



SHIRE OF GNOWANGERUP

MINUTES

Audit Committee

29th November 2019
Commencing at 12:30pm

Council Chambers
28 Yougenup Road
GNOWANGERUP WA 6335

COUNCIL'S VISION

Gnowangerup Shire – A progressive, inclusive and prosperous community built on opportunity

AUDIT COMMITTEE TERMS OF REFERENCE

Objectives of the Audit Committee

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 the 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;
- compliance with laws and regulations as well as use of best practice guidelines relative to audit, risk management, internal control 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 Audit committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its term of reference. This is 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.

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.

Membership

The committee will consist of all elected members of Council. All members shall have full voting rights. The CEO and employees are not members of the committee.

The CEO and senior staff attend meetings to provide advice and guidance to the committee.

The Presiding Member and Deputy Presiding Member must be elected in accordance with section 5.12 and Schedule 2.3 of the Act.

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Meetings

The committee shall meet at least quarterly.

Additional meetings shall be convened at the discretion of the Presiding Member.

Reporting

Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council and must be moved by the Presiding Member, or in his/her absence the Deputy Presiding Member, or in both their absences, any other member of the committee.

Functions of the Audit Committee

The functions of the committee, pursuant to Reg. 16 of the *Local Government (Audit) Regulations 1996* will be to:

- a) guide and assist the local government in carrying out its functions:
 - i. under Part 6 (Financial Management) of the Act; and
 - ii. relating to other audits and other matters related to financial management;
- b) guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 (Audit) of the Act;
- c) review a report given to it by the CEO under regulation 17(3) (the CEO's report) and is to:
 - i. report to the council the results of that review; and
 - ii. give a copy of the CEO's report to the council;
- d) monitor and advise the CEO when the CEO is carrying out functions in relation to a review under
 - i. regulation 17(1); and
 - ii. the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);
- e) support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;
- f) oversee the implementation of any action that the local government:
 - i. is required to take by section 7.12A(3) of the Act; and
 - ii. has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a) of the Act; and
 - iii. has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and
 - iv. has accepted should be taken following receipt of a report of a review conducted under the *Local Government (Financial Management) Regulations 1996* regulation 5(2)(c);
- g) perform any other function conferred on the audit committee by these regulations or another written law.

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Shire of Gnowangerup

NOTICE OF COMMITTEE MEETING OF COUNCIL

Dear Committee Member

A meeting of the Audit Committee of the Shire of Gnowangerup will be held on Friday 29th November 2019, in the Council Chambers, 28 Yougenup Road, Gnowangerup, commencing at 12:30pm.

Signed:


B. Jarvis
CHIEF EXECUTIVE OFFICER

Meaning of and CAUTION concerning Council's "In Principle" support:

When Council uses this expression it means that:

(a) Council is generally in favour of the proposal BUT is not yet willing to give its consent; and

(b) Importantly, Council reserves the right to (and may well) either decide against the proposal or to formally support it but with restrictive conditions or modifications.

Therefore, whilst you can take some comfort from Council's "support" you are clearly at risk if you act upon it before Council makes its actual (and binding) decision and communicates that to you in writing.

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SHIRE OF GNOWANGERUP

DISCLAIMER

No responsibility whatsoever is implied or accepted by the Shire of Gnowangerup for any act, omission or statement or intimation occurring during Council or committee meetings.

The Shire of Gnowangerup disclaims any liability for any loss whatsoever and howsoever caused arising out of reliance by any person or legal entity on any such act, omission or statement or intimation occurring during Council or committee meetings.

Any person or legal entity who acts or fails to act in reliance upon any statement, act or omission made in a Council or committee meeting does so at that person's or legal entity's own risk.

In particular and without detracting in any way from the broad disclaimer above, in any discussion regarding any planning application or application for a licence, any statement or intimation of approval made by any member or officer of the Shire of Gnowangerup during the course of any meeting is not intended to be and is not taken as notice of approval from the Shire of Gnowangerup.

The Shire of Gnowangerup advises that anyone who has any application lodged with the Shire of Gnowangerup shall obtain and should only rely on **written confirmation** of the outcome of the application, and any conditions attaching to the decision made by the Shire of Gnowangerup in respect of the application.

These minutes are not a verbatim record but include the contents pursuant to Regulation 11 of Local Government (Administration) Regulations 1996.

Signed:


B. Jarvis
CHIEF EXECUTIVE OFFICER

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AGENDA

1. OPENING OF MEETING

The Chief Executive Officer, Bob Jarvis, welcomed Members, Staff and visitors and opened the meeting at 12:28pm.

He also welcomed Tim Partridge, Carly Meagher and Emily McKelvie via phone conference at 12:28pm.

As this was the first meeting of the Audit Committee since the 2019 Local Government Elections, the committee is required to elect a Presiding Member from amongst themselves in accordance with Section 5.12 of the Local Government Act 1995.

The Chief Executive Officer, Bob Jarvis called for nominations for the position of Presiding Member. Cr Chris Thomas nominated Cr Greg Stewart. No other nominations were received.

The Chief Executive Officer declared Cr Greg Stewart as the Presiding Member.

The Presiding Member, Greg Stewart, assumed the chair for this meeting.

2. ACKNOWLEDGEMENT OF COUNTRY

The Shire of Gnowangerup would like to acknowledge the Goreng people who are the Traditional Custodians of this land. The Shire of Gnowangerup would also like to pay respect to the Elders both past and present of the Noongar Nation and extend that respect to other Aboriginals present.

3. ATTENDANCE/APOLOGIES

3.1 ATTENDANCE

Greg Stewart Deputy Shire President

Keith House

Richard House

Shelley Hmeljak

Chris Thomas

Frank Hmeljak

Kate O'Keefe

Bob Jarvis

Chief Executive Officer

Vin Fordham Lamont

Deputy Chief Executive Officer

Carol Shaddick

Senior Finance Office

Anita Finn

Executive Assistant

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By Teleconference:

Carly Meagher

Tim Partridge

Emily McKelvie

Office of the Auditor General

AMD Chartered Accountants

AMD Chartered Accountants

Presiding Member Greg Stewart, welcomed Tim Partridge, Carly Meagher and Emily McKelvie via phone conference at 2:28pm.

3.2 APOLOGIES

Fiona Gaze

Michael Creagh

Shire President

4. CONFIRMATION OF PREVIOUS MEETING MINUTES

4.1 AUDIT COMMITTEE MEETING MINUTES 24th JULY 2019

COMMITTEE RESOLUTION

Moved: Cr C Thomas

Seconded: Cr R House

AC1119.11 That the minutes from Audit Committee meeting held on 24th July 2019 be confirmed as a true and correct record of proceedings.

UNANIMOUSLY CARRIED: 7/0

5. PRESENTATIONS

Carly Meagher and Tim Partridge delivered a presentation to the Committee as an exit meeting in relation to the recent financial audit of the Shire of Gnowangerup. The Presentation covered the following areas:

Audit Approach

Refer also attached Audit Planning Summary Dated March 2019, including Section 5 "Significant Risks" and Section 6 "Audit Emphasis and Significant Account Balances".

- Interim Visit / Testing Completed
- Year End Communications
- Final Visit / Testing Completed

Variations to Audit Plan (where applicable)

- No variations

Subsequent Events

- Discussion and reconfirmation regarding subsequent events.

Audit Issues

- **Status of prior year audit issues:**
Recommendations have been implemented.
- **Status of audit issues reported at 2019 interim:**
Recommendations have been implemented.

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- **Audit issues reported in the current audit:**

No audit recommendations.

Audit Report

Refer DRAFT Independent Auditors Report attached.

- **Opinion Qualification Matters:**
No qualifications to audit opinion.
- **Report on Other Legal and Regulatory Requirements Matters:**
No matters to report.
- **Report on Other Matters:**
One adverse ratio reported.

Issues Relevant to Next Audit

None

Tim Partridge pointed out that the Shire of Gnowangerup is the only Shire out of 25 conducted audits with no matters to report.

Presiding Member, Greg Stewart, thanked Tim Partridge, Carly Meagher and Emily McKelvie for their presentation. The telephone conference call ended at 12:49pm

6. OFFICER ITEMS

6.1	2018-2019 ANNUAL FINANCIAL REPORT AND AUDIT REPORT
Location:	Shire of Gnowangerup
Proponent:	N/A
File Ref:	ADM0047
Date of Report:	19 th November 2019
Business Unit:	Corporate and Community Services
Officer:	V Fordham Lamont - Deputy Chief Executive Officer
Disclosure of Interest:	Nil

ATTACHMENT

- Attachment 1 – Draft 2018/2019 Annual Financial Report
- Attachment 2 – Draft Independent Auditors Report
- Attachment 3 – Audit Planning Summary
- Attachment 4 – LTFP Ratio Graphs
- Attachment 5 – Supporting information re Operating Surplus Ratio

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PURPOSE OF THE REPORT

For Council's Audit Committee to consider the Annual Financial Report and Auditor's Report.

BACKGROUND

Section 6.4 of the *Local Government Act 1995* requires local governments to prepare an Annual Financial Report and to submit both the report and its accounts to its auditor by 30th September each year.

The Shire of Gnowangerup has met those requirements and the Shire's auditors have completed their audit of the accounts and the Annual Financial Report for the year ended 30th June 2019.

COMMENTS

The 2018/2019 Annual Financial Report Audit found that:

- (i) The following matters indicate significant adverse trends in the financial position or the financial management practices of the Shire of Gnowangerup:
 - a. Operating surplus ratio as reported in Note 30 of the financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of zero for the last three years 2017: -0.07, 2018: -0.10 and 2019: -0.21.
- (ii) There were no instances of non-compliance with Part 6 of the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law identified during the course of my audit.
- (iii) All required information and explanations were obtained by AMD.
- (iv) All audit procedures were satisfactorily completed.

Officers have prepared a report for the Audit Committee's information on the adverse ratio trend identified in the 2019 Auditor's Report.

Report

The Department of Local Government, Sport and Cultural Industries Operational Guideline No 18 highlights that:

'A key indicator of a local government's financial performance is measured by the "Operating Surplus Ratio". If a local government consistently achieves a positive operating surplus ratio and has soundly based long term financial plans showing that it can continue to do so in future, having regard to asset management and the community's service level needs, then it is considered financially sustainable.'

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The operating surplus ratio is calculated as follows:

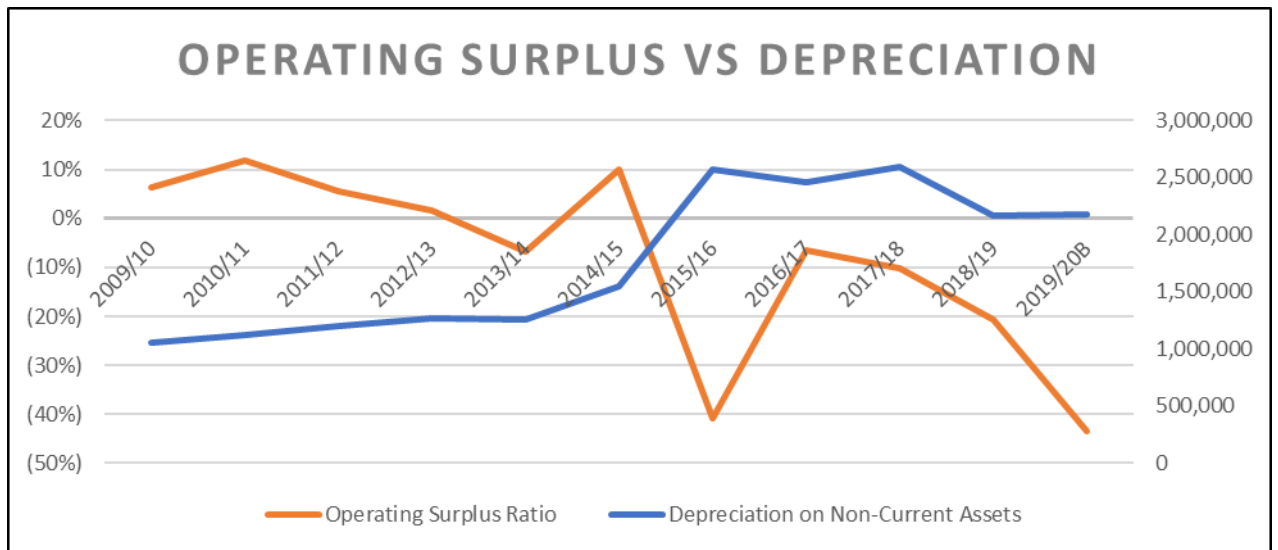
$$\frac{\text{Operating Revenue MINUS Operating Expense}}{\text{Own Source Operating Revenue}}$$

The ratio figures for the last three years have been (0.21), (0.10) and (0.07), respectively. A result of lower than zero indicates that the Shire has an operating deficit. The Department of Local Government indicates that a Basic standard is achieved if the ratio is greater than zero. To improve this ratio the Shire needs to either reduce operating expenditure and/or increase operating revenue.

The ratio is subject to a number of one off influences such as prepaid financial assistance grants and abnormal operating expenditure. The biggest influence that a large number of local governments have experienced since 2013 is the revaluation of assets and the flow-on effects this has had to depreciation, which is included as part of operating expense. The increase in depreciation has affected the Shire of Gnowangerup significantly due to its relatively small budget, and therefore had an impact upon the operating surplus ratio. Depreciation has increased from \$1.2M in 2012/13 to \$2.2M in 2018/19 as a result of revaluations.

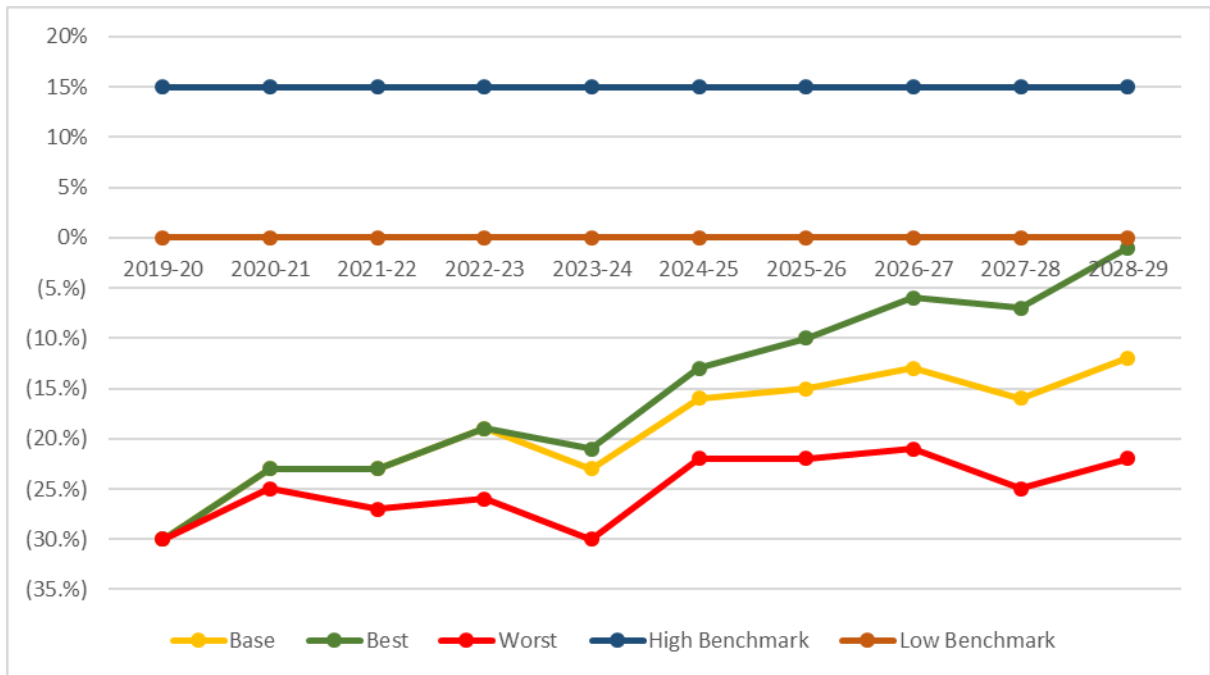
The exclusion of Financial Assistance Grants (general purpose and local road grants) from the calculation also unfairly distorts the ratio calculation. Local governments use this funding to provide services and facilities to its community, mostly in the form of funding operational expenses. However, all grant funding is excluded to establish the local government's ability to cover its operational costs from its own sources of revenue.

The graph below charts the operating surplus ratio and compares it to depreciation from 2009/10 to 2019/20. (Road infrastructure was revalued in 2015/16.)



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The following graph shows the projected improvement in Councils operating surplus ratio, based on its current Long Term Financial Plan (LTFP) modelling.



The Council has been continually reviewing how it can increase revenue and decrease operating expenses, reassessing asset useful lives to reduce depreciation, and improve the operating surplus ratio. These matters will need to be revisited as part of the LTFP review to be done in the coming months, with discussion around the implications of deviations from the funding strategies outlined in the LTFP and the potential impact on ratios over the longer term.

This report will be provided to the Minister within three months of receiving the audit report and within 14 days after giving the report to the Minister, the Shire will publish a copy of this report on the Shire’s website as required by the Local Government Act.

CONSULTATION

There are no legislative requirements to consult on the preparation of the Annual Financial Report, but the *Local Government Act 1995* requires an Annual General Meeting of Electors to be held and the Shire’s Annual Report, incorporating the Annual Financial Report, to be made available publicly.

The Annual Financial Report will be made available on the Shire’s public website. A minimal number of printed and bound copies of the Annual Financial Report will be available for viewing from the Shire’s Administration Centre.

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LEGAL AND STATUTORY REQUIREMENTS

Local Government Act 1995

s6.4 Financial Report

Local Government (Financial Management) Regulations 1996

Regulation 51 Annual financial report to be signed etc. by CEO and given to Department

Local Government (Audit) Regulations 1996

Regulation 10: auditor's report: An auditor's report is to be forwarded to the CEO, Shire President and the Minister.

POLICY IMPLICATIONS

Nil

FINANCIAL IMPLICATIONS

Nil

STRATEGIC IMPLICATIONS

Nil

STRATEGIC RISK MANAGEMENT CONSIDERATIONS:

Nil

IMPACT ON CAPACITY

Nil

ALTERNATE OPTIONS AND THEIR IMPLICATIONS

Nil

CONCLUSION

Statutory requirements in relation to this matter have been complied with and it is in order for the Audit Committee to recommend that Council adopt the Annual Financial Report and accept the accompanying audit report for the year ended 30th June 2019.

Please note that the Shire has been advised by the Office of the Auditor General that there are no matters of concern to be relayed to Council. An Audit Management Letter which states that there were no management issues will be provided by the Office of the Audit General as part of the final opinion package.

VOTING REQUIREMENTS

Absolute Majority

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COMMITTEE RESOLUTION:

During a discussion Cr Keith House requested to add an additional point to the Original Motion to express Audit Committee's appreciation for work done by the Shire's staff. Staff present and members agreed to this.

Moved: Cr K House

Seconded: C Thomas

AC1119.12 That the Audit Committee

- 1. Recommends to Council that it adopts the Annual Financial Report for the year ended 30th June 2019 for inclusion in the Shire's Annual Report for the 2018-2019 financial year.**
- 2. Receives the unsigned independent auditors report for the 2018-2019 financial year; and recommends to Council to accept the signed version of the independent audit report.**
- 3. Recognises and congratulates the staff and especially Senior Finance Officer, Carol Shaddick and the Deputy Chief Executive Officer, Vin Fordham Lamont to the great result of the audit.**

CARRIED BY ABSOLUTE MAJORITY: 7/0

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

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COMMUNITY VISION

"A progressive, inclusive and prosperous community built on opportunity"

Principal place of business:
28 Yougenup Road
GNOWANGERUP WA 6335

**SHIRE OF GNOWANGERUP
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 Gnowangerup 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 Gnowangerup 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 _____ 2019

Chief Executive Officer

BOB JARVIS

Name of Chief Executive Officer

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

	NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
Revenue				
Rates	21(a)	4,039,331	4,005,853	3,858,184
Operating grants, subsidies and contributions	2(a)	1,602,206	746,003	1,466,396
Fees and charges	2(a)	215,564	346,222	223,463
Interest earnings	2(a)	109,367	67,420	102,785
Other revenue	2(a)	2,840,960	3,453,703	7,941,351
		8,807,428	8,619,201	13,592,179
Expenses				
Employee costs		(2,333,010)	(2,157,672)	(2,405,761)
Materials and contracts		(3,993,665)	(5,503,216)	(9,228,386)
Utility charges		(151,422)	(173,500)	(152,816)
Depreciation on non-current assets	10(b)	(2,168,243)	(2,985,960)	(2,594,679)
Interest expenses	2(b)	(46,526)	(56,054)	(49,491)
Insurance expenses		(183,191)	(211,068)	(169,375)
Other expenditure		(254,093)	(371,689)	(191,101)
		(9,130,150)	(11,459,159)	(14,791,609)
		(322,722)	(2,839,958)	(1,199,430)
Non-operating grants, subsidies and contributions	2(a)	810,852	1,095,672	654,212
Profit on asset disposals	10(a)	19,535	0	0
(Loss) on asset disposals	10(a)	(1,160,885)	0	(25,074)
Fair value adjustments to financial assets at fair value through profit or loss	7	63,882	0	0
(Loss) on revaluation of Infrastructure - Sewer	9(a)	0	0	(12,035)
(Loss) on revaluation of Infrastructure - Solid Waste	9(a)	0	0	(46,326)
		(266,616)	1,095,672	570,777
Net result for the period		(589,338)	(1,744,286)	(628,653)
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in asset revaluation surplus	11	454,960	0	(36,952,558)
Total other comprehensive income for the period		454,960	0	(36,952,558)
Total comprehensive income for the period		(134,378)	(1,744,286)	(37,581,211)

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

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

	NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
Revenue				
Governance		5,362	0	182
General purpose funding		5,378,659	4,569,139	5,128,420
Law, order, public safety		72,765	54,052	75,889
Health		551	300	395
Education and welfare		11,972	11,500	12,023
Housing		86,442	84,280	79,729
Community amenities		302,620	293,921	317,181
Recreation and culture		27,987	24,400	36,259
Transport		2,676,058	3,448,829	7,721,579
Economic services		15,275	12,372	15,524
Other property and services		229,737	120,408	204,998
		8,807,428	8,619,201	13,592,179
Expenses				
Governance		(744,464)	(1,102,041)	(679,597)
General purpose funding		(193,825)	(129,467)	(164,396)
Law, order, public safety		(301,896)	(340,336)	(288,803)
Health		(238,120)	(250,299)	(243,068)
Education and welfare		(16,109)	(26,524)	(15,828)
Housing		(51,081)	(56,914)	(43,942)
Community amenities		(465,759)	(598,782)	(512,513)
Recreation and culture		(1,328,126)	(1,694,532)	(1,403,089)
Transport		(5,146,305)	(6,646,343)	(10,762,311)
Economic services		(117,169)	(343,278)	(83,267)
Other property and services		(480,770)	(214,589)	(545,304)
		(9,083,624)	(11,403,105)	(14,742,118)
Finance Costs				
	2(b)			
Housing		(12,778)	(16,874)	(16,094)
Community amenities		(182)	(221)	(93)
Recreation and culture		(25,511)	(26,959)	(28,905)
Transport		(8,055)	(12,000)	(3,499)
		(46,526)	(56,054)	(49,491)
		(322,722)	(2,839,958)	(1,199,430)
Non-operating grants, subsidies and contributions	2(a)	810,852	1,095,672	654,212
Profit on disposal of assets	10(a)	19,535	0	0
(Loss) on disposal of assets	10(a)	(1,160,885)	0	(25,074)
Fair value adjustments to financial assets at fair value through profit or loss	7	63,882	0	0
(Loss) on revaluation of Infrastructure - Sewer	9(a)	0	0	(12,035)
(Loss) on revaluation of Infrastructure - Solid Waste	9(a)	0	0	(46,326)
		(266,616)	1,095,672	570,777
		(589,338)	(1,744,286)	(628,653)
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Changes in asset revaluation surplus	11	454,960	0	(36,952,558)
Total other comprehensive income for the period		454,960	0	(36,952,558)
Total comprehensive income for the period		(134,378)	(1,744,286)	(37,581,211)

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

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

	NOTE	2019 \$	2018 \$
CURRENT ASSETS			
Cash and cash equivalents	3	3,401,475	2,579,916
Trade receivables	5	777,663	2,448,893
Other financial assets	7(a)	28,558	27,432
Inventories	6	20,994	29,548
TOTAL CURRENT ASSETS		4,228,690	5,085,789
NON-CURRENT ASSETS			
Trade receivables	5	120,934	127,561
Other financial assets	7(b)	130,745	95,421
Property, plant and equipment	8	29,808,487	30,246,527
Infrastructure	9	89,770,636	89,736,973
TOTAL NON-CURRENT ASSETS		119,830,802	120,206,482
TOTAL ASSETS		124,059,492	125,292,271
CURRENT LIABILITIES			
Trade and other payables	12	226,039	233,001
Borrowings	13(a)	163,630	1,163,536
Employee related provisions	14	447,391	324,814
TOTAL CURRENT LIABILITIES		837,060	1,721,351
NON-CURRENT LIABILITIES			
Borrowings	13(a)	586,221	749,852
Employee related provisions	14	54,321	104,800
TOTAL NON-CURRENT LIABILITIES		640,542	854,652
TOTAL LIABILITIES		1,477,602	2,576,003
NET ASSETS		122,581,890	122,716,268
EQUITY			
Retained surplus		42,305,941	42,631,778
Reserves - cash backed	4	1,726,808	1,990,309
Revaluation surplus	11	78,549,141	78,094,181
TOTAL EQUITY		122,581,890	122,716,268

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

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

	NOTE	RETAINED SURPLUS \$	RESERVES CASH BACKED \$	REVALUATION SURPLUS \$	TOTAL EQUITY \$
Balance as at 1 July 2017		43,354,363	1,896,377	115,046,739	160,297,479
Comprehensive income					
Net result for the period		(628,653)	0	0	(628,653)
Other comprehensive income	11	0	0	(36,952,558)	(36,952,558)
Total comprehensive income		(628,653)	0	(36,952,558)	(37,581,211)
Transfers from/(to) reserves		(93,932)	93,932	0	0
Balance as at 30 June 2018		42,631,778	1,990,309	78,094,181	122,716,268
Comprehensive income					
Net result for the period		(589,338)	0	0	(589,338)
Other comprehensive income	11	0	0	454,960	454,960
Total comprehensive income		(589,338)	0	454,960	(134,378)
Transfers from/(to) reserves		263,501	(263,501)	0	0
Balance as at 30 June 2019		42,305,941	1,726,808	78,549,141	122,581,890

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

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

	NOTE	2019 Actual \$	2019 Budget \$	2018 Actual \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Rates		4,048,217	4,005,853	3,856,107
Operating grants, subsidies and contributions		1,604,053	746,003	1,466,396
Fees and charges		215,564	346,222	223,463
Interest received		109,675	67,420	103,186
Goods and services tax received		440,702	109,879	219,811
Other revenue		4,359,619	5,591,971	6,509,853
		10,777,830	10,867,348	12,378,816
Payments				
Employee costs		(2,259,499)	(2,110,373)	(2,336,517)
Materials and contracts		(4,014,350)	(5,497,574)	(9,242,787)
Utility charges		(151,422)	(173,500)	(152,816)
Interest expenses		(51,308)	(56,054)	(47,254)
Insurance paid		(183,191)	(211,068)	(169,375)
Goods and services tax paid		(330,000)	0	(330,000)
Other expenditure		(190,992)	(371,689)	(191,101)
		(7,180,762)	(8,420,258)	(12,469,850)
Net cash provided by (used in) operating activities	15	3,597,068	2,447,090	(91,034)
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for purchase of property, plant & equipment	8(a)	(1,257,455)	(2,201,930)	(667,361)
Payments for construction of infrastructure	9(a)	(1,538,392)	(1,377,239)	(1,294,628)
Non-operating grants, subsidies and contributions	2(a)	810,852	1,095,672	654,212
Proceeds from sale of property, plant & equipment	10(a)	345,591	223,000	41,445
Net cash provided by (used in) investing activities		(1,639,404)	(2,260,497)	(1,266,332)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of borrowings	13(b)	(1,163,537)	(1,163,539)	(163,109)
Proceeds from new borrowings	13(b)	0	367,500	1,000,000
Proceeds from self supporting loans	13(b)	27,432	27,433	26,352
Net cash provided by (used in) financing activities		(1,136,105)	(768,606)	863,243
Net increase (decrease) in cash held		821,559	(582,013)	(494,123)
Cash at beginning of year	3	2,579,916	2,579,916	3,074,039
Cash and cash equivalents at the end of the year	3	3,401,475	1,997,903	2,579,916

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

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

	NOTE	2019 Actual	2019 Budget	2018 Actual
		\$	\$	\$
OPERATING ACTIVITIES				
Net current assets at start of financial year - surplus/(deficit)	22 (b)	2,510,233	2,248,000	1,560,516
		2,510,233	2,248,000	1,560,516
Revenue from operating activities (excluding rates)				
Governance		5,362	0	182
General purpose funding		1,581,123	771,744	1,510,711
Law, order, public safety		72,765	54,052	75,889
Health		551	300	395
Education and welfare		11,972	11,500	12,023
Housing		86,442	84,280	79,729
Community amenities		302,620	293,921	317,181
Recreation and culture		27,987	24,400	36,259
Transport		2,695,593	3,448,829	7,721,579
Economic services		15,275	12,372	15,524
Other property and services		293,619	120,408	204,998
		5,093,309	4,821,806	9,974,470
Expenditure from operating activities				
Governance		(744,464)	(1,102,041)	(679,597)
General purpose funding		(193,825)	(129,467)	(164,396)
Law, order, public safety		(301,896)	(340,336)	(288,803)
Health		(238,120)	(250,299)	(243,068)
Education and welfare		(16,109)	(26,524)	(15,828)
Housing		(75,901)	(73,788)	(60,036)
Community amenities		(468,032)	(599,003)	(513,506)
Recreation and culture		(1,793,422)	(1,721,491)	(1,431,994)
Transport		(5,240,920)	(6,658,343)	(10,790,884)
Economic services		(117,169)	(343,278)	(83,267)
Other property and services		(1,101,177)	(214,589)	(603,665)
		(10,291,035)	(11,459,159)	(14,875,044)
Non-cash amounts excluded from operating activities	22(a)	3,201,859	3,033,259	2,729,603
Amount attributable to operating activities		514,366	(1,356,094)	(610,455)
INVESTING ACTIVITIES				
Non-operating grants, subsidies and contributions	2(a)	810,852	1,095,672	654,212
Proceeds from disposal of assets	10(a)	345,591	223,000	41,445
Purchase of property, plant and equipment	8(a)	(1,257,455)	(2,201,930)	(667,361)
Purchase and construction of infrastructure	9(a)	(1,538,392)	(1,377,239)	(1,294,628)
Amount attributable to investing activities		(1,639,404)	(2,260,497)	(1,266,332)
FINANCING ACTIVITIES				
Repayment of borrowings	13(b)	(1,163,537)	(1,163,539)	(163,109)
Proceeds from borrowings	13(c)	0	367,500	1,000,000
Proceeds from self supporting loans	13(b)	27,432	27,433	26,352
Transfers to reserves (restricted assets)	4	(531,740)	(202,500)	(322,881)
Transfers from reserves (restricted assets)	4	795,241	790,302	228,949
Amount attributable to financing activities		(872,604)	(180,804)	769,311
Surplus/(deficit) before imposition of general rates		(1,997,642)	(3,797,395)	(1,107,476)
Total amount raised from general rates	21(a)	3,797,536	3,797,395	3,617,709
Surplus/(deficit) after imposition of general rates	22(b)	1,799,894	0	2,510,233

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:

	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
Operating grants, subsidies and contributions			
Governance	1,814	0	0
General purpose funding	1,383,864	612,542	1,310,189
Law, order, public safety	66,651	49,732	70,578
Recreation and culture			1,900
Transport	140,786	83,729	83,729
Other property and services	9,091	0	0
	1,602,206	746,003	1,466,396
Non-operating grants, subsidies and contributions			
Law, order, public safety	124,170	0	0
Housing	0	367,500	0
Transport	686,682	728,172	654,212
	810,852	1,095,672	654,212
Total grants, subsidies and contributions	2,413,058	1,841,675	2,120,608

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.

2. REVENUE AND EXPENSES (Continued)

(a) Revenue (Continued)	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
Other revenue			
Reimbursements and recoveries*	2,665,045	3,400,013	7,761,597
Other	175,915	53,690	179,754
	<u>2,840,960</u>	<u>3,453,703</u>	<u>7,941,351</u>

*WANDRRA flood damage reimbursements came to \$2,534,003 of the \$2,665,045.

Fees and Charges

Governance	164	0	0
General purpose funding	15,740	46,724	14,570
Law, order, public safety	6,113	4,320	5,311
Health	50	0	240
Education and welfare	11,972	11,500	12,023
Housing	0	84,280	0
Community amenities	128,427	114,726	133,226
Recreation and culture	17,474	24,400	22,388
Transport	217	100	105
Economic services	15,183	12,302	14,782
Other property and services	20,224	47,870	20,818
	<u>215,564</u>	<u>346,222</u>	<u>223,463</u>

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

Interest earnings

Loans receivable - clubs/institutions	4,155	4,793	5,141
Reserve accounts interest	39,112	27,000	40,157
Rates instalment and penalty interest (refer Note 21(d))	33,630	24,500	35,358
Other interest earnings	32,470	11,127	22,129
	<u>109,367</u>	<u>67,420</u>	<u>102,785</u>

SIGNIFICANT ACCOUNTING POLICIES

Interest earnings

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

Interest earnings (Continued)

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

2. REVENUE AND EXPENSES (Continued)

(b) Expenses

Significant expense

WANDRRA Flood Damage Expenses

Auditors remuneration

- Audit of the Annual Financial Report

- Other services

Interest expenses (finance costs)

Borrowings (refer Note 13(b))

Rental charges

- Operating leases

	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
WANDRRA Flood Damage Expenses	2,534,527	3,365,000	7,634,977
Auditors remuneration			
- Audit of the Annual Financial Report	30,000	44,000	18,680
- Other services	12,400	3,750	0
	42,400	47,750	18,680
Interest expenses (finance costs)			
Borrowings (refer Note 13(b))	46,526	56,054	49,491
	46,526	56,054	49,491
Rental charges			
- Operating leases	13,050	12,680	11,830
	13,050	12,680	11,830

3. CASH AND CASH EQUIVALENTS

	NOTE	2019 \$	2018 \$
Cash at bank and on hand		1,644,577	584,970
Cash backed reserves & restricted cash		1,756,898	1,994,946
		3,401,475	2,579,916
Comprises:			
- Unrestricted cash and cash equivalents		1,644,577	584,970
- Restricted cash and cash equivalents		1,756,898	1,994,946
		3,401,475	2,579,916
The following restrictions have been imposed by regulations or other externally imposed requirements:			
Reserve accounts			
Reserves cash backed - Leave Reserve	4	115,741	84,089
Reserves cash backed - Plant & equipment	4	851,666	884,288
Reserves cash backed - Ongerup effluent	4	26,774	54,629
Reserves cash backed - Area promotion	4	30,201	29,619
Reserves cash backed - Swimming pool	4	209,174	150,222
Reserves cash backed - Land development	4	190,512	501,969
Reserves cash backed - Computer replacement	4	7,973	7,819
Reserves cash backed - Waste disposal	4	247,178	240,319
Reserves cash backed - Future funds	4	16,230	15,917
Reserves cash backed - Liquid waste facility	4	31,359	21,438
	4	1,726,808	1,990,309
Other restricted cash and cash equivalents			
Unspent grants/contributions	20	20,614	4,637
Bonds and deposits held	12	9,476	0
Total restricted cash and cash equivalents		1,756,898	1,994,946

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.

SHIRE OF GNOWANGERUP
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30TH 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) Reserves cash backed - Leave Reserve	84,089	31,652	0	115,741	84,089	1,141	0	85,230	81,091	2,998	0	84,089
(e) Reserves cash backed - Plant & equipment	884,288	267,378	(300,000)	851,666	884,288	111,996	(300,000)	696,284	780,181	149,882	(45,775)	884,288
(f) Reserves cash backed - Ongerup effluent	54,629	11,074	(38,929)	26,774	54,629	10,741	0	65,370	42,754	11,875	0	54,629
(g) Reserves cash backed - Area promotion	29,619	582	0	30,201	29,619	402	0	30,021	29,005	614	0	29,619
(h) Reserves cash backed - Swimming pool	150,222	58,952	0	209,174	150,222	58,038	0	208,260	92,268	57,954	0	150,222
(i) Reserves cash backed - Land development	501,969	144,855	(456,312)	190,512	501,969	6,809	(490,302)	18,476	608,696	76,447	(183,174)	501,969
(j) Reserves cash backed - Computer replacement	7,819	154	0	7,973	7,819	106	0	7,925	7,657	162	0	7,819
(k) Reserves cash backed - Waste disposal	240,319	6,859	0	247,178	240,319	3,260	0	243,579	227,448	12,871	0	240,319
(l) Reserves cash backed - Future funds	15,917	313	0	16,230	15,917	216	0	16,133	15,587	330	0	15,917
(m) Reserves cash backed - Liquid waste facility	21,438	9,921	0	31,359	21,438	9,791	0	31,229	11,690	9,748	0	21,438
	1,990,309	531,740	(795,241)	1,726,808	1,990,309	202,500	(790,302)	1,402,507	1,896,377	322,881	(228,949)	1,990,309

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) Reserves cash backed - Leave Reserve	Ongoing	to be used to fund annual and long service leave requirements
(e) Reserves cash backed - Plant & equipment	Ongoing	to be used for the purchase of major plant
(f) Reserves cash backed - Ongerup effluent	Ongoing	to be used for the maintenance of the Ongerup Effluent System
(g) Reserves cash backed - Area promotion	Ongoing	to be used for the promotion of the Gnowangerup Shire
(h) Reserves cash backed - Swimming pool	Ongoing	To be used to assist with upgrade of the Gnowangerup Swimming Pool
(i) Reserves cash backed - Land development	Ongoing	to be used to fund the purchase or development of land and buildings and building renewal
(j) Reserves cash backed - Computer replacement	Ongoing	to be used to fund the maintenance and replacement of the administration computer system
(k) Reserves cash backed - Waste disposal	Ongoing	to be used to fund waste disposal in the Shire, including rehabilitation, transfer stations and post closure of sites
(l) Reserves cash backed - Future funds	Ongoing	to be used for contributions towards major externally grant funded projects and programs within the Shire of Gnowangerup
(m) Reserves cash backed - Liquid waste facility	Ongoing	to be to fund the maintenance, renewal and upgrade of the liquid waste facility

5. TRADE RECEIVABLES

Current

	2019	2018
	\$	\$
Rates receivable	178,930	183,345
Sundry receivables	646,020	2,155,204
GST receivable	(449)	110,253
Accrued interest on loans receivable	(216)	91
Allowance for impairment of receivables	(46,622)	0
	777,663	2,448,893

Non-current

Pensioner's rates and ESL deferred	120,934	127,561
	120,934	127,561

Rates outstanding aged analysis

Current	3,240	3,089
More than 1 year past due	89,587	111,926
More than 2 years past due	47,145	46,428
More than 3 years past due	159,892	149,463
	299,864	310,906

Sundry debtor aged analysis

Current	604,160	2,149,666
More than 30 days past due	28,524	1,492
More than 60 days past due	12,165	291
More than 90 days past due	1,171	3,755
	646,020	2,155,204

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.

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

	2019	2018
	\$	\$
Current		
Fuel	20,994	29,548
	20,994	29,548
The following movements in inventories occurred during the year:		
Carrying amount at 1 July	29,548	21,203
Inventories expensed during the year	(207,878)	(157,681)
Additions to inventory	199,324	166,026
Carrying amount at 30 June	20,994	29,548

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.

7. OTHER FINANCIAL ASSETS

(a) Current assets

Other loans and receivables

Financial assets previously classified as loans and receivables

- Loans receivable - clubs/institutions

(b) Non-current assets

Financial assets at fair values through other comprehensive income - Local Government House Unit Trust

Other loans and receivables

Financial assets at fair values through other comprehensive income

Financial assets at fair values through other comprehensive income - Local Government House Unit Trust

Financial assets previously classified as loans and receivables

- Loans receivable - clubs/institutions

	2019	2018
	\$	\$
	28,558	27,432
	<u>28,558</u>	<u>27,432</u>
	28,558	27,432
	<u>28,558</u>	<u>27,432</u>
	70,068	6,186
	60,677	89,235
	<u>130,745</u>	<u>95,421</u>
	70,068	6,186
	<u>70,068</u>	<u>6,186</u>
	60,677	89,235
	<u>60,677</u>	<u>89,235</u>

Loans receivable from clubs/institutions have the same terms and conditions as the related borrowing disclosed in Note 13(b) as self supporting loans.

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.

8. PROPERTY, PLANT AND EQUIPMENT

(a) Movements in Carrying Amounts

Movement in the carrying amounts of each class of property, plant and equipment between the beginning and the end of the current financial year.

	Land - freehold land	Land - vested in and under the control of Council	Total land	Buildings - non-specialised	Buildings - specialised	Total buildings	Total land and buildings	Furniture and equipment	Plant and equipment	Total property, plant and equipment
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2017	1,032,500	0	1,032,500	1,574,000	24,362,772	25,996,280	27,028,780	73,373	3,503,939	30,606,092
Additions	250,688	0	250,688	16,920	53,739	70,659	321,347	18,739	327,275	667,361
(Disposals)	0	0	0	0	0	0	0	0	(66,519)	(66,519)
Depreciation (expense)	0	0	0	(39,773)	(505,642)	(545,415)	(545,415)	(13,511)	(341,973)	(900,899)
Transfers	0	0	0	0	0	(59,508)	(59,508)	0	0	(59,508)
Carrying amount at 30 June 2018	1,283,188	0	1,283,188	1,551,147	23,910,869	25,462,016	26,745,204	78,601	3,422,722	30,246,527
Comprises:										
Gross carrying amount at 30 June 2018	1,283,188	0	1,283,188	1,590,920	24,414,019	26,004,939	27,288,127	105,665	4,098,779	31,492,571
Accumulated depreciation at 30 June 2018	0	0	0	(39,773)	(503,150)	(542,923)	(542,923)	(27,064)	(676,057)	(1,246,044)
Carrying amount at 30 June 2018	1,283,188	0	1,283,188	1,551,147	23,910,869	25,462,016	26,745,204	78,601	3,422,722	30,246,527
Additions	456,312	0	456,312	7,190	123,149	130,339	586,651	0	670,804	1,257,455
(Disposals)	(723,176)	0	(723,176)	0	(278,745)	(278,745)	(1,001,921)	0	(277,616)	(1,279,537)
Revaluation increments / (decrements) transferred to revaluation surplus	0	0	0	0	0	0	0	13,037	441,923	454,960
Depreciation (expense)	0	0	0	(39,773)	(504,434)	(544,207)	(544,207)	(30,078)	(314,133)	(888,418)
Transfers	0	0	0	0	0	0	0	0	17,500	17,500
Carrying amount at 30 June 2019	1,016,324	0	1,016,324	1,518,564	23,250,839	24,769,403	25,785,727	61,560	3,961,200	29,808,487
Comprises:										
Gross carrying amount at 30 June 2019	1,016,324	0	1,016,324	1,598,110	24,248,618	25,846,728	26,863,052	61,560	3,961,200	30,885,812
Accumulated depreciation at 30 June 2019	0	0	0	(79,546)	(997,779)	(1,077,325)	(1,077,325)	0	0	(1,077,325)
Carrying amount at 30 June 2019	1,016,324	0	1,016,324	1,518,564	23,250,839	24,769,403	25,785,727	61,560	3,961,200	29,808,487

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of Valuation	Date of Last Valuation	Inputs Used
Land and buildings					
Land - freehold land	Level 2	Income approach using discounted cashflow methodology; Improvements to land valued using cost approach using depreciated replacement cost	Independent registered valuers	June 2017	Price per hectare/market borrowing rate
Land - freehold land	Level 3	Income approach using discounted cashflow methodology; Improvements to land valued using cost approach using depreciated replacement cost	Independent registered valuers	June 2017	Price per hectare/market borrowing rate
Buildings - non-specialised	Level 2	Improvements to land valued using cost approach using depreciated replacement cost	Independent registered valuer	June 2017	Improvements to land using construction costs (Level 2); current condition, residual values and remaining useful life assessments (Level 3) inputs
Buildings - specialised	Level 3	Improvements to land valued using cost approach using depreciated replacement cost	Independent registered valuer	June 2017	Improvements to land using construction costs (Level 2); current condition, residual values and remaining useful life assessments (Level 3) inputs
Furniture and equipment	Level 3	Cost approach using depreciated replacement cost	Independent registered valuers	June 2019	Current condition, residual values and remaining useful life assessments (Level 3) inputs.
Plant and equipment	Level 2	Cost approach using depreciated replacement cost	Independent registered valuers	June 2019	Current condition, residual values and remaining useful life assessments (Level 3) inputs.
Plant and equipment	Level 3	Cost approach using depreciated replacement cost	Independent registered valuers	June 2019	Current condition, residual values and remaining useful life assessments (Level 3) inputs.

Level 3 inputs are based on assumptions with regards to future values and patterns of consumption utilising current information. If the basis of these assumptions were varied, they have the potential to result in a significantly higher or lower fair value measurement.

During the period there were no changes in the valuation techniques used by the local government to determine the fair value of property, plant and equipment using either level 2 or level 3 inputs.

SHIRE OF GNOWANGERUP
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9. INFRASTRUCTURE

(a) Movements in Carrying Amounts

Movement in the carrying amounts of each class of infrastructure between the beginning and the end of the current financial year.

	Infrastructure - Roads	Infrastructure - Footpaths	Infrastructure - Drainage	Infrastructure - Parks & ovals	Infrastructure - Other	Infrastructure - Airports	Infrastructure - Sewer	Infrastructure - Solid Waste	Total Infrastructure
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2017	96,081,602	335,388	2,020,927	4,202,817	81,584	20,981,186	684,789	123,318	124,511,611
Additions	1,218,668	0	0	9,586	17,500	3,099	45,775	0	1,294,628
Revaluation increments / (decrements) transferred to revaluation surplus	(21,448,726)	417,913	1,715,759	(57,852)	439,715	(17,526,474)	(492,893)	0	(36,952,558)
Revaluation (loss) / reversals transferred to profit or loss	0	0	0	0	0	0	(12,035)	(46,326)	(58,361)
Depreciation (expense)	(1,158,787)	(9,657)	(63,914)	(251,519)	(1,764)	(174,911)	(25,036)	(8,192)	(1,693,780)
Transfers	0	0	0	2,631,168	4,265	0	0	0	2,635,433
Carrying amount at 30 June 2018	74,692,757	743,644	3,672,772	6,534,200	541,300	3,282,900	200,600	68,800	89,736,973
Comprises:									
Gross carrying amount at 30 June 2018	74,692,757	743,644	3,672,772	6,534,200	541,300	3,282,900	200,600	68,800	89,736,973
Carrying amount at 30 June 2018	74,692,757	743,644	3,672,772	6,534,200	541,300	3,282,900	200,600	68,800	89,736,973
Additions	1,251,720	0	45,510	71,949	130,284	0	38,929	0	1,538,392
(Disposals)	0	0	0	(207,404)	0	0	0	0	(207,404)
Depreciation (expense)	(778,550)	(14,873)	(73,455)	(274,994)	(21,374)	(110,331)	(4,196)	(2,052)	(1,279,825)
Transfers	0	0	0	0	(17,500)	0	0	0	(17,500)
Carrying amount at 30 June 2019	75,165,927	728,771	3,644,827	6,123,751	632,710	3,172,569	235,333	66,748	89,770,636
Comprises:									
Gross carrying amount at 30 June 2019	75,944,477	743,644	3,718,282	6,392,756	654,084	3,282,900	239,529	68,800	91,044,472
Accumulated depreciation at 30 June 2019	(778,550)	(14,873)	(73,455)	(269,005)	(21,374)	(110,331)	(4,196)	(2,052)	(1,273,836)
Carrying amount at 30 June 2019	75,165,927	728,771	3,644,827	6,123,751	632,710	3,172,569	235,333	66,748	89,770,636

9. INFRASTRUCTURE (Continued)

(b) Fair Value Measurements

Asset Class	Fair Value Hierarchy	Valuation Technique	Basis of Valuation	Date of Last Valuation	Inputs Used
Infrastructure - Roads	Level 3	Cost approach using depreciated replacement cost	Independent valuation	June 2018	Construction costs (Level 2); current condition, residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Footpaths	Level 3	Cost approach using depreciated replacement cost	Independent valuation	June 2018	Construction costs (Level 2); current condition, residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Drainage	Level 3	Cost approach using depreciated replacement cost	Independent valuation	June 2018	Construction costs (Level 2); current condition, residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Parks & ovals	Level 3	Cost approach using depreciated replacement cost	Independent registered valuers	June 2018	Construction costs (Level 2); current condition, residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Other	Level 3	Cost approach using depreciated replacement cost	Independent registered valuers	June 2018	Construction costs (Level 2); current condition, residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Airports	Level 3	Cost approach using depreciated replacement cost	Independent registered valuers	June 2018	Construction costs (Level 2); current condition, residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Sewer	Level 3	Cost approach using depreciated replacement cost	Independent registered valuers	June 2018	Construction costs (Level 2); current condition, residual values and remaining useful life assessments (Level 3) inputs
Infrastructure - Solid Waste	Level 3	Cost approach using depreciated replacement cost	Independent registered valuers	June 2018	Construction costs (Level 2); current condition, residual values and remaining useful life assessments (Level 3) inputs

Level 3 inputs are based on assumptions with regards to future values and patterns of consumption utilising current information. If the basis of these assumptions were varied, they have the potential to result in a significantly higher or lower fair value measurement.

During the period there were no changes in the valuation techniques used to determine the fair value of infrastructure using level 3 inputs.
 Minutes Audit Committee Meeting 29 November 19

9. PROPERTY, PLANT AND EQUIPMENT (INCLUDING INFRASTRUCTURE)

SIGNIFICANT ACCOUNTING POLICIES

Fixed assets

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

Initial recognition and measurement between mandatory revaluation dates

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

In relation to this initial measurement, cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition. The cost of non-current assets constructed by the Shire includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overheads.

Individual assets acquired between initial recognition and the next revaluation of the asset class in accordance with the mandatory measurement framework, are recognised at cost and disclosed as being at fair value as management believes cost approximates fair value. They are subject to subsequent revaluation at the next anniversary date in accordance with the mandatory measurement framework.

Revaluation

The fair value of fixed assets is determined at least every three years and no more than five years in accordance with the regulatory framework. At the end of each period the valuation is reviewed and where appropriate the fair value is updated to reflect current market conditions. This process is considered to be in accordance with *Local Government (Financial Management) Regulation 17A (2)* which requires property, plant and equipment to be shown at fair value.

Increases in the carrying amount arising on revaluation of assets are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same class of asset are recognised against revaluation surplus directly in equity. All other decreases are recognised in profit or loss.

AUSTRALIAN ACCOUNTING STANDARDS - INCONSISTENCY

Land under control

In accordance with *Local Government (Financial Management) Regulation 16(a)(ii)*, the Shire was required to include as an asset (by 30 June 2013), Crown Land operated by the local government as a golf course, showground, racecourse or other sporting or recreational facility of State or Regional significance.

Upon initial recognition, these assets were recorded at cost in accordance with AASB 116. They were then classified as Land and revalued along with other land in accordance with the other policies detailed in this Note.

Land under roads

In Western Australia, all land under roads is Crown Land, the responsibility for managing which, is vested in the local government.

Effective as at 1 July 2008, Council elected not to recognise any value for land under roads acquired on or before 30 June 2008. This accords with the treatment available in *Australian Accounting Standard AASB 1051 Land Under Roads* and the fact *Local Government (Financial Management) Regulation 16(a)(i)* prohibits local governments from recognising such land as an asset.

In respect of land under roads acquired on or after 1 July 2008, as detailed above, *Local Government (Financial Management) Regulation 16(a)(i)* prohibits local governments from recognising such land as an asset.

Whilst such treatment is inconsistent with the requirements of *AASB 1051, Local Government (Financial Management) Regulation 4(2)* provides, in the event of such an inconsistency, the *Local Government (Financial Management) Regulations* prevail.

Consequently, any land under roads acquired on or after 1 July 2008 is not included as an asset of the Shire.

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

(a) Disposals of Assets

	2019 Actual Net Book Value	2019 Actual Sale Proceeds	2019 Actual Profit	2019 Actual Loss	2019 Budget Net Book Value	2019 Budget Sale Proceeds	2019 Budget Profit	2019 Budget Loss	2018 Actual Net Book Value	2018 Actual Sale Proceeds	2018 Actual Profit	2018 Actual Loss
Land - freehold land	\$ 723,176	\$ 88,636	\$ 0	\$ (634,540)	\$ 36,000	\$ 36,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Buildings - specialised	278,745	46,364	0	(232,381)	0	0	0	0	0	0	0	0
Plant and equipment	277,616	210,591	19,535	(86,560)	187,000	187,000	0	0	66,519	41,445	0	(25,074)
Infrastructure - Parks & ovals	207,404	0	0	(207,404)	0	0	0	0	0	0	0	0
	1,486,941	345,591	19,535	(1,160,885)	223,000	223,000	0	0	66,519	41,445	0	(25,074)

The following assets were disposed of during the year.

	2019 Actual Net Book Value	2019 Actual Sale Proceeds	2019 Actual Profit	2019 Actual Loss
Plant and Equipment				
Governance	\$	\$	\$	\$
Isuzu Space Cab	18,668	23,182	4,514	0
Isuzu Space Cab	18,668	23,182	4,514	0
Holden Insigna	45,742	16,363	0	(29,379)
Isuzu Crew Cab	21,335	25,682	4,347	0
Holden Colorado	28,988	28,182	0	(806)
Case Wheeled Loader	126,375	70,000	0	(56,375)
JD Backhoe Loader	17,840	24,000	6,160	0
	277,616	210,591	19,535	(86,560)
Land				
Housing				
17 Carpenter Street	12,042	0	0	(12,042)
Community amenities				
107 Formby Street	18,000	15,909	0	(2,091)
Other Property and Services				
Lot 169 Lamont Street	15,000	0	0	(15,000)
Lot 560 Yougenup Rd	678,134	72,727	0	(605,407)
	723,176	88,636	0	(634,540)
Buildings - Specialised				
Recreation and culture				
17 Carpenter Street Police Stn	226,772	46,364	0	(180,408)
Swimming Pool Building	2,484	0	0	(2,484)
Swimmin Pool Plant Building	21,777	0	0	(21,777)
Swimming Pool Amenities	27,712	0	0	(27,712)
	278,745	46,364	0	(232,381)
Parks & ovals				
Program				
Aylmore Park Swimming Pool	18,450	0	0	(18,450)
Brick paving at Swimming Pool	6,336	0	0	(6,336)
4 Lane Swimming Pool	182,618	0	0	(182,618)
	207,404	0	0	(207,404)
	1,486,941	345,591	19,535	(1,160,885)

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

(b) Depreciation	2019	2019	2018
	Actual	Budget	Actual
	\$	\$	\$
Buildings - non-specialised	39,773	39,773	39,773
Buildings - specialised	504,434	859,601	505,642
Furniture and equipment	30,078	13,753	13,511
Plant and equipment	314,133	348,227	341,973
Infrastructure - Roads	778,550	1,179,656	1,158,787
Infrastructure - Footpaths	14,873	9,831	9,657
Infrastructure - Drainage	73,455	65,065	63,914
Infrastructure - Parks & ovals	274,994	256,370	251,519
Infrastructure - Other	21,374	1,796	1,764
Infrastructure - Airports	110,331	178,061	174,911
Infrastructure - Sewer	4,196	25,487	25,036
Infrastructure - Solid Waste	2,052	8,340	8,192
	<u>2,168,243</u>	<u>2,985,960</u>	<u>2,594,679</u>

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	50 years
Sewerage piping	25 to 80 years
Water supply piping and drainage systems	50 years
Airport infrastructure	13 to 100 years
Parks & ovals infrastructure	2 to 100 years
Other infrastructure	10 to 50 years
Solid waste infrastructure	15 to 25 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
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revaluation surplus - Land - freehold land	814,452	0	0	0	814,452	814,452	0	0	0	814,452
Revaluation surplus - Buildings - non-specialised	9,113	0	0	0	9,113	9,113	0	0	0	9,113
Revaluation surplus - Buildings - specialised	18,463,939	0	0	0	18,463,939	18,463,939	0	0	0	18,463,939
Revaluation surplus - Furniture and equipment	0	13,037	0	13,037	13,037	0	0	0	0	0
Revaluation surplus - Plant and equipment	503,077	441,923	0	441,923	945,000	503,077	0	0	0	503,077
Revaluation surplus - Infrastructure - Roads	48,816,887	0	0	0	48,816,887	70,265,613	0	(21,448,726)	(21,448,726)	48,816,887
Revaluation surplus - Infrastructure - Footpaths	417,913	0	0	0	417,913	0	417,913	0	417,913	417,913
Revaluation surplus - Infrastructure - Drainage	3,408,530	0	0	0	3,408,530	1,692,771	1,715,759	0	1,715,759	3,408,530
Revaluation surplus - Infrastructure - Parks & ovals	1,903,113	0	0	0	1,903,113	1,960,965	0	(57,852)	(57,852)	1,903,113
Revaluation surplus - Infrastructure - Other	439,715	0	0	0	439,715	0	439,715	0	439,715	439,715
Revaluation surplus - Infrastructure - Airports	3,317,442	0	0	0	3,317,442	20,843,916	0	(17,526,474)	(17,526,474)	3,317,442
Revaluation surplus - Infrastructure - Sewer	0	0	0	0	0	492,893	0	(492,893)	(492,893)	0
	78,094,181	454,960	0	454,960	78,549,141	115,046,739	2,573,387	(39,525,945)	(36,952,558)	78,094,181

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	
Rates paid in advance	
Accrued salaries and wages	
Accrued interest on long term borrowings	
Bonds and deposits held (refer to Note 23)	
Accrued expenses	

	2019	2018
	\$	\$
	152,813	145,688
	12,921	15,078
	13,633	12,220
	5,348	10,130
	9,476	0
	31,848	49,885
	226,039	233,001

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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13. INFORMATION ON BORROWINGS

	2019	2018
	\$	\$
Current	163,630	1,163,536
Non-current	586,221	749,852
	749,851	1,913,388

(b) Repayments - Borrowings

Particulars	Loan Number	Institution	Interest Rate	Actual	30 June 2019	30 June 2019	30 June 2019	30 June 2019	30 June 2019	Budget	30 June 2019	30 June 2019	30 June 2019	30 June 2019	Actual	30 June 2018	30 June 2018	30 June 2018	30 June 2018
				Principal	Actual	Actual	Actual	Budget	Budget	Budget	Budget	Principal	Actual	Actual	Actual	Actual	Principal	Actual	Actual
				1 July 2018	New Loans	repayments	repayments	outstanding	1 July 2018	New Loans	repayments	repayments	outstanding	1 July 2017	New Loans	repayments	repayments	outstanding	
				\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Housing																			
GROH Housing	277	WATC	4.20%	343,570	0	80,614	12,778	262,956	343,570	0	80,614	16,874	262,956	420,902	0	77,332	16,094	343,570	
Staff Housing	281	WATC		0	0	0	0	0	0	367,500	0	0	367,500	0	0	0	0	0	
Community amenities																			
Yongergnow Centre	270	WATC	6.34%	6,865	0	6,865	182	0	6,864	0	6,864	221	0	19,957	0	13,092	993	6,865	
Recreation and culture																			
Gnp Community Centre	273	WATC	6.18%	160,973	0	16,104	9,584	144,869	160,975	0	16,105	9,703	144,870	176,126	0	15,153	10,542	160,973	
Borden Pavilion	278	WATC	4.29%	89,565	0	16,425	3,499	73,140	89,565	0	16,425	4,351	73,140	105,307	0	15,742	4,188	89,565	
Gnp Complex Synthetic Turf	279	WATC	4.23%	195,747	0	16,097	8,061	179,650	195,747	0	16,098	8,112	179,649	211,185	0	15,438	8,724	195,747	
Transport																			
WANDRRA Flood Damage	280	WATC	2.41%	1,000,000	0	1,000,000	8,055	0	1,000,000	0	1,000,000	12,000	0	0	1,000,000	0	3,499	1,000,000	
				1,796,720	0	1,136,105	42,159	660,615	1,796,721	367,500	1,136,106	51,261	1,028,115	933,477	1,000,000	136,757	44,040	1,796,720	
Self Supporting Loans																			
Recreation and culture																			
Gnp Sporting Complex	275	WATC	4.06%	80,770	0	18,991	3,023	61,779	80,769	0	18,992	3,088	61,777	99,014	0	18,244	3,774	80,770	
Borden Pavilion	276	WATC	4.06%	35,898	0	8,441	1,344	27,457	35,898	0	8,441	1,705	27,457	44,006	0	8,108	1,677	35,898	
				116,668	0	27,432	4,367	89,236	116,667	0	27,433	4,793	89,234	143,020	0	26,352	5,451	116,668	
				1,913,388	0	1,163,537	46,526	749,851	1,913,388	367,500	1,163,539	56,054	1,117,349	1,076,497	1,000,000	163,109	49,491	1,913,388	

Self supporting loans are financed by payments from third parties. These are shown in Note 7 as other financial assets at amortised cost.
All other loan repayments were financed by general purpose revenue.

SHIRE OF GNOWANGERUP
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13. INFORMATION ON BORROWINGS (Continued)

(c) New Borrowings - 2018/19

Particulars/Purpose	Institution	Loan Type	Term Years	Interest Rate	Amount Borrowed		Amount (Used)		Total Interest & Charges	Actual Balance Unspent
					2019 Actual	2019 Budget	2019 Actual	2019 Budget	\$	\$
Staff Housing	WATC	Debenture	10	4.00%	\$ 0	\$ 367,500	\$ 0	\$ 367,500	\$ 0	\$ 0
					0	367,500	0	367,500	0	0

(d) Undrawn Borrowing Facilities

	2019	2018
Credit Standby Arrangements	\$	\$
Bank overdraft limit	500,000	500,000
Bank overdraft at balance date	0	0
Credit card limit	10,000	10,000
Credit card balance at balance date	(87)	(710)
Total amount of credit unused	509,913	509,290
Loan facilities		
Loan facilities - current	163,630	1,163,536
Loan facilities - non-current	586,221	749,852
Total facilities in use at balance date	749,851	1,913,388
Unused loan facilities at balance date	Nil	Nil

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 & Sick Leave	Provision for Long Service Leave	Total
	\$	\$	\$
Opening balance at 1 July 2018			
Current provisions	209,022	115,792	324,814
Non-current provisions	0	104,800	104,800
	<u>209,022</u>	<u>220,592</u>	<u>429,614</u>
Additional leave provision accrued	182,603	54,844	237,447
Amounts used	(100,037)	(65,312)	(165,349)
Balance at 30 June 2019	<u>291,588</u>	<u>210,124</u>	<u>501,712</u>
Comprises			
Current	291,588	155,803	447,391
Non-current	0	54,321	54,321
	<u>291,588</u>	<u>210,124</u>	<u>501,712</u>

Amounts are expected to be settled on the following basis:

Less than 12 months after the reporting date
 More than 12 months from reporting date

	2019	2018
	\$	\$
Less than 12 months after the reporting date	268,982	147,974
More than 12 months from reporting date	232,730	281,640
	<u>501,712</u>	<u>429,614</u>

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

SIGNIFICANT ACCOUNTING POLICIES

Employee benefits

Short-term employee benefits

Provision is made for the Shire's obligations for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Shire's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position.

Other long-term employee benefits

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

Long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at

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	3,401,475	1,997,903	2,579,916
Reconciliation of Net Cash Provided By Operating Activities to Net Result			
Net result	(589,338)	(1,744,286)	(628,653)
Non-cash flows in Net result:			
Adjustments to fair value of financial assets	(63,882)	0	0
Depreciation	2,168,243	2,985,960	2,594,679
(Profit)/loss on sale of asset	1,141,350	0	25,074
Loss on revaluation of fixed assets	0	0	58,361
Changes in assets and liabilities:			
(Increase)/decrease in receivables	1,677,857	2,248,147	(1,555,399)
(Increase)/decrease in inventories	8,554	0	(8,345)
Increase/(decrease) in payables	(6,962)	5,642	8,754
Increase/(decrease) in provisions	72,098	47,299	68,707
Non-Operating grants & contributions for the development of assets	(810,852)	(1,095,672)	(654,212)
Net cash from operating activities	3,597,068	2,447,090	(91,034)

16. TOTAL ASSETS CLASSIFIED BY FUNCTION AND ACTIVITY

	2019	2018
	\$	\$
General purpose funding	253,242	310,906
Law, order, public safety	1,943,917	1,721,658
Health	541,266	561,113
Education and welfare	15,000	15,000
Housing	1,739,263	1,792,512
Community amenities	1,479,540	1,468,250
Recreation and culture	26,785,826	27,832,344
Transport	87,054,921	86,282,185
Economic services	315,830	325,534
Other property and services	1,247,988	1,524,184
Unallocated	2,682,699	3,458,585
	124,059,492	125,292,271

17. CONTINGENT LIABILITIES

The Shire of Gnowangerup has identified the following sites, in relation to land owned, vested or leased, that is known to be, or suspected of being contaminated. As at the date of this report the value and timing of remediation has not been ascertained.

Lot 193 (16) Corbett St, Gnowangerup - Possibly contaminated, investigation required

Lot 9319 Airport Road, Pallinup - Possibly contaminated, investigation required

Lot 9196 Airport Road, Pallinup - Possibly contaminated, investigation required

Lot 500 on DP77797 - Possibly contaminated, investigation required

Reserve 23659 - Possibly contaminated, investigation required

Lot 5631 on Plan 144307 - Possibly contaminated, investigation required

Lot 150 on DP67780 - Possibly contaminated, investigation required

18. CAPITAL AND LEASING COMMITMENTS

(a) Capital Expenditure Commitments

Contracted for:

- capital expenditure projects

Payable:

- not later than one year

	2019	2018
	\$	\$
	762,000	0
	762,000	0
	762,000	0

The capital expenditure commitments for 2019 relate to the construction of housing.

(b) Operating Lease Commitments

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

Payable:

- not later than one year

- later than one year but not later than five years

	2019	2018
	\$	\$
	13,050	13,050
	17,400	30,450
	30,450	43,500

SIGNIFICANT ACCOUNTING POLICIES

Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not legal ownership, are transferred to the Shire, are classified as finance leases.

Finance leases are capitalised recording an asset and a liability at the lower of the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leases (Continued)

Leased assets are depreciated on a straight line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the lease term.

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

19. RELATED PARTY TRANSACTIONS

Elected Members Remuneration

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

	2019 Actual	2019 Budget	2018 Actual
	\$	\$	\$
Meeting fees	72,000	80,000	72,000
President's allowance	15,000	15,000	15,000
Deputy President's allowance	3,000	3,000	3,000
Travelling expenses	3,037	6,500	4,178
Telecommunications allowance	5,610	5,940	5,940
	98,647	110,440	100,118

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	306,508	270,493
Post-employment benefits	44,512	46,423
Other long-term benefits	6,681	6,625
	357,701	323,541

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.

19. RELATED PARTY TRANSACTIONS (Continued)

Transactions with related parties

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

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

The following transactions occurred with related parties:	2019 Actual	2018 Actual
	\$	\$
Purchase of goods and services	780	0

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.

20. CONDITIONS OVER GRANTS/CONTRIBUTIONS

Grant/Contribution	Opening Balance ⁽¹⁾	Received ⁽²⁾	Expended ⁽³⁾	Closing Balance ⁽¹⁾	Received ⁽²⁾	Expended ⁽³⁾	Closing Balance
	1/07/17	2017/18	2017/18	30/06/18	2018/19	2018/19	30/06/19
	\$	\$	\$	\$	\$	\$	\$
Law, order, public safety							
Bushfire Operational grant	11,007	45,622	(55,934)	695	15,464	(695)	15,464
SES Operational Grant	6,327	21,209	(26,459)	1,077	5,150	(1,077)	5,150
Recreation and culture							
ICCWA - Stay On Your Feet	476	0	0	476	0	(476)	0
DSR - KidzSports Grant	4,884	0	(4,884)	0	0	0	0
CLGF - Youth Dev Scholarship	1,514	875	0	2,389	0	(2,389)	0
Total	24,208	67,706	(87,277)	4,637	20,614	(4,637)	20,614

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.

21. RATING INFORMATION

(a) Rates

RATE TYPE	Rate in \$	Number of Properties	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	2018/19	2017/18	
			Actual Rateable Value	Actual Rate Revenue	Actual Interim Rates	Actual Back Rates	Actual Total Revenue	Budget Rate Revenue	Budget Interim Rate	Budget Back Rate	Budget Total Revenue	Actual Total Revenue
Differential general rate / general rate			\$	\$	\$	\$	\$	\$	\$	\$	\$	
Gross rental valuations												
GRV Residential	0.151769	318	2,721,980	413,112	2,037	0	415,149	413,112	0	0	413,112	394,364
GRV Commercial	0.151769	27	409,602	62,165	0	0	62,165	62,165	0	0	62,165	82,512
GRV Industrial	0.151769	17	185,266	28,118	0	0	28,118	28,118	0	0	28,118	27,606
GRV Amelup Tourism	0.151769	4	114,660	17,402	0	0	17,402	17,402	0	0	17,402	19,972
Unimproved valuations												
UV Rural	0.011010	352	287,834,015	3,169,052	(1,899)	0	3,167,153	3,169,049	0	0	3,169,049	3,012,280
UV Mining	0.011010	0	0	0	0	0	0	0	0	0	0	0
Sub-Total		718	291,265,523	3,689,849	138	0	3,689,987	3,689,846	0	0	3,689,846	3,536,734
Minimum payment												
Gross rental valuations												
GRV Residential	750	99	182,202	74,250	(750)	0	73,500	74,250	0	0	74,250	55,692
GRV Commercial	750	22	35,767	16,500	0	0	16,500	16,500	0	0	16,500	9,996
GRV Industrial	750	9	14,733	6,750	0	0	6,750	6,750	0	0	6,750	6,426
GRV Amelup Tourism	750	1	4,160	750	0	0	750	750	0	0	750	714
Unimproved valuations												
UV Rural	750	20	724,685	15,000	750	0	15,750	15,000	0	0	15,000	14,280
UV Mining	750	4	84,510	3,000	0	0	3,000	3,000	0	0	3,000	3,853
Sub-Total		155	1,046,057	116,250	0	0	116,250	116,250	0	0	116,250	90,961
		873	292,311,580	3,806,099	138	0	3,806,237	3,806,096	0	0	3,806,096	3,627,695
Discounts/concessions (refer Note 21(c))							(8,701)				(8,701)	(9,986)
Total amount raised from general rate							3,797,536				3,797,395	3,617,709
Specified Area Rate (refer Note 21(b))							75,141				75,058	75,331
Ex-gratia rates							33,454				0	31,577
Waste Collection Rate							133,200				133,400	133,567
Totals							4,039,331				4,005,853	3,858,184

SIGNIFICANT ACCOUNTING POLICIES

Rates

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

21. RATING INFORMATION (Continued)

(b) Specified Area Rate

Specified Area Rate	Basis of Valuation	Rate in \$	2018/19 Rateable Value	2018/19 Rate Revenue	2018/19 Interim Rate Revenue	2018/19 Back Rate Revenue	2018/19 Total Specified Area Rate Revenue	2018/19 Budget Rate Revenue	2018/19 Budget Back Rate Revenue	2018/19 Budget Interim Rate Revenue	2018/19 Total Budget Revenue	2017/18 Total Actual Revenue
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Gnp Sporting Complex	GRV	0.00380	2,748,039	10,522	84	0	10,606	10,522	0	0	10,522	10,531
Gnp Sporting Complex	UV	0.00020	128,868,500	19,459	0	0	19,459	19,459	0	0	19,459	19,488
Borden Pavilion	GRV	0.00220	225,694	506	0	0	506	506	0	0	506	518
Borden Pavilion	UV	0.00010	101,823,500	9,570	0	0	9,570	9,571	0	0	9,571	9,794
Ongerup Effluent	GRV	0.07650	457,274	35,000	0	0	35,000	35,000	0	0	35,000	35,000
				75,057	84	0	75,141	75,058	0	0	75,058	75,331

Specified Area Rate	Purpose of the rate	Area/properties Rate Imposed	2018/19 Actual Rate Applied to Costs	2018/19 Actual Rate Set Aside to Reserve	2018/19 Actual Reserve Applied to Costs	2018/19 Budget Rate Applied to Costs	2018/19 Budget Rate Set Aside to Reserve	2018/19 Budget Reserve Applied to Costs
			\$	\$	\$	\$	\$	\$
Gnp Sporting Complex	To meet part of the loan repayments for the Gnowangerup Sporting Complex Facility	Applied to all properties in the old Gnowangerup Townsite Ward and Gnowangerup Rural Ward	10,606	0	0	10,522	0	0
Gnp Sporting Complex	To meet part of the loan repayments for the Gnowangerup Sporting Complex Facility	Applied to all properties in the old Gnowangerup Townsite Ward and Gnowangerup Rural Ward	19,459	0	0	19,459	0	0
Borden Pavilion	To meet the loan repayments for the Borden Pavilion Facility	Applied to all properties of the Old Borden Townsite Ward and Borden Rural Ward	506	0	0	506	0	0
Borden Pavilion	To meet the loan repayments for the Borden Pavilion Facility	Applied to all properties of the Old Borden Townsite Ward and Borden Rural Ward	9,570	0	0	9,571	0	0
Ongerup Effluent	To contribute towards the maintenance, renewal and replacement of the Ongerup Effluent System	Applied to all properties in the Ongerup Townsite	35,000	0	0	35,000	0	0
			75,141	0	0	75,058	0	0

SHIRE OF GNOWANGERUP
 NOTES TO AND FORMING PART OF THE FINANCIAL REPORT
 FOR THE YEAR ENDED 30TH JUNE 2019
 21. RATING INFORMATION (Continued)

(c) Discounts, Incentives, Concessions, & Write-offs

Waivers or Concessions

Rate or Fee and
 Charge to which
 the Waiver or
 Concession is Granted

Type	Discount %	Discount \$	2019 Actual \$	2019 Budget \$	2018 Actual \$
43 Whitehead Road	Waiver	100.00%	N/A	462	448
35 Yougenup Road	Waiver	100.00%	N/A	1,035	1,167
30 Eldridge Street	Waiver	100.00%	N/A	1,089	954
Rates small balances	Write-off	N/A	N/A	121	181
				2,707	2,750
General rates on Assessment A213	Concession	50.00%	N/A	2,368	2,978
General rates on Assessment A293	Concession	50.00%	N/A	4,459	5,003
General rates on Assessment A314	Concession	50.00%	N/A	809	814
General rates on Assessment A556	Concession	50.00%	N/A	1,065	1,191
				8,701	9,986

Rate or Fee and
 Charge to which
 the Waiver or
 Concession is Granted

Circumstances in which
 the Waiver or Concession is
 Granted and to whom it was
 available

Objects of the Waiver
 or Concession

Reasons for the Waiver
 or Concession

General rates on Assessment A213	Concession of 50% granted off of general rates to the owner of the property of Assessment A213	To assist promote the tourist industry in the Amelup Tourism Precinct	To assist promote the tourist industry in the Amelup Tourism Precinct.
General rates on Assessment A293	Concession of 50% granted off of general rates to the owner of the property of Assessment A293	To assist promote the tourist industry in the Amelup Tourism Precinct	To assist promote the tourist industry in the Amelup Tourism Precinct.
General rates on Assessment A314	Concession of 50% granted off of general rates to the owner of the property of Assessment A314	To assist promote the tourist industry in the Amelup Tourism Precinct	To assist promote the tourist industry in the Amelup Tourism Precinct.
General rates on Assessment A556	Concession of 50% granted off of general rates to the owner of the property of Assessment A556	To assist promote the tourist industry in the Amelup Tourism Precinct	To assist promote the tourist industry in the Amelup Tourism Precinct.

21. RATING INFORMATION (Continued)

(d) Interest Charges & Instalments

Instalment Options	Date Due	Instalment Plan Admin Charge \$	Instalment Plan Interest Rate %	Unpaid Rates Interest Rate %
Option One				
One payment	04 Oct 2018	0.00	0.00%	11.00%
Option Two				
Instalment 1	04 Oct 2018	0.00	5.50%	11.00%
Instalment 2	04 Dec 2018	10.00	5.50%	11.00%
Instalment 3	04 Feb 2019	10.00	5.50%	11.00%
Instalment 4	04 Apr 2019	10.00	5.50%	11.00%

	2019 Actual \$	2019 Budget \$	2018 Actual \$
Interest on unpaid rates	18,680	13,000	22,428
Interest on instalment plan	12,794	11,500	12,014
Charges on instalment plan	4,980	4,500	4,740
Pensioner deferred interest	2,156	920	916
	<u>38,610</u>	<u>29,920</u>	<u>40,098</u>

22. RATE SETTING STATEMENT INFORMATION

	2018/19 (30 June 2019 Carried Forward)	2018/19 Budget (30 June 2019 Carried Forward)	2017/18 (30 June 2018 Brought Forward)
Note	\$	\$	\$
(a) Non-cash amounts excluded from operating activities			
<p>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>.</p>			
Adjustments to operating activities			
Less: Profit on asset disposals	10(a) (19,535)	0	0
Less: Movement in local government house unit trust	7(b) (63,882)	0	0
Movement in pensioner deferred rates (non-current)	5 6,627	0	(8,941)
Movement in employee benefit provisions (non-current)	14 (50,479)	47,299	60,430
Add: Loss on disposal of assets	10(a) 1,160,885	0	25,074
Add: Loss on revaluation of fixed assets	9(a) 0	0	58,361
Add: Depreciation on assets	10(b) 2,168,243	2,985,960	2,594,679
Non cash amounts excluded from operating activities	3,201,859	3,033,259	2,729,603
(b) Surplus/(deficit) after imposition of general rates			
<p>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.</p>			
Adjustments to net current assets			
Less: Reserves - restricted cash	3 (1,726,808)	(1,402,507)	(1,990,309)
Less: - Financial assets at amortised cost - self supporting loans	7(a) (28,558)	(28,066)	(27,432)
Add: Borrowings	13(a) 163,630	236,118	1,163,536
Total adjustments to net current assets	(1,591,736)	(1,194,455)	(854,205)
Net current assets used in the Rate Setting Statement			
Total current assets	4,228,690	2,265,163	5,085,789
Less: Total current liabilities	(837,060)	(1,070,708)	(1,721,351)
Less: Total adjustments to net current assets	(1,591,736)	(1,194,455)	(854,205)
Net current assets used in the Rate Setting Statement	1,799,894	0	2,510,233

23. FINANCIAL RISK MANAGEMENT

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

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

The Shire does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

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

(a) Interest rate risk

Cash and cash equivalents

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

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

	Weighted Average Interest Rate	Carrying Amounts	Fixed Interest Rate	Variable Interest Rate	Non Interest Bearing
	%	\$	\$	\$	\$
2019					
Cash and cash equivalents	2.1044%	3,401,475	3,401,475	0	0
2018					
Cash and cash equivalents	2.4143%	2,579,916	2,579,916	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*	34,015	25,799

* Holding all other variables constant

Borrowings

Borrowings are subject to interest rate risk - the risk that movements in interest rates could adversely affect funding costs.

The Shire manages this risk by borrowing long term and fixing the interest rate to the situation considered the most advantageous at the time of negotiation. The Shire does not consider there to be any interest rate risk in relation to borrowings. Details of interest rates applicable to each borrowing may be found at Note 13(b).

23. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

Trade Receivables

The Shire's major receivables comprise rates annual charges and user fees and charges. The major risk associated with these receivables is credit risk – the risk that the debts may not be repaid. The Shire manages this risk by monitoring outstanding debt and employing debt recovery policies. It also encourages ratepayers to pay rates by the due date through incentives.

Credit risk on rates and annual charges is minimised by the ability of the Shire to recover these debts as a secured charge over the land, that is, the land can be sold to recover the debt. The Shire is also able to charge interest on overdue rates and annual charges at higher than market rates, which further encourages payment.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

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

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

The loss allowance as at 30 June 2019 and 1 July 2018 (on adoption of AASB 9) was determined as follows for rates receivable. 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
30 June 2019					
Rates receivable					
Gross carrying amount	3,240	89,587	47,145	159,892	299,864
01 July 2018					
Rates receivable					
Gross carrying amount	3,089	111,926	46,428	149,463	310,906

The loss allowance as at 30 June 2019 and 1 July 2018 (on adoption of AASB 9) was determined as follows for sundry receivables.

	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
30 June 2019					
Sundry Receivables					
Expected credit loss	0.00%	0.00%	0.00%	0.00%	
Gross carrying amount	604,160	28,524	12,165	1,171	646,020
Loss allowance	0	0	0	0	0
01 July 2018					
Sundry Receivables					
Expected credit loss	0.00%	0.00%	0.00%	0.00%	
Gross carrying amount	2,149,666	1,492	291	3,755	2,155,204
Loss allowance	0	0	0	0	0

The loss allowance calculated above is immaterial.

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
	\$	\$	\$	\$	\$
<u>2019</u>					
Payables	226,039	0	0	226,039	226,039
Borrowings	211,306	795,628	270,170	1,277,104	749,851
	<u>437,345</u>	<u>795,628</u>	<u>270,170</u>	<u>1,503,143</u>	<u>975,890</u>
<u>2018</u>					
Payables	233,001	0	0	233,001	233,001
Borrowings	1,204,221	661,907	199,670	2,065,798	1,913,388
	<u>1,437,222</u>	<u>661,907</u>	<u>199,670</u>	<u>2,298,799</u>	<u>2,146,389</u>

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
	\$	\$	\$		\$
Builders Registration Board	0	1,716	(1,716)	0	0
BCITF	0	928	(928)	0	0
Hall Hire Bonds	0	56	(56)	0	0
Agricultural Society	4,436	0	(4,436)	0	0
Housing Bonds	9,305	0	0	(9,305)	0
Unclaimed Rates	56	0	0	0	56
Micro-Chip Deposits	0	50	0	0	50
Police Licensing	0	818,129	(818,129)	0	0
Cat Trap Bonds	150	100	(150)	(100)	0
Other - Interest	59	69	(28)	(71)	29
Hollow Log Golf Donations	0	3,720	0	0	3,720
Building Applications Overpayments	0	57	(57)	0	0
CWA Stirling Trust Grant	0	2,698	(2,698)	0	0
Furniture Hire Bond	0	200	(200)	0	0
Building Retention Funds	0	23,893	(19,183)	0	4,710
	14,006	851,616	(847,581)	(9,476)	8,565

In previous years bonds and deposits, were held as trust monies. They are now included in restricted cash at Note 3 and shown as a current liability in Note 12.

25. 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.

There was no effect of adopting AASB9.

26. 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. In summary the following adjustments are expected to be made to the amounts recognised in the Statement of Financial Position at the date of initial application (1 July 2019):

	AASB 118 carrying amount		AASB 15 carrying amount
Note	30 June 2019	Reclassification	01 July 2019
	\$	\$	\$
Contract liabilities - current			
Unspent grants, contributions and reimbursements	20	0	20,614
Contract liabilities non-current			
Adjustment to retained surplus from adoption of AASB 15	26(d)	(20,614)	

(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. The weighted average lessee's incremental borrowing rates applied to the lease liabilities on 1 July 2019 is 3.50%.

	Note	2019
		\$
Operating lease commitments disclosed as at 30 June 2019	18	30,450
Right-of-use asset recognised at at 1 July 2019		29,218

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.

26. 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 no changes in accounting policies as the Shire already recognises prepaid rates as a financial liability

(d) Impact of changes to Retained Surplus

The impact on the Shire of the changes as at 1 July 2019 is as follows:

	Note	Adjustments	2019
			\$
Retained surplus - 30 June 2019			42,305,941
Adjustment to retained surplus from adoption of AASB 15	26(a)	(20,614)	
Adjustment to retained surplus from adoption of AASB 16	26(b)	40,070	
Retained surplus - 01 July 2019			42,325,397

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 regulatory to ensure the carrying value does not differ materially from that which would be determined using fair value at the ends of the reporting period.

29. ACTIVITIES/PROGRAMS

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

PROGRAM NAME AND OBJECTIVES	ACTIVITIES
GOVERNANCE To provide a decision making process for the efficient allocation of scarce resources	Administration and operation of members of Council. Other costs that relate to the tasks of assisting elected members and ratepayers on matters which do not concern specific Council services.
GENERAL PURPOSE FUNDING To collect revenue to allow for the provision of services	To collect revenue in the form of rates, interest and general purpose Government grants to allow for the provision of services.
LAW, ORDER, PUBLIC SAFETY To provide services to help ensure a safer and environmentally conscious community	Supervision and enforcement of various local laws relating to fire prevention, animal control and other aspects of public safety including emergency services
HEALTH To provide an operational framework for environmental and community health	Inspection of food outlets and their control, noise control and waste disposal compliance
EDUCATION AND WELFARE To provide services to the elderly, children and youth	The provision of pre-school facilities to relevant community groups and the support of youth in the community.
HOUSING To provide and maintain staff and other housing	Provision and maintenance of staff and other housing
COMMUNITY AMENITIES To provide services required by the community	Rubbish collection services, operation of rubbish disposal sites, litter control, construction and maintenance of urban storm water drains, protection of the environment and administration of town planning schemes, cemetery and public conveniences
RECREATION AND CULTURE To establish and effectively manage infrastructure and resource which will help the social well being of the community	Maintenance of public halls, civic centres, swimming pool, recreation centres and various sporting facilities. Provision and maintenance of parks, gardens and playgrounds. Operation of library and other cultural facilities
TRANSPORT To provide safe, effective and efficient transport services to the community	Construction and maintenance of roads, streets, footpaths, depots, cycle ways, parking facilities and traffic control. Cleaning of streets and maintenance of street trees, street lighting etc.
ECONOMIC SERVICES To help promote the shire and its economic wellbeing	Tourism and area promotion including the maintenance and operation of a caravan park. Provision of rural services including weed control, vermin control and standpipes. Building Control
OTHER PROPERTY AND SERVICES To monitor and control Shire's overheads operating accounts	Private works operation, plant repair and operation costs and engineering operation costs, administration costs allocated and other unclassified works and services

30. FINANCIAL RATIOS

	2019 Actual	2018 Actual	2017 Actual
Current ratio	3.43	1.89	3.67
Asset consumption ratio	0.71	0.80	0.86
Asset renewal funding ratio	0.82	0.66	0.67
Asset sustainability ratio	0.63	0.65	0.96
Debt service cover ratio	0.62	6.68	7.51
Operating surplus ratio	(0.21)	(0.10)	(0.07)
Own source revenue coverage ratio	0.69	0.81	0.51

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

INDEPENDENT AUDITOR'S REPORT

To the Councillors of Shire of Gnowangerup

Report on the Audit of the Financial Report

Opinion

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

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

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of Shire of Gnowangerup for the year ended 30 June 2019 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Basis for Opinion

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

Emphasis of Matter – Basis of Accounting

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

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

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

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

The Council is responsible for overseeing Shire of Gnowangerup's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Report

The objectives of my audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with the *Local Government (Audit) Regulations 1996* we report that:

- (i) In my opinion, the following matters indicate significant adverse trends in the financial position or the financial management practices of the Shire of Gnowangerup:
 - a. Operating surplus ratio as reported in Note 30 of the financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of zero for the last three years 2017: -0.07, 2018: -0.10 and 2019: -0.21.
- (ii) There were no instances of non-compliance with Part 6 of the *Local Government Act 1995*, the *Local Government (Financial Management) Regulations 1996* or applicable financial controls of any other written law identified during the course of my audit.
- (iii) All required information and explanations were obtained by me.
- (iv) All audit procedures were satisfactorily completed.

- (v) In my opinion, the asset consumption ratio and the asset renewal ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

Matters Relating to the Electronic Publication of the Audited Financial Report

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

CAROLINE SPENCER
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
XX November 2019

AUDIT PLANNING SUMMARY

SHIRE OF GNOWANGERUP

Year ended 30 June 2019

March 2019

AMD Chartered Accountants on behalf of
Office of the Auditor General Western
Australia

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1. Purpose of the Audit Planning Summary

The purpose of this Audit Planning Summary is to provide the Shire of Gnowangerup Audit Committee and Executive Management our proposed approach to the audit of the financial report of the Shire of Gnowangerup for the year ending 30 June 2019.

This Audit Planning Summary will be discussed during the meeting scheduled for 1 April 2019 and ensures our responsibility to communicate with those charged with governance are satisfied.

Specifically, this Audit Planning Summary includes:

- Introduction
- Terms of Engagement and Appointment
- Our Audit Approach
- Significant Risks and Other Audit Issues
- Audit Emphasis and Significant Account Balances
- Management Representation Letter
- Related Entities
- Reporting Protocols
- Proposed Audit Schedule
- Audit Evidence - Specific Audit Requirements
- Your Audit Team

If there are any matters in the Summary that you would like clarified, please do not hesitate to contact us.

There may be areas where you would like us to increase the audit focus. We would be pleased to discuss these to determine the most efficient and effective approach to performing the Shire of Gnowangerup's audit requirements.

2. Introduction

2.1 Background and General Information

The Shire of Gnowangerup is situated in the Great Southern area, approximately 354 kilometres from Perth and 140 kilometres from Albany via the Chester Pass Road.

It covers an area of approximately 5,000 square kilometres and is a prosperous grain growing and sheep producing area. The area is noted Australia wide for its merino sheep and attracts large crowds to the annual Stud Field Days.

There are three towns in the Shire of Gnowangerup, which service the local community and a growing tourism node at the edge of the Stirling Range National Park.

2.2 Shire Council and Executive Management

The Shire of Gnowangerup Council consists of:

President	Keith House
Deputy President	Fiona Gaze
Councillor	Richard House
Councillor	Chris Thomas
Councillor	Shelley Hmeljak
Councillor	Lex Martin
Councillor	Ben Moore
Councillor	Greg Stewart
Councillor	Frank Hmeljak

The Shire Executive Management consists of:

Chief Executive Officer (“CEO”)	Shelley Pike
Deputy Chief Executive Officer (“DCEO”)	Vin Fordham Lamont
Manager Works & Services	Yvette Wheatcroft

2.3 Governance and Roles and Responsibilities

As one of Australia's three spheres of government (Federal, State, Local), Local Government is the sphere that most closely affects the daily lives of citizens.

The roles and responsibilities of Local Government generally include:

- infrastructure and property services, including local roads, bridges, footpaths, drainage, waste collection and management;
- provision of recreation facilities, such as parks, sports fields and stadiums, golf courses, swimming pools, sport centres, halls, camping grounds and caravan parks;
- health services such as water and food inspection, toilet facilities, noise control and meat inspection and animal control;
- community services, such as child-care, aged care and accommodation, community care and welfare services;
- building services, including inspections, licensing, certification and enforcement;
- planning and development approval;

- administration of facilities, such as airports and aerodromes, ports and marinas, cemeteries, parking facilities and street parking;
- cultural facilities and services, such as libraries, art galleries and museums; and
- water and sewerage services in some states.

Local Government revenue comes from three main sources:

- taxes in the form of rates;
- charges for sale of goods and services; and
- grants from Federal and State/Territory Governments.

The Shire of Gnowangerup is governed by an independent Council. Councillors are elected by the ratepayers.

The Shire of Gnowangerup Council appoints a CEO to ensure resources are effectively and efficiently managed. Council may delegate to the CEO the exercise of any of its powers or the discharge of any of its duties under the Local Government Act 1995.

2.4 Financial Report and Regulation

The Shire of Gnowangerup's annual financial report is general purpose financial statements prepared in accordance with the Act and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

Applicable financial reporting regulations the Shire of Gnowangerup must comply with includes:

- Local Government Act 1995 ("the Act");
- Local Government (Financial Management) Regulations 1996 ("the Regulations"); and
- Local Government (Audit) Regulations 1996.

The Auditor General's audit report will be prepared in accordance with the Act, Regulations and Australian Auditing Standards and include the audit opinion on the annual financial report. The Auditor General's audit report will also report:

- Any significant adverse trends in the financial position of the Shire of Gnowangerup;
- Any instances of non-compliance with the Act, the regulations or applicable financial controls of any other written law identified during the course of the audit;
- Whether all required information and explanations are obtained during the audit;
- Whether all audit procedures are satisfactorily completed;
- Whether, in the Auditor General's opinion, the asset consumption ratio and asset renewal funding ratio included in the annual financial report are supported by verifiable information and reasonable assumptions.

The Shire of Gnowangerup is required to publish the auditor's report with the annual financial report on its website. If the Auditor General reports other significant matters to the Shire of Gnowangerup, then the Shire will be required to report to the Minister action taken with respect to those matters.

3. Terms of Engagement and Appointment

3.1 Auditor General

Following proclamation of the Local Government Amendment (Auditing) Act 2017, the Auditor General becomes responsible for the annual financial report audit of Western Australian Local Governments.

The Act allows the Auditor General to contract out financial audits however by the year ending 30 June 2021 all Western Australian Local Government audits will become the responsibility of the Auditor General and Office of Auditor General (“OAG”).

The annual financial statement audit of the Shire of Gnowangerup will be completed by the Auditor General for the first time for the year ended 30 June 2019.

3.2 Contractor Appointment – AMD Chartered Accountants (“AMD”)

AMD has been contracted by the Auditor General to perform the Shire of Gnowangerup financial report audit on the Auditor General’s behalf for the year ended 30 June 2019. The OAG and AMD have signed a contractor agreement which outlines the relationships between the OAG, Shire and AMD.

Our audit procedures will be conducted under the direction of the Auditor General, who will retain responsibility for forming the audit opinion and issuing the audit report to the Shire of Gnowangerup. The signed contractor agreement requires AMD to use the OAG’s audit approach and methodology.

AMD is required to report any matter to the Auditor General which may affect the Auditor General’s responsibilities under the Auditor General Act 2006. AMD’s reporting requirements as outlined within the contractor agreement are outlined within section 9 of this Audit Planning Summary, Reporting Protocols.

3.3 Conflicts of Interest

We confirm we have completed our independence evaluation and are satisfied we do not have any actual or perceived conflicts of interest in completing the annual audit of the Shire of Gnowangerup on behalf of the Auditor General.

4. Our Audit Approach

4.1 Audit Approach Steps

Our audit approach comprises five steps:



4.2 Audit Approach and Methodology

Our audit approach is designed to specifically focus audit attention on the key areas of risk faced by the Shire of Gnowangerup in reporting on finances and performance.

As part of our audit approach, we have conducted an initial financial report risk assessment to determine whether any of the risks identified are, in our judgement, high risks. A high risk is an assessed risk of material misstatement in the financial report that in our judgement is a key audit area and therefore requires special audit consideration.

Our assessment of key audit areas is based on:

- Discussions held with the Executive Management team;
- The complexity of transactions within each audit area;
- The degree of subjectivity in the measurement of financial information related to the risk, in particular those requiring significant accounting estimates and assumptions; and
- The degree of susceptibility to fraud risk.

Testing of high risk material balances follows a hierarchy approach commencing with tests of controls, substantive analytical review procedures and finally tests of details. Testing of low risk material balances is coordinated with the auditing of high risk material balances.

Our audit will be separated into two components, the interim audit and the final audit.

The interim audit includes:

- understanding the Shire of Gnowangerup's current business practices;
- understanding the control environment and evaluating the design and implementation of key controls and, where appropriate, whether they are operating effectively;
- testing transactions to confirm the accuracy and completeness of processing accounting transactions;
- clarifying significant accounting issues before the annual financial report is prepared for audit;
- review and assess legislative compliance; and
- follow up prior year management letter comments and recommendations.

The final audit focuses on verifying the annual financial report and associated notes, and includes:

- verifying material account balances using a combination of substantive analytical procedures, tests of details, substantiation to subsidiary records and confirmation with external parties; and
- reviewing the annual financial report and notes for compliance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

It is important to note that:

- The Council and the CEO are responsible for keeping proper accounts and records, maintaining effective internal controls, preparing the annual financial report, and complying with the Local Government Act and Regulations, and other legislative requirements.
- An audit does not guarantee that every amount and disclosure in the annual financial report is error free. Also, an audit does not examine all evidence and every transaction. However, our audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the annual financial report.
- The Council and CEO are responsible for ensuring the accuracy and fair presentation of all information in its annual report, and that it is consistent with the audited annual financial report. We do not provide assurance over your annual report.
- The Council and the CEO have responsibility for maintaining internal controls that prevent or detect fraud or error and to ensure regulatory compliance. The Audit Committee and AMD/the OAG should be informed by management of any fraud or material errors. During the audit we will make inquiries with management about their process for identifying and responding to the risks of fraud, including management override. It should be noted that our audit is not designed to detect fraud, however should instances of fraud come to our attention, and we will report them to you.

4.3 Australian Auditing Standards

Our audit is conducted in accordance with Australian Auditing Standards. Our aim is to provide reasonable assurance whether the annual financial report is free of material misstatement, whether due to fraud or error. We perform audit procedures to assess whether, in all material respects, the annual financial report is presented fairly in accordance with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

The nature of the audit is influenced by factors such as:

- the use of professional judgement;
- selective testing;
- the inherent limitations of internal controls; and
- the availability of persuasive rather than conclusive evidence.

As a result, an audit cannot guarantee that all material misstatements will be detected. We examine, on a test basis, information to provide evidence supporting the amounts and disclosures in the annual financial report, and assess the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by management.

4.4 Materiality

The scope of our audit also applies materiality. The planning materiality level will be calculated and determined using AMD's audit methodology. The amount of materiality may be adjusted during the audit, depending on the results of our audit procedures.

4.5 Fraud Risk

In accordance with *ASA240 The Auditor's Responsibility Relating to Fraud in the 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 report as a result of fraud or error.

Council and management of the Shire of Gnowangerup is responsible for the prevention and detection of fraud and error. The Shire is responsible for maintaining accounting records and controls designed to prevent and detect fraud and error, and for the accounting policies and estimates inherent in the financial report.

We will request management complete a self assessment fraud control questionnaire. This allows us to make inquiries of management, to obtain an understanding of the risk of fraud within the Shire and to determine whether management have knowledge of fraud activities. We will review the fraud control questionnaire assessment.

In addition we will review the Shire's fraud prevention control procedures, review significant or unusual transactions, review accounting estimates and key assumptions and review year end accounting adjustments.

4.6 Meetings

4.6.1 Entrance Meeting

The entrance meeting will discuss this Audit Planning Summary and be held with the Audit Committee (or where impractical for the Audit Committee, a representative from Council), CEO, DCEO, OAG Director and AMD.

4.6.2 Interim Audit Findings

The interim audit findings will be discussed with management by the audit team at the completion of the interim audit. Draft management letters will be provided to the Shire's CEO and DCEO for coordination of comments from appropriate members of your management.

4.6.3 Final audit close out meeting

The final audit findings will be discussed with management by the audit team at the completion of the final audit.

4.6.4 Exit meeting

The exit meeting will discuss the financial report, proposed audit report to be issued and the management letter. This meeting will be held with the Audit Committee (or where impractical for the Audit Committee, a representative from Council), CEO, DCEO, OAG Director and AMD.

5. Significant Risks and Other Audit Issues

Through discussions with the Executive Management team and based on the 2017/2018 audit, we have identified the following issues and key areas of risk affecting the audit.

Details of Risk / Issue	Audit Approach
<p>Audit findings reported in the previous audit</p>	<p>We will follow-up the issues reported during the 2017/2018 audit.</p>
<p>Changes to <i>Local Government (Financial Management) Regulations</i>:</p> <ul style="list-style-type: none"> • Introduction of a \$5,000 asset capitalisation threshold – Local Governments would need to expense existing assets below \$5,000. Assets below \$5,000 that are portable and attractive to be included in a separate register. 	<p>We will monitor the progress of this regulatory change and work with your management to ensure changes have been implemented as required.</p>
<p>Changes to Australian Accounting Standards:</p> <ul style="list-style-type: none"> • <i>AASB9 – Financial Instruments</i> This standard changed the classification and measurement of financial assets applicable 30 June 2019. Another change is earlier recognition of provisions for bad / doubtful debts based on expected credit losses. • <i>AASB15 – Revenue from Contracts with Customers</i> This standard requires revenue to be recognised by the Local Government on the fulfilment of the performance obligations of an enforceable contract at a point in time or over time, as applicable. For example grant monies. • <i>AASB1058 Income of Not-for-profit Entities</i> This standard, in combination with AASB15 establishes new principles for income recognition for not-for-profit entities applicable to Local Governments for the year ended 30 June 2020. • <i>AASB116 – Leases</i> This standard removes the distinction between operating leases and finance leases, and requires all leases (except short term leases and leases of low value assets) to be recognised as lease assets and lease liabilities on the balance sheet. Peppercorn leases can be elected to be measured either at cost or at fair value. The standard is applicable to Local Governments for the year ended 30 June 2020. • <i>AASB1059 Service Concession Arrangements: Grantors</i> This standard is applicable to public sector entities that enter into service concession arrangements with private sector operators. It requires grantors to recognise a service concession asset and where applicable, a service concession liability on the balance sheet. This standard is applicable to Local Governments for the year ended 30 June 2021. 	<p>We will monitor the progress of these proposed Australian Accounting Standards and work with management as and when the changes are implemented.</p>

Details of Risk / Issue	Audit Approach
<p>We have identified the following areas that we consider require additional focus during 2018/2019 Local Government Audits:</p> <ul style="list-style-type: none"> • General accounting journals • Fair value of assets, including restricted use assets taking into account externally imposed restrictions • Financial ratios • Related party disclosures • Purchasing processes and documented evidence relating to obtaining quotations and tenders 	<p>We will review the accounting treatment and disclosure processes during our interim audit.</p>
<p>The following annual financial report items are derived from accounting estimates and hence will receive specific audit attention:</p> <ul style="list-style-type: none"> • Provision for annual and long service leave • Fair value of assets • Impairment of assets 	<p>We will review the method and underlying data that management and where applicable third parties use when determining critical accounting estimates. This will include considering the reasonableness of assumptions and corroborating representations.</p>

6. Audit Emphasis and Significant Account Balances

Our audit approach involves assessing the Shire of Gnowangerup’s overall control environment and understanding key business processes/cycles and internal controls relevant to the audit.

We will test key controls for all significant business cycles. The level of testing will be dependent on our assessment of the risk in each business cycle. We plan to address the following cycles:

- Revenue and Receivables cycle;
- Expenditure and Payable cycle;
- Payroll and Employee Entitlements cycle;
- Cash and Financing cycle;
- Inventory cycle; and
- Fixed assets cycle (Property, Plant, Equipment and Infrastructure).

The extent of our reliance on controls, together with the materiality level, determines the nature and extent of our audit procedures to verify individual account balances.

The table below lists those items in the Statement of Financial Position and the Statement of Comprehensive Income that are significant account balances, and our planned audit approach for these balances. When selecting significant account balances, we consider materiality, the nature of the balance, inherent risk and the sensitivity of disclosures.

Significant Account	2018 Audited Balance \$'000	Audit Approach
Statement of Financial Position		
Cash and cash equivalents	2,580	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Perform walkthroughs of the cash cycle. Review bank and investment reconciliations. Verify year end balance through bank confirmations. Analytical review.
Investments	6	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Review investment reconciliations. Ensure investments correctly classified and measured in accordance with Australian Accounting Standards (fair value). Assess investment values to ensure not impaired. Verify year end balance through confirmations (where applicable). Ensure investment in Local Government House Trust recorded in Statement of Financial Position. Ensure disclosures comply with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.
Receivables including rates	2,693	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Perform walkthroughs of the revenue and receivable cycle. Perform cut-off testing and review credit notes. Review subsequent receipts. Review provision for doubtful debts. Analytical review.
Inventories	29	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Perform walkthroughs of the inventory cycle. Review of stock listings. Verification of units costs. Consider obsolete and slow moving inventories.
Property, plant, equipment and infrastructure	119,983	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls, including internal control testing with respect to the Shire's processes for determining inputs into fair value. Perform walkthroughs of the fixed assets cycle. Analyse year end balances for each major class of asset comparing to last year. Perform sample testing on asset additions and disposals. Review management's impairment assessment at year end.

Significant Account	2018 Audited Balance \$'000	Audit Approach
		<ul style="list-style-type: none"> • Test items posted to construction in progress to assess appropriateness of expenses being capitalised. • Review accounting treatment for repairs and maintenance costs to determine correct classification (including new mobile phone towers and staff housing). • Assess and perform tests to determine whether carrying amounts approximate fair value. • Where relevant, confirm balances to independent valuation reports and test key assumptions in determining fair value.
Payables	233	<ul style="list-style-type: none"> • Review and assess effectiveness of internal controls. • Perform walkthroughs of the purchasing and payables cycle. • Test for unrecorded liabilities and review subsequent payments post year end. • Test and review material accrual balances. • Perform cut-off testing. • Analytical review.
Borrowings	1,913	<ul style="list-style-type: none"> • Review and assess effectiveness of internal controls. • Agree amounts to WATC confirmation. • Verification of classification between current and non current. Agree bank facilities to confirmation.
Provisions	430	<ul style="list-style-type: none"> • Review the reasonableness of assumptions and calculations. • Perform walkthroughs of the payroll and provision cycle. • Test completeness of employee entitlement provisions. • Agree amounts to actuary/expert's report. • Analytical review.
Statement of Comprehensive Income		
Operating and non-operating grants, subsidies and contributions	2,121	<ul style="list-style-type: none"> • Review of key processes and controls. • Perform walkthroughs of the revenue cycle relating to grants, subsidies and contributions. • Sample testing of transactions, including grant agreements. • Perform cut-off testing. • Review and test disclosures in respect to unspent grants at year end. • Analytical review.
Rates	3,858	<ul style="list-style-type: none"> • Review of key processes and controls. • Perform walkthroughs of the revenue cycle relating to rates. • Sample testing of transactions. • Perform cut-off testing. • Analytical review.

Significant Account	2018 Audited Balance \$'000	Audit Approach
Fees and charges	223	<ul style="list-style-type: none"> • Review of key processes and controls. • Perform walkthroughs of the revenue cycle relating to fees and charges. • Sample testing of transactions. • Perform cut-off testing and review credit notes. • Analytical review.
Other revenue, including interest earnings	8,044	<ul style="list-style-type: none"> • Review of key processes/controls. • Perform walkthroughs of the revenue cycle relating to other revenue. • Sample testing of transactions. • Perform cut-off testing. • Review credit notes. • Analytical review.
Employee related expenses	2,406	<ul style="list-style-type: none"> • Review of key processes and controls. • Perform walkthroughs of the payroll cycle. • Sample testing of transactions. • Analytical review.
Materials and contracts Utility charges Insurance expenses	9,550	<ul style="list-style-type: none"> • Review of key processes and controls. • Perform walkthroughs of the purchasing and payments cycle. • Sample resting of transactions. • Analytical review.
Depreciation and amortisation	2,595	<ul style="list-style-type: none"> • Review of management's assessment of the useful lives of assets and assess reasonableness. • Perform re-calculation tests. • Analytical review.
Other expenses, including interest expenses	241	<ul style="list-style-type: none"> • Review of key processes/controls • Perform walkthroughs of the purchasing and payments cycle. • Sample testing of transactions. • Analytical review.

The table below lists those significant financial statement disclosures or other auditable areas and our planned audit approach for these disclosures. When selecting significant disclosures, we consider materiality, the nature of the item, inherent risk and the sensitivity of disclosures.

Statement, Auditable Area and / or Disclosures	Audit Approach
Statement of Cash Flows and Cash Flow Reconciliation Note	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Review Statement of Cash Flows and reconciliation note calculations. Ensure disclosures comply with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.
Legislative Compliance	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Ensure Shire of Gnowangerup’s financial management policies and procedures are compliant with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996, Local Government (Financial Management) Regulations 1996 and Accounting Standards. Assess Shire of Gnowangerup’s compliance with internal policy and procedures throughout the year, identify any instances of non-compliance which also resulted in legislative requirements not being met. Review draft annual financial statements to ensure compliance with Local Government Act 1995, Local Government (Financial Management) Regulations 1996, Local Government (Financial Management) Regulations 1996 and Australian Accounting Standards.
Contingent Liabilities	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Enquiries of management. Assess Council’s disclosures of obligations under the Contaminated Sites Act 2003. Review listing of contaminated sites. Ensure disclosures comply with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.
Capital and Leasing Commitments	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Enquiries of management. Verify disclosures to supporting calculations and documentation. Ensure disclosures comply with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.
Related Party Transactions, including elected member remuneration, key management personnel compensation and transactions with related parties	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Enquiries of management. Obtain an understanding of the means utilised to identify related parties and record related party transactions. Verify elected members remuneration calculations and test on a sample basis. Analytical review. Verify key management personnel compensation calculations and test on a sample basis. Ensure KMP classifications correct. Assess related party transactions terms and associated fraud risks. Ensure completeness of disclosures. Identify any related parties with dominant influence. Ensure related party disclosures comply with AASB124.

Statement, Auditable Area and / or Disclosures	Audit Approach
Financial Risk Management	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Review financial risk management note and reconciliation calculations. Ensure disclosures comply with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.
Financial Ratios	<ul style="list-style-type: none"> Determine basis of calculating individual financial ratios and annual reporting requirements. Establish Local Government’s internal controls to capture financial ratio source data, including Long Term Financial Plan, Asset Management Plan, valuation reports etc. Determine ratio’s which do not meet OAG guidelines and require adverse trend reporting accordingly. Ensure financial ratio calculations and disclosures comply with the Local Government Act 1995 and section 50 of the Local Government (Financial Management) Regulations 1996.

7. Management Representation Letter

The above audit procedures assume that management expects to be in a position to sign a management representation letter. The proposed letter for this purpose is attached. This letter should be reviewed and tailored to meet your local government’s particular circumstances, and be signed and dated by the CEO and DCEO as close as practicable to the date of the proposed auditor’s report. Ordinarily, this would be no longer than five working days prior to the issue of the auditor’s report.

Please bring to the attention of the President that we will also be relying on the signed Statement by CEO in the annual financial report as evidence that they confirm:

- they have fulfilled their responsibility for the preparation of the annual financial report in accordance with the *Local Government Act 1995, Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards
- they have provided us with all relevant information necessary or requested for the purpose of the audit
- all transactions have been recorded and are reflected in the annual financial report.

8. Related Entities

Section 7.12AL of the *Local Government Act 1995* applies section 17 of the *Auditor General Act 2006* to a local government. Section 17 requires a local government to advise the Auditor General in writing of details of all related entities that are in existence.

9. Reporting Protocols

9.1 AMD Reporting Requirements

AMD is to provide a report to the Auditor General to enable the Auditor General to:

- form the audit opinion with respect to the Shire of Gnowangerup's annual financial report;
- report any findings, significant control weaknesses and any other relevant matters arising from our audit procedures; and
- report any significant non-compliance with relevant legislation.

AMD will be required to form an opinion and report to the Auditor General whether the Shire of Gnowangerup's financial statements:

- are based on proper accounts and records; and
- fairly represents, in all material respects, the results of the operations of the Shire of Gnowangerup and its financial position for the years covered by the contract in accordance with the Act and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

9.2 Management Letter

Significant issues identified during the course of our audit procedures will be discussed with relevant staff and management as soon as possible after being identified. Draft management letters will be provided to the CEO and DCEO (or other nominated representative) for coordination of comments from appropriate members of your management. We request that these be returned promptly, preferably within 10 working days.

At the conclusion of the audit, the abovementioned management letter will accompany the auditor's report and the audited annual financial report forwarded to the President, the CEO and the Minister for Local Government. The management letter is intended to communicate issues arising from the audit that may impact on internal control, compliance, and financial reporting.

Where considered appropriate, and to ensure timely reporting of audit findings and action by management, interim management letters may be issued to the CEO and the President. A copy will also be forwarded to the Minister when we forward our auditor's report on the annual financial report to the Minister on completion of the audit.

Specific matters resulting from issues identified during the audit may be reported in an Auditor General's Report to Parliament. Should this occur, you will be consulted in advance to assure the context and facts of the issue are adequately represented.

9.3 OAG Contract Reporting Requirements

As OAG contractors we are required to report to the OAG as follows:

1. Complete Interim planning audit;
2. Prepare and provide OAG representative with interim audit findings and prepare interim management letter (if required);
3. Complete post 30 June year end audit;
4. Obtain signed Management Representation Letter from Shire of Gnowangerup;
5. Prepare and provide OAG Representative with Signing Review Memo (SRM), Draft Management Letter, Draft Financial Report and Signed Management Representation Letter; and
6. Provide OAG Representative with access to audit workpapers.

10. Proposed Audit Schedule

	Date
Planning and issue of Interim Audit Checklist	31 March 2019
Entrance Meeting	1 April 2019
Onsite Interim Audit	27-29 May 2019
OAG Interim Audit Review (week ending)	7 June 2019
Interim Management Letter (if required)	14 June 2019
Issue of Year End Audit Checklist (week ending)	7 June 2019
Submission of Pro Forma Financial Report template	15 June 2019
Final Trial Balance	30 September 2019
Receipt of Annual Financial Report (as required by the LG Act)	30 September 2019
Onsite Final Audit	14-16 October 2019
OAG Audit File Review (week ending)	1 November 2019
Exit Meeting (week ending)	8 November 2019
AMD to issue SRM, draft Management Report and Representation Letter to OAG	8 November 2019

11. Audit Evidence – Specific Audit Requirements

We will discuss our requirements with your staff to facilitate a timely, efficient and effective audit. We will formally agree our information requirements and timeframes for the final audit with the CEO and DCEO using our Audit Checklists.

We will issue an Interim Audit Checklist and Year-End Audit Checklist in advance of each audit visit. The checklists are intended to help Shire of Gnowangerup staff to have various documents readily available when we perform our audit. Please note however that in several instances, particularly during our audit sampling at the interim visits, audit staff will need to retrieve some evidence themselves, rather than being given the evidence by your staff. This is essential for an independent audit.

As the information requests contained within the Audit Checklists will form an important component of our audit working papers, the information must be made available to AMD on the dates specified. This will assist us in delivering an efficient audit and minimising interruptions to Shire staff.

12. Your Audit Team

	Name	Contact
Contractor – AMD Chartered Accountants		
Director	Tim Partridge	(08) 9780 7555 Tim.partridge@amdonline.com.au
Alternate Director	Maria Cavallo	(08) 9780 7555 Maria.cavallo@amdonline.com.au
Audit Manager/Team Leader	Deon Marcus	(08) 9780 7555 Deon.marcus@amdonline.com.au
Auditor	Diego Enriquez	(08) 9780 7555 Diego.enriquez@amdonline.com.au
Office of the Auditor General		
Auditor General	Caroline Spencer	(08) 6557 7500
Assistant Auditor General	Don Cunninghame	(08) 6557 7526
OAG Representative Director	Carly Meagher	Carly.meagher@audit.wa.gov.au (08) 6557 7542

Attachment 4 – LTFP Ratio Graphs

CURRENT LIQUIDITY RATIO

This is a measure of a local government's liquidity and its ability to meet its short term financial obligations out of unrestricted current assets. It is measured as:

$$\frac{\text{Current Assets less Restricted Assets}}{\text{Current Liabilities less Current Liabilities associated with Restricted Asset}}$$

Target – Standard not met if ratio is lower than 1:1 (less than 100%)

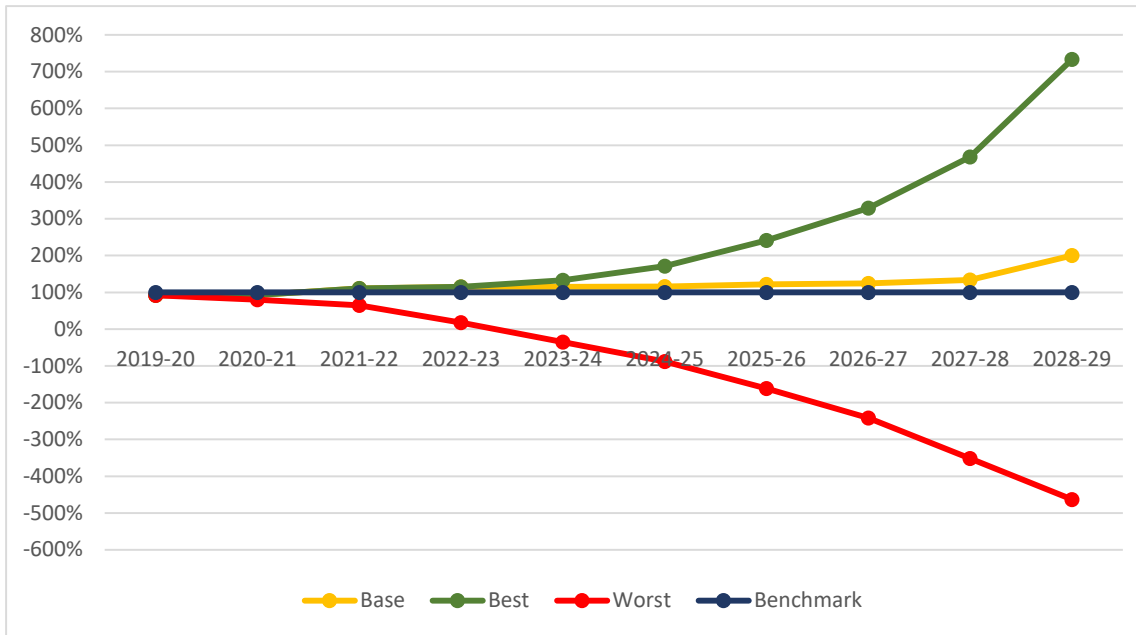
Standard is met if ratio is greater than 1:1 (100% or greater)

FORECAST	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Base	3.29	0.92	0.93	1.11	1.15	1.15	1.16	1.22	1.24	1.34	2
Best	3.29	0.92	0.93	1.11	1.15	1.33	1.71	2.41	3.29	4.68	7.33
Worst	3.29	0.92	0.8	0.65	0.18	-0.35	-0.88	-1.61	-2.42	-3.52	-4.63
Benchmark	1	1	1	1	1	1	1	1	1	1	1

Yes

Yes

No



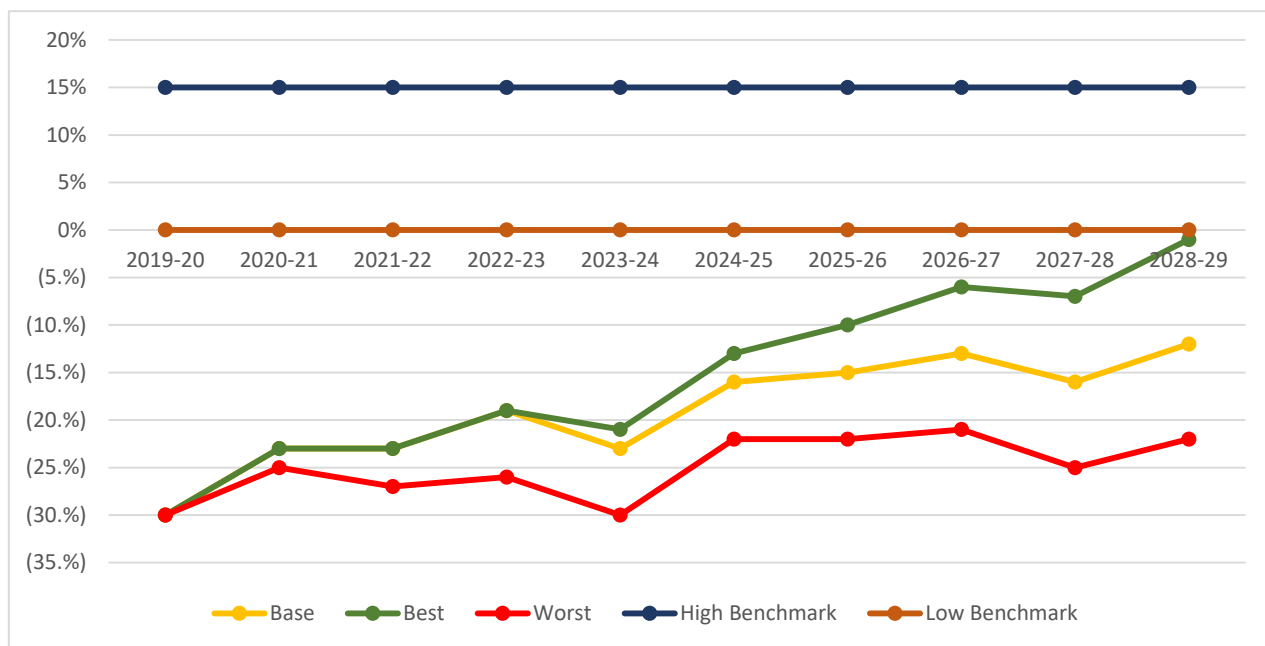
OPERATING SURPLUS RATIO

This is an indicator of the extent to which revenues raised cover operational expenses only or are available for capital funding purposes. It is measured as:

$$\frac{\text{Operating Revenue (excludes non-operating revenue) less Operating Expenses}}{\text{Own Source Revenue}}$$

Target – Between 1% and 15% Basic Standard
Greater than 15% Advanced Standard

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	
Base	(36.%)	(30.%)	(23.%)	(23.%)	(19.%)	(23.%)	(16.%)	(15.%)	(13.%)	(16.%)	(12.%)	No
Best	(36.%)	(30.%)	(23.%)	(23.%)	(19.%)	(21.%)	(13.%)	(10.%)	(6.%)	(7.%)	(1.%)	No
Worst	(36.%)	(30.%)	(25.%)	(27.%)	(26.%)	(30.%)	(22.%)	(22.%)	(21.%)	(25.%)	(22.%)	No
High Benchmark	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	
Low Benchmark	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	



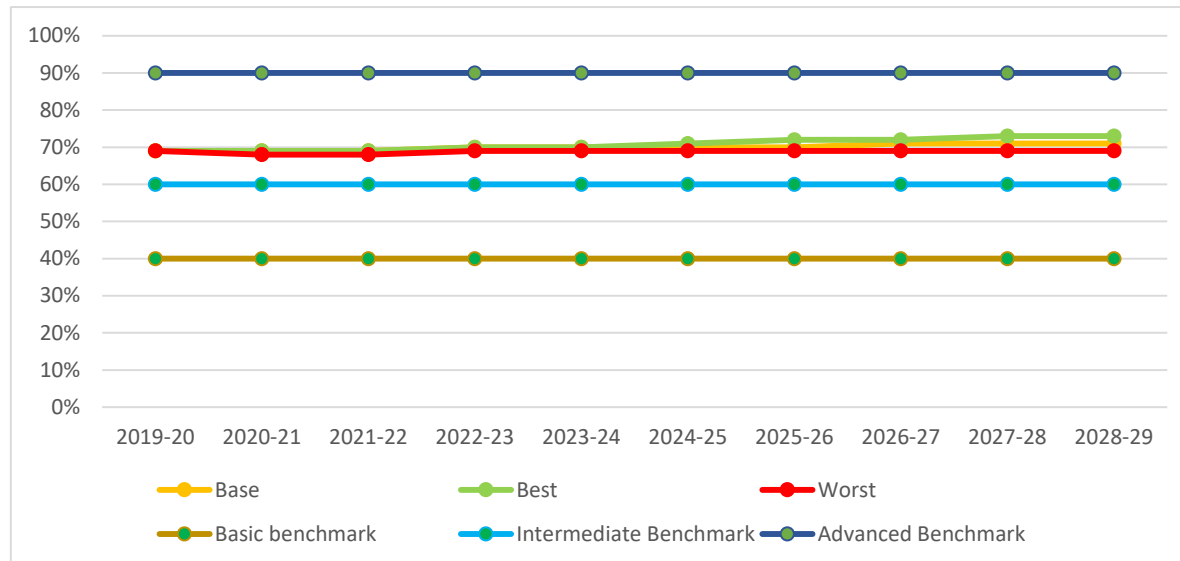
RATES COVERAGE RATIO

This is an indicator of a local government's dependence on rate revenue to fund its operations. It is measured as:

$$\frac{\text{Total Rates Revenue}}{\text{Total Operating Revenue}}$$

Target – greater than or equal to 60%

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Base	64%	69%	69%	69%	70%	70%	70%	70%	71%	71%	71%
Best	64%	69%	69%	69%	70%	70%	71%	72%	72%	73%	73%
Worst	64%	69%	68%	68%	69%	69%	69%	69%	69%	69%	69%
Basic benchmark	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Intermediate Benchmark	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Advanced Benchmark	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%



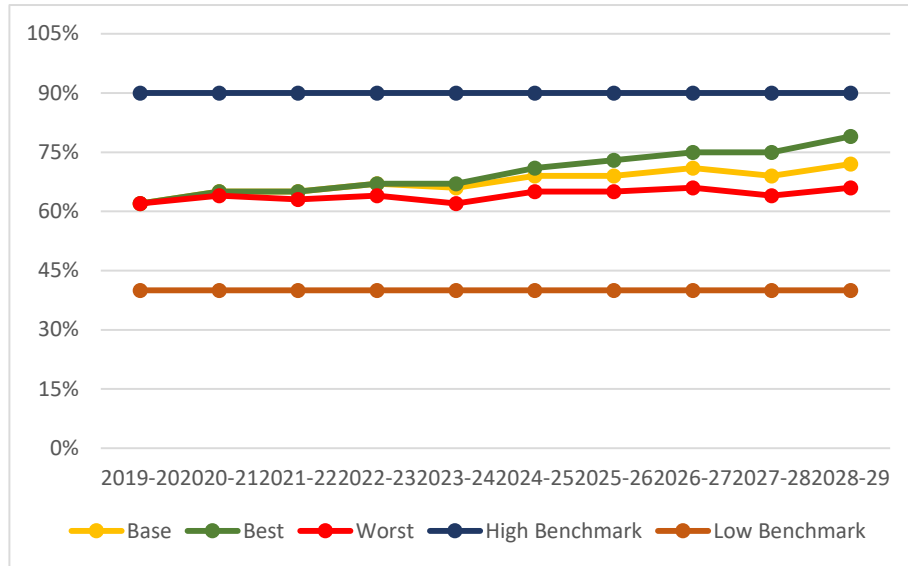
OWN SOURCE COVERAGE RATIO

This is an indicator of a local government's ability to cover its costs through its own tax revenue effort. It is measured as:

$$\frac{\text{Own Source Revenue}}{\text{Total Expenses}}$$

Target – Between 40% to 60% Basic Standard
 Between 60% to 90% Intermediate Standard
 90% or greater Advanced Standard

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	
Base	59%	62%	65%	65%	67%	66%	69%	69%	71%	69%	72%	Yes
Best	59%	62%	65%	65%	67%	67%	71%	73%	75%	75%	79%	Yes
Worst	59%	62%	64%	63%	64%	62%	65%	65%	66%	64%	66%	Yes
High Benchmark	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	
Low Benchmark	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%	



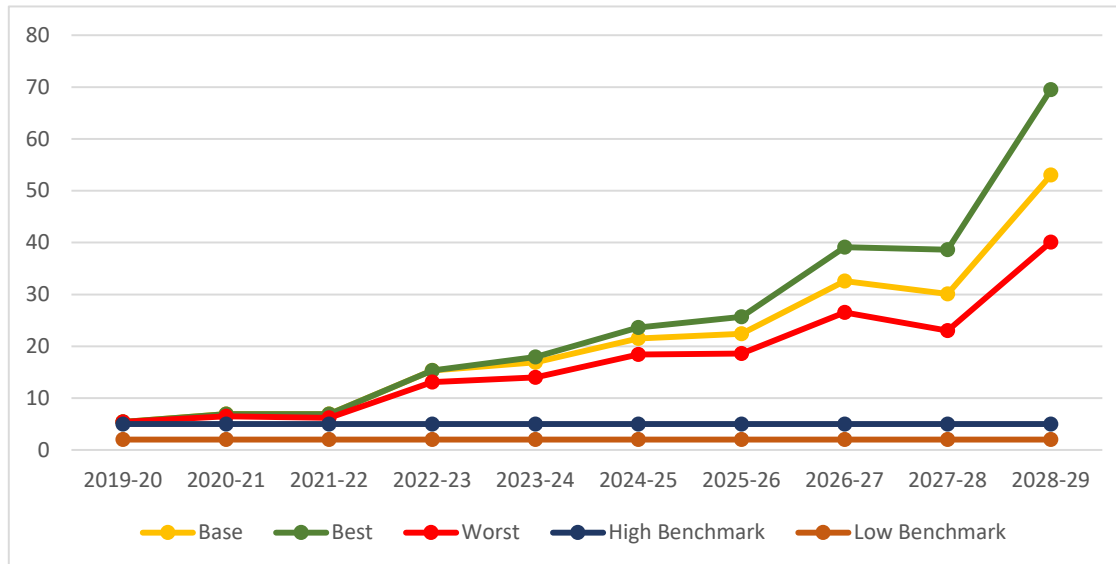
DEBT SERVICE COVER RATIO

This is an indicator of a local government's ability to produce enough cash to cover its debt payments. It is measured as:

Operating Revenue less Operating Expenses excluding Interest Expense and Depreciation
Principal and Interest Expense

Target – greater than or equal to 2 Basic Standard
Greater than 5 Advanced Standard

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	
Base	5.15	5.4	6.9	6.9	15.3	16.9	21.5	22.4	32.6	30.1	53	Yes
Best	5.15	5.4	6.9	6.9	15.3	17.9	23.6	25.7	39.1	38.6	69.5	Yes
Worst	5.15	5.4	6.5	6.2	13.1	14	18.4	18.6	26.5	23	40.1	No
High Benchmark	5	5	5	5	5	5	5	5	5	5	5	
Low Benchmark	2	2	2	2	2	2	2	2	2	2	2	



ASSET SUSTAINABILITY RATIO

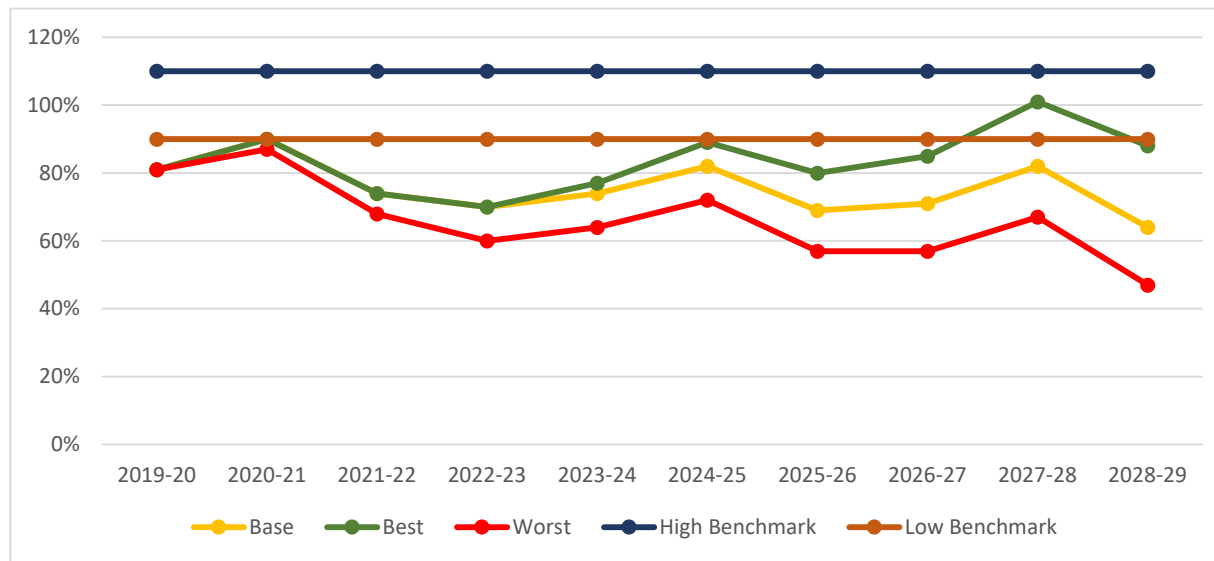
This is an indicator of the extent to which assets managed by a local government are being replaced as these reach the end of their useful lives. It is measured as:

$$\frac{\text{Capital Renewal Expenditure}}{\text{Depreciation Expense}}$$

Target – Standard is met if the ratio can be measured and is 90%

Standard is improving if the ratio is between 90% and 110%

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	
Base	46%	81%	90%	74%	70%	74%	82%	69%	71%	82%	64%	No
Best	46%	81%	90%	74%	70%	77%	89%	80%	85%	101%	88%	No
Worst	46%	81%	87%	68%	60%	64%	72%	57%	57%	67%	47%	No
High Benchmark	110%	110%	110%	110%	110%	110%	110%	110%	110%	110%	110%	
Low Benchmark	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	



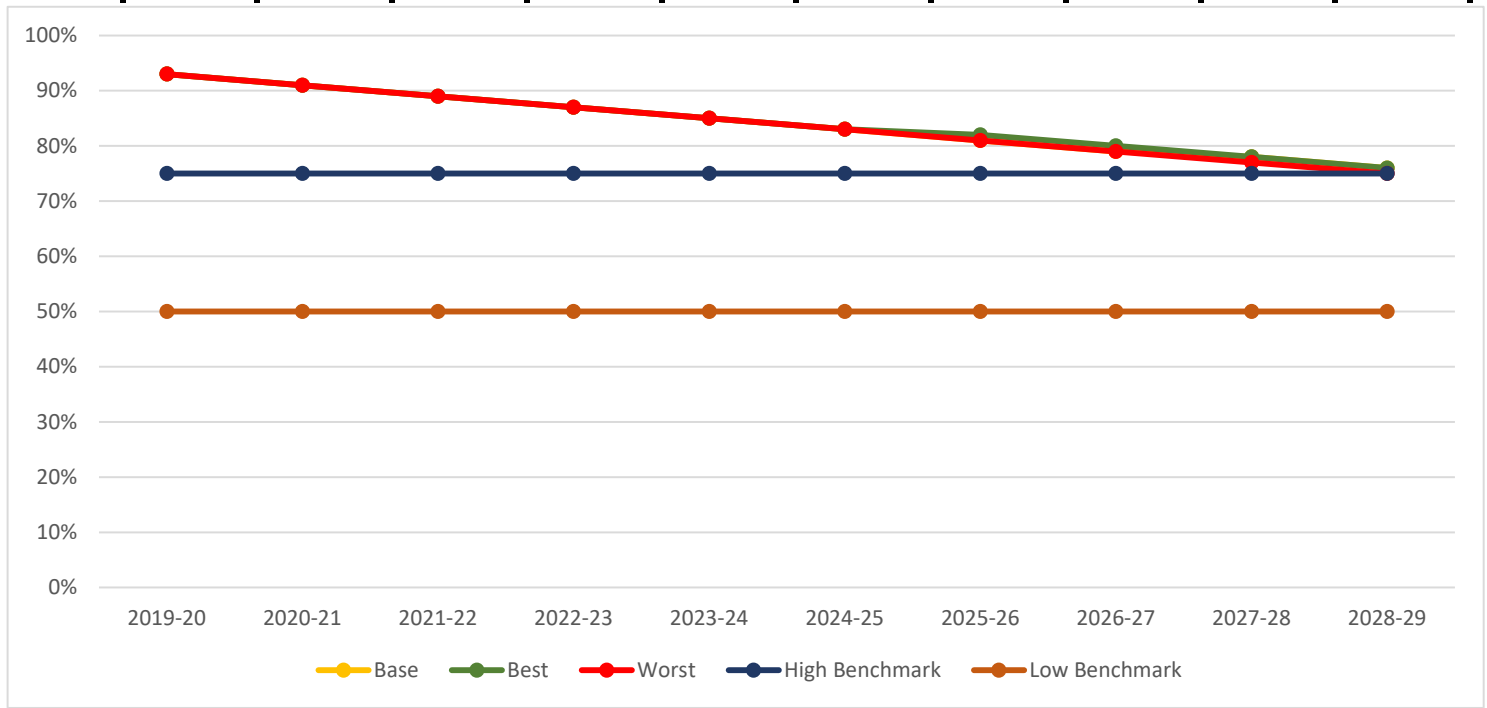
ASSET CONSUMPTION RATIO

This ratio highlights the aged condition of a local government's physical assets. It is measured as:

$$\frac{\text{Depreciated Replacement Costs of Assets (Written Down Value)}}{\text{Current Replacement Costs}}$$

Target – Standard is met if the ratio can be measured and is 50% or greater
 Standard is improving if the ratio is between 60% and 75%

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	
Base	76%	93%	91%	89%	87%	85%	83%	81%	79%	78%	76%	Yes
Best	76%	93%	91%	89%	87%	85%	83%	82%	80%	78%	76%	Yes
Worst	76%	93%	91%	89%	87%	85%	83%	81%	79%	77%	75%	Yes
High Benchmark	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	
Low Benchmark	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	



ASSET RENEWAL FUNDING RATIO

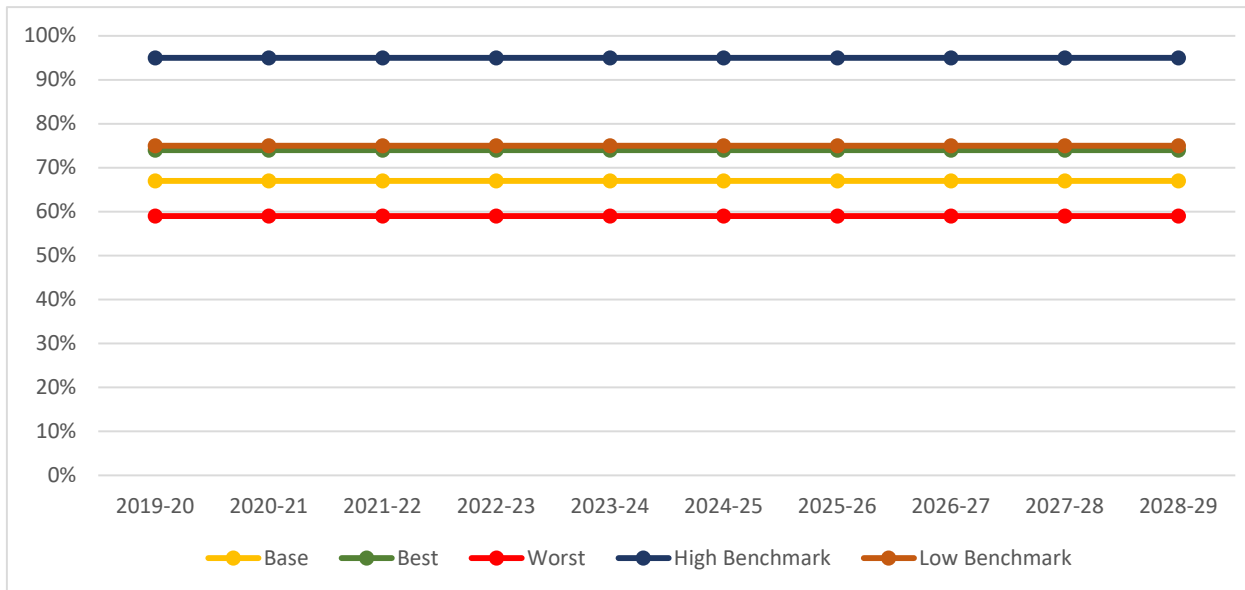
This ratio indicates whether the local government has the financial capacity to fund asset renewal at continued existing service levels. It is measured as:

Net Present Value of Planned Renewal Expenditure
 Net Present Value of Asset Management Plan Projections

Target – Standard is met if the ratio is between 75% and 95%

Standard is improving if the ratio is between 95% and 105% and the ASR is between 90% to 100%, and the ACR is between 50% and 75%.

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	
Base	88%	67%	67%	67%	67%	67%	67%	67%	67%	67%	67%	Yes
Best	88%	74%	74%	74%	74%	74%	74%	74%	74%	74%	74%	Yes
Worst	74%	59%	59%	59%	59%	59%	59%	59%	59%	59%	59%	Yes
High Benchmark	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	95%	
Low Benchmark	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	

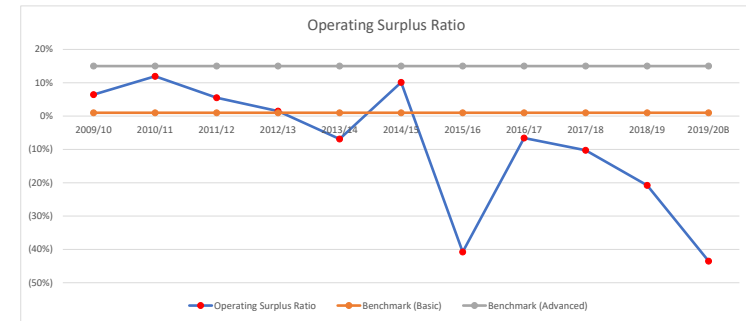
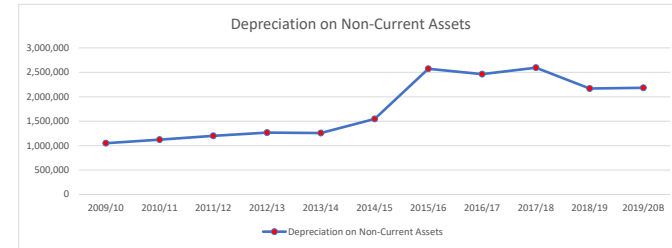
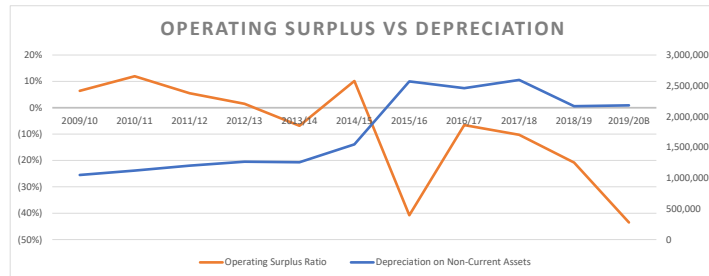


Attachment 5 – Supporting information re Operating Surplus Ratio

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20B
Operating Revenue	5,228,390	5,443,354	5,109,472	5,439,468	4,936,267	6,006,308	5,299,887	8,251,348	13,592,179	8,807,428	5,431,763
Non-Operating grants & subsidies	1,117,211	2,074,503	2,289,539	1,716,331	1,406,358	1,919,078	1,674,514	1,258,389	654,212	810,852	1,367,058
Profit on disposal of assets	132,498	54,565	156,509	185,980	151,786	1,925	13,847	0	0	19,535	7,521
Profit on revaluation of assets	0	0	0	0	0	0	0	0	0	63,882	0
Total Revenue	6,478,099	7,572,422	7,555,520	7,341,779	6,494,411	7,927,311	6,988,248	9,509,737	14,246,391	9,701,697	6,806,342
Operating Expenses	5,082,581	4,985,686	5,064,176	5,560,607	5,360,860	5,627,518	7,012,378	8,535,605	14,875,044	10,291,035	7,991,228
Net Result from Operations	1,395,518	2,586,736	2,491,344	1,781,172	1,133,551	2,299,793	(24,130)	974,132	(628,653)	(589,338)	(1,184,886)
Employee Costs	2,027,312	2,299,509	2,011,842	2,113,960	2,002,690	1,926,897	2,006,228	2,182,154	2,405,761	2,333,010	2,597,413
Materials & Contracts	1,605,758	1,131,354	1,404,263	1,659,692	1,412,580	1,113,920	1,712,540	3,242,984	9,228,386	3,993,665	2,222,641
Utility charges	125,178	131,931	114,433	147,723	158,326	123,088	142,692	142,256	152,816	151,422	180,080
Depreciation on Non-Current Assets	1,048,870	1,121,184	1,201,183	1,266,576	1,257,217	1,547,096	2,571,267	2,461,460	2,594,679	2,168,243	2,182,615
Interest Expense	33,080	29,528	43,076	57,500	88,525	78,516	67,208	63,490	49,491	46,526	50,054
Insurance Expense	96,861	109,693	132,139	150,871	158,330	210,091	178,991	158,494	169,375	183,191	232,304
Other Expenditure	131,812	151,248	143,218	126,763	175,017	214,754	234,544	217,596	191,101	254,093	410,178
Loss on Disposal of Assets	12,710	11,239	14,022	37,522	108,175	333,351	82,365	67,171	25,074	1,160,885	115,943
Loss on revaluation of assets	0	0	0	0	0	79,805	16,543	0	58,361	0	0
Total Expenditure	5,082,581	4,985,686	5,064,176	5,560,607	5,360,860	5,627,518	7,012,378	8,535,605	14,875,044	10,291,035	7,991,228

Operating Surplus Ratio	operating revenue minus operating expense less non operating grants & subsidies											
	own source operating revenue											
Operating grants and subsidies				1,330,012	1,026,156	2,249,730	924,977	2,195,338	1,466,396	1,602,206	852,667	
Own Source operating revenue												
Rates	2,467,170	2,589,959	2,724,782	2,763,208	3,003,101	3,206,966	3,491,477	3,724,133	3,858,184	4,039,331	4,085,295	
Fees and charges	526,946	635,050	278,867	550,746	325,148	317,467	327,594	211,038	223,463	215,564	337,229	
Interest income	134,180	171,231	194,939	140,802	117,891	96,805	145,550	109,837	102,785	109,367	68,470	
profit on disposal of assets	132,498	54,565	156,509	185,980	151,786	1,925	13,847	0	0	19,535	7,521	
reimbursement & recoveries	1,072,136	837,041	318,420	654,700	380,691	135,340	189,083	283,099	7,761,597	2,665,045	88,102	
Total Own Source Operating Revenue	4,332,930	4,287,846	3,673,517	4,295,436	3,978,617	3,758,503	4,167,551	4,328,107	11,946,029	7,048,842	4,586,617	
Net Result	1,395,518	2,586,736	2,491,344	1,781,172	1,133,551	2,299,793	(24,130)	974,132	(628,653)	(589,338)	(1,184,886)	
Less Profit on revaluation of assets	0	0	0	0	0	0	0	0	0	(63,882)	0	
Add Loss on revaluation of assets	0	0	0	0	0	0	0	0	0	0	0	
Less Non-Operating grants & subsidies	(1,117,211)	(2,074,503)	(2,289,539)	(1,716,331)	(1,406,358)	(1,919,078)	(1,674,514)	(1,258,389)	(654,212)	(810,852)	(810,852)	
operating revenues minus operating expense	278,307	512,233	201,805	64,841	(272,807)	380,715	(1,698,644)	(284,257)	(1,224,504)	(1,464,072)	(1,995,738)	
Operating Surplus Plus Depreciation	1,328,177	1,633,417	1,402,988	1,331,417	984,410	1,927,811	872,623	2,177,203	1,370,175	704,171	186,877	
Operating Surplus Ratio	6%	12%	5%	2%	(7%)	10%	(41%)	(7%)	(10%)	(21%)	(44%)	
Benchmark (Basic)	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	
Benchmark (Advanced)	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	

Depreciation



COUNCIL'S VISION

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7. CLOSURE

There being no further business, Presiding Member **Greg Stewart** closed the meeting at **12:56pm**