



**murchisonshire**

*Ancient land under brilliant skies*

**Audit Committee Meeting**

**27 February 2020**

**Attachments**

## Audit Exit Meeting

# FINANCIAL ATTEST AUDIT OF SHIRE OF MURCHISON FOR THE YEAR ENDED 30 JUNE 2019

### ATTENDEES:

#### Shire of Murchison:

Cr	Ross Foulkes-Taylor	Shire President
Cr	Andrew Whitmarsh	Deputy Shire President
Cr	Emma Foulkes-Taylor	Councillor
Cr	Quentin Fowler	Councillor
Cr	Greydon Mead	Councillor
Cr	Paul Squires	Councillor

Bill Boehm                      CEO

Tatjana Erak                    Acting Deputy CEO

#### Office of the Auditor General:

Subha Gunalan                Director

#### RSM Australia Pty Ltd:

David Wall                      Director

Travis Bate                      Principal

**Meeting Date & Time:** Thursday 27 February 2020, 11am

**Location:** Teleconference

Contact Number: 08 9261 9499

PIN Number: 829716#

## Agenda

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- 1 Introduction
- 2 Matters arising from the audit
  - 2.1 Financial statements - refer to Audit Closing Report
  - 2.2 Controls and legal compliance issues - refer to Audit Closing Report
- 3 Actions for next year audit
- 4 General and closing comments

## 6.1.1 Audit Committee February 2020

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

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### **COMMUNITY VISION**

Working together to preserve the unique character of the Shire, supporting diverse and sustainable lifestyle and economic opportunities.

Principal place of business:  
Murchison Settlement  
Carnarvon - Mullewa Road  
Western Australia

**SHIRE OF MURCHISON  
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 Murchison 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 Murchison 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 \_\_\_\_\_ day of \_\_\_\_\_ 2020

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Chief Executive Officer

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Name of Chief Executive Officer

## 6.1.1 Audit Committee February 2020

SHIRE OF MURCHISON

### STATEMENT OF COMPREHENSIVE INCOME

BY NATURE OR TYPE

FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
<b>Revenue</b>				
Rates	21(a)	458,510	420,292	410,844
Operating grants, subsidies and contributions	2(a)	16,829,134	1,829,172	9,960,811
Fees and charges	2(a)	275,973	269,150	253,121
Interest earnings	2(a)	189,604	100,750	106,000
Other revenue	2(a)	156,197	15,421,990	117,786
		17,909,418	18,041,354	10,848,562
<b>Expenses</b>				
Employee costs		(1,212,333)	(1,246,867)	(1,244,639)
Materials and contracts		(13,883,349)	(16,322,717)	(7,206,125)
Utility charges		(36,276)	0	(3,106)
Depreciation on non-current assets	10(b)	(3,049,712)	(3,121,385)	(3,016,206)
Interest expenses	2(b)	(34,016)	(45,290)	(27,549)
Insurance expenses		(141,862)	(164,473)	(155,294)
Other expenditure		(114,119)	(120,564)	(97,711)
		(18,471,667)	(21,021,296)	(11,750,630)
		(562,249)	(2,979,942)	(902,068)
Non-operating grants, subsidies and contributions	2(a)	477,510	521,235	1,080,545
Profit on asset disposals	10(a)	6,171	10,000	505
(Loss) on asset disposals	10(a)	(59,617)	(115,900)	(85,763)
(Loss) on revaluation of plant and equipment	8(a)	0	0	(77,245)
		424,064	415,335	918,042
<b>Net result for the period</b>		(138,185)	(2,564,607)	15,974
<b>Other comprehensive income</b>				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in asset revaluation surplus	11	0	0	(861,227)
<b>Total other comprehensive income for the period</b>		0	0	(861,227)
<b>Total comprehensive income for the period</b>		(138,185)	(2,564,607)	(845,253)

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

## 6.1.1 Audit Committee February 2020

SHIRE OF MURCHISON

### STATEMENT OF COMPREHENSIVE INCOME

BY PROGRAM

FOR THE YEAR ENDED 30 JUNE 2019

NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
<b>Revenue</b>			
Governance	25,208	9,000	8,353
General purpose funding	4,371,188	2,210,742	4,005,771
Law, order, public safety	15,590	16,500	15,262
Housing	3,765	4,290	4,110
Recreation and culture	586	2,900	2,717
Transport	13,091,162	15,457,672	6,458,494
Economic services	265,247	260,250	244,700
Other property and services	136,672	80,000	109,155
	<b>17,909,418</b>	<b>18,041,354</b>	<b>10,848,562</b>
<b>Expenses</b>			
Governance	(290,229)	(349,914)	(368,396)
General purpose funding	(23,995)	(28,594)	(28,327)
Law, order, public safety	(96,817)	(140,321)	(126,079)
Health	(19,643)	(34,327)	(17,054)
Housing	0	(3,281)	(630)
Community amenities	(51,104)	(54,626)	(21,749)
Recreation and culture	(243,395)	(386,363)	(328,428)
Transport	(16,806,243)	(19,115,235)	(10,076,097)
Economic services	(781,024)	(791,979)	(698,373)
Other property and services	(125,201)	(71,366)	(57,948)
	<b>(18,437,651)</b>	<b>(20,976,006)</b>	<b>(11,723,081)</b>
<b>Finance Costs</b>			
Transport	(34,016)	(45,290)	(27,549)
	2(b) (34,016)	(45,290)	(27,549)
	<b>(562,249)</b>	<b>(2,979,942)</b>	<b>(902,068)</b>
Non-operating grants, subsidies and contributions	2(a) 477,510	521,235	1,080,545
Profit on disposal of assets	10(a) 6,171	10,000	505
(Loss) on disposal of assets	10(a) (59,617)	(115,900)	(85,763)
(Loss) on revaluation of plant and equipment	8(a) 0	0	(77,245)
	<b>424,064</b>	<b>415,335</b>	<b>918,042</b>
<b>Net result for the period</b>	<b>(138,185)</b>	<b>(2,564,607)</b>	<b>15,974</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Changes in asset revaluation surplus	11 0	0	(861,227)
<b>Total other comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>(861,227)</b>
<b>Total comprehensive income for the period</b>	<b>(138,185)</b>	<b>(2,564,607)</b>	<b>(845,253)</b>

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

## 6.1.1 Audit Committee February 2020

SHIRE OF MURCHISON

### STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	NOTE	2019 \$	2018 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	7,688,103	6,208,904
Trade receivables	5	3,226,976	448,580
Other financial assets at amortised cost	7(a)	2,250,000	2,750,000
Inventories	6	98,542	179,191
<b>TOTAL CURRENT ASSETS</b>		<b>13,263,621</b>	<b>9,586,675</b>
<b>NON-CURRENT ASSETS</b>			
Financial assets at fair value through profit and loss	7(b)	17,805	0
Property, plant and equipment	8	9,417,040	9,849,188
Infrastructure	9	72,171,029	72,984,977
<b>TOTAL NON-CURRENT ASSETS</b>		<b>81,605,874</b>	<b>82,834,165</b>
<b>TOTAL ASSETS</b>		<b>94,869,495</b>	<b>92,420,840</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	1,398,325	270,604
Borrowings	13(a)	1,550,526	1,065
Employee related provisions	14	64,471	124,697
<b>TOTAL CURRENT LIABILITIES</b>		<b>3,013,322</b>	<b>396,366</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	13(a)	17,315	18,416
Employee related provisions	14	32,882	61,897
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>50,197</b>	<b>80,313</b>
<b>TOTAL LIABILITIES</b>		<b>3,063,519</b>	<b>476,679</b>
<b>NET ASSETS</b>		<b>91,805,976</b>	<b>91,944,161</b>
<b>EQUITY</b>			
Retained surplus		25,761,683	27,643,814
Reserves - cash backed	4	7,303,108	5,559,162
Revaluation surplus	11	58,741,185	58,741,185
<b>TOTAL EQUITY</b>		<b>91,805,976</b>	<b>91,944,161</b>

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

## 6.1.1 Audit Committee February 2020

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

	NOTE	RETAINED SURPLUS \$	RESERVES CASH BACKED \$	REVALUATION SURPLUS \$	TOTAL EQUITY \$
<b>Balance as at 1 July 2017</b>		27,637,306	5,549,696	59,602,412	92,789,414
Comprehensive income					
Net result for the period		15,974	0	0	15,974
Other comprehensive income	11	0	0	(861,227)	(861,227)
Total comprehensive income		15,974	0	(861,227)	(845,253)
Transfers from/(to) reserves		(9,466)	9,466	0	0
<b>Balance as at 30 June 2018</b>		27,643,814	5,559,162	58,741,185	91,944,161
Comprehensive income					
Net result for the period		(138,185)	0	0	(138,185)
Other comprehensive income	11	0	0	0	0
Total comprehensive income		(138,185)	0	0	(138,185)
Transfers from/(to) reserves		(1,743,946)	1,743,946	0	0
<b>Balance as at 30 June 2019</b>		25,761,683	7,303,108	58,741,185	91,805,976

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



## 6.1.1 Audit Committee February 2020

### SHIRE OF MURCHISON STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Rates	419,169	420,292	403,431
Operating grants, subsidies and contributions	14,047,509	1,802,496	9,789,858
Fees and charges	275,973	269,150	253,121
Interest received	189,604	100,750	106,000
Goods and services tax received	1,369,490	230,470	18,056
Other revenue	138,392	15,421,990	117,786
	16,440,137	18,245,148	10,688,252
<b>Payments</b>			
Employee costs	(1,296,119)	(1,246,867)	(1,220,574)
Materials and contracts	(12,680,434)	(16,265,187)	(7,320,353)
Utility charges	(36,276)	0	(3,106)
Interest expenses	(34,016)	(45,290)	(27,549)
Insurance paid	(141,862)	(164,473)	(155,294)
Goods and services tax paid	(1,326,920)	0	(208,503)
Other expenditure	(114,119)	(120,564)	(97,711)
	(15,629,746)	(17,842,381)	(9,033,090)
<b>Net cash provided by (used in) operating activities</b>	15 810,391	402,767	1,655,162
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for purchase of property, plant & equipment	(299,012)	(1,642,500)	(678,709)
Payments for construction of infrastructure	(1,577,983)	(5,577,291)	(3,859,886)
Movement on term deposit investment recognised as other financial asset at amortised cost	500,000	0	(2,750,000)
Non-operating grants, subsidies and contributions	477,510	521,235	1,080,545
Proceeds from sale of property, plant & equipment	19,933	257,100	93,864
<b>Net cash provided by (used in) investment activities</b>	(879,552)	(6,441,456)	(6,114,186)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings	(10,281,350)	(8,000,000)	(3,000,519)
Proceeds from new borrowings	11,829,710	8,000,000	3,020,000
<b>Net cash provided by (used in) financing activities</b>	1,548,360	0	19,481
<b>Net increase (decrease) in cash held</b>	1,479,199	(6,038,689)	(4,439,543)
Cash at beginning of year	6,208,904	8,958,904	10,648,447
<b>Cash and cash equivalents at the end of the year</b>	15 7,688,103	2,920,215	6,208,904

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

## 6.1.1 Audit Committee February 2020

### SHIRE OF MURCHISON RATE SETTING STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

NOTE	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
<b>OPERATING ACTIVITIES</b>			
<b>Net current assets at start of financial year - surplus/(deficit)</b>	3,756,909	3,794,404	4,913,067
	3,756,909	3,794,404	4,913,067
<b>Revenue from operating activities (excluding rates)</b>			
Governance	25,208	9,000	8,353
General purpose funding	3,912,678	1,790,450	3,594,927
Law, order, public safety	15,590	16,500	15,262
Housing	3,765	4,290	4,110
Recreation and culture	586	2,900	2,717
Transport	13,097,333	15,467,672	6,458,999
Economic services	265,247	260,250	244,700
Other property and services	136,672	80,000	109,155
	17,457,079	17,631,062	10,438,223
<b>Expenditure from operating activities</b>			
Governance	(290,229)	(357,714)	(368,396)
General purpose funding	(23,995)	(28,594)	(28,327)
Law, order, public safety	(96,817)	(140,321)	(126,079)
Health	(19,643)	(34,327)	(17,054)
Housing	0	(3,281)	(630)
Community amenities	(51,104)	(54,626)	(21,749)
Recreation and culture	(285,104)	(386,363)	(328,428)
Transport	(16,858,167)	(19,268,625)	(10,189,409)
Economic services	(781,024)	(791,979)	(698,373)
Other property and services	(125,201)	(71,366)	(135,193)
	(18,531,284)	(21,137,196)	(11,913,638)
Non-cash amounts excluded from operating activities	22(a) 2,996,112	3,093,947	3,262,584
<b>Amount attributable to operating activities</b>	5,678,816	3,382,217	6,700,236
<b>INVESTING ACTIVITIES</b>			
Non-operating grants, subsidies and contributions	2(a) 477,510	521,235	1,080,545
Proceeds from disposal of assets	10(a) 19,933	257,100	93,864
Purchase of property, plant and equipment	8(a) (299,012)	(1,642,500)	(678,709)
Purchase and construction of infrastructure	9(a) (1,577,983)	(5,577,291)	(3,859,886)
<b>Amount attributable to investing activities</b>	(1,379,552)	(6,441,456)	(3,364,186)
<b>FINANCING ACTIVITIES</b>			
Repayment of borrowings	13(b) (10,281,350)	(8,000,000)	(3,000,519)
Proceeds from borrowings	13(b) 11,829,710	8,000,000	3,020,000
Transfers to reserves (restricted assets)	4 (2,024,179)	(1,429,692)	(1,009,075)
Transfers from reserves (restricted assets)	4 280,233	4,068,639	999,609
<b>Amount attributable to financing activities</b>	(195,586)	2,638,947	10,015
<b>Surplus/(deficit) before imposition of general rates</b>	4,103,678	(420,292)	3,346,065
<b>Total amount raised from general rates</b>	21(a) 458,510	420,292	410,844
<b>Surplus/(deficit) after imposition of general rates</b>	22(b) 4,562,188	0	3,756,909

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 effect the application of policies and reported amounts of assets and liabilities, income and expenses.

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

### THE LOCAL GOVERNMENT REPORTING ENTITY

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

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

All monies held in the Trust Fund are excluded from the financial statements. A separate statement of those monies appears at Note 24 to these financial statements.

## 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:

#### Operating grants, subsidies and contributions

General purpose funding  
Law, order, public safety  
Transport

#### Non-operating grants, subsidies and contributions

Transport

#### Total grants, subsidies and contributions

	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
General purpose funding	3,722,382	1,689,500	3,488,792
Law, order, public safety	15,589	15,500	13,922
Transport	13,091,163	124,172	6,458,097
	16,829,134	1,829,172	9,960,811
Transport	477,510	521,235	1,080,545
	477,510	521,235	1,080,545
	17,306,644	2,350,407	11,041,356

#### 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.

## 6.1.1 Audit Committee February 2020

### 2. REVENUE AND EXPENSES (Continued)

#### (a) Revenue (Continued)

##### Significant revenue

WA Local Governments Grant Commission made an early payment of the 2019/20 grant. This was recognised as revenue in 2018/19.

WANDRRA Flood revenue

##### Other revenue

Reimbursements and recoveries

Other

##### Fees and Charges

Governance

Law, order, public safety

Recreation and culture

Economic services

Other property and services

##### Interest earnings

Reserve accounts interest

Rates instalment and penalty interest (refer Note 21(b))

Other interest earnings

	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
WA Local Governments Grant Commission made an early payment of the 2019/20 grant. This was recognised as revenue in 2018/19.	1,920,747	0	1,847,046
WANDRRA Flood revenue	12,888,169	0	6,338,726
<b>Other revenue</b>			
Reimbursements and recoveries	124,460	15,333,700	97,462
Other	31,737	88,290	20,324
	156,197	15,421,990	117,786
<b>Fees and Charges</b>			
Governance	8,090	5,000	4,656
Law, order, public safety	0	1,000	1,340
Recreation and culture	586	2,900	2,717
Economic services	265,247	260,250	244,408
Other property and services	2,050	0	0
	275,973	269,150	253,121
<b>Interest earnings</b>			
Reserve accounts interest	134,007	75,000	82,732
Rates instalment and penalty interest (refer Note 21(b))	3,503	750	980
Other interest earnings	52,094	25,000	22,288
	189,604	100,750	106,000

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

#### 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

## 6.1.1 Audit Committee February 2020

### 2. REVENUE AND EXPENSES (Continued)

#### (b) Expenses

##### Significant expense

WANDRRA Flood Damage.  
Expenditure incurred relates to the repair of flood damage sustained in January 2017 (AGRN743), sustained in January 2018 (AGRN781) is yet to commence as at 30 June 2018. The estimated cost of these repairs is \$15,336,954.

##### Auditors remuneration

- Audit of the Annual Financial Report
- Other services

##### Interest expenses (finance costs)

Borrowings (refer Note 13(b))

	2019 Actual \$	2019 Budget \$	2018 Actual \$
	13,061,715	0	6,559,619
	31,605	25,000	22,402
	3,318	10,000	1,605
	34,923	35,000	24,007
	34,016	45,290	27,549
	34,016	45,290	27,549

**3. CASH AND CASH EQUIVALENTS**

	NOTE	2019	2018
		\$	\$
<b>Cash and cash equivalents</b>			
Cash at bank and on hand		1,309,291	1,208,941
Term deposits		6,378,812	4,999,963
<b>Total cash and cash equivalents</b>		<b>7,688,103</b>	<b>6,208,904</b>
<b>Other financial assets at amortised cost</b>			
Term deposits	7	2,250,000	2,750,000
<b>Total other financial assets at amortised cost</b>		<b>2,250,000</b>	<b>2,750,000</b>
<b>Total cash and cash equivalents and other financial assets at amortised cost</b>		<b>9,938,103</b>	<b>8,958,904</b>
<b>Comprises:</b>			
- Unrestricted		1,941,863	3,063,864
- Restricted		7,996,240	5,895,040
<b>Total cash and cash equivalents and other financial assets at amortised cost</b>		<b>9,938,103</b>	<b>8,958,904</b>
The following restrictions have been imposed by regulations or other externally imposed requirements:			
<b>Reserve accounts</b>			
Leave Reserve	4	135,709	181,983
Plant Replacement	4	1,410,356	975,370
Buildings	4	502,893	135,114
Beringarra-Cue Road	4	3,411,313	3,499,963
Cue Road Reserves	4	125,171	125,171
Transaction Centre	4	0	6,329
Ballinyoo Bridge	4	0	46,115
CSIRO Beringarra-Pindar Road	4	171,673	168,227
Flood Damage Repairs	4	250,568	69,145
Settlement Buildings and Facilities	4	920,425	351,745
Road Sealing Reserve	4	375,000	0
		<b>7,303,108</b>	<b>5,559,162</b>
<b>Other restricted cash and cash equivalents</b>			
Unspent grants/contributions	20	274,230	330,878
Unspent loans	13(c)	5,000	5,000
Bonds and deposits - from Trust	23	413,902	0
<b>Total restricted cash and cash equivalents</b>		<b>7,996,240</b>	<b>5,895,040</b>

**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.

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SHIRE OF MURCHISON

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FOR THE YEAR ENDED 30 JUNE 2019

### 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) Leave Reserve	181,983	3,726	(50,000)	135,709	181,983	3,640	(50,000)	135,623	121,337	60,646	0	181,983
(e) Plant Replacement	975,370	434,986	0	1,410,356	975,370	432,060	(403,000)	1,004,430	791,372	542,998	(359,000)	975,370
(f) Buildings	135,114	367,779	0	502,893	135,114	152,365	(50,000)	237,479	134,399	715	0	135,114
(g) Beringarra-Cue Road	3,499,963	88,102	(176,752)	3,411,313	3,625,134	20,410	(3,517,700)	127,844	3,743,186	50,526	(293,749)	3,499,963
(h) Cue Road Reserves	125,171	0	0	125,171	0	0	0	0	41,550	300,481	(216,860)	125,171
(i) Transaction Centre	6,329	94	(6,423)	0	6,329	110	(6,439)	0	6,296	33	0	6,329
(j) Ballinyoo Bridge	46,115	943	(47,058)	0	46,115	807	0	46,922	45,870	245	0	46,115
(k) CSIRO Beringarra-Pindar Road	168,227	3,446	0	171,673	168,227	2,940	0	171,167	167,336	891	0	168,227
(l) Flood Damage Repairs	69,145	181,423	0	250,568	69,144	181,210	0	250,354	198,202	943	(130,000)	69,145
(m) Settlement Buildings and Facilities	351,745	568,680	0	920,425	351,746	561,150	(41,500)	871,396	300,148	51,597	0	351,745
(n) Road Sealing Reserve	0	375,000	0	375,000	0	75,000	0	75,000	0	0	0	0
	5,559,162	2,024,179	(280,233)	7,303,108	5,559,162	1,429,692	(4,068,639)	2,920,215	5,549,696	1,009,075	(999,609)	5,559,162

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) Leave Reserve	Ongoing	To be used to fund annual and long service leave requirements.
(e) Plant Replacement	Ongoing	To be used for the purchase of plant.
(f) Buildings	Ongoing	To be used for the construction / renovation of administration centre.
(g) Beringarra-Cue Road	Ongoing	To be used to convert the road from bitumen to gravel as required.
(i) Transaction Centre	N/A	Set up for development of CBD - transferred to settlements buildings and facilities reserve
(j) Ballinyoo Bridge	Ongoing	To be used for the maintenance or replacement of bridge 837.
(k) CSIRO Beringarra-Pindar Road	Ongoing	To be used to fund additional maintenance work required due to CSIRO traffic.
(l) Flood Damage Repairs	Ongoing	To be used towards the 'trigger point' for WANDRRA funded flood damage works.
(m) Settlement Buildings and Facilities	Ongoing	To be used to fund improvements to and maintenance of settlement buildings and facilities.
(n) Road Sealing Reserve	Ongoing	To be used to fund road sealing program.



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### 5. TRADE RECEIVABLES

#### Current

	2019	2018
	\$	\$
Rates receivable	53,215	13,874
Sundry receivables	595,911	2,979
GST receivable	187,900	230,470
Accrued income/Payments in Advance	36,561	201,257
Contract Asset	2,353,389	0
	3,226,976	448,580

Information with respect to the impairment or otherwise of the totals of rates outstanding and sundry debtors is as follows:

#### Rates outstanding

Includes:

Past due and not impaired	53,215	13,874
---------------------------	--------	--------

Table illustrates the rates outstanding aging analysis

Up to one year	53,215	13,874
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#### Sundry debtors

Includes:

Past due and not impaired	2,600	2,374
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Table illustrates the rates outstanding aging analysis

Up to one month	593,311	605
One to three month	345	2,374
More than three months	2,255	0
	595,911	2,979

## 5. TRADE RECEIVABLES (Continued)

### 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  
History books

	2019	2018
	\$	\$
Fuel and materials	98,061	172,993
History books	481	6,198
	98,542	179,191
	179,191	153,780
Inventories expensed during the year	(524,222)	(515,306)
Additions to inventory	443,573	540,717
	98,542	179,191

The following movements in inventories occurred during the year:

**Carrying amount at 1 July**

Inventories expensed during the year

Additions to inventory

**Carrying amount at 30 June****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.

**Land held for resale**

Land held for development and resale is valued at the lower of cost and net realisable value. Cost includes the cost of acquisition, development, borrowing costs and holding costs until completion of development.

**Land held for resale (Continued)**

Borrowing costs and holding charges incurred after development is completed are expensed.

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

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

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### 7. OTHER FINANCIAL ASSETS

#### (a) Current assets

Other financial assets at amortised cost

2019	2018
\$	\$
2,250,000	2,750,000
2,250,000	2,750,000

#### Other financial assets at amortised cost

- Financial assets at amortised cost - term deposits

2,250,000	2,750,000
2,250,000	2,750,000

#### (b) Non-current assets

Financial assets at fair value through profit and loss

17,805	0
17,805	0

#### Non current financial assets at fair value through profit and loss

Unlisted equity investments

Units in Local Government House Trust

17,805	0
17,805	0

Changes in the fair value of Units in Local Government House recognised as non-current financial assets at fair value through profit and loss have not been recognised nor considered as they are unlikely to be material and unable to be reliably determined at the time of preparation of these Statements

#### Local government house trust

The Shire holds 1 of 620 units in the local government house trust which purchased the Local Government House.

The total contribution by all Councils towards the purchase of the building was \$582,000.

Based on net assets of \$11,039,266 and 620 units, the value of 1 unit in the local government house at 30 June 2019 is \$17,805.

This asset has been brought to account in 2019 as shown above.

#### SIGNIFICANT ACCOUNTING POLICIES

##### Other financial assets at amortised cost

The Shire classifies financial assets at amortised cost if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cashflows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

##### Financial assets at fair value through profit and loss

The Shire classifies the following financial assets at fair value through profit and loss:

- debt investments which do not qualify for measurement at either amortised cost or fair value through other comprehensive income.
- equity investments which the Shire has not elected to recognise fair value gains and losses through other comprehensive income.

##### Impairment and risk

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

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Previous accounting policy: available for sale financial assets

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

##### Previous accounting policy: Loans and receivables

Non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and are solely payments of principal and interest were classified as loans and receivables and are subsequently measured at amortised cost, using the effective interest rate method.

Refer to Note 26 for explanations regarding the change in accounting policy and reclassification of available for sale financial assets to financial assets at fair value through profit and loss.

## 6.1.1 Audit Committee February 2020

SHIRE OF MURCHISON

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FOR THE YEAR ENDED 30 JUNE 2019

### 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.

	Buildings non specialised	Total buildings	Total land and buildings	Furniture & Equipment	Plant & Equipment	Works in Progress	Total property, plant and equipment
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2017</b>	7,107,032	7,107,032	7,107,032	105,602	2,896,737	6,535	10,115,906
Additions	5,932	5,932	5,932	0	672,777	0	678,709
(Disposals)	0	0	0	0	(179,122)	0	(179,122)
Revaluation increments / (decrements) transferred to revaluation surplus	0	0	0	0	150,857	0	150,857
Revaluation (loss) / reversals transferred to profit or loss	0	0	0	(77,245)	0	0	(77,245)
Depreciation (expense)	(353,741)	(353,741)	(353,741)	(11,857)	(474,319)	0	(839,917)
<b>Carrying amount at 30 June 2018</b>	6,759,223	6,759,223	6,759,223	16,500	3,066,930	6,535	9,849,188
<b>Comprises:</b>							
Gross carrying amount at 30 June 2018	7,112,964	7,112,964	7,112,964	16,500	3,066,930	6,535	10,202,929
Accumulated depreciation at 30 June 2018	(353,741)	(353,741)	(353,741)	0	0	0	(353,741)
<b>Carrying amount at 30 June 2018</b>	6,759,223	6,759,223	6,759,223	16,500	3,066,930	6,535	9,849,188
Additions	222,077	222,077	222,077	10,338	66,597	0	299,012
(Disposals)	(14,566)	(14,566)	(14,566)	(10,123)	(48,690)	0	(73,379)
Depreciation (expense)	(296,581)	(296,581)	(296,581)	(3,051)	(358,149)	0	(657,781)
<b>Carrying amount at 30 June 2019</b>	6,670,153	6,670,153	6,670,153	13,664	2,726,688	6,535	9,417,040
<b>Comprises:</b>							
Gross carrying amount at 30 June 2019	7,291,466	7,291,466	7,291,466	14,500	3,079,194	6,535	10,391,695
Accumulated depreciation at 30 June 2019	(621,313)	(621,313)	(621,313)	(836)	(352,506)	0	(974,655)
<b>Carrying amount at 30 June 2019</b>	6,670,153	6,670,153	6,670,153	13,664	2,726,688	6,535	9,417,040

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### 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
Buildings - non specialised	3	Cost approach using depreciated replacement cost	Independent valuer	June 2017	Improvements to land using residual values and remaining useful life assessments inputs.
Furniture & Equipment	2	Market approach using recent observable market data for similar assets	Independent valuer	June 2018	Market price per item
Plant & Equipment	2	Market approach using recent observable market data for similar assets	Independent valuer	June 2018	Market price per item

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.

	Roads	Bridges	Total Infrastructure
	\$	\$	\$
<b>Balance at 1 July 2017</b>	68,339,000	3,974,464	72,313,464
Additions	3,859,886	0	3,859,886
Revaluation increments / (decrements) transferred to revaluation surplus	(1,071,299)	59,215	(1,012,084)
Depreciation (expense)	(2,136,544)	(39,745)	(2,176,289)
<b>Carrying amount at 30 June 2018</b>	68,991,043	3,993,934	72,984,977
<b>Comprises:</b>			
Gross carrying amount at 30 June 2018	68,991,043	3,993,934	72,984,977
Accumulated depreciation at 30 June 2018	0	0	0
<b>Carrying amount at 30 June 2018</b>	68,991,043	3,993,934	72,984,977
Additions	1,577,983	0	1,577,983
Depreciation (expense)	(2,340,727)	(51,204)	(2,391,931)
<b>Carrying amount at 30 June 2019</b>	68,228,299	3,942,730	72,171,029
<b>Comprises:</b>			
Gross carrying amount at 30 June 2019	70,569,026	3,993,934	74,562,960
Accumulated depreciation at 30 June 2019	(2,340,727)	(51,204)	(2,391,931)
<b>Carrying amount at 30 June 2019</b>	68,228,299	3,942,730	72,171,029

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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
Roads	3	Cost approach using depreciated replacement cost	Management valuation	June 2018	Construction costs and current condition residual values and remaining useful life assessments.
Bridges	3	Cost approach using depreciated replacement cost	Management valuation	June 2018	Construction costs and current condition residual values and remaining useful life assessments.

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.



**10. 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 30 JUNE 2019

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

##### (a) Disposals of Assets

	2019	2019	2019	2019	2018	2018	2018	2018
	Actual Net Book Value	Actual Sale Proceeds	Actual Profit	Actual Loss	Actual Net Book Value	Actual Sale Proceeds	Actual Profit	Actual Loss
Buildings non-specialised Regulation 17A assets*	14,566	0	0	(14,566)	0	0	0	0
Furniture & Equipment Regulation 17A assets*	10,123	0	0	(10,123)	0	0	0	0
Plant & Equipment Regulation 17A assets*	17,020	0	0	(17,020)				
Plant & Equipment	31,670	19,933	6,171	(17,908)	363,000	257,100	10,000	(115,900)
	73,379	19,933	6,171	(59,617)	179,122	93,864	505	(85,763)

	2019	2019	2019	2019
	Actual Net Book Value	Actual Sale Proceeds	Actual Profit	Actual Loss
<b>Plant and Equipment</b>	\$	\$	\$	\$
Transport	33,760	19,933	6,171	(17,909)
	33,760	19,933	6,171	(17,909)

\*The above table includes assets that were acquired for less than \$5,000. These assets have been disposed in accordance with the requirements of Regulation 17A(5) of the *Local Government (Financial Management) Regulations 1996*. The net book value of these assets was \$41,709.

The following assets were disposed of during the year.

	2019	2019	2019	2019
	Actual Net Book Value	Actual Sale Proceeds	Actual Profit	Actual Loss
<b>Plant and Equipment</b>				
<b>Transport</b>				
Caravan construction crew	8,401	3,218	0	(5,183)
Caravan - Elross 2 person MU664	14,001	6,171	0	(7,830)
Powerstar 6300 Tip Truck	9,268	4,373	0	(4,895)
Single axle box trailer	0	4,672	4,672	0
MU2006 Box Top Trailer and cage	0	1,499	1,499	0
Transport Total	31,670	19,933	6,171	(17,908)
<b>Buildings non-specialised Regulation 17A assets</b>				
<b>Housing</b>				
Various Fences and airconditioners	(12,033)	0	0	12,033
<b>Community amenities</b>				
Community water tank	3,597	0	0	(3,597)
<b>Recreation and culture</b>				
Gazebo Carnarvan	1,957	0	0	(1,957)
Freight Depot Building	1,644	0	0	(1,644)
Polo Goal post Murchison	1,645	0	0	(1,645)
Fencing	3,778	0	0	(3,778)
Truck Canopy at Museum	2,646	0	0	(2,646)
Tennis Hit up wall and shed	1,850	0	0	(1,850)
	13,520	0	0	(13,520)
<b>Transport</b>				
Storage shed	4,770	0	0	(4,770)
<b>Economic services</b>				
Fence - power station	666	0	0	(666)
Water supply shed	4,046	0	0	(4,046)
Total economic services	4,712			(4,712)
<b>Total</b>	14,566	0	0	(14,566)
<b>Furniture and Equipment Regulation 17A assets</b>				
<b>Governance</b>				
Surface Pro tablets	8,357	0	0	(8,357)
<b>Recreation and culture</b>				
Large flat screen TV	1,766		0	(1,766)
<b>Total</b>	10,123	0	0	(10,123)
<b>Plant and Equipment Regulation 17A assets</b>	<b>Value</b>	<b>Proceeds</b>	<b>Profit</b>	<b>Loss</b>
<b>Community amenities</b>				
IGEBBA Fogger	2,207	0	0	(2,207)
<b>Recreation and culture</b>				
Shade shelter playground	1,532	0	0	(1,532)
<b>Transport</b>				
Chemical Toilet	2,091	0	0	(2,091)
<b>Economic services</b>				
Tank - Fuel Station	2,207	0	0	(2,207)
Coin operated washing machine	2,208	0	0	(2,208)
Total Economic services	4,415	0	0	(4,415)
<b>Other property and services</b>				
Vast TV Service to Construction Crew	2,062	0	0	(2,062)
Maintenance Centre tool box	1,649	0	0	(1,649)
Air conditioning tools for mechanic	1,649	0	0	(1,649)
Miscellaneous small plant	1,415	0	0	(1,415)
Total other property and services	6,775	0	0	(6,775)
<b>Total</b>	17,020	0	0	(17,020)

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

	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
Buildings non specialised	296,581	368,111	353,741
Furniture & Equipment	3,051	10,459	11,857
Plant & Equipment	358,149	463,021	474,319
Roads	2,340,727	2,238,255	2,136,544
Bridges	51,204	41,539	39,745
	3,049,712	3,121,385	3,016,206

**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	30 to 50 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
Footpaths - slab	20 years
Sewerage piping	100 years
Water supply piping and drainage systems	75 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.

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### 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
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Buildings - non specialised	5,397,026	0	0	0	5,397,026	5,397,026	0	0	0	5,397,026
Plant & equipment	1,506,304	0	0	0	1,506,304	1,355,447	150,857	0	150,857	1,506,304
Roads	51,778,640	0	0	0	51,778,640	52,849,939	0	(1,071,299)	(1,071,299)	51,778,640
Bridges	59,215	0	0	0	59,215	0	59,215	0	59,215	59,215
	58,741,185	0	0	0	58,741,185	59,602,412	210,072	(1,071,299)	(861,227)	58,741,185

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****Current**

Sundry creditors	
Accrued salaries and wages	
ATO liabilities	
Accrued Expenses	
Bonds and deposits - from Trust	

2019	2018
\$	\$
925,391	212,603
8,324	11,127
37,438	29,180
13,270	17,694
413,902	0
1,398,325	270,604

**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

**Trade and other payables (Continued)**

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

#### 13. INFORMATION ON BORROWINGS

(a) Borrowings	2019	2018
	\$	\$
Current	1,550,526	1,065
Non-current	17,315	18,416
	<u>1,567,841</u>	<u>19,481</u>

#### (b) Repayments - Borrowings

Particulars	Loan Number	Institution	Interest Rate	30 June 2019					30 June 2019					30 June 2018				
				Actual Principal	Actual New Loans	Actual Principal repayments	Actual Interest repayments	Actual Principal outstanding	Budget Principal	Budget New Loans	Budget Principal repayments	Budget Interest repayments	Budget Principal outstanding	Actual Principal	Actual New Loans	Actual Principal repayments	Actual Interest repayments	Actual Principal outstanding
				\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Transport</b>																		
Flood damage line of credit		WATC		0	0	0	0	0	0	0	0	0	3,000,000	3,000,000	27,216	0		
Plant	1	WATC	3.33%	19,481	0	1,065	640	18,416	19,581	0	0	790	19,581	0	20,000	519	333	19,481
Finance Flood Damage works	2	WATC	Variable	0	11,829,710	10,280,285	33,376	1,549,425	0	8,000,000	8,000,000	44,500	0	0	0	0	0	0
				<u>19,481</u>	<u>11,829,710</u>	<u>10,281,350</u>	<u>34,016</u>	<u>1,567,841</u>	<u>19,581</u>	<u>8,000,000</u>	<u>8,000,000</u>	<u>45,290</u>	<u>19,581</u>	<u>0</u>	<u>3,020,000</u>	<u>3,000,519</u>	<u>27,549</u>	<u>19,481</u>
				<u>19,481</u>	<u>11,829,710</u>	<u>10,281,350</u>	<u>34,016</u>	<u>1,567,841</u>	<u>19,581</u>	<u>8,000,000</u>	<u>8,000,000</u>	<u>45,290</u>	<u>19,581</u>	<u>0</u>	<u>3,020,000</u>	<u>3,000,519</u>	<u>27,549</u>	<u>19,481</u>

\* WA Treasury Corporation

All other loan repayments were financed by general purpose revenue.

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### 13. INFORMATION ON BORROWINGS (Continued)

#### (c) Unspent Borrowings

Particulars	Date	Unspent	Borrowed	Expended	Unspent
	Borrowed	Balance	During	During	Balance
		1 July 2018	Year	Year	30 June 2019
		\$	\$	\$	\$
Plant	01 Dec 17	5,000	0	0	5,000
* WA Treasury Corporation		5,000	0	0	5,000

#### (d) Undrawn Borrowing Facilities

##### Credit Standby Arrangements

	2019	2018
	\$	\$
Bank overdraft limit	100,000	100,000
Credit card limit	5,000	5,000
<b>Total amount of credit unused</b>	<b>105,000</b>	<b>105,000</b>

##### Loan facilities

Loan facilities - current	1,550,526	1,065
Loan facilities - non-current	17,315	18,416
<b>Total facilities in use at balance date</b>	<b>1,567,841</b>	<b>19,481</b>

##### Unused loan facilities at balance date

	5,000	5,000
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#### 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.

## 14. EMPLOYEE RELATED PROVISIONS

## Employee Related Provisions

	Provision for Annual Leave \$	Provision for Long Service Leave \$	Total \$
<b>Opening balance at 1 July 2018</b>			
Current provisions	100,860	23,837	124,697
Non-current provisions	0	61,897	61,897
	<b>100,860</b>	<b>85,734</b>	<b>186,594</b>
Additional provision	(63,401)	(25,840)	(89,241)
<b>Balance at 30 June 2019</b>	<b>37,459</b>	<b>59,894</b>	<b>97,353</b>
<b>Comprises</b>			
Current	37,459	27,012	64,471
Non-current	0	32,882	32,882
	<b>37,459</b>	<b>59,894</b>	<b>97,353</b>
	<b>2019</b>	<b>2018</b>	
	\$	\$	
Amounts are expected to be settled on the following basis:			
Less than 12 months after the reporting date	56,566	0	
More than 12 months from reporting date	40,787	186,594	
	<b>97,353</b>	<b>186,594</b>	

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

**Other long-term employee benefits (Continued)**

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	7,688,103	2,920,215	6,208,904
<b>Reconciliation of Net Cash Provided By Operating Activities to Net Result</b>			
Net result	(138,185)	(2,564,607)	15,974
Non-cash flows in Net result:			
Depreciation	3,049,712	3,121,385	3,016,206
(Profit)/loss on sale of asset	53,446	105,900	85,258
Loss on revaluation of fixed assets	0	0	77,245
Recognition of Unit in Local Government House Trust	(17,805)	0	0
Changes in assets and liabilities:			
(Increase)/decrease in receivables	(2,778,396)	203,794	(368,813)
(Increase)/decrease in inventories	80,649	0	(25,410)
Increase/(decrease) in payables	1,127,721	57,530	(89,555)
Increase/(decrease) in provisions	(89,241)	0	24,802
Grants contributions for the development of assets	(477,510)	(521,235)	(1,080,545)
Net cash from operating activities	810,391	402,767	1,655,162

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### 16. TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY

	2019	2018
	\$	\$
Governance	2,326,675	1,164,080
General purpose funding	2,274,308	3,413,616
Law, order, public safety	136,622	177,194
Health	26,566	30,013
Housing	823,339	838,561
Community amenities	42,151	50,565
Recreation and culture	1,125,776	1,216,845
Transport	85,429,740	82,874,657
Economic services	1,944,139	2,016,735
Other property and services	740,179	376,783
Unallocated	0	261,791
	94,869,495	92,420,840

## 17. CONTINGENT LIABILITIES

The Shire of Murchison has in compliance with the *Contaminated Sites Act 2003* section 11 listed sites to be possible sources of contamination - details of those sites:

- Murchison settlement tip
- Murchison works depot

Until the Shire conducts an investigation to determine the presence and scope of contamination together with the remediation required the amount of the contingent liability is unknown. When the closure of the current tip is required and the subsequent setup of a new tip site happens, this process will be done in conjunction with the Shire's contract Environment Health Officer.

## 18. RELATED PARTY TRANSACTIONS

## Elected Members Remuneration

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

	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
Meeting Fees	58,090	56,000	55,790
President's Allowance	6,990	6,990	6,990
Deputy President's Allowance	1,750	1,750	1,750
Travelling expenses	20,653	28,824	14,909
Telecommunications allowance	6,937	8,000	6,699
	94,420	101,564	86,138

## Key Management Personnel (KMP) Compensation Disclosure

The total of remuneration paid to KMP of the Shire during the year are as follows:

	2019 Actual	2018 Actual
	\$	\$
Short-term employee benefits	344,340	345,632
Post-employment benefits	50,573	47,576
Other long-term benefits	3,452	7,270
Termination benefits	56,404	2,104
	454,769	402,582

*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 accruing during the year.

*Termination benefits*

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

**18. 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
	\$	\$
Purchase of goods and services		
- Key management personnel	4,289,595	723,492
<b>Amounts payable to related parties:</b>		
Trade and other receivables		
- Key management personnel	203,984	6,353
Fees and allowances		
- Elected members	24,520	21,057

**Related Parties****The Shire's main related parties are as follows:***i. Key management personnel*

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

*ii. Other Related Parties*

The associate person of KMP was employed by the Shire under normal employment terms and conditions.

*iii. Entities subject to significant influence by the Shire*

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



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### 20. CONDITIONS OVER GRANTS/CONTRIBUTIONS

Grant/Contribution	Opening Balance <sup>(1)</sup>	Received <sup>(2)</sup>	Expended <sup>(3)</sup>	Closing Balance <sup>(1)</sup>	Received <sup>(2)</sup>	Expended <sup>(3)</sup>	Closing Balance
	1/07/17	2017/18	2017/18	30/06/18	2018/19	2018/19	30/06/19
	\$	\$	\$	\$	\$	\$	\$
<b>Community amenities</b>							
Department of Planning	15,300	0	0	15,300	0	0	15,300
<b>Transport</b>							
MWIP - Ballinyoo Bridge	1,486,406	0	(1,486,406)	0	0	0	0
CSIRP - Road Construction	295,776	2,161	(43,400)	254,537	4,393	0	258,930
Regional Development - Bridge	100,000	12,065	0	112,065	377	(112,442)	0
Roads to Recovery	0	1,150,637	(1,201,661)	(51,024)	265,535	(214,511)	0
	<b>1,897,482</b>	<b>1,164,863</b>	<b>(2,731,467)</b>	<b>330,878</b>	<b>270,305</b>	<b>(326,953)</b>	<b>274,230</b>

**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.

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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 Total Revenue \$	2017/18 Actual Total Revenue \$
<b>Differential general rate / general rate</b>										
<b>Unimproved valuations</b>										
Rural	0.031200	23	1,459,657	45,541	0	0	45,541	45,541	45,541	42,422
Mining	0.294000	11	1,295,782	380,960	1,290	(69)	382,181	344,584	344,584	341,748
Prospecting and Exploration	0.076750	20	298,128	22,882	0	0	22,882	22,701	22,701	22,214
<b>Sub-Total</b>		54	3,053,567	449,383	1,290	(69)	450,604	412,826	412,826	406,384
<b>Minimum payment</b>										
<b>Unimproved valuations</b>										
Rural	291	6	13,263	1,746	0	0	1,746	1,746	1,746	1,108
Prospecting and Exploration	440	14	55,152	6,160	0	0	6,160	5,720	5,720	3,352
<b>Sub-Total</b>		20	68,415	7,906	0	0	7,906	7,466	7,466	4,460
<b>Total amount raised from general rate</b>		74	3,121,982	457,289	1,290	(69)	458,510	420,292	420,292	410,844

#### 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.



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### 21. RATING INFORMATION (Continued)

#### (b) Interest Charges & Instalments

Instalment Options	Date Due	Instalment Plan Admin Charge \$	Instalment Plan Interest Rate %	Unpaid Rates Interest Rate %
<b>Option One</b>				
Payment in full	5/10/2018	0.00	0.00%	8.00%
<b>Option Three</b>				
1st Instalment	5/10/2018	0.00	0.00%	0.00%
2nd Instalment	6/12/2018	11.00	0.00%	0.00%
3rd Instalment	7/02/2019	11.00	0.00%	0.00%
4th Instalment	9/04/2019	11.00	0.00%	0.00%

	2019 Actual \$	2019 Budget \$	2018 Actual \$
Interest on unpaid rates	3,503	750	980
Charges on instalment plan	693	200	135
	4,196	950	1,115

## 22. RATE SETTING STATEMENT INFORMATION

		2018/19 Budget	2018/19
	2018/19 (30 June 2019 Carried Forward)	(30 June 2019 Carried Forward)	(1 July 2018 Brought Forward)
Note	\$	\$	\$
<b>(a) Non-cash amounts excluded from operating activities</b>			
The following non-cash revenue or expenditure has been excluded from amounts attributable to operating activities within the Rate Setting Statement in accordance with <i>Financial Management Regulation 32</i> .			
<b>Adjustments to operating activities</b>			
Less: Profit on asset disposals	10(a) (6,171)	(10,000)	(505)
Less: Recognition of unit in LG house trust	(17,805)	0	0
Movement in pensioner deferred rates (non-current)	0		1,795
Movement in employee benefit provisions (non-current)	(89,241)	(133,338)	82,080
Add: Loss on disposal of assets	10(a) 59,617	115,900	85,763
Add: Loss on revaluation of fixed assets	8(a) 0	0	77,245
Add: Depreciation on assets	10(b) 3,049,712	3,121,385	3,016,206
<b>Non cash amounts excluded from operating activities</b>	<b>2,996,112</b>	<b>3,093,947</b>	<b>3,262,584</b>
<b>(b) Surplus/(deficit) after imposition of general rates</b>			
The following current assets and liabilities have been excluded from the net current assets used in the Rate Setting Statement in accordance with <i>Financial Management Regulation 32</i> to agree to the surplus/(deficit) after imposition of general rates.			
<b>Adjustments to net current assets</b>			
Less: Reserves - restricted cash	3 (7,303,108)	(2,920,215)	(5,559,162)
Add: Borrowings	13(a) 1,550,526	545	1,065
Add: Employee leave provision - current	64,471	48,594	124,697
<b>Total adjustments to net current assets</b>	<b>(5,688,111)</b>	<b>(2,871,076)</b>	<b>(5,433,400)</b>
<b>Net current assets used in the Rate Setting Statement</b>			
Total current assets	13,263,621	3,324,452	9,586,675
Less: Total current liabilities	(3,013,322)	(453,376)	(396,366)
Less: Total adjustments to net current assets	(5,688,111)	(2,871,076)	(5,433,400)
<b>Net current assets used in the Rate Setting Statement</b>	<b>4,562,188</b>	<b>0</b>	<b>3,756,909</b>

**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
<b>Market risk - interest rate</b>	Long term borrowings at variable rates	Sensitivity analysis	Utilise fixed interest rate borrowings
<b>Credit risk</b>	Cash and cash equivalents, trade receivables, financial assets and debt investments	Aging analysis Credit analysis	Diversification of bank deposits, credit limits. Investment policy
<b>Liquidity risk</b>	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
	%	\$	\$	\$	\$
<b>2019</b>					
Cash and cash equivalents	1.79%	7,688,103	6,378,812	1,309,291	0
Financial assets at amortised cost - term deposits	2.06%	2,250,000	2,250,000	0	0
<b>2018</b>					
Cash and cash equivalents	2.25%	6,208,904	4,999,963	1,208,941	0
Financial assets at amortised cost	2.84%	2,750,000	2,750,000	0	0

**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% movement in interest rates on profit and loss and equity*	95,243	89,589

\* 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. Or alternatively borrowing short term at a variable rate. The Shire does not consider there to be any credit rate risk in relation to borrowings. Details of interest rates applicable to each borrowing may be found be found at Note 13(b).

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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.

No expected credit loss was forecast on 1 July 2018 or 30 June 2019 for rates receivable as penalty interest applies to unpaid rates and properties associated with unpaid rates 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
<b>30 June 2019</b>					
Rates receivable					
Expected credit loss	0.00%	0.00%	0.00%	0.00%	0.00%
Gross carrying amount	657	49,318	3,240	0	53,215
<b>30 June 2018</b>					
Rates receivable					
Expected credit loss	0.00%	0.00%	0.00%	0.00%	0
Gross carrying amount	80	13,794	0	0	13,874

No expected credit loss was forecast for sundry receivables.

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
<b>30 June 2019</b>					
Sundry Receivables					
Expected credit loss	0.00%	0.00%	0.00%	0.00%	0.00%
Gross carrying amount	593,272	385	0	2,254	595,911
<b>30 June 2018</b>					
Sundry Receivables					
Expected credit loss	0.00%	0.00%	0.00%	0.00%	0.00%
Gross carrying amount	605	1,983	391	0	2,979

## 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(d).

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
	\$	\$	\$	\$	\$
<b>2019</b>					
Payables	1,398,325	0	0	1,398,325	1,398,325
Borrowings	1,552,848	8,524	12,786	1,574,158	1,567,841
	2,951,173	8,524	12,786	2,972,483	2,966,166
<b>2018</b>					
Payables	270,604	0	0	270,604	270,604
Borrowings	1,705	8,524	14,491	24,720	19,481
	272,309	8,524	14,491	295,324	290,085

## 6.1.1 Audit Committee February 2020

### 24. TRUST FUNDS

Funds held at balance date which are required to be held in trust and which are not included in the financial statements are as follows:

	1 July 2018	Amounts Received	Amounts Paid	Reclassified to Restricted Cash*	30 June 2019
	\$	\$	\$	\$	\$
Housing Bonds	7,350	600	(1,000)	(6,950)	0
Crosslands Murchison Community Fund	397,582	9,352	0	(406,934)	0
Social Club	8,280	824	(9,104)	0	0
Police licensing	0	8,984	(8,966)	(18)	0
	413,212	19,760	(19,070)	(413,902)	0

\*Refer to Note 3.

## 6.1.1 Audit Committee February 2020

SHIRE OF MURCHISON

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2019

### 25. EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD

No subsequent events were noted that require disclosure.

## 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 and no adjustments to the amounts recognised in the financial statements. In accordance with AASB 9.7.2.15, the Shire has not restated the comparative information which continues to be reported under AASB 139.

#### (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.



## **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 has designated the investment in the local government house trust as a financial asset at fair value through profit and loss. For details see Note 7.

### **(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.

### 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.

#### (a) Revenue from Contracts with Customers

The Shire will adopt AASB 15 Revenue from Contracts with Customers (issued December 2014) on 1 July 2019 resulting in changes in accounting policies. In accordance with the transition provisions AASB 15, the Shire will adopt the new rules retrospectively with the cumulative effect of initially applying these rules recognised on 1 July 2019. The Shire is in the process of assessing the impact of the standard.

#### (b) Leases

The Shire adopted AASB 16 retrospectively from 1 July 2019 which resulted in changes in accounting policies. In accordance with the transition provisions of AASB 16, the Shire has applied this Standard to its leases retrospectively, with the cumulative effect of initially applying AASB 16 recognised on 1 July 2019. In applying the AASB 16 under the specific transition provisions chosen, the Shire will not restate comparatives for prior reporting periods.

On adoption of AASB 16, the Shire will recognise lease liabilities in relation to leases which had previously been classified as an 'operating lease' applying AASB 117. These lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on 1 July 2019.

On adoption of AASB 16, the Shire will recognise a right-of-use asset in relation to a lease which had previously been classified as an 'operating lease' applying AASB 117. This right-of-use asset is to be measured as if AASB 16 had been applied since its commencement date by the carrying amount but discounted using the lessee's incremental borrowing rate as on 1 July 2019.

On adoption of AASB 16 Leases (issued February 2016), for leases which had previously been classified as an 'operating lease' when applying AASB 117, the Shire is not required to make any adjustments on transition for leases for which the underlying asset is of low value. Assets for which the fair value as at the date of acquisition is under \$5,000 are not recognised as an asset in accordance with *Financial Management Regulation 17A (5)*.

In applying AASB 16 for the first time, the Shire will use the following practical expedient permitted by the standard.

- The exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The Shire is in the process of assessing the impact of the standard.

**27. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS FOR APPLICATION IN FUTURE YEARS (Continued)****(c) Income For Not-For-Profit Entities**

The Shire will adopt AASB 1058 Income for Not-for-Profit Entities (issued December 2016) on 1 July 2019 which will result in changes in accounting policies. In accordance with the transition provisions AASB 1058, the Shire will adopt the new rules retrospectively with the cumulative effect of initially applying AASB 1058 recognised at 1 July 2019. Comparative information for prior reporting periods shall not be restated in accordance with AASB 1058 transition requirements.

Prepaid rates are, until the taxable event for the rates has occurred, refundable at the request of the ratepayer. Therefore the rates received in advance give rise to a financial liability that is within the scope of AASB 9. On 1 July 2019 the prepaid rates will be recognised as a financial asset and a related amount recognised as a financial liability and no income recognised by the Shire. When the taxable event occurs the financial liability will be extinguished and the Shire will recognise income for the prepaid rates that have not been refunded.

Assets that were acquired for consideration, that were significantly less than fair value principally to enable the Shire to further its objectives, may have been measured on initial recognition under other Australian Accounting Standards at a cost that was significantly less than fair value. Such assets are not required to be remeasured at fair value.

The Shire is in the process of assessing the impact of the standard.

**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.

**i) 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 regularity to ensure the carrying value does not differ materially from that which would be determined using fair value at the end of the reporting period.

## 6.1.1 Audit Committee February 2020

SHIRE OF MURCHISON

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

FOR THE YEAR ENDED 30 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><b>GOVERNANCE</b></p> <p>To provide the decision-making framework to facilitate allocation of limited resources.</p>	<p>Administration and operation of facilities and services to members of Council. Other costs that relate to the task of assisting elected members and electors on matters which do not concern specific Council services.</p>
<p><b>GENERAL PURPOSE FUNDING</b></p> <p>To collect revenue to allow for the provision of services.</p>	<p>Rates, general purpose government grants and interest revenue.</p>
<p><b>LAW, ORDER, PUBLIC SAFETY</b></p> <p>To provide services to help ensure a safer and environmentally conscious community.</p>	<p>Supervision of various by-laws, fire prevention and animal control.</p>
<p><b>HEALTH</b></p> <p>To provide an operational framework for environmental and community health.</p>	<p>Monitor health control standards within the community, provide support and assistance with airstrips to enable all residents access to the Royal Flying Doctor for regular and emergency health services.</p>
<p><b>EDUCATION AND WELFARE</b></p> <p>To provide services to disadvantaged persons, the elderly, children and youth.</p>	<p>Support of education facilities within the Shire and of any external resources necessary to assist with education programmes for all residents.</p>
<p><b>HOUSING</b></p> <p>To provide and maintain staff housing.</p>	<p>Provision and maintenance of staff housing.</p>
<p><b>COMMUNITY AMENITIES</b></p> <p>To provide services required by the community.</p>	<p>Maintain a refuse site for the settlement.</p>
<p><b>RECREATION AND CULTURE</b></p> <p>To establish and effectively manage infrastructure and resources which will help the social well being of the community.</p>	<p>Provide a library and museum and operation there of. Maintain recreation centre, sports field, parks, gardens and other recreational facilities.</p>
<p><b>TRANSPORT</b></p> <p>To provide safe, effective and efficient transport services to the community.</p>	<p>Construction and maintenance of roads, drainage works and traffic signs. Maintenance of the settlement airstrip.</p>
<p><b>ECONOMIC SERVICES</b></p> <p>To help promote the Shire and its economic wellbeing.</p>	<p>Building control, provision of power and water supplies. Supply and maintenance of television re-broadcasting installation. Provision of radio communication. Maintenance of caravan park. Vermin control and area promotion.</p>
<p><b>OTHER PROPERTY AND SERVICES</b></p> <p>To monitor and control Shires overheads operating account.</p>	<p>Private works operations, plant repairs and operation costs.</p>

## 30. FINANCIAL RATIOS

	2019 Actual	2018 Actual	2017 Actual
Current ratio	1.79	13.42	9.53
Asset consumption ratio	0.96	1.00	0.99
Asset renewal funding ratio	0.32	0.35	0.37
Asset sustainability ratio	0.54	1.47	0.83
Debt service cover ratio	0.24	0.65	N/A
Operating surplus ratio	(0.58)	(1.23)	2.32
Own source revenue coverage ratio	0.06	0.07	0.11

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



**SHIRE OF MURCHISON**

**Audit Closing Report – 30 June 2019**



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# 1 EXECUTIVE SUMMARY

## 1.1 Purpose of the Audit Closing Report

The primary purpose of this Audit Closing Report is to brief the Audit Committee on the results of our substantially completed audit of the 30 June 2019 financial statements of Shire of Murchison (**Shire**). This report should be read in conjunction with our Audit Planning Memorandum (**APM**) presented to the Audit Committee at our entrance meeting on 28 March 2019.

## 1.2 Scope and approach

There have been no changes to the audit scope or approach set out in the APM.

## 1.3 Key deliverable

### 1.3.1 Annual financial statements audit report

The Auditor General is required to issue an opinion on the financial report of the Shire for the year ended 30 June 2019. The audit report will be addressed to the Councillors with a copy being forwarded to the Shire President, the Chief Executive Officer (**CEO**) and the Minister for Local Government in accordance with section 7.9(1) of the *Local Government Act 1995 (Act)*.

We expect to recommend to the Auditor General that an unqualified audit opinion is issued on the financial statements (refer section 2.1).

### 1.3.2 Other legal and regulatory requirements audit

The Auditor General is also required to report if she becomes aware of any instance where the Shire did not comply with the requirements of the Act or the *Local Government (Financial Management) Regulations 1996 (Financial Management Regulations)* as they relate to the financial report.

We noted three ratios that indicated significant adverse trends in the financial position or the financial management practices of the Shire (refer section 2.3).

### 1.3.3 Management letters

Four control weaknesses were identified during the 2018/19 preliminary audit. One control weakness was identified during the 2018/19 final audit (refer section 2.4).

## 1.4 Independence

RSM Australia's audit methodology requires that we conduct regular evaluations of our independence. We have fully satisfied ourselves that we do not have any actual or perceived conflict of interest.

## 2 AUDIT COMPLETION

### 2.1 Statutory financial statements and audit opinion

We have completed the audit fieldwork on the statutory financial report of the Shire for the year ended 30 June 2019. The financial report is a general purpose financial statement prepared in accordance with the Act, the Financial Management Regulations, and to the extent that they are not inconsistent with the Act, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standard Board (**AASB**) (including Australian interpretations).

We have discussed all significant auditing and accounting issues with management and these have been satisfactorily resolved and are discussed in this report. The audit and assurance procedures are designed to support the audit and assurance opinions and they cannot be expected to identify all weaknesses or inefficiencies in the Shire's systems and working practices. Based on the evidence, which has been assessed during our audit, we expect to conclude that the financial report of the Shire:

- (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 Act, the Financial Management Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

We expect to recommend to the Auditor General that an unqualified opinion is issued on the financial statements.

### 2.2 Emphasis of matter – basis of accounting

Note 10 to the financial report describe the basis of accounting for land under roads. The financial report has been prepared for the purpose of fulfilling the Shire's financial reporting responsibilities under the Act. Regulation 16 of the Financial Management Regulations does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. The audit opinion will not be modified in respect of this matter.

### 2.3 Audit opinion - other legal and regulatory requirements

We have completed the audit engagement fieldwork on the requirements of the *Local Government (Audit) Regulations 1996 (Audit Regulations)* and Part 6 of the Financial Management Regulations for the year ended 30 June 2019. Based on the evidence that has been assessed as part of our engagement, we expect to report the following exceptions in accordance with the Audit Regulations:

- (i) In our opinion, the following financial ratios, which are disclosed in the notes to the financial report, indicate significant adverse trends in the financial position or the financial management practices of the Shire:
  - (a) The Asset Renewal Funding Ratio and Own Source Revenue Ratio have been below the Department of Local Government, Sport and Cultural Industries (**DLGCSI**) standard for the last three years.
  - (b) The Debt Service Cover Ratio has been below the DLGCSI standard for the last two years.

### 2.4 Management letter – control weaknesses

Our audit approach involves the use of a rotation approach when planning our test of controls. Consequently, not all control cycles are subject to testing and only certain transaction cycles are in audit scope each year. In accordance with the APM, we performed key management control testing over the revenue, purchases, cash and fixed asset cycles. We rotated out the control testing over the payroll cycle. Based on our testing, the following control weaknesses were identified during prior period audits, the 2018/19 preliminary audit and the 2018/19 final audit:

#### 2.4.1 Prior period audits

One matter was reported during the prior year audit:

Findings	Rating	Status
1. Completeness of tenders register	Moderate	Open

#### 2.4.2 2018/19 preliminary audit

Four matters were identified during the 2018/19 preliminary audit:

Findings	Rating	Status
1. Non compliance with internal purchasing policy	Moderate	Open
2. Bank reconciliations	Moderate	Open
3. Fees and charges	Moderate	Open
4. Annual returns	Minor	Open

#### 2.4.3 2018/19 final audit

One matter was identified during the 2018/19 final audit:

Findings	Rating	Status
1. Journal entry review	Moderate	Open

### 2.5 Compliance with laws and regulations

We have reviewed the Shire's controls that are in place to manage the risk of systemic failure to comply with relevant laws and regulations. We also reviewed Council and Audit Committee minutes of meetings throughout the year to identify any non-compliance with the relevant laws and regulations.

Other than the control weakness noted during the 2018/19 audit (refer section 2.4), nothing has come to our attention, within the scope of our engagement, which would indicate the controls are ineffective.

### 2.6 Unadjusted audit differences

There are no unadjusted audit differences remaining at the end of the audit.

### 2.7 Summary of audit adjustments

One audit adjustment was passed during the course of the audit. The impact of this adjustment is illustrated in Annexure B.

### 2.8 Subsequent events

Management has represented that, other than those matters disclosed in the financial statements, there are no significant subsequent events between the end of the financial year and the date of this Audit Closing Report, which may significantly impact the results of the operations and the state of affairs of the Shire for the financial year.

### 2.9 Contingent liabilities and commitments

Management has represented to us that, other than those matters disclosed in the financial statements, there are no other outstanding or pending litigation, contingent liabilities or commitments.

We have received and reviewed all the solicitors' confirmations and, except for those matters detailed in the notes to the financial statements, we have not become aware of any other material contingent liabilities, pending litigation or commitments.

### 2.10 Issues relevant to next audit

Accounting standards AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-Profit Entities* and AASB 16 *Leases* come into effect for Local Governments for the reporting year ending 30 June 2020. The implementation of these standards will need to be audited during the 2019/20 reporting year.

### 2.11 Outstanding audit matters

The audit opinion on the statutory financial statements is subject to the finalisation of our audit process. The key matters still outstanding are:

- a) Final review of the financial statements;
- b) Receipt of signed management representation letter;
- c) Receipt of the signed financial report; and
- d) Performing our subsequent events review.

## 3 NEW ACCOUNTING STANDARD ADOPTED IN THE CURRENT YEAR

The Shire has applied AASB 9 *Financial Instruments* from 1 July 2018, which replaces components of AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Shire has elected to apply AASB 9 retrospectively, with any cumulative impact on adoption recognised as an opening balance adjustment to retained earnings at 1 July 2018.

On adoption of AASB 9, the Shire revised the allowance for impairment of receivables from the 'incurred loss' impairment model under the previous requirements of AASB139, to 'expected credit loss' impairment model under AASB 9. Although the impacts of this change in accounting policy are not material, the Shire has adjusted opening retained earnings.

The Shire has also reviewed its financial assets and financial liabilities and assessed the financial impact of adopting AASB 9. Except for some changes to the accounting policy and notes disclosure, the Shire's management has confirmed that there is no major financial impact to its financial statements.

We have reviewed the Shire's assessment of the impact of applying AASB 9 and concur with its assessment.

## 4 AREAS OF AUDIT EMPHASIS

As mentioned in the APM, our audit focus was on those areas where we assessed there to be a higher risk of material misstatement in the financial statements. We designed and performed procedures to be able to conclude, with reasonable assurance, whether each significant area is free from material misstatement. The following is a summary of the significant balances for the past three financial years:

Significant area	30 June 2019 \$	30 June 2018 \$	30 June 2017 \$
<b>Revenue and receivables cycle</b>			
<ul style="list-style-type: none"> <li>Rates</li> </ul>	458,510	410,844	382,924
<ul style="list-style-type: none"> <li>Trade and other receivables (current and non-current)</li> </ul>	3,226,976	448,580	79,767
<b>Purchases and payment cycle</b>			
<ul style="list-style-type: none"> <li>Materials and contracts</li> </ul>	13,883,348	7,206,125	4,278,992
<ul style="list-style-type: none"> <li>Property, plant and equipment (additions)</li> </ul>	299,012	678,709	316,481
<ul style="list-style-type: none"> <li>Infrastructure (additions)</li> </ul>	1,577,983	3,859,886	2,414,559
<b>Fixed assets cycle</b>			
<ul style="list-style-type: none"> <li>Property, plant and equipment</li> </ul>	9,417,040	9,489,188	10,115,906
<ul style="list-style-type: none"> <li>Infrastructure</li> </ul>	72,171,029	72,984,977	72,313,464

### 4.1 Audit conclusion on the areas of audit emphasis

Significant area	Key risks	Free from material misstatement
<b>Revenue and receivables cycle</b> <ul style="list-style-type: none"> <li>Rates</li> <li>Trade and other receivables</li> </ul>	Rates revenue is material and is high-risk due to the multifaceted method of calculation, the high dependency on information systems and the significant regulatory compliance regime.	✓
<b>Purchases and payment cycle</b> <ul style="list-style-type: none"> <li>Materials and contracts</li> <li>Property, plant and equipment (additions)</li> <li>Infrastructure (additions)</li> </ul>	These expenditure items are high-risk due to the materiality of the amounts, the different cost allocation methods, the strict and complex requirements of the Shire's purchasing policy and the risk of management override of controls.	✓

Significant area	Key risks	Free from material misstatement
<b>Fixed assets cycle</b> <ul style="list-style-type: none"> <li>Property, plant and equipment</li> <li>Infrastructure</li> </ul>	<p>Property, plant and equipment and Infrastructure are material assets in the Statement of Financial Position.</p> <p>Under regulation 17A of the Financial Management Regulations, the Shire's Property, Plant and Equipment and Infrastructure is to be carried at fair value less accumulated depreciation and accumulated impairment losses.</p> <p>The Shire did not revalue any Property, plant and equipment or Infrastructure during the financial year. However, the Shire conducted an impairment review of its fixed assets and formed an opinion that the fair value of fixed asset is unlikely to be materially different from its carrying amount.</p> <p>Effective from 1 July 2018, regulation 17A(5) of the Financial Management Regulations provides that an asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition by the local government is under \$5,000. The Shire has complied with this requirement and has written off the relevant assets.</p>	✓

## 5 OTHER CRITICAL DISCLOSURES IN THE FINANCIAL STATEMENTS

We also audited the following critical disclosures in the financial statements by verifying the underlying calculations and auditing the evidence to support the amounts disclosed:

Critical disclosure	Key risks	Comply with accounting standards
Related party	Disclosures of key management personnel remuneration and related party transactions are not in accordance with AASB 124 <i>Related Party Disclosures</i> .	✓
Financial Ratios	The underlying data is incomplete or inaccurate and the calculations of the ratios are incorrect and not in accordance with Financial Management Regulations.	✓

## 6 FRAUD RISK

Under Australian Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, when planning and performing audit procedures and evaluating the results, the auditor must consider the risk of material misstatement in the financial statements because of fraud and error. To address our responsibilities relating to fraud we designed and implemented audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud. Two of those procedures and the results of those procedures are detailed below:

### 6.1 Management override of control

Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare a fraudulent financial report by overriding controls that otherwise appear to be operating effectively. Management override can occur in areas such as journal entries and accounting estimates and judgements.

Based on our work, nothing has come to our attention to indicate that the Shire does not have proper processes and controls to manage the risk of management override of controls and that material key estimates and judgments are properly assessed and brought to account. Our audit did not detect any instances of fraud.

### 6.2 Element of unpredictability

We also incorporated an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed as individuals within the entity who are familiar with the audit procedures normally performed on engagements may be more able to conceal fraudulent financial reporting.

### 6.3 Fraud incidences during the audit

We have made enquiries of the Chair of the Audit Committee, the CEO and management regarding whether they have knowledge of any incidences of material fraud during the financial year. Based on our enquiries and other audit procedures, we did not become aware of any fraud incidences during the audit.

## 7 NEW ACCOUNTING STANDARDS NOT YET ADOPTED

### 7.1 Potential impact on new accounting standards

The Shire has assessed the potential impact on the relevant new accounting standards and conclude that there is no material impact on the Shire's financial statements. We have obtained and reviewed the Shire's impact assessments and concur with the conclusions.

The following table illustrates the applicable standards and interpretations, which have been issued but are not yet effective, which may impact the Shire in the period of initial application:

Reference	Summary	Effective date	Shire's assessment
<b>AASB 15 Revenue from Contracts with Customers</b>	Replaces AASB 118 <i>Revenue</i> which covers contracts for goods and services, and AASB 111 <i>Construction Contracts</i> which covers construction contracts.  Establishes the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.  The standard is not applicable to the Shire until the reporting year ending 30 June 2020.	1 July 2019	The Shire is in the process of assessing the impact of the standard.
<b>AASB 1058 Income of Not-for-Profit Entities</b>	AASB 1058 has made complementary changes to the existing AASB 1004 <i>Contributions</i> and has also added new guidance AASB 15 <i>Revenue from Contracts with Customers</i> to clarify its application in the not for profit sector.  The standard is not applicable to the Shire until the reporting year ending 30 June 2020.	1 July 2019	The Shire is in the process of assessing the impact of the standard.

## 6.1.2 - Audit Committee February 2020

Reference	Summary	Effective date	Shire's assessment
<b>AASB 16 Leases</b>	<p>AASB 16 introduces a single lease accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</p> <p>The standard is not applicable to the Shire until the reporting year ending 30 June 2020.</p>	1 July 2019	The Shire is in the process of assessing the impact of the standard.



## 6.1.2 - Audit Committee February 2020

### **THE POWER OF BEING UNDERSTOOD** AUDIT | TAX | CONSULTING

RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network.

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**SHIRE OF MURCHISON****PERIOD OF AUDIT: 1 JULY 2018 TO 30 JUNE 2019****FINDINGS IDENTIFIED DURING THE FINAL AUDIT**

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1 Journal entry review		✓	

**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.

**SHIRE OF MURCHISON**

**PERIOD OF AUDIT: 1 JULY 2018 TO 30 JUNE 2019**

**FINDINGS IDENTIFIED DURING THE FINAL AUDIT**

**1. Journal entry review**

During our testing of journal entries, from a sample of six journals, it was identified that there was no evidence of an independent review or approval of one journal.

**Rating: Moderate**

**Implication:**

Accounting journals can represent significant adjustments to previously approved accounting transactions and should therefore be appropriately reviewed and approved by an independent person. The absence of evidence of appropriate review and approval of journals increases the risk of incorrect financial reporting and, in adverse cases, fraud.

**Recommendation:**

The Shire should design and implement a policy to ensure all journal entries are independently reviewed and authorised.

**Management Comment:**

As a result, from a previous audit, staff were made aware of the importance to get a senior employee to co-sign or authorise all journals processed which is acknowledged and appreciated.

At times, given the small number of employees, there may be a delay or difficulty in getting this approval if staff are absent. In the case of the journal in question, the then DCEO was on extended leave between October 2018 and February 2019, leaving admin staff of 3 including the CEO who resigned from the Shire in May 2019.

**Responsible Person:** Acting Deputy Chief Executive Officer

**Completion Date:** 26 February 2020

## 6.1.2 - Audit Committee February 2020

### ANNEXURE B

#### Summary of corrected adjusting journal entries

Account Name	Effect: Increase (Decrease)					
	Assets	Liabilities	Equity	Revenue	Expenses	Net Income (Loss)
<b>Current Year Adjustments</b>						
1. <i>To recognise deposits and bonds transferred out of trust</i>	413,957	413,957				
<i>Total corrected adjusting journal entries</i>	413,957	413,957	-	-	-	-
<b>Cumulative equity misstatements</b>			-			

Our Ref:  
Your Ref:

Ms Caroline Spencer  
Auditor General  
Office of the Auditor General  
7<sup>th</sup> Floor, Albert Facey House  
469 Wellington Street  
PERTH WA 6000

Dear Ms Spencer

**REPRESENTATION LETTER IN RESPECT OF THE SHIRE OF MURCHISON'S ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2019**

This representation letter is provided in connection with your audit of the Shire of Murchison's annual financial report for the year ended 30 June 2019 for the purpose of expressing an opinion as to whether the annual financial report is fairly presented in accordance with the *Local Government Act 1995* (the Act), the *Local Government (Financial Management) Regulations 1996* and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

We submit the following representations for the year ended 30 June 2019 after making appropriate enquiries and according to the best of our knowledge and belief. This representation covers all material items in each of the categories listed below.

**1. GENERAL**

- (a) We have fulfilled our responsibilities for the preparation and fair presentation of the annual financial report in accordance with the *Local Government Act 1995* (the Act), the *Local Government (Financial Management) Regulations 1996* and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.
- (b) We have advised your auditors of all material contentious methods used in the presentation of the financial report.
- (c) There have been no changes in accounting policies or application of those policies that would have a material effect on the financial report, except as disclosed in Note 26 to the financial report.
- (d) The prior period comparative information in the financial report has not been restated.
- (e) Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We confirm the disclosures related to accounting estimates are complete and appropriate.

## 6.1.2 - Audit Committee February 2020

- (f) We have established and maintained an adequate internal control structure and adequate financial records as we have determined are necessary to facilitate the preparation of the financial report that is free from material misstatement, whether due to fraud or error.
- (g) We have provided your auditors with
  - (i) Access to all information of which we are aware that is relevant to the preparation of the financial report, such as records, documentation and other matters.
  - (ii) Additional information that your auditors have requested for the purpose of the audit.
  - (iii) Unrestricted access to staff and councillors of the from whom your auditors determined it necessary to obtain audit evidence.
- (h) All transactions have been recorded in the accounting and other records and are reflected in the financial report.
- (i) All internal audit reports and reports resulting from other management reviews, including legal issues and legal opinions which have the capacity to be relevant to the fair presentation of the financial report including, where relevant, minutes of meetings, have been brought to your auditors' attention and made available to them.
- (j) We have advised your auditors of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial report.
- (k) We have provided to your auditors the results of our assessment of the risk that the financial report may be materially misstated as a result of fraud.
- (l) No frauds or suspected frauds affecting the involving:
  - (i) Management;
  - (ii) Employees who have significant roles in internal control; or
  - (iii) Others where the fraud could have a material effect on the financial reporthave occurred to the knowledge of management of the Shire.
- (m) To our knowledge no allegations of fraud or suspected fraud affecting the 's financial report has been communicated to us by employees, former employees, analysts, regulators or others.
- (n) We have disclosed to your auditors all known actual or possible litigation and claims whose effects should be considered when preparing the financial report, and they have been accounted for and disclosed in accordance with Australian Accounting Standards.

## 2. FAIR VALUE MEASUREMENTS AND DISCLOSURES

We confirm that where assets and liabilities are recorded at fair value, the value attributed to these assets and liabilities is the fair value.

## 6.1.2 - Audit Committee February 2020

We confirm that the carrying amount of each physical non-current asset does not materially differ from its fair value at the end of the reporting period. Significant fair value assumptions, including those with high estimation uncertainty, are reasonable.

We confirm the measurement methods, including related assumptions, used by management in determining fair values are appropriate and have been consistently applied.

We confirm that the fair value disclosures in the financial report are complete and appropriate.

### 3. GOING CONCERN

We confirm that the going concern basis of accounting is appropriate for the annual financial report.

### 4. CONTINGENT LIABILITIES

There are no material contingent liabilities at year end that have not been completely and adequately disclosed in the Notes to the financial report.

### 5. COMMITMENTS FOR CAPITAL AND OTHER EXPENDITURE

Other than those commitments reported in the Notes to the financial report, there were no significant commitments for capital or other expenditure contracts carrying over at year end.

### 6. FINANCIAL LIABILITY FOR CONTAMINATED SITES

We are aware of our obligations under the *Contaminated Sites Act 2003* and have reported to the Department of Water and Environmental Regulation, all land owned, vested or leased by the that is known to be, or is suspected of being, contaminated. All actual liabilities or contingent liabilities, if any, have been recognised and/or disclosed in the financial report as appropriate.

### 7. RELATED ENTITIES

We acknowledge our responsibility under section 17(1) of the *Auditor General Act 2006* (as applied by section 7.12AL of the *Local Government Act 1995*) to give written notice to the Auditor General if any of the 's functions are being performed in partnership or jointly with another person or body, through the instrumentality of another person or body, and/or by means of a trust. We confirm that we have provided the Auditor General with details of all related entities in existence at 30 June 2019.

### 8. RELATED PARTIES

We have disclosed to your auditors the identity of the Shire's related parties, as defined in Australian Accounting Standards, of which we are aware, and all the related party relationships and transactions of which we are aware. These include the 's key management personnel (KMP) and their related parties, including their close family members and their controlled and jointly controlled entities.

## 6.1.2 - Audit Committee February 2020

We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of Australian Accounting Standards.

### 9. KEY MANAGEMENT PERSONNEL COMPENSATION

We confirm the 's key management personnel (KMP) have not received any other money, consideration or benefit (except amounts being reimbursements for out of pocket expenses) which has not been included in the compensation disclosed in the Notes to the financial report.

### 10. SUBSEQUENT EVENTS

No matters or occurrences have come to our attention between the date of the financial report and the date of this letter which would materially affect the financial report or disclosures therein, or which are likely to materially affect the future results or operations of the Shire.

### 11. INTERNAL CONTROL

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

### 12. INSURANCE

We have established procedures to assess the adequacy of insurance cover on all assets and insurable risks. We believe, where appropriate, assets and insurable risks are adequately covered by insurance.

### 13. RISK MANAGEMENT

We confirm that we have established and maintained a risk management framework that is appropriate to the Shire.

### 14. FINANCIAL RATIOS

We confirm that the financial ratios included in the annual financial report have been prepared and fairly presented in accordance with the *Local Government (Financial Management) Regulations 1996*.

We confirm that the asset consumption ratio and the asset renewal funding ratio are supported by verifiable information and reliable assumptions.



**15. ACCOUNTING MISSTATEMENTS**

There are no unadjusted audit differences remaining at the end of the audit.

**16. ELECTRONIC PRESENTATION OF THE AUDITED ANNUAL FINANCIAL REPORT AND AUDITOR'S REPORT**

- (a) We acknowledge that we are responsible for the electronic presentation of the annual financial report.
- (b) We will ensure that the electronic version of the audited annual financial report and the auditor's report presented on the 's website is the same as the final signed versions of the audited annual financial report and the auditor's report.
- (c) We have clearly differentiated between audited and unaudited information in the construction of 's website and understand the risk of potential misrepresentation in the absence of appropriate controls.
- (d) We have assessed the security controls over the audited annual financial report and the auditor's report and are satisfied that procedures in place are adequate to ensure the integrity of the information provided.
- (e) We will ensure that where the auditor's report on the annual financial report is provided on the website, the annual financial report is also provided in full.

**15. OTHER (UNAUDITED) INFORMATION IN THE ANNUAL REPORT**

We will provide the final version of the annual report to you when available, to enable you to complete your required procedures.

\_\_\_\_\_  
**Tatjana Erak**  
**Acting Deputy Chief Executive Officer**

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Bill Boehm**  
**Chief Executive Officer**

\_\_\_\_\_  
**Date**

**SHIRE OF MURCHISON****PERIOD OF AUDIT: 1 JULY 2018 TO 30 JUNE 2019****FINDINGS IDENTIFIED DURING THE FINAL AUDIT**

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We confirm that the fair value disclosures in the financial report are complete and appropriate.

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We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of Australian Accounting Standards.

**9. KEY MANAGEMENT PERSONNEL COMPENSATION**

We confirm the 's key management personnel (KMP) have not received any other money, consideration or benefit (except amounts being reimbursements for out of pocket expenses) which has not been included in the compensation disclosed in the Notes to the financial report.

**10. SUBSEQUENT EVENTS**

No matters or occurrences have come to our attention between the date of the financial report and the date of this letter which would materially affect the financial report or disclosures therein, or which are likely to materially affect the future results or operations of the Shire.

**11. INTERNAL CONTROL**

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

**12. INSURANCE**

We have established procedures to assess the adequacy of insurance cover on all assets and insurable risks. We believe, where appropriate, assets and insurable risks are adequately covered by insurance.

**13. RISK MANAGEMENT**

We confirm that we have established and maintained a risk management framework that is appropriate to the Shire.

**14. FINANCIAL RATIOS**

We confirm that the financial ratios included in the annual financial report have been prepared and fairly presented in accordance with the *Local Government (Financial Management) Regulations 1996*.

We confirm that the asset consumption ratio and the asset renewal funding ratio are supported by verifiable information and reliable assumptions.



**15. ACCOUNTING MISSTATEMENTS**

There are no unadjusted audit differences remaining at the end of the audit.

**16. ELECTRONIC PRESENTATION OF THE AUDITED ANNUAL FINANCIAL REPORT AND AUDITOR'S REPORT**

- (a) We acknowledge that we are responsible for the electronic presentation of the annual financial report.
- (b) We will ensure that the electronic version of the audited annual financial report and the auditor's report presented on the 's website is the same as the final signed versions of the audited annual financial report and the auditor's report.
- (c) We have clearly differentiated between audited and unaudited information in the construction of 's website and understand the risk of potential misrepresentation in the absence of appropriate controls.
- (d) We have assessed the security controls over the audited annual financial report and the auditor's report and are satisfied that procedures in place are adequate to ensure the integrity of the information provided.
- (e) We will ensure that where the auditor's report on the annual financial report is provided on the website, the annual financial report is also provided in full.

**15. OTHER (UNAUDITED) INFORMATION IN THE ANNUAL REPORT**

We will provide the final version of the annual report to you when available, to enable you to complete your required procedures.

\_\_\_\_\_  
**Tatjana Erak**  
**Acting Deputy Chief Executive Officer**

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Bill Boehm**  
**Chief Executive Officer**

\_\_\_\_\_  
**Date**



Western Australia

Minutes of the Audit Committee Meeting of the Murchison Shire Council,  
Held in the Council Chambers, Carnarvon Mullewa Road, Murchison,  
On Thursday **25 July 2019**, commencing at 11:15 am

Purpose: 2019 Interim Audit

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**1. DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS**

The President declared the meeting open at 11:16am.

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

R Foulkes-Taylor – President  
 A Whitmarsh - Deputy President  
 Cr E Foulkes-Taylor  
 Cr G Mead  
 Cr Q Fowler  
 Cr P Squires

Staff  
 Bill Boehm – Chief Executive Officer  
 Eddie Piper – Acting Deputy Chief Executive Officer

**3. RESPONSE TO PREVIOUS PUBLIC QUESTIONS TAKEN ON NOTICE**

Nil

**4. PUBLIC QUESTION TIME**

Nil

**4.1 Standing Orders*****Council Decision:***

**Moved: Councillor PSquires**

**Seconded: Councillor G Mead**

**That the following Local Law-Standing Orders 2001 be stood down:**

- 8.2 Limitation on the number of speeches
- 8.3 Duration of speeches

**Carried:**

**For: 6**

**Against: 0**

**5. CONFIRMATION OF MINUTES****5.1 Audit Committee Meeting – 28 March 2019****Background:**

Minutes of the Audit Committee Meeting of Council have previously been circulated to all Audit Committee Members.

**Recommendation:**

That the minutes of the Audit Committee meeting held on 28<sup>th</sup> March 2019 be confirmed as an accurate record of proceedings

**Voting Requirements:**

Simple majority

***Council Decision:***

**Moved: Councillor E Foulkes-Taylor**

**Seconded: Councillor G Mead**

That the minutes of the Audit Committee meeting held on 28<sup>th</sup> March 2019 be confirmed as an accurate record of proceedings.

**Carried**

**For: 6**

**Against: 0**

**6. ANNOUNCEMENTS BY PRESIDING PERSON WITHOUT DISCUSSION**

Nil

**7. DISCLOSURE OF INTERESTS**

Nil

**8. REPORTS OF OFFICERS****8.1 2018-19 Interim Audit Management Letter**

File:	2.1
Author:	Eddie Piper - Acting Deputy Chief Executive Officer
Interest Declared:	Nil
Date:	3 July 2018
Attachments:	OAG – Interim Audit Management Letter Dated 20 June 2019

**Matter for Consideration:**

The Audit Committee to consider the letter dated 20 June 2019 received from Office of the Auditor General (OAG) in relation to the interim phase of their audit for the year ending 30 June 2019.

**Background:**

Mr Travis Bate and Mr Jonathan Kosareff of RSM, acting as a contractor to the OAG, attended the Shire office during May 2019 to undertake the onsite portion of their interim audit for the year ending 30<sup>th</sup> June 2019.

Their findings are reported in the attached Audit Management Letter for the Committee's consideration.

**Comment:**

At the exit meeting following the "hands-on" part of the interim audit conducted by RSM Australia Pty Ltd on behalf of the OAG several issues were brought to the notice of those attending. These issues are detailed in the attached letter from the OAG dated 20 June 2019.

The assessment of the Acting Chief Executive Officer (ACEO) on the issues raised is following:

1. Non-compliance with internal purchasing policy  
It is rated by the OAG as a moderate risk and whilst effort should be made to comply with the policy there have been several minor deviations by staff to the policy. Staff have been made aware of the need to ensure the requirements of the policy must be observed.
2. Bank Reconciliations  
Bank reconciliations are carried out monthly and every effort is made to have them reviewed by the CEO. Unfortunately with such a small staff and people taking leave this is sometimes left for later. Occasionally the follow-up is missed.
3. Fees and Charges  
Rated by the OAG as a moderate risk. The different fee charged was a one off and staff are aware of the Act in relation to fees and charges.
4. Annual Returns  
Rated by the OAG as minor. Every effort is made to have the returns completed and returned to the CEO, however it is difficult if they are not returned within the time frame.

**Statutory Environment:**

Non-compliance with the requirements of Local Government (Functions and General) 1996 Regulation 17.

**Strategic Implications:**

Nil.

**Sustainability Implications**

- **Environmental**  
There are no known significant environmental implications
- **Economic**  
There are no known significant economic implications

• **Social**

There are no known significant social considerations.

**Policy Implications:**

N/A

**Financial Implications:**

N/A

**Consultation:**

RSM Australia Pty Ltd

**Recommendation:**

That the Audit Committee report to the 25 July 2019 Ordinary Meeting of Council recommending that Council note the letter dated 20 June 2019 received from the Office of the Auditor General in relation to the interim phase of their audit for the year ending 30 June 2019.

**Voting Requirements:**

Simple Majority

**Council Decision:**

**Moved: Councillor Q Fowler**

**Seconded: Councillor E Foulkes-Taylor**

That the Audit Committee report to the 20 July 2019 Ordinary Meeting of Council recommending that Council note the letter dated 20 June 2019 received from the Office of the Auditor General in relation to the interim phase of their audit for the year ending 30 June 2019.

**Carried/Lost:**

**For: 6**

**Against: 0**

**9. ITEMS TO BE DISCUSSED BEHIND CLOSED DOORS**

Nil

**10. MEETING CLOSURE**

The President closed the meeting at 11:31am.

These minutes were confirmed at the committee meeting held on .....

Signed..... Presiding Officer



## **Audit Committee**

### **Terms of Reference**

**Adopted by Council on 24 October 2019**

#### **Objectives of Audit Committees**

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

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

The Committee is to facilitate:

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

#### **Powers of the Audit Committee**

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

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

#### **Membership**

The Committee will consist of three (3) elected members with full voting rights but that all other councillors may attend and participate as observers

The tenure of Member to the Committee is in accordance with Section 5.11 of the Local Government Act 1995.

The CEO and other employees are not members of the Committee.

The CEO or his/her nominee is to be available to attend all meetings to provide advice and guidance to the Committee. Other Council officers may attend meetings as and when required.

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

## Meetings

The Committee shall meet at least annually.

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

Meetings are able to be conducted in person and by telephone, videoconferencing or other electronic means

## Reporting

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

## Duties and Responsibilities

The duties and responsibilities of the Committee will be-

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



- (j) Review the scope of the audit plan and program and its effectiveness.
- (k) Seek information or obtain expert advice through the CEO on matters of Concern within the scope of the Committee's Terms of Reference following authorisation from the Council.
- (l) Review the annual Compliance Audit Return and report to the Council the results of the review.
- (m) Consider the CEO's biennial reviews of the appropriateness and effectiveness of the local governments systems and procedures in regard to risk management, internal control and legislative compliance, required to be provided to the committee, and report to the council the results of those reviews.