

REPORT ON ADVERSE AUDIT FINDINGS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

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Chief Executive Officer

30 January 2021



Shire of
Collie
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Background

The Shire of Collie is required to prepare an audited Annual Financial Report each financial year under the Local Government Act 1995 (Act).

Council's current auditor is AMD Chartered Accountants (AMD), who have a contract for audit services with the Council until 2021. AMD are experienced local government auditors and an accredited agent of the Office of Auditor General.

A key requirement for local government under section 7.12A (4) of the Act, 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) of the Act states that within 14 days after a local government gives a report to the Ministers the CEO must publish a copy of the report on the local government's website.

The audit report for the financial year ended 30 June 2020, AMD has reported on the following adverse findings:

- a) The operating surplus ratio reported at -0.25 as at 30 June 2020 (-0.11 at 30 June 2019 and -0.16 at 30 June 2018) is below the standard of zero set by the Department of Local Government, Sport and Cultural Industries
- b) The Shire do not have a Long-Term Financial Plan setting out planned asset expenditure renewals for the next 10 years therefore unable to calculate the Asset Renewal Funding ratio

The audit report for the financial year ended 30 June 2020 was considered at the Council's Audit Committee meeting on 11 December 2020 and was adopted by Council on 15 December 2020. AMD's representative Mr. Tim Partridge attended the Audit Committee meeting and provided further clarification on the ratio in his report.

Operating Surplus Ratio

As per **Local Government Operational Guidelines No18 – Financial Ratios** published by the Department in 2015, the Operating Surplus Ratio measure is described as follows.

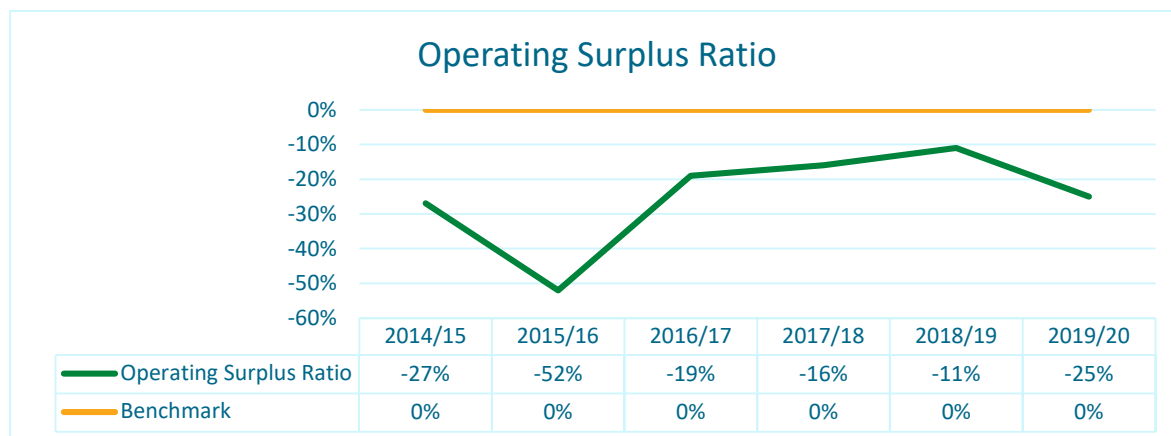
A key indicator of a local government's financial performance is measured by the 'Operating Surplus Ratio'. If a local government consistently achieves a positive operating surplus ratio and has soundly based long term financial plans showing that it can continue to do so in future, having regard to asset management and the community's service level needs, then it is considered financially sustainable.

A positive ratio indicates the percentage of total own source revenue available to help fund proposed capital expenditure, transfer to cash reserves or to reduce debt. A negative ratio indicates the percentage increase in total own source revenue (principally rates) that would have been required to achieve a break-even operating result.

This measure identifies the Council's capacity to cover its operational costs and have additional funds available for other purposes including investment in capital projects. The Department considers a "basic" standard to be between 1% and 15% and an "advanced" standard with a measure of over 15%.

The ratios should be read for what they are, a very simplistic measure which does not take into consideration abnormal "one-off" items of income or expense from year to year or any reclassification of expenses from capital to operating as is required from time to time.

The Shire of Collie's operating Surplus ratio has traditionally been a negative result as indicated on the following graph. The 2015/16 financial year result is explained as a \$1.59m reclassification of expenditure as operating expense and is related to the construction of the Collie Early Learning Centre which is not an asset owned by the Shire of Collie.



In order to improve the Operating Surplus Ratio further, the Council has limited options available to it. The measure could be improved by increasing rates substantially, however this must be balanced with the community's capacity to pay particularly considering the current economic circumstances for Collie. The measure could also be improved by Council reviewing its major operating costs centres, including employment costs and contractors and materials however this will certainly adversely impact on the level of service which Council is able to deliver to the Collie community.

Action Plan: A detailed analysis of available options to improve the operating surplus ratio be undertaken as part of its long-term planning review during 2020/21.

Asset Renewal Funding Ratio

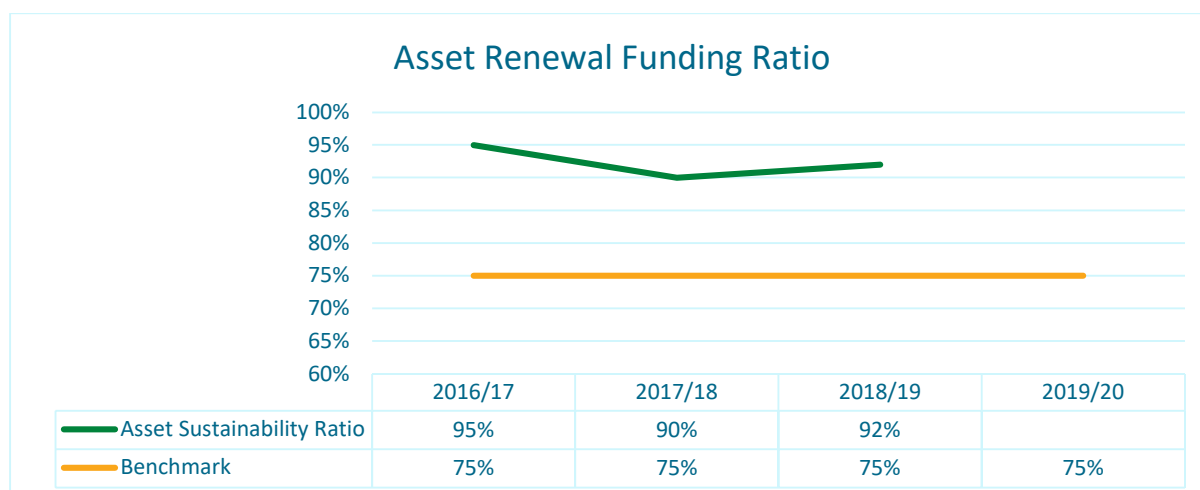
As per **Local Government Operational Guidelines No18 – Financial Ratios** published by the Department in 2015, The Asset Sustainability Ratio measure is described as follows.

This ratio indicates whether the local government has the financial capacity to fund asset renewal as required and can continue to provide existing levels of services in future, without additional operating income or reductions in operating expenses.

The ratio is calculated from information included in the local government's Long Term Financial Plan and Asset Management Plan not the Annual Financial Report.

Standard is met if the ratio is between 75% and 95%. Standard is improving if this ratio is between 95% and 105% (or 0.90 and 1.10).

The Shire of Collie's asset renewal funding ratio over the years have met the standard set by the Department. Due to COVID-19 there has been a delay in adoption of an updated Long Term Financial Plan, which in turn has resulted in the asset renewal funding ratio being reported as not applicable for the 2019/20 financial year.



Action Plan: The long-term financial plan is at its final stages and it is expected to be adopted within the next 6 months.