



## SPECIAL AGENDA

**DATE:** Tuesday, 21 December 2021

**TIME:** 5.30pm

**VENUE:** Council Chambers, Lowood  
Road, Mount Barker WA 6324

  
Cameron Woods  
CHIEF EXECUTIVE OFFICER

### SPECIAL BUSINESS

Acceptance of the Annual Report for the year ended 30 June 2021  
Receipt of the 2020/2021 Annual Financial Audit and Management Report  
Adoption of a Significant Adverse Trends Report

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### **DISCLAIMER**

This agenda has yet to be dealt with by the Council. The Recommendations shown at the foot of each Item have yet to be considered by the Council and are not to be interpreted as being the position of the Council. The minutes of the meeting held to discuss this agenda should be read to ascertain the decision of the Council.

In certain circumstances, members of the public are not entitled to inspect material, which in the opinion of the Chief Executive Officer is confidential and relates to a meeting or a part of a meeting that is likely to be closed to members of the public.

No responsibility whatsoever is implied or accepted by the Shire of Plantagenet for any act, omission, statement or intimation occurring during Council or Committee meetings.

Any person or legal entity who acts or fails to act in reliance upon any statement, act or omission made in a Council or Committee meeting does so at that person's or legal entity's own risk.

### **EMERGENCY EVACUATION PROCEDURES**

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A warden will issue you with further instructions.

Obey the instruction of the warden at all times.

Do not re-enter the building at any time, unless under instruction by the Chief Warden.

## 1 DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

On establishing there is a quorum, the Chief Executive Officer will declare the meeting open.

The Chief Executive Officer acknowledges the Traditional Custodians of the land on which we meet today, paying respects to their Elders past, present and emerging.

Part 5 of Division 6 Subdivision 1 of the Local Government Act 1995 requires Council Members and employees to disclose any direct or indirect financial interest or general interest in any matter listed in this Agenda.

The Act also requires the nature of the interest to be disclosed in writing before the meeting or immediately before the matter being discussed.

NB: A Council member who makes a disclosure must not preside or participate in, or be present during, any discussion or decision-making procedure relating to the disclosed matter unless the procedures set out in Section 5.68 or 5.69 of the Act have been complied with.

## 2 PUBLIC QUESTION TIME (RELATING TO SPECIAL BUSINESS ONLY)

Section 5.24 Local Government Act 1995

## 3 PETITIONS / DEPUTATIONS / PRESENTATIONS (RELATING TO SPECIAL BUSINESS ONLY)

## 4 RECORD OF ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE (PREVIOUSLY APPROVED)

- Members Present:
- In Attendance:
- Previously Approved Leave of Absence:  
Cr J Oldfield
- Apologies  
Cr A Fraser

## 5 DISCLOSURE OF INTEREST

Part 5 Division 6 Local Government Act 1995

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**6 SPECIAL BUSINESS****6.1 ANNUAL REPORT - YEAR ENDING 30 JUNE 2021**

<b>File Ref:</b>	<b>N56276</b>
<b>Attachment:</b>	<u>Annual Report – Year End 30 June 2021</u> (Separate Attachment)
<b>Responsible Officer:</b>	<b>Cameron Woods</b> <b>Chief Executive Officer</b>
<b>Author:</b>	<b>John Fathers</b> <b>Deputy Chief Executive Officer</b>
<b>Proposed Meeting Date:</b>	<b>21 December 2021</b>

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**PURPOSE**

The purpose of this report is to accept the Shire of Plantagenet's 2020/2021 Annual Report.

**BACKGROUND**

The annual financial audit for 2020/2021 was conducted by representatives of the Council's auditors, Lincolns (on behalf of the Office of the Auditor General) in October 2021.

**STATUTORY ENVIRONMENT**

Local Government Act 1995

Section 5.54 (1) states '*subject to subsection (2) the Annual Report for a financial year is to be accepted by the local government no later than 31 December after that financial year.*' (Absolute Majority required).

**EXTERNAL CONSULTATION**

Not applicable.

**FINANCIAL IMPLICATIONS**

There are no financial implications for this report.

**BUDGET IMPLICATIONS**

There are no budget implications for this report.

**POLICY IMPLICATIONS**

There are no policy implications for this report.

**LEGAL IMPLICATIONS**

There are no legal implications for this report.

**ASSET MANAGEMENT IMPLICATIONS**

There are no asset management implications as no assets are being created or acquired.

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**STRATEGIC IMPLICATIONS**

The Shire of Plantagenet Strategic Community Plan 2017-2026 provides at Outcome 4.2 (Effective engagement with the community and stakeholders) the following Strategy:

Strategy 4.2.1:

*'Keep the community well informed on Council initiatives'*

Accordingly, the recommended outcome for this report aligns with the Strategic Community Plan.

**STRATEGIC RISK IMPLICATIONS**

There are no strategic risk implications for this report.

**REGIONAL IMPLICATIONS**

There are no regional implications for this report.

**OFFICER COMMENT**

The Annual Report notes that a number of key items of infrastructure and plant were progressed during 2020/2021, including:

- Capital roadworks and drainage improvements totalling \$3.14 million as well as footpath renewals totalling approximately \$64,000.00.
- Additions to the Dr Christopher Bourke Medical Centre building, including six doctor consulting rooms, one physiotherapy room, one allied health professional room as well as internal alterations to the foyer and waiting room areas.
- Construction started on a raised steel boardwalk on Mount Barker Hill. This attraction will provide views for walkers and stargazers from the south-western side of the hill.
- Construction of a new toilet facility at Frost Park, comprising separate universal access male and female toilets in the existing tote room.
- Replacement of the box gutter along the front of the CRC and construction of a short section of walkway on the roof.
- Initiated by the Plantagenet Historical Society, a fire resistant archive repository was built at the museum complex, attached to the Second Police Station/Student Hostel building.
- Following a series of assessments of the condition of Mount Barker Memorial Swimming Pool, works began on Stage 1A of the swimming pool upgrade, which will provide a new administration and changeroom building and associated earthworks, retaining walls and hard landscape.
- New playgrounds were installed at the Kendenup Hall and in Bonnyup Park, Mount Barker.
- Work continued on the Water Strategy 2020 recommendations, with work being completed on the pipework and electrical conduit to allow pumping from Frost Dam into the Training Track Dam.
- Works also began on a refurbishment of the CEO staff house.

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- A Croner truck UD PK 18 280 and Isuzu 3 tonne tipper NPR75-190 were purchased, as well as six light vehicles being changed over.

Some notable events held during the year were:

- Recognising the history and heritage of our past, the 150th Anniversary luncheon was held for past and present Councillors and CEOs. The event brought together many generations of leaders that had a hand in shaping the Shire with many stories to be told.
- On 13 February 2021, the Shire held the Thank a Volunteer Sundowner with approximately 150 volunteers in attendance representing 39 community groups. The evening was held to thank all volunteers for their hard work and selfless commitment throughout the year.
- To celebrate Seniors Week 2020, the Shire together with Empowering Plantagenet Seniors (EPS) held another successful Seniors Expo on Friday 20 November 2020. The Expo took place at the newly established EPS Hub at the Lesser Hall with 15 exhibitors and approximately 60 seniors in attendance throughout the morning.

In line with projects identified in the Shire's Corporate Business Plan, planning of a number of major projects was progressed, including:

- Developing plans to upgrade the pull in bay on Albany Highway as well as signage, fencing and tree planting on the highway and streets leading to the CBD.
- Fabrication and erection of a mural art wall, viewing platform and parking bay on Albany Highway, which will feature a mural painted by the Walldogs when their next visit from the USA can be scheduled.
- In April 2021 an evidence base for a Shire of Plantagenet Housing Strategy was presented to the Council. This document combined significant community and industry consultation with data analysis on issues that impact housing in Plantagenet.
- At its meeting held on 14 July 2020, the Council agreed to enter into a contract for the replacement of a corporate software system with IT Vision. The implementation started in November 2020 and the finance modules were implemented on 1 July 2021.

In terms of the Shire's financial situation, rate revenue increased from \$6.801 million in 2019/2020 to \$6.805 million in 2020/2021. Outstanding borrowings reduced from \$2.12 million in 2019/2020 to \$1.86 million in 2020/2021.

The Council spent \$530,804 on buildings and \$407,624 on parks and ovals and other infrastructure. The amount spent on roads, drainage and footpaths was \$3,207,962 with \$437,883 on purchases of plant, furniture and equipment.

The level of reserve funds increased from \$3,596,265 in 2019/2020 to \$3,807,376 in 2020/2021. The level of unrestricted cash at year end increased from \$1,519,153 to \$2,338,128.

The Council received grants and contributions for the development of assets of \$2.62 million in 2020/2021. Total grants and contributions received was \$6.76 million.

The level of year end rates debtors decreased from \$452,663 to \$340,959.

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The Council granted the Mount Barker Golf Club Inc a self-supporting loan of \$70,000.00 to finance the replacement of a synthetic bowling carpet, over a three year term.

Other activities carried out throughout the year have been reported on extensively within the Annual Report.

The General Meeting of Electors has been scheduled for 6.00pm on Tuesday 21 December 2021.

**VOTING REQUIREMENTS**

Absolute Majority

**RECOMMENDATION**

That the Annual Report for the year ended 30 June 2021 as attached, be accepted.



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**6.2 AUDIT REPORT AND REPORT ON SIGNIFICANT ADVERSE TRENDS -  
YEAR ENDING 30 JUNE 2021**

<b>File Ref:</b>	<b>N56727</b>
<b>Attachment:</b>	<u>2020/2021 Final Audit Opinion</u> <u>Interim Audit Report</u> <u>Draft Report on Significant Adverse Trends in</u> <u>Financial Position – 2020/2021</u>
<b>Responsible Officer:</b>	<b>Cameron Woods</b> <b>Chief Executive Officer</b>
<b>Author:</b>	<b>John Fathers</b> <b>Deputy Chief Executive Officer</b>
<b>Proposed Meeting Date:</b>	<b>21 December 2021</b>

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**PURPOSE**

The purpose of this report is to present the Annual Financial Audit and Interim Management Report for the year ending 30 June 2021 and to endorse a report to the Minister for Local Government advising what action has and will be taken in respect to matters raised within the audit report in terms of significant adverse trends.

**BACKGROUND**

In October 2021, representatives of Lincolns (on behalf of the Office of the Auditor General) attended the Shire office to conduct an end of year audit for 2020/2021. It should be noted that the audit is designed primarily to enable the auditors to form an opinion on the financial statements and therefore does not extend to all of the Council's systems and procedures.

**STATUTORY ENVIRONMENT**

Local Government Act 1995

Section 7.12A (3) and (4) of the Act states the following:

- '(3) A local Government is to examine the report of the auditor prepared under section 7.9 (1), and any report prepared under section 7.9(3) forwarded to it, and is to -
- (a) determine if any matters raised by the report, or reports require action to be taken by the local government; and
  - (b) ensure that appropriate action is taken in respect of those matters.
- (4) A local government is to -
- (a) prepare a report on any actions taken under subsection (3) in respect of an audit conducted in respect of a financial year; and
  - (b) forward a copy of that report to the Minister, by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.'

Section 7.12A(5) further requires that:

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*'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.'*

### **EXTERNAL CONSULTATION**

Consultation has occurred with the Shire's auditors in regard to this report.

### **FINANCIAL IMPLICATIONS**

There are no financial implications for this report.

### **BUDGET IMPLICATIONS**

The 2020/2021 budget includes a sum of \$45,000.00 for end of year and interim audit costs.

### **POLICY IMPLICATIONS**

There are no policy implications for this report.

### **LEGAL IMPLICATIONS**

There are no legal implications for this report.

### **ASSET MANAGEMENT IMPLICATIONS**

There are no asset management implications as no assets are being created or acquired.

### **STRATEGIC IMPLICATIONS**

The Shire of Plantagenet Strategic Community Plan 2017-2026 provides at Outcome 4.6 (Effective and efficient corporate and administrative services) the following Strategy:

Strategy 4.6.1:

*'Provide a full range of financial services to support Shire's operations and to meet planning, reporting and accountability requirements.'*

Accordingly, the recommended outcome for this report aligns with the Strategic Community Plan.

### **STRATEGIC RISK IMPLICATIONS**

The Strategic Risk Register provides for a number of key controls in order to fulfil statutory and regulatory compliance requirements. Those controls are rated as either effective or adequate.

### **REGIONAL IMPLICATIONS**

There are no regional implications for this report.

### **OFFICER COMMENT**

A copy of the audit report and management reports (interim and final) are attached. The management report focuses on the Shire's current position with respect to two of the statutory financial ratios in Note 33. The trend in regard to the ratios is shown in the table below (Note that some 2020 ratios have been amended due to recognition of accrued storm damage grant income):

Financial Ratios	2016	2017	2018	2019	2020	2021
Current Ratio	0.79	0.96	0.74	1.33	1.36 <del>0.89</del>	1.81
Asset Sustainability Ratio	0.49	0.68	0.48	0.60	0.76	0.71
Debt Service Cover Ratio	3.56	7.25	3.85	9.59	4.38 <del>3.38</del>	7.91
Operating Surplus Ratio	-0.59	-0.29	-0.47	-0.18	-0.20 <del>-0.28</del>	-0.19
Own Source Revenue Coverage Ratio	0.55	0.60	0.58	0.62	0.62	0.65
Asset Consumption Ratio	0.47	0.52	0.54	0.69	0.68	0.66
Asset Renewal Funding Ratio	0.66	0.92	1.02	0.88	0.86	0.89

### Interim Audit

The following finding was made in the interim audit, conducted by Lincolns in June 2021.

#### *Finding*

*It was noted during payroll testing that while the audit trail report for payroll master file amendments for pay periods ended 9<sup>th</sup> December 2020, 17<sup>th</sup> March 2021 and 9<sup>th</sup> June 2021 were printed and saved with the payroll batch reports, there was no clear evidence of review by an appropriate person. Additionally, the audit trail reports for pay periods ended 3<sup>rd</sup> February 2021 and 28<sup>th</sup> April 2021 were not printed, reviewed or filed with the payroll reports.*

*Rating: Moderate*

#### *Implication*

*Review of the audit trail report for the payroll master file is an important step in the payroll process as it allows any unauthorised changes to the payroll master file to be identified and followed up.*

#### *Recommendation*

*The payroll master file amendments audit trail report should be produced for all payroll runs, reviewed for any unauthorised changes, signed as reviewed by the reviewer and filed with the relevant payroll batch reports.'*

#### Management Comment:

It is acknowledged that during 2020/2021, there were some occasions where staff did not produce the audit trail at the time of the payroll and these were not followed up by a reviewing officer. Most of the instances referred to above were in a period where the former Senior Finance Officer (SFO) left on long term sick leave in November 2020 and a replacement SFO was appointed in March 2021. The audit trail reports produced by the Shire's business system during 2020/2021 were also somewhat deficient in their ease of use and understanding.

From July 2021, we have implemented a new business system, which produces the audit trail reports in a much better format. It is our practice now for these reports to be printed along with other payroll reports which are reviewed and signed off prior to payroll authorisation.

### Final Audit

A key audit requirement requires the auditor to identify any financial trends which it considers adverse and of concern. For the 30 June 2021 year, the auditor has raised the following significant matters.

*'Emphasis of Matter - Restatement of comparative balances*

*I draw attention to Note 29 to the financial statements which states that the amounts reported in the previously issued 30 June 2020 financial report have been restated and disclosed as comparatives in this financial report. My opinion is not modified in respect of this matter.'*

This comment relates to an amendment to the 2019/2020 figures to recognise additional income of \$794,811 which had been expended on storm damage rectification and therefore accrued as at 30 June 2020. This has resulted in an improvement to three of the 2020 statutory ratios (current ratio, debt service cover ratio and operating surplus ratio).

The auditor further notes that:

*'In my opinion, the following material matters indicate a significant adverse trend in the financial position of the Shire:*

- a) *The Operating Surplus Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the last 3 financial years.*
- b) *The Asset Sustainability Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the last 3 financial years.'*

In regard to the matters raised by the auditor with respect to ratios, the following comments are made.

- Asset Sustainability Ratio  $\frac{\text{capital renewal and replacement expenditure}}{\text{depreciation expense}}$

This ratio indicates that to what degree the Shire is replacing or renewing existing assets at the same rate that its overall asset stock is wearing out. A basic standard is met if the ratio is greater than 0.9 and the Standard is 'Advanced if the ratio is above 1.1.

The 2020/2021 Asset Sustainability Ratio of 0.71 is marginally lower than in 2019/2020 of 0.76. That result was the highest result in the preceding five years and in the last three years, had trended upwards. As expected, capital renewal expenditure trends upwards in the long term but can be reduced in years where the Shire spends comparatively more on new or upgraded assets.

The total depreciation amount was reduced from \$6.06 million in 2018/2019 to \$5.29 million in 2019/2020, as part of the efforts to verify condition and depreciation data (\$5.28 million in 2020/2021).

The ratio would not be considered within acceptable limits in the long term. It has been recognised for some time that more work needs to be done to verify road infrastructure depreciation values.

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- Operating Surplus Ratio  $\frac{\text{operating revenue minus operating expense}}{\text{own source operating revenue}}$

This ratio indicates an ability to cover operational costs and have revenues available for capital funding or other purposes. A basic standard is met between 0.01 and 0.15. An advanced standard is met over 0.15.

The Shire's 2020/2021 result is (0.19). This figure is better than the adjusted 2019/2020 result of (0.20) but slightly worse than the 2018/2019 result of (0.18). A two year rolling average shows gradual improvement over the last six years.

Accounting guidelines indicate that a sustained period of deficits will erode the local government's ability to maintain both its operational service level and asset base. The consistent negative values are mainly due to levels of asset depreciation, which the Shire increased markedly several years ago with the advent of fair value accounting.

- Report on Significant Adverse Trends

A draft report has been prepared which explains how the ratios are formulated, the reasons why the ratios are below the Department of Local Government, Sport and Cultural Industries standards and actions that have and are proposed to be taken to improve them.

In summary, the Shire has been aware for some time that an improvement of these and other ratios influenced by asset values was dependent on verification of asset condition and depreciation data. By far, road depreciation is the major contributor to the sub-standard ratios.

A condition assessment was done on the sealed road network in 2018/2019. The fresh data realised a reduction in the accumulated depreciation on roads of about \$38 million and substantially improved the Asset Consumption Ratio (from a basic to intermediate level).

A review of depreciation for Buildings, Infrastructure - Parks and Infrastructure - Other has also now been carried out. The annual depreciation in these categories reduced from 2018/2019 levels by \$720,423.00 (36%). The 2019/2020 and 2020/2021 ratios have improved (from what they otherwise would have been) as a result.

The Shire is continuing to verify the condition and remaining useful life of unsealed road infrastructure to ensure depreciation rates are reliable. There are many factors which could influence this and work will be ongoing for some time before decisions on significant changes to depreciation can be justified.

Nevertheless, the Shire's current and previous auditor had advised that interpretation of this Asset Sustainability Ratio should not be considered in isolation and in this regard should be looked at in conjunction with the Asset Consumption Ratio (ACR) and the Asset Renewal Funding Ratio (ARFR). The ACR of 0.66 is now sitting at an intermediate level indicating the Council's assets are in an acceptable condition and the ARFR of 0.89 is consistently above its target of 0.75, indicating the planned renewal and replacement expenditure over the next 10 years is sufficient to meet the required renewal and replacement expenditure.

It is also considered that, to some degree, the Operating Surplus Ratio does not accurately represent the local government scenario, whereby a significant proportion of infrastructure renewal (expensed via depreciation) is met by capital grant income. For recurring capital expenditure, there is a likelihood that traditional grant funding sources will continue and therefore perhaps should be included.

Finally, the current ratio benchmarks are a 'one size fits all' approach. It is understood that the majority of rural local governments have not had an Operating Surplus Ratio that met the standards, and there has been an indication by the Auditor General that this benchmark may need review.

## **VOTING REQUIREMENTS**

Simple Majority

## **RECOMMENDATION**

That:

1. **The Annual Financial Audit Opinion and Interim Management Report for the year ending 30 June 2021 as issued by the Office of the Auditor General be received.**
2. **In accordance with Section 7.12A of the Local Government Act 1995, the attached report addressing matters identified as significant by the Shire's auditor in the 2020/2021 Audit Report, stating what action has and will be taken with respect to those matters, be endorsed.**
3. **The report in clause 2 above be forwarded to the Minister for Local Government and be published on the Shire of Plantagenet website.**



Our Ref: F21/67

7th Floor, Albert Facey House  
469 Wellington Street, Perth

Mr Cameron Woods  
Chief Executive Officer  
Shire of Plantagenet  
PO Box 48  
MOUNT BARKER WA 6324

Mail to: Perth BC  
PO Box 8489  
PERTH WA 6849

Tel: 08 6557 7500  
Email: [info@audit.wa.gov.au](mailto:info@audit.wa.gov.au)

Dear Mr Woods

### **ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2021**

The Office has completed the audit of the annual financial report for your Shire. In accordance with section 7.12AD (2) of the *Local Government Act 1995*, we enclose the Auditor General's auditor's report, together with the audited annual financial report.

We have also forwarded the reports to the President and the Minister for Local Government, as required by the Act. You are required to publish the annual report, including the auditor's report and the audited financial report, on your Shire's official website within 14 days after the annual report has been accepted by your Council.

Matters of adverse trends in the financial position are reported on page 2 of the auditor's report.

#### **Emphasis of Matter – Restatement of comparative balances**

In my auditor's opinion, I draw attention to Note 29 to the financial statements which states that the amounts reported in the previously issued 30 June 2020 financial report have been restated and disclosed as comparatives in this financial report. My opinion is not modified in respect of this matter.

#### **Management Control Issues**

While the result of the audit was generally satisfactory, we would like to draw your attention to the attached listing of deficiencies in internal control and other matters that were identified during the audit. These matters have been discussed with management and their comments have been included in the attachment.

Please note that the purpose of our audit was to express an opinion on the financial report. The audit included consideration of internal control relevant to the preparation of the financial report in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

An audit is not designed to identify all internal control deficiencies that may require management attention. The matters being reported are limited to those deficiencies that have been identified during the audit that are of sufficient importance to warrant being reported. It is possible that other irregularities and deficiencies may have occurred and not been identified as a result of our audit.

This letter has been provided for the purposes of the Shire and the Minister for Local Government and may not be suitable for other purposes.

We would like to take this opportunity to thank you, the management and the staff of the Shire for their cooperation with the audit team during our audit.

Feel free to contact the undersigned on 6557 7566 if you would like to discuss these matters further.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Anna Liang', written in a cursive style.

Anna Liang  
Assistant Director  
Financial Audit  
16 December 2021

Attach





## Auditor General

### INDEPENDENT AUDITOR'S REPORT 2021 Shire of Plantagenet

To the Councillors of the Shire of Plantagenet

## Report on the audit of the annual financial report

### Opinion

I have audited the financial report of the Shire of Plantagenet (Shire) which comprises:

- the Statement of Financial Position at 30 June 2021, 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
- Notes comprising a summary of significant accounting policies and other explanatory information
- the Statement by the Chief Executive Officer.

In my opinion the financial report of the Shire of Plantagenet:

- is based on proper accounts and records
- fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2021 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

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's responsibilities section below. I am independent of the Shire in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to my audit of the financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of Matter – Restatement of comparative balances

I draw attention to Note 29 to the financial statements which states that the amounts reported in the previously issued 30 June 2020 financial report have been restated and disclosed as comparatives in this financial report. My 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 is responsible for the preparation and fair presentation of the financial report in accordance with the requirements of the Act, the Regulations and Australian Accounting Standards. The CEO is also responsible for managing internal control (as required by the CEO) to ensure the financial report 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**

As required by the *Auditor General Act 2006*, my responsibility is to express an opinion on the financial report. The objectives of my 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 my 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. 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.

A further description of my responsibilities for the audit of the financial report is located on the Auditing and Assurance Standards Board website. This description forms part of my auditor's report and can be found at [https://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf).

## **Report on other legal and regulatory requirements**

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

- (i) In my opinion, the following material matters indicate a significant adverse trend in the financial position of the Shire:
  - a) The Operating Surplus Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the last 3 financial years.
  - b) The Asset Sustainability Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the last 3 financial years.
- (ii) All required information and explanations were obtained by me.
- (iii) All audit procedures were satisfactorily completed.
- (iv) 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.

### **Other matter**

The financial ratios for 2019 and 2020 in Note 33 of the financial report were audited by another auditor when performing their audit of the Shire for the years ending 30 June 2019 and 30 June 2020. The auditor expressed an unmodified opinion on the financial report for those years.

### **Other information**

The other information is the information in the entity's annual report for the year ended 30 June 2021, but not the financial report and my auditor's report. The CEO is responsible for the preparation and the Council for overseeing the other information.

My opinion does not cover the other information and, accordingly, I do not express any form of assurance conclusion thereon.

### **Matters relating to the electronic publication of the audited financial report**

This auditor's report relates to the financial report of the Shire of Plantagenet for the year ended 30 June 2021 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.



Grant Robison  
Assistant Auditor General Financial Audit  
Delegate of the Auditor General for Western Australia  
Perth, Western Australia  
16 December 2021



Our Ref: F21/67

7th Floor, Albert Facey House  
469 Wellington Street, Perth

Mr Cameron Woods  
Chief Executive Officer  
Shire of Plantagenet  
Administration Office Lowood Road  
MOUNT BARKER WA 6324

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PERTH WA 6849

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Dear Mr Woods

**ANNUAL FINANCIAL REPORT  
INTERIM AUDIT RESULTS FOR THE YEAR ENDING 30 JUNE 2021**

We have completed the interim audit for the year ending 30 June 2021. We performed this phase of the audit in accordance with our audit plan. The focus of our interim audit was to evaluate your overall control environment, but not for the purpose of expressing an opinion on the effectiveness of internal control, and to obtain an understanding of the key business processes, risks and internal controls relevant to our audit of the annual financial report.

**Management Control Issues**

We would like to draw your attention to the attached listing of deficiencies in internal control and other matters that were identified during the course of the interim audit. These matters have been discussed with management and their comments have been included on the attachment. The matters reported are limited to those deficiencies that were identified during the interim audit that we have concluded are of sufficient importance to merit being reported to management. Some of the matters may be included in our auditor's report in accordance with section 7.9(2) of the *Local Government Act 1995* or regulation 10(3)(a) and (b) of the *Local Government (Audit) Regulations 1996*. If so, we will inform you before we finalise the report.

This letter has been provided for the purposes of your local government and may not be suitable for other purposes.

We have forwarded a copy of this letter to the Shire President. A copy will also be forwarded to the Minister for Local Government when we forward our auditor's report on the annual financial report to the Minister on completion of the audit.

Feel free to contact me on 6557 7566 if you would like to discuss these matters further.

Yours faithfully

Anna Liang  
Assistant Director  
Financial Audit  
8 November 2021

Attach

## SHIRE OF PLANTAGENET

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

## FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
Matters identified during the current year			
1. Payroll Master File Audit Trail Review		✓	

## KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating may be reported as a matter of non-compliance in the audit report in the current year, or in a subsequent reporting period if not addressed. However, even if the issue is not likely to impact the audit report, it should be addressed promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

## SHIRE OF PLANTAGENET

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

## FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

## 1. Payroll Master File Audit Trail Review

**Finding**

It was noted during payroll testing that while the audit trail report for payroll master file amendments for pay periods ended 9 December 2020, 17 March 2021 and 9 June 2021 were printed and saved with the payroll batch reports, there was no clear evidence of review by an appropriate person. Additionally, the audit trail reports for pay periods ended 3 February 2021 and 28 April 2021 were not printed, reviewed, or filed with the payroll reports.

**Rating: Moderate****Implication**

Review of the audit trail report for the payroll master file is an important step in the payroll process as it allows any unauthorised changes to the payroll master file to be identified and followed up.

**Recommendation**

The payroll master file amendments audit trail report should be produced for all payroll runs, reviewed for any unauthorised changes, signed as reviewed by the reviewer and filed with the relevant payroll batch reports.

**Management Comment**

*It is acknowledged that during 2020/2021, there were some occasions where staff did not produce the audit trail at the time of the payroll, and these were not followed up by a reviewing officer. Most of the instances referred to above were in a period where the former Senior Finance Officer (SFO) left on long term sick leave in November 2020 and a replacement SFO was appointed in March 2021. The audit trail reports produced by the Shire's business system during 2020/2021 were also somewhat deficient in their ease of use and understanding.*

*From July 2021, we have implemented a new business system, which produces the audit trail reports in a much better format. It is our practice now for these reports to be printed along with other payroll reports which are reviewed and signed off prior to payroll authorisation.*

**Responsible Person:**

SFO

**Completion Date:**8 July 2021 (1<sup>st</sup> payroll run in Altus / Synergysoft)



## **REPORT ON SIGNIFICANT ADVERSE TREND**

**Pursuant to Section 7.12A(4) of the Local Government Act 1995**

**21 DECEMBER 2021**

## 1. Background

Under the Local Government Act 1995, the Shire of Plantagenet is required to prepare an audited Annual Financial Report each financial year.

The Shire's 2020/2021 audit report was received from the Office of the Auditor General on 16 December 2021 and is attached to this document.

A key audit requirement requires the auditor to identify any financial trends which it considers adverse and of concern. For the 30 June 2021 year, the Auditor has raised the following significant matters.

*'In my opinion, the following material matters indicate a significant adverse trend in the financial position of the Shire:*

- a) *The Operating Surplus Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the last 3 financial years.*
- b) *The Asset Sustainability Ratio as reported in Note 33 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the last 3 financial years.'*

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.'*

## 2. Details

The trend in regard to those ratios is shown in the table below:

Financial Ratios	2015	2016	2017	2018	2019	2020	2021
Asset Sustainability Ratio	0.49	0.49	0.68	0.48	0.60	0.76	0.71
Operating Surplus Ratio	-0.32	-0.59	-0.29	-0.47	-0.18	<del>-0.28</del> -0.20	-0.19

The **Asset Sustainability Ratio** is calculated as follows:

capital renewal and replacement expenditure

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depreciation expense



This ratio indicates that to what degree the Shire is replacing or renewing existing assets at the same rate that its overall asset stock is wearing out. A basic standard is met if the ratio is greater than 0.9 and the Standard is 'Advanced if the ratio is above 1.1.

The 2020/2021 Asset Sustainability Ratio of 0.71 is the second highest in the last six years, just lower than the 2019/2020 value of 0.76. The 2018/2019 was higher than the 2017/2018 figure of 0.48, but similar to the 2016/2017 result.

As expected, capital renewal expenditure trends upwards in the long term but can be reduced in years where the Shire spends comparatively more on new or upgraded assets.

This ratio is worsened in years where there is less than normal expenditure on 'renewal' items (due to more expenditure on 'new' and 'upgrade' projects). With much of our roadworks program, there is often an element of road / seal widening; such expenditure is excluded from this ratio.

The main reason for the improvement in this ratio in 2019/2020 and 2020/2021 was that the total depreciation amount was reduced from \$6.06 million in 2018/2019 to \$5.29 million in 2019/2020 (\$5.28 million in 2020/2021), as part of the efforts to verify condition and depreciation data.

In 2020/2021, 80% of capital works was spent on renewals (4.2 million), with 13% on upgrade works and 7% on new works. By far the Council's own source funding has been allocated to renewals. A significant effort has been put into the planning and subsequent expenditure on Commonwealth Drought Relief Fund and Local Roads and Community Infrastructure Program (LRCIP) projects.

The Shire's previous auditor has advised that interpretation of this ratio should be considered together with the Asset Consumption Ratio (ACR) and the Asset Renewal Funding Ratio (ARFR). The ACR of 0.66 is now sitting at an intermediate level indicating the Council's assets are in an acceptable condition and the ARFR of 0.89 is consistently above its target of 0.75, indicating the planned renewal and replacement expenditure over the next 10 years is sufficient to meet the required renewal and replacement expenditure.

The main issue with the ASR is the level of depreciation as a result of adjustments to asset fair values. It has been recognised for some time that more work needs to be done to verify depreciation values, in particular road depreciation.

**The Operating Surplus Ratio** is calculated as follows:

$$\frac{\text{operating revenue minus operating expense}}{\text{own source operating revenue}}$$


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own source operating revenue

This ratio indicates an ability to cover operational costs and have revenues available for capital funding or other purposes. A basic standard is met between 0.01 and 0.15. An advanced standard is met over 0.15.

The Shire's 2020/2021 result is (0.19), figures in parentheses being negative. The Shire's 2019/2020 result was last year reported as (0.28), but that value has now been corrected to be (0.20), due to recognition of accrued storm damage grant income. These figures have stabilized with the 2018/2019 result of (0.18). They are much better than the 2017/2018 and 2016/2017 values of (0.47) and (0.29) respectively. However, it is well below the Basic standard of 0.01.

Accounting guidelines indicate that a sustained period of deficits will erode the local government's ability to maintain both its operational service level and asset base. The consistent negative values are mainly due to levels of asset depreciation, which the Shire increased markedly several years ago with the advent of fair value accounting.

To some degree, the Shire contends that this ratio does not accurately represent the local government scenario, whereby a significant proportion of infrastructure renewal (expensed via depreciation) is met by capital grant income. For recurring capital expenditure, there is a likelihood that traditional grant funding sources will continue and therefore perhaps should be included.

The depreciation values could also be somewhat overstated due to useful life assumptions.

### **3. Action Plan**

The Shire has been aware for some time that an improvement of these and other ratios influenced by asset values was dependent on verification of condition and depreciation data. By far, road depreciation is the major contributor to the sub-standard ratios.

The Shire is implementing an Asset Management Improvement Plan and undertaking other activities to verify the remaining useful life of infrastructure and ensure depreciation rates are reliable.

The Shire has completed a condition assessment on its sealed road network. The fresh data has been uploaded into the RAMM II Database and this has realised a reduction in the accumulated depreciation on roads of about \$38 million and substantially improved the Asset Consumption Ratio (from a basic to intermediate level).

A review of depreciation for Buildings, Infrastructure - Parks and Infrastructure - Other has also now been carried out and the 2020/2021 and 2019/2020 ratios have improved (from what they otherwise would have been) as a result.

The Shire is continuing to verify the condition and remaining useful life of unsealed road infrastructure to ensure depreciation rates are reliable. There are many factors which could influence this and work will be ongoing for some time before decisions on significant changes to depreciation can be justified.

It is also noted that the current ratio benchmarks is a 'one size fits all' approach. It is understood that the majority of rural local governments have not had an Operating Surplus Ratio that met the standards, and there has been an indication by the Auditor General that this benchmark may need review.

**7 CLOSURE OF MEETING**