

29 APRIL 2020

11.0 AUDIT COMMITTEE REPORTS

11.1 SIGNIFICANT ADVERSE TREND IN FINANCIAL POSITION
FM00003

AUTHOR

EXECUTIVE MANAGER FINANCE AND ADMINISTRATION

DISCLOSURE OF ANY INTEREST

Nil

Moved Cr Ridgley
Seconded Cr Burton

Council Resolution

That Council:

- 1. Accept and endorse the action detailed within the Significant Adverse Trend in Financial Position Report for the financial year ended 30 June 2019, presented to the Audit Committee by the Council's Administration, and**
- 2. Forward a copy of the report and Council Resolution to the Department of Local Government as a true and correct record of the information contained therein.**

7/0 CARRIED

BACKGROUND

In the Moore Stephens Independent Auditor's Report to the Councillors of Shark Bay for the financial year ended 30 June 2019 they detailed that:

In their opinion, there is a significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio has been below the Department of Local Government, Sport and Cultural Industries Standard for the past 3 years.

This is a significant matter that is required to be reported to the Audit Committee along with a detailed report outlining what actions the local government has or proposes to take in respect of the matter raised.

COMMENT

At the Audit Committee Meeting held on the 12 February 2020 Mr Greg Godwin of Moore Stephens advised members of the significant adverse trend in the financial position of the Shire due to the Operating Surplus Ratio being below the Department of Local Government, Sport and Cultural Industries Standard for the past 3 years.

However he also outlined the overall positive findings of the audit process and acknowledged that there has been an improvement in the Operating Surplus Ratio which had been noted on page 51 of the Financial Statements for the year ended 30 June 2019. For your information the note is detailed below:

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| Ratios | Formula | \$ | 2019 | \$ | 2018 | \$ | 2016/17 | \$ | 2016/17 | Comments | |
|--------------------------------------|---|--------------|------------|--------------|--------------|---------------|--------------|--------------|--------------|---|--|
| Liquidity & Solvency | | | | | | | | | | | |
| | | | | | | | | | | <i>Abnormal Items Removed from Operating Income and Reimbursements and Recoveries</i> | |
| OPERATING SURPLUS RATIO | Operating Revenue Minus Operating Expense | (954,853) | | (1,245,454) | | (1,076,522) | | (1,795,232) | | | |
| | Net Result | + (436,180) | | (388,216) | | 1,443,193 | | 724,483 | | | |
| | - less: Non-Operating grants, Subsidies and contributions | - (519,673) | (954,853) | (857,238) | (1,245,454) | (2,519,715) | (1,076,522) | (2,519,715) | (1,795,232) | | |
| | | | | -0.303 | | -0.433 | | -0.290 | | -0.600 | |
| | Own Source Operating Revenue | 3,147,731 | 3,147,731 | 2,873,425 | 2,873,425 | 3,711,788 | 3,711,788 | 2,993,078 | 2,993,078 | | |
| | - add: rates | + 1,279,210 | | 1,248,087 | | 1,190,882 | | 1,190,882 | | | |
| | - add: fees and user charges | + 1,587,982 | | 1,509,057 | | 1,554,203 | | 1,554,203 | | | |
| | - add: service charges | + 0 | | 0 | | 0 | | 0 | | | |
| | - add: interest income | + 64,894 | | 64,093 | | 66,987 | | 66,987 | | | |
| | - add: profit on disposal of assets | + 21,608 | | 0 | | 0 | | 0 | | | |
| - add: reimbursements and recoveries | + 194,027 | | 52,189 | | 899,715 | | 181,005 | | | | |
| | | | | | | | | | | | |
| | Reimbursements and Recoveries | | | | | | | | | | |
| | Abnormal Items in 2016/17 | | | | | | | | | | |
| | DOT Reimbursement for Forestry | | | | | \$ 621,928.29 | | | | | |
| | Transfer from Trust Account | | | | | \$ 96,781.24 | | | | | |
| | | | | | | \$ 718,709.53 | | | | | |

Notes:

(1) - During the 2016/17 financial year \$718,710 of abnormal items, which were included in Operating Revenue, effected the Operating Surplus Ratio result of -0.29% displayed above. After adjusting for these abnormal items the adjusted ratio is -0.60% which reflects the downward trend and councils efforts to reduce this significant adverse deficit.

It is acknowledged by both the auditors and the Councillors, that due to the size of its ratebase, our Council is dependent on Grant Commission Funding as this is the major cause of the operating surplus ratio being below the Department of Local Government, Sport and Cultural Industries Standard. As most Regional Local Governments are having to report on the same significant matter the Operating Surplus Ratio needs to be reviewed to acknowledge and address this situation.

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The Department of Local Government, Sport and Cultural Industries advise that the current prescribed financial ratios are being reviewed as part of the Local Government Review. However until this work has been finalised and any amendments endorsed, the existing ratios will remain.

ACTION

The Shire will continue with the Strategies implemented to reduce expenditure and improve the Operating Surplus Ratio as its successful implementation has proven fruitful over the last three years.

LEGAL IMPLICATIONS

If the Auditor General or a local government's appointed auditor reports a significant matter in an audit report, section 7.12A of the Local Government Act 1995 requires:

1. Upon receipt of the auditor's report, the local government must prepare a report for its Audit Committee to address the significant matters raised and outline what action(s) the local government has taken or intends to take in respect of each of the matters raised.
2. The Audit Committee minutes and the report to the Minister are referred to Council for proper review and endorsement of any proposed actions.
3. Within 3 months of receipt of the auditor's report, a copy of the Council-endorsed report must be provided to the Minister.
4. Within 14 days of providing a copy of the report to the Minister, a copy must be published on the local government's website.

A local government is not considered compliant with its statutory obligations until all of the above actions have been completed.

POLICY IMPLICATIONS

There are no policy implications relative to this report.

FINANCIAL IMPLICATIONS

There are no financial implications relative to this report.

STRATEGIC IMPLICATIONS

There are no strategic implications relative to this report.

RISK MANAGEMENT

Should the Local Government not comply with the Legal implications listed above the Council will be in contravention of the Local Government Act 1995 and will be deemed non compliant with its statutory obligations.

VOTING REQUIREMENTS

Simple Majority Required

SIGNATURES

Author
Chief Executive Officer
Date of Report

A Pears
P Anderson
23 April 2020