

Mr Peter Shinton  
Mayor  
Warrumbungle Shire Council  
PO Box 191  
COONABARABRAN NSW 2357

Contact: Lawrissa Chan  
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Our ref: D1727478/FA1803

30 October 2017

Dear Mr Shinton

**Report on the Conduct of the Audit  
for the year ended 30 June 2017  
Warrumbungle Shire Council**

I have audited the general purpose financial statements of the Warrumbungle Shire Council (the Council) for the year ended 30 June 2017 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's general purpose financial statements.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2017 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the general purpose financial statements issued under section 417(2) of the Act.

## **INCOME STATEMENT**

### **Operating result**

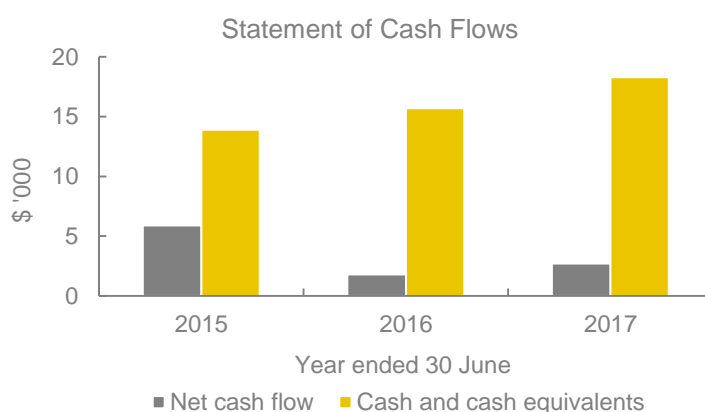
	<b>2017</b>	<b>2016</b>	<b>Variance</b>
	<b>\$m</b>	<b>\$m</b>	<b>%</b>
<b>Rates and annual charges revenue</b>	11.9	11.7	1.7 ↑
<b>Grants and contributions revenue</b>	25.2	24.5	2.8 ↑
<b>Operating result for the year</b>	4.7	6.5	(27.7) ↓
<b>Net operating result before capital amounts</b>	0.3	(0.6)	150.0 ↑

The following comments are made in respect of Council's operating result for the year:

- Rates and annual charges have increased by \$0.2 million (1.7 per cent). The increase is mainly attributable to the approved rate pegging increase of 1.8 per cent and movements in rateable properties in the Warrumbungle Shire Council area.
- Grants and contributions revenue increased by \$0.7 million (2.8 per cent). The increase was largely due to the receipt of \$3.3 million (50 per cent) of 2017-18 Financial Assistance Grants in advance. At some point in the future, there will be an opposite impact on the income statement when the advance position of the Financial Assistance Grant cases. This balance has been offset by a reduction of \$1.8 million in Roads to Recovery grant funding during the year.
- Council's operating result for the year was a surplus of \$4.7 million. This has decreased by \$1.8 million (-27.7 per cent) compared with the prior year due to an increase in materials and contracts expenses (\$2.3 million) and the reduction in capital grants (\$1.8 million) from Roads and Maritime Services for other roads and bridges. This has been offset by the receipt of 2017-18 Financial Assistance Grants in advance. The Council budgeted for a surplus of \$8.9 million.
- The net operating result for the year before capital grants and contributions was a surplus of \$0.3 million. This was driven by the receipt of \$1.8 million (50 per cent) of 2017-18 Financial Assistance Grants in advance.
- Total expenses of \$42.4 million have increased by 8.9 per cent compared with the prior year due to the increase in materials and contracts.

## STATEMENT OF CASH FLOWS

- Council's cash and cash equivalent's balance was \$18.3 million as at 30 June 2017. It has been increasing steadily for the past three years.
- The net increase in cash and cash equivalents of \$2.6 million is due to less purchase of infrastructure, property, plant and equipment compared with the prior year.



## FINANCIAL POSITION

### Cash and Investments

Restricted Cash and Investments	2017	2016	Commentary
	\$m	\$m	
External restrictions	8.7	9.8	<ul style="list-style-type: none"> <li>○ Externally restricted cash and investments are restricted in their use by externally imposed requirements. The decrease of \$1.1 million in externally restricted cash is driven by a reduction in specific purpose unexpended grants (\$413k), water supplies (\$214k) and Trust (\$206k).</li> </ul>
Internal restrictions	8.3	4.4	
Unrestricted	1.3	1.5	
<b>Cash and investments</b>	<b>18.3</b>	<b>15.7</b>	<p>Internally restricted cash and investments have been restricted in their use by resolution or policy of Council to reflect identified programs of works and any forward plans identified by Council. The</p>

increase of \$3.9 million in internal restrictions is mainly due to the \$3.3 million (50 per cent) of 2017-18 Financial Assistance Grants in advance.

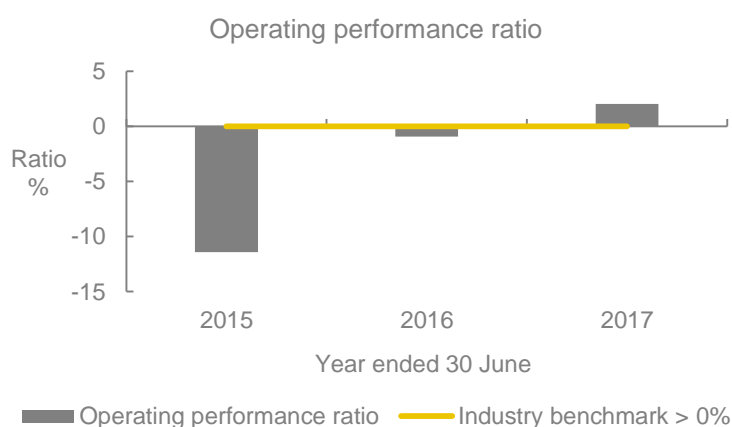
- Unrestricted balances provide liquidity for day-to-day operations of the Council. Unrestricted cash has remained steady with a slight decrease of \$0.2 million.

## PERFORMANCE RATIOS

The definition of each ratio analysed below (except for the 'building and infrastructure renewals ratio') is included in Note 13 of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7.

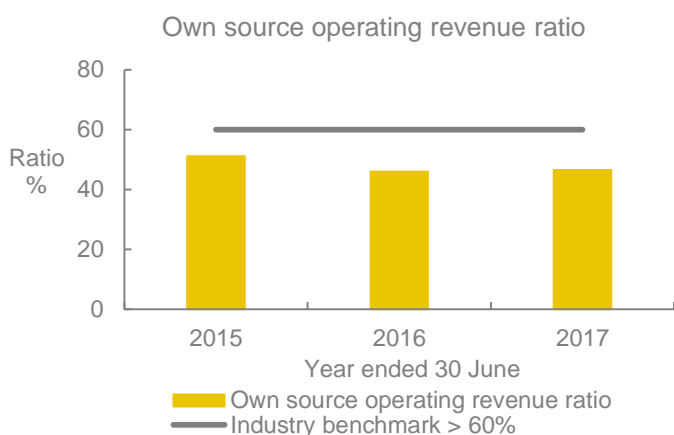
### Operating performance ratio

- Council's operating performance ratio in the current year is 2.05 per cent. The increase is due to Council receiving \$3.3 million (50 per cent) of its 2017/18 Financial Assistance Grants in advance.
- Council has exceeded the industry benchmark of >0 per cent for the current year, but the result for the past two years has been unfavourable. Council need to aim to meet the benchmark of 0 per cent.
- The 'operating performances 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 the Office of Local Government (OLG) is greater than zero per cent.



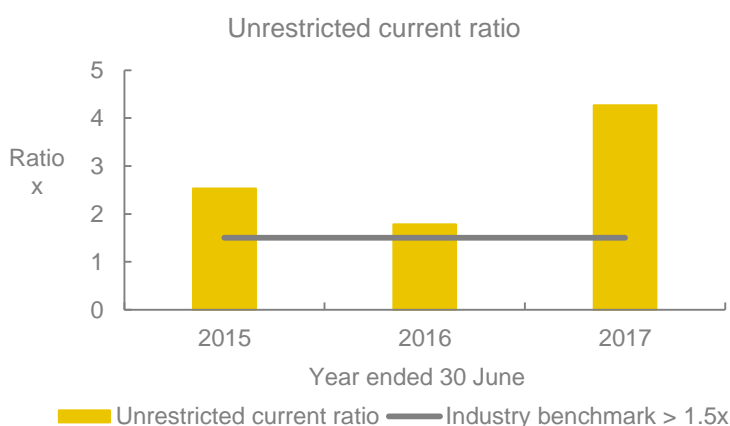
## Own source operating revenue ratio

- Council's own source operating revenue ratio in the current year is 46.46 per cent. This has remained consistent with prior years, but is below the industry benchmark of 60 per cent. This highlights Council's dependence on grants and contributions compared to the level of rates, charges and fees.
- 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.



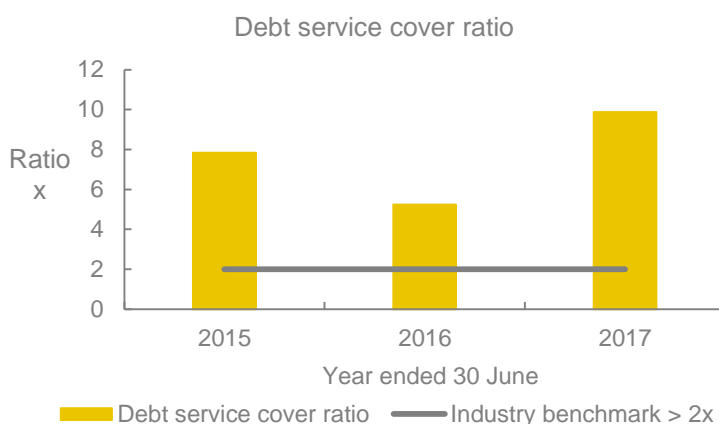
## Unrestricted current ratio

- Council's unrestricted current ratio is 4.27x. This indicates that Council has \$4.27 of unrestricted assets available to service every \$1.00 of its current liabilities, including loan repayments and payables. A ratio of 4.27x is above the industry benchmark minimum. This indicates that the Council has sufficient liquidity to meet its current liabilities when they fall due. The ratio excludes current assets and liabilities subject to external restrictions.
- Council has exceeded the industry benchmark of >1.5x over the past three years.
- 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.



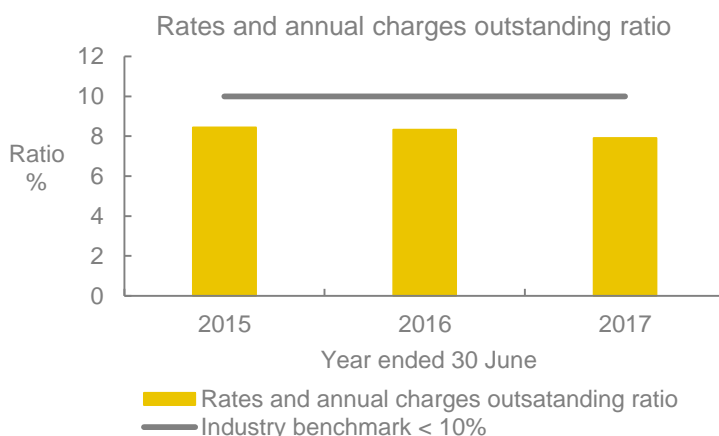
## Debt service cover ratio

- Council's debt service cover ratio is 9.87x. This indicates that Council has adequate revenue to cover the principal repayments and borrowing costs.
- Council's debt service cover ratio exceeded the industry benchmark of >2.00x over the past three years. The increase in this ratio is a result of the receipt of 2017-18 Financial Assistance Grants in advance.
- 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.



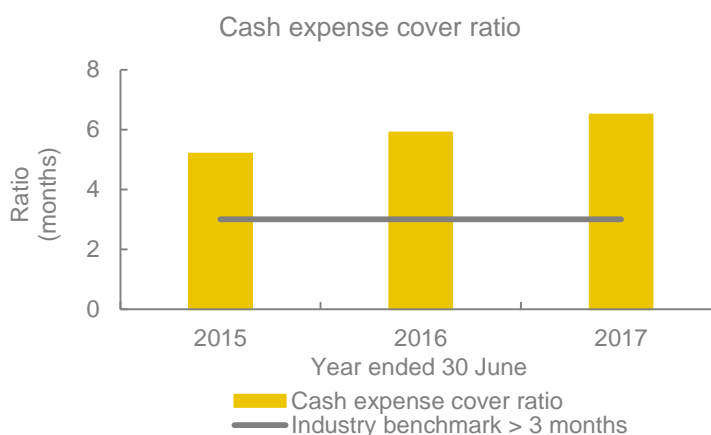
## Rates and annual charges outstanding ratio

- Council's rate and annual charges outstanding ratio is 7.91 per cent. The steady decline in the outstanding rates and annual charges ratio over the past three years indicates that Council's rate recovery measures are effective in collecting and reducing outstanding debts.
- Council has exceeded the industry benchmark of 10 per cent for rural councils over the past three years.
- The 'rates and annual charges outstanding ratio' 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 greater than 10 per cent for rural councils.



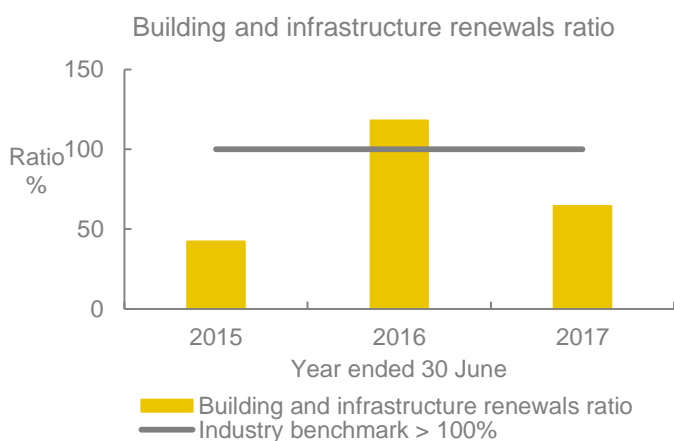
## Cash expense cover ratio

- Council's cash expense cover ratio is 6.5 months. This indicates that Council has the capacity to cover 6.5 months of cash expenditure without additional cash inflows.
- Council has exceeded the industry benchmark of >3 months over the past three years.
- 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.



## Building and infrastructure renewals ratio

- The Council's building and infrastructure renewals ratio is 64.44 per cent. The building and infrastructure renewals ratio indicates that Council spent \$0.64 for every \$1 in estimated asset deterioration and is lower than the OLG benchmark of >100%.
- The ratio shows that in the 2015/16 year, council undertook significant renewal work. An average ratio over the three years is approximately 74.9 which is less than the industry benchmark.
- The 'building and infrastructure renewals ratio assesses the rate at which these assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG is greater than 100 per cent. This ratio is sourced from information contained in council's Special Schedule 7 which has not been audited.



## OTHER MATTERS

### New accounting standards implemented

#### AASB 124 'Related Party Disclosures'

Effective for annual reporting periods beginning on or 1 July 2016

AASB 2015-6 extended the scope of AASB 124 to include not-for-profit public sector entities. As a result, Council's financial statements disclosed the:

- compensation paid to their key management personnel
- nature of their related party relationships
- amount and nature of their related party transactions, outstanding balances and commitments and outstanding balances (including commitments).

### 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 reports. The Council's:

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

Lawrissa Chan  
Director, Financial Audit Services

30 October 2017  
SYDNEY

cc: Leeanne Ryan, Acting General Manager  
Tim Hurst, Acting Chief Executive of the Office of Local Government