

Level 15, Exchange Tower,
2 The Esplanade, Perth, WA 6000

PO Box 5785, St Georges Terrace, WA 6831

T +61 (0)8 9225 5355

F +61 (0)8 9225 6181

www.moorestephenswa.com.au

8 November 2016

Mr Dale Stewart
Acting Chief Executive Officer
Shire of Brookton
PO Box 42
BROOKTON WA 6306

Dear Dale

**AUDIT OF THE SHIRE OF BROOKTON
FOR THE YEAR ENDED 30 JUNE 2016**

We advise that we have completed the audit of your Shire for the year ended 30 June 2016 and enclose our Audit Report and a copy of the Management Report.

A copy of the Audit Report and Management Report has also been sent directly to the President as is required by the Act.

We would like to take this opportunity to thank you and your staff for the assistance provided during the audit.

Please contact us if you have any queries.

Yours sincerely



Greg Godwin
Partner
Moore Stephens

Encl.

Level 15, Exchange Tower,
2 The Esplanade, Perth, WA 6000

PO Box 5785, St Georges Terrace, WA 6831

T +61 (0)8 9225 5355

F +61 (0)8 9225 6181

www.moorestephenswa.com.au

INDEPENDENT AUDITOR'S REPORT TO THE ELECTORS OF THE SHIRE OF BROOKTON

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of the Shire of Brookton, which comprises the statement of financial position as at 30 June 2016, statement of comprehensive income by nature or type, statement of comprehensive income by program, statement of changes in equity, statement of cash flows and the rate setting statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the statement by Chief Executive Officer.

Management's Responsibility for the Financial Report

Management is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended) and for such internal control as Management 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 Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Shire's preparation of the financial report that gives a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial report.

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

Opinion

In our opinion, the financial report of the Shire of Brookton is in accordance with the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended), including:

- a) giving a true and fair view of the Shire's financial position as at 30 June 2016 and of its financial performance and its cash flows for the year ended on that date; and
- b) complying with Australian Accounting Standards (including Australian Accounting Interpretations).

**INDEPENDENT AUDITOR'S REPORT
TO THE ELECTORS OF THE SHIRE OF BROOKTON (CONTINUED)**

Report On Other Legal and Regulatory Requirements

During the course of the audit we became aware of the following instance where the Shire did not comply with the Local Government Act (as amended) 1995 and Local Government (Financial Management) Regulations 1996 (as amended):

Rates Notice

The rate notice or accompanying information did not include a brief statement that rebates to pensioners and seniors under the Rates and Charges (Rebates and Deferments) Act 1992 are funded by the Government of Western Australia as required by Local Government (Financial Management) Regulation 56(4) (ha).

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

- a) There are no matters that in our opinion indicate significant adverse trends in the financial position or financial management practices of the Shire.
- b) Except as detailed above, no other matters indicating non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law were noted during the course of our audit.
- c) In relation to the Supplementary Ratio Information presented at page 62 of this report, we have reviewed the calculations as presented and nothing has come to our attention to suggest they are not:
 - i) reasonably calculated; and
 - ii) based on verifiable information.
- d) All necessary information and explanations were obtained by us.
- e) All audit procedures were satisfactorily completed in conducting our audit.

MOORE STEPHENS
CHARTERED ACCOUNTANTS


GREG GODWIN
PARTNER

Date: 8 November 2016
PERTH, WA

8 November 2016

Cr Kym Wilkinson
The Shire President
Shire of Brookton
PO Box 42
BROOKTON WA 6306

Dear Cr Wilkinson

MOORE STEPHENS

Level 15, Exchange Tower,
2 The Esplanade, Perth, WA 6000

PO Box 5785, St Georges Terrace, WA 6831

T +61 (0)8 9225 5355

F +61 (0)8 9225 6181

www.moorestephenswa.com.au

MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2016

We advise that we have completed our audit procedures for the year ended 30 June 2016 and enclose our Audit Report.

We are required under the Local Government Audit Regulations to report certain compliance matters in our audit report. Other matters which arise during the course of our audit that we wish to bring to Council's attention are raised in this management report.

It should be appreciated that our audit procedures are designed primarily to enable us to form an opinion on the financial statements and therefore may not bring to light all weaknesses in systems and procedures which may exist. However, we aim to use our knowledge of the Shire's organisation gained during our work to make comments and suggestions which, we hope, will be useful to you.

COMMENT ON RATIOS

Ratios provide useful information when compared to industry and internal benchmarks and assist in identifying trends. Whilst not conclusive in themselves, understanding ratios, their trends and how they interact is beneficial for the allocation of scarce resources and planning for the future.

Information relating to the statutory ratios disclosed in the financial report is summarised in the table below and commentary provided on the following pages.

	Target Ratio ¹	Actual 2016	Council's Adjusted Ratios					Council's 5 Year Trend ²	4 Year Average ³	
		2016	2016	2015	2014	2013	2012	Regional	State	
Current Ratio	≥ 1	1.15	1.15	1.17*	1.03	0.94	0.70	↑	2.48	2.29
Asset Sustainability Ratio	≥ 1.1	0.64	0.64	0.98	2.53	2.27	2.07	↓	1.38	1.23
Debt Service Cover Ratio	≥ 15	3.41	5.35*	5.32*	6.26*	2.48*	5.00	↑	11.82	14.01
Operating Surplus Ratio	≥ 0.15	(0.46)	(0.34)*	(0.05)*	0.04*	(0.23)*	(0.02)	↓	(0.08)	(0.02)
Own Source Revenue Coverage Ratio	≥ 0.9	0.43	0.73*	0.84*	0.83*	0.77*	0.78*	↓	0.56	0.68
Asset Consumption Ratio	≥ 0.75	0.70	0.70	0.64	0.68	0.57	N/A	↑	0.77	1.16
Asset Renewal Funding Ratio	≥ 1.05	0.81	0.81	0.66	1.11	0.88	N/A	↓	0.97	1.00

¹ Target ratios per Department of Local Government and Communities (DLGC) Guidelines except the Debt Service Ratio which is a target devised by Moore Stephens (and based on experience). For information, DLGC Guidelines indicate a target Debt Service Cover Ratio of 5.

² The 5 year trend compares the adjusted 2016 ratios to the average of the adjusted ratios for the last 5 years (except for the Asset Consumption and Asset Renewal Funding Ratios which are the 4 year trend).

³ The average in relation to the Regional and State comparisons is a 4 year average of 2012, 2013, 2014 and 2015.

* Adjusted for "one-off" timing/non-cash items.

COMMENT ON RATIOS (CONTINUED)**Adjustment relating to 2016**

Three (2015 – Four) of the ratios in the accompanying table have been adjusted for “one off” timing/non-cash items as follows:

- The Debt Service Cover and Operating Surplus ratios were distorted by the early receipt of half of the allocation of the 2015-2016 Financial Assistance Grant (FAGs) on 30 June 2015. The early payment of the grant increased operating revenue in 2015 and decreased operating revenue in 2016 by \$474,081.
- The Own Source Revenue Coverage ratio was distorted by the operating grant component of \$2,695,871 relating to the Kalkarni Aged Care Facility not being treated as Own source operating revenue in accordance with the Department of Local Government ratio guidelines.

All of these amounts were adjusted when calculating the ratios in the above table (as shown by “*”) as were comparative year ratios which had also been affected by similar “one off” / “Non-cash” items.

Regional and State 4 Year Averages

Regional and State 4 year averages have not been adjusted for these items even though “one-off” items may have been applicable in prior years as they are based on the statutory ratios which have been reported in published financial reports. However, they still provide a useful reference point as they are indicative of the trend.

Commentary on specific ratios:**• Asset Sustainability Ratio**

The Asset Sustainability ratio (ASR) expresses capital expenditure on renewal and replacement of existing assets as a percentage of depreciation costs. This ratio is used to identify any potential decline or improvement in asset conditions. A percentage of less than 100% on an ongoing basis indicates assets may be deteriorating at a greater rate than spending on renewal or replacement.

This ratio is below the target level and both Regional and State 4 year averages and is trending downwards against the average over the last five years.

The reason for the deterioration in this ratio is a combination of the increase in depreciation expense following the revaluation of infrastructure assets during the year ended 30 June 2015 and capital renewal and replacement expenditure being under budget during the year ended 30 June 2016.

Interpretation of this ratio should be considered together with the Asset Consumption Ratio (ACR) (within target level at 0.70) and the Asset Renewal Funding Ratio (ARF) (within target level at 0.81).

The downward trend should prompt a review of the depreciation calculations along with reviewing the Shire’s long term capital investment program to help ensure asset renewal is maintained at an appropriate level with sufficient funding support in the future.

• Debt Service Cover Ratio

The Debt Service Cover Ratio measures Council’s ability to service debt out of its uncommitted or general purpose funds available from its operations.

This ratio is below the target level and both Regional and State 4 year averages but is trending upwards against the average over the last five years.

Based on our experience a Local Government of your circumstances with a Debt Service Ratio consistently below 15 would be experiencing difficulty in maintaining their assets and service level over the medium and longer term.

Analysis of the level of this ratio in relation to Council’s cash flows, financial position and the other ratios would indicate budgeted levels of the Shire’s capital investment program are not attainable at the current operating surplus and debt levels.

Notwithstanding this, as overall debt levels appear reasonable when compared to other Councils of similar circumstances, improvement of the operating surplus in the short term rather than the current debt level should be the subject of review.

COMMENT ON RATIOS (CONTINUED)

- **Operating Surplus Ratio**

The Operating Surplus Ratio represents the percentage by which the operating surplus (or deficit) differs from the Shire's own source revenue which includes rates and operating grants.

This ratio has decreased significantly in the current year and is trending downwards over the last five years. Furthermore, it is currently below the target level and both the Regional and State 4 year averages.

Analysis of the Shire's Statement of Comprehensive Income indicates the main reason for the deterioration of the ratio to be the increase in operating expenditure associated mainly with the increase in depreciation (the resultant effect of the revaluation of infrastructure assets during the year ended 30 June 2015) not being matched by an increase in operating revenue during the year ended 30 June 2016. If depreciation was at similar levels to the year ended 30 June 2015, then this ratio would have been more in the vicinity of a positive result.

Both Council and Management will need to consider ways to improve the operating surplus position further either via increasing revenue or by decreasing expenditure (or a combination of both). This will be dependent upon Council and management's understanding of the Shire's circumstances and the interaction between the operating surplus and the other ratios and operations in general.

Summary

The Shire's ratio position, after adjustment for depreciation and the FAGs and the Kalkarni Aged Care Facility operating grants detailed above are factored in, appears reasonably consistent with prior years.

Notwithstanding this, as all the ratios except the current ratio are below the accepted industry benchmark and a number of the ratios are trending downwards over the longer term, moving forward, measures/strategies to reverse the downward trends and improve the overall level of the ratios should be considered.

We would also like to take this opportunity to stress one-off assessments of ratios at a particular point in time can only provide a snapshot of the financial position and operating situation of the Shire. As is the case with all ratios and indicators, their interpretation is much improved if they are calculated as an average over time with the relevant trends being considered.

We will continue to monitor the financial position and ratios in future financial years and suggest it is prudent for Council and management to do so also as they strive to manage the scarce resources of the Shire.

If the Shire requires, we have a report available which is able to compare your ratios against other Local Governments across the State and by Region. The report is also able to incorporate a selection of your peer Local Governments, whether they be of near neighbours or similar type in nature. This may be of particular relevance in your case as you are included in the Wheatbelt region when comparison to other, more similar local governments, may be more relevant.

If you are interested in such an expanded report, please contact us.

UNCORRECTED MISSTATEMENTS

We advise there were no uncorrected misstatements noted during the course of our audit.

We take this opportunity to thank all staff for the assistance provided during the audit.

Should you wish to discuss any matter relating to the audit or any other matter, please do not hesitate to contact us.

Yours faithfully



Greg Godwin
Partner

Encl.