

14 November 2017

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Chief Executive Officer  
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Dear Carl

**AUDIT OF SHIRE OF WYNDHAM – EAST KIMBERLEY  
FOR THE YEAR ENDED 30 JUNE 2017**

We advise that we have completed the audit of your Shire for the year ended 30<sup>th</sup> June 2017 and enclose our Audit Report and a copy of the Management Report.

A copy of the Audit Report and Management Report has also been sent directly to the President, Cr David Menzel as is required by the Act.

We would like to take this opportunity to thank you and your staff for the assistance provided during the audit.

Please contact us if you have any queries.

Yours sincerely



David Tomasi  
Partner  
Moore Stephens

Encl.

14 November 2017

The Shire President  
Shire of Wyndham – East Kimberley  
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Dear Cr Menzel

## Management Report for the Year Ended 30 June 2017

We advise that we have completed our audit procedures for the year ended 30 June 2017 and enclose our Audit Report.

We are required under the Local Government Audit Regulations to report certain compliance matters in our audit report. Other matters which arise during the course of our audit that we wish to bring to Council's attention are raised in this management report.

It should be appreciated that our audit procedures are designed primarily to enable us to form an opinion on the financial statements and therefore may not bring to light all weaknesses in systems and procedures which may exist. However, we aim to use our knowledge of the Shire's organisation gained during our work to make comments and suggestions which, we hope, will be useful to you.

### COMMENT ON RATIOS

Ratios provide useful information when compared to industry and internal benchmarks and assist in identifying trends. Whilst not conclusive in themselves, understanding ratios, their trends and how they interact is beneficial for the allocation of scarce resources and planning for the future. Information relating to the statutory ratios disclosed in the financial report is summarised in the table below and commentary provided on the following pages.

	Target Ratio <sup>1</sup>	Actual 2017	The Shire's Adjusted Ratios					The Shire's 5 Year Trend <sup>2</sup>	5 Year Average <sup>3</sup>	
			2017	2016	2015	2014	2013		Regional	State
Current Ratio	≥ 1	0.98	0.44*	1.00	0.81*	0.41*	1.06	↓	1.97	2.22
Asset Sustainability Ratio	≥ 1.1	0.31	0.31	0.53	1.16	0.47	1.50	↓	1.04	1.18
Debt Service Cover Ratio	≥ 10	5.97	4.47*	4.40*	4.06*	1.70*	5.21*	↑	4.61	12.41
Operating Surplus Ratio	≥ 0.15	0.02	(0.09)*	(0.10)*	(0.10)*	(0.30)*	(0.10)*	↑	0.54	(0.11)
Own Source Revenue Coverage Ratio	≥ 0.9	0.76	0.76	0.73*	0.70*	0.62*	0.65*	↑	0.54	0.67
Asset Consumption Ratio	≥ 0.75	0.59	0.59	0.65	0.65	0.44	0.50	↑	0.62	0.73
Asset Renewal Funding Ratio	≥ 1.05	0.90	0.90	N/A	N/A	N/A	N/A	N/A	1.42	0.94

<sup>1</sup> Target ratios per Department of Local Government, Sport and Cultural Industries (DLGSCl) Guidelines except the Debt Service Ratio which is a target devised by Moore Stephens (and based on experience). For information, DLGSCl Guidelines indicate a target Debt Service Cover Ratio of 5.

<sup>2</sup> The 5-year trend compares the adjusted 2017 ratio to the average of the adjusted ratios for the last 5 years.

<sup>3</sup> The average in relation to the Regional and State comparisons is a 5 year average of 2012, 2013, 2014, 2015 and 2016.

\* Adjusted for "one-off" timing/ non-cash items.

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**Adjustments relating to 2017**

Three of the ratios in the accompanying table were distorted by an item of significant revenue relating to the early payment of 2017/18 Financial Assistance Grants (FAGs) totaling \$1,902,892 received before 30 June 2017. The early payment of the grant increased operating revenue in 2017.

This item is considered "one-off" timing in nature and was adjusted when calculating the ratios in the above table (as shown by "\*\*") as were relevant comparative year ratios (which had been affected by similar "one-off" items).

**Regional and State 5 Year Averages**

Regional and State 5 year averages have not been adjusted for "one-off" items even though these items may have been applicable in prior years as they are based on the statutory ratios which have been reported in published financial reports. However, they still provide a useful reference point as they are indicative of a trend.

**Commentary on specific ratios**

As detailed above, we seek to provide comment on specific ratios, particularly those where they are below basic benchmark guidelines.

Notwithstanding many of the comments raised are similar to those raised in 2016, our commentary looks to highlight specific observations with respect to the ratio as well as provide a general overview which we hope will assist Council's and management's understanding.

- **Current Ratio**

The Current Ratio measures the Shire's ability to meet its current (short term) liabilities as and when they fall due.

This ratio is below the target level and both Regional and State 5 year averages. In addition, it is trending downwards.

Interpretation of this ratio should be considered in the context of the Shire having a current portion of long-term borrowings of \$1,042,515 and a current portion of leave provisions of \$981,568 as at 30 June 2017. These will effectively inflate the level of current liabilities when they are not necessarily due at the point of calculation. They are due over the course of the next twelve months and, in accordance with budgeting protocol, are budgeted to be funded from sources in the following financial year. They are effectively funded by future revenues and not current assets at 30 June 2017.

If they were excluded, the adjusted ratio would improve to 2.26, which is above the target level and would appear green on the table on page 1.

Notwithstanding this, Council and Management will need to continue to monitor the Shire's current asset and cash flow position.

- **Asset Sustainability Ratio**

The Asset Sustainability ratio expresses capital expenditure on renewal and replacement of existing assets as a percentage of depreciation costs. This ratio is used to identify any potential decline or improvement in asset conditions. A percentage of less than 100% on an ongoing basis indicates assets may be deteriorating at a greater rate than spending on renewal or replacement.

This ratio has declined in the current year and is still below the 5 year Regional and State averages. As presented it also appears to be trending downwards against the average over the last five years and is below the target level.

Deeper analysis of the Shire's Statement of Comprehensive Income indicates the main reason for the deterioration of the ratio over the last five years is due to a significant increase in the amount of depreciation expense. This increase in depreciation is attributable to the revaluation of infrastructure assets conducted in previous financial years which resulted in a significantly higher depreciable asset base.

- **Asset Sustainability Ratio (continued)**

One possible reason relates to the Remaining Useful Life (RUL) assessments performed on individual assets. They may not have been comprehensive enough to adjust to more realistic conditions which would have resulted in a lower depreciation expense.

Whilst the approach to conditions was considered conservative, we suggest this be reviewed as it may provide an unrealistic distortion to the ratios represented.

In addition, the 2017 ratio was impacted by a reduction in capital renewal expenditure from \$6.4 million in the last year to \$3.9 million in the current year. Continued improvement to this ratio is important to assist the Shire maintain its asset base at current levels into the future.

Interpretation of this ratio should also be considered together with the Asset Consumption Ratio (above basic target at 0.59) and the Asset Renewal Funding Ratio (above basic target at 0.90).

- **Debt Service Cover Ratio**

The Debt Service Cover Ratio measures Council's ability to service debt out of its committed or general purpose funds available from its operations.

This ratio has slightly increased in the current year and is trending upwards over the last five years, which would indicate efforts have been made around funding considerations and the longer term effect of borrowing levels. Notwithstanding this, the ratio is still below the target level and both Regional and State 5 year averages.

As the overall debt repayments are in-line with the previous year, improvements of the operating surplus in the short term and consideration of the effect new borrowings have on the Shire's ratios over the longer term will assist Council manage the interaction of this ratio position.

- **Operating Surplus Ratio**

The adjusted Operating Surplus Ratio represents the percentage by which the operating surplus (or deficit) differs from the Shire's own source revenue which includes rates and operating grants.

This ratio has slightly improved in the current year and is trending marginally upwards over the last five years. It is currently below the target level and the 5 year Regional average.

A negative ratio indicates the local government is experiencing an operating deficit. A sustained period of deficits will erode the Shire's ability to service debt and maintain both its operational service level and asset base over the longer term whilst a positive ratio which is consistently above 0.15 provides the Shire with greater flexibility in meeting operational service levels and asset management requirements.

The increase in the depreciation expense discussed in the comments on the Asset Sustainability ratio above also has an effect on this ratio. If depreciation was at similar levels to the year ended 30 June 2015, then this ratio would have been more in the vicinity of a positive result.

Whilst this is by no means categorical (it is ultimately dependent on what the final depreciation expense is), it does provide some insight and explanation as to the importance of updating condition assessments as soon as possible.

Also, whilst we acknowledge the significant action taken over the last three annual budgets to control expenditure levels, both Council and management will need to continue to monitor and consider ways to improve the operating position in order to increase the ratio above the basic acceptable target level of 0.15.

### **Summary**

The Shire's ratio position, after adjustment for FAGs, appears relatively consistent when comparing with prior years. Several of the ratios are trending upwards with improvements noted in the Debt Service Cover, Operating Surplus, Own Source Revenue Coverage and Asset Consumption Ratios.

**COMMENT ON RATIOS (CONTINUED)**

**Summary (continued)**

Whilst some ratios are below the accepted basic industry benchmark, lower ratios may be expected and acceptable in the short term, provided other measures/strategies are maximised.

We would like to take this opportunity to stress one off assessments of ratios at a particular point in time can only provide a snapshot of the financial position and operating situation of the Shire. As is the case with all ratios and indicators, their interpretation is much improved if they are calculated as an average over time with the relevant trends being considered.

We will continue to monitor the financial position and ratios in future financial years and suggest it is prudent for Council and management to do so also as they strive to manage the scarce resources of the Shire.

If the Shire requires, we have a report available which is able to compare your ratios against other Local Governments across the State and by Region. The report is also able to incorporate a selection of your peer Local Governments, whether they be of near neighbours or similar type in nature. This may be of particular relevance in your case as you are included in the Kimberley region when comparison to other, more similar local governments, may be more relevant.

If you are interested in such an expanded report, please contact us.

We noted no other matters we wish to bring to your attention.

**UNCORRECTED MISSTATEMENTS**

We advise there were no uncorrected misstatements noted during the course of our audit.

We take this opportunity to thank all staff for the assistance provided during the audit.

Should you wish to discuss any matter relating to the audit or any other matter, please do not hesitate to contact us.

Yours faithfully



David Tomasi  
Partner  
Moore Stephens

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## **INDEPENDENT AUDITOR'S REPORT TO THE ELECTORS OF THE SHIRE OF WYNDHAM – EAST KIMBERLEY**

### ***Opinion on the Audit of the Financial Report***

We have audited the accompanying financial report of the Shire of Wyndham – East Kimberley (the Shire), which comprises the statement of financial position as at 30 June 2017, 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 Wyndham – East Kimberley is in accordance with *the Local Government Act 1995* (as amended) and the *Local Government (Financial Management) Regulations 1996* (as amended), including:

- a) giving a true and fair view of the Shire's financial position as at 30 June 2017 and of its financial performance and its cash flows for the year ended on that date; and
- b) complying with Australian Accounting Standards (including Australian Accounting Interpretations).

### ***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.

### ***Report on Other Legal and Regulatory Requirements***

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

- a) There are no matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Shire.
- b) No matters indicating non-compliance with Part 6 of the *Local Government Act 1995* (as amended), the *Local Government (Financial Management) Regulations 1996* (as amended) or applicable financial controls of any other written law were noted during the course of our audit.
- c) In relation to the Supplementary Ratio Information presented at page 58 of this report, we have reviewed the calculations as presented and nothing has come to our attention to suggest it is not supported by:
  - i) verifiable information; and
  - ii) reasonable assumptions.
- d) All necessary information and explanations were obtained by us.
- e) All audit procedures were satisfactorily completed in conducting our audit.

## INDEPENDENT AUDITOR'S REPORT TO THE ELECTORS OF THE SHIRE OF WYNDHAM – EAST KIMBERLEY (CONTINUED)

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Shire's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

### **Responsibilities of Management and Council for the Financial Report**

Management is responsible for the preparation of this financial report that gives a true and fair view in accordance with Australian Accounting Standards, the *Local Government Act 1995 (as amended)* and the *Local Government (Financial Management) Regulations 1996 (as amended)* and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, management 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.

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

### **Auditor's Responsibilities 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 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 this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_files/ar3.pdf](http://www.auasb.gov.au/auditors_files/ar3.pdf). This description forms part of our auditor's report.

MOORE STEPHENS  
CHARTERED ACCOUNTANTS



DAVID TOMASI  
PARTNER

Date: 14 November 2017  
Perth, WA