

11.6 Section 7.12A(4) - 2017/18 Financial Year – Audit Report

Location:	Shire of Tammin
Applicant:	Department of Local Government, Sport and Cultural Industries (DLGSC)
Date:	18 July 2019
Author:	Neville Hale
Item Approved by:	Chief Executive Officer
Disclosure of Interest:	Conditions of contract of employment
File Reference:	FIN02 – Audit
Attachment/s:	Attachment Item 11.6 – Letter received from DLGSC

Purpose/Summary

For the Committee to advise Council of a significant adverse trend identified in the Shire's 2017/18 Audit Report and deficiency in the process of adopting the 2017/18 Annual Report inclusive of the Audit Report and make appropriate recommendation to Council.

Background

The Audit Committee has reviewed the contents of the letter from DLGSC and the Auditors Report for the 2017/18 Financial Year and recommends that Council:

That Council:

- 1. note the adverse Audit finding in respect to the Operating Surplus Ratio for the 2017/18 Financial Year, as reported to the Audit Committee and Council on 31 January 2019, including the additional Management comment provided and the action taken to address this matter ;*
- 2. in accepting this report, authorize the Chief Executive Officer to forward a copy of the Report to the Minister in accordance with section 7.12A(4)(b) of the Local Government Act, 1995; and,*
- 3. publish a copy of this Report on its website in accordance with the provisions of section 7.12A(4)(b).*

The Shire's 2017/18 Annual Report, inclusive of the Audit Report was presented to the Shire's Audit Committee and Council on 31 January 2019 wherein the Agenda included the following attachments:

Attachment Item 3.1.1 - Shire of Tammin - Audit Report 30.06.18

Attachment Item 3.1.2 - Shire of Tammin - Annual Financial Statements 30.06.18

Attachment Item 3.1.3 - Shire of Tammin - Management Letter 30.06.18

Attachment Item 3.1.4 – Shire of Tammin – Annual Report 30.06.18

The Audit Report identified the following matter:

“Significant adverse trend in the financial position: Operating Surplus Ratio below the Department standard for the last three years.”

A copy of the Auditors Report and Council minutes were forwarded to DLGSC on 4 February 2019 in accordance with the requirements of the Act. A copy of the Minutes of the 31 January 2019 Meeting were placed on the Shire's website.

The DLGSC has, on 2 July 2019, advised the Shire, see attached letter, that notwithstanding the above:

"section 7.12A(4) of the Local Government Act 1995 requires a local government to prepare a report
a) 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.

Furthermore, 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."

Accordingly, the following report is presented in accordance with the format required by the Office of the Auditor General.

REPORT

Section 7.12A(4)(a) of the Local Government Act 1995 Office of the Auditor General (OAG) – Performance Audit

Purpose of Report

To inform Council and community members of a significant adverse trend identified by its Auditors. Moreover, the report, in the required form, was not presented to the Shire's Audit Committee and or Council at the 31 January 2019 Meetings when reviewing the 2017/18 Annual Report inclusive of the Audit Report.

Significant Matter Identified by OAG

"Significant adverse trend in the financial position: Operating Surplus Ratio below the Department standard for the last three years."

Where the Operating Surplus Ratio is calculated as:

Operating revenue (AAS) LESS Contributions to capital outlays LESS operating expense (AAS) DIVIDED BY Own Source Revenue (FR50)

Department Standard - Basic Standard between 0% and 15% and advanced with ratio greater than 15%.

Implication

DLGSC Guidelines on Financial Ratios offers the following comment:

The 'Operating Surplus Ratio' is a measure of the Shire's financial performance. A positive operating surplus 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.

Management Comment

It is difficult to quantify the impact of this ratio given that some 110 of 137 local governments failed to meet the required standard for the 2017/18 financial year.

The CEO has sought independent comment on the Operating Surplus Ratio results following a self assessment that identified a number of contributing factors influencing the Ratio outcome. Factors such as recognition of Federal Assistance Grants being inconsistent from year to year and the impact of non-cash depreciation.

Notwithstanding these issues, the CEO discussed the adverse trend with Mr Ron Back, a recognized specialist in the field of local government financial management who has amassed a data base of financial records for almost all shires going back a number of years. Having reviewed data relating to the Shire of Tammin, Mr Back noted:

“Irrespective of the views on the adequacy of this performance indicator, the legislation requires the Shire to calculate and report this ratio in its annual financial report.

In responding to the Departmental enquiry, it should be noted that the trend for this ratio is improving, from -166% to -51% to -50% in the last three years. The operations of the Shire have not materially changed; indeed, the operations of the Shire have not changed over many decades.

Considering the net operating: (before capital contributions and after adjustment for FAG’s) the results over the past three years is \$ (1,221,050), \$(1,136,034) and \$(696,653). The trend is improving and being monitored by the Shire.

When considering the operating results including capital contributions the trend shows a similar improvement, from \$ (476,582) to \$(198,077) in 2017/18.

The Shire has increased its rate revenue by 6.0%, 8.8% and 5.5% over this period which has contributed to the better performance, however it has been mindful of difficult economic climate and the impost on ratepayers. In addition, the results have been achieved despite the substantial increases arising from State charges. The Shire has also experienced a real reduction in its untied grants over the same period.”

Action Taken or Intended to be Taken

The Shire of Tammin has noted that whilst the Ratio has been below the required standard over the past three years, it has been improving.

The Shire will continue to monitor the Ratio results and identify factors within its control that can be addressed with a view to improving the Ratio outcome.

Completion or Proposed Completion Date

Ongoing monitoring. The recognition of Federal Assistance Grants within the year to which they apply will go a long way to reducing the fluctuations currently experienced.

Consultation

Mr Ron Back, Local Government Financial specialist

Statutory Implications

Division 4 — General

7.12A. Duties of local government with respect to audits

- (1) A local government is to do everything in its power to —
 - (a) assist the auditor of the local government to conduct an audit and carry out the auditor's other duties under this Act in respect of the local government; and
 - (b) ensure that audits are conducted successfully and expeditiously.
- (2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.
- (3) A local government must —
 - (aa) examine an audit report received by the local government; and
 - (a) determine if any matters raised by the audit report, require action to be taken by the local government; and
 - (b) ensure that appropriate action is taken in respect of those matters.
- (4) 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.
- (5) 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.

Policy Implications

N/A

Financial Implications

N/A

Strategic Implications

Civic Leadership Strategies

Outcome 6.1 Strong governance and leadership, demonstrating fair and equitable community values

6.1.1 Deliver sustainable governance through transparent and robust policy and processes

6.1.2 Undertake the civic duties of Council with the highest degree of ethics

Officers Recommendation

That Council:

1. note the adverse Audit finding in respect to the Operating Surplus Ratio for the 2017/18 Financial Year, as reported to the Audit Committee and Council on 31 January 2019, including the additional Management comment provided and the action taken to address this matter ;
2. in accepting this report, authorize the Chief Executive Officer to forward a copy of the Report to the Minister in accordance with section 7.12A(4)(b) of the Local Government Act, 1995; and,
3. publish a copy of this Report on its website in accordance with the provisions of section 7.12A(4)(b).

Moved: Cr _____

Seconded: Cr _____

Vote: Simple Majority

Carried/Lost: ___/___

TSC 70/19 MOTION

That Council:

1. note the adverse Audit finding in respect to the Operating Surplus Ratio for the 2017/18 Financial Year, as reported to the Audit Committee and Council on 31 January 2019, including the additional Management comment provided and the action taken to address this matter, being:
"The Shire of Tammin has noted that whilst the Ratio has been below the required standard over the past three years, it has been improving. The Shire will continue to monitor the Ratio results and identify factors within its control that can be addressed with a view to improving the Ratio outcome".
2. in accepting this report, authorize the Chief Executive Officer to forward a copy of the Report to the Minister in accordance with section 7.12A(4)(b) of the Local Government Act, 1995; and,
3. publish a copy of this Report on its website in accordance with the provisions of section 7.12A(4)(b).

Moved: Cr Batchelor

Seconded: Cr Daniels

Vote: Simple Majority

Carried: 5/0

The additional wording in point 1 has been added for the purpose of clarity