

Notice of Meeting



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Dear Councillor

A meeting of the Shire of Pingelly Audit Committee will be held on Wednesday 13 December 2017 in the Council Chambers, 17 Queen Street, Pingelly commencing at 11am.

A handwritten signature in blue ink, appearing to be 'G. Pollock'.

Gavin Pollock
Chief Executive Officer

8 December 2017

DISCLAIMER

No responsibility whatsoever is implied or accepted by the Shire of Pingelly for any act, omission or statement or intimation occurring during Council or Committee meetings or during formal/informal conversations with staff. The Shire of Pingelly disclaims any liability for any loss whatsoever and howsoever caused arising out of reliance by any person or legal entity on any such act, omission or statement or intimation occurring during Council or Committee meetings or discussions. Any person or legal entity that act or fails to act in reliance upon any statement does so at the person's or legal entity's own risk.

In particular and without derogating in any way from the broad disclaimer above, in any discussion regarding any planning application or application for a licence, any statement or limitation of approval made by a member or officer of the Shire of Pingelly during the course of any meeting is not intended to be and is not taken as notice of approval from the Shire of Pingelly. The Shire of Pingelly warns that anyone who has an application lodged with the Shire of Pingelly must obtain and only should rely on WRITTEN CONFIRMATION of the outcome of the application, and any conditions attaching to the decision made by the Shire of Pingelly in respect of the application.

AGENDA

Shire of Pingelly
Audit Committee Meeting
13 December 2017

MISSION STATEMENT

To enhance the quality of life for the people of Pingelly through the provision of leadership, services and infrastructure.

DISCLAIMER

INFORMATION FOR PUBLIC ATTENDING COUNCIL MEETINGS

PLEASE NOTE:

The recommendations contained in this agenda are officer's recommendations only and should not be acted upon until Council has resolved to adopt those recommendations.

The resolutions of Council should be confirmed by perusing the minutes of the Council meeting at which these recommendations were considered.

Members of the public should also note that they act at their own risk if they enact any resolution prior to receiving official written notification of Councils decision.

A handwritten signature in black ink, appearing to be 'G. Pollock', written in a cursive style.

**GAVIN POLLOCK
CHIEF EXECUTIVE OFFICER**

COUNCIL MEETING INFORMATION NOTES

Your Council generally handles all business at Ordinary or Special Council Meetings.

From time to time Council may form a Committee to examine subjects and then report to Council.

Generally all meetings are open to the public; however, from time to time Council will be required to deal with personal, legal and other sensitive matters. On those occasions Council will generally close that part of the meeting to the public. Every endeavour will be made to do this as the last item of business of the meeting.

Public Question Time. It is a requirement of the Local Government Act 1995 to allow at least fifteen (15) minutes for public question time following the opening and announcements at the beginning of the meeting. Should there be a series of questions the period can be extended at the discretion of the Chairman.

Written notice of each question should be given to the Chief Executive Officer fifteen (15) minutes prior to the commencement of the meeting. A summary of each question and response is included in the Minutes.

When a question is not able to be answered at the Council Meeting a written answer will be provided after the necessary research has been carried out. Council staff will endeavour to provide the answers prior to the next meeting of Council.

Councillors may from time to time have a financial interest in a matter before Council. Councillors must declare an interest and the extent of the interest in the matter on the Agenda. However, the Councillor can request the meeting to declare the matter trivial, insignificant or in common with a significant number of electors or ratepayers. The Councillor must leave the meeting whilst the matter is discussed and cannot vote unless those present agree as above.

Members of staff, who have delegated authority from Council to act on certain matters, may from time to time have a financial interest in a matter on the Agenda. The member of staff must declare that interest and generally the Chairman of the meeting will advise the Officer if he/she is to leave the meeting.

Agendas, including an Information Bulletin, are delivered to Councillors within the requirements of the Local Government Act 1995, i.e. seventy-two (72) hours prior to the advertised commencement of the meeting. Whilst late items are generally not considered there is provision on the Agenda for items of an urgent nature to be considered.

Should an elector wish to have a matter placed on the Agenda the relevant information should be forwarded to the Chief Executive Officer in time to allow the matter to be fully researched by staff. An Agenda item, including a recommendation, will then be submitted to Council for consideration. The Agenda closes the Monday week prior to the Council Meeting (i.e. ten (10) days prior to the meeting).

The Information Bulletin produced as part of the Agenda includes items of interest and information, which does not require a decision of Council.

Agendas for Ordinary Meetings are available in the Shire of Pingelly Office, on the website and the Pingelly Library seventy-two (72) hours prior to the meeting and the public are invited to secure a copy.

Agenda items submitted to Council will include a recommendation for Council consideration. Electors should not interpret and/or act on the recommendations until after they have been considered by Council. Please note the Disclaimer in the Agenda (page 3).

Public Inspection of Unconfirmed Minutes (Reg 13)

A copy of the unconfirmed Minutes of Ordinary and Special Meetings will be available for public inspection from the Shire of Pingelly Office and the Shire of Pingelly website within ten (10) working days after the Meeting.

NOTE:

Unopposed Business

Upon a motion being moved and seconded, the person presiding may ask the meeting if any member opposes it.

If no member signifies opposition to the motion the person presiding may declare the motion in sub clause (1) carried without debate and without taking a vote on it,

A motion carried under sub clause (2) is to be recorded in the minutes as a unanimous decision of the Council or committee.

If a member signifies opposition to a motion the motion is to be dealt with according to this Part.

This clause does not apply to any motion or decision to revoke or change a decision which has been made at a Council or committee meeting.

Question Time

This Policy provides guidance to the Presiding Member (noting the provisions of the *Local Government (Administration) Regulation 7*).

- Question time is for the asking of questions. General comments, issues for debate etc. are to be progressed through the normal procedure for submitting Agenda items for Council's consideration. Tabled correspondence will not be accepted.
- Unless the person is known to all other persons in the Chamber, the Questioner is to state their name and address prior to asking the question.
- The Questioner is to stand to address the Presiding Member, unless illness or a physical or other disability prevents him/her from doing so. All questions are to be addressed to the Presiding Member.
- The question must be immediately put and may be followed by a brief statement related to the question.
- The Presiding Member may respond to the question or may nominate a Councillor or an Officer to respond.
- Debate between the Questioner or public and a Councillor or Officer is not permitted.
- Questions may not be put by Councillors to the Questioner or other members of the public except for the purpose of clarification.
- If the Presiding Member determines that a full and complete answer is unable to be given at that time, the question may be taken on notice. In that case, an answer will be given in writing to the Questioner within 7 days and the response tabled at the next Ordinary Council meeting.
- A summary of the question and the response only is to be recorded in the minutes of the meeting.

QUESTION TIME FOR THE PUBLIC

(Please write clearly)

DATE:

NAME:

TELEPHONE :

ADDRESS:

QUESTIONS TO THE PRESIDENT:

GENERAL QUESTION / QUESTION RELATED TO THE AGENDA *(strike out which is not applicable)*

ITEM NO	PAGE NO	QUESTION

PLEASE PASS TO THE CHIEF EXECUTIVE OFFICER FOR REFERRAL TO THE PRESIDENT BY 9.45AM ON THE DAY OF THE MEETING AT THE SHIRE OF PINGELLY OFFICE, 17 QUEEN STREET, PINGELLY.

Public Question Time – Statutory Provisions – Local Government Act 1995

Time is to be allocated for questions to be raised by members of the public and responded to at: every ordinary meeting of a council; and

Such other meetings of councils or committees as may be prescribed.

Procedures and the minimum time to be allocated for the asking of and responding to questions raised by members of the public at council or committee meetings are to be in accordance with regulations.

9A. Question Time for the Public at Certain Meetings – s5.24 (1) (b)

Local Government (Administration) Regulations 1996

Reg 5 For the purpose of section 5.24(1)(b), the meetings at which time is to be allocated for questions to be raised by members of the public and responded to are:

every special meeting of a council; and

every meeting of a committee to which the local government has delegated a power or duty.

Minimum Question Time for the Public – s5.24 (2)

Reg 6 (1) The minimum time to be allocated for the asking of and responding to questions raised by members of the public at ordinary meetings of councils and meetings referred to in regulation 5 is fifteen (15) minutes.

(2) Once all the questions raised by members of the public have been asked and responded to at a meeting referred to in sub regulation (1), nothing in these regulations prevents the unused part of the minimum question time period from being used for other matters.

Procedures for Question Time for the Public – s5.24 (2)

Local Government (Administration) Regulations 1996

Reg 7 (1) Procedures for the asking of and responding to questions raised by members of the public at a meeting referred to in regulation 6 (1) are to be determined:

by the person presiding at the meeting; or

in the case where the majority of members of the council or committee present at the meeting disagree with the person presiding, by the majority of members, having regard to the requirements of sub regulations (2) and (3).

The time allocated to the asking and responding to questions raised by members of the public at a meeting referred to in regulation 6(1) is to precede the discussion of any matter that requires a decision to be made by the council or the committee, as the case may be.

Each member of the public who wishes to ask a question at a meeting referred to in regulation 6(1) is to be given an equal and fair opportunity to ask the question and receive a response.

Nothing in sub regulation (3) requires:

A council to answer a question that does not relate to a matter affecting the local government;
A council at a special meeting to answer a question that does not relate to the purpose of the meeting; or

A committee to answer a question that does not relate to a function of the committee.

SHIRE OF PINGELLY

DISCLOSURE OF INTERESTS

TO THE CHIEF EXECUTIVE OFFICER:

Under the Provisions of Division 6 of Part 5 of the Local Government Act 1995, I hereby disclose a Financial Interest/s in the matter/s listed on this form, which is/are scheduled for consideration at the meeting of Council to be held on:

13 December 2017

(Print Name)

(Signature)

(Date)

NOTE: Members of Council are asked to deliver this completed form to the Chief Executive Officer on the day of the Council Meeting as required by the Act. Where this is not practicable the Disclosure/s may be telephoned to the Council Office on 9887 1066 and/or the form subsequently passed to the Chief Executive Officer prior to the meeting.

ITEM NO	PAGE NO	TYPE	REASON

DISCLOSURE OF FINANCIAL INTEREST, PROXIMITY INTEREST AND/OR INTEREST AFFECTING IMPARTIALITY

Chief Executive Officer, Shire of Pingelly

In accordance with Section 5.60-5.65 of the *Local Government Act* and Regulation 34(B) and 34(C) of the *Local Government (Administration) Regulations* and Regulation 11 of the *Local Government (Rules of Conduct) Regulations*, I advise you that I declare a (☒ appropriate box):

☐ financial interest (Section 5.60A)

A person has a financial interest in a matter if it is reasonable to expect that the matter will, if dealt with by the local government, or an employee or committee of the local government or member of the council of the local government, in a particular way, result in a financial gain, loss, benefit or detriment for the person.

☐ proximity interest (Section 5.60B)

A person has a proximity interest in a matter if the matter concerns a proposed —

- (a) change to a planning scheme affecting land that adjoins the person's land;
- (b) change to the zoning or use of land that adjoins the person's land; or
- (c) development (as defined in section 5.63(5)) of land that adjoins the person's land.

☐ interest affecting impartiality (Regulation 11). I disclose that I have an association with the applicant. As a consequence, there may be a perception that my impartiality on the matter may be affected. I declare that I will consider this matter on its merits and vote accordingly.

An interest that could, or could reasonably be perceived to, adversely affect the impartiality of the person having the interest and includes an interest arising from kinship, friendship or membership of an association but does not include a financial or proximity interest as referred to in section 5.60.

SHIRE OF PINGELLY

Agenda for the Shire of Pingelly Audit Committee meeting to be held in the Council Chamber, 17 Queen Street, Pingelly on Wednesday, 13 December 2017 – commencing at 11am.

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1. DECLARATION OF OPENING / ANNOUNCEMENT OF VISITORS

The Chairman to declare the meeting open.

1.1 Welcome to Country

I respectfully acknowledge the past and present traditional owners of this land on which we are meeting, the Noongar people. It is a privilege to be standing on Noongar country. I also acknowledge the contributions of Aboriginal Australians and non-Aboriginal Australians to the security and wellbeing of all the people of this country where we live and that we share together – Australia.

2. RECORD OF ATTENDANCE / APOLOGIES / APPROVED LEAVE OF ABSENCE

At the Special Meeting of Council held on 1 November 2017 the following was approved:

12296 Moved: Cr Walton-Hassell Seconded: Cr McBurney

That Council approve Cr Wood taking leave from 12th to 13th December 2017 inclusive.

Carried 7:0

3. RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE

Nil

4. PUBLIC QUESTION TIME

5. APPLICATIONS FOR LEAVE OF ABSENCE

6. DISCLOSURES OF INTEREST

The *Local Government Act* (Section 5.60 – 5.62) provides that it is the Councillor's obligation to declare an interest if they believe that they have a financial interest, proximity interest, closely associated persons interest or an interest affecting impartiality in a matter being discussed by Council.

The Act provides that the interest may be declared in writing to the Chief Executive Officer prior to the meeting or declared prior to discussion of the agenda item at the meeting. Forms for this purpose are available to Councillors.

The Act further provides that the extent of the interest needs to be declared if the Councillor seeks to remain in the Chamber during the discussion, debate or voting on the item.

A Councillor declaring a financial or proximity interest must leave the meeting prior to the matter being discussed or voted on (including the question as to whether they are permitted to remain in the Chamber). Councillors remaining in the Chamber may resolve to allow the member to return to the meeting to participate in the proceedings.

7. CONFIRMATION OF MINUTES AND REPORTS

7.1 Audit Committee Meeting – 19 July 2017

Statutory Environment:

Section 5.22 of the Local Government Act provides that minutes of all meeting to be kept and submitted to the next ordinary meeting of the council or the committee, as the case requires, for confirmation.

Voting Requirements:

Simple Majority

Recommendation:

That the Minutes of the Audit Committee of the Shire of Pingelly held in the Council Chambers on 19 July 2017 be confirmed.

Moved: _____ Seconded: _____

8. ANNOUNCEMENTS BY THE PRESIDING PERSON WITHOUT DISCUSSION

9. PETITIONS / DEPUTATIONS / PRESENTATIONS / SUBMISSIONS

Nil

10. BUSINESS

Phone link up meeting with AMD Partner Mr Tim Partridge at 11am

10.1 Audited Annual Financial Report 2017

File Reference: ADM0074
Location: Shire of Pingelly
Applicant: Stuart Billingham, Director Corporate & Community Services
Author: Stuart Billingham, Director Corporate & Community Services
Date: 8 December 2017
Disclosure of Interest: Nil
Attachments: Annual Financial Report 2017 (Attachment 1 following green cover sheet)

Summary:

Council is required to receive the Annual Financial Report for the Financial Year ending 30th June 2017.

Background:

Section 7.9 of the *Local Government Act 1995* requires an audit to be undertaken and, on its completion, submitted to the Shire President and Chief Executive Officer of the Local Government, and to the Minister for Local Government.

It is a requirement that the Annual Audit be completed by 31 December following the close of the financial year. The audit was commenced on-site by AMD Chartered Accountants on 9th October to 11th October 2017. The Statutory Report and Management letter has been completed by AMD Chartered Accountants and received by the Shire President, Chief Executive Officer and Director Corporate & Community Services. The Auditor's Management Report is submitted to the Shire of Pingelly Audit Committee for further consideration. (See separate attachment submitted under a separate cover)

Comment:

The Statutory Annual Financial Report for 2016/2017 has now been completed and is included as an attachment to this document. (See separate attachment submitted under a separate cover) This Report will be available to the Public and Electors prior to the Annual Electors Meeting, subject to its acceptance by Council.

Two (2) statutory or non-compliance matters were raised in the Auditor's Report to the Shire President of the Shire of Pingelly.

- a. The Shire was due to have a review completed by 31 December 2016 as required by Local Government (Audit) Regulations 1996, however this timeframe was not met. We have since been engaged to complete a Regulation 17 review for the Shire and our onsite review procedures commenced 20 November 2017; and
- b. In accordance with the requirements of Regulation 33 of the Local Government (Financial Management) Regulations, Council's annual budget is to be submitted to the Department of Local Government within 30 days after Council acceptance. The Shire's budget for 30 June 2017 was adopted by Council on 12 August 2016 however was not submitted to the Department until 28 September 2016;

AMD's auditors indicated that procedures and controls in respect to the Shire of Pingelly internal controls, processes, procedures and financial reporting framework are adequately designed and have been maintained to adequate standards throughout the audit period subject to the comments and recommendations within the Management Review Report.

Consultation:

AMD Chartered Accountants

Chief Executive Officer

Bob Waddell – Local Government Consultant

Statutory Environment:

Local Government Act 1995 and Regulations

7.12A. Duties of local government with respect to audits

(1) A local government is to do everything in its power to —

(a) assist the auditor of the local government to conduct an audit and carry out his or her other duties under this Act in respect of the local government; and

(b) ensure that audits are conducted successfully and expeditiously.

(2) Without limiting the generality of subsection (1), a local government is to meet with the auditor of the local government at least once in every year.

(3) A local government is to examine the report of the auditor prepared under section 7.9(1), and any report prepared under section 7.9(3) forwarded to it, and is to —

(a) determine if any matters raised by the report, or reports, require action to be taken by the local government; and

(b) ensure that appropriate action is taken in respect of those matters.

(4) A local government is to —

(a) prepare a report on any actions under subsection (3) in respect of an audit conducted in respect of a financial year; and

(b) forward a copy of that report to the Minister, by the end of the next financial year, or 6 months after the last report prepared under section 7.9 is received by the local government, whichever is the latest in time.

[Section 7.12A inserted by No. 49 of 2004 s. 8.]

7.13. Regulations as to audits

(1) Regulations may make provision —

(aa) as to the functions of the CEO and the audit committee in relation to audits carried out under this Part and reports made on those audits;

(ab) as to the functions of audit committees, including the selection and recommendation of an auditor;

(ac) as to the procedure to be followed in selecting an auditor;

(ad) as to the contents of the annual report to be prepared by an audit committee;

(ae) as to monitoring action taken in respect of any matters raised in a report by an auditor;

(a) with respect to matters to be included in agreements between local governments and auditors;

(b) for notifications and reports to be given in relation to agreements between local governments and auditors, including any variations to, or termination of such agreements;

(ba) as to the copies of agreements between local governments and auditors being provided to the Department;

(c) as to the manner in which an application may be made to the Minister for approval as an auditor;

- (d) in relation to approved auditors, for —
 - (i) reviews of, and reports on, the quality of audits conducted;
 - (ii) the withdrawal by the Minister of approval as an auditor;
 - (iii) applications to the State Administrative Tribunal for the review of decisions to withdraw approval;
- (e) for the exercise or performance by auditors of their powers and duties under this Part;
- (f) as to the matters to be addressed by auditors in their reports;
- (g) requiring auditors to provide the Minister with such information as to audits carried out by them under this Part as is prescribed;
- (h) prescribing the circumstances in which an auditor is to be considered to have a conflict of interest and requiring auditors to disclose in their reports such information as to a possible conflict of interest as is prescribed;
- (i) requiring local governments to carry out, in the prescribed manner and in a form approved by the Minister, an audit of compliance with such statutory requirements as are prescribed whether those requirements are —
 - (i) of a financial nature or not; or
 - (ii) under this Act or another written law.

(2) Regulations may also make any provision about audit committees that may be made under section 5.25 in relation to committees.

[Section 7.13 amended by No. 64 of 1998 s. 40; No. 49 of 2004 s. 9; No. 55 of 2004 s. 700.]

Local Government (Financial Management) Regulations 1996

51. Annual financial report to be signed etc. by CEO and given to Department

(1) After the annual financial report has been audited in accordance with the Act the CEO is to sign and append to the report a declaration in the form of Form 1.

(2) A copy of the annual financial report of a local government is to be submitted to the Departmental CEO within 30 days of the receipt by the local government's CEO of the auditor's report on that financial report.

[Regulation 51 amended in Gazette 18 Jun 1999 p. 2639; 20 Jun 2008 p. 2726.]

Local Government (Administration) Regulations 1996

Part 3 — Electors' meetings

[Heading inserted in Gazette 26 Aug 2011 p. 3482.]

15. Matters to be discussed at general meeting (Act s. 5.27(3))

For the purposes of section 5.27(3), the matters to be discussed at a general electors' meeting are, firstly, the contents of the annual report for the previous financial year and then any other general business.

16. Request for special meeting, form of (Act s. 5.28(2))

A request for a special meeting of the electors of a district is to be in the form of Form 1.

17. Voting at meeting (Act s. 5.31)

(1) Each elector who is present at a general or special meeting of electors is entitled to one vote on each matter to be decided at the meeting but does not have to vote.

(2) All decisions at a general or special meeting of electors are to be made by a simple majority of votes.

(3) Voting at a general or special meeting of electors is to be conducted so that no voter's vote is secret.

18. Procedure at meeting (Act s. 5.31)

Subject to regulations 15 and 17, the procedure to be followed at a general or special meeting of electors is to be determined by the person presiding at the meeting.

5.27. Electors' general meetings

- (1) A general meeting of the electors of a district is to be held once every financial year.
- (2) A general meeting is to be held on a day selected by the local government but not more than 56 days after the local government accepts the annual report for the previous financial year.
- (3) The matters to be discussed at general electors' meetings are to be those prescribed.

If Council adopts the Annual Report at its Council Meeting 13 December 2017, then in accordance with statutory requirements, Council must give a minimum of 14 days' local public notice in calling the Annual Electors Meeting following acceptance of the Annual Report. It must also hold the AEM not more than 56 days from Council accepting the Annual Report. It is recommended that the Electors General Meeting be held on the evening of Tuesday 6 February 2017 in the Council Chambers, 17 Queen Street, Pingelly, commencing at 7:00 pm.

Policy Implications:

Nil

Financial Implications:

Nil

Strategic Implications:

While there are no direct strategic implications in receiving the Shire of Pingelly Statutory Annual Financial Report, the Auditors Management Report raises commentary regarding the Shire's financial ratios.

"A review of Council's financial ratios as included within Note 19 of the financial report indicates that four of the seven ratios were within the recommended guidelines provided by the Department of Local Government and Communities, with the exceptions noted below:

- *The operating surplus ratio as at 30 June 2017 is calculated at -0.60 (recommended to be between 0.01 and 0.15).*
- *The debt service ratio as at 30 June 2017 is calculated at 0.25 (a basic standard is achieved if the ratio is greater than or equal to 2, an advance standard is achieved if the ratio is greater than 5).*
- *The asset renewal funding ratio as at 30 June 2017 is calculated at 0.73 (recommended to be between 0.75 and 0.95).*

We recommend Council continue to consider the impact on ratios and long term sustainability when making decisions regarding asset renewal, additional borrowings and setting rates for future years."

These concerns need to be taken into account when reviewing the Shire's Annual Budget, Integrated Planning Documents including Asset Management Plans, Corporate Business Plan and Long Term Financial Plan.

Voting Requirements:

Simple Majority

Recommendation:

That the Audit Committee recommends to Council that it:

- 1. receives the minutes of the Audit Committee dated 19 July 2017.**
- 2. accepts the Shire of Pingelly Annual Report for the Financial Year ended 30th June 2017;**
- 3. receives the Audit Report for 2016/17 from AMD Chartered Accountants;**
- 4. advertises and holds its Annual Electors Meeting in the Council Chambers, 17 Queen Street, Pingelly to be held on Tuesday 6 February 2018 at 7:00pm;**
- 5. submits a copy of the Shire of Pingelly Statutory Annual Financial Report to the Director General of the Department of Local Government, Sport and Cultural Industries as required by Local Government (Financial Management) Regulations clause 51(2).**

Moved: _____ Seconded: _____

10.2 Audit Management Letter

File Reference: ADM0074
Location: Shire of Pingelly
Applicant: Stuart Billingham, Director Corporate & Community Services
Author: Stuart Billingham, Director Corporate & Community Services
Date: 8 December 2017
Disclosure of Interest: Nil
Attachments: Audit Management Letter 2017 (Attachment 2 following blue cover sheet)

Summary:

Audit Committee is required to consider the contents of the Annual Management Report for the Financial Year ending 30th June 2017.

Background:

As part of the Annual Final Audit the Auditor's Management Report is submitted to the Shire of Pingelly Audit Committee for further consideration.

Matters raised by the auditor are as follows;

7.0 Financial Ratio Performance Measures

"A review of Council's financial ratios as included within Note 19 of the financial report indicates that four of the seven ratios were within the recommended guidelines provided by the Department of Local Government and Communities, with the exceptions noted below:

- The operating surplus ratio as at 30 June 2017 is calculated at -0.60 (recommended to between 0.01 and 0.15).*
- The debt service ratio as at 30 June 2017 is calculated at 0.25 (a basic standard is achieved if the ratio is greater than or equal to 2, an advance standard is achieved if the ratio is greater than 5).*
- The asset renewal funding ratio as at 30 June 2017 is calculated at 0.73 (recommended to be between 0.75 and 0.95).*

We recommend Council continue to consider the impact on ratios and long term sustainability when making decisions regarding asset renewal, additional borrowings and setting rates for future years."

Basic	Intermediate	Advanced
Not Achieved/Met		Achieved/Met

	2017	2016	2015	2014	2013
Current Ratio	2.03	1.05	3.89	5.35	4.43
Debt Service Ratio	0.25	(0.07)	1.12	0.53	13.07
Operating Surplus Ratio	(0.60)	(0.72)	(0.47)	(0.91)	0.28
Own Source Revenue Coverage Ratio	0.42	0.48	0.48	0.42	0.47
Asset Consumption Ratio	0.71	0.62	0.99	0.80	0.62
Asset Sustainability Ratio	2.23	1.60	0.31	1.03	2.25
Asset Renewal Funding Ratio	0.75	0.77	0.89	1.00	1.00

Current Ratio

$$\frac{\text{current assets minus restricted assets}}{\text{current liabilities minus liabilities associated with restricted assets}}$$

- Standard met is achieved if the ratio is greater than 1;

Asset Sustainability Ratio

$$\frac{\text{capital renewal and replacement expenditure}}{\text{Depreciation expenses}}$$

- Basic standard is achieved if greater than 0.9; improving between 0.9-1.10.

Debt service Cover Ratio

$$\frac{\text{annual operating surplus before interest and depreciation}}{\text{principal and interest}}$$

- Basic standard is achieved if the ratio is greater than or equal to 2. *An advance standard is achieved if the ratio is greater than 5).*

Operating Surplus Ratio

$$\frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$$

- Basis standard is achieved if the ratio is between 0.01-0.15; advanced greater than 0.15.

Own Source Revenue Coverage Ratio

$$\frac{\text{own source operating revenue}}{\text{operating expenses}}$$

- Basic standard is achieved if between 0.4-0.6; Intermediate 0.6-0.9, advanced greater than 0.9.

Asset Consumption Ratio

$$\frac{\text{Depreciated Replacement Cost of Depreciable Assets}}{\text{Current Replacement Cost of Depreciable Assets}}$$

- Basic standard is achieved if greater than 0.50 or greater and improving between 0.60 and 0.75.

Asset Renewal Funding Ratio

$$\frac{\text{NPV of Planned Capital Renewals over 10 years}}{\text{NPV of Required Capital Expenditure over 10 years}}$$

- Standard is met if between 0.75-0.95, improving between 0.95-1.05.

Copy of the Department of Local Government and Communities Operational Guidelines No18 for Financial Ratios is submitted as a separate attachment for further information.

1. ANNUAL COMPLIANCE RETURN

Finding Rating: Moderate

We note Council's annual compliance return was not submitted to the Department of Local Government by 31 March 2017 as required by Regulation 15 of the Local Government (Audit) Regulations 1996 (submitted 4 April 2017).

Implication

Risk of non compliance with Regulation 15 of the Local Government (Audit) Regulations 1996.

Recommendation

We recommend Council's annual compliance return was not submitted to the Department of Local Government by 31 March 2017 as required by Regulation 15 of the Local Government (Audit) Regulations 1996.

Management Comment

Due to a Department of Local Government Portal logon issue being encountered, we were unable to submit the return by the due date.

2. ASSET MANAGEMENT PLAN

Finding Rating: Moderate

We noted the Shire's Asset Management Plan currently only includes projections for eight years to 2024/25 and therefore does not include data for the ten year projection of required renewal/replacement expenditure used to calculate the asset renewal funding ratio. The asset renewal funding ratio has been calculated using an average of the available data.

Implication

Risk of material misstatement or omission within accounting records.

Recommendation

We recommend the Asset Management Plan is updated annually.

Management Comment

The Shire of Pingelly Asset Management Plan (AMP) is currently under review along with all other Integrated Planning & Reporting (IPR) documents that will be updated, adopted by Council and be in place by April 2018 as per the IPR cycle.

3. LOSS ON PRIVATE WORKS

Finding Rating: Minor

We noted a loss was made on private works of \$6,157 for the 2016/17 financial year, representing 20% of total private works expenditure. We understand the loss was due to the write-off of prior year private works debtors.

Implication

Risk of under allocation of private works.

Recommendation

We recommend private works charge out rates and allocations be regularly reviewed and adjusted accordingly throughout the year to ensure private works expenditure is recovered.

Management Comment

Several debtors were written off by Council on 21 June 2017, resolution 12216 totalling \$10,035. NB: SynergySoft raises 'write off' sundry debtor journal (debit) back to Income account (credit) it was originally raised in, causing balances raised in the year to be reduced by \$10,035 in this case private works Income reduced \$8,180.

Deliver WA	\$7,665
Mark Ramon Edwards	\$ 375
Mark Ramon Edwards	\$ 140
Total	\$8,180

If this write off figure was excluded from Private works Income account, it is in fact in profit by \$2,023.

Consultation:

AMD Chartered Accountants

Chief Executive Officer

Bob Waddell – Local Government Consultant

Statutory Environment:

Local Government Act 1995 and Associated Regulations

Recommendation:

That the Audit Committee recommends to Council that it notes the comments on the Audit Management Letter by management with no further actions required to be undertaken by the Chief Executive Officer.

Moved: _____ Seconded: _____

10.3 Audit Committee – Terms of Reference

File Reference: ADM0074
Location: Shire of Pingelly
Applicant: Stuart Billingham, Director Corporate & Community Services
Author: Stuart Billingham, Director Corporate & Community Services
Date: 8 December 2017
Disclosure of Interest: Nil
Attachments: Draft Audit Committee – Terms of Reference (Attachment 3 following yellow cover sheet)

Summary:

To provide the Shire of Pingelly Audit Committee with a draft Terms of Reference for consideration of endorsement.

Background:

Council staff have been unable to locate the Shire of Pingelly Audit Committee Charter or Terms of Reference. The recent Reg 17 Risk review conducted by AMD Chartered Accountants identified that the Shire of Pingelly Audit Committee should develop and endorse and regularly review an Audit Committee Charter/Terms of Reference based on Local Government Operational Guideline Number 9 (see copy attached for information).

Officer Comment:

A draft Audit Committee – Terms of Reference has been prepared based on the Department of Local Governments Guideline with minor optional clauses deleted – (See attached Draft Shire of Pingelly Audit Committee Terms of Reference)

Consultation:

AMD Chartered Accountants
Chief Executive Officer

Statutory Environment:

Local Government Act 1995 and Associated Regulations
Department of Local Government Operational Guideline Number 9

Recommendation:

That the Audit Committee endorses the Shire of Pingelly Audit Committee Terms of Reference as submitted.

Moved: _____ Seconded: _____

11. CLOSURE

The Chairman to declare the meeting closed.

Attachment 1

10.1 Audited Annual Financial Report 2017

SHIRE OF PINGELLY
FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

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Principal place of business:
17 Queen St
Pingelly WA 6308

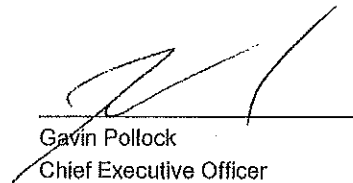
SHIRE OF PINGELLY
FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

LOCAL GOVERNMENT ACT 1995
LOCAL GOVERNMENT (FINANCIAL MANAGEMENT) REGULATIONS 1996

STATEMENT BY CHIEF EXECUTIVE OFFICER

The attached financial report of the Shire being the annual financial report and supporting notes and other information for the financial year ended 30 June 2017 are in my opinion properly drawn up to present fairly the financial position of the Shire at 30th June 2017 and the results of the operations for the financial year then ended in accordance with the Australian Accounting Standards and comply with the provisions of the Local Government Act 1995 and the regulations under that Act.

Signed as authorisation of issue on the 4th day of December 2017



Gavin Pollock
Chief Executive Officer

SHIRE OF PINGELLY
STATEMENT OF COMPREHENSIVE INCOME
BY NATURE OR TYPE
FOR THE YEAR ENDED 30TH JUNE 2017

	NOTE	2017 \$	2017 Budget \$	2016 \$
Revenue				
Rates	23	1,870,046	1,864,908	1,699,390
Operating grants, subsidies and contributions	30	1,964,621	1,336,266	796,804
Fees and charges	29	284,771	317,450	322,566
Interest earnings	2(a)	136,752	101,855	166,725
Other revenue	2(a)	129,705	191,200	125,401
		<u>4,385,895</u>	<u>3,811,679</u>	<u>3,110,886</u>
Expenses				
Employee costs		(1,723,449)	(1,358,844)	(1,548,452)
Materials and contracts		(1,364,108)	(1,235,122)	(1,132,625)
Utility charges		(155,854)	(150,371)	(154,669)
Depreciation on non-current assets	2(a)	(1,466,111)	(2,110,000)	(1,509,979)
Interest expenses	2(a)	(154,812)	(134,660)	(141,780)
Insurance expenses		(170,161)	(166,361)	(188,572)
Other expenditure		(87,778)	(69,300)	(45,312)
		<u>(5,122,273)</u>	<u>(5,224,658)</u>	<u>(4,721,389)</u>
		(736,378)	(1,412,979)	(1,610,503)
Non-operating grants, subsidies and contributions	30	3,179,845	8,312,488	1,334,681
Profit on asset disposals	21	0	257,550	11,069
(Loss) on asset disposals	21	(706,484)	(55,350)	(72,152)
(Loss) on revaluation of plant and equipment	7(b)	0	0	(9,900)
Reversal of prior year loss on revaluation of furniture and equipment	7(b)	0	0	1,597
Net result		<u>1,736,983</u>	<u>7,101,709</u>	<u>(345,208)</u>
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes on revaluation of non-current assets	13	(305,473)	0	(607,997)
Total other comprehensive income		<u>(305,473)</u>	<u>0</u>	<u>(607,997)</u>
Total comprehensive income		<u>1,431,510</u>	<u>7,101,709</u>	<u>(953,205)</u>

This statement is to be read in conjunction with the accompanying notes.

SHIRE OF PINGELLY
STATEMENT OF COMPREHENSIVE INCOME
BY PROGRAM
FOR THE YEAR ENDED 30TH JUNE 2017

	NOTE	2017 \$	2017 Budget \$	2016 \$
Revenue	2(a)			
Governance		73,207	93,800	109,074
General purpose funding		3,742,376	3,150,445	2,427,840
Law, order, public safety		103,107	102,122	108,374
Health		11,983	11,700	11,162
Education and welfare		16,785	15,358	27,723
Community amenities		162,643	174,400	171,343
Recreation and culture		96,445	73,885	68,567
Transport		80,794	80,794	75,100
Economic services		35,980	50,675	54,759
Other property and services		62,575	58,500	56,944
		<u>4,385,895</u>	<u>3,811,679</u>	<u>3,110,886</u>
Expenses	2(a)			
Governance		(577,196)	(630,066)	(560,473)
General purpose funding		(188,660)	(150,901)	(150,054)
Law, order, public safety		(209,005)	(237,309)	(213,076)
Health		(133,557)	(128,846)	(122,479)
Education and welfare		(36,616)	(35,776)	(28,230)
Community amenities		(457,121)	(422,643)	(330,773)
Recreation and culture		(1,014,453)	(930,175)	(967,722)
Transport		(2,023,285)	(2,272,333)	(1,929,834)
Economic services		(261,802)	(262,790)	(247,498)
Other property and services		(65,766)	(19,159)	(29,470)
		<u>(4,967,461)</u>	<u>(5,089,998)</u>	<u>(4,579,609)</u>
Finance costs	2(a)			
Law, order, public safety		(40,550)	(20,382)	(23,127)
Education and welfare		(13,353)	(13,358)	(14,269)
Recreation and culture		(100,909)	(100,920)	(104,384)
		<u>(154,812)</u>	<u>(134,660)</u>	<u>(141,780)</u>
		<u>(736,378)</u>	<u>(1,412,979)</u>	<u>(1,610,503)</u>
Non-operating grants, subsidies and contributions	30	3,179,845	8,312,488	1,334,681
Profit on disposal of assets	21	0	257,550	11,069
(Loss) on disposal of assets	21	(706,484)	(55,350)	(72,152)
(Loss) on revaluation of plant and equipment	7(b)	0	0	(9,900)
Reversal of prior year loss on revaluation of furniture and equipment	7(b)	0	0	1,597
Net result		<u>1,736,983</u>	<u>7,101,709</u>	<u>(345,208)</u>
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes on revaluation of non-current assets	13	(305,473)	0	(607,997)
Total other comprehensive income		<u>(305,473)</u>	<u>0</u>	<u>(607,997)</u>
Total comprehensive income		<u>1,431,510</u>	<u>7,101,709</u>	<u>(953,205)</u>

This statement is to be read in conjunction with the accompanying notes.

SHIRE OF PINGELLY
STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2017

	NOTE	2017 \$	2016 \$
CURRENT ASSETS			
Cash and cash equivalents	3	3,431,783	3,504,262
Investments	4	5,000	5,000
Trade and other receivables	5	804,829	353,090
Inventories	6	2,474	1,148
TOTAL CURRENT ASSETS		<u>4,244,086</u>	<u>3,863,500</u>
NON-CURRENT ASSETS			
Other receivables	5	233,102	614,927
Property, plant and equipment	7	10,013,560	10,243,367
Infrastructure	8	71,927,499	70,971,113
TOTAL NON-CURRENT ASSETS		<u>82,174,161</u>	<u>81,829,407</u>
TOTAL ASSETS		<u>86,418,247</u>	<u>85,692,907</u>
CURRENT LIABILITIES			
Trade and other payables	9	148,721	408,755
Current portion of long term borrowings	10	58,460	173,181
Provisions	11	250,327	164,274
TOTAL CURRENT LIABILITIES		<u>457,508</u>	<u>746,210</u>
NON-CURRENT LIABILITIES			
Long term borrowings	10	2,470,742	2,909,687
Provisions	11	65,225	43,748
TOTAL NON-CURRENT LIABILITIES		<u>2,535,967</u>	<u>2,953,435</u>
TOTAL LIABILITIES		<u>2,993,475</u>	<u>3,699,645</u>
NET ASSETS		<u>83,424,772</u>	<u>81,993,262</u>
EQUITY			
Retained surplus		27,211,883	25,825,434
Reserves - cash backed	12	827,388	476,854
Revaluation surplus	13	55,385,501	55,690,974
TOTAL EQUITY		<u>83,424,772</u>	<u>81,993,262</u>

This statement is to be read in conjunction with the accompanying notes.

SHIRE OF PINGELLY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2017

	NOTE	RETAINED SURPLUS \$	RESERVES CASH/INVESTMENT BACKED \$	REVALUATION SURPLUS \$	TOTAL EQUITY \$
Balance as at 1 July 2015		25,361,268	1,286,228	56,298,971	82,946,467
Comprehensive income					
Net result		(345,208)	0	0	(345,208)
Changes on revaluation of assets	13	0	0	(607,997)	(607,997)
Total comprehensive income		(345,208)	0	(607,997)	(953,205)
Transfers from/(to) reserves		809,374	(809,374)	0	0
Balance as at 30 June 2016		25,825,434	476,854	55,690,974	81,993,262
Comprehensive income					
Net result		1,736,983	0	0	1,736,983
Changes on revaluation of assets	13	0	0	(305,473)	(305,473)
Total comprehensive income		1,736,983	0	(305,473)	1,431,510
Transfers from/(to) reserves		(350,534)	350,534	0	0
Balance as at 30 June 2017		27,211,883	827,388	55,385,501	83,424,772

This statement is to be read in conjunction with the accompanying notes.

SHIRE OF PINGELLY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2017

	NOTE	2017 Actual \$	2017 Budget \$	2016 Actual \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Rates		1,821,279	1,874,908	1,686,291
Operating grants, subsidies and contributions		1,499,975	1,352,259	787,798
Fees and charges		284,771	317,450	323,132
Interest earnings		136,752	101,855	166,725
Goods and services tax		(24,773)	122,000	359,558
Other revenue		129,705	191,200	123,776
		<u>3,847,709</u>	<u>3,959,672</u>	<u>3,447,280</u>
Payments				
Employee costs		(1,607,790)	(1,299,844)	(1,552,850)
Materials and contracts		(1,629,983)	(1,180,062)	(872,718)
Utility charges		(155,854)	(150,371)	(154,669)
Interest expenses		(158,426)	(134,660)	(142,410)
Insurance expenses		(170,161)	(166,361)	(188,572)
Goods and services tax		0	(112,000)	(337,088)
Other expenditure		(87,931)	(69,300)	(45,312)
		<u>(3,810,145)</u>	<u>(3,112,598)</u>	<u>(3,293,619)</u>
Net cash provided by (used in) operating activities	14(b)	<u>37,564</u>	<u>847,074</u>	<u>153,661</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for purchase of property, plant & equipment		(2,244,813)	(10,205,486)	(1,422,757)
Payments for construction of infrastructure		(1,514,492)	(1,781,004)	(1,449,049)
Non-operating grants, subsidies and contributions		3,179,845	8,312,488	1,334,681
Proceeds from sale of fixed assets		554,658	492,000	82,472
Net cash provided by (used in) investment activities		<u>(24,802)</u>	<u>(3,182,002)</u>	<u>(1,454,653)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of debentures		(553,666)	(173,181)	(165,510)
Proceeds from self supporting loans		468,425	87,940	83,747
Net cash provided by (used in) financing activities		<u>(85,241)</u>	<u>(85,241)</u>	<u>(81,763)</u>
Net increase (decrease) in cash held		<u>(72,479)</u>	<u>(2,420,169)</u>	<u>(1,382,755)</u>
Cash at beginning of year		3,504,262	3,280,040	4,887,017
Cash and cash equivalents at the end of the year	14(a)	<u><u>3,431,783</u></u>	<u><u>859,871</u></u>	<u><u>3,504,262</u></u>

This statement is to be read in conjunction with the accompanying notes.

**SHIRE OF PINGELLY
RATE SETTING STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2017**

	NOTE	2017 Actual \$	2017 Budget \$	2016 Actual \$
Net current assets at start of financial year - surplus/(deficit)		<u>384,951</u>	<u>422,977</u>	<u>1,223,226</u>
		384,951	422,977	1,223,226
Revenue from operating activities (excluding rates)				
Governance		73,207	93,800	109,074
General purpose funding		1,876,559	1,285,737	748,998
Law, order, public safety		103,107	102,122	108,374
Health		11,983	11,700	11,162
Education and welfare		16,785	15,358	27,723
Community amenities		162,643	174,400	171,343
Recreation and culture		96,445	88,435	68,567
Transport		80,794	80,794	86,169
Economic services		35,980	293,675	54,759
Other property and services		62,575	58,500	56,944
		<u>2,520,078</u>	<u>2,204,521</u>	<u>1,443,113</u>
Expenditure from operating activities				
Governance		(594,713)	(682,916)	(569,219)
General purpose funding		(188,660)	(150,901)	(150,054)
Law, order, public safety		(249,555)	(257,691)	(236,203)
Health		(137,690)	(128,846)	(130,248)
Education and welfare		(49,969)	(49,134)	(42,499)
Community amenities		(457,121)	(422,643)	(330,773)
Recreation and culture		(1,580,337)	(1,031,095)	(1,072,605)
Transport		(2,028,955)	(2,274,833)	(1,993,275)
Economic services		(475,991)	(262,790)	(247,498)
Other property and services		(65,766)	(19,159)	(29,470)
		<u>(5,828,757)</u>	<u>(5,280,008)</u>	<u>(4,801,844)</u>
Operating activities excluded from budget				
(Profit) on disposal of assets	21	0	(257,550)	(11,069)
Loss on disposal of assets	21	706,484	55,350	72,152
Loss on Revaluation of Assets		0	0	8,303
Movement in deferred pensioner rates (non-current)		(13,149)	0	(35,517)
Movement in employee benefit provisions		107,530	0	24,808
Depreciation and amortisation on assets	2(a)	1,466,111	2,110,000	1,509,979
Amount attributable to operating activities		<u>(656,752)</u>	<u>(744,710)</u>	<u>(566,849)</u>
INVESTING ACTIVITIES				
Non-operating grants, subsidies and contributions		3,179,845	8,312,488	1,334,681
Proceeds from disposal of assets	21	554,658	492,000	82,472
Purchase of property, plant and equipment	7(b)	(2,244,813)	(10,205,486)	(1,422,757)
Purchase and construction of infrastructure	8(b)	(1,514,492)	(1,781,004)	(1,449,049)
Amount attributable to investing activities		<u>(24,802)</u>	<u>(3,182,002)</u>	<u>(1,454,653)</u>
FINANCING ACTIVITIES				
Repayment of debentures	22(a)	(553,666)	(173,181)	(165,510)
Proceeds from self supporting loans		468,425	87,940	83,747
Transferred from restricted Municipal		596,790	0	0
Unspent Loans going Forward		0	2,500,000	0
Transfers to reserves (restricted assets)	12	(734,070)	(705,755)	(31,626)
Transfers from reserves (restricted assets)	12	383,536	353,000	841,000
Amount attributable to financing activities		<u>161,015</u>	<u>2,062,004</u>	<u>727,611</u>
Surplus(deficiency) before general rates		<u>(520,539)</u>	<u>(1,864,708)</u>	<u>(1,293,891)</u>
Total amount raised from general rates	23	<u>1,865,817</u>	<u>1,864,708</u>	<u>1,678,842</u>
Net current assets at June 30 c/fwd - surplus/(deficit)	24	<u><u>1,345,278</u></u>	<u><u>0</u></u>	<u><u>384,951</u></u>

This statement is to be read in conjunction with the accompanying notes.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PREPARATION

The financial report comprises general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (as they apply to local governments and not-for-profit entities), Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board, the Local Government Act 1995 and accompanying regulations. Material accounting policies which have been adopted in the preparation of this financial report are presented below and have been consistently applied unless stated otherwise.

Except for cash flow and rate setting information, the report has been prepared on the accrual basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and liabilities.

CRITICAL ACCOUNTING ESTIMATES

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances; the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

THE LOCAL GOVERNMENT REPORTING ENTITY

All Funds through which the Shire controls resources to carry on its functions have been included in the financial statements forming part of this financial report.

In the process of reporting on the local government as a single unit, all transactions and balances between those Funds (for example, loans and transfers between Funds) have been eliminated.

All monies held in the Trust Fund are excluded from the financial statements. A separate statement of those monies appears at Note 20 to these financial statements.

(a) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST receivable or payable.

The net amount of GST recoverable from, or payable to, the ATO is included with receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash at bank, deposits available on demand with banks and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

Bank overdrafts are reported as short term borrowings in current liabilities in the statement of financial position.

**SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Trade and Other Receivables

Trade and other receivables include amounts due from ratepayers for unpaid rates and service charges and other amounts due from third parties for goods sold and services performed in the ordinary course of business.

Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that they will not be collectible.

(d) Inventories

General

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Land held for sale

Land held for development and sale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development, borrowing costs and holding costs until completion of development. Finance costs and holding charges incurred after development is completed are expensed.

Gains and losses are recognised in profit or loss at the time of signing an unconditional contract of sale if significant risks and rewards, and effective control over the land, are passed on to the buyer at this point.

Land held for sale is classified as current except where it is held as non-current based on the Council's intentions to release for sale.

(e) Fixed Assets

Each class of fixed assets within either property, plant and equipment or infrastructure, is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Mandatory requirement to revalue non-current assets

Effective from 1 July 2012, the Local Government (Financial Management) Regulations were amended and the measurement of non-current assets at Fair Value became mandatory.

During the year ended 30 June 2013, the Shire commenced the process of adopting Fair Value in accordance with the Regulations.

Whilst the amendments initially allowed for a phasing in of fair value in relation to fixed assets over three years, as at 30 June 2015 all non-current assets were carried at Fair Value in accordance with the requirements.

Thereafter, each asset class must be revalued in accordance with the regulatory framework established and the Shire revalues its asset classes in accordance with this mandatory timetable.

Relevant disclosures, in accordance with the requirements of Australian Accounting Standards, have been made in the financial report as necessary.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Fixed Assets (Continued)

Land under control

In accordance with Local Government (Financial Management) Regulation 16(a)(ii), the Shire was required to include as an asset (by 30 June 2013), Crown Land operated by the local government as a golf course, showground, racecourse or other sporting or recreational facility of State or Regional significance.

Upon initial recognition, these assets were recorded at cost in accordance with AASB 116. They were then classified as Land and revalued along with other land in accordance with the other policies detailed in this Note.

Initial recognition and measurement between mandatory revaluation dates

All assets are initially recognised at cost and subsequently revalued in accordance with the mandatory measurement framework detailed above.

In relation to this initial measurement, cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the Shire includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

Individual assets acquired between initial recognition and the next revaluation of the asset class in accordance with the mandatory measurement framework detailed above, are carried at cost less accumulated depreciation as management believes this approximates fair value. They will be subject to subsequent revaluation at the next anniversary date in accordance with the mandatory measurement framework detailed above.

Revaluation

Increases in the carrying amount arising on revaluation of assets are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss.

Land under roads

In Western Australia, all land under roads is Crown Land, the responsibility for managing which, is vested in the local government.

Effective as at 1 July 2008, Council elected not to recognise any value for land under roads acquired on or before 30 June 2008. This accords with the treatment available in Australian Accounting Standard AASB 1051 Land Under Roads and the fact Local Government (Financial Management) Regulation 16(a)(i) prohibits local governments from recognising such land as an asset.

In respect of land under roads acquired on or after 1 July 2008, as detailed above, Local Government (Financial Management) Regulation 16(a)(i) prohibits local governments from recognising such land as an asset.

Whilst such treatment is inconsistent with the requirements of AASB 1051, Local Government (Financial Management) Regulation 4(2) provides, in the event of such an inconsistency, the Local Government (Financial Management) Regulations prevail.

Consequently, any land under roads acquired on or after 1 July 2008 is not included as an asset of the Shire.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Fixed Assets (Continued)

Depreciation

The depreciable amount of all fixed assets including buildings but excluding freehold land, are depreciated on a straight-line basis over the individual asset's useful life from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful life of the improvements.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- a) Restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount; or
- b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Major depreciation periods used for each class of depreciable asset are:

Land	Not Depreciated	
Buildings	50 years	2.0%
Furniture and Equipment	10 years	10.0%
Computer and Electronic Equipment	3 years	33.0%
Plant and Equipment		
Earthmoving Equipment	15 years	7.0%
Heavy Trucks	10 years	10.0%
Light and Heavy Trucks	8 years	12.5%
Sedans and Utilities	5 years	20.0%
Minor Miscellaneous Plant	3 years	33.0%
Sealed roads and streets		
Clearing and Earthworks (Formation)_	not depreciated	
Construction/Road Base (Pavement)	40 years	2.5%
Original Surfacing and Major Re-surfacing (Seal)		
Bituminous Seals	40 years	2.5%
Asphalt Surfaces	40 years	2.5%
Gravel roads		
Clearing and Earthworks (Formation)_	not depreciated	
Construction/Road Base (Pavement)	20 years	5.0%
Gravel Sheet	20 years	5.0%
Formed Roads (Unsealed)		
Clearing and Earthworks (Formation)_	not depreciated	
Construction/Road Base (Pavement)	50 years	2.0%
Footpaths - slab	40 years	2.5%
Bridges	50 years	2.0%
Drainage (Storm Water Channels)	40 years	2.5%

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income in the period in which they arise.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Fair Value of Assets and Liabilities

When performing a revaluation, the Shire uses a mix of both independent and management valuations using the following as a guide:

Fair Value is the price that the Shire would receive to sell the asset or would have to pay to transfer a liability, in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

Fair value hierarchy

AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurement into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1

Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation techniques

The Shire selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Shire are consistent with one or more of the following valuation approaches:

Market approach

Valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Fair Value of Assets and Liabilities (Continued)

Income approach

Valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.

Cost approach

Valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Shire gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

As detailed above, the mandatory measurement framework imposed by the Local Government (Financial Management) Regulations requires, as a minimum, all assets carried at a revalued amount to be revalued in accordance with the regulatory framework.

(g) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Shire becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Shire commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or at cost.

Amortised cost is calculated as:

- (a) the amount in which the financial asset or financial liability is measured at initial recognition;
- (b) less principal repayments and any reduction for impairment; and
- (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest rate method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments (Continued)

Classification and subsequent measurement (continued)

(i) Financial assets at fair value through profit and loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Loans and receivables are included in current assets where they are expected to mature within 12 months after the end of the reporting period.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturities and fixed or determinable payments that the Shire has the positive intention and ability to hold to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

Held-to-maturity investments are included in current assets, where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as non-current.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in current assets, where they are expected to be sold within 12 months after the end of the reporting period. All other available-for-sale financial assets are classified as non-current.

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Financial Instruments (Continued)

Impairment

A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which will have an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Shire no longer has any significant continual involvement in the risks and benefits associated with the asset.

Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(h) Impairment of Assets

In accordance with Australian Accounting Standards the Shire's assets, other than inventories, are assessed at each reporting date to determine whether there is any indication they may be impaired.

Where such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount.

Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. AASB 116) whereby any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

For non-cash generating assets such as roads, drains, public buildings and the like, value in use is represented by the depreciated replacement cost of the asset.

(i) Trade and Other Payables

Trade and other payables represent liabilities for goods and services provided to the Shire prior to the end of the financial year that are unpaid and arise when the Shire becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured, are recognised as a current liability and are normally paid within 30 days of recognition.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Employee Benefits

Short-term employee benefits

Provision is made for the Shire's obligations for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Shire's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Shire's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

Other long-term employee benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Shire's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Shire does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

(k) Borrowing Costs

Borrowing costs are recognised as an expense when incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. Where this is the case, they are capitalised as part of the cost of the particular asset until such time as the asset is substantially ready for its intended use or sale.

(l) Provisions

Provisions are recognised when the Shire has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(m) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the Shire, are classified as finance leases.

Finance leases are capitalised recording an asset and a liability at the lower amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Investment in Associates

An associate is an entity over which the Shire has significant influence. Significant influence is the power to participate in the financial operating policy decisions of that entity but is not control or joint control of those policies. Investments in associates are accounted for in the financial statements by applying the equity method of accounting, whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Shire's share of net assets of the associate. In addition, the Shire's share of the profit or loss of the associate is included in the Shire's profit or loss.

The carrying amount of the investment includes, where applicable, goodwill relating to the associate. Any discount on acquisition, whereby the Shire's share of the net fair value of the associate exceeds the cost of investment, is recognised in profit or loss in the period in which the investment is acquired.

Profits and losses resulting from transactions between the Shire and the associate are eliminated to the extent of the Shire's interest in the associate.

When the Shire's share of losses in an associate equals or exceeds its interest in the associate, the Shire discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Shire will resume recognising its share of those profits once its share of the profits equals the share of the losses not recognised.

(o) Interests in Joint Arrangements

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required.

Separate joint venture entities providing joint venturers with an interest to net assets are classified as a joint venture and accounted for using the equity method. Refer to note 1(o) for a description of the equity method of accounting.

Joint venture operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Shire's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the financial statements. Information about the joint ventures is set out in Note

(p) Rates, Grants, Donations and Other Contributions

Rates, grants, donations and other contributions are recognised as revenues when the local government obtains control over the assets comprising the contributions.

Control over assets acquired from rates is obtained at the commencement of the rating period or, where earlier, upon receipt of the rates.

Where contributions recognised as revenues during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the nature of and amounts pertaining to those undischarged conditions are disclosed in Note 2(c). That note also discloses the amount of contributions recognised as revenues in a previous reporting period which were obtained in respect of the local government's operations for the current reporting period.

(q) Superannuation

The Shire contributes to a number of Superannuation Funds on behalf of employees. All funds to which the Shire contributes are defined contribution plans.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Current and Non-Current Classification

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be settled. The asset or liability is classified as current if it is expected to be settled within the next 12 months, being the Shire's operational cycle. In the case of liabilities where the Shire does not have the unconditional right to defer settlement beyond 12 months, such as vested long service leave, the liability is classified as current even if not expected to be settled within the next 12 months. Inventories held for trading are classified as current even if not expected to be realised in the next 12 months except for land held for sale where it is held as non-current based on the Shire's intentions to release for sale.

(s) Rounding Off Figures

All figures shown in this annual financial report, other than a rate in the dollar, are rounded to the nearest dollar.

(t) Comparative Figures

Where required, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

When the Shire applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statement, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

(u) Budget Comparative Figures

Unless otherwise stated, the budget comparative figures shown in this annual financial report relate to the original budget estimate for the relevant item of disclosure.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New Accounting Standards and Interpretations for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Shire.

Management's assessment of the new and amended pronouncements that are relevant to the Shire, applicable to future reporting periods and which have not yet been adopted are set out as follows:

Title	Issued / Compiled	Applicable ⁽¹⁾	Impact
(i) AASB 9 Financial Instruments (incorporating AASB 2014-7 and AASB 2014-8)	December 2014	1 January 2018	Nil – The objective of this Standard is to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. Given the nature of the financial assets of the Shire, it is not anticipated the Standard will have any material effect.
(ii) AASB 15 Revenue from Contracts with Customers	December 2014	1 January 2019	This Standard establishes principles for entities to apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The effect of this Standard will depend upon the nature of future transactions the Shire has with those third parties it has dealings with. It may or may not be significant.
(iii) AASB 16 Leases	February 2016	1 January 2019	Under AASB 16 there is no longer a distinction between finance and operating leases. Lessees will now bring to account a right-to-use asset and lease liability onto their statement of financial position for all leases. Effectively this means the vast majority of operating leases as defined by the current AASB 117 Leases which currently do not impact the statement of financial position will be required to be capitalised on the statement of financial position once AASB 16 is adopted. Currently, operating lease payments are expensed as incurred. This will cease and will be replaced by both depreciation and interest charges. Based on the current number of operating leases held by the Shire, the impact is not expected to be significant.

Notes:

⁽¹⁾ Applicable to reporting periods commencing on or after the given date.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) New Accounting Standards and Interpretations for Application in Future Periods (Continued)

Title	Issued / Compiled	Applicable ⁽¹⁾	Impact
(iv) AASB 1058 Income of Not-for-Profit Entities (incorporating AASB 2016-7 and AASB 2016-8)	December 2016	1 January 2019	<p>These standards are likely to have a significant impact on the income recognition for NFP's. Key areas for consideration are:</p> <ul style="list-style-type: none"> - Assets received below fair value; - Transfers received to acquire or construct non-financial assets; - Grants received; - Prepaid rates; - Leases entered into at below market rates; and - Volunteer services. <p>Whilst it is not possible to quantify the financial impact (or if it is material) of these key areas until the details of future transactions are known, they will all have application to the Shire's operations.</p>

Notes:

⁽¹⁾ Applicable to reporting periods commencing on or after the given date.

(w) Adoption of New and Revised Accounting Standards

During the current year, the Shire adopted all of the new and revised Australian Accounting Standards and Interpretations which were compiled, became mandatory and which were applicable to its operations.

Whilst many reflected consequential changes associate with the amendment of existing standards, the only new standard with material application is as follows:

- | | |
|--|---|
| <p>(i) AASB 2015-6 Amendments to Australian Accounting Standards - Extending Related Party Disclosures to Not-for-Profit Public Sector Entities</p> <p>[AASB 10, 124 & 1049]</p> | <p>The objective of this Standard was to extend the scope of AASB 124 <i>Related Party Disclosures</i> to include not-for-profit sector entities.</p> <p>The Standard has had a significant disclosure impact on the financial report of the Shire as both Elected Members and Senior Management are deemed to be Key Management Personnel and resultant disclosures in accordance to AASB 124 have been necessary.</p> |
|--|---|

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

2. REVENUE AND EXPENSES (Continued)

(b) Statement of Objective

In order to discharge its responsibilities to the community, the Shire has developed a set of operational and financial objectives. These objectives have been established both on an overall basis, reflected by the Shire's Community Vision, and for each of its broad activities/programs.

COMMUNITY VISION

Pingelly, a sustainable community, where natural beauty and economic diversity provide opportunities for all

Shire operations as disclosed in these financial statements encompass the following service orientated activities/programs.

GOVERNANCE

Objective:

Effective leadership and governance

Activities:

Administration and operation of facilities and services to members of Council; other costs that relate to the tasks of assisting elected members and ratepayers on matters which do not concern specific Council services.

GENERAL PURPOSE FUNDING

Objective:

A financially sustainable Shire

Activities:

Rates, general purpose government grants and interest revenue.

LAW, ORDER, PUBLIC SAFETY

Objective:

A safe community

Activities:

Fire prevention, animal control and assistance to emergency services.

HEALTH

Objective:

Health and family support services that are accessible and meet the needs of the community

Activities:

Food quality control, provision of doctor services and maintenance of dental equipment.

EDUCATION AND WELFARE

Objective:

Quality of life for the aged and disabled. Development and participation of young people

Activities:

Maintenance of a daycare centre and assistance to the provision of aged care accommodation.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

2. REVENUE AND EXPENSES (Continued)

(b) Statement of Objective (Continued)

COMMUNITY AMENITIES

Objective:

Appropriate development which is diverse in nature and protects local heritage

Activities:

Rubbish and recyclables collection and disposal services, operation of the refuse site, administration of the town planning scheme, maintenance of the cemetery, maintenance of public toilets and maintenance of storm water drainage.

RECREATION AND CULTURE

Objective:

Access to recreation, sporting and leisure opportunities

Activities:

Maintenance of the Town Hall, Pavilion, Community Centre, recreation ground, swimming pool complex, reserves, operation of the library together with support of cultural events.

TRANSPORT

Objective:

Safe and reliable transport infrastructure

Activities:

Construction and maintenance of streets, roads, bridges, cleaning and lighting of streets and depot maintenance.

ECONOMIC SERVICES

Objective:

Support the promotion and marketing of local businesses and tourism initiatives

Activities:

The regulation and provision of building control, control of noxious weeds and vermin, standpipe water supplies and area promotion

OTHER PROPERTY AND SERVICES

Objective:

Provide support services for works and plant operations

Activities:

Private works operations, plant repairs and operation costs.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

2. REVENUE AND EXPENSES (Continued)
(c) Conditions Over Grants/Contributions

Grant/Contribution	Opening Balance ⁽¹⁾ 1/07/15 \$	Received ⁽²⁾ 2015/16 \$	Expended ⁽³⁾ 2015/16 \$	Closing Balance ⁽¹⁾ 30/06/16 \$	Received ⁽²⁾ 2016/17 \$	Expended ⁽³⁾ 2016/17 \$	Closing Balance 30/06/17 \$
Education and welfare							
WA Health Department - Aged Appropriate Accommodation	0	272,727	(5,457)	267,270	727,273	(197,610)	796,933
LotteryWest - Aged Sensory Garden Grant	0	0	0	0	50,000	0	50,000
Recreation and culture							
Royalties to Regions (12/13) - 40ML Dam Construction	60,000	0	(60,000)	0	0	0	0
Royalties to Regions (12/13) - Tennis Court Construction	90,000	10,000	(100,000)	0	0	0	0
PRACC National Stronger Regions Fund	0	0	0	0	777,719	(777,719)	0
PRACC - Bendigo Bank	0	0	0	0	50,000	0	50,000
PRACC - CBH Grass roots grant playground	0	0	0	0	10,000	0	10,000
PRACC - Forestry Product Commission	0	0	0	0	20,000	0	20,000
Transport							
Roads to Recovery - Road & Bridge Construction	0	443,435	(443,435)	0	606,900	(606,900)	0
Economic services							
KC Box (Donation) - Community Vehicle	0	43,000	(35,926)	7,074	0	(7,074)	0
Total	150,000	769,162	(644,818)	274,344	2,241,892	(1,589,303)	926,933

Notes:

- (1) - Grants/contributions recognised as revenue in a previous reporting period which were not expended at the close of the previous reporting period.
(2) - New grants/contributions which were recognised as revenues during the reporting period and which had not yet been fully expended in the manner specified by the contributor.
(3) - Grants/contributions which had been recognised as revenues in a previous reporting period or received in the current reporting period and which were expended in the current reporting period in the manner specified by the contributor.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

	Note	2017 \$	2016 \$
3. CASH AND CASH EQUIVALENTS			
Unrestricted		(225,748)	253,064
Restricted		3,657,531	3,251,198
		<u>3,431,783</u>	<u>3,504,262</u>
The following restrictions have been imposed by regulations or other externally imposed requirements:			
Reserves cash backed - Leave Reserve	12	169,097	164,761
Reserves cash backed - Plant Reserve	12	240,391	163,399
Reserves cash backed - Building Reserve	12	284,266	48,140
Reserves cash backed - Electronic Equipment Reserve	12	6,130	1,041
Reserves cash backed - Community Bus Reserve	12	11,146	5,928
Reserves cash backed - Swimming Pool Reserve	12	49,878	43,667
Reserves cash backed - Joint Housing Reserve	12	51,294	49,918
Reserves cash backed - Refuse Site Rehab/Closure Reserve	12	15,186	0
Unspent grants	2(c)	926,933	274,344
Unspent loans	22(c)	1,903,210	2,500,000
		<u>3,657,531</u>	<u>3,251,198</u>
4. INVESTMENTS			
Financial assets at fair value through profit and loss		<u>5,000</u>	<u>5,000</u>
Financial assets at fair value through profit and loss			
At the beginning of the year		5,000	5000
At the end of the year		<u>5,000</u>	<u>5,000</u>

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

	2017	2016
	\$	\$
5. TRADE AND OTHER RECEIVABLES		
Current		
Rates outstanding	153,986	118,368
Sundry debtors	601,751	132,972
GST receivable	42,332	17,559
Loans receivable - clubs/institutions	14,489	87,940
Accrued Income	1,779	5,912
Provision for doubtful debts	(9,508)	(9,661)
	<u>804,829</u>	<u>353,090</u>
Non-current		
Rates outstanding - pensioners	51,385	38,236
Loans receivable - clubs/institutions	181,717	576,691
	<u>233,102</u>	<u>614,927</u>
Information with respect the impairment or otherwise of the totals of rates outstanding and sundry debtors is as follows:		
Rates outstanding	<u>205,371</u>	<u>156,604</u>
Includes:		
Past due and not impaired	186,517	136,254
Impaired	<u>7,947</u>	<u>0</u>
Sundry debtors	<u>601,751</u>	<u>132,972</u>
Includes:		
Past due and not impaired	37,556	1,925
Impaired	<u>1,561</u>	<u>9,661</u>
6. INVENTORIES		
Current		
Fuel & Materials	<u>2,474</u>	<u>1,148</u>
	<u>2,474</u>	<u>1,148</u>

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

	2017 \$	2016 \$
7 (a). PROPERTY, PLANT AND EQUIPMENT		
Land and buildings		
- Independent valuation 2017 - level 2	676,506	0
- Independent valuation 2017 - level 3	5,000	0
- Independent valuation 2015 - level 2	0	849,699
- Additions after valuation - cost	0	68,664
	<u>681,506</u>	<u>918,363</u>
Land - vested in and under the control of Council at:		
- Independent valuation 2017 - level 3	6,000	0
	<u>6,000</u>	<u>0</u>
	<u>687,506</u>	<u>918,363</u>
Buildings - non-specialised at:		
- Independent valuation 2017 - level 2	1,877,992	0
- Independent valuation 2015 - level 2	0	2,634,304
- Less Accumulated Depreciation	0	(59,936)
	<u>1,877,992</u>	<u>2,574,368</u>
Buildings - specialised at:		
- Independent valuation 2017 - level 3	3,793,900	0
- Independent valuation 2015 - level 3	0	4,362,775
- Additions after valuation - cost	0	618,974
- Less Accumulated Depreciation	0	(88,176)
	<u>3,793,900</u>	<u>4,893,573</u>
	<u>5,671,892</u>	<u>7,467,941</u>
Total land and buildings	<u>6,359,398</u>	<u>8,386,304</u>
Furniture and equipment at:		
- Management valuation 2016 - level 3	92,159	92,159
- Additions after valuation - cost	7,598	0
Furniture and equipment - Less: accumulated depreciation	<u>(27,093)</u>	<u>0</u>
	72,664	92,159
Plant and equipment at:		
- Management valuation 2016 - level 2	1,298,076	1,298,076
- Management valuation 2016 - level 3	146,820	146,820
- Additions after valuation - cost	176,555	0
Plant and equipment - Less: accumulated depreciation	<u>(158,111)</u>	<u>0</u>
	1,463,340	1,444,896
Works In Progress at:		
- Works In Progress	2,118,158	320,008
	<u>2,118,158</u>	<u>320,008</u>
	<u>10,013,560</u>	<u>10,243,367</u>

The fair value of property, plant and equipment is determined at least every three years in accordance with the regulatory framework. Additions since the date of valuation are shown as cost, given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered the recorded written down value approximates fair value. At the end of each intervening period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions. This process is considered to be in accordance with *Local Government (Financial Management) Regulation 17A (2)* which requires property, plant and equipment to be shown at fair value.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Movements in Carrying Amounts

Movement in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year.

	Balance at the Beginning of the Year \$	Additions \$	(Disposals) \$	Revaluation Increments/ (Decrements) Transferred to Revaluation \$	Revaluation (Losses)/ Reversals Through to Profit or Loss \$	Impairment (Losses)/ Reversals \$	Depreciation (Expense) \$	Transfers \$	Carrying Amount at the End of Year \$
Land - freehold land	918,363	0	(106,664)	(130,193)	0	0	0	0	681,506
Land - vested in and under the control of Council	0	0	0	6,000	0	0	0	0	6,000
Total land	918,363	0	(106,664)	(124,193)	0	0	0	0	687,506
Buildings - non-specialised	2,574,368	7,588	(522,818)	(135,176)	0	0	(45,970)	0	1,877,992
Buildings - specialised	4,893,573	72,355	(464,975)	(46,104)	0	0	(97,568)	(563,381)	3,793,900
Total buildings	7,467,941	79,943	(987,793)	(181,280)	0	0	(143,538)	(563,381)	5,671,892
Total land and buildings	8,386,304	79,943	(1,094,457)	(305,473)	0	0	(143,538)	(563,381)	6,359,398
Furniture and equipment	92,159	7,598	0	0	0	0	(27,093)	0	72,664
Plant and equipment	1,444,896	359,122	(166,685)	0	0	0	(173,993)	0	1,463,340
Works In Progress	320,008	1,798,150	0	0	0	0	0	0	2,118,158
Total property, plant and equipment	10,243,367	2,244,813	(1,261,142)	(305,473)	0	0	(344,624)	(563,381)	10,013,560

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

7. PROPERTY, PLANT AND EQUIPMENT (Continued)

(c) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of valuation	Date of last Valuation	Inputs used
Land and buildings					
Land - freehold land	2	Market approach using recent observable market data for similar properties	Independent registered valuers	June 2017	price per hectare
Buildings - non-specialised	2	Market approach using recent observable market data for similar properties	Independent registered valuers	June 2017	price per square metre
Buildings - specialised	3	Improvements to land valued using cost approach using depreciated replacement cost	Independent registered valuers	June 2017	Improvements to land using construction costs and current condition (Level 2) , residual values and remaining life assessments (Level 3) inputs
Furniture and equipment					
- Management valuation 2016	3	Cost approach using depreciated replacement cost	Management valuation	June 2016	Purchase costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Plant and equipment					
- Management valuation 2016	2	Market approach using recent observable market data for similar items	Management valuation	June 2016	Price per item
- Management valuation 2016	3	Cost approach using depreciated replacement cost	Management valuation	June 2016	Purchase costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs

Level 3 inputs are based on assumptions with regards to future values and patterns of consumption utilising current information. If the basis of these assumptions were varied, they have the potential to result in a significantly higher or lower fair value measurement.

During the period there were no changes in the valuation techniques used by the local government to determine the fair value of property, plant and equipment using either level 2 or level 3 inputs.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

	2017	2016
	\$	\$
8 (a). INFRASTRUCTURE		
Infrastructure - Roads		
- Management valuation 2015 - level 3	58,644,635	58,644,635
- Additions after valuation - cost	2,639,407	1,288,031
Infrastructure - Roads - Less: accumulated depreciation	<u>(1,571,357)</u>	<u>(766,403)</u>
	59,712,685	59,166,263
Infrastructure - Footpaths		
- Management valuation 2015 - level 3	952,387	952,387
- Additions after valuation - cost	62,795	62,795
Infrastructure - Footpaths - Less: accumulated depreciation	<u>(49,189)</u>	<u>(23,810)</u>
	965,993	991,372
Infrastructure - Kerbs and Drainage		
- Management valuation 2015 - level 3	1,155,497	1,155,497
Infrastructure - Kerbs and Drains - Less: accumulated depreciation	<u>(54,959)</u>	<u>(27,482)</u>
	1,100,538	1,128,015
Infrastructure - Other		
- Management valuation 2015 - level 3	4,444,768	4,444,768
- Additions after valuation - cost	673,101	98,223
Infrastructure - Other - Less: accumulated depreciation	<u>(319,583)</u>	<u>(152,469)</u>
	4,798,286	4,390,522
Infrastructure - Bridges		
- Management valuation 2015 - level 3	5,403,000	5,403,000
- Additions after valuation - cost	163,116	0
Infrastructure - Bridges - Less: accumulated depreciation	<u>(216,119)</u>	<u>(108,059)</u>
	5,349,997	5,294,941
	<u>71,927,499</u>	<u>70,971,113</u>

The fair value of infrastructure is determined at least every three years in accordance with the regulatory framework. Additions since the date of valuation are shown as cost. Given they were acquired at arms length and any accumulated depreciation reflects the usage of service potential, it is considered the recorded written down value approximates fair value. At the end of each intervening period the valuation is reviewed and, where appropriate, the fair value is updated to reflect current market conditions. This process is considered to be in accordance with *Local Government (Financial Management) Regulation 17A(2)* which requires infrastructure to be shown at fair value.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

8. INFRASTRUCTURE (Continued)

(b) Movements in Carrying Amounts

Movement in the carrying amounts of each class of infrastructure between the beginning and the end of the current financial year.

	Balance as at the Beginning of the Year	Additions	(Disposals)	Revaluation Increments/ (Decrements) Transferred to Revaluation	Revaluation (Loss)/ Reversal Transferred to Profit or Loss	Impairment (Losses)/ Reversals	Depreciation (Expense)	Transfers	Carrying Amount at the End of the Year
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Infrastructure - Roads	59,166,263	1,351,376	0	0	0	0	(804,954)	0	59,712,685
Infrastructure - Footpaths	991,372	0	0	0	0	0	(25,379)	0	965,993
Infrastructure - Kerbs and Drainage	1,128,015	0	0	0	0	0	(27,477)	0	1,100,538
Infrastructure - Other	4,390,522	0	0	0	0	0	(155,617)	563,381	4,798,286
Infrastructure - Bridges	5,294,941	163,116	0	0	0	0	(108,050)	0	5,349,997
Total infrastructure	70,971,113	1,514,492	0	0	0	0	(1,121,487)	563,381	71,927,499

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

8. INFRASTRUCTURE (Continued)

(c) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of valuation	Date of last Valuation	Inputs used
Infrastructure - Roads	3	Cost approach using depreciated replacement cost	Management Valuation	June 2015	Construction costs and current condition (Level2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Footpaths	3	Cost approach using depreciated replacement cost	Management Valuation	June 2015	Construction costs and current condition (Level2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Kerbs and Drainage	3	Cost approach using depreciated replacement cost	Management Valuation	June 2015	Construction costs and current condition (Level2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Other	3	Cost approach using depreciated replacement cost	Independent registered valuers	June 2015	Construction costs and current condition (Level2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Bridges	3	Cost approach using depreciated replacement cost	Independent registered valuers	June 2015	Construction costs and current condition (Level2), residual values and remaining useful life assessments (Level 3) inputs

Level 3 inputs are based on assumptions with regards to future values and patterns of consumption utilising current information. If the basis of these assumptions were varied , they have the potential to result in a significantly higher or lower fair value measurement.

During the period there were no changes in the valuation techniques used to determine the fair value of infrastructure using level 3 inputs.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

	2017	2016
	\$	\$
9. TRADE AND OTHER PAYABLES		
Current		
Sundry creditors	5,033	312,725
Accrued interest on debentures	336	3,950
Accrued salaries and wages	35,071	16,912
ATO liabilities	34,643	44,673
Accrued Expenses	56,508	30,495
Prepaid Income	17,130	0
	<u>148,721</u>	<u>408,755</u>

10. LONG-TERM BORROWINGS

Current		
Secured by floating charge		
Debentures	58,460	173,181
	<u>58,460</u>	<u>173,181</u>
Non-current		
Secured by floating charge		
Debentures	2,470,742	2,909,687
	<u>2,470,742</u>	<u>2,909,687</u>

Additional detail on borrowings is provided in Note 22.

11. PROVISIONS

	Provision for Annual Leave \$	Provision for Long Service Leave \$	Total \$
Opening balance at 1 July 2016			
Current provisions	102,638	61,636	164,274
Non-current provisions	0	43,748	43,748
	<u>102,638</u>	<u>105,384</u>	<u>208,022</u>
Additional provision	66,694	40,836	107,530
Balance at 30 June 2017	<u>169,332</u>	<u>146,220</u>	<u>315,552</u>
Comprises			
Current	169,332	80,995	250,327
Non-current	0	65,225	65,225
	<u>169,332</u>	<u>146,220</u>	<u>315,552</u>

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

12. RESERVES - CASH BACKED

	Actual 2017 Opening Balance	Actual 2017 Transfer to	Actual 2017 Transfer (from)	Actual 2017 Closing Balance	Budget 2017 Opening Balance	Budget 2017 Transfer to	Budget 2017 Transfer (from)	Budget 2017 Closing Balance	Actual 2016 Opening Balance	Actual 2016 Transfer to	Actual 2016 Transfer (from)	Actual 2016 Closing Balance
Reserves cash backed - Leave Reserve	\$ 164,761	\$ 4,336	\$ 0	\$ 169,097	\$ 164,761	\$ 5,693	\$ 0	\$ 170,454	\$ 160,807	\$ 3,954	\$ 0	\$ 164,761
Reserves cash backed - Plant Reserve	163,399	255,528	(178,536)	240,391	163,399	255,646	(151,000)	268,045	292,214	7,185	(136,000)	163,399
Reserves cash backed - Building Reserve	48,140	436,126	(200,000)	284,266	48,140	408,486	(200,000)	256,626	735,066	18,074	(705,000)	48,140
Reserves cash backed - Electronic Equipment Reserve	1,041	5,089	0	6,130	1,041	5,000	0	6,041	1,016	25	0	1,041
Reserves cash backed - Community Bus Reserve	5,928	5,218	0	11,146	5,928	5,007	0	10,935	5,786	142	0	5,928
Reserves cash backed - Swimming Pool Reserve	43,667	6,211	0	49,878	43,667	5,400	0	49,067	42,619	1,048	0	43,667
Reserves cash backed - Joint Housing Reserve	49,918	6,376	(5,000)	51,294	49,918	5,523	(2,000)	53,441	48,720	1,198	0	49,918
Reserves cash backed - Refuse Site Rehab/Closure Reser	0	15,186	0	15,186	0	15,000	0	15,000	0	0	0	0
	476,854	734,070	(383,536)	827,388	476,854	705,755	(353,000)	829,609	1,286,228	31,626	(841,000)	476,854

All of the reserve accounts are supported by money held in financial institutions and match the amount shown as restricted cash in Note 3 to this financial report.

In accordance with council resolutions in relation to each reserve account, the purpose for which the reserves are set aside and their anticipated date of use are as follows:

Name of Reserve	Anticipated date of use	Purpose of the reserve
Reserves cash backed - Leave Reserve	Ongoing	- to be used to fund annual and long service leave requirements.
Reserves cash backed - Plant Reserve	Ongoing	- to be used for the purchase of major plant.
Reserves cash backed - Building Reserve	Ongoing	- to be used to fund the renovation/purchase of Shire of Pingelly buildings and Recreation Infrastructure.
Reserves cash backed - Electronic Equipment Reserve	Ongoing	- to be used to fund the purchase of administration computer system equipment.
Reserves cash backed - Community Bus Reserve	Ongoing	- to be used to fund the change-over of the community bus.
Reserves cash backed - Swimming Pool Reserve	Ongoing	- to be used to fund the upgrading of the swimming pool complex
Reserves cash backed - Joint Housing Reserve	Ongoing	- to be used for the future maintenance of the Joint Venture units
Reserves cash backed - Refuse Site Rehab/Closure Reserve	Ongoing	- to be used to facilitate the rehabilitation/closure of the town refuse site.

13. REVALUATION SURPLUS

Movements on revaluation of fixed assets are not able to be reliably attributed to a program as the assets were revalued by class as provided for by AASB 116 Aus 40.1.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

14. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash and cash equivalents, net of outstanding bank overdrafts. Cash at the end of the reporting period is reconciled to the related items in the Statement of Financial Position as follows:

	2017 \$	2017 Budget \$	2016 \$
Cash and cash equivalents	<u>3,431,783</u>	<u>859,871</u>	<u>3,504,262</u>

(b) Reconciliation of Net Cash Provided By Operating Activities to Net Result

Net result	1,736,983	7,101,709	(345,208)
Non-cash flows in Net result:			
Depreciation	1,466,111	2,110,000	1,509,979
(Profit)/Loss on sale of asset	706,484	(202,200)	61,083
Fair value adjustments to fixed assets			
at fair value through profit or loss	0	0	0
Loss on revaluation of fixed assets	0	0	9,900
Reversal of loss on revaluation of fixed assets	0	0	(1,597)
Changes in assets and liabilities:			
(Increase)/Decrease in receivables	(538,339)	35,993	(694)
(Increase)/Decrease in inventories	(1,326)	(3,940)	2,818
Increase/(Decrease) in payables	(260,034)	118,000	227,253
Increase/(Decrease) in provisions	107,530	0	24,808
Grants contributions for			
the development of assets	(3,179,845)	(8,312,488)	(1,334,681)
Net cash from operating activities	<u>37,564</u>	<u>847,074</u>	<u>153,661</u>

	2017 \$	2016 \$
(c) Undrawn Borrowing Facilities		
Credit Standby Arrangements		
Bank overdraft limit	500,000	300,000
Bank overdraft at balance date	0	0
Credit card limit	10,000	10,000
Credit card balance at balance date	(6,864)	0
Total amount of credit unused	<u>503,136</u>	<u>310,000</u>
Loan facilities		
Loan facilities - current	58,460	173,181
Loan facilities - non-current	2,470,742	2,909,687
Total facilities in use at balance date	<u>2,529,202</u>	<u>3,082,868</u>
Unused loan facilities at balance date	<u>1,903,210</u>	<u>2,500,000</u>

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

15. CONTINGENT LIABILITIES

There are no contingent liabilities for the year ending 30 June 2017.

	2017	2016
	\$	\$

16. CAPITAL AND LEASING COMMITMENTS

(a) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the accounts.

Payable:

- not later than one year	9,840	9,840
- later than one year but not later than five years	6,560	16,400
	<u>16,400</u>	<u>26,240</u>

(b) Capital Expenditure Commitments

Contracted for:

- capital expenditure projects	8,729,600	0
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Payable:

- not later than one year	8,729,600	0
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The capital expenditure projects outstanding at the end of the current reporting period represents the completion of construction of the new Pingelly Recreation and Cultural Centre and construction of the new Pingelly Aged Appropriate Accommodation units.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

17. JOINT VENTURE ARRANGEMENTS

Lot 602 (38) and Lot 603 (36) Sharow Street Singles Units

The Shire of Pingelly entered into a Joint Venture arrangement with the Department of Housing during the 2009/10 financial year for the construction of four x 2 bedroom units. Construction was completed in the 2011/12 financial year. The provision of this housing aims to provide accommodation for singles and childless couples. The Shire of Pingelly has a 18.28% interest in the assets and liabilities of this joint venture under the auspices of Homeswest. All revenue and expenses of the joint venture are recognised in the relevant financial statements of Council.

Council is required to set aside 1% of the current replacement cost of the properties from the rental income each year for the long term maintenance of the properties.

All profits derived from the operation of the Joint Venture Housing are to be recognised as Restricted Assets to provide for future maintenance or the provision of future housing.

	2017	2016
	\$	\$
Lot 602 (38) and Lot 603 (36) Sharow Street Singles Units		
- Opening Balance	49,918	48,720
- Profits From Operations	5,000	0
- Interest Earned	1,376	1,198
- Funds Utilised	(5,000)	0
- Closing Balance	<u>51,294</u>	<u>49,918</u>
	2017	2016
	\$	\$
Non-current assets		
Freehold land at:		
- Independent valuation 2015 - level 2	0	11,699
- Independent valuation 2017 - level 2	9,506	0
Non-Specialised buildings at:		
- Independent valuation 2015 - level 2	0	124,304
- Independent valuation 2017 - level 2	116,992	0
Less: accumulated depreciation	<u>0</u>	<u>(2,486)</u>
	<u>126,498</u>	<u>133,517</u>

18. TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY

	2017	2016
	\$	\$
Governance	3,037,417	3,395,706
General purpose funding	285,653	156,604
Law, order, public safety	64,279	91,582
Health	52,944	25,627
Education and welfare	1,254,933	627,050
Housing	284,266	48,140
Community amenities	544,591	549,686
Recreation and culture	9,532,779	9,905,266
Transport	68,811,659	67,837,479
Economic services	996,262	1,419,835
Other property and services	1,050,820	1,072,237
Unallocated	<u>502,644</u>	<u>563,695</u>
	<u>86,418,247</u>	<u>85,692,907</u>

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

	2017	2016	2015
19. FINANCIAL RATIOS			
Current ratio	2.03	1.05	3.89
Asset sustainability ratio	2.23	1.60	0.31
Debt service cover ratio	0.25	(0.07)	1.12
Operating surplus ratio	(0.60)	(0.72)	(0.47)
Own source revenue coverage ratio	0.42	0.48	0.48

The above ratios are calculated as follows:

Current ratio	$\frac{\text{current assets minus restricted assets}}{\text{current liabilities minus liabilities associated with restricted assets}}$
Asset sustainability ratio	$\frac{\text{capital renewal and replacement expenditure}}{\text{Depreciation expenses}}$
Debt service cover ratio	$\frac{\text{annual operating surplus before interest and depreciation}}{\text{principal and interest}}$
Operating surplus ratio	$\frac{\text{operating revenue minus operating expenses}}{\text{own source operating revenue}}$
Own source revenue coverage ratio	$\frac{\text{own source operating revenue}}{\text{operating expenses}}$

Notes:

Information relating to the **asset consumption ratio** and the **asset renewal funding ratio** can be found at Supplementary Ratio Information on Page 59 of this document.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

20. TRUST FUNDS

Funds held at balance date over which the Shire has no control and which are not included in the financial statements are as follows:

	1 July 2016 \$	Amounts Received \$	Amounts Paid (\$)	30 June 2017 \$
Transport Licensing	2,037	467,237	(469,274)	0
Funds Held on Behalf of Groups	0	40	0	40
Unclaimed Monies	100	0	0	100
Nomination Deposits	160	0	(160)	0
Bond Monies (Including Key Deposits)	11,262	7,568	(14,909)	3,921
	<u>13,559</u>			<u>4,061</u>

21. DISPOSALS OF ASSETS - 2016/17 FINANCIAL YEAR

The following assets were disposed of during the year.

	Actual Net Book Value \$	Actual Sale Proceeds \$	Actual Profit \$	Actual Loss \$	Budget Net Book Value \$	Budget Sale Proceeds \$	Budget Profit \$	Budget Loss \$
Land & Buildings								
<u>Governance</u>								
16 Eliot St - House	134,850	128,272	0	(6,578)	134,850	107,000	0	(27,850)
16 Eliot St (Land)	38,000	36,147	0	(1,853)	38,000	38,000	0	0
5 Webb St (Land)	0	0			32,000	20,000	0	(12,000)
<u>Recreation and Culture</u>								
Community Centre & Pav-demolished	464,976	0	0	(464,976)	0	0		
<u>Economic Services</u>								
Industrial Shed - 2 Paragon Street	387,967	205,986	0	(181,981)	0	243,000	243,000	0
Industrial Shed - Lot 853 (Land)	68,664	36,456	0	(32,208)	0	0		
Plant and Equipment								
<u>Governance</u>								
PCEO15 - CEO Vehicle	35,529	35,455	0	(74)	40,000	30,000	0	(10,000)
PCEO16 - CEO Vehicle	69,503	67,273	0	(2,230)	0	0		
EMCCS02 - DCCS Vehicle	0	0			17,000	14,000	0	(3,000)
EMEDS02 - DTS Vehicle	17,225	10,443	0	(6,782)	0	0		
<u>Health</u>								
Drs Car Captiva	12,759	8,626	0	(4,133)	0	0		
<u>Recreation and Culture</u>								
PC15 - Parks & Gardener Ute	0	0			450	15,000	14,550	0
<u>Transport</u>								
PT18 Fuso 918 Crew Cab Tip Truck	31,669	26,000	0	(5,669)	27,500	25,000	0	(2,500)
	<u>1,261,142</u>	<u>554,658</u>	<u>0</u>	<u>(706,484)</u>	<u>289,800</u>	<u>492,000</u>	<u>257,550</u>	<u>(55,350)</u>

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

22. INFORMATION ON BORROWINGS

(a) Repayments - Debentures

Particulars	Principal 1 July 2016 \$	New Loans \$	Principal Repayments		Principal 30 June 2017		Interest Repayments	
			Actual	Budget	Actual	Budget	Actual	Budget
			\$	\$	\$	\$	\$	\$
Recreation and culture								
Loan #123 - Recreation and Cultural Centre	2,418,237	0	85,241	85,241	2,332,996	2,332,996	100,909	100,920
	2,418,237	0	85,241	85,241	2,332,996	2,332,996	100,909	100,920
<u>Self Supporting Loans</u>								
Law, order, public safety								
Loan #122 - SSL DFES	454,830	0	454,830	74,345	0	380,485	40,550	20,382
Education and welfare								
Loan #120 - SSL Pingelly Cottage Homes	209,801	0	13,595	13,595	196,206	196,206	13,353	13,358
	664,631	0	468,425	87,940	196,206	576,691	53,903	33,740
	3,082,868	0	553,666	173,181	2,529,202	2,909,687	154,812	134,660

Self supporting loan financed by payments from third parties.

All other loan repayments were financed by general purpose revenue.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

22. INFORMATION ON BORROWINGS (Continued)

(b) New Debentures - 2016/17

The Shire did not take up any new debentures during the year ended 30 June 2017.

(c) Unspent Debentures

Particulars	Date Borrowed	Balance 1 July 16 \$	Borrowed		Expended		Balance 30 June 17 \$
			During Year	\$	During Year	\$	
Loan 123 - Recreation and Culture	June 2015	2,500,000	0	(596,790)	1,903,210		
		2,500,000	0	(596,790)	1,903,210		

(d) Overdraft

The Shire of Pingelly did have a \$500,000 overdraft facility as at 30 June 2017

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

23. RATING INFORMATION - 2016/17 FINANCIAL YEAR

RATE TYPE	Rate in \$	Number of Properties	Rateable Value \$	Rate Revenue \$	Interim Rates \$	Back Rates \$	Total Revenue \$	Budget Rate Revenue \$	Budget Interim Rate \$	Budget Back Rate \$	Budget Total Revenue \$
Differential general rate / general rate											
Gross rental value valuations											
GRV-Residential	11.5816	295	2,929,511	339,284	910	0	340,194	339,284	0	0	339,284
GRV-Rural Residential	11.5816	65	683,712	79,185	638	0	79,823	79,185	0	0	79,185
GRV-Commercial/Industrial	11.5816	30	432,515	50,092	0	0	50,092	50,092	0	0	50,092
GRV-Townsite	11.5816	12	128,440	14,875	0	0	14,875	14,875	0	0	14,875
Unimproved value valuations											
UV-Broadacre Rural	1.1073	260	111,685,508	1,236,694	(339)	(100)	1,236,255	1,236,694	0	0	1,236,694
Sub-Total		662	115,859,686	1,720,130	1,209	(100)	1,721,239	1,720,130	0	0	1,720,130
Minimum payment											
Gross rental value valuations											
GRV-Residential	898	82	287,910	73,636	898	0	74,534	73,636	0	0	73,636
GRV-Rural Residential	898	24	95,502	21,552	0	0	21,552	21,552	0	0	21,552
GRV-Commercial/Industrial	898	11	47,144	9,878	(898)	0	8,980	9,878	0	0	9,878
GRV-Townsite	898	7	20,270	6,286	0	0	6,286	6,286	0	0	6,286
Unimproved value valuations											
UV-Broadacre Rural	898	37	1,987,730	33,226	0	0	33,226	33,226	0	0	33,226
Sub-Total		161	2,438,556	144,578	0	0	144,578	144,578	0	0	144,578
Total amount raised from general rate		823	118,298,242	1,864,708	1,209	(100)	1,865,817	1,864,708	0	0	1,864,708
Movement in Excess Rates											
Ex-gratia rates							4,022				0
Totals							<u>207</u>				<u>207</u>
							<u>1,870,046</u>				<u>1,864,908</u>

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

24. NET CURRENT ASSETS

Composition of net current assets

	2017	2017	2016
	(30 June 2017	(1 July 2016	(30 June 2016
	Carried	Brought	Carried
	Forward)	Forward)	Forward)
	\$	\$	\$
Surplus/(Deficit) 1 July 16 brought forward	1,345,278	384,951	384,951
CURRENT ASSETS			
Cash and cash equivalents			
Unrestricted	(225,748)	253,064	253,064
Restricted	3,657,531	3,251,198	3,251,198
Receivables			
Rates outstanding	153,986	118,368	118,368
Sundry debtors	601,751	132,972	132,972
GST receivable	42,332	17,559	17,559
Loans receivable - clubs/institutions	14,489	87,940	87,940
Accrued Income	1,779	5,912	5,912
Provision for doubtful debts	(9,508)	(9,661)	(9,661)
Inventories			
Fuel & Materials	2,474	1,148	1,148
LESS: CURRENT LIABILITIES			
Trade and other payables			
Sundry creditors	(5,033)	(312,725)	(312,725)
Accrued interest on debentures	(336)	(3,950)	(3,950)
Accrued salaries and wages	(35,071)	(16,912)	(16,912)
ATO liabilities	(34,643)	(44,673)	(44,673)
Accrued Expenses	(56,508)	(30,495)	(30,495)
Prepaid Income	(17,130)	0	0
Current portion of long term borrowings			
Secured by floating charge	(58,460)	(173,181)	(173,181)
Provisions			
Provision for annual leave	(169,332)	(102,638)	(102,638)
Provision for long service leave	(80,995)	(61,636)	(61,636)
Unadjusted net current assets	3,781,578	3,112,290	3,112,290
Adjustments			
Less: Reserves - restricted cash	(827,388)	(476,854)	(476,854)
Less: Loans receivable - clubs/institutions	(14,489)	(87,940)	(87,940)
Less: Unspent Loans	(1,903,210)	(2,500,000)	(2,500,000)
Add: Secured by floating charge	58,460	173,181	173,181
Add Back : Component of Leave Liability not Required to be Funded	250,327	164,274	164,274
Adjusted net current assets - surplus/(deficit)	1,345,278	384,951	384,951

Difference

There was no difference between the surplus/(deficit) 1 July 2016 brought forward position used in the 2017 audited financial report and the surplus/(deficit) carried forward position as disclosed in the 2016 audited financial report.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

25. SPECIFIED AREA RATE - 2016/17 FINANCIAL YEAR

No specified area rates were imposed by the Shire during the year ended 2017.

26. SERVICE CHARGES - 2016/17 FINANCIAL YEAR

No service charges were imposed by the Shire during the year ended 2017.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

27. DISCOUNTS, INCENTIVES, CONCESSIONS, & WRITE-OFFS
- 2016/17 FINANCIAL YEAR

Rates Discounts

No Rates Discount was offered by the Shire during the year ended 2017.

Waivers or Concessions

No waivers or concessions were granted by the Shire during the year ended 2017.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

28. INTEREST CHARGES AND INSTALMENTS - 2016/17 FINANCIAL YEAR

	Date Due	Instalment Plan Admin Charge \$	Instalment Plan Interest Rate %	Unpaid Rates Interest Rate %
Instalment Options				
Option One				
Single full payment	30/09/2016	0	0.00%	11.00%
Option Two				
First Instalment	30/09/2016	0	0.00%	11.00%
Second Instalment	1/02/2017	10	5.50%	11.00%
Option Three				
First Instalment	30/09/2016	0	0.00%	11.00%
Second Instalment	30/11/2016	10	5.50%	11.00%
Third Instalment	1/02/2017	10	5.50%	11.00%
Fourth Instalment	4/04/2017	10	5.50%	11.00%
			Budgeted Revenue	Budgeted Revenue
Interest on unpaid rates			\$	\$
Interest on instalment plan			1,482	11,000
Charges on instalment plan			2,390	6,000
			1,860	5,000
			<u>5,732</u>	<u>22,000</u>

Council at the Ordinary Council Meeting on the 21 September 2017 Item 18.2 resolved the following:

That Council:

- directs the CEO to favourably consider applications for payment plan for UV Broadacre from the 2016/17 Budget.

- agrees to waive the instalment plan fee on these affected assessments.

(NB: The 11% late payment penalty interest would not apply upon acceptance of the payment plan).

- closely scrutinise the 2017/18 Budget UV Broadacre rate in the dollar to be weighted to provide equity from the 2016/17 UV Broadacre rate increase.

12087 Moved: Cr Hodges Seconded: Cr Freebairn

Carried:6:0

This was in response to a UV Rural rates issued for 2016/17 being higher than the forecast budget rates increase of 7.5% due to UV valuations loaded affecting the rates model result.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

	2017	2016
	\$	\$
29. FEES & CHARGES		
Governance	33,297	40,212
General purpose funding	6,171	9,621
Law, order, public safety	6,450	5,159
Health	1,997	1,592
Education and welfare	2,000	2,000
Community amenities	162,643	171,343
Recreation and culture	7,989	16,194
Economic services	35,980	54,693
Other property and services	28,244	21,752
	<u>284,771</u>	<u>322,566</u>

There were no changes during the year to the amount of the fees or charges detailed in the original budget.

30. GRANT REVENUE

Grants, subsidies and contributions are included as operating revenues in the Statement of Comprehensive Income:

	2017	2016
	\$	\$
By Nature or Type:		
Operating grants, subsidies and contributions		
Governance	10	0
General purpose funding	1,781,330	578,363
Law, order, public safety	52,912	78,320
Education and welfare	0	10,000
Recreation and culture	46,344	52,040
Transport	80,794	75,100
Other property and services	3,231	2,981
	<u>1,964,621</u>	<u>796,804</u>
Non-operating grants, subsidies and contributions		
Education and welfare	777,273	272,727
Recreation and culture	935,219	10,000
Transport	1,467,353	1,008,954
Economic services	0	43,000
	<u>3,179,845</u>	<u>1,334,681</u>
	<u>5,144,466</u>	<u>2,131,485</u>

31. EMPLOYEE NUMBERS

The number of full-time equivalent employees at balance date

<u>32</u>	<u>31</u>
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32. ELECTED MEMBERS REMUNERATION

The following fees, expenses and allowances were paid to council members and/or the president.

	2017	2017	2016
	\$	Budget	\$
Meeting Fees	28,467	38,400	29,981
President's allowance	1,200	1,200	1,200
Deputy President's allowance	300	300	300
Telecommunications allowance	500	1,000	599
	<u>30,467</u>	<u>40,900</u>	<u>32,080</u>

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

33. RELATED PARTY TRANSACTIONS

Key Management Personnel (KMP) Compensation Disclosure

	2017 \$
The total of remuneration paid to KMP of the Shire during the year are as follows:	
Short-term employee benefits	510,483
Post-employment benefits	57,741
Other long-term benefits	39,927
Termination benefits	0
	<u>608,151</u>

Short-term employee benefits

These amounts include all salary, paid leave, fringe benefits and cash bonuses awarded to KMP except for details in respect to fees and benefits paid to elected members which may be found at Note 32.

Post-employment benefits

These amounts are the current-year's estimated cost of providing for the Shire's superannuation contributions made during the year.

Other long-term benefits

These amounts represent long service benefits accruing during the year.

Termination benefits

These amounts represent termination benefits paid to KMP (Note: may or may not be applicable in any given year).

Related Parties

The Shire's main related parties are as follows:

i. Key management personnel

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any elected member, are considered key management personnel.

ii. Entities subject to significant influence by the Shire

An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

iii. Joint venture entities accounted for under the equity method

The Shire has a interest in Department of Housing Singles Units. The interest in the joint venture entity is accounted for in these financial statements using the equity method of accounting. For details of interests held in joint venture entities, refer to Note 17.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

33. RELATED PARTY TRANSACTIONS (Continued)

Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

2017

\$

Associated companies/individuals:

Purchase of goods and services

141,769

Amounts outstanding from related parties:

Trade and other receivables

14,215

Loans to associated entities

196,207

Note: Transitional provisions contained within AASB 2015-6 do not require comparative related party disclosures to be presented in the period of initial application. As a consequence, only disclosures in relation to the current year have been presented.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

34. MAJOR LAND TRANSACTIONS

The Shire did not participate in any major land transactions during the 2016/2017 financial year.

35. TRADING UNDERTAKINGS AND MAJOR TRADING UNDERTAKINGS

The Shire did not participate in any trading undertakings or major trading undertakings during the 2016/2017 financial year.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

36. FINANCIAL RISK MANAGEMENT

The Shire's activities expose it to a variety of financial risks including price risk, credit risk, liquidity risk and interest rate risk. The Shire's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Shire.

The Shire does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by the finance area under policies approved by the Council.

The Shire held the following financial instruments at balance date:

	Carrying Value		Fair Value	
	2017	2016	2017	2016
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	3,431,783	3,504,262	3,431,783	3,504,262
Investments	5,000	5,000	5,000	5,000
Receivables	1,037,931	968,017	1,037,931	968,017
	<u>4,474,714</u>	<u>4,477,279</u>	<u>4,474,714</u>	<u>4,477,279</u>
Financial liabilities				
Payables	148,721	408,755	148,721	408,755
Borrowings	<u>2,529,202</u>	<u>3,082,868</u>	<u>2,529,202</u>	<u>3,082,868</u>
	<u>2,677,923</u>	<u>3,491,623</u>	<u>2,677,923</u>	<u>3,491,623</u>

Fair value is determined as follows:

- Cash and cash equivalents, receivables, payables - estimated to the carrying value which approximates net market value.
- Borrowings, held to maturity investments, estimated future cash flows discounted by the current market interest rates applicable to assets and liabilities with similar risk profiles.
- Financial assets at fair value through profit and loss, available for sale financial assets - based on quoted market prices at the reporting date or independent valuation.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

36. FINANCIAL RISK MANAGEMENT (Continued)

(a) Cash and Cash Equivalents

Held-to-maturity investments

The Shire's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital. The finance area manages the cash and investments portfolio with the assistance of independent advisers (where applicable). Council has an investment policy and the policy is subject to review by Council. An Investment Report is provided to Council on a monthly basis setting out the make-up and performance of the portfolio.

The major risk associated with investments is price risk - the risk that the capital value of investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments of their issuers or factors affecting similar instruments traded in a market.

Cash and investments are also subject to interest rate risk - the risk that movements in interest rates could affect returns.

Another risk associated with cash is credit risk – the risk that a contracting entity will not complete its obligations under a financial instrument resulting in a financial loss to the Shire.

The Shire manages these risks by diversifying its portfolio and only investing in investments authorised by *Local Government (Financial Management) Regulation 19C*. Council also seeks advice from independent advisers (where considered necessary) before placing any cash and investments.

	2017	2016
	\$	\$
Impact of a 10% ⁽¹⁾ movement in price of investments		
- Equity	500	500
- Statement of Comprehensive Income	500	500
Impact of a 1% ⁽¹⁾ movement in interest rates on cash		
- Equity	34,318	44,577
- Statement of Comprehensive Income	34,318	44,577

Notes:

⁽¹⁾ Sensitivity percentages based on management's expectation of future possible market movements.

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

36. FINANCIAL RISK MANAGEMENT (Continued)

(b) Receivables

The Shire's major receivables comprise rates and annual charges and user charges and fees. The major risk associated with these receivables is credit risk – the risk that the debts may not be repaid. The Shire manages this risk by monitoring outstanding debt and employing debt recovery policies. It also encourages ratepayers to pay rates by the due date through incentives.

Credit risk on rates and annual charges is minimised by the ability of the Shire to recover these debts as a secured charge over the land – that is, the land can be sold to recover the debt. The Shire is also able to charge interest on overdue rates and annual charges at higher than market rates, which further encourages payment.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

The Shire makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

There are no material receivables that have been subject to a re-negotiation of repayment terms.

The profile of the Shire's credit risk at balance date was:

	2017	2016
Percentage of rates and annual charges		
- Current	0%	0%
- Overdue	100%	100%
Percentage of other receivables		
- Current	93%	95%
- Overdue	7%	5%

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) Payables

Borrowings

Payables and borrowings are both subject to liquidity risk – that is the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due. The Shire manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer. Payment terms can be extended and overdraft facilities drawn upon if required.

The contractual undiscounted cash flows of the Shire's Payables and Borrowings are set out in the Liquidity Sensitivity Table below:

2017

Payables	148,721	0	0	148,721	148,721
Borrowings	213,114	639,342	2,554,859	3,407,315	2,529,202
	<u>361,835</u>	<u>639,342</u>	<u>2,554,859</u>	<u>3,556,036</u>	<u>2,677,923</u>

2016

Payables	408,755	0	0	408,755	408,755
Borrowings	307,841	1,231,365	2,815,337	4,354,543	3,082,868
	<u>716,596</u>	<u>1,231,365</u>	<u>2,815,337</u>	<u>4,763,298</u>	<u>3,491,623</u>

SHIRE OF PINGELLY
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2017

36. FINANCIAL RISK MANAGEMENT (Continued)

(c) Payables

Borrowings (continued)

Borrowings are also subject to interest rate risk - the risk that movements in interest rates could adversely affect funding costs. The Shire manages this risk by borrowing long term and fixing the interest rate to the situation considered the most advantageous at the time of negotiation.

The following tables set out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

	<1 year \$	>1<2 years \$	>2<3 years \$	>3<4 years \$	>4<5 years \$	>5 years \$	Total \$	Weighted Average Effective Interest Rate %
Year ended 30 June 2017								

Borrowings

Fixed rate								
Debentures	0	0	0	0	0	2,529,202	2,529,202	4.39%
Weighted average Effective interest rate						4.39%		

Year ended 30 June 2016

Borrowings

Fixed rate								
Debentures	0	0	0	0	0	3,082,868	3,082,868	4.43%
Weighted average Effective interest rate						4.43%		

**INDEPENDENT AUDITOR'S REPORT
TO THE ELECTORS OF THE SHIRE OF PINGELLY**

Opinion

We have audited the accompanying financial report of the Shire of Pingelly which comprises the statement of financial position as at 30 June 2017, the statement of comprehensive income, statement of changes in equity, the rate setting statement, and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, and the Chief Executive Officer's statement.

In our opinion, the accompanying financial report of the Shire of Pingelly:

- (i) gives a true and fair view, in all material respects, of the financial position of the Shire of Pingelly as at 30 June 2017, and of its financial performance and its cash flows for the year then ended;
- (ii) complies with Australian Accounting Standards; and
- (iii) is prepared in accordance with the requirements of the Local Government Act 1995 and the Local Government (Financial Management) Regulations 1996.

Report on Other Legal and Regulatory Requirements

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

- (i) There are no matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Shire of Pingelly;
- (ii) There are 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 noted during the course of our audit, with exception of the following:
 - a. The Shire was due to have a review completed by 31 December 2016 as required by the Local Government (Audit) Regulation 1996, however this timeframe was not met. We acknowledge this review is currently in progress as at the date of this report; and
 - b. In accordance with the requirements of Regulation 33 of the Local Government (Financial Management) Regulations, Council's annual budget is to be submitted to the Department of Local Government within 30 days after Council acceptance. The Shire's budget for 30 June 2017 was adopted by Council on 12 August 2016 however was not submitted to the Department until 28 September 2016.
- (iii) The asset consumption ratio and the asset renewal funding ratio included in the annual financial report are supported by verifiable information and reasonable assumptions;
- (iv) All necessary information and explanations were obtained by us; and
- (v) All audit procedures were satisfactorily completed during our audit.

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 company in accordance with the ethical requirements 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.

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

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

Council is responsible for overseeing the company'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 the financial report.

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

AMD Chartered Accountants



TIM PARTRIDGE
Partner

28-30 Wellington Street, Bunbury, Western Australia

Dated this 4th day of December 2017

**SHIRE OF PINGELLY
SUPPLEMENTARY RATIO INFORMATION
FOR THE YEAR ENDED 30TH JUNE 2017**

RATIO INFORMATION

The following information relates to those ratios which only require attestation they have been checked and are supported by verifiable information. It does not form part of the audited financial report.

	2017	2016	2015
Asset consumption ratio	0.71	0.62	0.99
Asset renewal funding ratio	0.75	0.77	0.89

The above ratios are calculated as follows:

Asset consumption ratio	$\frac{\text{depreciated replacement costs of assets}}{\text{current replacement cost of depreciable assets}}$
Asset renewal funding ratio	$\frac{\text{NPV of planning capital renewal over 10 years}}{\text{NPV of required capital expenditure over 10 years}}$

Attachment 2

10.2 Audit Management Letter

4 December 2017

Cr W V Mulroney
President
Shire of Pingelly
17 Queen Street
PINGELLY WA 6308

Dear Bill

**SHIRE OF PINGELLY
30 JUNE 2017 MANAGEMENT REPORT**

Following completion of our 30 June 2017 audit, we provide our Management Report and audit recommendations.

1. Our Audit Approach

The Australian Auditing Standards are the professional Standards applicable to all audit engagements. Accordingly, our audit was conducted in accordance with Australian Auditing Standards, with testing designed solely to enable the expression of an opinion on the financial report of the Shire of Pingelly. This involved us making an assessment of the risk of material misstatement, whether due to fraud or error, and then using our professional judgement, applying audit procedures to mitigate that risk.

To assist Council in understanding our role as external auditor, we have previously detailed our audit responsibilities and scope of work to be performed to meet those responsibilities in our audit engagement letter.

Australian Auditing Standards require us to document and evaluate the Shire of Pingelly's system of internal control to establish the level of reliance on the internal control system in determining the nature, timing and extent of other auditing procedures necessary to enable us to complete our audit. This work is not primarily directed towards the discovery of weaknesses or the detection of fraud or other irregularities and should not, therefore, be taken to assume that no other weaknesses exist. Accordingly the comments within this letter refer only to those matters that have come to our attention during the course of our normal audit work and may not identify all possible improvements that an internal controls review may detect.

Our audit approach is based on a risk analysis methodology which relies upon our understanding of the Shire of Pingelly's operations, strategies and risks. We performed a review of applicable accounting systems and tested those during our audit. The level of testing performed by us is determined by the degree of reliance we place on the internal control systems in place which has a resulting impact on the amount of substantive testing required during our audit procedures. The level of testing performed is also aligned with what is required to form an overall opinion on the financial statements which may not coincide with what the Shire of Pingelly perceives should be tested.

Our audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and judgements, as well as evaluating the overall presentation of the financial report. There were no areas of disagreement either in the accounting estimates or judgements or in the presentation and disclosures made in the financial report.

2. Assessment of Fraud and Error

The primary responsibility for the prevention and detection of fraud is that of the Council and management. As a result, it is important that management with the oversight of the Council place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and resulting consequences.

In accordance with Australian Auditing Standards we are required to obtain reasonable assurance that the financial report taken as a whole is free from material misstatement, whether caused by fraud or error. While our procedures are designed to identify material weaknesses and misstatements from fraud and error, there is an unavoidable risk that even some material misstatements may remain undiscovered. This unavoidable risk is due to the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system.

We have confirmed that nothing has come to management's attention that may constitute an incident of fraud. In addition our audit procedures did not identify any instances of suspected or actual fraud. We take this opportunity to remind you that our audit is not designed to detect fraud and therefore our audit procedures are not designed for that purpose.

3. Significant Difficulties Encountered during the Audit

During the course of our audit, there were no areas where we experienced significant difficulties.

4. Accounting Policies

We confirm to you that we are not aware of any changes to the accounting policies of the Shire of Pingelly since 30 June 2016 in respect of the preparation of the 30 June 2017 financial report other than those changes required under Australian Accounting Standards and the Local Government Act and Regulations which are adequately disclosed.

5. Commitments and Contingencies

On completion of our audit and subsequent discussions with management, we did not identify any additional commitments or contingencies that required disclosure within the financial report of the Shire of Pingelly, apart from those already disclosed.

6. Subsequent Events

We did not identify any additional subsequent events up until the date of this report that required disclosure within the financial report of the Shire of Pingelly, apart from those already disclosed.

7. Financial Ratio Performance Measures

A review of Council's financial ratios as included within Note 19 of the financial report indicates that four of the seven ratios were within the recommended guidelines provided by the Department of Local Government and Communities, with the exceptions noted below:

- The operating surplus ratio as at 30 June 2017 is calculated at -0.60 (recommended to between 0.01 and 0.15).
- The debt service ratio as at 30 June 2017 is calculated at 0.25 (a basic standard is achieved if the ratio is greater than or equal to 2, an advance standard is achieved if the ratio is greater than 5).
- The asset renewal funding ratio as at 30 June 2017 is calculated at 0.73 (recommended to be between 0.75 and 0.95).

We recommend Council continue to consider the impact on ratios and long term sustainability when making decisions regarding asset renewal, additional borrowings and setting rates for future years.

8. Local Government Act Compliance Measures

In conjunction with our review of the financial statements, we also perform a review of the Shire of Pingelly's compliance with the Local Government Act and Financial Management Regulations.

Our review of compliance with the Local Government Act and Financial Management Regulations did not identify any issues of non-compliance which required reporting, with exception of the following:

- a. The Shire was due to have a review completed by 31 December 2016 as required by Local Government (Audit) Regulations 1996, however this timeframe was not met. We have since been engaged to complete a Regulation 17 review for the Shire and our onsite review procedures commenced 20 November 2017; and
- b. In accordance with the requirements of Regulation 33 of the Local Government (Financial Management) Regulations, Council's annual budget is to be submitted to the Department of Local Government within 30 days after Council acceptance. The Shire's budget for 30 June 2017 was adopted by Council on 12 August 2016 however was not submitted to the Department until 28 September 2016.

9. Audit Recommendations

This management report is to be read in conjunction with our Interim management report dated 30 June 2017 which includes additional recommendations which we identified during our interim onsite audit visit which was conducted in May 2017.

Observations and enquiries of management during our final onsite audit visit which was conducted in October 2017 indicate the recommendations raised within our interim management report have been acknowledged by management and appropriate remedial action has been taken or is in progress.

Please refer to Appendix 1 for comments and recommendations arising from our 30 June 2017 audit. We provide these comments and recommendations to suggest improvements to the Shire of Pingelly's internal controls and procedures.

Our management report is on an exception basis, and therefore we have not commented on the various internal controls in place within your accounting systems.

10. Other Matters

We would like to take this opportunity to thank Stuart and the finance team for the assistance provided to us during our audit.

Should you have any questions concerning the above or would like to discuss any other aspect of our audit, please do not hesitate to contact me.

Yours sincerely

AMD Chartered Accountants



TIM PARTRIDGE FCA
Partner

APPENDIX 1
Audit Recommendations for the year ended 30 June 2017

GUIDANCE TO FINDINGS RATING / IMPLICATION

Findings identified during the final audit have been weighted in accordance with the following scale:

Significant: Those findings where there is potentially a significant risk to the entity should the finding not be addressed promptly.

Moderate: Those findings which are of sufficient concern to warrant action being taken by the entity as soon as possible.

Minor: Those findings that are not of primary concern however still warrant action being taken.

AUDIT FINDINGS

1. ANNUAL COMPLIANCE RETURN

Finding Rating: Moderate

We note Council's annual compliance return was not submitted to the Department of Local Government by 31 March 2017 as required by Regulation 15 of the Local Government (Audit) Regulations 1996 (submitted 4 April 2017).

Implication

Risk of non compliance with Regulation 15 of the Local Government (Audit) Regulations 1996.

Recommendation

We recommend Council's annual compliance return was not submitted to the Department of Local Government by 31 March 2017 as required by Regulation 15 of the Local Government (Audit) Regulations 1996.

Management Comment

Due to a Department of Local Government Portal logon issue being encountered, we were unable to submit the return by the due date.

APPENDIX 1
Audit Recommendations for the year ended 30 June 2017

2. ASSET MANAGEMENT PLAN

Finding Rating: Moderate

We noted the Shire's Asset Management Plan currently only includes projections for eight years to 2024/25 and therefore does not include data for the ten year projection of required renewal/ replacement expenditure used to calculate the asset renewal funding ratio. The asset renewal funding ratio has been calculated using an average of the available data.

Implication

Risk of material misstatement or omission within accounting records.

Recommendation

We recommend the Asset Management Plan is updated annually.

Management Comment

The Shire of Pingelly Asset Management Plan (AMP) is currently under review along with all other Integrated Planning & Reporting (IPR) documents that will be updated, adopted by Council and be in place by April 2018 as per the IPR cycle.

3. LOSS ON PRIVATE WORKS

Finding Rating: Minor

We noted a loss was made on private works of \$6,157 for the 2016/17 financial year, representing 20% of total private works expenditure. We understand the loss was due to the write-off of prior year private works debtors.

Implication

Risk of under allocation of private works.

Recommendation

We recommend private works charge out rates and allocations be regularly reviewed and adjusted accordingly throughout the year to ensure private works expenditure is recovered.

Management Comment

Several debtors were written off by Council on 21 June 2017, resolution 12216 totaling \$10,035. NB: SynergySoft raises 'write off' sundry debtor journal (debit) back to Income account (credit) it was originally raised in, causing balances raised in the year to be reduced by \$10,035 in this case private works Income reduced \$8,180.

Deliver WA	\$7,665
Mark Ramon Edwards	\$ 375
Mark Ramon Edwards	<u>\$ 140</u>
Total	<u>\$8,180</u>

If this write off figure was excluded from Private works Income account, it is in fact in profit by \$2,023.

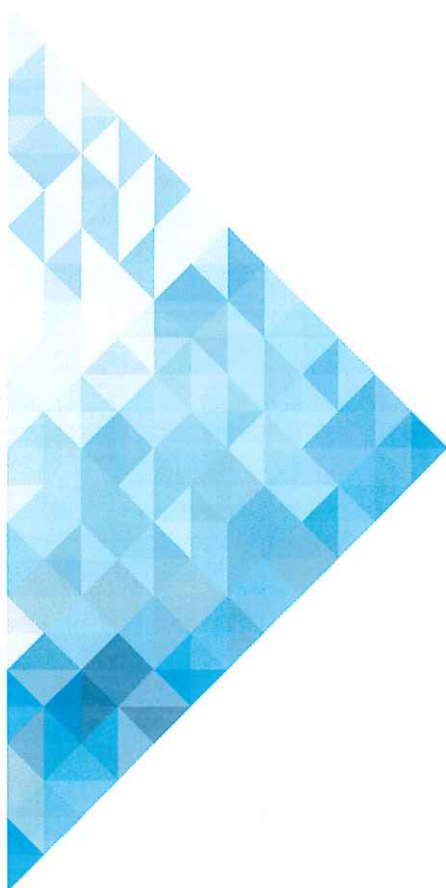


Government of **Western Australia**
Department of **Local Government and Communities**

Local Government Operational Guidelines

Number 18 – June 2013

Financial Ratios



1. Introduction

This guideline is intended to provide a clear explanation of each ratio required to be included in the annual financial report under section 6.4(2) of the *Local Government Act 1995* and Regulation 50 of the *Local Government (Financial Management) Regulations 1996*.

An explanation of the purpose of each ratio is included to ensure staff and elected members are able to interpret what the ratio result means for the local government.

Definitions are included to fully describe what is meant by the terms used in the ratios.

2. Purpose

The guideline is designed to assist local government officers in preparing financial ratios, and provide elected members and officers with an understanding of each ratio.

Financial ratios are designed to provide users of annual financial reports with a clearer interpretation of the performance and financial results of a local government and a comparison of trends over a number of years.

On occasions, there have been inconsistencies in the calculation and interpretation of financial ratios. If information is to be meaningful, it should be prepared accurately and consistently. Ratios may be disclosed as a percentage or a factor of one.

These indicators provide a short term measure of the financial sustainability of local governments and complement the national criteria endorsed by the Local Government and Planning Ministers' Council. They provide for a comprehensive

tool for monitoring the financial sustainability of local governments.

3. Legislation

Financial ratios are included in the notes to the annual financial report. These ratios provide users with key indicators of the financial performance of a local government and include comparisons with two prior years.

Under regulation 50 of the *Local Government (Financial Management) Regulations 1996*, the annual financial report is to include, for the financial year covered by the annual financial report and the two preceding financial years, the following:

- a) current ratio;
- b) asset consumption ratio;
- c) asset renewal funding ratio;
- d) asset sustainability ratio;
- e) debt service cover ratio;
- f) operating surplus ratio; and
- g) own source revenue coverage ratio.

As several of the ratios are to be reported for the first time in the 2012/13 financial year, local governments are expected to make reasonable efforts to calculate the ratios for the two prior years. However comparatives for 2010/11 and 2011/12 are not required for the assets consumption ratio or asset renewal funding ratio.

This guideline analyses each of these ratios according to the information they provide. The ratios are classified under the following headings:

- (i) liquidity ratio;
- (ii) debt ratio;
- (iii) coverage ratio;
- (iv) financial performance ratio; and
- (v) asset management ratios.

4. Ratios

4.1 Liquidity Ratio

Liquidity refers to how quickly and cheaply an asset can be converted into cash. A local government's liquidity is measured by the 'Current Ratio'. This ratio provides information on the ability

of a local government to meet its short-term financial obligations out of unrestricted current assets. The calculation of this ratio is explained as follows:

Current Ratio	
Current Ratio =	$\frac{(\text{Current Assets MINUS Restricted Assets})}{(\text{Current Liabilities MINUS Liabilities Associated with Restricted Assets})}$
Purpose:	This is a modified commercial ratio designed to focus on the liquidity position of a local government that has arisen from past year's transactions.
Standards	<p>The standard is not met if the ratio is lower than 1:1 (less than 100%)</p> <p>The standard is met if the ratio is greater than 1:1 (100% or greater)</p> <p>A ratio less than 1:1 means that a local government does not have sufficient assets that can be quickly converted into cash to meet its immediate cash commitments. This may arise from a budget deficit from the past year, a Council decision to operate an overdraft or a decision to fund leave entitlements from next year's revenues.</p>
Definitions:	
'Current Assets'	Means the total current assets as shown in the balance sheet.
'Current Liabilities'	Means the total current liabilities as shown in the balance sheet.
'Restricted Asset'	Means an asset the use of which is restricted, wholly or partly, by a law made or a requirement imposed outside of the control of the local government, where the restriction is relevant to assessing the performance, financial position or financing and investment of the local government. This includes all section 6.11 cash reserves as these are restricted by the Act '... by a law made ...', unspent specific grants and other restricted cash identified by the local government, as these are restricted by '... a requirement imposed outside of the control of the local government ...'
'Liabilities Associated with Restricted Assets'	<p>Means the lesser value of a current liability or the cash component of restricted assets held to fund that liability. Commonly this is the cash reserve for long service leave, annual leave and other employee entitlements. Ideally the cash reserve amount should be the same as the provision amount but this is rarely the case.</p> <ul style="list-style-type: none"> • Only make a deduction if there is a cash reserve. • If the cash reserve is greater than the provision amount, only deduct the amount of the provision. • If the provision amount is greater than the cash reserve, only deduct the amount of the cash reserve. • If the cash reserve is for the purpose of long service leave (or other specific leave) then only adjust for that specific leave provision and not the total of all leave provisions.

4.2 Debt Ratio

A local government's ability to service debt is measured by the 'Debt Service Cover Ratio'. This is the measurement of a local government's ability to produce enough cash to cover its debt payments.

Debt Service Cover Ratio	
Debt Service Cover Ratio =	$\frac{\text{Annual Operating Surplus BEFORE Interest and Depreciation}}{\text{Principal and Interest}}$
Purpose:	This ratio is the measurement of a local government's ability to repay its debt including lease payments. The higher the ratio is, the easier it is for a local government to obtain a loan.
Standards	A Basic standard is achieved if the ratio is greater than or equal to two. An Advanced standard is achieved if the ratio is greater than five.
Definitions:	
'Annual Operating Surplus Before Interest and Depreciation'	Means operating revenue minus net operating expense.
'Operating Revenue'	Means the revenue that is operating revenue for the purposes of the AAS, excluding grants and contributions for the development or acquisition of assets.
'Net Operating Expense'	Means operating expense excluding interest and depreciation.
'Interest'	Means interest expense for moneys borrowed, credit obtained or financial accommodation arranged under section 6.20 of the Act.
'Depreciation'	Has the meaning given in the AAS.
'Principal and Interest'	Means all principal and interest for moneys borrowed, credit obtained or financial accommodation arranged under section 6.20 of the Act.

4.3 Coverage Ratio

A local government's ability to cover its costs through its own taxing and revenue efforts is measured by the 'Own Source Revenue Coverage Ratio'.

Own Source Revenue Coverage Ratio	
Own Source Revenue Coverage Ratio =	$\frac{\text{Own Source Operating Revenue}}{\text{Operating Expense}}$
Purpose:	<p>This ratio is the measurement of a local government's ability to cover its costs through its own revenue efforts.</p> <p>Different standards have been established to recognise the varying revenue raising capacities across the sector, where some rural and remote local governments have limited rate bases and revenue raising capacity, whereas others such as major metropolitan and regional local governments have significant rate bases and other own source revenues.</p>
Standards	<p>A Basic standard is achieved if the ratio is between 40% and 60% (or 0.4 and 0.6).</p> <p>An Intermediate standard is achieved if the ratio is between 60% and 90% (or 0.6 and 0.9).</p> <p>An Advanced standard is achieved if the ratio is greater than 90% (or > 0.9).</p>
Definitions:	
'Own Source Operating Revenue'	Means revenue from rates and service charges, fees and user charges, reimbursements and recoveries *, interest income and profit on disposal of assets.
'Operating Expense'	Means the expense that is operating expense for the purposes of the AAS.

***Note:** Typically local governments disclose, in their annual financial statements, a nature or type classification described as 'Reimbursements and Recoveries, Contributions and Donations' (or similar). In order to calculate the value of own source revenue, it is essential that reimbursements and recoveries are disclosed separately from contributions and donations. This can be by way of note.

4.4 Financial Performance Ratio

A key indicator of a local government's financial performance is measured by the 'Operating Surplus Ratio'. If a local government consistently achieves a positive operating surplus ratio and has soundly based long term financial plans showing that it can continue to do so in future, having regard to asset management and the community's service level needs, then it is considered financially sustainable.

A positive ratio indicates the percentage of total own source revenue available to help fund proposed capital expenditure, transfer to cash reserves or to reduce debt.

A negative ratio indicates the percentage increase in total own source revenue (principally rates) that would have been required to achieve a break-even operating result.

Operating Surplus Ratio	
Operating Surplus Ratio =	$\frac{(\text{Operating Revenue MINUS Operating Expense})}{\text{Own Source Operating Revenue}}$
Purpose:	This ratio is a measure of a local government's ability to cover its operational costs and have revenues available for capital funding or other purposes.
Standards:	Basic Standard between 1 % and 15% (0.01 and 0.15) Advanced Standard > 15% (>0.15).
Definitions:	
'Operating Revenue'	Means the revenue that is operating revenue for the purposes of the AAS, excluding grants and contributions for the development or acquisition of assets.
'Operating Expense'	Means the expense that is operating expense for the purposes of the AAS.
'Own Source Operating Revenue'	Means revenue from rates and service charges, fees and user charges, reimbursements and recoveries *, interest income and profit on disposal of assets.

*Note: Typically local governments disclose in their annual financial statements, a nature or type classification described as 'Reimbursements and Recoveries, Contributions and Donations' (or similar). In order to calculate the value of own source revenue, it is essential that reimbursements and recoveries are disclosed separately from contributions and donations. This can be by way of note.

4.5 Asset Consumption Ratio

This ratio seeks to highlight the aged condition of a local government's stock of physical assets.

If a local government is responsibly maintaining and renewing / replacing its assets in accordance with a well prepared

asset management plan, then the fact that its Asset Consumption Ratio may be relatively low and/or declining should not be cause for concern – providing it is operating sustainably.

Asset Consumption Ratio	
Asset Consumption Ratio=	$\frac{\text{Depreciated Replacement Cost of Depreciable Assets}}{\text{Current Replacement Cost of Depreciable Assets}}$
Purpose:	This ratio measures the extent to which depreciable assets have been consumed by comparing their written down value to their replacement cost.
Standards:	Standard is met if the ratio can be measured and is 50% or greater (0.50 or >). Standard is improving if the ratio is between 60% and 75% (0.60 and 0.75).
Definitions:	
'Depreciated Replacement Cost of Assets'	Has the meaning given in the AAS. AASB 136 paragraph Aus 6.2 defines depreciated replacement cost as '... the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.'
'Current Replacement Cost'	In AASB 136 paragraph Aus 32.2 'The current replacement cost of an asset is its cost measured by reference to the lowest cost at which the gross future economic benefits of that asset could currently be obtained in the normal course of business.' In addition, AASB 13 paragraph B8 provides 'The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).' More detailed explanation is included in AASB 13 paragraph B9.
'Current Replacement Cost of Depreciable Assets'	Means the cost of replacing assets at current prices.

Note that the values for depreciated replacement cost of depreciable assets and the current replacement cost of depreciable assets are not amounts disclosed in the annual financial statements and the calculations involved should be discussed with auditors.

4.6 Asset Sustainability Ratio

This ratio is an approximation of the extent to which assets managed by a local government are being replaced as these reach the end of their useful lives. It is calculated by measuring capital expenditure on **renewal** or **replacement** of assets, relative to depreciation expense. Expenditure on new or additional assets is excluded.

Depreciation expense represents an estimate of the extent to which the assets have been consumed during that period. Measuring assets at fair value is critical to the calculation of a valid depreciation expense value.

Asset Sustainability Ratio	
Asset Sustainability Ratio =	$\frac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation}}$
Purpose:	This ratio indicates whether a local government is replacing or renewing existing non-financial assets at the same rate that its overall asset stock is wearing out.
Standards:	Standard is met if the ratio can be measured and is 90% (or 0.90) Standard is improving if this ratio is between 90% and 110% (or 0.90 and 1.10).
Definitions:	
'Capital Renewal and Replacement Expenditure'	Means expenditure to renew or replace existing assets. In other words, it is expenditure on an existing asset to return the service potential or the life of the asset up to that which it had originally. It is periodically required expenditure. As it reinstates existing service potential it may reduce operating and maintenance costs.
'Depreciation'	Has the meaning given in the AAS. Under AASB 116 paragraph 6, 'Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.' In other words, depreciation represents the allocation of the value of an asset (its cost less its residual value) over its estimated useful life to the local government. Depreciation expense can be sourced from the audited annual financial report.
'Depreciable Amount'	Under AASB 116 paragraph 6, 'Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.'
'Residual Value'	Under AASB 116 paragraph 6, 'The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.'
'Useful Life'	Under AASB 116 paragraph 6, 'Useful life is: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.'

4.7 Asset Renewal Funding Ratio

This ratio indicates whether the local government has the financial capacity to fund asset renewal as required, and can continue to provide existing levels of services in future, without additional operating income; or reductions in operating expenses.

The ratio is calculated from information included in the local government's Long Term Financial Plan and Asset Management Plan; **not** the Annual Financial Report. For the ratio to be meaningful, a consistent discount rate should generally be applied in Net Present Value (NPV) calculations.

Asset Renewal Funding Ratio	
Asset Renewal Funding Ratio =	$\frac{\text{NPV of Planned Capital Renewals over 10 years}}{\text{NPV of Required Capital Expenditure over 10 years}}$
Purpose:	This ratio is a measure of the ability of a local government to fund its projected asset renewal / replacements in the future.
Standards:	Standard is met if the ratio is between 75% and 95% (or 0.75 and 0.95). Standard is improving if the ratio is between 95% and 105% (or 0.95 and 1.05), and the ASR falls within the range 90% to 110%, and ACR falls within the range 50% to 75%.
Definitions:	
'NPV'	Means Net Present Value.
'Planned Capital Renewals'	Means capital renewal and replacement expenditure as estimated in the long-term financial plan.
'NPV of Planned Capital Renewals' is therefore	The total of all capital expenditures on renewals and replacement included in the 10-year long term financial plan, expressed in current year values.
'Required Capital Expenditure'	Means capital renewal and replacement expenditure as estimated in the asset management plan.
'NPV of Required Capital Expenditure' is therefore	The total of all required capital expenditures on renewals in the 10-year forecast period as indicated in the asset management plans or asset forecasts, expressed in current year values.

5. Ratio Calculations

Detailed calculations of each of the seven ratios are included in this section. The calculations are based on the extracts of financial information from annual financial statements or long-term and asset management plans included at section six (6) of this guideline.

Ratio Calculations are for the year 200Y				
a) Current Ratio		$\frac{(\text{Current Assets MINUS Restricted Assets})}{(\text{Current Liabilities MINUS Liabilities Associated with Restricted Assets})}$		
	$= \frac{\begin{array}{cc} \text{[1]} & \text{[2]} \\ (8,156,143 - 6,728,955) & \\ \text{[3]} & \text{[4]} \\ (2,033,690 - 644,160) & \end{array}}{\quad}$		$= \frac{1,427,188}{1,389,530}$	$= \mathbf{1.03:1}$ $\mathbf{(or\ 103\%)}$
[Numbers taken from statement of financial position and cash and cash equivalents note]				

b) Debt Service Cover Ratio		$\frac{\text{Annual Operating Surplus BEFORE Interest and Depreciation}}{\text{Principal and Interest}}$		
	$= \frac{\begin{array}{cccc} \text{[5]} & \text{[6]} & \text{[7]} & \text{[8]} \\ (20,707,319 + 44,048) - ((21,365,583 + 50,000 \\ + 98,325) - (6,907,407 + 96,257)) & & & \\ \text{[9]} & \text{[10]} & \text{[11]} & \\ (70,597 + 96,257) & & & \\ \text{[12]} & \text{[11]} & & \end{array}}{\quad}$		$= \frac{6,241,123}{166,854}$	$= \mathbf{37.4}$
[Numbers taken from statement of comprehensive income by nature or type and rate setting statement]				

c) Own Source Revenue Coverage Ratio		$\frac{\text{Own Source Operating Revenue}}{\text{Operating Expense}}$		
	$= \frac{\begin{array}{ccccc} \text{[13]} & \text{[14]} & \text{[15]} & \text{[16]} & \text{[6]} \\ (8,165,843 + 4,999,717 + 498,964 + 55,200 + 44,048) & & & & \\ \text{[7]} & \text{[9]} & \text{[8]} & & \end{array}}{\quad}$		$= \frac{13,763,772}{21,513,908}$	$= \mathbf{0.64}$ $\mathbf{(or\ 64\%)}$
[Numbers drawn from statement of comprehensive income by nature or type]				

Ratio Calculations are for the year 200Y

d) Operating Surplus Ratio

$$\frac{(\text{Operating Revenue MINUS Operating Expense})}{\text{Own Source Operating Revenue}}$$

$$= \frac{\frac{[(5) \quad (6) \quad (17)]}{((20,707,319+44,048)-(21,513,908))}}{13,763,772 \quad (18)} = \frac{-762,541}{13,763,772} = \frac{-5.5\%}{(\text{or } -0.055)}$$

[Numbers drawn from statement of comprehensive income by nature or type and Own Source Operating Revenue same as in c) above]

e) Asset Consumption Ratio

$$\frac{\text{Depreciated Replacement Cost of Depreciable Assets}}{\text{Current Replacement Cost of Depreciable Assets}}$$

$$= \frac{\frac{[(19) \quad (20)]}{(18,847,904+183,226,214)}}{(29,284,194+283,543,863) \quad (21) \quad (22)} = \frac{202,074,118}{312,828,057} = \frac{64.6\%}{(\text{or } 0.646)}$$

[Numbers drawn from notes 7a. and 8a.]

f) Asset Sustainability Ratio

$$\frac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation Expense}}$$

$$= \frac{\frac{[(23) \quad (24) \quad (25) \quad (26)]}{660,185^*+2,031,457+46,798+2,976,240}}{6,907,407 \quad (10)} = \frac{5,714,680}{6,907,407} = \frac{82.7\%}{(\text{or } 0.827)}$$

*Note: while described as land and building in the rate setting statement, for the purpose of this example the expenditure is assumed to all relate to buildings.

[Numbers drawn from rate setting statement]

g) Asset Renewal Funding Ratio

$$\frac{\text{NPV of Planned Capital Renewals over 10 years}}{\text{NPV of Required Capital Expenditure over 10 years}}$$

$$\begin{array}{l} \text{NPV Planned from LTF Plan} \\ \text{NRV Required from AM Plan} \end{array} = \frac{\frac{[27]}{67,398}}{73,099 \quad (28)} = \frac{92.2\%}{(\text{or } 0.922)}$$

[Numbers drawn from Long Term Financial Plan (planned renewals) and Asset Management Plan (required renewals)]

6. Extracts of Financial Information from which ratios are calculated

6.1 Annual Financial Statements Extracts

Statement Of Financial Position For The Year Ended 30 June 201Y			
	NOTE	Current Actual \$	Prior Actual \$
Current Assets			
Cash and Cash Equivalents	3	6,781,850	6,005,704
Investments	4	190,000	0
Trade and Other Receivables		527,980	594,914
Inventories		656,313	590,852
Total Current Assets		8,156,143 (1)	7,191,470
Non-Current Assets			
Receivables		475,355	461,669
Inventories		2,878,873	2,000,000
Property, Plant and Equipment		31,578,071	31,445,812
Infrastructure		183,226,214 (20)	181,334,195
Total Non-Current Assets		218,158,483	215,241,676
Total Assets		226,314,626	222,433,146
Current Liabilities			
Trade and Other Payables		1,126,295	893,304
Long Term Borrowings		83,612	64,886
Provisions	11	823,783	924,356
Total Current Liabilities		2,033,690 (3)	1,882,546
Non-Current Liabilities			
Long Term Borrowings		2,358,215	419,894
Provisions	11	459,277	648,258
Total Non-Current Liabilities		2,817,492	1,068,152
Total Liabilities		4,851,182	2,950,698
Net Assets		221,463,444	219,482,448
Equity			
Retained Surplus		113,817,172	112,717,798
Reserves - Cash/Investment Backed	12	5,162,318	3,530,196
Reserves - Asset Revaluation		102,483,954	103,234,454
Total Equity		221,463,444	219,482,448

Statement Of Comprehensive Income By Nature Or Type For The Period Ended 30 June 201Y					
	NOTE	201Y Actual \$	201Y Budget \$	201X Actual \$	
Revenue					
Rates	24	8,165,843 (13)	8,074,469	7,633,920	
Operating Grants, Subsidies and Contributions	30	6,987,595	5,548,348	5,609,425	
Fees and Charges	29	4,999,717 (14)	4,253,486	4,165,652	
Service Charges	26	0	0	0	
Interest Earnings	2(a)	498,964 (15)	385,100	413,708	
Other Revenue		55,200 (16)	27,304	30,435	
		20,707,319 (5)	18,288,707	17,853,140	
Expenses					
Employee Costs		(8,896,802)	(8,772,958)	(7,826,475)	
Materials and Contracts		(4,120,422)	(3,926,230)	(3,064,784)	
Utilities		(443,972)	(435,600)	(404,245)	
Depreciation	2(a)	(6,907,407) (10)	(7,100,000)	(7,435,789)	
Interest Expenses	2(a)	(96,257) (11)	(399,441)	(37,753)	
Insurance		(336,390)	(333,163)	(326,578)	
Other Expenditure		(564,333)	(828,951)	(512,377)	
		(21,365,583) (7)	(21,796,343)	(19,608,001)	
		(658,264)	(3,507,636)	(1,754,861)	
Non-Operating Grants, Subsidies and Contributions	30	3,494,037	5,856,328	4,933,510	
Fair Value Adjustments to financial assets at fair value through profit and loss	2(a)	(50,000) (8)	0	0	
Profit on Asset Disposals	21	44,048 (6)	2,333,736	96,518	
Loss on Asset Disposal	21	(98,325) (9)	(49,155)	(43,985)	
		3,389,760	8,140,909	4,986,043	
Net Result		2,731,496	4,633,273	3,231,182	
Other Comprehensive Income					
Changes on revaluation of non-current assets	13	(750,500)	0	0	
Total Other Comprehensive Income		(750,500)	0	0	
Total Comprehensive Income		1,980,996	4,633,273	3,231,182	

Rate Setting Statement For The Period Ended 30 June 201Y				
	NOTE	201Y Actual \$	201Y Budget \$	201X Actual \$
Revenue				
Governance		108,566	93,221	81,376
General Purpose Funding (Excl Rates)		4,104,679	3,970,416	3,855,332
Law, Order, Public Safety		686,829	556,802	864,126
Health		262,378	176,240	175,879
Education and Welfare		1,660,935	1,416,806	1,291,279
Housing		520	600	460
Community Amenities		1,688,168	1,803,650	1,324,894
Recreation and Culture		1,328,903	2,171,562	1,403,700
Transport		4,783,531	3,960,367	5,365,366
Economic Services		503,702	387,060	385,897
Other Property and Services		1,000,611	3,916,478	499,839
		16,128,822	18,453,202	15,248,148
Expenses				
Governance		(826,169)	(908,185)	(763,010)
General Purpose Funding		(171,816)	(158,077)	(154,898)
Law, Order, Public Safety		(1,137,630)	(1,349,794)	(928,250)
Health		(356,604)	(331,717)	(296,011)
Education and Welfare		(1,743,528)	(1,682,025)	(1,495,536)
Housing		(1,657)	(1,500)	(1,432)
Community Amenities		(2,859,238)	(3,057,906)	(2,755,017)
Recreation and Culture		(4,259,938)	(4,243,523)	(3,800,603)
Transport		(8,641,626)	(8,380,666)	(8,156,823)
Economic Services		(616,182)	(598,183)	(469,186)
Other Property and Services		(899,520)	(1,133,922)	(831,220)
		(21,513,908)	(21,845,498)	(19,651,986)
Net Result Excluding Rates		(5,385,086)	(3,392,296)	(4,403,838)
Adjustments for Cash Budget Requirements:				
Non-Cash Expenditure and Revenue				
(Profit)/Loss on Asset Disposals	21	54,277	(2,284,581)	(52,533)
Movements in Assets/Liabilities		2,077	0	104,502
Depreciation on Assets	2(a)	6,907,407	7,100,000	7,435,789
Net Non-Cash Expenditure/Revenue		6,963,761	4,815,419	7,487,758

Rate Setting Statement For The Period Ended 30 June 201Y				
	NOTE	201Y Actual \$	201Y Budget \$	201X Actual \$
Capital Expenditure/Revenue				
Purchase of Land Held for Resale		(2,056,759)	(4,076,189)	(702,227)
Purchase Land and Buildings	20	(660,185)	(23) (1,787,479)	(957,226)
Purchase Plant and Equipment	20	(2,031,457)	(24) (2,686,903)	(2,165,913)
Purchase Furniture and Equipment	20	(46,798)	(25) 0	0
Infrastructure Assets	20	(2,976,240)	(26) (3,704,824)	(6,319,171)
Infrastructure Assets – New		(3,710,100)	(7,500,000)	0
Repayment of Debentures	23(a)	(70,597)	(12) (70,597)	(68,526)
Proceeds from Disposal of Assets	21	759,429	5,904,712	655,232
Proceeds from New Debentures	23	2,027,644	2,188,452	350,000
SS Loan Principal Income	23	24,393	24,393	48,098
Transfers to Reserves	12	(3,376,061)	(1,478,584)	(2,952,482)
Transfers from Reserves	12	1,743,939	2,447,854	1,883,320
ADD Surplus/(Deficit) July 1 B/F	24(b)	1,841,049	1,290,473	1,351,004
LESS Surplus/(Deficit) June 30 C/F	24(b)	1,163,514	0	1,841,049
Amount Required to be Raised from Rates	24(a)	(8,116,582)	(8,025,569)	(7,635,020)

3 Cash And Cash Equivalents			
	NOTE	201Y \$	201X \$
Cash - Unrestricted Muni		52,895	850,416
Cash - Restricted		6,728,955 (2)	5,155,288
	14(a)	6,781,850	6,005,704
The following restrictions have been imposed by regulations or other externally imposed requirements:			
Land Purchase and Development Reserve	12	941,906	434,375
Plant Reserve	12	1,175,544	806,956
Building Reserve	12	1,777,669	1,224,785
Sanitation Services Reserve	12	623,039	406,750
Employee Entitlements	12	644,160 (4)	657,330
Total Reserves		5,162,318	3,530,196
Unspent Grants	2(d)	1,566,637	1,625,092
Total Unspent Grants and Loans		1,566,637	1,625,092
Total Restricted Cash		6,728,955	5,155,288

7a	Property, Plant and Equipment (PP&E)	
	201Y \$	201X \$
Land – Fair Value	12,730,167	12,457,362
Less Accumulated Depreciation	0	0
	<u>12,730,167</u>	<u>12,457,362</u>
Buildings – Fair Value	15,081,793	14,694,413
Less Accumulated Depreciation	(3,746,056)	(3,379,285)
	<u>11,335,737</u>	<u>11,315,128</u>
Furniture and Equipment – Fair Value	895,174	1,426,495
Less Accumulated Depreciation	(638,235)	(1,115,109)
	<u>256,939</u>	<u>311,386</u>
Plant and Equipment – Fair Value	2,865,445	2,814,165
Less Accumulated Depreciation	(2,123,703)	(1,950,728)
	<u>741,742</u>	<u>863,437</u>
Plant and Equipment Under Lease	2,270,110	2,037,911
Less Accumulated Depreciation	(595,703)	(401,210)
	<u>1,674,407</u>	<u>1,636,701</u>
Road Construction Plant – Fair Value	8,171,672	7,920,130
Less Accumulated Amortisation	(3,332,593)	(3,058,332)
	<u>4,839,079</u>	<u>4,861,798</u>
Depreciated Cost of PP&E at Fair Value	<u>31,578,071</u>	<u>31,445,812</u>
Current Replacement Cost of		
Depreciated PP&E at Fair Value	29,284,194 (21)	28,893,114
Less Accumulated Depreciation	(10,436,290)	(9,904,664)
Depreciated Replacement Cost of		
Depreciated PP&E at Fair Value	18,847,904 (19)	18,988,450
Land (Non-Depreciable)	12,730,167	12,457,362
Depreciated Cost of PP&E at Fair Value	<u>31,578,071</u>	<u>31,445,812</u>

8a	Infrastructure	201Y \$	201X \$
Roads – Fair Value		260,058,298	253,772,740
Less Accumulated Depreciation		(88,538,837)	(83,677,423)
		171,519,461	170,095,317
Drainage – Fair Value		2,832,873	2,711,180
Less Accumulated Depreciation		(1,044,492)	(976,459)
		1,788,381	1,734,721
Bridges – Fair Value		861,642	811,414
Less Accumulated Depreciation		(285,302)	(244,299)
		576,340	567,115
Footpaths and Cycleways – Fair Value		4,701,608	4,305,552
Less Accumulated Depreciation		(1,352,095)	(1,207,616)
		3,349,513	3,097,936
Parks and Gardens – Fair Value		6,518,991	6,258,991
Less Accumulated Depreciation		(5,009,798)	(4,696,849)
		1,509,193	1,562,142
Airports – Fair Value		2,398,359	2,178,649
Less Accumulated Depreciation		(483,853)	(422,827)
		1,914,506	1,755,822
Sewerage – Fair Value		4,576,113	4,506,113
Less Accumulated Depreciation		(3,388,338)	(3,275,685)
		1,187,775	1,230,428
Other – Fair Value		1,595,979	1,461,034
Less Accumulated Depreciation		(214,934)	(170,320)
		1,381,045	1,290,714
		183,226,214	181,334,195
Current Replacement Cost of Infrastructure at Fair Value		283,543,863	276,005,673
Less Accumulated Depreciation		(100,317,649)	(94,671,478)
Depreciated Replacement Cost of Infrastructure		183,226,214	181,334,195

11	Provisions	
	201Y \$	201X \$
Current		
Provision for Annual Leave	668,540	756,421
Provision for Long Service Leave	155,243	167,935
	823,783	924,356
Non-Current		
Provision for Long Service Leave	459,277	648,258
	459,277	648,258

12f	Reserves – Cash/Investment Backed	
	201Y \$	201X \$
Employee Entitlements		
Purpose: To be used to fund Annual and Long Service Leave		
Opening Balance	657,330	427,366
Amount Set Aside / Transfer to Reserve	171,082	260,529
Amount Used / Transfer from Reserve	(184,252)	(30,565)
	644,160	657,330

6.2 Long-term Financial Plan and Asset Management Plan Extracts

Renewals / Upgrades	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Long Term Financial Plan										
Buildings	570	600	700	750	800	850	1,500	1,500	1,500	1,500
Motor Vehicles	182	200	215	220	250	235	260	270	270	280
Plant and Equipment	885	385	290	930	790	390	1,045	790	545	1,050
Infrastructure Roads	7,184	6,359	6,728	7,100	4,744	5,084	5,426	5,772	6,119	6,221
Infrastructure Other	1,235	250	350	400	750	750	800	800	850	850
Total Planned Renewals	10,056	7,794	8,283	9,400	7,334	7,309	9,031	9,132	9,284	9,901
Asset Management Plan										
Buildings	600	650	750	800	850	875	1,700	1,700	1,800	1,800
Motor Vehicles	182	200	215	220	250	235	260	270	270	280
Plant and Equipment	885	385	290	930	790	390	1,045	790	545	1,050
Infrastructure Roads	7,500	7,700	7,900	8,000	5,200	5,400	5,700	6,000	6,400	6,500
Infrastructure Other	1,250	250	380	420	800	800	850	850	900	900
Total Required Renewals	10,417	9,185	9,535	10,370	7,890	7,700	9,555	9,610	9,915	10,530

Discount Rate = 0.05

NPV Planned Renewals 67,398 (27)

NPV Required Renewals 73,099 (28)

Ratio = 67,398/73,099 92.2%

These guidelines are also available on the Department's website at www.dlgc.wa.gov.au



About the Guideline series

This document and others in the series are intended as a guide to good practice and should not be taken as a compliance requirement. The content is based on Department officer knowledge, understanding, observation of, and appropriate consultation on contemporary good practice in local government. Guidelines may also involve the Department's views on the intent and interpretation of relevant legislation.

All guidelines are subject to review, amendment and re-publishing as required. Therefore, comments on any aspect of the guideline are welcome. Advice of methods of improvement in the area of the guideline topic that can be reported to other local governments will be especially beneficial.



For more information about this and other guidelines, contact the Local Government Regulation and Support Branch at:

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Attachment 3

10.3 Draft Audit Committee - Terms of Reference



SHIRE OF PINGELLY AUDIT COMMITTEE TERMS OF REFERENCE

Objectives of Audit Committees

The primary objective of the audit committee is to accept responsibility for the annual external audit and liaise with the local government's auditor so that Council can be satisfied with the performance of the local government in managing its financial affairs.

Reports from the committee will assist Council in discharging its legislative responsibilities of controlling the local government's affairs, determining the local government's policies and overseeing the allocation of the local government's finances and resources. The committee will ensure openness in the local government's financial reporting and will liaise with the CEO to ensure the effective and efficient management of the local government's financial accounting systems and compliance with legislation.

The committee is to facilitate –

- the enhancement of the credibility and objectivity of *internal and external financial reporting;
- effective management of financial and other risks and the protection of Council assets;
- compliance with laws and regulations as well as use of best practice guidelines relative to auditing; and
- the provision of an effective means of communication between the external auditor, the CEO and the Council.

Powers of the Audit Committee

The committee is a formally appointed committee of council and is responsible to that body. The committee does not have executive powers or authority to implement actions in areas over which the CEO has legislative responsibility and does not have any delegated financial responsibility. The committee does not have any management functions and cannot involve itself in management processes or procedures.

The committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its term of reference. This is in order to facilitate informed decision-making by Council in relation to the legislative functions and duties of the local government that have not been delegated to the CEO.

Membership

The committee will consist of all elected members. All members shall have full voting rights.

The CEO and employees are not members of the committee.

The CEO or his/her nominee is to attend all meetings to provide advice and guidance to the committee.

The local government shall provide secretarial and administrative support to the committee.

Meetings

The committee shall meet at least twice a year.

Additional meetings shall be convened at the discretion of the presiding person.

Reporting

Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council.

Duties and Responsibilities

The duties and responsibilities of the committee will be –

- a) Provide guidance and assistance to Council as to the carrying out the functions of the local government in relation to audits;
- b) Develop and recommend to Council an appropriate process for the selection and appointment of a person as the local government's auditor;
- c) Develop and recommend to Council –
 - a list of those matters to be audited; and
 - the scope of the audit to be undertaken;
- d) Recommend to Council the person or persons to be appointed as auditor;
- e) Develop and recommend to Council a written agreement for the appointment of the auditor. The agreement is to include –
 - the objectives of the audit;
 - the scope of the audit;
 - a plan of the audit;
 - details of the remuneration and expenses to be paid to the auditor; and
 - the method to be used by the local government to communicate with, and supply information to, the auditor;
- f) Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions;
- g) Liaise with the CEO to ensure that the local government does everything in its power to –
 - assist the auditor to conduct the audit and carry out his or her other duties under the *Local Government Act 1995*; and
 - ensure that audits are conducted successfully and expeditiously;
- h) Examine the reports of the auditor after receiving a report from the CEO on the matters and –
 - determine if any matters raised require action to be taken by the local government; and
 - ensure that appropriate action is taken in respect of those matters;
- i) Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and presenting the report to Council for adoption prior to the end of the next financial year or 6 months after the last report prepared by the auditor is received, whichever is the latest in time;
- j) Review the scope of the audit plan and program and its effectiveness;
- k) Review the local government's draft annual financial report, focusing on –
 - accounting policies and practices;

- changes to accounting policies and practices;
 - the process used in making significant accounting estimates;
 - significant adjustments to the financial report (if any) arising from the audit process;
 - compliance with accounting standards and other reporting requirements; and
 - significant variances from prior years;
- l) Address issues brought to the attention of the committee, including responding to requests from Council for advice that are within the parameters of the committee's terms of reference;
- m) Seek information or obtain expert advice through the CEO on matters of concern within the scope of the committee's terms of reference following authorisation from the Council; and
- n) Review the Statutory Compliance Return and make a recommendation on its adoption to Council.

Internal Audit

Many local governments have recognised the need to improve their internal auditing processes, and have moved to either employ an internal auditor or contract out the internal audit function.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of an internal audit would be determined by the Audit committee, with input from the CEO, based on the size of the local government's internal operations and the level of compliance to be achieved. The role differs from that of the external auditor who is appointed by council on the recommendation of the Audit Committee, to report independently to it, through the mayor/president and the CEO, on the annual financial statements. The external auditor's primary role is to decide whether the annual financial statements of a local government are free of material misstatement.

There are certain functions of the internal audit that complement the external auditor's role. As the external auditor plans for an effective audit they need to assess and determine whether to include the scope, procedures and outcomes of the internal audit. The CEO must refer all internal audit reports to the Audit Committee for consideration.

An internal auditor's activities should typically include the following:

- (a) review of the internal control structure, monitoring the operations of the information system and internal controls and providing recommendations for improvements;
- (b) a risk assessment with the intention of minimising exposure to all forms of risk on the local government;
- (c) examination of financial and operating information that includes detailed testing of transactions, balances and procedures;
- (d) a review of the efficiency and effectiveness of operations and services including non-financial controls of a local government;
- (e) a review of compliance with management policies and directives and any other internal requirements;
- (f) review of the annual Compliance Audit Return;

- (g) assist in the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance; and
- (h) specific tasks requested by management.

For local government, the internal auditor should report functionally to the audit committee and administratively to the CEO. It should be remembered that pursuant to section 5.41 of the Act, the CEO is responsible for the day-to-day management of council activities including the direction of staff and implicitly the internal audit function. The CEO may choose to delegate this responsibility provided always that the delegation does not directly or indirectly interfere with the ability of the Internal Auditor to conduct an internal audit function free from interference.

A clear and properly defined reporting relationship ensures that the internal auditor is empowered to perform their role working with management. The direct reporting line to the audit committee also acts as an adequate safeguard in the event of a serious breakdown in internal controls or internal control culture at senior levels in the organisation.

While it is recognised that smaller councils may not be able to justify a full-time internal auditor, a small size of operation does not justify forgoing internal audit altogether. If audit committee or management is of the view that the employment of an independent internal auditor either full-time or part-time is not warranted, it may request the council to have the internal audit function undertaken as necessary by an external contractor, or expand the role of its external auditor.

The external auditor or his or her professional company should only undertake internal audit functions that complement the external audit and do not cloud the objectivity and independence of the external audit. An external auditor must not audit information prepared by them or their accounting practice, as this is considered incompatible with the standard of independence.

Local governments that do not establish an internal audit process but require a review of the financial management systems and procedures, may decide to use the services of the external auditor for that purpose. Such reviews are to be undertaken every four years in accordance with regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.

The review of financial management systems and procedures provides the external auditor with greater assurance of systems and procedures used to prepare the annual financial statements, and whether they provide information free of material misstatement.