



Clr Ambrose Doolan
Mayor
Warrumbungle Shire Council
PO Box 191
COONABARABRAN NSW 2357

Contact: Unaib Jeoffrey
Phone no: 02 9275 7450
Our ref: D2126017/1803

8 February 2022

Dear Mayor

**Report on the Conduct of the Audit
for the year ended 30 June 2021
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 2021 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 2021 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.

INCOME STATEMENT

Operating result

	2021	2020	Variance
	\$m	\$m	%
Rates and annual charges revenue	14.1	13.9	↑ 1.4
Grants and contributions revenue	27.6	19.9	↑ 38.6
Operating result from continuing operations	9.8	2.3	↑ 3.5 times
Net operating result before capital grants and contributions	0.5	(1.5)	↑ 1.3 times

The Council's operating result from continuing operations (\$9.8 million including depreciation and amortisation expense of \$12.0 million) was \$7.5 million higher than the 2019–20 result. This was primarily due to an increase in grants for capital purposes of \$5.0 million and grants for operating purposes of \$2.1 million and an increase in rates and annual charges of \$0.3 million.

The net operating result before capital grants and contributions (\$0.5 million) was \$2.0 million higher than the 2019–20 result. The increase was driven by an increase in grants for operating purposes of \$2.1 million and an increase in rates and annual charges of \$0.3 million.

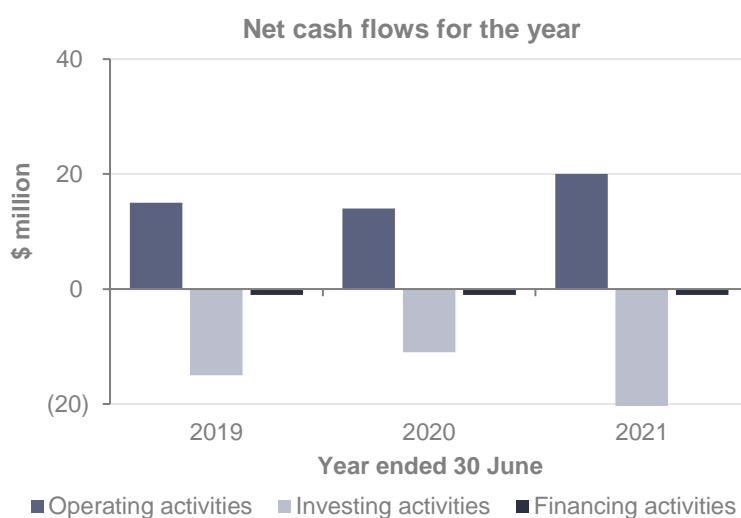
Rates and annual charges revenue (\$14.1 million) increased by \$0.3 million (1.4 per cent) in 2020–21 due mostly to the rate peg increase of 2.6 per cent.

Grants and contributions revenue (\$27.6 million) increased by \$7.7 million (38.6 per cent) in 2020–21 due to:

- \$5.8 million increase in capital grants compared to 2019-20, including transport funding for sealed rural roads, urban streets, etc.
- \$1.1 million of other grants received for operating purposes.
- Additional \$0.1 million of financial assistance grants received in 2020–21 compared to 2019-20
- \$0.7 million of grants received as a result of water and sewer infrastructure program.

STATEMENT OF CASH FLOWS

- The Council reported an increase in cash and cash equivalents from \$18.4 million at 30 June 2020 to \$21.9 million at 30 June 2021.
- Cash inflows from operating activities increased from 2019-20 mainly as a result of higher receipts from grants and contributions.
- Cash outflows used in investing activities increased mainly due to an increase in purchases of infrastructure, property, plant and equipment and acquisition of term deposits.
- Cash outflows from financing activities remain relatively consistent with 2020.



FINANCIAL POSITION

Cash and investments

Cash and investments	2021	2020	Commentary
	\$m	\$m	
Total cash, cash equivalents and investments	21.9	18.4	<ul style="list-style-type: none"> External restrictions predominantly include specific purpose unexpended grants and water supply and sewerage service funds. The balance remains consistent with last year. Internal restrictions remain consistent with last year. These mostly include the financial assistance grants, plant and vehicle replacement, and employees' leave entitlement. Unrestricted balances provide liquidity for day-to-day operations.
Restricted cash and investments:			
External restrictions	7.8	7.4	
Internal Restrictions	10.0	10.0	
Unrestricted	4.1	1.0	

PERFORMANCE

Performance measures

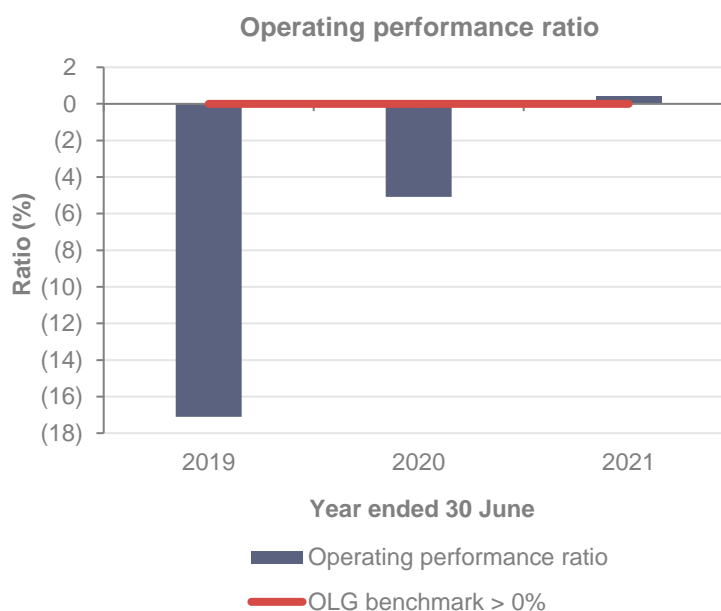
The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning, Industry and Environment.

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 met the OLG benchmark for 2021 year.

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

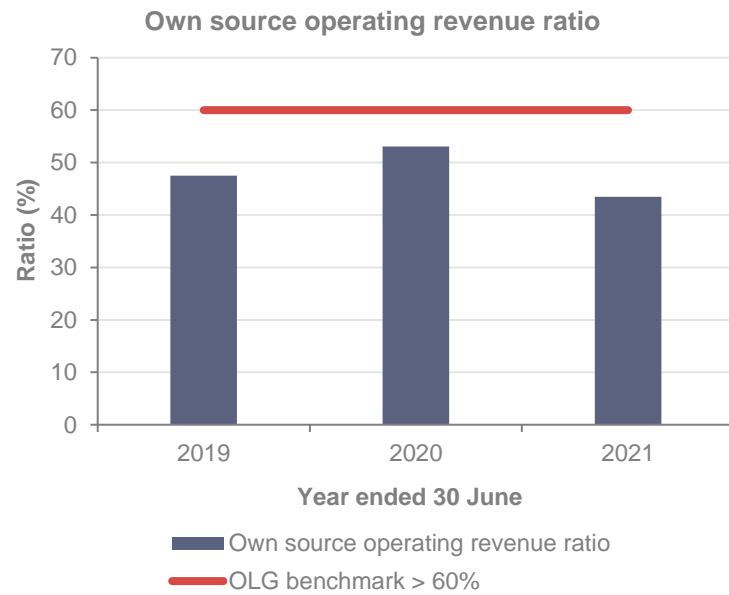


Own source operating revenue ratio

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 below the required threshold over the last three years and reflects that Council has a greater reliance on grant funding as a source of revenue.

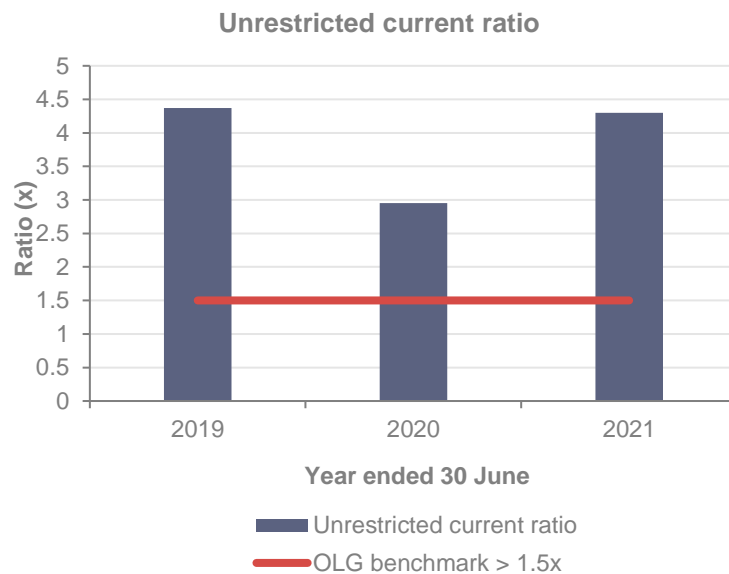


Unrestricted current ratio

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.

The Council has exceeded the OLG benchmark for the past three years.

This ratio indicates that Council currently has \$4.30 of unrestricted current assets available to service every \$1.00 of its unrestricted current liabilities

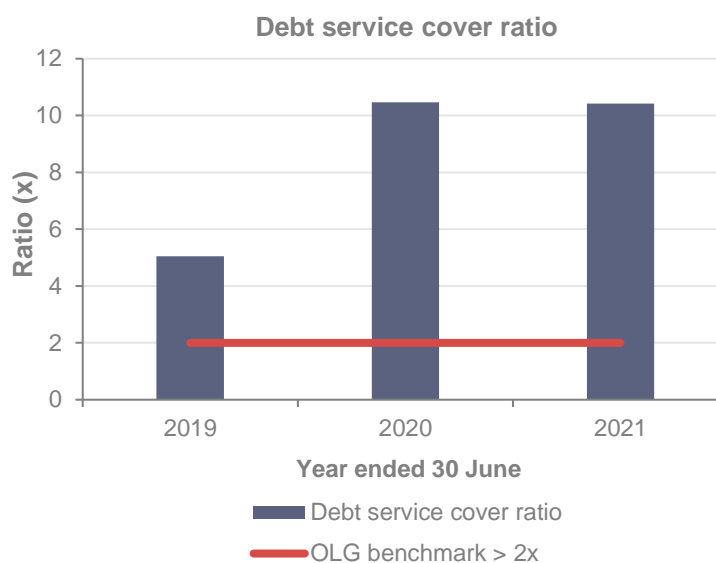


Debt service cover ratio

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 has exceeded the OLG benchmark for the past three years.

Council appears to be effectively monitoring its liquidity levels to ensure it can meet its borrowing costs when they fall due.

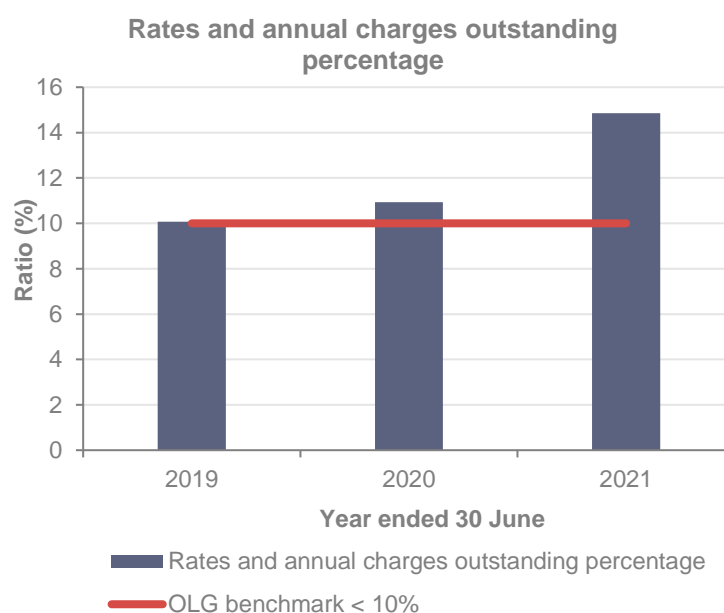


Rates and annual charges outstanding percentage

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 from 10.9 per cent to 14.8 per cent is reflective of the economic conditions resulting from the drought together with a smaller impact from the COVID-19 pandemic.

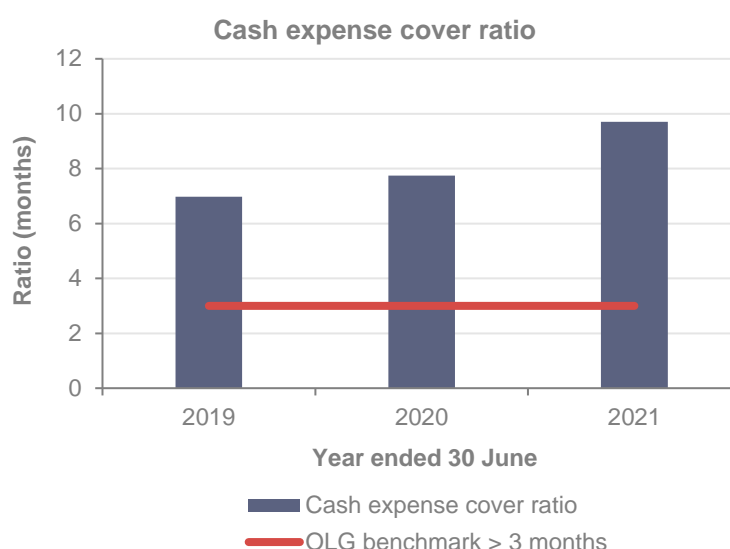


Cash expense cover ratio

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 has exceeded the OLG benchmark for the past three years.

This indicates that Council had the capacity to cover 9.71 months of cash expenditure without additional cash inflows at 30 June 2021.



Infrastructure, property, plant and equipment renewals

Council spent \$12.6 million on asset renewals in 2020-21 compared to \$10.3 million in 2019-20. 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 2020-21, asset renewals of \$12.6 million represented 105% of Council's \$12.0 million depreciation expense. This result was 26% higher than the 2019-20 result 79%.

Asset renewals in 2020-21 were carried out in accordance with Council's capital works program and were primarily related to road and building assets.

OTHER MATTERS

Impact of new accounting standards

AASB 1059 'Service Concession Arrangements: Grantors'

The Council adopted the new accounting standard AASB 1059 'Service Concession Arrangements: Grantors' for the first time in its 2020-21 financial statements.

AASB 1059 provides guidance for public sector entities (grantors) who enter into service concession arrangements with private sector operators for the delivery of public services.

AASB 1059 applies to arrangements involving an operator providing public services related to a service concession asset on behalf of a public sector grantor for a specified period of time and managing at least some of those services. Common examples include roads, prisons, hospitals, water distribution facilities and energy supply.

When AASB 1059 applies, the grantor recognises the service concession asset at current replacement cost when the grantor obtains control of the asset and recognises a corresponding financial liability or unearned revenue or a combination of both.

The Council had not identified any arrangements with private sector operators that should be classified as either service concession arrangements within AASB 1059, leases or outsourcing arrangements.

Legislative compliance

The Council did not meet its statutory reporting timeframe in the 2021 financial year. This was as a result of turnover of key finance personnel which followed in significant delays in the receipt of key audit documentation including the financial statements as well as the valuation of infrastructure assets. An extension to the lodgement of the financial statements with the office of local government in accordance with section 416(5) of the Local Government Act 1993 was granted by the office of local government on 6 December 2021 allowing lodgement to occur by 31 January 2022 and then further extension upto 28 February 2022 due to my unavailability for signing off of the audit reports.

My audit procedures did not identify any other 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 Jeffrey
Delegate of the Auditor-General for New South Wales

cc: Mr Roger Bailey, General Manager
Kiersten Fishburn, 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 the 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 2021, the Statement of Financial Position as at 30 June 2021, 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 2021, 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 2021 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. 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 B5-1 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.

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

Unaib Jeffrey
Delegate of the Auditor-General for New South Wales

8 February 2022
SYDNEY



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Warrumbungle Shire Council

To the Councillors of the 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 2021, the Statement of Financial Position of each Declared Business Activity as at 30 June 2021 and the Significant accounting policies note.

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 2021, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in the Significant accounting policies note and the Local Government Code of Accounting Practice and Financial Reporting 2020–21 (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 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 the 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.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to the Significant accounting policies note 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 2021 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 the Significant accounting policies note 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

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- about any other information which may have been hyperlinked to/from the financial statements.

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Unaib Jeffrey

Delegate of the Auditor-General for New South Wales

8 February 2022
SYDNEY