

REPORT

Section 7.12A(4)(a) of the *Local Government Act 1995*

Shire of Jerramungup 2017-18 Audit Report

Purpose of Report:

The Shire of Jerramungup's 2017-2018 Audit Report identified a significant matter, the purpose of this report is to address the matter identified as significant and to state the action that the Shire of Jerramungup intends to take. The report is to be presented to the Audit Committee, Council and the Minister for Local Government.

Significant Matter Identified by OAG:

Significant adverse trend in the financial position: Operating Surplus Ratio below the Department standard for the last three years.

The following matter was identified as significant by the Auditor;

Following Office of the Auditor General guidelines, the following "Significant Adverse Trends" occurred;

- *The Operating Surplus Ratio has been below the DLGSCI standard for the past 3 years.*

Implication:

Operating Surplus Ratio indicates the Shire's ability to cover its operational costs and have money left for capital projects and other purposes.

Management Comment:

The operating surplus ratio is a measurement of whether own source revenue raised is able to meet operational needs and have revenues available for capital or other purposes. Depreciation is included as an expense and forms part of the ratio calculation. Due to Fair Value implementation asset values have increased and therefore depreciation has also increased, which then affects this ratio.

Whilst the ratio is below the target, the trend is identified as improving over the life of the Shire's Long Term Financial Plan. The ratio is not considered to indicate a threat to the Shire's long term financial position but does indicate the Shire's reliance on external capital grants.

The trend in this ratio is also attributable to the reduction in operating grants and an increase in employee costs booked to operations.

Action Taken or Intended to be Taken:

Staff are currently reviewing the useful life and residual values for various components of road infrastructure which is believed will affect future depreciation expenses.

The Shire have also allowed a provision in the 19/20 draft budget for a consultant to provide asset management mentoring and support services. The Shire will commence by undertaking a gap analysis of the Shire's asset management practices with staff. Following on from the gap analysis, we will develop a 'desired' asset management position and framework.

We have commenced a full review of Integrated Planning and Reporting documentation including the Long Term Financial Plan.

Completion or Proposed Completion Date:

The Integrated Planning and Reporting documentation including the Long Term Financial Plan review will be completed in 2019/20 financial year.

Recommendation:

The Shire of Jerramungup will undertake a fiscally responsible approach to achieve and maintain an acceptable benchmark.