

## **9.9 AUDITOR'S REPORT FYE 2018 – SIGNIFICANT ADVERSE TREND, ASSET SUSTAINABILITY RATIO**

### **Report Information**

Reporting Officer: Chief Executive Officer

### **Recommendation**

#### **That the Council:**

- 1. RECEIVES the correspondence from the Department of Local Government, Sport and Cultural Industries dated 28 June 2019, in relation to the Audit Report FYE 2018 from Butler Settineri Pty Ltd.**
- 2. Forward a copy of the Council report to the Minister for Local Government, Sport and Cultural Industries and the TPRC Auditor - Butler Settineri.**
- 3. PUBLISH a copy of the Council report on the TPRC website within 14 days of Council's resolution.**

### **Voting Requirements**

Simple Majority

### **Report Purpose**

To consider a report on correspondence from the Department of Local Government, Sport and Cultural Industries (DLGSCI) in relation to the Audit Report FYE 2018 and the Asset Sustainability Ratio.

### **Relevant Documents**

Appendix:

- Audit Report for Financial Year ended 30 June 2018
- Letter from Department of Local Government, Sport and Cultural Industries dated 28 June 2019
- Letter from Moore Stephens dated 15 July 2019
- Letter from Butler Settineri dated 7 August 2019

### **Previous Minutes**

- Council Meeting – 18 October 2018 (Item 9.7: Review of the Auditor's Report for the Financial Year Ended 30 June 2018)
- Council Meeting – 12 October 2017 (Item 9.8: Review of the Auditor's Report for the Financial Year Ended 30 June 2017)

### **Policy Reference**

TPRC Audit Charter 6(f) and (h)

### **Local Government Act/Regulation**

- *Local Government Act Section 7.9(3)* – Auditor is to provide a copy of the Audit Report within 30 days of completion to the Chairman, the CEO and the Minister.

- *Local Government Act Section 7.12(3)* – Local Government required to take action on matters raised in Audit Report.
- *Local Government (Audit) Regulations 10.4* – Auditor may prepare a Management Report in addition to the Audit Report and copy to Chairman, the CEO and the Minister.

## Background

The *Local Government (Audit) Regulations* require the Council's appointed Auditor to prepare an Auditor's Report.

The report is to give the Auditor's opinion of:

- (a) The financial position of the local government;
- (b) The results of the operations of the local government.

At its meeting of 18 October 2018, the Council considered the Auditor's Report (Butler Settineri) as required by Regulation and resolved to:

1. *RECEIVE the Auditor's Report for the financial year ended 30 June 2018.*
2. *NOTE that the Audit Report does not note or make recommendations on any matter requiring attention from the Annual Audit for the year ended 30 June 2018.*
3. *NOTE that the Council's Auditor (Butler Settineri) met with the Audit Committee at its meeting of 18 October 2018 to discharge the statutory obligation to meet with the Local Government at least once per annum.*

As indicated in Resolution (3) above the Council's Auditor met with the Audit Committee at its meeting of 18 October 2018 to discharge the statutory obligation to meet with the Local Government at least once per annum and did not raise any significant matters or make any adverse findings.

## Comment

The TPRC has received correspondence from the DLGSCI in relation to the Audit Report from Butler Settineri Pty Ltd, Council's appointed Auditor (attached at Appendix 9.9). The correspondence indicates that the Audit Report identifies a "significant adverse trend in the financial position" as the Asset Sustainability Ratio is below the Department's standard.

The DLGSCI statements result from the following comments in the Audit Report (page 3):

- a) "Apart from the asset sustainability ratio there are no material matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Regional Council."

This matter has been discussed with Mr van der Merwe - Butler Settineri, who prepared the advice to Council and met with the Audit Committee on 18 October 2018. Mr van der Merwe reiterated advice previously provided to Council there were not any significant matters and confirmed that there were no adverse findings in relation to TPRC financial reporting. He did note that the Asset Sustainability Ratio is below the Department's standard, however, did not see that this was a matter of significance given the TPRC's asset and substantial cash position.

Mr van der Merwe advised that the Department has sent similar correspondence to a significant number of local governments. He has prepared a response to the DLGSCI to clarify comments made in relation to the Asset Sustainability Ratio in the Audit Report in order to avoid a misrepresentation of the TPRC financial position (attached at Appendix 9.9). The advice

indicates the Auditor's view that not meeting a benchmark is not in itself an indication of a significant adverse financial trend. To identify significant adverse financial trends, the financial ratios need to be considered within the overall context of the financial report.

Moore Stephens, which provides monthly and annual financial reporting to the TPRC, was requested to provide advice on the correspondence from the DLGSCI. The Moore Stephens' response (attached at Appendix 9.9) assists in clarifying the matter of the Asset Sustainability Ratio and why it is below the Department's standard. The smaller the asset base of a local government, such as the TPRC, the more pronounced the variations in annual asset renewal expenditure. In the case of the TPRC this has resulted in the significant fluctuation between 2017 when a single asset was renewed and 2018 when no assets were renewed.

It notes the TPRC's substantial net asset position and the capacity to spend \$20,152 renewing assets which was the total depreciation for the year ended 30 June 2018 but considers it would not be an appropriate management decision to renew an asset which did not require renewal. It concludes that no action be taken in relation to the asset sustainability ratio and that the TPRC continue to only renew assets in accordance with their planned asset renewal timings.

It is noted that the expenditure and management of TPRC assets is consistent with the Council approved Asset Management Plan 2017.

It is acknowledged that the TPRC Asset Sustainability Ratio for FYE 2018 is below the DLGSCI's standard. It is also understandable how the DLGSCI may have reached its position on the significance of the matter in the Auditors Report and that it may not understand the nature of the TPRC operations and financial position. However, any suggestion that the TPRC position in relation to the Asset Sustainability Ratio indicates a significant adverse trend or that its financial position is somehow compromised is clearly fallacious. This position is reflected by advice provided by Butler Settineri and Moore Stephens.

The management of the TPRC operational assets is regularly considered by Moore Stephens and considered to be appropriate.

In accordance with the DLGSCI correspondence of 28 June 2019 and Section 7.12A(4) of the *Local Government Act 1995* it is recommended that the CEO forward a copy of the Council report to the Minister for Local Government, Sport and Cultural Industries and the TPRC Auditor - Butler Settineri.

At its meeting of 25 July 2019, the Audit Committee considered a report on the correspondence from the Department of Local Government, Sport and Cultural Industries in relation to the Audit Report FYE 2018 and the Asset Sustainability Ratio and resolved to recommend that Council:

1. *RECEIVES* the correspondence from the Department of Local Government, Sport and Cultural Industries dated 28 June 2019, in relation to the Audit Report FYE 2018 from Butler Settineri Pty Ltd.
2. *Forward* a copy of the Council report to the Minister for Local Government, Sport and Cultural Industries and the TPRC Auditor - Butler Settineri.
3. *PUBLISH* a copy of the Council report on the TPRC website within 14 days of Council's resolution.