



Report Addressing the 2018/19 Annual Financial Report Audit Findings

Summary

The Auditor General in the draft Auditor's Report for the 2018/19 financial year has identified that the Operating Surplus Ratio is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) ratio standard. An excerpt from this report appears below.

The Local Government Act, Section 7.12A(4) requires local governments to examine the audit report it receives and implement appropriate action in respect to the significant matters raised. A report addressing the significant matters identified in the audit report must be prepared and then considered by the Audit Committee before being adopted by Council.

This report has been prepared to meet the above requirements of the Local Government Act.

Requirement to Report on Significant Audit Findings

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.*

Significant Matter Identified by the Auditor General

The Audit Report prepared by the Auditor General on the 2018/19 Annual Financial Statements identified the following significant adverse trend:

“Report on Other Legal and Regulatory Requirements

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

- (i) *In my opinion, the following matters indicate significant adverse trends in the financial position or the financial management practices of Bunbury-Harvey Regional Council:*
 - (a) *Operating surplus ratio as reported in Note 24 of the financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of zero for the last three years (2017: -0.04, 2018: -0.25 and 2019: -0.16).”*

Implications

The implications to the Council's financial position are:

Operating Surplus Ratio:

This ratio measures the local government's ability to cover its operational costs and have revenues available for capital funding and other purposes.

The following comments are supported by the information shown below, and as reported in Note 24 of The Annual Financial Report.



Expenditure on site rehabilitation for the last 3 years was funded from reserves which were built up in previous years by Council. Site rehabilitation expenditure is not a cost directly related to the current year only and reflects the cost of operations over many years. It is noted that if this site rehabilitation expenditure is removed from operating expenses, the operating surplus is above the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of zero for the last three years.

Supporting Information

The Annual Financial Report as reported in Note 24 includes the following information:

Operating Surplus Ratio:

	2019	2018	2017
<u>Operating revenue minus operating expense</u>	-0.16	-0.25	-0.04
Own source operating revenue			

Note:

When site rehabilitation expenditure is excluded from the ratio calculation, the ratio in the 2019, 2018 and 2017 would be as follows, thereby meeting the DLGSCI standard of greater than zero:

	2019	2018	2017
Operating Surplus Ratio:	0.94	0.89	0.96

Officer Comment

The Audit General's Report has not identified any non-compliance with the Local Government Act or Australian Accounting Standards in the 2018/19 Annual Financial Report; but does identify one ratio that is below a benchmark used as a guide by the Department of Local Government, Sport and Cultural Industries.

Action Taken or Intended to be Taken

To improve this ratio the Council needs to:

Annual Operating Surplus Ratio - Either reduce operating expenditure and/or increase operating revenue.

With careful financial management, relying on modest and affordable fee increases, management's continuous review of operational expenditure to ensure value for money and achieving savings through operational efficiencies; this ratio in the long term forecasts will either match or exceed the Department's benchmarks.



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