

Mr Duncan Ord
Director General
Department of Local Government, Sport & Cultural Industries
GPO Box 8349
PERTH BUSINESS CENTRE WA 6849

Dear Mr Ord

SIGNIFICANT AUDIT MATTERS AS PER SECTION 7.12A(4) OF THE LOCAL GOVERNMENT ACT 1995

Please find enclosed pursuant to Section 7.12A(4) of the Local Government Act 1995 an excerpt of the minutes, including the 2017/18 Audit Report, from the Shire's Council meeting held 25 July 2019. The Act requires that a copy of the Shire's Audit Report is given to the Minister, along with a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters.

The 2017/18 Audit Report identified a significant adverse trend in relation to the financial position of the Shire of Bridgetown-Greenbushes being:

(i) Operating surplus ratio as reported in Note 26 of the financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSC) standard of zero for the last three years (2016: -0.51, 2017: -0.21 and 2018: -0.19).

A report in relation to this 'significant adverse trend' was presented to the Shire's Audit Committee on 16 July 2019 and recommendations from the Audit Committee were endorsed by Council at its meeting held 25 July 2019.

A copy of this report has been published on the Shire's official website in accordance with Section 7.12A(5).

Yours sincerely



Tim Lynch
CHIEF EXECUTIVE OFFICER

7 August 2019

Encl.

Excerpt from Council Minutes – 25 July 2019

ITEM NO.	C.07/0719	FILE REF.	134
SUBJECT	Significant Matter Raised in Audit Report		
OFFICER	Chief Executive Officer		
DATE OF REPORT	17 July 2019		

Attachment 5 Auditor's Report for the 2017/2018 Financial Report

OFFICER RECOMMENDATION That Council:

1. *Receives this report on the significant matter of an adverse (but improving) trend in the Operating Surplus Ratio raised in the 2017/2018 Audit Report;*
2. *Acknowledges Council has previously adopted a Ratio Action Improvement Plan; and*
3. *Authorises the CEO to forward a copy of this report to the Minister and publish the report on Council's official website.*

Summary/Purpose

To provide Council with a report regarding the matter identified as “significant” in the 2017/2018 Audit Report, pursuant to Section 7.12A of the Local Government Act 1995.

Background

Section 7.2 of the Local Government Act 1995 requires that the accounts and annual financial report of a local government for each financial year are to be audited by an auditor appointed by the local government.

An amendment to Section 7.12A(4) of the Local Government Act 1995 in August 2017 now requires that a local government must:

- “(a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and
(b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.”*

Section 7.12A(5) further requires that:

“Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government’s official website.”

On 28 June 2019, the Department of Local Government, Sport and Cultural Industries (the Department) contacted the Shire to advise that to date a report in accordance with Section 7.12A(4) of the act had not yet been received from this Shire in relation to the significant adverse trend in the financial position as contained in the 2017/2018 Audit Report.

Officer Comment

It was unclear to officers that the reporting of an adverse trend in financial ratios contained in the Auditor's report triggered the process referred to in section 7.12A(4) and (5) of the Local Government Act 1995. The significant adverse trend contained in the 2017/2018 Audit Report in relation to the financial position of the Shire of Bridgetown-Greenbushes referred to:

"(i) Operating surplus ratio as reported in Note 26 of the financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSC) standard of zero for the last three years (2016: -0.51, 2017: -0.21 and 2018: -0.19)."

Commencing in 2017/18 the Auditor General has instructed Auditors to report in the Audit Report (rather than the Management Report as previously done) when Council does not meet Department ratio benchmarks for a period of three consecutive years. While the Operating Surplus Ratio has been reported as a 'significant adverse trend' in relation to the Shire's financial performance it should be noted that the ratio has improved over the three year period quoted in the audit report.

Council is very aware of its ratio performance in relation to benchmarks set by the Department. In December 2017 Council adopted the following 'Ratio Improvement Action Plan':

- *A full review of Council's asset depreciation expenditure is undertaken. Specifically, a review of each individual Council asset (at component level) of its condition, useful life, remaining useful life and residual value.*
- *An assessment as to whether the Shire is revenue short or expenditure long by undertaking a comparison of neighbouring and similar sized Shires in relation to the level of own source revenue (i.e. rates, fees and charges) compared to expenditure.*
- *Develop a policy to guide future Council decisions in relation to the allocation of funds to renewal works versus upgrade works.*
- *That various scenarios are modelled during the next review of Council's Long Term Financial Plan in relation to achieving minimum ratio benchmarks. The results of these scenarios to be workshopped with Council.*

Items contained in the above plan are still being progressed and it has previously been acknowledged by Council and its Auditor that improving the Operating Surplus Ratio to meet the Department's benchmark is unlikely in the short to medium term but Council should demonstrate improvement towards achieving the benchmark through its integrated planning processes.

The Operating Surplus Ratio requires Council to ensure that its own revenue sources grow at the same or a greater rate than its operating expenses, including depreciation. It is well known that most country local governments struggle to fully fund asset depreciation via its own revenue sources and there is a reliance on grant funding such as Regional Road Group and Roads to Recovery to assist with asset renewal expenditure.

It is understood that the majority of rural local governments have not had an Operating Surplus Ratio that met the standards set by the Department, and there is an indication by the Auditor General that this benchmark may need review.

Council will shortly be undertaking the annual review of its Long Term Financial Plan and will again discuss strategies to improve this ratio. It is quite possible, however, that the Operating Surplus Ratio will remain at levels below the "standard", due to cost pressures and limited revenue sources.

This report regarding the significant adverse trend identified for Council's Operating Surplus Ratio in the 2017/2018 Audit Report was considered by the Audit Committee at its meeting held 16 July 2019 where the following recommendations were carried:

Committee Recommendation Moved Cr Moore, Seconded Cr Pratico
AC.02/0719a That the Audit Committee recommends that Council acknowledges
Council has previously adopted a Ratio Action Improvement Plan.

Statutory Environment

Section 6.4 of the Local Government Act 1995 requires a local government to prepare financial reports including an annual financial report. Regulation 50 of the Local Government (Financial Management) Regulations 1996 specifically requires the inclusion of seven financial ratios as developed by the Department to be included in the annual financial report. These statutory ratios are also included in Council's long term financial plan and are key sustainability measures. The Department's Integrated Planning and Reporting Advisory Standard includes benchmarks in relation to the ratios that sets minimum regulatory requirements that ensure an acceptable minimum standard of practice.

Integrated Planning

- Strategic Community Plan
Key Goal 5 – Our leadership will be visionary, collaborative and accountable
Objective 5.2 – We maintain high standards of governance, accountability and transparency
Strategy 5.2.6 – Ensure the future financial sustainability of the Organisation
 - Corporate Business Plan
5.2.6.2 – Implement the Council endorsed action plan designed to achieve compliance to financial ratios

- Long Term Financial Plan – Nil
- Asset Management Plans – Nil
- Workforce Plan – Nil
- Other Integrated Planning – Nil

Policy Implications – Nil

Budget Implications – Nil

Fiscal Equity – Not applicable

Whole of Life Accounting – Not applicable

Social Equity – Not applicable

Ecological Equity – Not applicable

Cultural Equity – Not applicable

Risk Management

Failure to meet the Department's financial ratio benchmarks may put the Council at risk of being classified as unsustainable particularly if it cannot demonstrate improvement in ratio performance over the medium to long term.

Continuous Improvement

Implementation of the actions contained within the Ratio Improvement Action Plan will aid Council in its endeavour to meet the Department's financial ratio benchmarks.

Voting Requirements – Simple Majority

Council Decision Moved Cr Bookless, Seconded Cr Moore

C.07/0719 That Council:

- 1. Receives this report on the significant matter of an adverse (but improving) trend in the Operating Surplus Ratio raised in the 2017/2018 Audit Report;***
- 2. Acknowledges Council has previously adopted a Ratio Action Improvement Plan; and***
- 3. Authorises the CEO to forward a copy of this report to the Minister and publish the report on Council's official website.***

Carried 8/0

INDEPENDENT AUDITOR'S REPORT

To the Shire of Bridgetown-Greenbushes

Report on the Audit of the Financial Report

Opinion

We have audited the annual financial report of Shire of Bridgetown-Greenbushes which comprises the Statement of Financial Position as at 30 June 2018, the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and Rate Setting Statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.

In our opinion the annual financial report of Shire of Bridgetown-Greenbushes:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of Shire of Bridgetown-Greenbushes for the year ended 30 June 2018 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of Shire of Bridgetown-Greenbushes in accordance with the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

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 Shire of Bridgetown-Greenbushes's financial reporting responsibilities under the Act. Regulation 16 of the Local Government (Financial Management) Regulations 1996 (Regulations), does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. Our opinion is not modified in respect of this matter.

Responsibilities of the Chief Executive Officer and Council for the Financial Report

The Chief Executive Officer (CEO) of Shire of Bridgetown-Greenbushes is responsible for the preparation and fair presentation of the annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal control as the CEO determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

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In preparing the financial report, the CEO is responsible for assessing Shire of Bridgetown-Greenbushes's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State government has made decisions affecting the continued existence of Shire of Bridgetown-Greenbushes.

The Council is responsible for overseeing Shire of Bridgetown-Greenbushes's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Report

The objectives of our audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Shire of Bridgetown-Greenbushes's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the CEO.
- Conclude on the appropriateness of the CEO's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Shire of Bridgetown-Greenbushes's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report, as we cannot predict future events or conditions that may have an impact.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Council and the CEO regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In accordance with the *Local Government (Audit) Regulations 1996* we report that:

- (i) In our opinion, the following matters indicate significant adverse trends in the financial position of the Shire of Bridgetown-Greenbushes:
 - a. Operating surplus ratio as reported in Note 26 of the financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of zero for the last three years (2016: -0.51, 2017: -0.21 and 2018: -0.19).
- (ii) There were no instances of non-compliance with Part 6 of the *Local Government Act 1995*, the *Local Government (Financial Management) Regulations 1996* or applicable financial controls of any other written law identified during the course of our audit.
- (iii) All required information and explanations were obtained by me.
- (iv) All audit procedures were satisfactorily completed.
- (v) In our opinion, the asset consumption ratio and the asset renewal ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of Shire of Bridgetown-Greenbushes for the year ended 30 June 2018 included on the Shire of Bridgetown-Greenbushes's website. The Shire of Bridgetown-Greenbushes's management is responsible for the integrity of the Shire of Bridgetown-Greenbushes website. This audit does not provide assurance on the integrity of the Shire of Bridgetown-Greenbushes's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

AMD Chartered Accountants


TIM PARTRIDGE
Director

28-30 Wellington Street, Bunbury, Western Australia Dated this 28th day of November 2018