2017
SYDNEY

cc: Monica Barone, Chief Executive Officer
Elizabeth Crouch, Chair of Audit Risk and Compliance Committee
Tim Hurst, Acting Chief Executive of the Office of Local Government