



Cr. Denis Todd  
Mayor  
Warrumbungle Shire Council  
PO Box 191  
Coonabarabran NSW 2357

Contact: Unaib Jeoffrey  
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Our ref: D2026773/1803

23 November 2020

Dear Mayor

**Report on the Conduct of the Audit  
for the year ended 30 June 2020  
Warrumbungle Shire Council**

I have audited the general purpose financial statements (GPFS) of the Warrumbungle Shire Council (the Council) for the year ended 30 June 2020 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's GPFS.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2020 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

## **SIGNIFICANT AUDIT ISSUES AND OBSERVATIONS**

I identified the following significant audit issues and observations during my audit of the Council's financial statements. These issues and observations were addressed as part of my audit.

### **Correction of prior period error**

In 2019-20, Council completed comprehensive revaluation of Road and Bridges assets. As a result of the valuation process, Council identified found assets with a fair value of \$10.7 million as at 30 June 2020.

The error identified was corrected by restating the opening balance of the Infrastructure, property, plant and equipment (IPPE) and accumulated surplus of the earliest comparative period presented i.e. 1 July 2018. The 30 June 2019 comparative figures have also been restated to reflect the correction of errors.

## INCOME STATEMENT

### Operating result

	2020 \$m	2019* \$m	Variance %
Rates and annual charges revenue	13.8	13.0	6.2
Grants and contributions revenue	19.9	22.3	10.8
Operating result from continuing operations	2.3	0.6	283.3
Net operating result before capital grants and contributions	(1.5)	(5.2)	71.2

\* The 2019 comparatives have been restated to correct a prior period error. Note 17 of the financial statements provides details of the prior period error.

The Council's operating result from continuing operations of \$2.3 million (including depreciation and amortisation expense of \$12.9 million) was \$1.7 million higher than the 2018–19 result, due to following factors:

- increase in rate and annual charges revenue \$0.8 million as a result of using 2019 NSW Valuer General valuation in calculating rates and the rate peg increase of 2.3 per cent
- increase in other revenue \$1.1 million relating to the sale of Southern Phone Shares
- offset by a \$2.1 million decrease in capital grants
- decrease in material and contract expenses of \$2.8 million.

The net operating result before capital grants and contributions (\$1.5 million) was \$3.7 million higher than the 2018–19 result. This movement was primarily due to reasons outlined above.

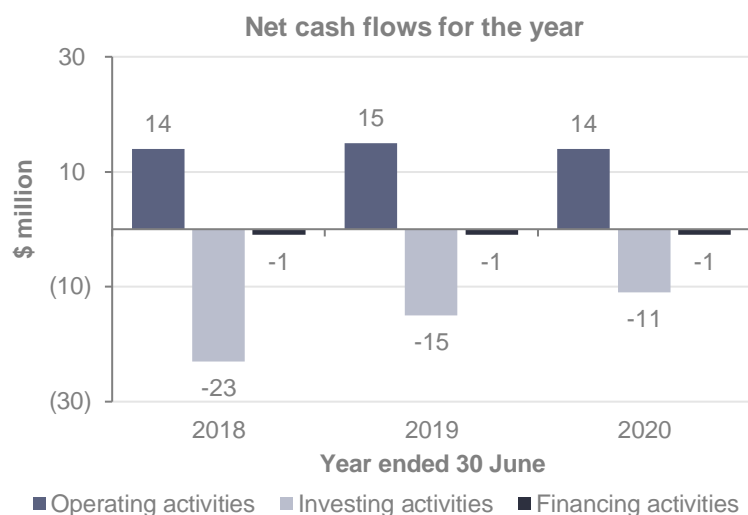
Rates and annual charges revenue (\$13.8 million) increased by \$0.8 million (6.2 per cent) in 2019-20. This reflects the rate peg increase of 2.3 per cent, together with movements in property valuations during the year.

Grants and contributions revenue (\$19.9 million) decreased by \$2.4 million (10.8 per cent) in 2019–20 due to decrease in:

- water supplies capital grant received in 2019-20 of \$1.1 million (\$1.3 million received in 2018-19, \$0.24 million received in 2019-20 )
- recreation and culture grants received in 2019-20 of \$0.62 million (\$0.68 million in 2018–19, \$0.06 million in 2019-20) and,
- bushfire and emergency services capital grants received in 2019-20 of \$0.17 million (\$0.23 million received in 2018-19, \$0.06 million received in 2019-20).

## STATEMENT OF CASH FLOWS

- The Council reported an increase in cash and cash equivalents from \$4.7 million at 30 June 2019 to \$6.9 million at 30 June 2020.
- Cash flows from operating and financing activities remained fairly consistent over the past three years.
- Cash outflows from investing activities decreased mainly due to a reduction in purchases of infrastructure, property, plant and equipment.



## FINANCIAL POSITION

### Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	7.4	6.2	<ul style="list-style-type: none"> <li>• External restrictions mainly include water supply and sewerage services and specific purpose unexpended grants.</li> <li>• Internal restrictions are due to Council policy or decisions for forward plans including the capital works program. These increased for carry over works and plant and vehicle replacements.</li> <li>• Unrestricted balances provide liquidity for day-to-day operations.</li> </ul>
Internal restrictions	10.0	9.5	
Unrestricted	1.0	2.0	
<b>Cash and investments</b>	<b>18.4</b>	<b>17.7</b>	

# PERFORMANCE

## Performance measures

The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning, Industry and Environment.

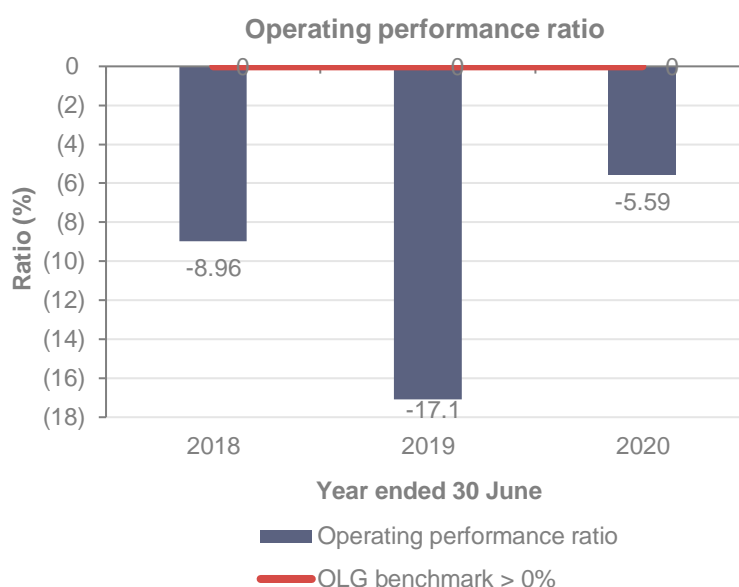
### Operating performance ratio

The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by OLG is greater than zero per cent.

The Council did not meet the OLG benchmark for the past three years.

The improvement in the ratio from prior year was consistent with the increased net operating result for the year.

The 2019 ratio of 16.38 per cent was restated to 17.10 per cent to correct a prior period error.

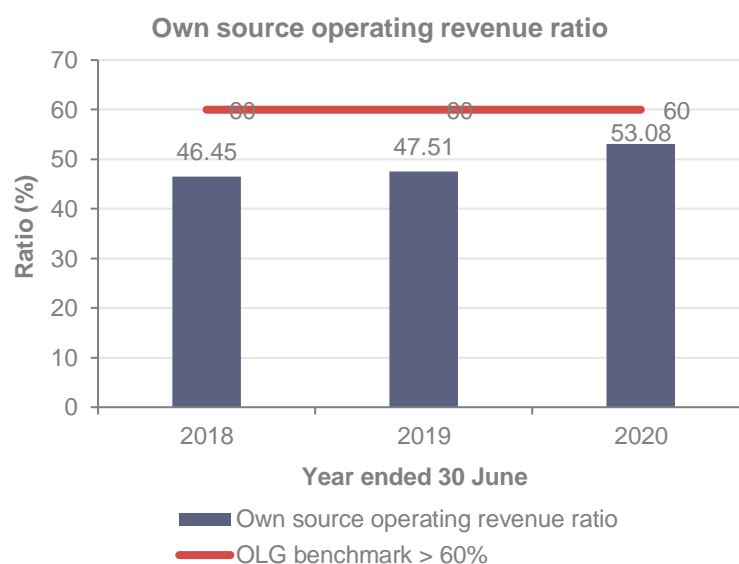


### Own source operating revenue ratio

The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.

The Council did not meet the OLG benchmark for the past three years.

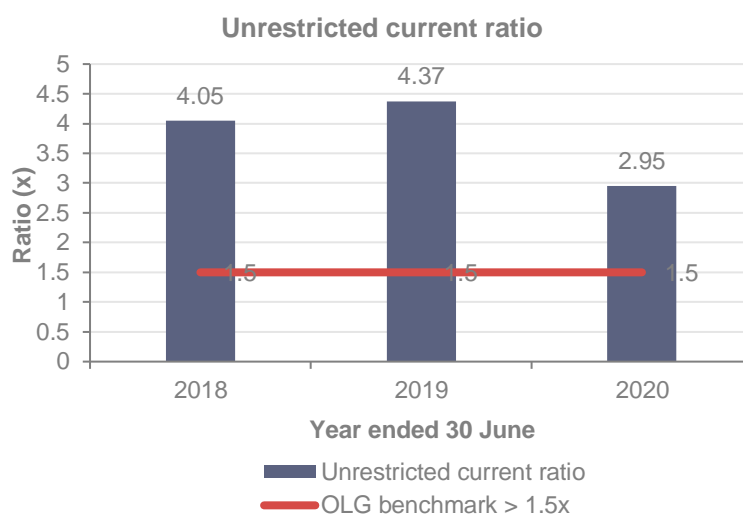
The ratio has remained fairly stable year-on-year and reflects that Council has a greater reliance on grant funding as a source of revenue.



## Unrestricted current ratio

The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.

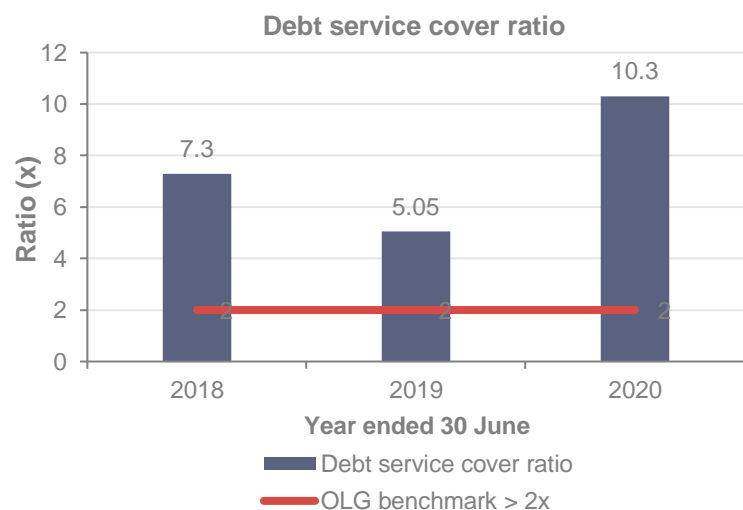
Council's unrestricted current ratio exceeded the industry benchmark for the past three years. This ratio indicates that Council currently has \$2.95 of unrestricted current assets available to service every \$1.00 of its unrestricted current liabilities.



## Debt service cover ratio

The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.

The Council exceeded the OLG benchmark for the last three years. Council appears to be effectively monitoring its liquidity levels to ensure it can meet its borrowing costs when they fall due.

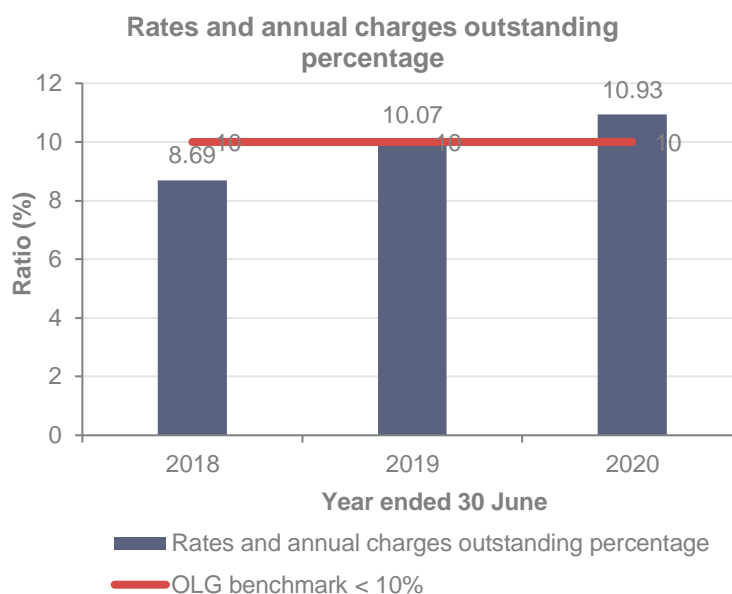


## Rates and annual charges outstanding percentage

The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG is less than 10 per cent for regional and rural councils.

The Council did not meet the OLG benchmark for the current reporting period.

The increase in the ratio is impacted by the economic conditions impacted by drought.

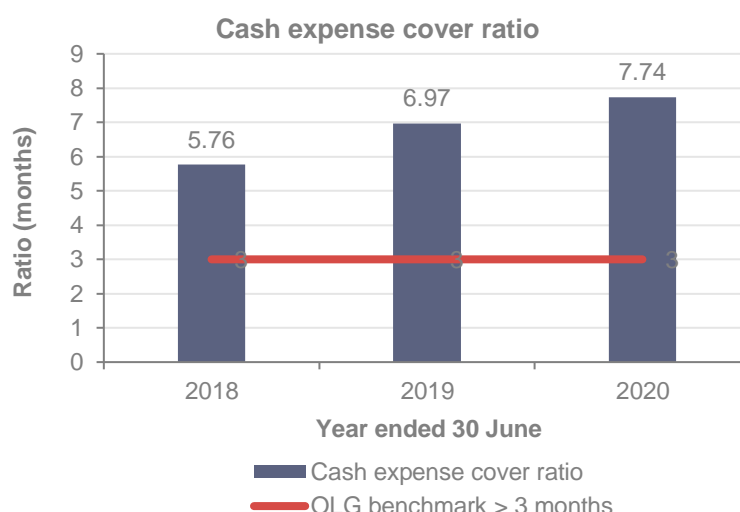


## Cash expense cover ratio

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by OLG is greater than three months.

The Council exceeded the OLG benchmark for the last three years.

This indicates that Council has the capacity to cover 7.74 months of cash expenditure without additional cash inflows at 30 June 2020.



## Infrastructure, property, plant and equipment renewals

Council spent \$10.3 million on asset renewals in 2019–20 compared to \$9.5 million in 2018–19. Asset renewals are defined as the replacement of existing assets as opposed to the acquisition of new assets.

A short-term benchmark of Council's strategic asset management is to assess the rate at which Council's assets are being renewed against the rate at which they are depreciating. In 2019–20, asset renewals of \$10.3 million represented 79 percent of Council's \$13.0 million depreciation expense. This result was slightly higher than the 2018–19 result of 78 percent.

Asset renewals in 2019–20 were carried out in accordance with Council's capital works program and primarily related to road and plant and equipment assets.

## OTHER MATTERS

### Impact of new accounting standards

#### **AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income for Not-for-Profit Entities'**

The Council adopted the new accounting standards AASB 15 'Contracts with Customers' and AASB 1058 'Income of Not-for-Profit Entities' (collectively referred to as the Revenue Standards) for the first time in their 2019–20 financial statements.

AASB 15 introduces a new approach to recognising revenue based on the principle that revenue is recognised when control of a good or service transfers to a customer. AASB 15 impacts the timing and amount of revenue recorded in a councils' financial statements, particularly for grant revenue. AASB 15 also increases the amount of disclosures required.

AASB 1058 prescribes how not-for-profit entities account for transactions conducted on non-commercial terms and the receipt of volunteer services. AASB 1058 significantly impacts the timing and amount of income recorded in a councils' financial statements, particularly for grant income and rates which are paid before the commencement of the rating period.

The Council recognised a net \$0.3 million adjustment to opening accumulated surplus at 1 July 2019 on adoption of the new Revenue Standards.

The Council disclosed the impact of adopting the New Revenue Standards in Note 17.

#### **AASB 16 'Leases'**

The Council adopted the new accounting standard AASB 16 'Leases' for the first time in their 2019–20 financial statements.

AASB 16 changes the way lessees treat operating leases for financial reporting. With a few exceptions, operating leases will now be recorded in the Statement of Financial Position as a right-of-use asset, with a corresponding lease liability.

AASB 16 results in lessees recording more assets and liabilities in the Statement of Financial Position and changes the timing and pattern of expenses recorded in the Income Statement.

The Council recognised right-of-use assets and lease liabilities of \$0.3 million at 1 July 2019 on adoption of AASB 16.

The Council disclosed the impact of adopting AASB 16 in Note 14 and Note 17.

## Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial statements. The Council's:

- accounting records were maintained in a manner and form to allow the GPFS to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.



Unaib Jeoffrey

Delegate of the Auditor-General for New South Wales

cc: Mr Roger Bailey, General Manager  
Mr Kim Parker, Director Corporate and Community Services  
Jim Betts, Secretary of the Department of Planning, Industry and Environment





## INDEPENDENT AUDITOR'S REPORT

### Report on the general purpose financial statements

#### Warrumbungle Shire Council

To the Councillors of Warrumbungle Shire Council

### Opinion

I have audited the accompanying financial statements of Warrumbungle Shire Council (the Council), which comprise the Statement by Councillors and Management, the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2020, the Statement of Financial Position as at 30 June 2020, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion:

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
  - have been prepared, in all material respects, in accordance with the requirements of this Division
  - are consistent with the Council's accounting records
  - present fairly, in all material respects, the financial position of the Council as at 30 June 2020, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

My opinion should be read in conjunction with the rest of this report.

## Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants (including Independence Standards)' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Other Information

The Council's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the special purpose financial statements and Special Schedule - Permissible income for general rates.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

## The Councillors' Responsibilities for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *Local Government Act 1993*, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements.

Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

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

The scope of my audit does not include, nor provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 23 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Unaib Jeffrey

Delegate of the Auditor-General for New South Wales

23 November 2020  
SYDNEY



## **INDEPENDENT AUDITOR'S REPORT**

### **Report on the special purpose financial statements**

#### **Warrumbungle Shire Council**

To the Councillors of Warrumbungle Shire Council

### **Opinion**

I have audited the accompanying special purpose financial statements (the financial statements) of Warrumbungle Shire Council's (the Council) Declared Business Activities, which comprise the Statement by Councillors and Management, the Income Statement of each Declared Business Activity for the year ended 30 June 2020, the Statement of Financial Position of each Declared Business Activity as at 30 June 2020 and Note 1 Significant accounting policies for the Business Activities declared by Council.

The Declared Business Activities of the Council are:

- Water Supply Business Activity
- Sewerage Business Activity
- Warrumbungle Quarry.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2020, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting – update number 28 (LG Code).

My opinion should be read in conjunction with the rest of this report.

### **Basis for Opinion**

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Schedule' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants (including Independence Standards)' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Emphasis of Matter - Basis of Accounting**

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

### **Other Information**

The Council's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements and Special Schedule 'Permissible income for general rates'. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

### **The Councillors' Responsibilities for the Financial Statements**

The Councillors are responsible for the preparation and fair presentation of the financial statements and for determining that the accounting policies, described in Note 1 to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or

in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

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

The scope of my audit does not include, nor provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A handwritten signature in black ink, appearing to read 'Unaib Jeoffrey', with a long horizontal stroke extending to the right.

Unaib Jeoffrey

Delegate of the Auditor-General for New South Wales

23 November 2020  
SYDNEY