

10.4 ANNUAL REPORT 2020/21

ATTACHMENT(S)	10.4.1 - Annual Report 2020/2021
FILE NO	ADM0035
APPLICANT	Nil
AUTHOR	Kay O’Neill – Manager Finance & Administration
DATE	9 August 2022
DISCLOSURE OF INTEREST	Nil

STRATEGIC IMPLICATIONS		
Strategic Community Plan 2018-2028		Corporate Business Plan 2018 -2022
Key Result Area	Community Outcomes	Corporate Actions
KRA One – Our People 1.5 – Our Shire demonstrates strong leadership, effective governance and efficient service delivery to our community	S1.5.1 – Promote excellence in governance, compliance, regulation, reporting, customer service and delivery of outcomes that are in the best interests of our residents	A1.5.1.3 – Demonstrate a high standard of legislative compliance and internal controls A1.5.1.4 – Demonstrate sound financial planning and management

SUMMARY

For the Council to consider the 2020/2021 Annual Report, incorporating the Annual Financial Report and Auditors Report.

BACKGROUND

Section 6.4 of the *Local Government Act 1995* ‘Financial report’ requires that a local government is to prepare an annual financial report for the preceding financial year, in the manner and form prescribed. The accounts and annual financial report must be submitted to the auditor by 30 September each year.

Section 5.54 of the *Local Government Act 1995* ‘Acceptance of annual reports’ requires an Annual Report to be accepted by the local government no later than 31 December in each year unless the Auditor’s Report is not available in time. The *Local Government Act 1995* Section 5.42(2) provides that if the Annual Report is not accepted by the local government by 31 December then it must be presented within two (2) months of the auditor’s report becoming available. The 2020/2021 Audit Report was received on 3 August 2022.

The Audit Committee will be meeting at 1.30pm on Thursday 18 August 2022, to discuss the Annual Report and will make a recommendation to Council. The Officer’s recommendation for the Audit Committee to consider is:

AUDIT COMMITTEE RECOMMENDATION

That the Audit Committee recommends to the Council:

1. In accordance with sections 5.53 and 5.54 of the *Local Government Act 1995* the 2020/2021 Annual Report for the Shire of Broomehill-Tambellup, incorporating the Annual Financial Report and Audit Report, be accepted;
2. In accordance with sections 5.55 and 5.55A of the *Local Government Act 1995* authorise the Chief Executive Officer to give local public notice of the availability of the annual report and publish the report on the Shire's website within 14 days of acceptance;
3. Receive the report required under section 7.12A as contained within this agenda item relating to the Operating Surplus Ratio; and
4. Request the Chief Executive Officer to forward a copy of the report to the Minister as required under section 7.12A and publish the report on the Shire's website.
5. Holds the annual general meeting of electors at 6.00pm on 15 September 2022.

COMMENT

The completion of the audit and the annual financial report confirms the financial data for the 2020/2021 year, including the carried forward surplus position. The Annual Financial Report and auditors report form part of the Annual Report.

The following matters were noted in the auditor's report:

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

- (i) *In my opinion, the following material matter indicates a significant adverse trend in the financial position of the Shire:*
 - a) *The operating surplus ratio as reported in Note 31 of the annual financial report has been below the Department of Local Government, Sport and Cultural Industries' standard for past three years.*
- (ii) *The following material matter(s) indicating non-compliance with Part 6 of the Act, the Regulations or applicable financial controls of any other relevant written law were identified during the course of my audit:*
 - a) *Month end reconciliations for bank, sundry debtors, rates debtors, sundry creditors, fixed assets and payroll had not been performed in a timely manner during the year. In addition, manual rates rolling reconciliations had not performed regularly during the year. Reconciliations form a key control for ensuring the completeness and accuracy of financial data within the general ledger from which financial statements are derived. Without these reconciliations being performed on a regular basis there is an increased risk of fraud and or errors going undetected.*
- (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 financial report were supported by verifiable information and reasonable assumptions.*

SIGNIFICANT MATTERS RAISED

In point (i)(a) from the auditor's report above, the Auditor raised that the Operating Surplus Ratio has been below Department of Local Government, Sport and Cultural Industries standard for the past three years.

Section 7.12A of the *Local Government Act 1995* requires a local government to:

(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.*

The report to the Minister as required under s7.12A is as follows:

The Department of Local Government, Sport and Cultural Industries (DLGSCI) Operational Guideline No. 18 outlines:

'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.'

The Operating Surplus Ratio is subject to a number of one-off influences, such as the prepayment of financial assistance grants and any abnormal operating expenditure. The ratio reflects a snapshot in time (30 June each year) and, unless reported monthly over the year, a local government's financial performance cannot be reliably measured using this ratio alone.

To improve this ratio, operating revenue needs to increase or operating expenditure needs to decrease. This could be achieved through very direct mechanisms, such as increasing rates or cutting costs, which may not necessarily be in the best interests of the community.

The calculations behind this ratio and the application of Australian Accounting Standards in terms of revenue, see 'Non-Operating Grants Subsidies and Contributions' excluded. Included under this classification is road grants and one-off grants for construction of assets. Road funding, such as Roads to Recovery and Regional Road Group are recurrent local government funding streams that have existed for many years. It is not unreasonable to expect that these funding sources will continue to exist into the future.

These grants fund new assets, asset renewal or upgrade which all flows through into operating expenditure in the form of increased depreciation and maintenance costs,

negatively affecting both sides of the ratio calculation. The ratios required have been under review by the DLGSCI for several years now and new ratios are expected soon.

The 2020/2021 Annual Report, as presented, addresses the requirements of the *Local Government Act 1995*.

CONSULTATION

Auditors – Moore Australia
The Office of the Auditor General
Senior Staff

STATUTORY ENVIRONMENT

*Local Government Act 1995 – Part 5 Division 5 Annual Reports and planning; and
Local Government (Administration) Regulations 1996, r19B and r19CA*

- Prescribes the content of the annual report

*Local Government Act 1995 – Part 6 Financial Management; and
Local Government (Financial Management) Regulations 1996*

- Defines the processes and procedures that apply to the recording and reporting of financial matters.

*Local Government Act 1995 – Part 7 Audit; and
Local Government (Audit) Regulations 1996*

- Defines the audit of the financial accounts of local governments, including the appointment of auditors and the conduct of audits.

FINANCIAL IMPLICATIONS

This item reports on the financial position of the Shire at 30 June 2021. The recommendation itself does not have any financial implications.

POLICY IMPLICATIONS

Nil

RISK MANAGEMENT IMPLICATIONS

There are no risk implications for this report.

ASSET MANAGEMENT IMPLICATIONS

There are no asset management implications for this report.

VOTING REQUIREMENTS

Absolute Majority

AUDIT COMMITTEE RECOMMENDATION/COUNCIL DECISION

Moved Cr J Wills, seconded Cr M Paganoni

That:

1. In accordance with sections 5.53 and 5.54 of the *Local Government Act 1995* the 2020/2021 Annual Report for the Shire of Broomehill-Tambellup, incorporating the Annual Financial Report and Audit Report, be accepted;
2. In accordance with sections 5.55 and 5.55A of the *Local Government Act 1995* authorise the Chief Executive Officer to give local public notice of the availability of the annual report and publish the report on the Shire’s website within 14 days of acceptance;
3. Receive the report required under section 7.12A as contained within this agenda item relating to the Operating Surplus Ratio; and
4. Request the Chief Executive Officer to forward a copy of the report to the Minister as required under section 7.12A and publish the report on the Shire’s website.
5. Holds the annual general meeting of electors at 6.00pm on 15 September 2022.

CARRIED BY AN ABSOLUTE MAJORITY 7/0
Motion No: 115/22