SHIRE OF DUNDAS

Audit Committee Meeting

16th October 2018

Papers Relating

SHIRE OF DUNDAS

5.1

Acceptance of the Auditor's Report for the year ended 30th June 2018

BUTLER SETTINERI
Real People. Better Business

MVDM : WK
DUN01

15 October 2018

Mr P Fitchat
Chief Executive Officer
The Shire of Dundas
PO Box 163
DUNDAS WA 6443

Dear Peter

SHIRE OF DUNDAS

We wish to advise that we have recently completed the audit of the above mentioned Council for the year ended 30 June 2018.

The Australian Auditing and Assurance Standards Board encourages auditors to issue a management letter on completion of each audit as a means of advising Council of any matters noted during the course of the audit.

Our audit involves the review of only those systems and controls adopted by the Council upon which we wish to rely for the purposes of determining our audit procedures. Furthermore, our audit should not be relied upon to disclose defalcations or other similar irregularities, although their disclosure, if they exist, may well result from the procedures we undertake. While we have considered the control environment in accordance with Australian Auditing Standards, we have not tested controls and hence do not comment on whether systems and controls are operating effectively.

We advise that we have not encountered any other matters during the course of our audit that we believe should be brought to your attention other than the following:

Segregation of duties

We appreciate that due to the nature and size of the shire, management overseas all the functions within the shire, however there is an inherent risk of lack of segregation of duties within the general financial administrative process and we recommend that this should be continually considered by the management in designing compensating controls

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Management Comment:
The management admits the inherent risk of not achieving optimum level of segregation of duties due to the nature and size of the Shire. Continue to looking for compensating controls with the use of technological advancements.

Authorisation of payments

Findings:
From our review of the Shire's Purchasing Policy we note the following excerpts which were relevant to our testing:

- *Purchases $10,000 to $50,000 – 2 written quotations required*
- *Purchases $50,000 to $150,000 – 3 written quotations required*

During our payments testing on a sample of payments we noted that formal written quotes for certain purchases exceeding $10,000 and $50,000 respectively were not obtained as required by the Purchasing Policy.

Examples:

a) Payment to Norseman Concrete amounting to $31,041 (including GST) on 24 November 2017 where only 1 verbal quote was obtained

b) Payment to Banner Excavating & Rockbreaking amounting to $56,776 (including GST) on 16 Feb 2018 where only 1 quote was obtained

Implication:
Without the required minimum number of quotes, the Shire's Purchasing Policy is not being adhered to.

Significance of finding: **Moderate**

Recommendation:
We recommend that the minimum required number of written quotes be obtained for all purchases exceeding $10,000 and $50,000 respectively in line with the Shire's purchasing policy.

Management Comment:
1st payment is in relation to the supply of concrete for footpath and Marks park upgrade projects. Concrete for these projects had been purchased from the sole local supplier of Norseman Concrete based on a verbally agreed rate. The rate was the same as the rate used in previous purchases. Sourcing of concrete either from Esperance or Kalgoorlie was not practically economical.

However, the management acknowledges that a written quote should have been obtained from Norseman Concrete considering the value of the supplies and attempted an additional quote for comparison purposes.

2nd payment relates to the hiring of a Dozer to push up gravels at pit 14 to 18 on Hyden road and to construct a dam alongside the Revees dam. Due to the remoteness of the area, previous works manager had to involve a contractor who has done similar work in the same area before. He had not expected the value of the job to exceed $50,000 and has taken a quotation only form Banner Excavating & Rockbreaking (Marvel Loach, WA 6426) as they were the only contractor available in close proximity to the work sites with a suitable Dozer (D9L).

However, the management acknowledges that the officer should have at least attempted to obtain another written quote for comparison purposes.

The Staff has now been informed about these requirements and importance of having written evidence of adhering to the purchasing policy as practical as possible.

Financial ratios

Under note 30 of the financial report, we note that the operating surplus and asset sustainability ratios do not meet the benchmark as set out by the Department of Local Government.

Significance of finding: **Moderate**

We would like to remind you of the compliance requirements to meet the above ratios. Regular monitoring of the above ratios is recommended.

Management Comment:

Operating Surplus Ratio (Benchmark >0.01)
Average operating revenue of the Shire is $4.5 million. Including depreciation expenses of $2.4 million on non-current assets, total average operating revenue of the Shire is $5.5 million. Under these circumstances, it is very unlikely that the Shire will ever be able to achieve an operating surplus, thus operating surplus ratio benchmark.

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. This worsening situation is mainly due to increasing depreciation due to asset revaluations. To some degree, this ratio does not accurately represent the Shire's scenario, whereby a significant proportion of infrastructure renewal (expensed via depreciation) is met by capital grant income.

However, the Shire needs to closely monitor the trend of operating surplus ratio and take every possible effort to achieve operating cost savings. Considering the significance of the new capital projects the Shire has undertaken in the recent past, a healthy operating surplus is a paramount importance for future financial sustainability of the Shire.

Excluding the impact of early receipt of Financial Assistance Grant and other revenue items (e.g. accounting profit on Eucla community hall fire damage)

Ratio	Standard	2017/18	2016/17	2015/16
Operating surplus ratio	**≥ 0.01**	(0.40)	(0.38)	(0.32)

Asset Sustainability Ratio (Benchmark >0.90)
To achieve this benchmark, at the current level of depreciation expenses, the Shire needs to spend in excess of $2.1 on capital renewal projects.

To some degree, this ratio also does not accurately represent the Shire's scenario. Increase in depreciation expenses associated with asset revaluations does not necessarily reflect exact capital asset renewal requirements of the Shire. Further, in the recent past very high proportion of capital expenditure was associated with new or upgrade projects (Norseman airport upgrade, parks upgrade etc.). Road capital renewal projects have been rescheduled to future years due to the Shire's involvement with the airport upgrade project.

The downward trend in the ratio amidst significant new capital projects raises the level of uncertainty about the Shire's ability to meet capital renewal requirements in medium to long term.

Asset management plan of the Shire needs to be further rationalised to achieve a better level of confidence.

Ratio	Standard	2017/18	2016/17	2015/16
Asset Sustainability Ratio	**≥ 0.90**	0.35	0.65	1.72

We wish to thank the Shire of Dundas staff for their assistance during the audit.

Should you have any questions please do not hesitate to contact me.

Yours sincerely
BUTLER SETTINERI (AUDIT) PTY LTD

MARIUS VAN DER MERWE CA
Director

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE SHIRE OF DUNDAS

Report on the Financial Report

Opinion

We have audited the financial report of the Shire of Dundas, which comprises the statement of financial position as at 30 June 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the declaration by the Chief Executive Officer.

In our opinion, the financial report of the Shire of Dundas is in accordance with the underlying records of the Shire, including:

a) giving a true and fair view of the Shire's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

b) complying with Australian Accounting Standards (including Australia Accounting Interpretations), the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

Basis for Opinion

We have conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report.

We are independent of the Shire in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our ethical requirements in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information in the Shire's annual report for the year ended 30 June 2018 but does not include the financial report and the auditor's report thereon.

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Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Council's Responsibility for the Financial Report

Council is responsible for the preparation of the financial report which gives a true and fair view in accordance with Australian Accounting Standards (including Australia Accounting Interpretations), the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) and for such internal control as the Shire determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives 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 our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the 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.

As part of an audit in accordance with the Australia Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.

- Obtain and understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Shire's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Councillors.

- Conclude on the appropriateness of Council's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Shire's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Shire to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Council with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Emphasis of Matter

Without modifying our opinion, we draw attention to page 44 of the financial report "Supplementary Ratio Information", which describes certain ratio information relating to the financial report. Management's calculation of these ratios includes assumptions about future capital expenditure and hence falls outside our audit scope. We do not therefore express an opinion on these ratios.

However, we have reviewed the calculations as presented and in our opinion these are based on verifiable information and appear reasonable.

Reporting on Other Legal and Regulatory Requirements

We did not, during the course of our audit, become aware of any instances where the Shire did not comply with the statutory requirements of the Local Government Act (1995) (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

In accordance with the Local Government (audit) Regulations 1996, we also report that:

a) Apart from the operating surplus ratio and asset sustainability ratio that do not meet the minimum benchmark, there are no material matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Shire.

b) The Shire substantially complied with Part 6 of the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

c) All information and explanations required were obtained by us.

d) All audit procedures were satisfactorily completed in conducting our audit.

BUTLER SETTINERI (AUDIT) PTY LTD

MARIUS VAN DER MERWE
Director

Perth
Date: 15 October 2018