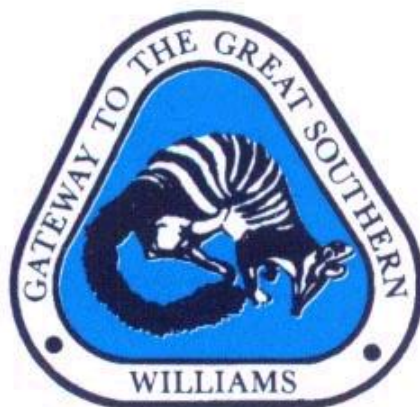


SHIRE OF WILLIAMS



MATTERS IDENTIFIED AS SIGNIFICANT IN THE AUDIT REPORT 2020-2021



Matters Identified as Significant in the Audit Report 2020-2021

File Reference	4.22.00
Statutory Ref.	<i>Local Government Act 1995</i> section 7.12A
Author & Date	Geoff McKeown 11 January 2022
Attachments	Independent Auditor's Report for 2020-21

Background

Changes to the *Local Government Act 1995*, which came into effect in 2017, introduced new requirements for local governments with respect to audits. The legislation requires local governments to examine an audit report it receives and implement appropriate action in respect to matters raised and to specifically report on matters identified as significant by the auditor.

The Auditor General's Independent Auditor's Report for 2020-21 identified two matters, including:

1. Significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio as reported in Note 27 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries basic standard for all 3 years reported in the annual financial report; and
2. Non-compliance with Part 6 of the *Local Government Act 1995*, the Regulations, or applicable financial controls of any other relevant written law, in that the following key reconciliations were not sufficiently evidenced as completed and reviewed: custom transaction detail report; rates receivable; and trade receivable. Also, reconciliations for trust and reserves bank accounts, and trade receivable account were not performed in a timely manner. It was noted however that there were no transactions in trust and reserves bank accounts during those months.

Local governments are required to prepare a report addressing any matters identified as significant by the auditor in the audit report, and state what action the local government has taken or intends to take with respect to the matters.

A copy of the report is to be provided to the Minister for Local Government within 3 months of receiving the audit report. It is also required to be published on the Shire's website. The content of this Agenda Item will form the basis of the report to go to the Minister.

Comment

➤ Operating Surplus Ratio

$$\text{Operating Surplus Ratio} = \frac{\text{(Operating Revenue MINUS Operating Expense)}}{\text{Own Source Operating Revenue}}$$



The purpose of this ratio is a measure of a local governments' ability to cover its operational costs and have revenues available for capital funding or other purposes. The Department has determined that a ratio below 0.01 (1%) is below the standard required.

The following table highlights the Shire's ratio as calculated for the last four (4) financial years, including the figure for the 2020/21 financial year:

	2017/18	2018/19	2019/20	2020/21
Operating surplus ratio	-0.20 (-20%)	-0.05 (-5%)	-0.05 (-5%)	-0.05 (-5%)

Own source operating revenue is made up of rates, fees and charges, interest income, profit on disposals of assets, reimbursements and recoveries, and other revenue. Small regional local governments are limited in their ability to increase own source revenue and are more reliant on grant funding for renewal of assets.

The Shire of Williams is disadvantaged by the amount it receives from the General Purpose Grant. Although higher than average increases in this grant have benefitted the Shire in recent years, it has come from a low base. Had the Shire received a grant equivalent to similar sized local governments, with comparable service requirements, it would have been in a better position to meet the ratio.

Depreciation expense is a significant factor in this ratio as it is included in operating expenses. The requirement to revalue road assets on a regular basis, and attribute an appropriate level of depreciation, has been a challenge for local governments. This process has matured in recent years and this Shire has systems to more accurately account for road asset depreciation expense.

Taking these factors into consideration, the trend for the Shire of Williams is steady and it has not moved in a negative direction away from achieving the minimum standard for this ratio.

➤ **Evidence of Key Reconciliations**

The audit report notes that several key reconciliations were not sufficiently evidenced as completed and reviewed.

Although reconciliations are taking place and copies are on file, they did not evidence who prepared and who reviewed them. In addition, it was noted that the Trust and Reserves bank accounts were not formally reconciled every month, but it was acknowledged that there were no transactions during the months that the reconciliations were not undertaken.

All reconciliations are now being undertaken and evidenced as completed and reviewed.

Strategic Implications

This item aligns with the community's vision and aspirations as contained in the Shire of Williams Strategic Community Plan 2017 to 2032. Specifically, it relates to the following strategy(s):

- CL 2.2 Maintain accountability, transparency and financial responsibility.
- CL 2.3 Monitor revenue streams and implement opportunities where appropriate.
Consistently review rate income.



Financial Implications

The current trend indicates that the Shire is not moving negatively regarding the Operating Surplus Ratio.

Voting Requirements

Simple Majority

Officer's Recommendation

That Council:

1. Notes the matters identified in the Auditor General's Independent Auditor's Report for 2020-21; and
2. Authorises a copy of this report to be forwarded to the Minister for Local Government and be published on the Shire's official website.

Council Resolution

Panizza/Cowcher

That Council:

1. Notes the matters identified in the Auditor General's Independent Auditor's Report for 2020-21; and
2. Authorises a copy of this report to be forwarded to the Minister for Local Government and be published on the Shire's official website.

**Carried 9/0
Resolution 86/22**



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Councillors of the Shire of Williams

Report on the Audit of the Financial Report

Opinion

I have audited the annual financial report of the Shire of Williams which comprises the Statement of Financial Position as at 30 June 2020, 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 my opinion the annual financial report of the Shire of Williams:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2020 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

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of my report. I am independent of the Shire in accordance with the *Auditor General Act 2006* and 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 my audit of the annual financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Basis of Accounting

I draw attention to Notes 1 and 11 to the annual financial report, which describe the basis of accounting. The annual financial report has been prepared for the purpose of fulfilling the Shire's financial reporting responsibilities under the Act, including the Local Government (Financial Management) Regulations 1996 (Regulations). My opinion is not modified in respect of this matter:

- (i) In respect of the comparatives for the previous year ended 30 June 2019, Regulation 16 of the Regulations did not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report.

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

The Chief Executive Officer (CEO) of the Shire 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 the annual financial report that is free from material misstatement, whether due to fraud or error.



In preparing the annual financial report, the CEO is responsible for assessing the Shire'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 the Shire.

The Council is responsible for overseeing the Shire's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Report

The objectives of my audit are to obtain reasonable assurance about whether the annual 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 my 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 annual financial report.

A further description of my responsibilities for the audit of the annual financial report is located on the Auditing and Assurance Standards Board website at https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This includes the identification and assessment of the risk of material misstatement due to fraud arising from management override of controls. This description forms part of my auditor's report.

Report on Other Legal and Regulatory Requirements

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

- (i) In my opinion, the following material matters indicate significant adverse trends in the financial position of the Shire:
 - a. The Operating Surplus Ratio as reported in Note 28 of the annual financial report is below the DLGSCI's basic standard of 0.01 for the last three financial years.
- (ii) The following material matter indicating 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 were identified during the course of my audit:
 - a. More employees than necessary at the Shire of Williams had the ability to make modifications in the system to the supplier records. Also, there was no evidence of independent review of amendments made to supplier records. This increased the risk of unauthorised changes to key information, although our audit sampling did not identify any.
- (iii) All required information and explanations were obtained by me.
- (iv) All audit procedures were satisfactorily completed.
- (v) In my opinion, the Asset Consumption Ratio and the Asset Renewal Funding Ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

Other Matter

The financial ratios for 2018 in Note 28 of the financial report were audited by another auditor when performing their audit of the Shire for the year ending 30 June 2018. The auditor expressed an unmodified opinion on the financial report for that year.



Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of the Shire of Williams for the year ended 30 June 2020 included on the Shire's website. The Shire's management is responsible for the integrity of the Shire's website. This audit does not provide assurance on the integrity of the Shire's website. The auditor's report refers only to the annual financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this annual financial report. If users of the annual 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 annual financial report to confirm the information contained in this website version of the annual financial report.

SUBHA GUNALAN
ACTING SENIOR DIRECTOR FINANCIAL AUDIT
Delegate of the Auditor General for Western Australia
Perth, Western Australia
4 December 2020