

STATEMENT ADDRESSING THE REPORTED SIGNIFICANT ADVERSE TREND TO THE OPERATING SURPLUS RATIO OF THE SHIRE OF HARVEY FOR THE YEAR ENDING 30 JUNE 2020.

Background / Comment

The *Local Government Amendment (Auditing) Act 2017* introduced a number of reforms to auditing requirements. The legislation necessitates local governments examine an audit report it receives and implements appropriate action in respect to any significant matters raised.

The Auditor General's Independent Audit Report for the Shire of Harvey 2019-2020 Annual Financial Report identified a significant adverse trend in the financial position of the Shire (**see below**). Specifically, that the Operating Surplus Ratio has been below the Department of Local Government, Sport and Cultural Industries standard for the past two years.

An excerpt of the Independent Audit's Report from the Office of Auditor General includes.

Report on the Audit of the Financial Report

In my opinion the annual financial report of the Shire of Harvey:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2020 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

- (i) In my opinion, the following material matter indicates a significant adverse trend in the financial position of the Shire:
 - a. The Operating Surplus Ratio as reported in Note 36 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard of zero for the past 2 financial years.
- (ii) All required information and explanations were obtained by me.
- (iii) All audit procedures were satisfactorily completed.
- (iv) In my opinion, the Asset Consumption Ratio and the Asset Renewal Funding Ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

The Operating Surplus Ratio = (Operating Revenue minus Operating Expense) divided by Own Source Operating Revenue.

This ratio is a measure of a local governments' ability to cover its operational costs and have revenues available for capital funding or other purposes. The Department has determined that a ratio below 0.01 (1%) is below the standard required. The Operating Surplus Ratio for the Shire of Harvey for the year ending 2019 – 2020 was (0.16) or -16%.

Management's Comments and Actions

The Department of Local Government, Sport and Cultural Industries reviews and provides a comparison of all Western Australian local government Annual Financial Reports. This information is provided to the public via the MyCouncil website and identifies that from 2014-2015 to 2017-2018 the Shire of Harvey rated in the top 20 local governments for its overall financial health.

In 2018-2019, the Shire's Independent Auditor highlighted that following a review of Shire infrastructure assets, the Shire had overstated depreciation expense, which resulted in a less than favorable Operating Surplus Ratio result for that year.

In 2019-2020 the Shire was required to bring to account a non-cash provision for the rehabilitation of the Richardson Road Refuse Site. This \$4.2 million provision, which is supported by a cash backed Refuse Reserve, resulted in operating expenses being greater than operating revenue which in turn resulted in a lower than normal Operating Surplus Ratio.

On the 15 December, 2020 the Shire Audit Committee met and reviewed the Independent Audit Report including the cause of the reported significant adverse trend. It is anticipated that going forward, operating revenue will be higher than operating expenses which will result in a positive Operating Surplus Ratio. As such no further action is required.



Dean Winter
Director Corporate Services