

Our Ref: F160193  
Your Ref: MJ3-4#04 E1914686  
Enquiries: Greg Lockwood



27 August 2019

Mr Duncan Ord  
Director General  
Department of Local Government, Sport and Cultural Industries  
GPO Box 8349  
**PERTH BC WA 6849**

Dear Mr Ord,

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

Please find enclosed as per Section 7.12A(4) of the Local Government Act 1995 a copy of the minutes from the Shire's council meeting held 22 August 2019 as well as the 2017/18 Audit Report. 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 Shire of Manjimup's 2017/18 Audit Report identified a significant adverse trend related to the Shire's Operating Surplus Ratio being:

- *A review of the Shire of Manjimup's ratios as included within Note 26 of the financial report indicates the following adverse trend based on Department of Local Government, Sport and Cultural Industries guidelines:*
  - *Operating surplus ratio as at 30 June 2018 is calculated at -0.49 (recommended to be >0 as per guidelines).*

As per Section 7.12A(4) a report relating to the significant adverse trend was presented to the Shire of Manjimup's Audit Committee 25 July 2019 and then endorsed at the Shire's council meeting on 22 August 2019.

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

Yours sincerely,

**Andrew Campbell**  
**CHIEF EXECUTIVE OFFICER**

## INDEPENDENT AUDITOR'S REPORT

To the Council of Shire of Manjimup

### Report on the Audit of the Financial Report

#### **Opinion**

We have audited the annual financial report of the Shire of Manjimup 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 the Shire of Manjimup:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Shire of Manjimup 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 the Shire of Manjimup 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 Shire of Manjimup'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 the Shire of Manjimup 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.

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

The Council is responsible for overseeing the Shire of Manjimup'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 Manjimup'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 Manjimup'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 or the financial management practices of the Shire of Manjimup:
  - 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: -0.91, 2017: -0.57 and 2018: -0.49).
- (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, with exception of the asset renewal funding ratio not being included in the annual financial report, as required by Local Government (Financial Management) Regulations 1996 section 50(1)(c).
- (iii) All required information and explanations were obtained by us.
- (iv) All audit procedures were satisfactorily completed.
- (v) In our opinion, the asset consumption ratio included in the annual financial report is 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 Manjimup for the year ended 30 June 2018 included on the Shire of Manjimup's website. Shire of Manjimup's management is responsible for the integrity of the Shire of Manjimup website. This audit does not provide assurance on the integrity of the Shire of Manjimup'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

**ATTACHMENT****9.15.1 Unconfirmed Minutes of the Audit Committee Meeting Held 25 July 2019**

|                                 |                                  |
|---------------------------------|----------------------------------|
| <b>PROPONENT</b>                | Shire of Manjimup                |
| <b>OWNER</b>                    | N/A                              |
| <b>LOCATION / ADDRESS:</b>      | Whole of Shire                   |
| <b>WARD:</b>                    | All                              |
| <b>ZONE:</b>                    | N/A                              |
| <b>DIRECTORATE:</b>             | Business                         |
| <b>FILE REFERENCE:</b>          | F170379                          |
| <b>LEGISLATION:</b>             | <i>Local Government Act 1995</i> |
| <b>AUTHOR:</b>                  | Greg Lockwood                    |
| <b>DATE OF REPORT:</b>          | 2/08/2019                        |
| <b>DECLARATION OF INTEREST:</b> | Nil                              |

**BACKGROUND:**

On the 12 July 2019 Shire Officer's received correspondence from the Department of Local Government, Sport and Cultural Industries (DLGSCI). The letter brought to officers attention a compliance issue with regards to a deemed significant adverse trend noted in the Shire of Manjimup's 2017/2018 Audit Report.

**ATTACHMENT: 9.15.1(1)**

The DLGSCI noted that the Shire of Manjimup had not completed proper process when a significant item was raised in the annual audit report. Officers were required to under Section 7.12A(4) of the Local Government Act:

- 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;
- b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government; and
- c) 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.

**ATTACHMENT: 9.15.1(2)**

The purpose of this agenda item is to receive the unconfirmed minutes of the Audit Committee meeting held on 25 July 2019 and seek endorsement for the "Significant Matter Raised in Audit Report" to be forwarded to the Minister.

**ATTACHMENT: 9.15.1(3)****PUBLIC CONSULTATION UNDERTAKEN:**

Nil

**COMMENT (Includes Options):**

There is one recommendation of the Audit Committee requiring the consideration of Council.

| <b>Committee Recommendation</b>  | <b>Officer Comment</b>                               |
|--|--|
| That the Audit Committee recommends that Council endorse the "Significant Matter Raised in Audit Report" report, forward the report to the Minister and publish the report on the Shire of Manjimup's website. | Supported as per the Audit Committee recommendation. |

**STATUTORY ENVIRONMENT:**

It is a requirement under Part 7 of the Local Government Act 1995 for a Local Government to appoint auditors to audit accounts and the Annual Financial Report of a Local Government. In addition to this, a Local Government must establish an Audit Committee to provide guidance and assistance to the Local Government to fulfil its responsibilities under the Act.

**POLICY / STRATEGIC IMPLICATIONS:**

The Audit Committee is established under the Local Government Act to provide guidance and assistance to the Local Government in achieving the audit requirements of the Act thus ensuring that the financial management of the Shire of Manjimup remains open, transparent and accountable.

**ORGANISATIONAL RISK MANAGEMENT:**

Nil

**FINANCIAL IMPLICATIONS:**

Nil

**SUSTAINABILITY:**

Environmental: Nil

Economic: It is essential that Local Government maintains open, transparent and accountable processes in the expenditure of public monies. Regular financial audits by auditors and the functions of the Audit Committee are some of the methods established to assist Local Government in meeting legislative and community expectations.

Social: Nil

**VOTING REQUIREMENTS:**

**SIMPLE MAJORITY**

**OFFICER RECOMMENDATION:**

**That Council:**

1. Receive the minutes of the Audit Committee meeting held 25 July 2019 as contained in Attachment: 9.15.2(3); and

2. Endorse the report “Significant Matter Raised in Audit Report” as presented and accepted by the Audit Committee, forward the report to the Minister of Local Government , Sport and Cultural Industries and publish the Report on the Shire of Manjimup’s official web page.

**COUNCIL RESOLUTION:**

**MOVED: Eiby, W**

**SECONDED: Salomone, J**

**27912**

**That Council:**

1. Receive the minutes of the Audit Committee meeting held 25 July 2019 as contained in Attachment: 9.15.2(3); and
2. Endorse the report “Significant Matter Raised in Audit Report” as presented and accepted by the Audit Committee, forward the report to the Minister of Local Government , Sport and Cultural Industries and publish the Report on the Shire of Manjimup’s official web page.

**ADOPTED BY EN BLOC RESOLUTION: 8/0**





F170379

### **Audit Committee Meeting Minutes 25 July 2019**

Minutes of Audit Committee held in Council Chambers on Thursday 25 July 2019.

#### **1. DECLARATION OF OPENING OF MEETING**

The Meeting was opened by Chairperson Cr Omodei at 12.48pm.

#### **2. ATTENDANCE / APOLOGIES**

Present:

- Cr Paul Omodei
- Cr Cliff Winfield
- Cr Verrell Herbert

Apologies:

- Cr Denise Jenkins
- Cr Kim Skoss

Observers:

- Andrew Campbell –Chief Executive Officer (CEO)
- Greg Lockwood – Director Business (DB)

#### **3. DECLARATION OF FINANCIAL INTERESTS**

Nil.

#### **4. CONFIRMATION OF MINUTES OF THE MEETING HELD 23 May 2019**

*Moved Cr Herbert / Seconded Cr Winfield*

**“That the minutes of the Audit Committee meeting held on 23 May 2019 be adopted as a true and correct record.” Carried 3/0**

#### **5. MATTERS ARISING FROM THE MEETING HELD 23 MAY 2019**

Nil

#### **6. RISK MANAGEMENT**

Nil

#### **7. SIGNIFICANT MATTER RAISED IN AUDIT REPORT**

The Audit Committee were presented with a letter from the Department of Local Government, Sport and Cultural Industries (DLGSCI) raising a non compliance issue with regards to action taken on receipt of a “Significant Matter Raised in the 2017/18 Audit Report”.

In response to the DLGSCI a report was prepared and the CEO presented the report to the Audit Committee for endorsement.

*Moved Cr Herbert / Seconded Cr Omodei*

**“That the Significant Matter Raised in Audit Report and subsequent recommendations be accepted”**

**Carried 3/0**

**8. NEXT MEETING**

The next meeting is scheduled to be held Thursday October 2019.

**9. MEETING CLOSURE**

The meeting was closed at 1.00pm.



To : Audit Committee

RE: Significant Matter Raised in Audit Report



### Background

The Shire of Manjimup (Shire) has received correspondence from the Department of Local Government, Sport and Cultural Industries (DLGSCI) with regards to a matter raised in the 2017/18 Audit Report.

In that correspondence it was noted that the Shire of Manjimup had a significant matter raised relating to an *"adverse trend in financial position: Operating Surplus Ratio below Department Standard for the last three years"*.

Due to the Auditor highlighting a matter that they deem to be a significant, the Shire was statutorily required to follow the process set out in the section below:

*Section 7.12A(4) of the Local Government Act 1995 states 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) of the Local Government Act 1995 also states:*

*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.*

### The Operating Surplus Ratio in Detail (extracted from DLGSCI guidelines)

Calculation: (Operating Revenue MINUS Operating Expense)

Own Source Operating Revenue

Purpose: This ratio is a measure of a Local Government's ability to cover its operational costs and have revenues available for capital funding of other purposes.

Standard: **Basic** standard (0.01 and 0.15) **Advanced** standard (>0.15)

The Operating Surplus ratio for the Shire of Manjimup in the last 3 years is:

- 2015/16: -0.91
- 2016/17: -0.57
- 2017/18: -0.49

### Comment

The Shire has not followed the statutory process set down with regards to matters deemed significant in the Audit Report. Officers considered having an Operating Surplus Ratio under the DLGCI's standards over three years was nothing new as it had been this way over many years. The Operating Surplus Ratio for any Local Government that significantly relies on grant funding should always be below the DLGCI's standard for this ratio, as it assesses own source revenue against operating expenditure (inclusive of depreciation). It is acknowledged that the Shire's Auditors believed the ratio indicated a "significant adverse trend" however on review of the Operating Surplus Ratio over the past three years has actually demonstrated an improving trend at the Shire albeit the ratio is still below DLGCI's benchmark.

To demonstrate this point further, Officers recently carried out a review of six other heavily grant reliant Local Governments in the South West, with all showing a three year trend for a negative Operating Surplus Ratio. Interestingly on three of those occasions their Auditors did not note the outcome as a significant adverse trend and therefore those organisations were not required to carry out the statutory requirements of extra reporting. It is understood that DLGCI has issued the same correspondence received by the Shire to nearly 50% of Local Governments in Western Australia this year.

Like several of the ratios specifically applied to Local Government in Western Australia by DLGCI, there are considerable anomalies that arise during the calculation of the Operating Surplus Ratio that significantly weaken the interpretive usefulness of the outcome when judging the sustainability of a Local Government. Specific issues that affect the Shire of Manjimup when calculating this ratio are:

- The Shire is very grant reliant and receives substantial financial assistance grants each year. Unless significant population growth, economic growth, significant increases (70%+) in existing rates or the ability to rate additional land occurs, the Shire will continue to be heavily reliant on grant funding into the future;
- The Shire has a 1,358km road asset base arising from being the largest Local Government district land mass in the South West. This means that a substantial non-cash depreciation expense forms a significant part of the base calculation. The depreciation expense of road infrastructure is highly subjective that is open to manipulation and as it exists as a non-cash item should be reconsidered for its worth in contributing the Operating Surplus Ratio;
- The Shire auspices many operating grant programs like the Commonwealth Home Care Programs, NDIS services etc. As these programs are grant related the grant is removed from the Operating Surplus calculation, however the expenditure must remain in the operating expense portion. In most cases if this grant money was not received the programs would not go ahead which equates to approximately \$3.8M per year in Shire expenses and therefore should not be included in the Operating Surplus Ratio calculation; and
- When Council has any form of a carry forward, the carried forward expense from a previous year affects the ratio, however the funding for that expense is not recognised.

The DLGSCI's use of the Operating Surplus Ratio as a measure of Local Government sustainability is a significantly flawed approach when viewed in isolation. It is understood that the ongoing review of the Local Government Act 1995 will involve

many submissions from the Local Government sector regarding the usefulness of the ratios as it is an area that has become nonsensical as a measure of Local Government sustainability when viewed in isolation. It is understood that the Shire's Auditors have reported this matter as a "significant adverse trend" however it is only their role to assess against the statutory and guidance framework established by others and not to make comment on the usefulness of any particular ratio that is supposed to measure the sustainability of a Local Government. It is understood that the Auditor General also considers the review of Local Government ratios as a priority.

**Proposed Action**

1. The Operating Surplus Ratio trend at the Shire is continuing to improve. This should be continued to be monitored and consideration given to further action if required if declines occur in future years;
2. A submission from the Shire to be made about the effectiveness of ratios used in isolation to measure Local Government sustainability during the process to review the Local Government Act 1995;
3. A submission from the Shire to be made recommending changes to existing ratios to measure Local Government sustainability during the process to review the Local Government Act 1995;
4. The Shire of Manjimup Long Term Financial Plan recognises that the Shire has a significant asset burden and seeks to fund an additional \$100,000 to \$150,000 in capital renewal funding each year with Shire officers seeking to match municipal funding with grant applications to further enhance renewal works; and
5. The Shire requests that the DLGCI urgently consult with the Local Government sector to consider temporary measures that offset anomalies identified in the Operating Surplus Ratio prior to a potential future legislative amendment.

Greg Lockwood  
Director of Business  
**Shire of Manjimup**



Department of  
**Local Government, Sport  
and Cultural Industries**

Our ref MJ3-4#04 E1914686  
Enquiries Stuart Fraser  
Phone 65521586  
Email [stuart.fraser@dlgsc.wa.gov.au](mailto:stuart.fraser@dlgsc.wa.gov.au)

Mr Andrew Campbell  
Chief Executive Officer  
Shire of Manjimup  
PO Box 67  
MANJIMUP WA 6479

Dear Mr Campbell

The Department of Local Government, Sport and Cultural Industries (the Department) has received the Shire's 2017-18 Audit Report from the AMD Chartered Accountants dated 1 November 2018.

The Audit Report identifies matters as significant in regard to adverse trends, qualified audits and other matters. The following matter is identified as significant by the auditor:

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

Section 7.12A(4) of the *Local Government Act 1995* states that a local government must:  
*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.*

*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.*

To date it appears that a report has not been received and has not been published on the Shire's official website in accordance with Section 7.12A.

As a matter of priority the Shire must prepare a report for its Audit Committee and seek council's endorsement before forwarding a copy to the Department at [audits@dlgsc.wa.gov.au](mailto:audits@dlgsc.wa.gov.au)

As this report is now overdue, the Department requires the local government to remedy this non-compliance within the next 60 days from the date of this letter.

Gordon Stephenson House, 140 William Street  
PO Box 8349 Perth Business Centre, WA 6849  
Telephone (08) 6552 7300  
Email [info@dlgsc.wa.gov.au](mailto:info@dlgsc.wa.gov.au)  
Web [www.dlgsc.wa.gov.au](http://www.dlgsc.wa.gov.au)

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For further information please review the Department's Circulars 05-2019 Local Government Auditing and 02-2018 Guide to Local Government Auditing Reforms (page 8) which are published on the Department's website.

Should you have any queries please contact the Department on the above email address or phone 65527300.

Yours sincerely



Narrell Lethorn  
Director Industry and Sector Regulation

28 June 2019

cc Hon. Cr Paul Omodei, President, Shire of Manjimup