



Shire of
Wongan-Ballidu



Report on Significant Adverse Trend

February 2022





Shire of Wongan-Ballidu

Introduction

Section 7.12A of the Local Government Act requires Local Governments to consider any matters identified as significant by the Auditors and what action the Local Government has taken or intends to take in respect of these matters.

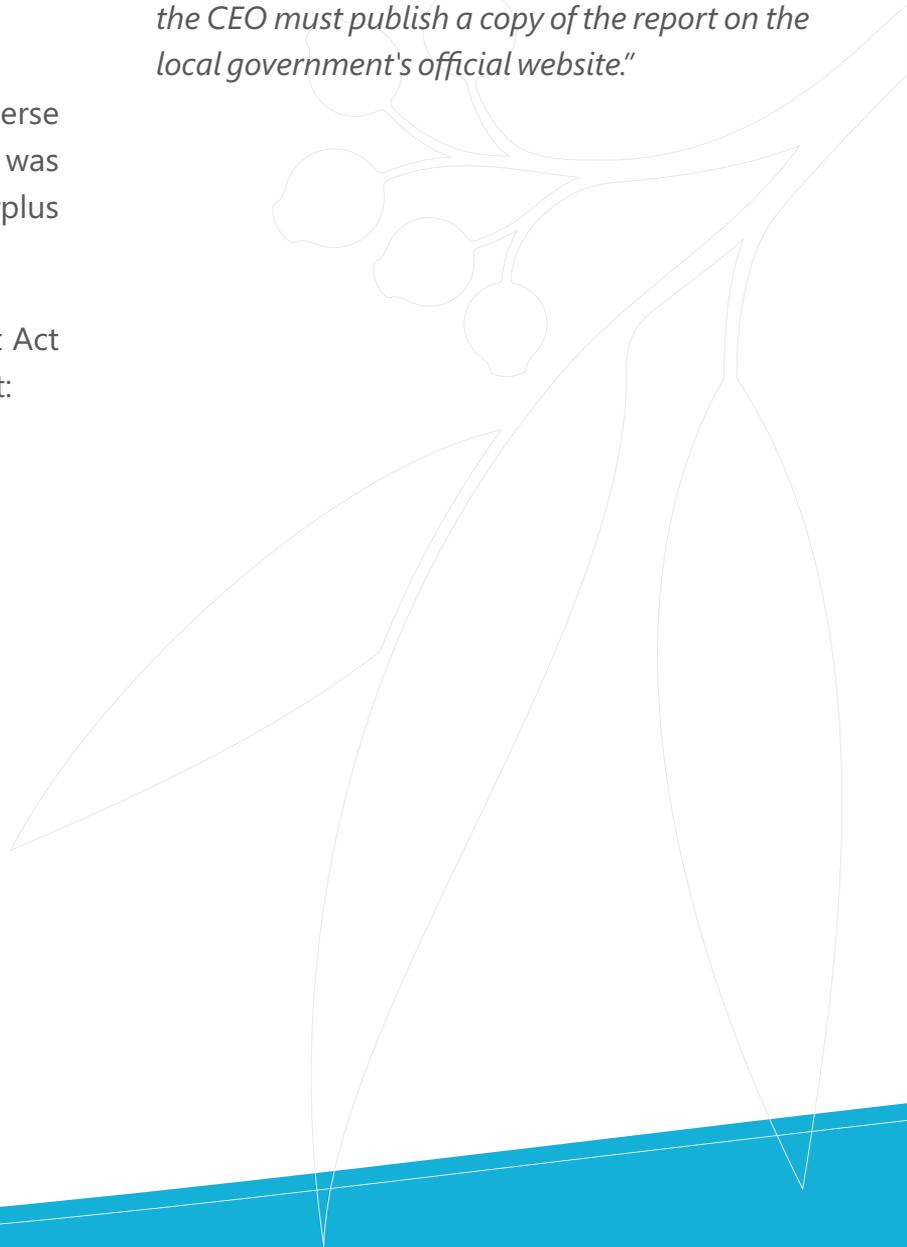
In the Auditors report, a significant adverse trend in the financial position of the Shire was identified in relation to the Operating Surplus of the Shire.

Section 7.12A(4) of the Local Government Act 1995 requires 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) further requires that:

“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.”





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Report

The benchmark for this ratio as set by the DLGSCI is between 0.01-0.15, the ratio for the Shire in 2020/21 was (0.27), which is below the minimum standard.

This ratio indicates an ability to cover operational costs and have revenues available for capital funding or other purposes.

The Shire's 2020/21 result is (0.27), in comparison, in 2019/20 it was (0.05) and in 2018/19 (0.20). This is well below the minimum standard set by the Department of 0.01.

Accounting standard guidelines indicate that a sustained period of deficits will erode the local government's ability to maintain its both operational service level and asset base. The consistent negative values are mainly due to asset depreciation, which the shire increased significantly with the introduction of fair value accounting.

To some degree this ratio does not accurately represent the Shire's scenario, where a significant proportion of infrastructure renewal (expensed through depreciation) is met by capital grant income. This capital grant income is excluded from the operational revenue and is therefore not included in calculating this ratio.

To address this adverse ratio, it is necessary to re-evaluate the estimated useful lives of the Shire's assets and if necessary, amend the depreciation rates that are applied. This is currently being undertaken through the development of the Shire's Asset Management Plans. A large part of the preparation of these plans are to verify depreciation values and assessments of useful live. It is possible that once this is complete, depreciation expense can decrease if the current values are overstated.

It is also noted that the current ratio benchmarks is a 'one size fits all' approach. It is understood that many rural local governments have not had an Operating Surplus Ratio that met the standards. The Department and the Office of Auditor General have been working on this issue and it is expected that changes will occur this financial year to address this issue.

The audit report did also note some non-compliance issues. They were in relation to non-compliance with Part 6 of the Act, the Regulations or applicable financial controls of any relevant written law.



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These issues are currently being addressed by the administration and the following table details the findings and the action currently being undertaken by administration to address them.

| Audit Finding | Administration Action |
|--|---|
| No reporting of Asset Renewal Funding Ratio | The Long-Term Financial Plan (10-year plan) is currently in draft format. With the Strategic Community Plan now adopted by Council, the Corporate Business plan needs to be prepared and the actions in the plan need to be captured in the Long-Term Financial plan. |
| 4 yearly Risk Management Review of the Shire's systems and procedures. | This review is currently in draft form and will be presented to the Audit Committee for their consideration at the next meeting. |
| Approval of Invoices and purchase orders outside delegated authority. | Purchase limits have been reviewed and are now in-line with the delegated authority |
| Verbal Quotes not obtained for purchase orders up to \$10,000 | The Shire's purchasing system has been modified to allow the capture of a verbal quote to comply with this requirement. |



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Conclusion

The Shire is very aware of its ratio performance in relation to this benchmark as set down by the Department.

The Operating Surplus ratio requires Council to ensure that its own revenue source grow at the same or greater than operating expenditure and through the preparation of the Asset Management Plans, depreciation rates are reviewed based on their estimated useful live.

It has been concluded that specifically in relation to depreciation expense, like many country local governments, the Shire will struggle to fully fund asset depreciation via its own revenue sources as there is a reliance on grant funding such as Regional Road Group and Roads to Recovery to assist with asset renewal expenditure.

In relation to non-compliance with Part 6 of the Act, the Regulations or applicable financial controls of any relevant written law, the actions are detailed against each item.

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