



Berrigan Shire Council

**Report on the Conduct of the
Audit
30 June 2006**

October 2006
This report contains 10 pages
Berrigan Conduct report sh 06 21 Oct

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1 Operating Result

Berrigan Shire Council (“the Council”) achieved a surplus operating result from continuing operations for the current year of \$2,308,000.

Significant income items in the current year were:

- | | |
|----------------------------|-------------|
| • Rates and Annual Charges | \$6,276,000 |
| • Other Revenues * | \$5,603,000 |

Significant expense items in the current year were:

- | | |
|---------------------------------|-------------|
| • Employee Costs | \$4,776,000 |
| • Material and Contracts * | \$7,610,000 |
| • Depreciation and Amortisation | \$3,511,000 |

The above significant items are extracted from the Income Statement of the Council.

* Includes one off items related to a legal matter whereby Council has accessed funds via the HIH rescue package.

2 Financial Position

A measure of Council's financial position is its unrestricted working capital. The following table sets out the unrestricted working capital position of Council as at 30 June 2006 and 2005.

	Year ended 30 June 2006 \$'000	Year ended 30 June 2005 \$'000
Cash and Liquid Investments	11,456	10,287
External Restrictions – included in liabilities	(0)	(0)
- not included in liabilities	(2,784)	(2,617)
	8,672	7,670
Internal Restrictions – included in liabilities	(389)	(389)
- not included in liabilities	(1,386)	(1,467)
Unrestricted Cash and Investments	6,897	5,814
Other Unrestricted Net Current Liabilities excluding LSL provision	(832)	(943)
Unrestricted Working Capital	6,065	4,871

The above represents the amount of working capital Council has available to meet its future spending requirements after making allowance for any restrictions in place over the use of such working capital. This indicates an increase in unrestricted working capital for the year ended 30 June 2006. The increase in the unrestricted working capital is mainly due to the net operating result for the 2006 year.

We recommend that Council continue to monitor its unrestricted working capital position when reviewing its financial position.

It is also recommended that Council continue to be mindful of its unrestricted working capital position when considering its future spending requirements.

3 Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS)

The Council's prior year signed financial statements have been restated from 1 July 2004 onwards for the implementation of AIFRS during the current year.

A comparison between the prior year's signed AGAAP financial statements and the AIFRS compliant financial statements is as follows:

	As at 1 July 2004 \$'000
Equity in accordance with AGAAP	74,330
AIFRS adjustments	4,186
Equity in accordance with AIFRS	78,516
	Year ended 30 June 2005 \$'000
Net operating result in accordance with AGAAP	2,119
AIFRS adjustments	(95)
Net operating result in accordance with AIFRS	2,024
	Year ended 30 June 2005 \$'000
Total assets in accordance with AGAAP	80,619
AIFRS adjustments	4,221
Total assets in accordance with AIFRS	84,840
Total liabilities in accordance with AGAAP	4,170
AIFRS adjustments	130
Total liabilities in accordance with AIFRS	4,300
Net assets in accordance with AIFRS	80,540

Refer to Note 21 of the 2006 financial statements for further detailed explanations of the changes in the above balances.

3 Implementation of Australian equivalents to International Financial Reporting Standards (AIFRS) (continued)

Not-for-profit status

Under AIFRS, there are requirements that apply specifically to not-for-profit entities that are not consistent with International Financial Reporting Standards (IFRS) requirements. The Council has analysed its purpose, objectives and operating philosophy and determined that it does not have profit generation as a prime objective. Consequently where appropriate the Council has elected to apply options and exemptions within AIFRS that are applicable to not-for-profit entities.

Found assets

Council has attributed value to identified bridges not previously recognised. The total value of these items was \$4,186,000. These items have been incorporated into the AIFRS deemed cost adjustment of Infrastructure, property, plant and equipment as at 1 July 2004.

Restoration provision

Council has identified particular sites where it has an obligation to reinstate or restore the sites to a specified condition when it ceases to use each facility. These obligations are measured at the present value of estimated future cash outflows. The restoration liabilities had not been previously recognised under AGAAP. The total value of these items was \$123,000.

Site restoration offsetting assets

Council has recognised on the date of transition, 1 July 2004, Landfill Assets equivalent to the Landfill remediation costs, based on current reinstatement estimates that were not previously recognised under AGAAP. The total value of these items was \$123,000.

The above mentioned AIFRS adjustments have been tested as part of our current year audit procedures.

4 Performance Indicators

The following is commentary in regards to the Council's ratios as calculated in Note 13 – Statement of Performance Measurement within the current year financial statements.

4.1 Liquidity

The liquidity ratios are used to assess the adequacy of working capital and Council's ability to satisfy its obligations in the short term. The liquidity ratios at Note 13 indicate that Council has the ability to pay its debts as and when they fall due. Whilst reasonable at 30 June 2006, these ratios are trending to a point that will require an increased focus by management and Council during the 2007 financial year.

4.2 Debt Service

This ratio demonstrates the percentage of Council revenue required to service its debts.

This ratio has continued to decrease in 2006 and indicates that 5.7% of Council's revenue is consumed servicing debt.

The ratio indicates that Council maintains a moderate level of borrowings.

4.3 Rate Coverage

The rate coverage ratio is used to assess the degree of dependence upon revenues from rates and annual charges and to assess the security of Council's income. The rates coverage ratio has decreased to 31.6% (2005: 42.8%). The data indicates that over the past four years Council has a consistent dependence on rates and annual charges, with the exception of 2006 which is distorted due to the impact of the HHH rescue package funding received of \$5,205,000. Excluding the HHH funding the ratio would be 42.8%.

4.3 Rates and Annual Charges Outstanding

The rates and annual charges outstanding percentage is used to assess the impact of uncollected rates and annual charges on liquidity and the adequacy of recovery efforts.

The percentage of rates and annual charges outstanding has marginally increased during the financial year to 4.6% compared to 4.4% in 2005. We regard this level of rates and annual charges outstanding as very satisfactory and staff should be encouraged to continue their efforts in this regard.

5 Specific balance sheet items

5.1 Receivables

Total current receivables at 30 June 2006, net of the provision for impairment was \$6,092,000. This is an increase of approximately \$5,271,000 from 2005. The significant increase was due to a debtor being raised for the HIH rescue package funding.

Rates and annual charges receivable, at 30 June 2006 of \$325,000 were approximately \$59,000 more than the corresponding position at 30 June 2005. The percentage of rates and annual charges outstanding is referred to in Section 4.4 of this report.

The gross provision for impairment has increased \$5,000 during the 2006 year to \$69,000.

5.2 Capital Expenditure

During the reporting period Council spent approximately \$4,513,000 on items of an infrastructure, property, plant or equipment nature. The primary areas are as follows:

	\$' 000
Plant and equipment	1,123
Roads bridges and footpaths	1,572
Stormwater drainage	683
Water supply network	866
Other	269
	<hr/> <u>4,513</u>

6 Other Matters

6.1 Infrastructure, Property, Plant and Equipment

Revaluations

Under AIFRS, AASB 116 *Property, Plant and Equipment* introduces some new concepts compared to previous Australian GAAP.

Despite the availability of elections under AIFRS, the NSW Department of Local Government has mandated that all councils hold assets at deemed cost.

Despite this, the Council has undertaken a revaluation for Roads and Bridges during the 2006 year. Bridges have been treated as found assets and recognised at deemed cost at 1 July 2004. Roads have been rolled back to 1 July 2005 after receiving approval from the Department of Local Government to recognise the revaluation in the current financial year.

Depreciation

Council is required to make an assessment of both the estimated useful life and residual value of an item of infrastructure, property, plant and equipment on an annual basis. The depreciable amount of an asset is comprised of the cost of the asset less its residual value. The depreciable amount is then depreciated over the estimated useful life of the asset.

The calculation is particularly important to monitor for motor vehicles and other items of plant where the residual value may be close to or even exceed Council's initial cost. In this regard we suggest that Council focus on its motor vehicle depreciation policy for compliance with the relevant accounting standard.

6.2 Employee Benefits

Long Service Leave

Provisions for employee entitlements are now subject to AASB 119 *Employee Benefits*. Update 14 to the Code of Accounting Practice applies a strict interpretation of AASB 101 paragraph 60(d) which means that vested long service leave is required to be disclosed as a current liability measured at its discounted present value, even where Council does not expect the leave will be taken within 12 months of balance date.

Defined Benefit Superannuation Funds

AASB 119 also outlines the requirements for recognition and measurement of defined benefit superannuation schemes. Since the relevant local government superannuation bodies are unable to provide the required information to enable Council to adjust for these schemes in their financial statements, disclosure will be the same as for a defined contribution fund. This is by way of note as has been past practice.

6.3 Management Letter

A final management letter will be issued in due course.

6.4 Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

6.5 Reliance on this Report

The report on the conduct of the audit has been prepared for distribution to Council. We disclaim any assumption of responsibility for any reliance on this report to any person other than Council or for any purpose other than that for which it was prepared.