

22 February 2021

Hon. David Templeman
Minister for Local Government, Heritage, Culture and the Arts
7th Floor, Dumas House
2 Havelock Street
WEST PERTH WA 6005

Dear Minister,

MATTERS OF SIGNIFICANCE – 2019/20 AUDIT REPORT

Under Section 7.12A(4)(a) and (b) of the *Local Government Act 1995*, the Shire is required to prepare a report addressing any matters identified as significant by the auditor in the Audit Report. The report is to state what action the local government has taken or intends to take with respect to each of these matters. A copy of that response is then provided to the Minister within three months after the Audit Report is received by the local government.

The statutory audit of the Shire of Gingin and annual statutory financial statements for the year ended 30 June 2020 was completed by an independent auditor, Moore Australia (Audit) Pty Ltd. They reported that accounting journals were posted without independent review and the Shire's Operating Surplus Ratio was below the standard set by the Department of Local Government, Sport and Cultural Industries for the last three years.

Please find attached the associated Council report addressing these matters and actions by the Shire, presented to Council on 16 February 2021. This report will be published on our website within 14 days as required by the *Local Government Act 1995*, Section 7.12A(5).

Please do not hesitate to contact me should you have any enquiries.

Yours sincerely

A handwritten signature in blue ink, appearing to read "A. Cook", is written over the "Yours sincerely" text.

AARON COOK
CHIEF EXECUTIVE OFFICER

AC;kw
File: FIN/23



11.2.4 REPORT ON MATTERS OF SIGNIFICANCE HIGHLIGHTED IN THE 2019/20 AUDIT REPORT

File:	FIN/16
Reporting Officer:	Les Crichton – Executive Manager Corporate and Community Services
Report Date:	16 February 2021
Refer:	Nil
Appendices:	1. Independent Auditors Report to the Councillors of the Shire of Gingin

DISCLOSURES OF INTEREST

Nil

PURPOSE

To consider the matters identified as significant in the Independent Auditor's Report for the year ended 30 June 2020 by Moore Australia Audit WA (MAAWA). Specifically:

- Non-compliance with Part 6 of the *Local Government Act 1995* and relevant regulations or applicable controls with accounting journals posted without review by a person independent of the preparer, and
- An adverse trend in one of the reportable Ratios, which was calculated in line with reporting requirements as specified in the guidelines issued by the Department of Local Government, Sports and Cultural Industries (DLGSCI).

The matters require specific action and disclosure in accordance with section 7.12A(4) and (5) of the *Local Government Act 1995* (the Act).

BACKGROUND

As part of the Statutory Audit process of the Annual Statutory Financial Statements, MAAWA is required to report on any matters relating to legal and regulatory requirements that come to their attention. For the Shire's Annual Financial Statement for the year ended 30 June 2020, MAAWA identified that:

- Accounting journals were posted without being reviewed by a person independent of the preparer. MAAWA stated that accounting journals represent significant adjustments to previously approved transactions and should therefore be appropriately reviewed and approved. In not undertaking such a review MAAWA have reported this indicates 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; and
- The Operating Surplus Ratio set by the DLGSCI for the past three years, which was highlighted in their Independent Auditor's Report dated 22 December (Appendix 1).

Under the *Local Government Act 1995* section 7.12A(4) and (5), Duties of local government with respect to audits:

“(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 with 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.’

COMMENT

The first item identified by MAAWA the heading ‘Report on Other Legal and Regulatory Requirements’ in the Independent Auditor’s Report dated 22 December was the non-review and approval of accounting journals by a person independent of the preparer.

This matter was identified in the interim Audit Report presented to Council’s Audit and Governance Committee (AGC) on 7 July 2020 and subsequently to Council at its ordinary meeting held 21 July 2020. As detailed in reports to both the AGC and Council, while the rate general journals are reviewed independently, subsidiary rate levy and receipt journals had not been. Procedures were amended to clarify this requirement with no further incidences occurring since the interim audit was conducted April 2020.

In relation to the second item, the Operating Surplus Ratio has been below the DLGSCI set standard for the past three years.

Description	2019/20	2018/19	2017/18	Benchmark
Operating Surplus Ratio	(0.27)	(0.33)	(0.33)	0.01 to 0.15

The DLGSCI guidelines provides the following explanation in respect to the Operating Surplus Ratio:

$$\text{Operating Surplus Ratio} = \frac{\text{Operating Revenue minus Operating Expenses}}{\text{Own Source Operating Revenue}}$$

The Operating surplus ratio measures the local government’s ability to cover its operational costs and have revenues available for capital funding or other purposes. To meet the standard the ratio must be between 0.0 and 0.15. The ratio excludes income from grants and highlights that most rural local governments require government grant support to provide services to their residents.

Depreciation expense, which is included within the calculation of the operating surplus ratio, is rarely funded in full by rural local governments with a significant asset base yet smaller population (rating) base, with grant funds such as the R2R and RRG contributing to asset renewals. The Shire does consider, within its Long Term Financial Plan (LTFP), the impact of ongoing capital road funds such as Roads to Recovery (R2R) and Regional Road Group (RRG), neither of which are included in the calculation of the operating surplus ratio. Equally, depreciation rates continue to be monitored and reviewed in the context of their impact on the Operating Surplus Ratio.

Council will continue to review its operations in order to find other alternative revenue sources and its rating strategy in line with the Shire's Strategic Community Plan.

STATUTORY/LOCAL LAW IMPLICATIONS

Local Government Act 1995

Local Government (Financial Management) Regulations 1996

POLICY IMPLICATIONS

Nil

BUDGET IMPLICATIONS

Nil

STRATEGIC IMPLICATIONS

Shire of Gingin Strategic Community Plan 2019-2029

<i>Focus Area</i>	<i>Governance</i>
<i>Objective</i>	<i>To demonstrate effective leadership, governance and advocacy on behalf of community</i>
<i>Outcome</i>	<i>Our Organisational/Business Values are demonstrated in all that we do</i>
<i>Key Service Areas</i>	<i>Financial Management</i>
<i>Priorities</i>	<i>Increase the focus on future financial sustainability to cater for anticipated growth</i>

VOTING REQUIREMENTS – SIMPLE MAJORITY

COUNCIL RESOLUTION/OFFICER RECOMMENDATION

MOVED: Councillor Johnson

SECONDED: Councillor Balcombe

That Council:

- 1. Approve this report identifying reasons for matters identified as significant by Moore Australia Audit WA in their Independent Auditor's Report dated 22 December 2020; and**
- 2. Requests the Chief Executive Officer to submit a report to the Minister for Local Government, Sports and Cultural Industries commenting on the reasons for deficiencies noted by Moore Australia Audit WA and actions to be taken, and publish this report on the Shire of Gingin's website with 14 days of submitting the report to the Minister.**

CARRIED UNANIMOUSLY

APPENDIX 1



Moore Australia Audit (WA)

Level 15, Exchange Tower,
2 The Esplanade, Perth, WA 6000
PO Box 5785, St Georges Terrace, WA 6031

T +61 8 9225 5355
F +61 8 9225 6181

www.moore-australia.com.au

**INDEPENDENT AUDITOR'S REPORT
TO THE COUNCILLORS OF THE SHIRE OF GINGIN**

Report on the Audit of the Financial Report

Opinion

We have audited the accompanying financial report of the Shire of Gingin (the Shire), which comprises the Statement of Financial Position as at 30 June 2020, Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and the Rate Setting Statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Statement by Chief Executive Officer.

In our opinion, the financial report of the Shire of Gingin:

- a) is based on proper accounts and reports; and
- b) 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

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 in accordance with the 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 in Australia. 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 Preparation

We 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). Our opinion is not modified in respect of these matters:

- (i) Regulation 17A requires a local government to measure vested improvements at fair value and the associated vested land at zero cost. This is a departure from AASB 16 Leases which would have required the entity to measure the vested improvements also at zero cost.
- (ii) In respect of the comparatives for the previous year ended 30 June 2019, Regulation 16 did not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report.



**INDEPENDENT AUDITOR'S REPORT
TO THE COUNCILLORS OF THE SHIRE OF GINGIN (CONTINUED)**

Report on the Audit of the Financial Report (continued)

Responsibility of the Directors 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 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'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

Our objectives 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 the 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 the users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standard Board website at http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our audit report.

Report on Other Legal and Regulatory Requirements

In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- a) The following material matter indicates 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 our audit.
 - Accounting journal entries were posted without being reviewed by a person independent of the preparer. Accounting journals can represent significant adjustments to previously approved transactions and should therefore be appropriately reviewed and approved.
- b) In our opinion, there is an indication of a significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio have been below the DLGSCI standard for the past 3 years.
- c) All required information and explanations were obtained by us.
- c) All audit procedures were satisfactorily completed in conducting our audit.
- d) In our opinion, the asset consumption ratio and the asset renewal ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.



INDEPENDENT AUDITOR'S REPORT
TO THE COUNCILLORS OF THE SHIRE OF GINGIN (CONTINUED)

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 Gingin 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 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.



GREG GODWIN
PARTNER

MOORE AUSTRALIA AUDIT (WA)
CHARTERED ACCOUNTANTS

Signed at Perth this 22nd day of December 2020.