

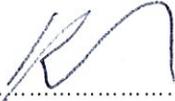


MINUTES
AUDIT ADVISORY COMMITTEE MEETING
11 December 2019

The Chief Executive Officer recommends the endorsement of these minutes at the next Audit Committee Meeting of Council.

Signed:  Date 12 December 2019

These minutes were confirmed at the Audit Committee Meeting held on 11 February 2020.

Signed: 
(Presiding Person at the meeting at which minutes were confirmed)

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AUDIT ADVISORY COMMITTEE MEETING 11 DECEMBER 2019

1. OFFICIAL OPENING/ANNOUNCEMENT OF VISITORS

The Presiding Member, President Ballard, declared the meeting open at 5:06 pm.

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

Committee Members (Voting)

Mr L Ballard – Shire President (Presiding Member)

Cr S Lushey

Cr M Fisher

Cr G Broad

Cr C Bartron

Cr J Early

Cr B Seale

Cr G Ballard (arrived at 6.00 pm)

Office of the Auditor General

Mr M Ambrose – Senior Director – Office of Auditor General

Mr K Sathasivam – Senior Auditor, Financial Audit – Office of Auditor General

Staff

Mr D Stewart – Chief Executive Officer

Mr F Ludovico – Executive Manager Corporate & Community Services

Mr T Evans – Executive Manager Technical & Rural Services

Mr A Awang – Executive Manager Development & Regulatory Services

Mrs K Oborn – Manager Finance.

Apologies

Cr T Wiese – Deputy Shire President

Mr K Ng – Assistant Director Financial Audit – Office of Auditor General

3. ELECTION OF CHAIRPERSON

The members of a committee are to elect a presiding member from amongst themselves in accordance with Schedule 2.3 of the Local Government Act 1995 (S5.12 Local Government Act 1995).

COMMITTEE RESOLUTION

Moved: Cr Fisher Seconded: Cr Early

That Leigh Ballard be elected as presiding member of the Audit Advisory Committee

CARRIED 7/0

4. DECLARATION OF INTEREST BY ELECTED MEMBERS AND COUNCIL EMPLOYEES IN MATTERS INCLUDED IN THE MEETING AGENDA

Nil

5. CONFIRMATION OF MINUTES OF PREVIOUS MEETINGS

OFFICER'S RECOMMENDATION AND COMMITTEE'S RESOLUTION

Moved: Cr Fisher Seconded: Cr Bartron

That the minutes of the Audit Committee Meeting held on 27 March 2019 be confirmed as an accurate record of the proceedings.

CARRIED 7/0

6. ANNOUNCEMENTS BY THE PERSON PRESIDING WITHOUT DISCUSSION

Nil

7. MATTERS WHICH REQUIRE DECISIONS

5.35 pm – Mr M Ambrose – Senior Director – Office of Auditor General and Mr K Sathasivam – Senior Auditor, Financial Audit – Office of Auditor General, joined the meeting by telephone.

6:00 pm – Cr G Ballard arrived.

7.1. ADOPTION OF 2018/19 ANNUAL FINANCIAL REPORT

File Reference	12.2.1, 4.2.6
Disclosure of Interest	Neither the Author nor Authorising Officer have any Impartiality, Financial or Proximity Interest that requires disclosure.
Applicant	Shire of Narrogin
Previous Item Numbers	Nil
Date	4 December 2019
Author	Frank Ludovico – Executive Manager Corporate and Community Services
Authorising Officer	Dale Stewart – Chief Executive Officer
Attachments	
1. Shire of Narrogin 2018/19 Annual Financial Report and Independent Audit Report	
2. Letter from the Office of the Auditor General	
3. Management Letter/Interim Audit Report	

Summary

The Office of the Auditor General (OAG) conducted the Annual Financial Audit for 2018/19 during October 2019.

This item discusses the outcomes of that audit.

Note: A representative from the OAG Mr Kevin Ng (Assistant Director – Financial Audit) will be participating in this item via teleconference.

Background

The Office of Auditor General conducted Council's Audit with an onsite audit on 14-25 October 2019 with the official signing off for the audit taking place on 28 November 2019.

Comment

The Independent Audit Report express the opinion that the Annual Financial report for the Shire of Narrogin is based on proper accounts and records and fairly represents the results of the operations for the Shire of Narrogin for the year ended 30 June 2019.

It is pleasing to note the Audit Report does not contain any qualification.

The OAG did raise areas for improvement in their Management Letter/Interim Audit Report and Independent Audit Report.

Management Letter/Interim Audit Report

The Management Letter/Interim Audit Report contain a number of control matters raise by the OAG and the administration's response to those matters. These were not able to be brought to Council's attention until the annual audit was finalised. Since that report, certain matters have changed and an additional notation has been added to appropriate sections.

Independent Audit Report

The Independent Audit Report raises two matters in respect to other legal and regulatory requirements, the adverse trend of the Operating Surplus Ratio and accounting journals not reviewed by a second employee.

In respect to ratios, an extract of Note 30 of the 2018/19 Annual Financial Statements is detailed below:

These ratios have been compared to the advisory standard contained in the Department of Local Government, Sporting and Cultural Industries (DLGSCI) Integrated Planning and Reporting Framework and Guidelines September 2016.

Note: DLGSCI also has another publication dealing with ratios, Local Government Guideline Number 18 Financial - Ratios – June 2013. The more modern guideline was used in the following analysis.

27.	FINANCIAL RATIOS	Standard	2019	2018	2017
	Current ratio	Achieved	3.32	5.15	3.53
	Asset consumption ratio	Improving	0.98	0.99	0.98
	Asset renewal funding ratio	Not Achieved	0.65	0.69	-
	Asset sustainability ratio	Not Achieved	.77	1.21	1.13
	Debt service cover ratio	Advanced	14.09	9.93	(3.21)
	Operating surplus ratio	Not Achieved	(.19)	(0.01)	(0.52)
	Own source revenue coverage ratio	Achieved	0.5	0.54	0.43

The Asset renewal funding ratio measures the ability of a local government to fund its projected asset renewal/replacements in the future. To meet the standard the ratio must be between 0.75 and 0.95. Continued improvements to asset management processes will enable us to work towards meeting the standard.

The Asset sustainability ratio measures the extent to which assets are being replaced as they reach the end of their useful lives. To meet the standard, the ratio needs to be higher than 0.9. Once again, continued improvements to asset management processes will enable us to work towards meeting the standard.

The Operating surplus ratio measures the local government's ability to cover its operational costs and have revenues available for capital funding or other purposes. To meet the standard the ratio must be between 0.0 and 0.15. The ratio excludes income from grants and highlights that most rural local governments require government grant support to provide services to their residents.

WANDRRA funding can impact the operating ratios, as significant expenses are incurred, well in advance of MRDWA approving claims. These must occur before the Shire can raise an invoice and / or account for the revenue from MRDWA, as a reimbursement to the Shire. As the timing of expenditure and revenues are not always aligned and, in this case, occur over two financial years, the operating ratios can be distorted.

In respect to the second matter - accounting journals not reviewed by a second employee, the OAG comment is that the non-performance of this activity indicates non-compliance with Part 6 of the Local Government Act 1995 (LGA). Part 6 of the LGA deals with the Financial Management of local governments.

The opinion of staff is that it is best practice to have an accounting journal reviewed by a second officer (this was noted in the Management Letter/Interim Audit Report item 2 and is now occurring) however, it does not constitute non-compliance with the LGA or associated regulations.

Staff have researched this matter and not been able to find in the LGA or associated regulations the statement that "accounting journals must be reviewed by a second officer". So, whilst this is technical point, the Shire cannot be non-compliant to the LGA and associated regulations because none of those documents state we must have "accounting journals reviewed by a second officer".

When challenged on this matter, the OAG refer to Regulation 5 of the Local Government (Financial Management) Regulations 1996 (FM Reg). This regulation states the CEO is to establish efficient systems and procedures in a local government for all manner of financial activities. Once again, a technical point, but Regulations 5 does not mandate "accounting journals reviewed by a second officer". If there is no specific mention of "accounting journals reviewed by a second officer" then, the Shire cannot be non-compliant to the LGA and associated regulations.

When the OAG was again challenged on this, they referred to auditing standard ASA 240 "The Auditors Responsibilities relating to fraud in an Audit of a Financial Report" where there is a reference to recording of inappropriate or unauthorised journal entries. Again, and it's a technicality, we may not have complied with the auditing standard but the Shire cannot be non-compliant to the LGA and associated regulations.

Regulation 5A FM Reg does indicate a local government must comply with the "AAS" and AAS is defined as the Australian Accounting Standards, made and amended from time to time by the Australian Accounting Standards Board. Once again, a technical difference.

Why are staff taking such an awkward stand? The matter is about the autonomy of local government Chief Executive Officers being able to determine the reasonable, proper and efficient controls, for the relevant organisation and the role of the OAG to recommend to local governments via the Audit Committee / Management, better practice vs non-compliance (breaches).

In smaller local governments, where the CEO often creates journals particularly at year end, does this mean they need the Shire President to review journals? Does that mean the Audit Committee is to be convened to review journals? What about the operational and strategic separation between officers and Council?

Staff reiterate that accounting journals are being reviewed by a second officer as this is good practice and has implemented this practice, however citing non-compliance to the LGA and associated regulations is, in officers' professional opinion, not correct.

The Annual Financial Report and Audit Report will now be incorporated into the Annual Report, which must be accepted by the local government by 31 December 2019. This document will be included in the Agenda for the Council Meeting of 18 December 2019.

Consultation

- Dale Stewart – Chief Executive Officer
- Karen Oborn – Manager Finance
- Kevin Ng Assistant Director – Financial Audit OAG

Statutory Environment

Section 6.4 Local Government Act 1995 Financial report

Section 5.54 Local Government Act 1995 Acceptance of Annual Reports

Regulation 36 Local Government (Financial Management) Regulations 1996 - Annual financial report, content of (Act s.6.4(2))

Policy Implications

There are no policy implications on this matter.

Financial Implications

The financial implications are detailed in the report under comment about ratios.

Strategic Implications

Shire of Narrogin Strategic Community Plan 2017-2027	
Objective:	4. Civic Leadership Objective (Continually enhance the Shire's organisational capacity to service the needs of a growing community)
Outcome:	4.1 An efficient and effective organisation
Strategy:	4.1.1 Continually improve operational efficiencies and provide effective services
Strategy:	4.1.2 Continue to enhance communication and transparency

Voting Requirements

Simple Majority

6:08 pm – Mr M Ambrose and Mr K Sathasivam left the meeting.

OFFICERS' RECOMMENDATION & COMMITTEE'S RESOLUTION

Moved: Cr Seale Seconded: Cr Broad

That with respect to 2018/19 Annual Report the Audit Committee:

1. Recommend to Council to accept the Annual Financial Report and Audit Report for the 2018/19 year; and
2. Note the implementation schedule of items discussed in the Management Letter and Interim Audit Report.

CARRIED 8/0

8. CLOSURE OF MEETING

There being no further business to discuss, the Presiding Member declared the meeting closed at 6:13 pm.

SHIRE OF NARROGIN
FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019

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COMMUNITY VISION

"A leading regional economic driver and a socially interactive and inclusive community"

Principal place of business:
89 Earl Street
Narrogin
WA 6390

**SHIRE OF NARROGIN
FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019**

*Local Government Act 1995
Local Government (Financial Management) Regulations 1996*

STATEMENT BY CHIEF EXECUTIVE OFFICER

The attached financial report of the Shire of Narrogin for the financial year ended 30 June 2019 is based on proper accounts and records to present fairly the financial position of the Shire of Narrogin at 30 June 2019 and the results of the operations for the financial year then ended in accordance with the Local Government Act 1995 and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

Signed on the 25 day of November 2019



Chief Executive Officer

Dale Stewart

Name of Chief Executive Officer



SHIRE OF NARROGIN
 STATEMENT OF COMPREHENSIVE INCOME
 BY NATURE OR TYPE
 FOR THE YEAR ENDED 30TH JUNE 2019

	NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
Revenue				
Rates	21(a)	4,838,905	4,780,240	4,645,781
Operating grants, subsidies and contributions	2(a)	4,013,897	3,334,682	4,915,104
Fees and charges	2(a)	1,706,542	1,648,033	1,744,031
Interest earnings	2(a)	250,026	177,100	219,007
Other revenue	2(a)	1,467,106	140,155	730,101
		<u>12,276,476</u>	<u>10,080,210</u>	<u>12,254,024</u>
Expenses				
Employee costs		(5,468,209)	(5,631,002)	(5,100,775)
Materials and contracts		(3,093,318)	(3,766,178)	(3,150,878)
Utility charges		(690,899)	(669,066)	(633,737)
Depreciation on non-current assets	10(b)	(3,631,766)	(2,508,848)	(2,721,917)
Interest expenses	2(b)	(41,325)	(41,325)	(53,609)
Insurance expenses		(260,371)	(250,411)	(251,493)
Other expenditure		(208,086)	(224,388)	(373,956)
		<u>(13,393,974)</u>	<u>(13,091,218)</u>	<u>(12,286,365)</u>
		(1,117,498)	(3,011,008)	(32,341)
Non-operating grants, subsidies and contributions	2(a)	809,023	846,982	2,133,477
Profit on asset disposals	10(a)	14,394	14,305	45,183
(Loss) on asset disposals	10(a)	(159,646)	(138,058)	(68,291)
		<u>663,771</u>	<u>723,229</u>	<u>2,110,369</u>
Net result for the period		(453,727)	(2,287,779)	2,078,028
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in asset revaluation surplus	11	(55,384)	0	16,599,666
Total other comprehensive income for the period		(55,384)	0	16,599,666
Total comprehensive income for the period		(509,111)	(2,287,779)	18,677,694

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



SHIRE OF NARROGIN
STATEMENT OF COMPREHENSIVE INCOME
BY PROGRAM
FOR THE YEAR ENDED 30TH JUNE 2019

	NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
Revenue				
	2(a)			
Governance		3,581	5,100	49,518
General purpose funding		7,472,292	6,073,827	7,162,111
Law, order, public safety		266,478	52,070	55,983
Health		53,404	11,500	10,920
Education and welfare		1,462,390	1,503,752	1,480,096
Housing		8,668	11,700	9,834
Community amenities		1,080,228	1,058,504	1,268,396
Recreation and culture		194,321	98,854	151,433
Transport		1,275,677	915,496	1,586,139
Economic services		275,187	258,407	314,910
Other property and services		184,250	91,000	164,684
		<u>12,276,476</u>	<u>10,080,210</u>	<u>12,254,024</u>
Expenses				
	2(b)			
Governance		(574,450)	(660,911)	(565,145)
General purpose funding		(274,816)	(277,815)	(186,911)
Law, order, public safety		(526,304)	(616,412)	(488,953)
Health		(256,031)	(270,696)	(208,193)
Education and welfare		(1,505,695)	(1,790,640)	(1,536,667)
Housing		(32,068)	(34,294)	(30,762)
Community amenities		(1,404,043)	(1,498,653)	(1,384,781)
Recreation and culture		(3,131,606)	(2,870,879)	(2,339,745)
Transport		(4,609,520)	(4,340,358)	(4,710,877)
Economic services		(823,228)	(653,803)	(679,511)
Other property and services		(214,988)	(35,432)	(101,211)
		<u>(13,352,649)</u>	<u>(13,049,893)</u>	<u>(12,232,756)</u>
Finance Costs				
	2(b)			
Governance		(12,396)	(12,396)	(16,146)
Recreation and culture		(22,203)	(22,203)	(27,398)
Transport		(90)	(90)	(2,279)
Economic services		(6,636)	(6,636)	(7,786)
		<u>(41,325)</u>	<u>(41,325)</u>	<u>(53,609)</u>
		<u>(1,117,498)</u>	<u>(3,011,008)</u>	<u>(32,341)</u>
Non-operating grants, subsidies and contributions	2(a)	809,023	846,982	2,133,477
Profit on disposal of assets	10(a)	14,394	14,305	45,183
(Loss) on disposal of assets	10(a)	(159,646)	(138,058)	(68,291)
		<u>663,771</u>	<u>723,229</u>	<u>2,110,369</u>
		<u>(453,727)</u>	<u>(2,287,779)</u>	<u>2,078,028</u>
Net result for the period				
Other comprehensive Income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in asset revaluation surplus	11	(55,384)	0	16,599,666
		<u>(55,384)</u>	<u>0</u>	<u>16,599,666</u>
Total other comprehensive income for the period		<u>(55,384)</u>	<u>0</u>	<u>16,599,666</u>
Total comprehensive income for the period		<u>(509,111)</u>	<u>(2,287,779)</u>	<u>18,677,694</u>

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



SHIRE OF NARROGIN
STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2019

	NOTE	2019 \$	2018 \$
CURRENT ASSETS			
Cash and cash equivalents	3	7,906,681	6,976,077
Trade receivables	5	1,085,183	1,477,639
Inventories	6	7,310	7,280
TOTAL CURRENT ASSETS		8,999,174	8,460,996
NON-CURRENT ASSETS			
Trade receivables	5	186,915	160,318
Financial assets at fair value through other comprehensive income	7(b)	105,103	0
Inventories	6	0	177,273
Property, plant and equipment	8	57,798,156	57,801,337
Infrastructure	9	113,800,220	114,284,720
TOTAL NON-CURRENT ASSETS		171,890,394	172,423,648
TOTAL ASSETS		180,889,568	180,884,644
CURRENT LIABILITIES			
Trade and other payables	12	611,006	536,823
Borrowings	13(a)	166,658	129,778
Employee related provisions	14	549,544	596,310
TOTAL CURRENT LIABILITIES		1,327,208	1,262,911
NON-CURRENT LIABILITIES			
Borrowings	13(a)	975,569	792,226
Employee related provisions	14	288,947	22,552
TOTAL NON-CURRENT LIABILITIES		1,264,516	814,778
TOTAL LIABILITIES		2,591,724	2,077,689
NET ASSETS		178,297,844	178,806,955
EQUITY			
Retained surplus		50,369,084	51,097,591
Reserves - cash backed	4	4,229,579	3,954,799
Revaluation surplus	11	123,699,181	123,754,565
TOTAL EQUITY		178,297,844	178,806,955

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



SHIRE OF NARROGIN
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30TH JUNE 2019

	NOTE	RETAINED SURPLUS	RESERVES CASH BACKED	REVALUATION SURPLUS	TOTAL EQUITY
		\$	\$	\$	\$
Balance as at 1 July 2017		49,200,100	3,774,262	107,154,899	160,129,261
Comprehensive income					
Net result for the period		2,078,028	0	0	2,078,028
Other comprehensive income	11	0	0	16,599,666	16,599,666
Total comprehensive income		2,078,028	0	16,599,666	18,677,694
Transfers from/(to) reserves		(180,537)	180,537	0	0
Balance as at 30 June 2018		51,097,591	3,954,799	123,754,565	178,806,955
Comprehensive income					
Net result for the period		(453,727)	0	0	(453,727)
Other comprehensive income	11	0	0	(55,384)	(55,384)
Total comprehensive income		(453,727)	0	(55,384)	(509,111)
Transfers from/(to) reserves		(274,780)	274,780	0	0
Balance as at 30 June 2019		50,369,084	4,229,579	123,699,181	178,297,844

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

SHIRE OF NARROGIN
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2019.

	NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Rates		4,744,950	4,830,240	4,628,429
Operating grants, subsidies and contributions		4,485,096	4,134,682	4,026,247
Fees and charges		1,706,542	1,648,033	1,744,031
Interest received		250,026	177,100	219,007
Goods and services tax received		658,672	0	728,663
Other revenue		1,467,106	140,155	728,959
		<u>13,312,392</u>	<u>10,930,210</u>	<u>12,075,336</u>
Payments				
Employee costs		(5,252,205)	(5,631,002)	(5,321,241)
Materials and contracts		(3,034,142)	(3,739,178)	(3,002,257)
Utility charges		(690,899)	(669,066)	(633,737)
Interest expenses		(41,325)	(41,325)	(51,651)
Insurance paid		(260,371)	(250,411)	(251,493)
Goods and services tax paid		(670,057)	0	(723,562)
Other expenditure		(208,086)	(224,388)	(373,956)
		<u>(10,157,085)</u>	<u>(10,555,370)</u>	<u>(10,357,897)</u>
Net cash provided by (used in) operating activities	15	<u>3,155,307</u>	<u>374,840</u>	<u>1,717,439</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for purchase of property, plant & equipment		(1,942,848)	(2,809,584)	(2,218,342)
Payments for construction of infrastructure		(1,934,464)	(2,379,347)	(1,892,950)
Non-operating grants, subsidies and contributions		809,023	846,982	2,133,477
Proceeds from sale of property, plant & equipment		604,761	742,571	481,898
Net cash provided by (used in) investment activities		<u>(2,463,528)</u>	<u>(3,599,378)</u>	<u>(1,495,917)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of borrowings		(129,777)	(129,978)	(220,293)
Proceeds from new borrowings		350,000	350,000	0
Net cash provided by (used in) financing activities		<u>220,223</u>	<u>220,022</u>	<u>(220,293)</u>
Net increase (decrease) in cash held		912,002	(3,004,516)	1,229
Cash at beginning of year		6,976,077	7,056,233	6,974,848
Cash from Trust Account		18,602		
Cash and cash equivalents at the end of the year	15	<u>7,906,681</u>	<u>4,051,717</u>	<u>6,976,077</u>

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

SHIRE OF NARROGIN
RATE SETTING STATEMENT
FOR THE YEAR ENDED 30TH JUNE 2019

	NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
OPERATING ACTIVITIES				
Net current assets at start of financial year - surplus/(deficit)	22 (b)	3,760,640	3,686,158	2,930,415
		3,760,640	3,686,158	2,930,415
Revenue from operating activities (excluding rates)				
Governance		3,581	5,100	49,518
General purpose funding		2,677,951	1,293,587	2,531,832
Law, order, public safety		266,478	52,070	55,983
Health		53,404	11,500	10,920
Education and welfare		1,464,072	1,505,434	1,480,096
Housing		8,668	11,700	9,834
Community amenities		1,082,425	1,058,504	1,268,569
Recreation and culture		194,321	98,854	151,433
Transport		1,285,192	924,095	1,630,187
Economic services		275,187	258,407	314,910
Other property and services		185,250	95,024	165,646
		7,496,529	5,314,275	7,668,928
Expenditure from operating activities				
Governance		(586,846)	(673,307)	(581,291)
General purpose funding		(274,816)	(277,815)	(186,911)
Law, order, public safety		(531,446)	(621,664)	(501,506)
Health		(256,031)	(270,696)	(208,193)
Education and welfare		(1,530,966)	(1,808,377)	(1,542,117)
Housing		(32,068)	(34,294)	(30,762)
Community amenities		(1,406,963)	(1,501,758)	(1,389,163)
Recreation and culture		(3,220,874)	(2,893,082)	(2,367,143)
Transport		(4,653,351)	(4,440,066)	(4,753,770)
Economic services		(829,864)	(660,439)	(687,297)
Other property and services		(230,395)	(47,778)	(106,503)
		(13,553,620)	(13,229,276)	(12,354,656)
Non-cash amounts excluded from operating activities	22(a)	4,141,376	2,632,601	2,782,421
Amount attributable to operating activities		1,844,925	(1,596,242)	1,027,108
INVESTING ACTIVITIES				
Non-operating grants, subsidies and contributions		809,023	846,982	2,133,477
Proceeds from disposal of assets	10(a)	604,761	742,571	481,898
Purchase of property, plant and equipment	8(a)	(1,942,848)	(2,809,584)	(2,218,342)
Purchase and construction of infrastructure	9(a)	(1,934,464)	(2,379,347)	(1,892,950)
Amount attributable to investing activities		(2,463,528)	(3,599,378)	(1,495,917)
FINANCING ACTIVITIES				
Repayment of borrowings	13(b)	(129,777)	(129,978)	(220,293)
Proceeds from borrowings	13(c)	350,000	350,000	0
Transfers to reserves (restricted assets)	4	(1,509,148)	(838,009)	(1,374,503)
Transfers from reserves (restricted assets)	4	1,234,368	1,033,367	1,193,966
Amount attributable to financing activities		(54,557)	415,380	(400,830)
Surplus/(deficit) before imposition of general rates		(673,160)	(4,780,240)	(869,639)
Total amount raised from general rates	21	4,794,341	4,780,240	4,630,279
Surplus/(deficit) after imposition of general rates	22(b)	4,121,181	0	3,760,640

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

1. 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) and Interpretations of the Australian Accounting Standards Board, and the *Local Government Act 1995* and accompanying regulations.

The *Local Government (Financial Management) Regulations 1996* take precedence over Australian Accounting Standards. Regulation 16 prohibits a local government from recognising as assets Crown land that is a public thoroughfare, such as land under roads, and land not owned by but under the control or management of the local government, unless it is a golf course, showground, racecourse or recreational facility of State or regional significance. Consequently, some assets, including land under roads acquired on or after 1 July 2008, have not been recognised in this financial report. This is not in accordance with the requirements of *AASB 1051 Land Under Roads paragraph 15* and *AASB 116 Property, Plant and Equipment paragraph 7*.

Accounting policies which have been adopted in the preparation of this financial report 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 affect 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 24 to these financial statements.

SHIRE OF NARROGIN
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30TH JUNE 2019

2. REVENUE AND EXPENSES

(a) Revenue

Grant Revenue

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

	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
Operating grants, subsidies and contributions			
Governance	0	5,000	18,552
General purpose funding	2,283,260	1,078,932	2,222,523
Law, order, public safety	222,768	23,670	13,058
Education and welfare	1,288,563	1,302,034	1,299,228
Community amenities	0	3,000	0
Recreation and culture	50,504	78,954	92,387
Transport	138,802	787,992	1,269,356
Economic services	0	14,100	0
Other property and services	30,000	41,000	0
	<u>4,013,897</u>	<u>3,334,682</u>	<u>4,915,104</u>
Non-operating grants, subsidies and contributions			
Law, order, public safety	0	0	884,503
Education and welfare	18,000	0	26,443
Recreation and culture	3,000	50,000	274,460
Transport	788,023	796,982	948,071
	<u>809,023</u>	<u>846,982</u>	<u>2,133,477</u>
Total grants, subsidies and contributions	<u>4,822,920</u>	<u>4,181,664</u>	<u>7,048,581</u>

SIGNIFICANT ACCOUNTING POLICIES

Grants, donations and other contributions

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

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

Grants, donations and other contributions (Continued)

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 20. 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.

SHIRE OF NARROGIN
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30TH JUNE 2019

2. REVENUE AND EXPENSES (Continued)

(a) Revenue (Continued)	2019 Actual \$	2019 Budget \$	2018 Actual \$
Significant revenue			
Financial Assistance Grant - General	1,683,856	784,445	1,638,868
Financial Assistance Grant - Roads	599,404	254,487	583,655
Other Road Funding	1,935,490	1,637,564	2,393,368
	<u>4,218,750</u>	<u>2,676,496</u>	<u>4,615,891</u>
Other revenue			
Reimbursement Income - Operating (WANDRRA Funding)	1,013,775	0	1,566,053
Other	453,331	140,155	730,101
	<u>1,467,106</u>	<u>140,155</u>	<u>2,296,154</u>
Fees and Charges			
Governance	2,157	100	99
General purpose funding	45,964	30,100	40,525
Law, order, public safety	36,622	23,400	37,879
Health	29,938	11,500	9,637
Education and welfare	163,868	199,518	175,529
Housing	8,568	11,700	9,834
Community amenities	1,080,228	1,055,504	1,110,911
Recreation and culture	23,061	19,900	23,066
Transport	350	2,504	0
Economic services	257,808	243,807	289,016
Other property and services	57,978	50,000	47,535
	<u>1,706,542</u>	<u>1,648,033</u>	<u>1,744,031</u>
There were no changes during the year to the amount of the fees or charges detailed in the original budget.			
Interest earnings			
Reserve accounts interest	90,699	70,000	75,738
Rates instalment and penalty interest (refer Note 20(b))	66,256	53,000	63,009
Other interest earnings	93,071	54,100	80,260
	<u>250,026</u>	<u>177,100</u>	<u>219,007</u>

SIGNIFICANT ACCOUNTING POLICIES

Interest earnings

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest earnings (Continued)

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes

SHIRE OF NARROGIN
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30TH JUNE 2019

2. REVENUE AND EXPENSES (Continued)

(b) Expenses	2019 Actual \$	2019 Budget \$	2018 Actual \$
Significant expense			
Road Construction Projects	1,557,958	1,742,644	1,260,319
Road Maintenance- WANDRRA	900,540	713,390	1,566,052
Street Upgrades & Museum Carpark	616,329	616,329	0
	<u>3,074,827</u>	<u>3,072,363</u>	<u>2,826,371</u>
Auditors remuneration			
- Audit of the Annual Financial Report	38,760	41,575	21,216
- Other services	1,000	800	800
	<u>39,760</u>	<u>42,375</u>	<u>22,016</u>
Interest expenses (finance costs)			
Borrowings (refer Note 13(b))	41,325	41,325	53,609
	<u>41,325</u>	<u>41,325</u>	<u>53,609</u>
Rental charges			
- Operating leases	28,191	24,076	20,465
	<u>28,191</u>	<u>24,076</u>	<u>20,465</u>

SHIRE OF NARROGIN
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30TH JUNE 2019

3. CASH AND CASH EQUIVALENTS

	NOTE	2019 \$	2018 \$
Cash at bank and on hand		7,906,681	6,976,077
		<u>7,906,681</u>	<u>6,976,077</u>
Comprises:			
- Unrestricted cash and cash equivalents		3,312,594	3,021,278
- Restricted cash and cash equivalents		<u>4,594,087</u>	<u>3,954,799</u>
		7,906,681	6,976,077
The following restrictions have been imposed by regulations or other externally imposed requirements:			
Reserve accounts			
Building Reserve	4	873,681	686,182
Refuse Site Reserve	4	435,109	376,474
Community Assisted Transport (CAT) Reserve	4	6,655	4,298
Narrogin Regional Recreation Centre Reserve	4	73,927	214,761
Employee Entitlement Reserve	4	334,863	387,576
Plant, Vehicle & Equipment Reserve	4	454,959	333,984
Economic Development Reserve	4	174,049	152,014
IT & Office Equipment Reserve	4	72,563	66,049
Tourism & Area Promotion Reserve	4	77,202	75,470
Unspent Grants & Contribution Reserve	4, 20	203,773	44,817
HACC Reserve	4	584,487	784,351
CHCP Reserve	4	122,909	241,070
CHSP Reserve	4	347,664	160,969
Road construction reserve	4	329,405	301,328
Asset Valuation reserve	4	31,309	30,610
Landcare Reserve	4	97,024	94,846
Narrogin Airport Reserve	4	10,000	0
		<u>4,229,579</u>	<u>3,954,799</u>
Other restricted cash and cash equivalents			
Bonds & Deposits Held (previously recorded as Trust)	24	18,602	0
Unspent loans	13(d)	345,905	0
Total restricted cash and cash equivalents		<u>4,594,087</u>	<u>3,954,799</u>

SIGNIFICANT ACCOUNTING POLICIES

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 with original maturities of three months or less that are readily convertible to known amounts of cash.

Cash and cash equivalents (Continued)

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.

4. RESERVES - CASH BACKED

	2019 Actual Opening Balance	2019 Actual Transfer to	2019 Actual Transfer (from)	2019 Actual Closing Balance	2019 Budget Opening Balance	2019 Budget Transfer to	2019 Budget Transfer (from)	2019 Budget Closing Balance	2018 Actual Opening Balance	2018 Actual Transfer to	2018 Actual Transfer (from)	2018 Actual Closing Balance
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
(a) Building Reserve	686,182	187,499	0	873,681	686,182	92,444	(280,000)	498,626	556,072	270,266	(140,156)	686,182
(b) Refuse Site Reserve	376,474	58,635	0	435,109	376,474	56,827	0	433,302	428,322	88,681	(140,529)	376,474
(c) Community Assisted Transport (CAT) Reserve	4,298	2,357	0	6,655	4,297	7,203	(11,500)	0	8,021	5,901	(9,624)	4,298
(d) Narrogin Regional Recreation Centre Reserve	214,761	144,925	(285,759)	73,927	214,761	143,895	(80,000)	268,656	160,691	83,684	(49,594)	214,761
(e) Employee Entitlement Reserve	387,576	8,891	(61,604)	334,863	387,576	7,029	0	394,605	372,384	49,248	(34,036)	387,576
(f) Plant, Vehicle & Equipment Reserve	333,984	516,164	(395,189)	454,959	333,984	431,057	(442,500)	322,541	393,454	417,569	(477,039)	333,984
(g) Economic Development Reserve	152,014	22,035	0	174,049	152,014	21,309	0	173,323	148,995	3,019	0	152,014
(h) IT & Office Equipment Reserve	66,049	6,514	0	72,563	66,049	6,198	0	72,247	15,734	50,315	0	66,049
(i) Tourism & Area Promotion Reserve	75,470	1,733	0	77,203	75,469	1,369	0	76,838	73,970	1,500	0	75,470
(j) Unspent Grants & Contribution Reserve	44,817	203,956	(44,999)	203,774	44,816	811	(4,724)	40,903	190,485	4,122	(149,790)	44,817
(k) HACC Reserve	784,351	44,896	(244,761)	584,486	784,351	14,224	(139,916)	658,659	645,352	138,999	0	784,351
(l) CHCP Reserve	241,070	5,533	(123,694)	122,909	241,070	4,372	(53,213)	192,229	165,412	75,658	0	241,070
(m) CHSP Reserve	160,969	265,056	(78,362)	347,663	160,970	2,919	(11,514)	152,375	120,088	81,079	(40,198)	160,969
(n) Road construction reserve	301,328	28,077	0	329,405	301,328	47,797	0	349,125	445,302	9,026	(153,000)	301,328
(o) Asset Valuation reserve	30,610	699	0	31,309	30,610	555	0	31,165	30,000	610	0	30,610
(p) Landcare Reserve	94,846	2,178	0	97,024	94,846	0	0	94,846	0	94,846	0	94,846
(q) Narrogin Airport Reserve	0	10,000	0	10,000	0	0	0	0	0	0	0	0
	3,954,799	1,509,148	(1,234,368)	4,229,579	3,954,798	838,009	(1,033,367)	3,759,440	3,774,262	1,374,503	(1,193,966)	3,854,799

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
(a) Building Reserve	Ongoing	To support the acquisition, upgrade or enhancements of buildings within the district.
(b) Refuse Site Reserve	Ongoing	To fund infrastructure development and rehabilitation costs associated with the Shire's tip site as well as the purchase and development a regional waste facility.
(c) Community Assisted Transport (CAT) Reserve	Ongoing	To fund the replacement/change over of the CATS vehicle.
(d) Narrogin Regional Recreation Centre Reserve	Ongoing	To fund YMCA additional maintenance works as well as acquisitions, upgrades and enhancement of the building, major plant & equipment items.
(e) Employee Entitlement Reserve	Ongoing	To fund current and past employee's leave entitlements and redundancy payouts.
(f) Plant, Vehicle & Equipment Reserve	Ongoing	To support the purchase/replacement of motor vehicles, and heavy plant and equipment.
(g) Economic Development Reserve	Ongoing	To fund economic development projects that will benefit the district.
(h) IT & Office Equipment Reserve	Ongoing	To fund the purchase and upgrade of computer equipment, software and office equipment.
(i) Tourism & Area Promotion Reserve	Ongoing	For the purpose of tourism & district promotion activities, significant events and festivals which includes banner poles, entry statements and outdoor digital screens.
(j) Unspent Grants & Contribution Reserve	Ongoing	To store unspent grants and contributions. Funds can only be expended on items that have been approved by the relevant grant agreement/funding body.
(k) HACC Reserve	Ongoing	To store unspent H.A.C.C grant funds that can fund the purchase of assets, payout of Homecare employee entitlements and other projects that have been approved by the Funding Body.
(l) CHCP Reserve	Ongoing	To store unspent C.H.C.P grant funds that can fund the purchase of assets, payout of Homecare employee entitlements and other projects that have been approved by the Funding Body.
(m) CHSP Reserve	Ongoing	To store unspent C.H.S.P grant funds that can fund the purchase of assets, payout of Homecare employee entitlements and other projects that have been approved by the Funding Body.
(n) Road construction reserve	Ongoing	To be used on road construction projects.
(o) Asset Valuation reserve	Ongoing	To fund asset valuations.
(p) Landcare Reserve	Ongoing	To fund future natural resource management activities aligned with the principles established in the former NLDC letter dated 6/8/17 (ICR1712270).
(q) Narrogin Airport Reserve	Ongoing	For the purpose of supporting and funding infrastructure development, maintenance, acquisition, upgrade or enhancements and grant funding to the Narrogin Airport.

5. TRADE RECEIVABLES

Current

Rates receivable	
Sundry receivables	
GST receivable	
Allowance for impairment of receivables	
Accrued Income / Payments in Advance	

Non-current

Pensioner's rates and ESL deferred	
------------------------------------	--

	2019	2018
	\$	\$
Rates receivable	399,381	332,023
Sundry receivables	647,633	1,118,088
GST receivable	71,948	60,563
Allowance for impairment of receivables	(38,020)	(37,776)
Accrued Income / Payments in Advance	4,241	4,741
	1,085,183	1,477,639
Pensioner's rates and ESL deferred	186,915	160,318
	186,915	160,318

SIGNIFICANT ACCOUNTING POLICIES

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.

Trade receivables are recognised at original invoice amount less any allowances for uncollectible amounts (i.e. impairment). The carrying amount of net trade receivables is equivalent to fair value as it is due for settlement within 30 days.

Impairment and risk exposure

Information about the impairment of trade receivables and their exposure to credit risk and interest rate risk can be found in Note 23.

Previous accounting policy: Impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment.

Classification and subsequent measurement

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.

Trade receivables are held with the objective to collect the contractual cashflows and therefore measures them subsequently at amortised cost using the effective interest rate method.

Due to the short term nature of current receivables, their carrying amount is considered to be the same as their fair value. Non-current receivables are indexed to inflation, any difference between the face value and fair value is considered immaterial.

6. INVENTORIES

Current

Fuel and Materials

	2019	2018
	\$	\$
	7,310	7,280
	7,310	7,280

Non-current

Land held for resale - cost

Cost of acquisition

This land is accounted for in the Asset Register and from the 30/06/2018 is no longer an inventory item.

	0	177,273
	0	177,273

The following movements in inventories occurred during the year:

Carrying amount at 1 July

Inventories expensed during the year

Previously recorded as L&B Asset as well as Land for Resale

Additions to inventory

Carrying amount at 30 June

	184,553	191,048
	(223,663)	(214,574)
	(177,273)	0
	223,693	208,079
	7,310	184,553

SIGNIFICANT ACCOUNTING POLICIES

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.

NOTE: in 2018 this asset was recorded both as L&B and Land for Resale - this entry is to reverse that duplication.

SHIRE OF NARROGIN
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30TH JUNE 2019

7. OTHER FINANCIAL ASSETS

	<u>2019</u>	<u>2018</u>
	\$	\$
(a) Current assets	0	0
(b) Non-current assets		
Financial assets at fair value through other comprehensive income	105,103	0
	<u>105,103</u>	<u>0</u>
Financial assets at fair value through other comprehensive income		
- Units in Local Government House Trust	105,103	0
	<u>105,103</u>	<u>0</u>

SIGNIFICANT ACCOUNTING POLICIES

Impairment and risk

Information regarding impairment and exposure to risk can be found at Note 23.

8. PROPERTY, PLANT AND EQUIPMENT

(a) 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.

	Land - freehold land	Total land	Buildings - non- specialised	Buildings - specialised	Total buildings	Total land and buildings	Furniture and equipment	Plant and equipment	Artwork	Total property, plant and equipment
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2017	10,348,000	10,348,000	1,113,573	41,075,108	42,188,681	52,538,681	232,880	3,771,501	0	56,541,062
Additions	0	0	345,740	110,358	456,098	456,098	3,418	1,758,826	0	2,218,342
(Disposals)	0	0	0	0	0	0	0	(505,006)	0	(505,006)
Revaluation increments / (decrements) transferred to revaluation surplus	0	0	200,000	0	200,000	200,000	0	0	0	200,000
Depreciation (expense)	0	0	(28,526)	(613,480)	(642,006)	(642,006)	(42,127)	(383,121)	0	(1,067,254)
Transfers	124,998	124,998	230,843	4,620	235,463	360,461	53,732	0	0	414,193
Carrying amount at 30 June 2018	10,472,998	10,472,998	1,861,630	40,576,606	42,438,236	52,911,234	247,903	4,642,200	0	57,801,337
Comprises:										
Gross carrying amount at 30 June 2018	10,472,998	10,472,998	1,942,770	41,803,423	43,746,193	54,219,191	316,485	5,268,565	0	59,804,241
Accumulated depreciation at 30 June 2018	0	0	(81,140)	(1,226,817)	(1,307,957)	(1,307,957)	(68,582)	(626,365)	0	(2,002,904)
Carrying amount at 30 June 2018	10,472,998	10,472,998	1,861,630	40,576,606	42,438,236	52,911,234	247,903	4,642,200	0	57,801,337
Additions	0	0	461,673	331,614	793,287	793,287	65,308	1,084,253	0	1,942,848
(Disposals)	0	0	0	0	0	0	0	(750,013)	0	(750,013)
Revaluation increments / (decrements) transferred to revaluation surplus	0	0	0	0	0	0	(2,306)	(331,223)	350,315	16,786
Depreciation (expense)	0	0	(130,497)	(615,121)	(745,618)	(745,618)	(55,155)	(412,029)	0	(1,212,802)
Transfers	0	0	0	0	0	0	140,200	(140,200)	0	0
	0	0	41,480	0	41,480	41,480	(41,480)	0	0	0
Carrying amount at 30 June 2019	10,472,998	10,472,998	2,234,286	40,293,099	42,527,385	53,000,383	395,950	4,051,508	350,315	57,798,156
Comprises:										
Gross carrying amount at 30 June 2019	10,472,998	10,472,998	2,454,786	42,135,037	44,589,823	55,062,821	395,950	4,051,508	350,315	59,860,594
Accumulated depreciation at 30 June 2019	0	0	(220,500)	(1,841,938)	(2,062,438)	(2,062,438)	0	0	0	(2,062,438)
Carrying amount at 30 June 2019	10,472,998	10,472,998	2,234,286	40,293,099	42,527,385	53,000,383	395,950	4,051,508	350,315	57,798,156

SHIRE OF NARROGIN
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30TH JUNE 2019

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) 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 assets.	Independent Valuer	June 2016	Price per hectare.
Buildings - non-specialised	2	Market approach using recent observable market data for similar properties.	Independent Valuer	June 2016	Construction costs and current condition (level 2), residual values and remaining useful life assessments (level 3) inputs.
Buildings - specialised	3	Cost approach and depreciated replacement cost.	Independent Valuer	June 2016	Construction costs and current condition (level 2), residual values and remaining useful life assessments (level 3) inputs.
Furniture and equipment					
	3	Cost approach and depreciated replacement cost.	Independent Valuer	June 2019	Purchase costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Artwork					
	2	Market value using recent observable market data for items	Independent Valuer	June 2018	Price per item.
Plant and equipment					
- Independent valuation 2019	2	Market value using recent observable market data for similar plant and equipment	Independent Valuer	June 2019	Market price based on make, size, year of manufacture and condition.
- Independent valuation 2019	3	Cost approach and depreciated replacement cost.	Independent Valuer	June 2019	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.

9. INFRASTRUCTURE

(a) 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.

	Infrastructure - Roads	Infrastructure - Footpaths	Infrastructure - Drainage	Infrastructure - Parks and Ovals	Infrastructure - Other	Infrastructure - Bridges	Total Infrastructure
	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2017	86,518,608	2,009,483	4,537,899	2,985,662	2,009,308	0	98,060,960
Additions	1,154,035	88,422	23,340	0	627,153	0	1,892,950
Revaluation increments / (decrements) transferred to revaluation surplus	10,999,587	819,007	2,506,732	169,428	(165,588)	2,070,500	16,399,666
Depreciation (expense)	(1,382,696)	(52,021)	(92,884)	(34,026)	(93,036)	0	(1,654,663)
Transfers	0	0	0	1,627,736	(2,041,929)	0	(414,193)
Carrying amount at 30 June 2018	97,289,534	2,864,891	6,975,087	4,748,800	335,908	2,070,500	114,284,720
Comprises:							
Gross carrying amount at 30 June 2018	97,289,534	2,864,891	6,975,087	4,748,800	335,908	2,070,500	114,284,720
Carrying amount at 30 June 2018	97,289,534	2,864,891	6,975,087	4,748,800	335,908	2,070,500	114,284,720
Additions	1,478,216	52,300	2,194	13,203	388,551	0	1,934,464
Depreciation (expense)	(1,547,937)	(71,622)	(139,502)	(537,578)	(22,404)	(99,921)	(2,418,964)
Carrying amount at 30 June 2019	97,219,813	2,845,569	6,837,779	4,224,425	702,055	1,970,579	113,800,220
Comprises:							
Gross carrying amount at 30 June 2019	98,767,750	2,917,191	6,977,281	4,762,003	724,459	2,070,500	116,219,184
Accumulated depreciation at 30 June 2019	(1,547,937)	(71,622)	(139,502)	(537,578)	(22,404)	(99,921)	(2,418,964)
Carrying amount at 30 June 2019	97,219,813	2,845,569	6,837,779	4,224,425	702,055	1,970,579	113,800,220

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9. INFRASTRUCTURE (Continued)

(b) 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.	Independent Valuer	June 2018	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Footpaths	3	Cost approach using depreciated replacement cost.	Independent Valuer	June 2018	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Drainage	3	Cost approach using depreciated replacement cost.	Independent Valuer	June 2018	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Parks and Ovals	3	Cost approach using depreciated replacement cost.	Independent Valuer	June 2018	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Other	3	Cost approach using depreciated replacement cost.	Independent Valuer	June 2018	Construction costs and current condition (Level 2), residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Bridges	3	Cost approach using depreciated replacement cost.	Independent Valuer	June 2018	Construction 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 to determine the fair value of infrastructure using level 3 inputs.

9. PROPERTY, PLANT AND EQUIPMENT (INCLUDING INFRASTRUCTURE)

SIGNIFICANT ACCOUNTING POLICIES

Fixed assets

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

Initial recognition and measurement between mandatory revaluation dates

All assets are initially recognised at cost where the fair value of the asset at date of acquisition is equal to or above \$5,000. All assets are subsequently revalued in accordance with the mandatory measurement framework.

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, are recognised at cost and disclosed as being at fair value as management believes cost approximates fair value. They are subject to subsequent revaluation at the next anniversary date in accordance with the mandatory measurement framework.

Revaluation

The fair value of fixed assets is determined at least every three years and no more than five years in accordance with the regulatory framework. At the end of each 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.

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 class of asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss.

AUSTRALIAN ACCOUNTING STANDARDS - INCONSISTENCY

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.

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.

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 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30TH JUNE 2019

10. PROPERTY, PLANT AND EQUIPMENT (INCLUDING INFRASTRUCTURE) (Continued)

(a) Disposals of Assets

	2019	2018	2019	2019	2019	2019	2019	2018	2018	2018	2018	
	Actual Net Book Value	Actual Sale Proceeds	Actual Profit	Actual Loss	Budget Net Book Value	Budget Sale Proceeds	Budget Profit	Budget Loss	Actual Net Book Value	Actual Sale Proceeds	Actual Profit	Actual Loss
Plant and equipment	750,013	604,761	14,394	(159,646)	866,324	742,571	14,305	(138,058)	505,006	481,898	45,183	(68,291)
	750,013	604,761	14,394	(159,646)	866,324	742,571	14,305	(138,058)	505,006	481,898	45,183	(68,291)

The following assets were disposed of during the year.

	2019 Actual Net Book Value	2019 Actual Sale Proceeds	2019 Actual Profit	2019 Actual Loss
Plant and Equipment				
Law, order, public safety				
1GNZ817 Isuzu FSS 650 3.4 Fire Unit	28,710	27,273	0	(1,437)
Education and welfare				
NGN10179 2006 Mercedes Sprinter	11,500	13,182	1,682	0
NGN219 2018 Toyota Camry	23,891	17,818	0	(6,073)
NGN847 Ford Mondeo 2014	13,259	8,364	0	(4,895)
NGN839 2015 Nissan Altima	18,421	10,000	0	(8,421)
Brush Cutter 2018	861	0	0	(861)
Honda HRU216 Lawn Mower	1,590	0	0	(1,590)
NGN13077 2008 Loadstar Trailer	3,531	0	0	(3,531)
Community amenities				
NGN00 Holden LTZ Trailblazer	33,392	35,589	2,197	0
NGN00 Pajero Sport GLX 2018	33,863	31,043	0	(2,920)
Recreation and culture				
NRRC Air conditioner	668	0	0	(668)
NRRC Solar Power Generator 10Kw	66,398	0	0	(66,398)
Transport				
NGN11845 2010 Toro JD GM7210 72 Mower	12,032	5,000	0	(7,032)
NGN877 2014 Toro Zero Turn Ride on Mower	11,477	10,000	0	(1,477)
NO05 2013 Holden Colorado Duel Cab	21,887	18,182	0	(3,705)
NO592 Mitsubishi Triton 2014	7,700	13,818	6,118	0
1NO Nissan Navara Duel Cab 4x4	23,190	21,545	0	(1,645)
NGN802 2013 Mitsubishi Triton Ute	16,099	11,545	0	(4,554)
00NGN Mitsubishi Triton Dual 2015	27,807	18,727	0	(9,080)
ONO LTZ Holden Trailblazer 2018	35,288	35,480	192	0
NO01 2018 Holden Colorado MY18 Trailblazer	35,012	35,152	140	0
ONO LTZ Holden Trailblazer 2018	34,584	35,589	1,005	0
NO01 2018 Holden Colorado MY19	34,445	35,152	707	0
NO1 1999 UD Nissan Diesel Tip Truck	31,147	20,000	0	(11,147)
NO3 1999 UD Nissan Diesel Tip Truck	27,918	20,000	0	(7,918)
ONO LTZ Holden Trailblazer 2019	35,298	36,652	1,354	0
1TNR029 2012 Loadstar Boxtop Tradesman Trailer 7x4	889	0	0	(889)
Other property and services				
002NGN 2016 Holden Cruz	14,299	8,636	0	(5,663)
1NGN 2017 Pajero Exceed	47,323	46,550	0	(773)
NGN0 Holden Cruze 2015	14,099	10,000	0	(4,099)
1NGN 2018 Pajero Exceed	49,868	46,123	0	(3,745)
0NGN Ford Escape 2018	32,341	33,342	1,001	0
Electrical Cable Testing Equipment	1,126	0	0	(1,126)
	750,013	604,762	14,396	(159,647)

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10. PROPERTY, PLANT AND EQUIPMENT (INCLUDING INFRASTRUCTURE) (Continued)

(b) Depreciation	2019	2019	2018
	Actual	Budget	Actual
	\$	\$	\$
Buildings - non-specialised	130,497	592,952	28,526
Buildings - specialised	615,121	0	613,480
Furniture and equipment	55,155	38,400	42,127
Plant and equipment	412,029	352,633	383,121
Infrastructure - Roads	1,547,937	1,278,335	1,382,696
Infrastructure - Footpaths	71,622	47,512	52,021
Infrastructure - Drainage	139,502	85,636	92,884
Infrastructure - Parks and Ovals	537,578	31,502	34,026
Infrastructure - Other	22,404	81,878	93,036
Infrastructure - Bridges	99,921	0	0
	3,631,766	2,508,848	2,721,917

SIGNIFICANT ACCOUNTING POLICIES

Depreciation

The depreciable amount of all fixed assets including buildings but excluding freehold land and vested 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.

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.

Depreciation rates

Typical estimated useful lives for the different asset classes for the current and prior years are included in the table below.

Asset Class	Useful life
Buildings	5 to 100 years
Furniture and equipment	4 to 10 years
Plant and equipment	5 to 15 years
Sealed roads and streets formation	not depreciated
pavement seal	50 years
- bituminous seals	20 years
- asphalt surfaces	25 years
Gravel roads formation	not depreciated
pavement	50 years
Formed roads (unsealed) formation	12 years
pavement	not depreciated
Footpaths - slab	50 years
Sewerage piping	40 years
Water supply piping and drainage systems	50 to 75 years
Other Infrastructure	10 to 50 years
Bridges	75 to 100 years

Depreciation (Continued)

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) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
- (b) Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

11. REVALUATION SURPLUS

	2019 Opening Balance	2019 Revaluation Increment	2019 Revaluation (Decrement)	Total Movement on Revaluation	2019 Closing Balance	2018 Opening Balance	2018 Revaluation Increment	2018 Revaluation (Decrement)	Total Movement on Revaluation	2018 Closing Balance
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revaluation surplus - Land and buildings	43,964,496	0	(177,273)	(177,273)	43,787,223	43,764,486	200,000	0	200,000	43,964,486
Revaluation surplus - Furniture and equipment	26,635	0	(2,306)	(2,306)	24,329	26,635	0	0	0	26,635
Revaluation surplus - Plant and equipment	1,093,697	0	(331,223)	(331,223)	762,474	1,093,697	0	0	0	1,093,697
Revaluation surplus - Artwork	0	350,315	0	350,315	350,315	0	0	0	0	0
Revaluation surplus - Infrastructure - Roads	68,216,935	0	0	0	68,216,935	55,217,348	10,999,587	0	10,999,587	66,216,935
Revaluation surplus - Infrastructure - Footpaths	1,825,795	0	0	0	1,825,795	1,006,788	819,007	0	819,007	1,825,795
Revaluation surplus - Infrastructure - Drainage	6,380,837	0	0	0	6,380,837	3,874,105	2,506,732	0	2,506,732	6,380,837
Revaluation surplus - Infrastructure - Parks and Ovals	2,108,515	0	0	0	2,108,515	1,939,087	169,428	0	169,428	2,108,515
Revaluation surplus - Infrastructure - Other	67,155	0	0	0	67,155	232,743	0	(165,588)	(165,588)	67,155
Revaluation surplus - Infrastructure - Bridges	2,070,500	0	0	0	2,070,500	0	2,070,500	0	2,070,500	2,070,500
Revaluation surplus - Investment LG House	0	105,103	0	105,103	105,103	0	0	0	0	0
	123,754,565	455,418	(510,802)	(55,384)	123,678,454	107,154,899	16,765,254	(165,588)	16,599,666	123,754,565

Movements on revaluation of property, plant and equipment (including Infrastructure) 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.

12. TRADE AND OTHER PAYABLES

	<u>2019</u>	<u>2018</u>
	\$	\$
Current		
Sundry creditors	265,704	333,512
Accrued salaries and wages	67,608	56,981
ATO liabilities	120,141	134,393
Other Creditors	(121)	(3,854)
Accrued Expenses	139,072	15,791
Bonds & Deposits Held (previously recorded as Trust)	18,602	0
	<u>611,006</u>	<u>536,823</u>

SIGNIFICANT ACCOUNTING POLICIES

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.

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13. INFORMATION ON BORROWINGS

	2019	2018
(a) Borrowings	\$	\$
Current	165,659	119,778
Non-current	975,569	792,228
	1,142,227	912,004

(b) Repayments - Borrowings

Particulars	Loan Number	Institution	Interest Rate	30 June 2019					30 June 2018					30 June 2017				
				Actual Principal 1 July 2018	Actual New Loans	Actual Principal repayments	Actual Interest repayments	Actual Principal outstanding	Budget Principal 1 July 2018	Budget New Loans	Budget Principal repayments	Budget Interest repayments	Budget Principal outstanding	Actual Principal 1 July 2017	Actual New Loans	Actual Principal repayments	Actual Interest repayments	Actual Principal outstanding
Government				\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Corporate Software & Server Upgrade	125	WATC*	3.33%	0	0	0	109	0	0	0	0	0	46,953	0	46,953	1,637	0	0
Administration Building Extension	125	WATC*	2.69%	389,354	0	41,048	12,287	327,388	348,510	0	41,568	12,356	308,542	410,216	0	40,882	14,520	369,354
Recreation and culture																		
Narrogin Regional Leisure Centre	121B	WATC*	5.51%	287,883	0	43,681	15,419	219,202	283,930	0	48,682	15,420	215,249	313,915	0	48,032	18,877	267,883
Town Hall Renovations	126	WATC*	3.85%	154,100	0	28,509	6,764	125,591	139,991	0	28,709	6,764	111,272	181,540	0	27,440	8,520	154,100
Transport																		
Shire Depot	51	WATC*	7.19%	0	0	0	90	0	0	0	0	89	0	35,004	0	35,004	2,279	0
Economic services																		
Commercial Property	124	WATC*	5.97%	0	0	0	0	0	0	0	0	0	13,844	0	13,844	550	0	
Industrial Land	127	WATC*	4.48%	150,697	0	10,819	6,636	120,048	125,416	0	10,619	6,636	114,787	140,825	0	10,158	7,235	130,687
Accommodation Units	129	WATC*	2.03%	0	350,000	0	0	350,000	0	350,000	0	0	350,000	0	0	0	0	0
				922,004	350,000	129,777	41,325	1,142,227	877,837	350,000	129,978	41,325	1,097,659	1,142,297	0	220,293	53,609	922,004

*WA Treasury Corporation

SHIRE OF NARROGIN
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13. INFORMATION ON BORROWINGS (Continued)

(c) New Borrowings - 2018/19

Particulars/Purpose	Institution	Loan Type	Term Years	Interest Rate	Amount Borrowed		Amount (Used)		Total Interest & Charges	Actual Balance Unspent
					2019 Actual	2019 Budget	2019 Actual	2019 Budget		
Accommodation Units	WATC	Principle & Interest	10	2.03%	350,000	350,000	4,095	350,000	0	345,905
					350,000	350,000	4,095	350,000	0	345,905

(d) Unspent Borrowings

Particulars	Date Borrowed	Unspent Balance	Borrowed During	Expended During	Unspent Balance
		1 July 2018	Year	Year	30 June 2019
Accommodation Units	28 May 19	0	350,000	4,095	345,905
		0	350,000	4,095	345,905

(e) Undrawn Borrowing Facilities

	2019	2018
Credit Standby Arrangements		
Bank overdraft limit	400,000	400,000
Credit card limit	15,000	15,000
Credit card balance at balance date	1,539	2,578
Total amount of credit unused	413,461	412,422
Loan facilities		
Loan facilities - current	166,658	129,778
Loan facilities - non-current	975,569	792,226
Total facilities in use at balance date	1,142,227	922,004

SIGNIFICANT ACCOUNTING POLICIES

Financial liabilities

Financial liabilities are recognised at fair value when the Shire becomes a party to the contractual provisions to the instrument.

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

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.

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.

Risk

Information regarding exposure to risk can be found at Note 23.

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14. EMPLOYEE RELATED PROVISIONS

Employee Related Provisions	Provision for Annual Leave	Provision for Long Service Leave	Total
	\$	\$	\$
Opening balance at 1 July 2018			
Current provisions	351,876	244,434	596,310
Non-current provisions	0	22,552	22,552
	<u>351,876</u>	<u>266,986</u>	<u>618,862</u>
Additional provision	302,478	230,952	533,429
Amounts used	(272,933)	(40,868)	(313,800)
Balance at 30 June 2019	<u>381,421</u>	<u>457,070</u>	<u>838,491</u>
Comprises			
Current	381,421	168,123	549,544
Non-current	0	288,947	288,947
	<u>381,421</u>	<u>457,070</u>	<u>838,491</u>
	<u>2019</u>	<u>2018</u>	
Amounts are expected to be settled on the following basis:	\$	\$	
Less than 12 months after the reporting date	254,078	166,686	
More than 12 months from reporting date	573,640	427,421	
Expected reimbursements from other WA local governments	10,773	24,755	
	<u>838,491</u>	<u>618,862</u>	

Timing of the payment of current leave liabilities is difficult to determine as it is dependent on future decisions of employees. Expected settlement timings are based on information obtained from employees and historical leave trends and assumes no events will occur to impact on these historical trends.

SIGNIFICANT ACCOUNTING POLICIES

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.

Other long-term employee benefits

The Shire's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

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.

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.

15. NOTES TO THE STATEMENT OF CASH FLOWS

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:

	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
Cash and cash equivalents	7,906,681	4,051,717	6,976,077

Reconciliation of Net Cash Provided By Operating Activities to Net Result

Net result	(453,727)	(2,287,779)	2,078,028
Non-cash flows in Net result:			
Depreciation	3,631,766	2,508,848	2,721,917
(Profit)/loss on sale of asset	145,252	123,753	23,108
Changes in assets and liabilities:			
(Increase)/decrease in receivables	365,859	850,000	(902,250)
(Increase)/decrease in Trust & bonds held	(18,602)	0	0
(Increase)/decrease in inventories	(30)	2,000	6,495
Increase/(decrease) in payables	74,183	25,000	156,878
Increase/(decrease) in provisions	219,629	0	(233,260)
Grants contributions for the development of assets	(809,023)	(846,982)	(2,133,477)
Net cash from operating activities	3,155,307	374,840	1,717,439

16. TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY

	<u>2019</u>	<u>2018</u>
	\$	\$
Governance	571,173	591,159
General purpose funding	0	500
Law, order, public safety	914,436	1,159,538
Health	9,856	110
Education and welfare	1,209,820	1,108,133
Housing	285,288	290,588
Community amenities	2,704,516	2,822,990
Recreation and culture	32,304,273	32,141,985
Transport	118,591,041	119,537,434
Economic services	10,574,574	10,532,771
Other property and services	5,670,632	5,692,486
Unallocated	8,053,959	7,006,950
	<u>180,889,568</u>	<u>180,884,644</u>

17. CONTINGENT LIABILITIES

The Shire of Narrogin had no contingent liabilities at 30 June 2019.

18. CAPITAL AND LEASING COMMITMENTS

(a) Capital Expenditure Commitments

	2019	2018
	\$	\$
Contracted for:		
- capital expenditure projects	136,799	101,977
	136,799	101,977
Payable:		
- not later than one year	136,799	101,977

The capital expenditure projects outstanding at the end of the current reporting period represent outstanding orders issued for capital projects prior to 30.06.2019.

(b) Operating Lease Commitments

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

	2019	2018
	\$	\$
Payable:		
- not later than one year	28,191	20,465
- later than one year but not later than five years	3,612	40,930
	31,803	61,395

SIGNIFICANT ACCOUNTING POLICIES

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 of 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.

Leases (Continued)

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 on a straight line basis over the lease term.

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

19. RELATED PARTY TRANSACTIONS

Elected Members Remuneration

	2019 <u>Actual</u>	2019 <u>Budget</u>	2018 <u>Actual</u>
	\$	\$	\$
The following fees, expenses and allowances were paid to council members and/or the President.			
Meeting Fees	88,000	88,000	88,000
President's allowance	23,500	23,500	23,500
Deputy President's allowance	5,875	5,875	5,875
Travelling expenses	139	1,000	44
Telecommunications allowance	5,600	5,600	5,600
	<u>123,114</u>	<u>123,975</u>	<u>123,019</u>

Key Management Personnel (KMP) Compensation Disclosure

	2019 <u>Actual</u>	2018 <u>Actual</u>
	\$	\$
The total of remuneration paid to KMP of the Shire during the year are as follows:		
Short-term employee benefits	922,628	505,802
Post-employment benefits	120,798	72,371
Other long-term benefits	96,673	47,213
	<u>1,140,099</u>	<u>625,386</u>

Short-term employee benefits

These amounts include all salary, 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 above.

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 and annual leave benefits accruing during the year.

19. RELATED PARTY TRANSACTIONS (Continued)

Transactions with related parties

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

No outstanding balances or provisions for doubtful debts or guaranties exist in relation to related parties at year end.

The following transactions occurred with related parties:	2019 Actual \$	2018 Actual \$
Sale of goods and services	5,476	196
Purchase of goods and services	10,136	25,229

* Purchases to the value of \$10,136 were made to the following during the financial year: Narrogin Revheads, with a related party being a member of Council. Highbury Tennis Club also having a member of Council as a related party and Regional Communication Solutions Pty Ltd being operated by a member of Council.

Related Parties

The Shire's main related parties are, as follows:

i. Key management personnel

Being any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. Including any elected members, who are also considered key management personnel.

ii. Other Related Parties

Being people associated with KMP, who were employed by the Shire under normal employment terms and conditions.

iii. Entities subject to significant influence by the Shire

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

20. CONDITIONS OVER GRANTS/CONTRIBUTIONS

Grant/Contribution	Opening Balance ⁽¹⁾	Received ⁽²⁾	Expended ⁽³⁾	Closing Balance ⁽¹⁾	Received ⁽²⁾	Expended ⁽³⁾	Closing Balance
	1/07/17	2017/18	2017/18	30/06/18	2018/19	2018/19	30/06/19
	\$	\$	\$	\$	\$	\$	\$
General purpose funding							
Interest Received	59,262	4,122	(63,009)	375	1,025	(557)	843
Law, order, public safety							
SES Subsidy Expenditure	3,104	0	(3,104)	0	0	0	0
BFB Minor Asset Purchase	7,000	0	(7,000)	0	0	0	0
SEMS Local Emergency Awareness	4,708	0	(4,708)	0	0	0	0
Bush Fire Expenditure	9,821	0	(9,821)	0	0	0	0
Bushfire Risk Management Coordinator (DFES)	0	0	0	0	172,931	0	172,931
Education and welfare							
Disability Toilet - Changing Places	24,000	0	(24,000)	0	0	0	0
Community amenities							
Wheatbelt Regional Centres Revitalisation - Narrogin CBD Project	30,000	0	(30,000)	0	0	0	0
Recreation and culture							
Main Roads Art Proposal for Narrogin Link Road	20,000	0	0	20,000	0	(20,000)	0
Other property and services							
CLGF Youth Development	32,590	0	(8,148)	24,442	0	(24,442)	0
Administration Traineeship	0	0	0	0	30,000	0	30,000
Total	190,485	4,122	(149,790)	44,817	203,956	(44,999)	203,774

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 NARROGIN
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 21. RATING INFORMATION

(a) Rates

RATE TYPE	Rate in \$	Number of Properties	2018/19 Actual Rateable Value \$	2018/19 Actual Rate Revenue \$	2018/19 Actual Interim Rates \$	2018/19 Actual Back Rates \$	2018/19 Actual Total Revenue \$	2018/19 Budget Rate Revenue \$	2018/19 Budget Interim Rate \$	2018/19 Budget Back Rate \$	2018/19 Budget Total Revenue \$	2017/18 Actual Total Revenue \$
Gross rental valuations												
Urban	0.108295	1,696	28,360,768	3,071,329	8,727	1,983	3,082,039	3,071,329	0	0	3,071,329	2,996,820
Rural	0.067463	77	1,284,140	86,632	1,035	2,356	90,023	86,632	0	0	86,632	74,078
Unimproved valuations												
General UV	0.00597	312	168,308,000	1,004,800	0	0	1,004,800	1,004,800	0	0	1,004,800	975,638
Sub-Total		2,085	197,952,908	4,162,761	9,762	4,339	4,176,862	4,162,761	0	0	4,162,761	4,046,536
Minimum payment												
Gross rental valuations												
Urban	1,083	443	3,235,865	479,769	0	0	479,769	479,769	0	0	479,769	471,528
Rural	682	8	82,799	5,456	0	0	5,456	5,456	0	0	5,456	7,183
	743	17	261,170	13,374	0	0	13,374	13,374	0	0	13,374	11,056
Unimproved valuations												
General UV	743	161	13,932,900	118,880	0	0	118,880	118,880	0	0	118,880	93,976
Sub-Total		629	17,512,734	617,479	0	0	617,479	617,479	0	0	617,479	583,743
Total amount raised from general rate		2,714	215,465,642	4,780,240	9,762	4,339	4,794,341	4,780,240	0	0	4,780,240	4,630,279
Ex-gratia rates							9,300				0	8,274
Rates paid in advance							35,264				0	7,228
Totals							4,838,905				4,780,240	4,645,781

SIGNIFICANT ACCOUNTING POLICIES

Rates

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

21. RATING INFORMATION (Continued)

(b) Interest Charges & Instalments

Instalment Options	Date Due	Instalment Plan Admin Charge \$	Instalment Plan Interest Rate %	Unpaid Rates Interest Rate %
Option One				
Single full payment	05 Sep 2018			11.00%
Option Two				
First instalment	05 Sep 2018			11.00%
Second instalment	07 Nov 2018	12.75	5.50%	11.00%
Third instalment	09 Jan 2019	12.75	5.50%	11.00%
Fourth instalment	13 Mar 2019	12.75	5.50%	11.00%

	2019 Actual \$	2019 Budget \$	2018 Actual \$
Interest on unpaid rates	48,231	35,000	46,777
Interest on instalment plan	18,025	18,000	16,232
Charges on instalment plan	41,287	30,000	34,150
	107,543	83,000	97,159

22. RATE SETTING STATEMENT INFORMATION

Note	2018/19	2018/19	2018/19
	(30 June 2019 Carried Forward)	Budget (30 June 2019 Carried Forward)	(1 July 2018 Brought Forward)
	\$	\$	\$

(a) Non-cash amounts excluded from operating activities

The following non-cash revenue or expenditure has been excluded from amounts attributable to operating activities within the Rate Setting Statement in accordance with *Financial Management Regulation 32*.

Adjustments to operating activities

Less: Profit on asset disposals	10(a)	(14,394)	(14,305)	(45,183)
Less: Movement in liabilities associated with restricted cash		(52,713)	0	0
Movement in pensioner deferred rates (non-current)		(26,597)	0	6,638
Movement in inventory (non-current)		177,273	0	0
Movement in employee benefit provisions (non-current)		266,395	0	15,545
Movement in other provisions (non-current)		0	0	15,213
Add: Loss on disposal of assets	10(a)	159,646	138,058	68,291
Add: Depreciation on assets	10(b)	3,631,766	2,508,848	2,721,917
Non cash amounts excluded from operating activities		4,141,376	2,632,601	2,782,421

(b) Surplus/(deficit) after imposition of general rates

The following current assets and liabilities have been excluded from the net current assets used in the Rate Setting Statement in accordance with *Financial Management Regulation 32* to agree to the surplus/(deficit) after imposition of general rates.

Adjustments to net current assets

Less: Reserves - restricted cash	3	(4,229,579)	(3,759,440)	(3,954,799)
* Add back: Land previously recorded as "held for resale" - duplication		177,273	(177,273)	0
Add: Borrowings	13(a)	166,658	166,658	129,778
Add: Employee Entitlement Reserve		334,863	387,572	387,576
Total adjustments to net current assets		(3,550,785)	(3,382,483)	(3,437,445)

Net current assets used in the Rate Setting Statement

Total current assets		8,999,174	4,874,414	8,460,996
Less: Total current liabilities		(1,327,208)	(1,491,931)	(1,262,911)
Less: Total adjustments to net current assets		(3,550,785)	(3,382,483)	(3,437,445)
Net current assets used in the Rate Setting Statement		4,121,181	0	3,760,640

NOTE: This Assets was added to L&B Assets and was also previously recorded as "held for resale" - Creating a duplicated entry. This entry is to create the reversal of the error.

SHIRE OF NARROGIN
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 FOR THE YEAR ENDED 30TH JUNE 2019

23. FINANCIAL RISK MANAGEMENT

This note explains the Shire's exposure to financial risks and how these risks could affect the Shire's future financial performance.

Risk	Exposure arising from	Measurement	Management
Market risk - interest rate	Long term borrowings at variable rates	Sensitivity analysis	Utilise fixed interest rate borrowings
Credit risk	Cash and cash equivalents, trade receivables, financial assets and debt investments	Aging analysis Credit analysis	Diversification of bank deposits, credit limits. Investment policy
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

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 finance area identifies, evaluates and manages financial risks in close co-operation with the operating divisions. Council have approved the overall risk management policy and provide policies on specific areas such as investment policy.

(a) Interest rate risk

Cash and cash equivalents

The Shire's main interest rate risk arises from cash and cash equivalents with variable interest rates, which exposes the Shire to cash flow interest rate risk. Short term overdraft facilities also have variable interest rates however these are repaid within 12 months, reducing the risk level to minimal.

Excess cash and cash equivalents are invested in fixed interest rate term deposits which do not expose the Shire to cash flow interest rate risk. Cash and cash equivalents required for working capital are held in variable interest rate accounts and non-interest bearing accounts. Carrying amounts of cash and cash equivalents at the 30 June and the weighted average interest rate across all cash and cash equivalents and term deposits held disclosed as financial assets at amortised cost are reflected in the table below.

	Weighted Average Interest Rate	Carrying Amounts	Fixed Interest Rate	Variable Interest Rate	Non Interest Bearing
	%	\$	\$	\$	\$
2019					
Cash and cash equivalents	1.25%	7,906,681	7,903,941	0	2,740
2018					
Cash and cash equivalents	1.45%	6,976,077	6,973,287	0	2,790

Sensitivity

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates.

	2019	2018
	\$	\$
Impact of a 1.00% movement in interest rates on profit and loss and equity*	79,067	69,761

* Holding all other variables constant

Borrowings

Borrowings are 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 Shire does not consider there to be any interest rate risk in relation to borrowings. Details of interest rates applicable to each borrowing may be found at Note 13(b).

SHIRE OF NARROGIN
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23. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

Trade Receivables

The Shire's major receivables comprise rates annual charges and user fees and charges. 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 applies the AASB 9 simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, rates receivable are separated from other trade receivables due to the difference in payment terms and security for rates receivable.

The expected loss rates are based on the payment profiles of rates and fees and charges over a period of 36 months before 1 July 2018 or 1 July 2019 respectively and the corresponding historical losses experienced within this period. Historical credit loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors such as the ability of ratepayers and residents to settle the receivables. Housing prices and unemployment rates have been identified as the most relevant factor in repayment rates, and accordingly adjustments are made to the expected credit loss rate based on these factors. There are no material receivables that have been subject to a re-negotiation of repayment terms.

The loss allowance as at 30 June 2019 and 1 July 2018 (on adoption of AASB 9) was determined as follows for rates receivable: \$38,020. This has been noted at Noted 5, as a forecast for the year 1 July 2018 to 30 June 2019 for doubtful debts, and applies to unpaid rates and properties associated with unpaid rates that may be disposed of to recover unpaid rates.

	Current	More than 1 year past due	More than 2 years past due	More than 3 years past due	Total
30 June 2019					
Rates receivable					
Gross carrying amount	5,930	149,540	89,129	215,701	460,300
01 July 2018					
Rates receivable					
Gross carrying amount	118,170	90,111	81,365	111,962	401,608

The loss allowance as at 30 June 2019 and 1 July 2018 (on adoption of AASB 9) was determined as follows for sundry receivables. No expected credit loss was forecast on 1 July 2018 or 30 June 2019 for sundry receivable.

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
30 June 2019					
Sundry Receivables					
Gross carrying amount	603,831	10,306	23	21,648	635,808
01 July 2018					
Sundry Receivables					
Gross carrying amount	1,102,602	8,801	211	4,001	1,115,615

23. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

Payables and 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 and disclosed in Note 13(e).

The contractual undiscounted cash flows of the Shire's payables and borrowings are set out in the liquidity table below. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Due within 1 year	Due between 1 & 5 years	Due after 5 years	Total contractual cash flows	Carrying values
	\$	\$	\$	\$	\$
2019					
Payables	611,006	0	0	611,006	592,404
Borrowings	203,288	711,815	362,895	1,277,998	1,142,227
	814,294	711,815	362,895	1,889,004	1,734,631
2018					
Payables	536,823	0	0	536,823	536,823
Borrowings	164,388	652,877	236,645	1,053,910	922,004
	701,211	652,877	236,645	1,590,733	1,458,827

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24. TRUST FUNDS

There are no funds held at the balance date which are required to be held in the trust fund.
 In previous years bonds and deposits were held as trust monies. They are now included in Restricted cash at Note 3.

	1 July 2018	Amounts Received	Amounts Paid	30 June 2019	Reclassification to Restricted Cash	30 June 2019
	\$	\$	\$	\$	\$	\$
Public Open Space	72,599	726	0	73,325	0	73,325
Cross Over Bond	25,564	5,903	(17,280)	14,188	(14,188)	0
Town Hall Bond	4,455	3,650	(4,190)	3,915	(3,915)	0
Other	500	0	0	500	(500)	0
	103,118	10,279	(21,470)	91,927	(18,602)	73,325

25. EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

There were no significant events that occurred after the 30th June 2019 to the date of signing, that would have impacted the Shire of Narrogin's financial statements as at the 30 June 2019.

26. INITIAL APPLICATION OF AUSTRALIAN 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 associated with the amendment of existing standards, the only new standard with material application is AASB 9 *Financial Instruments*.

AASB 9 Financial instruments

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* for annual reporting periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Shire applied AASB 9 prospectively, with an initial application date of 1 July 2018. The adoption of AASB 9 has resulted in changes in accounting policies.

In accordance with AASB 9.7.2.15, the Shire of Narrogin has not restated the comparative information which continues to be reported under AASB 139.

There were no adjustments as a result of applying AASB 9.

(a) Classification and measurement

Under AASB 9, financial assets are subsequently measured at amortised cost, fair value through other comprehensive income (fair value through OCI) or fair value through profit or loss (fair value through P/L). The classification is based on two criteria: the Shire's business model for managing the assets; and whether the assets' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Shire's business model was made as of the date of initial application, 1 July 2018. The assessment of whether contractual cash flows on financial assets are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

SHIRE OF NARROGIN
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26. INITIAL APPLICATION OF AUSTRALIAN ACCOUNTING STANDARDS (Continued)

The classification and measurement requirements of AASB 9 did not have a significant impact on the Shire. The following are the changes in the classification of the Shire's financial assets:

- Trade receivables and Loans and advances (i.e. Other debtors) classified as Loans and receivables as at 30 June 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as Financial assets at amortised cost beginning 1 July 2018.
- The Shire did not designate any financial assets as at fair value through profit and loss.

In summary, upon the adoption of AASB 9, the Shire had the following required (or elected) reclassifications as at 1 July 2018:

AASB 139 category	AASB 9 category			
	AASB 139 value	Amortised cost	Fair value through OCI	Fair value through P/L
	\$	\$	\$	\$
Trade receivables*	1,637,957	1,637,957	0	0
Loans and advances	0	0	0	0
Available for sale financial assets	0	0	0	0
	1,637,957	1,637,957	0	0

* The change in carrying amount is a result of additional impairment allowance. See the discussion on impairment below.

(b) Impairment

The adoption of AASB 9 has fundamentally changed the Shire's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Shire to recognise an allowance for ECLs for all financial assets not held at fair value through P/L. The objective of this Standard is to improve and simplify the (incorporating AASB 2014-7 and approach for classification and measurement of financial assets AASB 2014-8) compared with the requirements of AASB 139. Upon adoption of AASB 9, given the nature of the financial assets of the Shire, the adoption of AASB 9 has not had any material effect.

27. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS FOR APPLICATION IN FUTURE YEARS

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.

This note explains management's assessment of the new and amended pronouncements that are relevant to the Shire, the impact of the adoption of AASB 15 Revenue from Contracts with Customers, AASB 16 Leases and AASB 1058 Income for Not-for-Profit Entities. These standards are applicable to future reporting periods and have not yet been adopted.

The Shire is still assessing the impact of these new accounting standards.

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28. OTHER SIGNIFICANT ACCOUNTING POLICIES

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) Current and non-current classification

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 or non-current based on the Shire's intentions to release for sale.

c) Rounding off figures

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

d) 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 statements that has a material effect on the statement of financial position, 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.

e) 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.

f) 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.

g) Fair value of assets and liabilities

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.

h) 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.

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 the service capacity of an asset.

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.

l) Impairment of assets

In accordance with Australian Accounting Standards the Shire's cash generating non-specialised 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 specialised assets that are measured under the revaluation model, such as roads, drains, public buildings and the like, no annual assessment of impairment is required. Rather AASB 116 31 applies and revaluations need only be made with sufficient regulatory to ensure the carrying value does not differ materially from that which would be determined using fair value at the ends of the reporting period.

**SHIRE OF NARROGIN
NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
FOR THE YEAR ENDED 30TH JUNE 2019**

29. ACTIVITIES/PROGRAMS

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

PROGRAM NAME AND OBJECTIVES	ACTIVITIES
<p>GOVERNANCE To provide a decision making process for the effective allocation for scarce resources.</p>	<p>Includes the activities of members of council and administration support available to the council for provision of governance of the district. Other costs relate to the task of assisting elected members and electors on matters which do not concern specific Shire services.</p>
<p>GENERAL PURPOSE FUNDING To collect revenue to allow for the provisions of infrastructure and services</p>	<p>Rates, general purpose government grants and interest revenue.</p>
<p>LAW, ORDER, PUBLIC SAFETY To provide services to help ensure a safer community</p>	<p>Supervision and enforcement of various local laws, fire prevention, animal control and other aspects of public safety including emergency services.</p>
<p>HEALTH To provide an operational framework for environmental and community health.</p>	<p>Inspect food outlets and their control, noise control and waste disposal compliance.</p>
<p>EDUCATION AND WELFARE To provide services to the disadvantaged, the elderly, children and youth.</p>	<p>Preschool and other education, children and youth services, elderly and disadvantaged, senior citizens services.</p>
<p>HOUSING To provide housing to senior employees.</p>	<p>Provision of staff housing.</p>
<p>COMMUNITY AMENITIES To provided services required by the community.</p>	<p>Rubbish collection services, operation of refuse disposal site, litter control, construction and maintenance of urban storm water drains, protection of the environment and administration of town planning scheme, cemetery and public conveniences.</p>
<p>RECREATION AND CULTURE The provide recreational and cultural services to the community.</p>	<p>Maintain public halls, civic centres, aquatic centre, recreational centre and various sporting facilities, Provisions and maintenance of parks, gardens and playgrounds. Operations of Library, museum and other cultural facilities.</p>
<p>TRANSPORT To provide safe, effective and efficient transport services to the community.</p>	<p>Construct and maintenance of roads, streets, footpaths, depots parking facilities. Purchase of plant and equipment.</p>
<p>ECONOMIC SERVICES To promote the Shire and its economic wellbeing.</p>	<p>Tounsm and area promotion including the maintenance and operation of a caravan park. Provision of rural services including weed control, and standpipes. Building Control.</p>
<p>OTHER PROPERTY AND SERVICES To monitor and control the Town's overheads operation accounts and town planning scheme.</p>	<p>Private works operation, plant repair and operation costs, administration overheads, community development overheads and gross salary and wages.</p>

30. FINANCIAL RATIOS

	2019 Actual	2018 Actual	2017 Actual
Current ratio	3.32	9.67	3.53
Asset consumption ratio	0.98	0.99	0.98
Asset renewal funding ratio	0.65	0.69	-
Asset sustainability ratio	0.77	1.21	1.13
Debt service cover ratio	14.09	9.93	(3.21)
Operating surplus ratio	(0.19)	(0.01)	(0.52)
Own source revenue coverage ratio	0.50	0.54	0.43

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 consumption ratio	$\frac{\text{depreciated replacement costs of depreciable assets}}{\text{current replacement cost of depreciable assets}}$
Asset renewal funding ratio	$\frac{\text{NPV of planned capital renewal over 10 years}}{\text{NPV of required capital expenditure over 10 years}}$
Asset sustainability ratio	$\frac{\text{capital renewal and replacement expenditure}}{\text{depreciation}}$
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	$\frac{\text{own source operating revenue}}{\text{operating expense}}$

Notes:

In 2017 the asset renewal funding ratio was not calculated due to the difficulties in combining Asset Management and Long Term Financial Plans between the Town of Narrogin and Shire of Narrogin.



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Councillors of the Shire of Narrogin

Report on the Audit of the Financial Report

Opinion

I have audited the annual financial report of the Shire of Narrogin which comprises the Statement of Financial Position as at 30 June 2019, the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and Rate Setting Statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.

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

- (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 2019 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.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Shire in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the annual financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Basis of Accounting

I draw attention to Note 1 to the annual financial report, which describes the basis of accounting. The annual financial report has been prepared for the purpose of fulfilling the Shire's annual financial reporting responsibilities under the Act. Regulation 16 of the Local Government (Financial Management) Regulations 1996 (Regulations), does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. My opinion is not modified in respect of this matter.

Responsibilities of the Chief Executive Officer and Council for the Financial Report

The Chief Executive Officer (CEO) of the Shire is responsible for the preparation and fair presentation of the annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal control as the CEO determines is necessary to enable the preparation of an annual financial report that is free from material misstatement, whether due to fraud or error.

In preparing the annual financial report, the CEO is responsible for assessing the Shire's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State government has made decisions affecting the continued existence of the Shire.

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

Auditor's Responsibility for the Audit of the Financial Report

The objectives of my audit are to obtain reasonable assurance about whether the annual 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 my 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 annual financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the annual financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Shire's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the CEO.
- Conclude on the appropriateness of the CEO's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Shire's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the annual financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report, as we cannot predict future events or conditions that may have an impact.
- Evaluate the overall presentation, structure and content of the annual financial report, including the disclosures, and whether the annual financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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. Operating Surplus Ratio as reported in Note 30 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the last three financial years.
- (ii) The following material matters indicating non-compliance with Part 6 of the *Local Government Act 1995*, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law were identified during the course of my audit:
 - a. A large number of accounting journal entries were posted by one employee, with no evidence of review by a second employee. Accounting journals can represent significant adjustments to previously approved accounting transactions, and should therefore be appropriately reviewed and approved. This was addressed by the CEO after our interim audit in May 2019.
- (iii) All required information and explanations were obtained by me.
- (iv) All audit procedures were satisfactorily completed.
- (v) 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.

Other Matter

The financial ratios for 2017 in Note 30 of the annual financial report were audited by another auditor when performing their audit of the Shire for the year ending 30 June 2017. The auditor expressed an unmodified opinion on the annual financial report for that year.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of the Shire of Narrogin for the year ended 30 June 2019 included on the Shire's website. The Shire's management is responsible for the integrity of the Shire's website. This audit does not provide assurance on the integrity of the Shire's website. The auditor's report refers only to the annual financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this annual financial report. If users of the annual financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited annual financial report to confirm the information contained in this website version of the annual financial report.



SANDRA LABUSCHAGNE
DEPUTY AUDITOR GENERAL
Delegate of the Auditor General for Western Australia
Perth, Western Australia
28 November 2019

ATTACHMENT 2



Our Ref: 7950

Mr Leigh Ballard
President
Shire of Narrogin
PO Box 1455
NARROGIN WA 6312



7th Floor, Albert Facey House
469 Wellington Street, Perth

Mail to: Perth BC
PO Box 8489
PERTH WA 6849

Tel: (08) 6557 7500
Fax: (08) 6557 7600

Email: info@audit.wa.gov.au

Dear President

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2019

The Office has completed the audit of the annual financial report for your local government. In accordance with section 7.12AD (2) of the *Local Government Act 1995*, we enclose the Auditor General's auditor's report, together with the audited annual financial report.

We have also forwarded the reports to the CEO and the Minister, as required by the Act. The CEO is required to publish the annual report, including the auditor's report and the audited financial report, on your Shire's official website within 14 days after the annual report has been accepted by your Council.

Management Control Issues

The result of the audit was generally satisfactory. Deficiencies in internal control and other matters that were identified during the interim audit were reported in my interim management letter dated 29 May 2019. These matters were discussed with management.

Please note that the purpose of our audit was to express an opinion on the financial report. The audit included consideration of internal control relevant to the preparation of the financial report in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

An audit is not designed to identify all internal control deficiencies that may require management attention. The matters being reported are limited to those deficiencies that have been identified during the audit that are of sufficient importance to warrant being reported. It is possible that other irregularities and deficiencies may have occurred and not been identified as a result of our audit.

This letter has been provided for the purposes of the Shire and the Minister for Local Government and may not be suitable for other purposes.

I would like to take this opportunity to thank you, the management and the staff of the Shire for their cooperation with the audit team during our audit.

Feel free to contact me on 6557 7658 if you would like to discuss these matters further.

Yours faithfully

KEVIN NG
ASSISTANT DIRECTOR
FINANCIAL AUDIT
23 November 2019

Attach

ATTACHMENT 3



Our Ref: 7950

Shire of Narrogin RECEIVED	
Directed to	Dale
31 MAY 2019	
Ref No	IFM1917427
Property File	
Subject File	12.2.1
Ref	



Office of the Auditor General
Serving the Public Interest

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Mr Dale Stewart
Chief Executive Officer
Shire of Narrogin
PO Box 1145
NARROGIN WA 6312

Dear Sir

**ANNUAL FINANCIAL REPORT
INTERIM AUDIT RESULTS FOR THE YEAR ENDING 30 JUNE 2019**

We have completed the interim audit for the year ending 30 June 2019. We performed this phase of the audit in accordance with our audit plan. The focus of our interim audit was to evaluate your overall control environment, but not for the purpose of expressing an opinion on the effectiveness of internal control, and to obtain an understanding of the key business processes, risks and internal controls relevant to our audit of the annual financial report.

Management Control Issues

I would like to draw your attention to the attached listing of deficiencies in internal control and other matters that were identified during the course of the interim audit. These matters have been discussed with management and their comments have been included on the attachment. The matters reported are limited to those deficiencies that were identified during the interim audit that we have concluded are of sufficient importance to merit being reported to management. Some of the matters may be included in our auditor's report in accordance with section 7.9(2) of the *Local Government Act 1995* or regulation 10(3)(a) and (b) of the *Local Government (Audit) Regulations 1996*. If so, we will inform you before we finalise the report.

This letter has been provided for the purposes of your local government and may not be suitable for other purposes.

We have forwarded a copy of this letter to the President. A copy will also be forwarded to the Minister for Local Government when we forward our auditor's report on the annual financial report to the Minister on completion of the audit.

Feel free to contact me on 6557 7658 if you would like to discuss these matters further.

Yours faithfully

KEVIN NG
ASSISTANT DIRECTOR
FINANCIAL AUDIT

29 May 2019

Attach

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Interest on trust funds	✓		
2. Posting of manual journals	✓		
3. Review of key reconciliations		✓	
4. Service Level Agreement for IT Services		✓	
5. Disaster Recovery and Business Continuity Plan Implementation		✓	
6. Infrastructure, Plant and equipment – Asset Count not undertaken		✓	
7. Termination Checklist		✓	
8. Credit Card Usage		✓	
9. Risk Register Policies and procedures		✓	
10. Information Technology related policy and physical security		✓	
11. Change Management Implementation		✓	
12. Supplier Master File – redundant records			✓
13. Authorisation of Acquisition and Disposal forms			✓

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

1. Interest on trust funds

Finding

We noted that interest earnings on trust fund moneys are not retained in trust or provided back to the entitled recipient on return of their moneys. The interest has instead been paid into the Municipal bank account and is recognised as the Shire's interest revenue.

According to the Local Government Act 1995 (Act):

Where money or other property is held in the trust fund, the local government is to — in the case of money, pay it to the person entitled to it together with, if the money has been invested, any interest earned from that investment.

Rating: Significant Implication

In retaining interest earned on invested trust fund moneys, the Shire is keeping and utilising moneys that it is not entitled to under the Act.

As a further consequence, the disclosure of trust fund money within the annual financial report is not accurate.

Recommendation

The Shire should account for and manage trust fund moneys and associated interest, in accordance with the Act. The Shire should undertake the necessary steps to identify any obligations it has to return moneys that it has incorrectly retained from the current and previous years.

We recommend the Shire assess and consider the impact of the interest earned in current and prior periods as required by the Act.

Management Comment

The Shire is currently in the process of drafting an executive instruction for the following:

Expense interest at 1% (1.5% earned on account less 5 basis points to account for administration management) to accounts that comply with the following:

- Amounts over \$1,000
- Amounts held in trust for more than 180 days
- To be done quarterly
- To be done retrospectively to 1/7/18.

For context, the total interest earned on all funds held in Trust for the 2017/18 financial year was \$761.65

Responsible Person: Manager Finance

Completion Date: 30 June 2019

Additional Notation:

The Office of Auditor General issued the Western Australian Local Government position paper 1 - Accounting for workbonds, building bonds and hire bonds in late June 2019 for application from 1 July 2019.

This advice was implemented and different transactions are now recorded as bonds and deposits, separately from trust monies. The exception being public open space funds which have been retained in Trust. This segregation will be shown in all future financial reports. However, the actual day to day processing has remained the same.

2. Posting of manual journals

Finding

We noted that all finance staff are inherently able to prepare and post journals in SynergySoft. From 1 July 2018 to 28 February 2019, 224 manual journals were posted of which 135 were posted and also approved by the same employee, without independent review by a second staff.

We also noted that there is currently no system access restriction in SynergySoft to assign the posting of manual journals only to appropriate staff. Further, there is no review of manual journals posted to the system.

Rating: Significant Implication

If journals are not independently reviewed and approved, there is a risk that erroneous or fraudulent transactions may pass undetected. Accounting journals can represent significant adjustments to previously approved accounting transactions, and should therefore be appropriately reviewed and approved.

Recommendation

We recommend that a person more senior than the preparer authorises all journal entries, and evidence of authorisation is retained.

Management Comment

It has been confirmed with IT Vision that SynergySoft (our corporate accounting package) does not have the capabilities to assign the posting of manual journals only to appropriate staff.

The Shire of Narrogin however does have internal policies that require staff to seek authorisation from the Manager prior to posting journals. The Shire also records all general journals on a 'Journal register'.

Senior Finance Officer now raises general journals, with the Manager Finance authorising.

The Shire has added the task of reviewing the manual journals register to the listing of journals posted in SynergySoft, to the End of Month (EOM) tasks and will also be developing a General Journal Request Form for 'requested' journals by other officers.

Responsible Person: Manager Finance
Completion Date: 31 December 2019

Additional Notation:

This action was completed in May 2019. At the Shire of Narrogin, where an officer prepares the journal as required, the Manager Finance checks the supporting documentation and then authorises the journal. The officer processes the journal and a hard copy of all documentation is retained in a journal file for monthly and annual review. Where the originating officer is the Manager Finance, the Executive Manager Corporate & Community Services authorises the journal

3. Review of key reconciliations

Finding

We noted that reconciliations for the Accounts Receivable, Accounts Payable and Asset modules were completed however it is not signed by either the preparer or the reviewer.

Rating: Moderate Implication

Reconciliations are a key control for ensuring that data is completely and accurately reflected in the general ledger from which financial statements are derived. The absence of a documented review process over these reconciliations can result in errors or omissions remaining undetected, leading to misstatements in the financial statements.

Recommendation

We recommend that the preparer and reviewer sign the reconciliation and the reviewer is an appropriate staff independent of the preparer.

Management Comment

Reconciliations for all subsidiary ledgers have been revisited with responsible officers completing and the Manager Finance reviewing, to ensure correctness.

Future practices will involve the responsible officers completing the task as part of the EOM process, with the Manager Finance authorising.

**Responsible Person: Manager Finance
Completion Date: Completed**

4. Service Level Agreement for IT Services

Finding

We noted that there is no Service Level Agreement (SLA) in place stipulating the terms and conditions for the IT services provided by an external IT consulting firm.

Rating: Moderate Implication

Lack of a formal SLA outlining the terms of an agreement for services provided by the external IT consulting firm may create an expectation gap between the parties. As no formal agreement is in place, a sudden change due to unforeseen circumstances could result in a detriment to the Shire's IT infrastructure and ability to carry out its daily operations.

Recommendation

Management should establish a temporary SLA with the external IT consulting firm stipulating the terms provided in the quote.

Management Comment

A detailed Service Level Agreement is being obtained and will be forwarded to you shortly.

**Responsible Person: Executive Manager Corporate and Community Services
Completion Date: Completed.**

5. Disaster Recovery and Business Continuity Plan Implementation

Finding

We noted the Shire does not have a disaster recovery or a business continuity plan. An analysis has not been performed to confirm critical functions and processes in order to develop the priorities for the disaster recovery and continuity plan.

Rating: Moderate Implication

Without a disaster recovery or a business continuity plan, it is likely to be more difficult to recover from an incident or crisis in a timely and effective manner. There is an increased risk that key business functions will remain out of operation for extended periods of time following a major incident.

Recommendation

We recommend the Shire develop a business continuity plan based on an evaluation of risks which may disrupt critical business functions. The evaluation should identify critical systems and processes, minimum resources and response times needed to assure/resume operations.

An incident response plan - containing the information needed to respond to an incident (e.g. emergency contact lists, responsibilities) and a disaster recovery plan - detailing the steps to be taken to recover operations, should be developed based on the business continuity plan. Plans should be communicated to staff and tested on a periodic basis to ensure that staff are familiar with their responsibilities. This should also include testing of IT system backups.

Management Comment

Thank you for your comments. Attached is a copy of our Business Continuity Plan. We acknowledge it is not signed and requires review.

We are planning to undertake this work in 2019/20

**Responsible Person: Executive Manager Corporate and Community Services
Completion Date: 30 June 2020.**

6. Infrastructure, Property, Plant and Equipment – Asset count not undertaken

Finding

We noted through our review of Infrastructure, property, plant and equipment that there is currently no periodic asset count process in place. Per discussion with the Shire's management, reliance is placed on the independent valuer to verify the existence of Property, plant, equipment and infrastructure.

We also noted that the valuer based their valuations on assets from the asset register.

According to the Local Government (Financial Management) Regulations 1996 s. 6.10 17A:

- (3) A local government must show in each financial report —
- (a) for the financial year ending on 30 June 2013, the fair value of all of the assets of the local government that are plant and equipment; and
 - (b) for the financial year ending on 30 June 2014, the fair value of all of the assets of the local government —
 - (i) that are plant and equipment; and
 - (ii) that are —
 - (I) land and buildings; or
 - (II) infrastructure;
- and
- (c) for a financial year ending on or after 30 June 2015, the fair value of all of the assets of the local government

Rating: Moderate Implication

The Shire should ensure that the items under 17(3) Local Government (Financial Management) Regulations 1996 are considered. An unverified (complete) asset register poses a risk of discrepancies between the accounting and physical records of the Shire.

Where these gaps are not detected and corrected on a timely basis, theft or loss and/or misrepresentation of asset balances in the annual financial report could occur.

Recommendation

We recommend the Shire consider performing a complete asset verification process to confirm the existence and completeness of all asset classes to comply with the requirement of the Act.

Management Comment

Council has adopted an Asset Management Policy which dictates the classes of assets requiring Asset Management Plans.

These classes are:

- a) Transport assets – roads, paths, bridges, culverts, drainage, airport, street furniture etc.;
- b) Property assets – buildings, freehold land and associated ancillary infrastructure;
- c) Recreation assets – parks, ovals, reserves, gardens, playgrounds etc.;

- d) Plant and equipment – vehicles, tools, plant and machinery, information technology and communications equipment etc.
- e) Portable and Attractive assets – in accordance with the Local Government (Financial Management) Regulations 1996 Reg.17B; and
- f) Other classes as deemed appropriate or necessary

In addition, the Shire is required to undertake a review of Fair Value Valuations within a period of at least 3 years but no more than 5 years after the day on which the asset was last valued or revalued Local Government (Financial Management) Regulations 1996 s. 6.10 17A(4)(b).

It is proposed to take a physical count for item b and item d assets on a 3 year rotational basis coinciding with there fair value revaluations for that particular class.

Other asset classes eg Transport are not subject to much change and other processes pick up and changes.

Portable and Attractive assets will be verified once a year from the soon to be completed Register.

Responsible Person: Executive Manager Corporate and Community Services
Completion Date: 30 June 2021

7. Termination checklist

Finding

We noted that the Shire does not have a policy or formalised process that requires a termination checklist to be completed with departing employees.

Rating: Moderate Implication

In the absence of a completed termination checklist, there is a risk that not all matters associated with terminations are being addressed. There is an increased risk of financial loss to the Shire as assets may be misappropriated and the systems and network may be accessed inappropriately.

Recommendation

We recommend the Shire review processes associated with employee terminations to ensure that a termination checklist is completed for terminated employees.

Management Comment

The CEO has drafted an exit interview template and an Executive Instruction on this matter is being prepared for the organisation. This will include a termination checklist.

**Responsible Person: Chief Executive Officer
Completion Date: Completed**

8. Credit card usage

Finding

We identified expenditure incurred on the CEOs corporate credit card is not in line with the Council Policy Manual, as it involved the purchase of alcohol by the CEO for the CEO, 4 Councillor's and 2 spouses. As per Council Policy, the Shire can pay spouse costs of accommodation upgrade and official conference dinner. Under section 1.8 of the Council Policy Manual, alcohol expenses are only covered for members if they are authorised and moderate in nature. The amount purchased would not be deemed to be "moderate" given the quantity and value of the purchase.

According to S 1.8 & S 8.13 Elected Members – Conference & Training expenses from the Council Policy Manual:

(2) *Such expenses may include –*

- accommodation,
- meals,
- refreshments,
- travel,
- other appropriate out-of-pocket expenses subject to budget allocations.

(3) *Expenses automatically met by Council are limited to accommodation in single/twin or double room, registration fees, meals associated with registration, parking and breakfasts for elected members only.*

(4) *Other than WALGA Annual Convention or other event where the elected member's partner is reasonably expected to attend, costs incurred by a partner accompanying an elected member are to be met by the elected member, except an accommodation upgrade cost from single to twin/double and official conference dinner cost only.*

(5) *Unless authorised and moderate in nature, expenses for alcohol are to be met by the elected member.*

According to S 8.11 Training, Study and Education of the Shire of Narrogin Executive Instruction:

(3) *Combined daily accommodation and breakfast and dinner allowance rates (if not included in the training/conference costs) are those in accordance with the Australia Taxation Office Reasonable Travel Allowances (excluding incidentals), Table 1 – Perth, as issued for each financial year.*

Attendees	Reasonable per ATO 18/19	Reasonable per Policy 8.13	Actual	Description
4 councillors 1 CEO 2 spouses (5 eligible attendees)	\$70.05 per night for dinner	\$50.70 per day	\$144 per eligible attendee	1/8/18 Print Hall Drinks only \$300 @ \$42.86 per person 1/8/18 Print Hall Dinner & Drinks \$420 @ \$60 Per person
3 councillors 1 CEO	\$70.05 per night for dinner	\$50.70 per day	\$84.85 per eligible attendee	2/8/18 Lala Rookh – \$339.50 @ \$84.85 Per person

**Rating: Moderate
Implication**

Credit Card transactions are not in line with approved policies and guidelines.

Recommendation

Credit card purchases should be in line with the Shire's policy.

Management Comment

It is noted that the actual expenses incurred were slightly above the definition of reasonable for an employee under the ATO Guidelines on both occasions.

The expenditure in the view of the Chief Executive Officer is still in his opinion considered moderate and reasonable given the circumstances of having hospitality with several other local governments and involved elected members who are not employees and not paid a wage, but an allowance.

The expenditure was incurred with the full knowledge of participating elected members including the Shire President and Deputy Shire President, and complies with the intent of the Council Policy 1.8 'Elected Members – Conference & Training Expenses' and is expressly permitted pursuant to clause 6v) of Council Policy 3.8 Transaction Cards, which states:

"Principles for usage – Allowable transactions

a) Transaction card facilities may only be used where –

i) the expenditure is directly arising from a Shire operational business activity for which there is an Annual Budget provision;

ii) the expenditure is in accordance with legislation, the Shire Purchasing Policy, Code of Conduct and any conditions or limitations applicable to the individual Cardholder.

iii) the procurement of the required goods or services is impractical or inefficient if undertaken via a purchase order or is not able to be obtained other than by a transaction card;

iv) supplier surcharges (fees) on transactions are minimised and only allowable where the alternative method of obtaining the supply (i.e. by purchase order) is more onerous, not cost effective or there is no alternative mode of supply.

v) hospitality expenditure may only occur when it is in accordance with any Shire Hospitality Policy or is undertaken with the express permission of the Chief Executive Officer."

Responsible Person:

Completion Date:

9. Risk Register policies and procedures

Finding

According to Local Government (Audit) Regulations 1996 s.17:

CEO to review certain systems and procedures

(1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —

(a) risk management; and

(b) internal control; and

(c) legislative compliance.

We noted that the Shire has not completed a review on its risk management register since its draft inception in April 2016. It is unclear whether the document underwent proper review, establishing of risks and if any subsequent work were performed.

In addition, there is no process in place for the audit committee to regularly review the risk register (triannual) and the progress made in completing required treatment actions.

**Rating: Moderate
Implication**

Without an up-to-date risk register, the Shire might not have appropriate or effective processes in place to sufficiently mitigate risks to its operations or to take advantage of opportunities.

In addition, current risk treatment plans may no longer be consistent with the Shire's goals, strategies or objectives.

Recommendation

We recommend that the Shire review and update its risk management register. As part of this review, the Shire should ensure that the items under 17(1) Local Government (Audit) Regulations 1996 are considered.

The results of this review and any changes made should be endorsed by the audit committee. In addition, the Shire should consider providing a regular report to the audit committee on the status of the risk management register and associated actions.

Management Comment

Thank you for your comments. Attached is a copy of our Risk Management Register.

We acknowledge a review is required. We are planning to undertake this work in 2019/20

Responsible Person: Chief Executive Officer

Completion Date: Completed

10. Information Technology related policy and physical security

Finding

We noted that the Shire does not have any formal policies governing IT security policy nor procedures to maintain the integrity of the IT systems and corresponding user access. This also extends to security around removable/portable devices.

Rating: Moderate Implication

A lack of current IT policies and procedures may result in inconsistent or inappropriate approaches being adopted by staff or contractors. This may result in security or other exposures.

Recommendation

IT policies and procedures should be updated and communicated to users of the IT systems.

Management Comment

We acknowledge the desire for a new policy in this area.

We are planning to undertake this work in 2019/20.

Responsible Person: Executive Manager Corporate and Community Services
Completion Date: 30 June 2020

11. Change Management Implementation

Finding

We noted no formal Change Management policy and procedures in place to ensure all changes to IT systems are appropriately controlled and managed.

Rating: Moderate Implication

There is an increased risk that without formalised change management procedures, changes made to IT systems may not be adequately planned, tested, recorded and authorised. The availability or security of IT systems could be compromised should a change negatively impact them.

Recommendation

We recommend the Shire develop and implement appropriate change control policies and procedures. These should ensure that all changes to IT systems are appropriately controlled and managed.

Management Comment

We acknowledge the desire for a new policy in this area.

We are planning to undertake this work in 2019/20.

Responsible Person: Executive Manager Corporate and Community Services
Completion Date: 30 June 2020

12. Supplier Master File – redundant records

Finding

We noted that there were superseded and outdated supplier records. The Shire does not periodically review its supplier master file to deactivate old, unused or duplicate supplier records.

The supplier master file is a comprehensive file in the financial system which stores key information about suppliers for processing payments to suppliers, including information on bank accounts and addresses.

A review of the vendor Masterfile identified:

- 102 creditors have never been used,
- 342 creditors have duplicate ABNs,
- 63 creditors have duplicated names,
- 214 have duplicate addresses
- 600 creditors haven't been utilised since 30/6/2016

Audit notes that creditors in the system may be labelled as "Suspended", however a large number of the above supplier files were not removed or updated.

Rating: Minor Implication

The presence of old and unused supplier records increases the risk of duplicate records which also increases the risk of duplicate payments being made. It also increases the risk of fraud, as the unused records can be modified and used to make unauthorised payments.

Recommendation

We recommend management undertake a periodic review of the supplier master file to deactivate inactive, old, unused or duplicate records.

Management Comment

The Shire has in the past had the Finance Officer Support review and clean up the Names and addresses module. This covers all records.

This task was performed in 2015/2016 as part of the merger between the Town and the Shire. It was also completed approximately March 2017. Another review commenced in January 2019, and we are in discussions with IT Vision (our corporate software supplier) due to system issues.

This process will be written into the End of Year (EOY) processes.

Responsible Person: Manager Finance
Completion Date: 31 December 2019

Additional Notation: This process has been added into the End of Year (EOY) processes for 2019/2020, onwards.

13. Authorisation of Acquisition and Disposal forms

Finding

We noted that addition and disposal forms are processed and approved by the same staff. It was noted however, that supporting invoices have been appropriately approved by delegated authority and are the asset's custodian.

Rating: Minor Implication

Where addition and disposal forms are not appropriately authorised, there is an increased risk of accountability, verification and accuracy of the Shire's assets.

Recommendation

We recommend the Shire review the process surrounding asset addition and disposal forms. Asset forms should be prepared and reviewed by independent staff to ensure that assets are appropriately accounted for.

Management Comment

Acquisitions and disposals will now be entered into the Asset register by either Finance Officer Support or Senior Finance Officer, with Manager Finance reviewing and authorising.

Forms have been altered to show authorisations.

**Responsible Person: Manager Finance
Completion Date: Completed.**