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Meeting Date:	{meeting-date}
Presenter:	
Duration:	30 minutes

Purpose

To update the Audit and Risk Committee (the Committee) on the quarterly report and key end of financial year reporting issues.

Request of Audit and Risk Committee

That the Audit and Risk Committee note / provide feedback on:

1. Quarter 3 Finance and Capital Management report (report attached)
2. Approach to materiality for financial statements (within report below)
3. Format of shell (model) accounts for the City, and high level timeline (shell accounts attached)
4. Process for revaluation and infrastructure reporting (within report below)

Executive Summary

This Finance update contains the usual Quarterly Report which is taken to a Council briefing and meeting, as well as a number of financial reporting (pre-end of financial year) items.

VAGO recommends that Council Audit and Risk Committees review the form of financial statements, materiality, and receive an update on the most material element of the balance sheet – being the infrastructure and related revaluation processes.

This report seeks to cover off the above recommendations and provide a forum for any other questions of Committee members in advance of the production of the June 30, 2024 financial statements.

Report

Q3 Finance and capital report

Attached is the Q3 Finance and Capital Management report, with year-to-date results from July 1, 2023 to March 31, 2024.

Financial statements materiality

Financial statement materiality is used in accounting to determine the significance of financial information. Materiality refers to the threshold at which an error, omission or misstatement in the financial statement could potentially affect the decisions of users of the financial statements. In other words, materiality is the amount or information that is important enough to make a difference in the decisions of users of the financial statements.

Materiality is typically based on a percentage of a specific financial statement item or a combination of items. Ultimately, the goal of setting a materiality threshold is to ensure that the financial statements provide accurate and reliable information that is relevant to the decisions of users of the financial statements.

An excerpt from xxx Audit Strategy is provided here:

Description	Benchmark ^	Amount (\$)
Overall materiality	5% of Property, Infrastructure, Plant and Equipment from prior year	\$94.7m
Performance materiality	80% of overall materiality	\$75.8m
Clearly trivial threshold	5% of performance materiality	\$3.8m
Specific materiality (set for all account balances other than PIPE)	5% of total expenditure from prior year	\$11.4m
Specific performance materiality	80% of specific materiality	\$9.1m
Specific clearly trivial threshold	5% of specific performance materiality	\$456k

Draft Audit Strategy: p.12 of strategy / p.83 of February's ARC papers

The City has reviewed these levels and believes these are appropriate for financial statement purposes. For performance statements, materiality is set for each individual indicator reported after considering qualitative and quantitative factors influencing that indicator. The diverse nature of performance statements means that an overall materiality level for the statement cannot be communicated by VAGO.

In applying the above levels, the City will remain mindful of any qualitative factors impacting on its materiality assessment - in particular whether the nature of the items

causes it to be material even though it would be judged immaterial based on the amount involved.

Of course, where time and systems allow, the City adjusts for all errors or omissions through the Audit and Financial Statement preparation process.

Model accounts and draft timeline - update

The City has prepared shell (model) accounts in advance of June 30. These are attached and have been generated using the newly adopted LG Solutions Cloud Year End product, a tool used in the financial statements preparation process. Detailed feedback is not required given these are 'shell' accounts – however, if there are questions or topics which would support members of the Committee in advance of year end – please let us know.

The highlights are intentional in the attachment, as these aren't finalised figures - the intent is to show the form and structure and notes to be included for the financial statements.

At a high level, there are no significant changes to accounting standards this financial year.

In more recent updates from VAGO, the following have been noted as areas of focus:

- Valuation of land, buildings and infrastructure assets
- Government funding
- Provision for landfill
- Information technology controls as they relate to financial reporting
- Compliance with the model performance statement and changes to indicators
- Adequate systems to capture financial and non-financial data for the performance statement

The timeline for adopting the financial statements at Committee and Council meetings is:

Milestone description	Target completion date
Draft financial report / performance statement submitted to auditors	5 August 2024
Final audit commences	12 August 2024
Closing meeting with auditors	23 August 2024
Draft closing report presented and discussed at Audit and Risk Committee meeting	4 September 2024
Council meeting to endorse signing of financial statements	16 September 2024
VAGO audit report signed	23 September 2024

Final management letter issued	15 October 2024
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Process for revaluation and infrastructure reporting

Financial management in asset-intensive organisations involves high asset values relative to the total organisation value. At the City, this involves asset values of over \$2B.

All councils are required to complete financial valuations of their assets at regular intervals. The City values its assets at frequencies listed in the Asset Valuation and Revaluation Policy and assesses annually that the value hasn't moved materially. A primary outcome of this requirement is that the City's balance sheet will reflect the fair value of Council's portfolio of assets.

The schedule of upcoming valuations is detailed in the table below, with those scheduled for the 2023/2024 financial year highlighted in yellow.

Asset Class	Revaluation Frequency (Years)	Previous Revaluation	Next Revaluation
Property Assets			
Land (E)	2	June 2023	June 2025
Buildings (E)	2	June 2023	June 2025
Plant & Equipment Assets			
Plant & equipment	N/A	Valued at cost	Valued at cost
Office equipment, furniture & fittings	N/A	Valued at cost	Valued at cost
Artworks (E)	3	June 2023	June 2026
Fountains, statues & monuments (E)	5	June 2022	June 2027
Infrastructure Assets			
Sealed roads (I)	1	June 2023	June 2024
Unsealed roads (I)	1	June 2023	June 2024
Pathways (I)	1	June 2023	June 2024
Bridges (I)	1	June 2023	June 2024
Drainage (I)	1	June 2023	June 2024
Land improvements (I)	3	June 2022	June 2025
Public furniture (I)	3	June 2022	June 2025
Landfill	N/A	Valued at cost	Valued at cost

E – valued by external independent expert.

I – valued by internal skilled Council staff.

The roads, footpaths, bridges and drainage asset classes are revalued each financial year by the City. This involves reviewing and updating the unit rates to be in line with current 'greenfield' rates; and applying updated condition data from inspection

assessments. The accumulated depreciation for the drainage asset class is age-based given the difficulty of completing visual site inspections.

Contract rates for the 2023 calendar year and the 2024 Rawlinsons handbooks (released in January 2024) are used in reviewing the unit rates. The unit rates are then determined by averaging the previous three years rates (which will also flatten the spike in the revaluation movement).

Over the next 3-4 months, the Engineering team in collaboration with the Financial Accounting team will be working through the capitalisation of subdivision assets and completed capital projects, 'found' assets, accounting for asset disposals and applying the unit rate movements.

With cost increases throughout construction industries over the past two financial years, it is likely that there will be a similar increase in infrastructure asset values again in 2023/2024. The history of movements is outlined in the table below, and a more visual summary of all assets is included in the City's Asset Plan (p.5).

Financial year ending	Total Infrastructure asset value (\$)	Increase from previous year (\$)	Increase from previous year (%)
30 June 2023	1.654B	104M	6.29%
30 June 2022	1.550B	62M	4.00%
30 June 2021	1.488B	35M	2.35%
30 June 2020	1.453B	15M	1.03%

As at the time of drafting this report – staffing turnover is presenting challenges and a risk in both teams (Finance and Engineering), which officers are happy to speak to, however the process remains on track.

Conflict Of Interest

No officer involved in the preparation or approval of this report declared a general or material conflict of interest.

Attachments

{attachment-list}

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