

7 December 2017

MOORE STEPHENS

Mr Ian D'Arcy
Chief Executive Officer
Shire of Brookton
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Dear Ian

**AUDIT OF THE SHIRE OF BROOKTON
FOR THE YEAR ENDED 30 JUNE 2017**

We advise that we have completed the audit of your Shire for the year ended 30th June 2017 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](http://www.moorestephens.com.au)

Encl.

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

Opinion on the Audit of the Financial Report

We have audited the accompanying financial report of the Shire of Brookton (the Shire), which comprises the statement of financial position as at 30 June 2017, 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.

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 2017 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).

Basis for Opinion

We 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 ethical 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 other ethical responsibilities 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.

Report on Other Legal and Regulatory Requirements

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 the financial management practices of the Shire.
- b) No 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 60 of this report, we have reviewed the calculations as presented and nothing has come to our attention to suggest it is not supported by:
 - i. verifiable information; and
 - ii. reasonable assumptions.
- d) All necessary information and explanations were obtained by us.
- e) All audit procedures were satisfactorily completed in conducting our audit.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Shire's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

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

Responsibilities of Management and Council for the Financial Report

Management is responsible for the preparation of this 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.

In preparing the financial report, management is responsible for assessing the Shire's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The Council is responsible for overseeing the Shire's financial reporting process.

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 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 this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our auditor's report.

MOORE STEPHENS
CHARTERED ACCOUNTANTS



GREG GODWIN
PARTNER

Date: 7 December 2017
Perth, WA

7 December 2017

MOORE STEPHENS

Cr Katrina Crute
The Shire President
Shire of Brookton
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Dear Cr Crute

Management Report for the Year Ended 30 June 2017

We advise that we have completed our audit procedures for the year ended 30 June 2017 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 the 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	The Shire's Adjusted Ratios						The Shire's 5 Year Trend ²	5 Year Average ³	
		Actual 2017	2017	2016	2015	2014	2013		Regional	State
Current Ratio	≥ 1	1.27	1.16*	1.15	1.17*	1.03	0.94	↑	2.33	2.22
Asset Sustainability Ratio	≥ 1.1	0.80	0.80	0.64	0.98	2.53	2.27	↓	1.31	1.18
Debt Service Cover Ratio	≥ 10	8.17	6.13*	5.35*	5.32*	6.26*	2.48*	↑	10.37	12.41
Operating Surplus Ratio	≥ 0.15	(0.10)	(0.22)*	(0.34)*	(0.05)*	0.04*	(0.23)*	↓	(0.18)	(0.11)
Own Source Revenue Coverage Ratio	≥ 0.9	0.46	0.78*	0.73*	0.84*	0.83*	0.77*	↓	0.54	0.67
Asset Consumption Ratio	≥ 0.75	0.71	0.71	0.70	0.64	0.68	0.57	↑	0.79	0.73
Asset Renewal Funding Ratio	≥ 1.05	0.80	0.80	0.81	0.66	1.11	0.88	↓	0.97	0.94

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

² The 5-year trend compares the adjusted 2017 ratio to the average of the adjusted ratios for the last 5 years.

³ The average in relation to the Regional and State comparisons is a 5 year average of 2012, 2013, 2014, 2015 and 2016.

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

Adjustment relating to 2017

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

- The Current, Debt Service Cover and Operating Surplus ratios were distorted by an item of significant revenue relating to the early payment of 2017/18 Financial Assistance Grants (FAGs) totaling \$495,866 received before 30 June 2017. The early payment of the grant increased operating revenue in 2017.
- The Own Source Revenue Coverage ratio was distorted by the operating grant component of \$2,777,809 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 5 Year Averages

Regional and State 5 year averages have not been adjusted for “one-off” items even though these 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 a 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, below both Regional and State 5 year averages and is trending downwards against the average over the last five years.

The main reasons noted for the deterioration in this ratio are a combination of the increase in depreciation expense and capital renewal and replacement expenditure being under budget during the year ended 30 June 2017.

The increase in depreciation is mostly attributable to the revaluation of infrastructure assets conducted in previous financial years resulting in a significantly higher depreciable asset base without a comprehensive assessment of conditions and Remaining Useful Life (RUL) being performed on individual assets.

Whilst the approach to conditions was considered conservative, we suggest this be reviewed as it may provide an unrealistic distortion to the ratio presented.

Interpretation of this ratio should be considered together with the Asset Consumption Ratio (ACR) (within target level at 0.71) and the Asset Renewal Funding Ratio (ARF) (within target level at 0.80).

As suggested last year, a review of depreciation calculations along with reviewing the Shire’s long-term capital investment program will help ensure asset renewal is maintained at an appropriate level with sufficient funding support in the future.

• 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.

This ratio has increased slightly in the current year but is trending downwards over the last five years. Furthermore, it is currently below the target level and both the Regional and State 5 year averages.

Analysis of the Shire’s Statement of Comprehensive Income indicates the main reason for the improvement of the ratio compared to prior year is the decrease in operating expenditure combined with an increase in operating income. Despite the improvement of this ratio during the year, the impact of depreciation (please refer to Asset Sustainability Ratio comment above for further details) brings it below target level and both Regional and State 5 years averages.

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.

COMMENT ON RATIOS (CONTINUED)

- Operating Surplus Ratio (continued)

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 appears reasonably consistent with prior years.

Notwithstanding this, as all the ratios except the current ratio are below the advanced 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
Moore Stephens

Encl.