



EXTRAORDINARY COUNCIL MEETING

Wednesday 7 December, 2022

at 4:00PM

Council Chambers, 56 Chanter Street, Berrigan



Late Items Agenda



Extraordinary Council Meeting

Wednesday 7 December, 2022

LATE ITEMS BUSINESS PAPER

The Extraordinary Council Meeting of the Shire of Berrigan will be held in the Council Chambers, 56 Chanter Street, Berrigan, on Wednesday 7 December, 2022 when the following business will be considered:-

ITEMS OF BUSINESS

5	REPORTS TO COUNCIL	3
5.4	2021-22 Annual Financial Statements	3
5.6	ARIC Meeting Minutes and Recommendations for Financial Statements	21

No business, other than that on the Agenda, may be dealt with at this meeting unless admitted by the Mayor.

A handwritten signature in blue ink that reads 'K. Ewer'.

KARINA EWER
CHIEF EXECUTIVE OFFICER

5 REPORTS TO COUNCIL

5.4 2021-22 Annual Financial Statements

Author:	Finance Manager, Tahlia Fry
Strategic Outcome:	2. Good government
Strategic Objective:	2.1. Berrigan Shire 2032 objectives and strategic actions facilitate the effective governance by Council of Council operations and reporting
Delivery Program:	2.1.3. Council operations and financial management support ethical, transparent and accountable corporate governance
Council's Role:	Service Provider: The full cost (apart from fees for cost recover, grants etc) of a service or activity is met by Council
Appendices:	<ol style="list-style-type: none">1. 07.12.2022 Annual Financial Statements 3in1 - Draft Watermark.pdf (under separate cover)2. 07.12.2022 FA1692 Berrigan - Engagement Closing Report 2022.pdf (under separate cover)3. 07.12.2022 FA1692 Berrigan - Report on the Conduct of the Audit 2022 DRAFT 01122022.docx (under separate cover)4. 07.12.2022 FA 1692 Berrigan - Representation Letter 2022.pdf (under separate cover)5. Draft Annual Report (under separate cover)

Recommendation

1. That the Council, having satisfied itself in relation to the preparation of its financial reports and special schedules:
 - a. note the draft Management Representation Letter
 - b. refer its financial statements to the Auditors for the audit report;
 - c. subject to receipt of the audit report, at its meeting to be held on Wednesday 18 January 2023, the Council present its audited financial reports and audited reports to the public and that the Council's intention be publicly notified;
 - d. sign the attached General Purpose Financial Report "Statement by Council and Management" and the Special Purpose Financial Report "Statement by Council and Management";
 - e. adopt the valuation of assets prepared in accordance with recognised valuation procedures as a fair and reasonable value of those assets (see note C1-6);
2. That the Council adopt the 2021/22 Annual Report with the inclusion of the audited financial statements.

Report:

The 2021/22 Annual Statements have been prepared and audited and are now ready for adoption by the Council.

A copy of the Statements is attached as Appendix 1

Note that the NSW Audit Office (NSWAO) has indicated that it expects to issue an unmodified opinion on Council’s Financial Statements – i.e., the statements will not be issued with a “qualified audit opinion”. This is a very good outcome for the Council given its position on the status of Rural Fire Service-controlled assets.

The report below has the following sections:

- A brief summary of the key results and performance measures
- Some general comments on the statements
- A run down on the statutory process required to formally adopt the financial statements.
- A detailed analysis of the Financial Statements and associated notes and schedules.

Key points

Some of the key points from these statements are:

1. Council made an operating deficit of \$2.1m before capital grants and contribution.
2. Council held approximately \$43.5m in cash and investments at 30 June 2022, of which only \$8.1m was not committed elsewhere.
3. Council renewed approximately \$7.7m in infrastructure assets (i.e. roads, water, sewer, drainage etc.) and constructed an additional \$4.1m of new infrastructure.

Summary of Results

The table below is a brief summary of the key results for the 2021/22 financial statements.

<u>Overall performance</u>	<u>2021/22</u>	<u>2020/21</u>
Operating surplus	\$2.1m	\$6.0m
Operating surplus/(deficit) before capital grants and contributions	(\$1.6m)	(\$0.3m)
<u>Revenue and expenses</u>		
Total revenue	\$27.3m	\$29.6m
Total expenses	\$25.2m	\$23.5m
<u>Cash and investments</u>		
Cash and cash equivalents	\$17.3m	\$14.6m





Investments	\$26.0m	\$28.0m
<u>Balance Sheet</u>		
Total assets	\$403.1m	\$389.2m
Total liabilities	\$10.6m	\$11.5m
Total equity	\$392.5m	\$377.7m
<u>Water and Sewer funds</u>		
Total assets	\$112.1m	\$106.4m
Total liabilities	\$6.0m	\$6.5m
Total equity	\$106.1m	\$99.9m

Performance measures

The performance measures set by the Office of Local Government and required to be included in the Council's financial statements are shown below.

<u>Industry Indicators</u>	<u>Benchmark</u>	<u>2021/22</u>	<u>2020/21</u>
Operating Performance Ratio	Greater than 0%	(2.00%)	4.02%
Own Source Operating Revenue Ratio	Greater than 60%	53.26%	50.84%
Unrestricted Current Ratio	Greater than 1.50:1	3.94:1 	5.01:1
Debt Service Cover Ratio	Greater than 2.00:1	10.15:1 	15.40:1
Rates Outstanding Percentage	Less than 10.00%	4.13% 	4.11%
Cash Expense Cover Ratio	Greater than 3.00 months	11.29 months 	25.87 months

<u>Infrastructure Asset Performance Indicators</u>	<u>Benchmark</u>	<u>2021/22</u>	<u>2020/21</u>
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Building and Infrastructure Renewals Ratio	Greater than 100%	108.52%		141.91%
Building and Infrastructure Renewals Ratio (General Fund)	Greater than 100%	130.74%		141.42%
Infrastructure Backlog Ratio	Less than 2%	0.00%		0.00%
Asset Maintenance Ratio	Greater than 100%	106.31%		123.30%

General comments

Overall, the Council retains a strong cash position in all three operating funds.

The Council's balance sheet remains strong with adequate provisions and correct asset values.

The 2022/23 year will see significant challenges before the Council as it manages the Statewide roads emergency while meeting the ever-increasing regulatory burden placed on local government by the NSW Government.

Continued careful monitoring of the Council's financial position is required to ensure this Council is sustainable and able to deliver for its community, today and into the future.

As noted above, the NSWAO have indicated that it will issue an unmodified opinion for these statements. While the Council and NSWAO have not come to agreement on the inclusion or otherwise of the RFS-controlled assets in Council's financial statements, both parties agree that their inclusion or exclusion is not material in the context of these statements.

Statutory Process

The Council is now required to do the following:

1. Complete the statutory process for adoption and completion.
2. Assure itself that the Statements have been prepared in accordance with the appropriate standards (prior to adoption) and formally refer the Statements to the Council's Auditors for the Audit Report.

The audit was performed from Monday 14 November to Thursday 30 November 2022.

After satisfying itself with the accuracy and correct preparation of the Statements, the Council is required to do the following:

1. **Adopt** the statements and report on the conduct of the Audit.
2. **Once the auditor's report has been received,**
 - a) **advertise** the Statements for public submissions for a period of 7 days and,
 - b) **Make available** the Statements to various authorities including the NSW Office of Local Government. The Council has received an extension until 15 December 2022 to lodge.

Preparation of the Statements

The Statements are required to and have been drawn up in accordance with:

- The *Local Government Act 1993* and associated regulations.

- NSW Local Government Code of Accounting Practice and Financial Reporting
- Australian Accounting Standards.
- The Local Government Code of Accounting Practice and the Local Government Asset Accounting Manual.

The Statements are also in accordance with the Council's accounting records for the year ended 30 June 2022.

The Council is required to prepare five primary reports which form the cornerstone of the financial statements, they are:

- An Income Statement
- A Statement of Comprehensive Income
- A Statement of Financial Position (Balance Sheet)
- A Statement of Changes in Equity
- A Statement of Cashflows

In addition to these statements are Notes A1-1 to H1-1, the Special Purpose Financial Reports and the Special Schedules.

The Statements and corresponding notes which form the Council's accounts along with the Special Purpose Financial reports are audited. The Special Schedules are considered supplementary to the accounts and therefore are selectively audited. The permissible income for general rates schedule is audited, and the report on Infrastructure Assets are not currently audited.

They are prepared for the benefit of other authorities such as the Office of Local Government, Grants Commission, the Department of Lands, the Australian Bureau of Statistics and other Councils.

The following commentary on the Annual Accounts and Special Purpose Financial Accounts is provided for the Council's information

Please note that all figures are in \$000's unless otherwise noted.

Income Statement

The Income Statement shows the surplus or deficit from ordinary activities before capital amounts and therefore gives an indication of the Council's performance in providing services that are funded from periodic operating income. These results generally exclude capital injections of funds which pay for capital works; the corresponding expenditure for these items appears in the Balance Sheet in the form of an asset.

The surplus from ordinary activities line shows how much the Council's wealth has increased or decreased over the year as a result of its activities. It is important to note the Council is required by the NSW Local Government Code of Accounting Practice and Financial Reporting to recognise grants and contributions in its Income Statement even if the corresponding expenditure has not been incurred in that period.

The Council should note the Council's result from ordinary activities result has decreased from a \$6.093m operating surplus in 2020/21 to a **\$2,125 operating surplus** in 2021/22.

Some of the more material changes are listed below (in 000s):

- An increase in Rates and Annual Charges of \$296
- A decrease in User charges and fees of \$232
- A decrease in Other Revenues of \$424
- An increase in Operating Grants of \$879
- A decrease in Capital Grants of \$2,663
- A decrease in interest and investment income of \$192
- An increase in Employee Benefits and On-Costs of \$869
- And increase in Depreciation expense of \$877

Discussion on each of these items follows in this report.

The result before capital grants and contributions shows a decrease, moving from a \$304 deficit in 2020/21 to a **\$1,609 deficit** in 2021/22.

Capital grants and contributions include grants such as the fixing local roads program, and developer contributions to infrastructure, either in cash or as contributed assets.

The underlying financial position of the Council remains stable — i.e. the Council is making moderate operating surpluses over the short to medium term and has cash flows sufficient for the Council to meet its obligations and deliver on its strategic plans.

Statement of Comprehensive Income

The Statement of Comprehensive Income links the Council's operating result in its Income Statement to the Council's Statement of Financial Position, specifically the increase in Council Equity (i.e. the Council's assets less its debt).

In 2021/22 the Statement reflects the Council's operating surplus of \$2,125 and a gain on revaluation of \$12,668 (more detail on this figure will be provided below) making a total increase in Council equity for the year of \$14,793.

Statement of Financial Position (Balance Sheet)

The Balance Sheet is presented to reveal the following aspects of the Council's financial situation:

1. Information about the **financial structure** of the Council, its obligations, its equity and the types of resources available to it.
2. Information about the **capacity** of the Council to adapt to changes in its operating environment.
3. Information about the **short and long term solvency** of the Council by classifying its assets and liabilities into current and non-current.

The Balance Sheet recognises the basic accounting equation of Assets minus Liabilities equals Equity. The equity of Berrigan Shire comprises the accumulated surpluses from previous years plus the asset revaluation reserves.

In Berrigan Shire's case the Balance Sheet shows an increase in equity from \$377,659 to \$392,452. As discussed above, this reflects the Council's operating surplus of \$2,125 shown in the Income

Statement and the \$14,793 increase in valuation of the Council's infrastructure, property, plant and equipment assets and other adjustments

Current Assets – the Council's cash and other assets likely to be realised over the next twelve months – have increased by \$1,206 over the financial year. This is a result of the Lewis Crescent subdivision blocks now being available for sale and moderate increase in Council's cash and cash equivalents.

Non-current Assets have increased by \$12,683. This is largely the result of bringing into account the Tocumwal Foreshore building and the revaluation of several classes of infrastructure assets.

Current liabilities – the Council's debts likely to be redeemed over the next year – have decreased by \$228. This is largely due to numerous staff retirements during this financial year which reduced council's current employee benefit provisions substantially.

Non-current liabilities decreased by \$676 due to Council's Tip provision largely becoming current liabilities and Council continuing to pay down borrowings.

Statement of Changes in Equity

The Statement of Changes in Equity shows how the total changes in Equity have been derived. There were two changes in equity in 2021/22. There was an increase of \$2,152 flowing from the Income Statement, and an increase in the Asset revaluation reserve of \$12,668.

The increase in equity from the Income Statement has been discussed above and the increase from the revaluation of the Council's assets will be discussed in detail below.

Cash Flow Statement

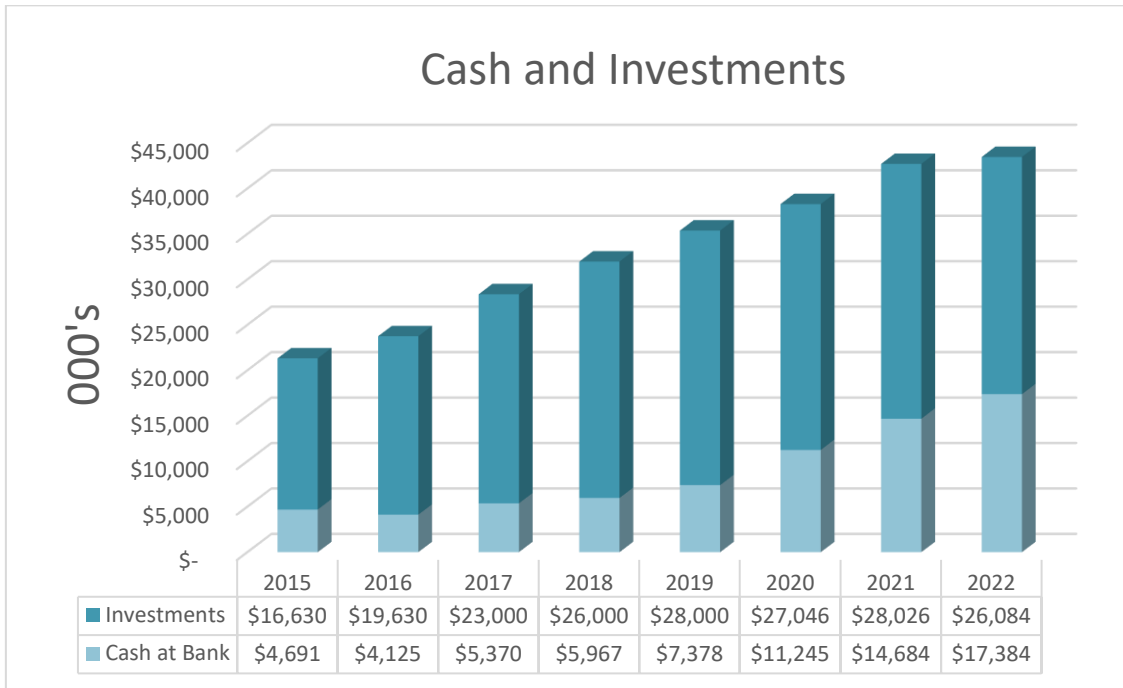
The Cash Flow Statement communicates information about the change in an organisation's liquidity and solvency during the year. It requires the grouping of cash receipts and cash payments into the following three classifications. They are:

- Operating Activities: These involve providing goods and services and include all transactions and other events that are not financing or investing activities.
- Investing Activities: These involve activities relating to the acquisition and disposal of non-current assets, including property, plant and equipment and other productive assets and investments.
- Financial Activities: Involves those activities which relate to changing the financial structure of the entity.

The Cash Flow Statement does not consider non-cash items such as depreciation and accrued expenses and revenue. It is important because it shows the amount of cash created by Council's activities which governs the Council's ability to spend.

Overall the Council's cash and investments increased by \$2,700 during the year. This has several causes:

1. Increase in redemption of Term Deposits
2. Decrease in payments for IPPE
3. Sale of Real Estate Assets – Lewis Crescent Subdivision



Notes A1-1 to H1-1 provide detail to the abovementioned statements.

Category A - About Council and these financial statements

Note A1-1 sets out the basis of preparation for these set of statements including the impact of new accounting standards.

Category B - Financial Performance

This category provides more information on the amounts shown in the Council’s Income Statement

Note B1 discusses financial performance by Council’s functional areas per its Community Strategic Plan - i.e.

1. Sustainable Natural and Built Landscapes,
2. Good Governance,
3. Supported and Engaged Communities,
4. Diverse and Resilient Business

Note B2 provides detail on the Council’s sources of income

Sub-Note B2-1 shows Council’s rates and charges income

The Council’s rates and charges revenue increased by \$121 (2.2%) in 2021/22. This has two main drivers:

- 2% permissible increase in general rates
- Some growth in the number of rateable assessments and service connections

Sub-Note B2-2 shows Council's rates and charges income

User charges and fees increased by \$232 (8.5%) in 2021/22. Most fees and charges revenue were similar to past years.

Sub-Note B2-3 shows Council's other revenue

Other Revenue has declined by \$424. This is largely due to reduced revenue from temporary transfer of water entitlements.

Sub-Note B2-4 shows Council's grants and contributions

Operating grants received by the Council decreased by \$937. This is largely due to the timing of receipts of Roads to Recovery funding.

Capital Grants tend to vary widely from year to year depending on the current projects being undertaken by the Council. In 2021/22 the amount of Capital Grants and Contributions received by the Council totaled \$3,626.

Contributions to s64 and s94 plans have increased by \$108 down from \$247 in 2020/21.

The value of restricted grants and contributions (i.e. those grants and contributions the Council has an obligation to spend in specified manner) fluctuates every year based on timing of receipts and building progress

Sub-Note B2-5 shows Council's interest and investment income

This revenue declined by \$192 (52%) in 2021/22. Interest rates received on Council's investments declined significantly over the year due to record low interest rates.

Sub-Note B2-5 shows Council's other income - i.e., rent etc.

Note B3 provides detail on the costs of providing services - i.e., its expenses

Sub-Note B3-1 shows Council's employee benefits and on-costs

Employee costs expensed increased by \$702 (8%). This result included all employee costs including leave entitlements, superannuation, and workers compensation.

Sub-Note B3-2 shows Council's materials and services costs

Materials and Contracts expenses increased by \$75 (1.1%). This figure can move sharply however depending on the mix of maintenance and capital works projects in any given year.

Sub-Note B3-3 shows Council's borrowing costs

Borrowing costs increased by \$32. This relates to an increase in interest expenses and a decrease in remediation liability of its tips and quarries.

Sub-Note B3-4 shows Council's depreciation, amortisation, and impairment

Depreciation increased by \$877 (12%).

Sub-Note B3-5 shows Council's other expenses

Other expenses cover a wide range of areas and are consistent with previous years.

Note B4 provides detail on gains and losses

Sub-Note B4-1 shows Council's other expenses

The Council made a small gain of its sale of land and used plant offset by a loss on disposal of infrastructure.

Accounting standards oblige the Council to write off the residual value of infrastructure when it is replaced and that accounts for the \$1,376 loss on "disposal" of its infrastructure assets.

Note B5 provides detail on the Council's performance against budget

Sub-Note B5-1 shows material budget variations in the income statement and statement of cash flows

Category C - Financial Position

This category provides more information on the amounts shown in the Council's Balance Sheet

Note C1 provides detail on assets managed by the Council

Sub-Note C1-1 shows Council's cash and cash equivalents

Sub-Note C1-2 shows Council's financial investments

Sub-Note C1-3 shows Council's restricted cash, cash equivalents and investments

As mentioned above, the Council's total cash and investments have increased from \$42,710 to \$43,468 in 2021/22

All Cash and Cash equivalents are held as "At fair value through profit and loss" and all Investments are "Held to Maturity". Given the Council's investment portfolio, which consisted of term deposits, there is little difference between the two.

External restrictions are those imposed on the Council by legislation relating to separate funds such as water, sewer and domestic waste as well as grants and contributions that come with conditions that the funds be spent on specific projects.

Internal restrictions are restrictions or funds which the Council places voluntarily on itself such as employee leave entitlements, the plant replacement reserves and the capital works reserve.

Unrestricted funds remained steady at \$8,134. Much of the remaining unrestricted cash:

- has already been allocated to carried forward or revotes, or
- Is Financial Assistance Grant paid in advance, or
- is required for working capital.

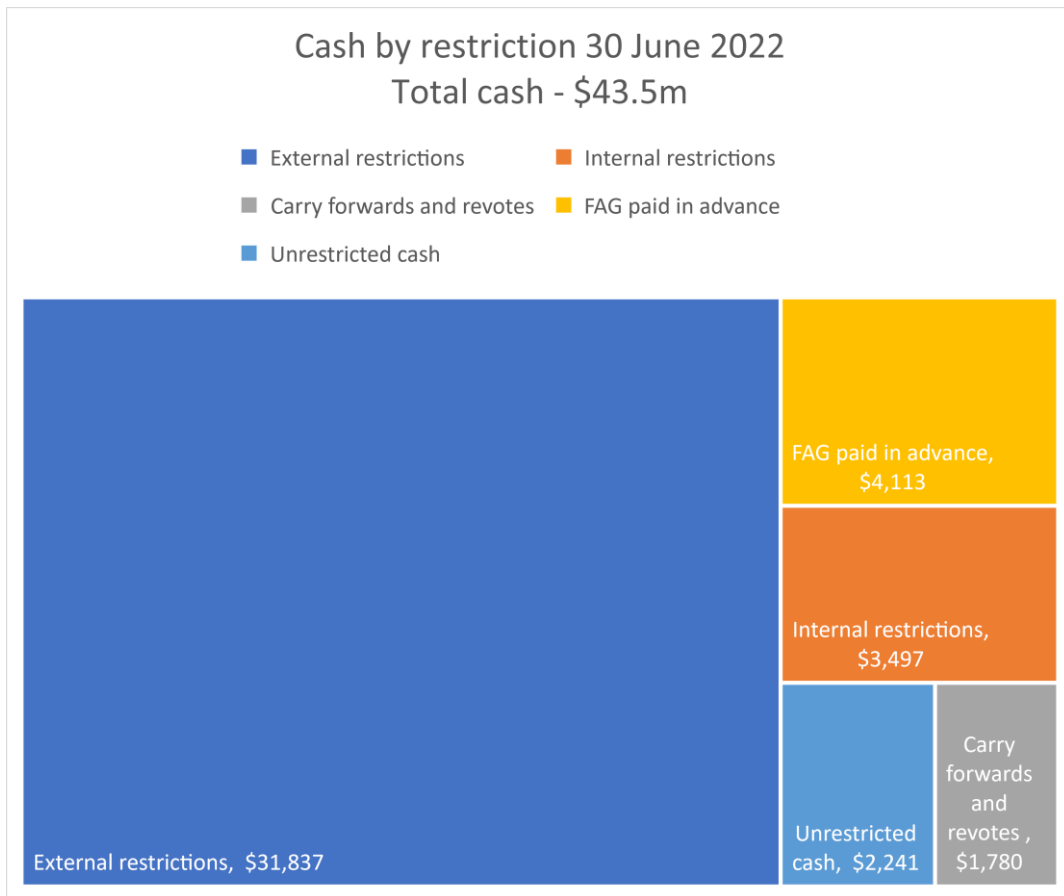
The table below provides some further detail about the Council's unrestricted cash.

UNRESTRICTED CASH ANALYSIS

	\$000's
(A) Cash and investments as at 30-6-22 (A)	43,468
(B) Restricted cash as at 30-6-22 (B)	35,334
(C) Unrestricted cash as at 30-6-22 (A-B)	<u>8,134</u>
(D) Unspent works carried forward and revoted from 21/22	1,780
(E) Uncommitted cash at 30-6-22 (C-D)	<u>6,534</u>
(F) Less 2022/23 FAG paid in advance	<u>4,113</u>
(G) Balance of uncommitted cash at 30-6-22 (E-F)	2,241

Note this "uncommitted" cash is generally committed in the 2022/23 budget or required as working capital. This cash is not generally available for new projects or activities.

A graphical breakdown of the Council’s total cash and investment holdings is shown below



Sub-Note C1-4 shows Council’s receivables, i.e. the amounts that are owed to the Council.

Outstanding rates and charges increased by \$135.

Accrued interest on investments decreased by \$23. This is purely an issue of the timing of the maturity dates of the Council’s investments as well as reduced interest rates this financial year.

Government grants and subsidies (\$411) relate to claims made for grant-funded projects not yet paid by the funding body.

Sub-Note C1-5 shows Council’s inventories of stock and materials and developed real estate owned by the Council.

The Council bought into account the subdivision in Lewis Crescent this financial year and a number of blocks still remain available at 30 June 2022. Stores and materials on hand have increased slightly.

Sub-Note C1-6 provides details on the movements in value of the Council’s Infrastructure Property Plant and Equipment (IPP&E) assets. These represent the overwhelming balance of the Council’s assets

The carrying value of the Council’s IPP&E assets increased from \$343,299 to \$355,982 at the end of 2021/22.

The left hand columns in Note C1-6 shows the situation at the commencement of the 2021/22 year, the middle columns show the changes to asset values throughout the course of the year and the rightmost columns show the situation at the end of the financial year. Items worth noting include:

- The Council added a total of \$9,021 in assets in 2021/22. Of this \$5,706 related to renewals of infrastructure and \$3,315 to new infrastructure.
- This is offset by the Council recognising depreciation to the value of \$7,423 as discussed earlier.
- The revaluation increments of \$13,053 and \$385 decrements to equity, for a net of \$13,053 are also shown in this table.

The last item above requires more explanation. Council is required at each reporting date to assess the fair value of all its assets every year and determine if that value differed materially.

Under AASB 13, assets are required to be valued at their “fair value”; in the case of assets such as roads and bridges the Office of Local Government has determined councils will need to estimate fair value using the cost-approach method. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset.

A complete revaluation of Land and Buildings was undertaken by APV Limited for 30 June 2022. These values have been used in the preparation of these financial statements. As part of the valuation, the Land and Building assets have all been broken into separate components and each component valued separately.

Note C2 provides detail on Council’s leasing activity

Sub-Note C2-1 shows Council’s activities as a lessee

Sub-Note C2-2 shows Council’s activities as a lessor

Given the Council does not lease any significant land, buildings or plant, there is little of interest in this note. This will increase in time with the inclusion of Tocumwal Foreshore.

Note C3 provides detail on Council’s liabilities - i.e., amounts it owes to other parties

Sub-Note C3-1 shows Council’s payables - debts it incurs in the ordinary course of business

Payables have increased; this is mainly a timing issue regarding invoice payments.

Sub-Note C3-2 shows Council’s contract liabilities - liabilities incurred by the Council through entering contracts to undertake to perform activities - i.e., grants for capital works

This is a new requirement. As the Council performs its obligations under the contract, the amount shown as a liability will become revenue.

Sub-Note C3-3 shows Council’s borrowings

Borrowings have decreased over 2021/22 as Council continues to pay down its borrowings.

Sub-Note C3-4 shows the Council’s employee benefit provisions - the amounts for which it has committed to pay employees in the future for leave

2021/22 has seen the Council's Provision for Employee Benefits decrease slightly due to continued efforts to reduce staff leave balances.

The table below provides some history on the level of the provision

Financial year	Provision for Employee Leave (000s)
2018/19	\$2,381
2019/20	\$2,793
2020/21	\$2,826
2021/22	\$2,248

As previously reported to the Council, the level of the Council's outstanding leave balances is a significant issue and will be raised by the auditors in their management letter as a repeating issue.

Sub-Note C3-5 shows the Council's provisions - i.e., the amounts for which it is committed to pay in the future

The Provision for Asset Remediation/Restoration covers the likely cost to the Council to restore, rehabilitate and remediate certain areas such as quarries and landfills when they reach the end of their useful lives. Note that this year sees a significant adjustment to this provision.

The Council is required to show this as a liability as well as incorporate this cost in the cost of the asset. This is required to be done on a **net present value** basis, i.e., the future expected costs are discounted to 2022 dollar amounts.

The provision at 30 June 2022 has decreased from 2021. This in part relates to the unwinding of the discount used, which is treated as a borrowing cost. Due to Tocumwal nearing closing and a new cell being constructed at Berrigan most of our provision is now being treated as current.

Note C4 provides detail on Council's reserves

Sub-Note C4-1 describes the nature and purpose of the Council's reserves

Category D - Council structure

Note D1 provides details on the Council's Financial Result and Financial Position by fund - i.e., General, Water and Sewer

This note duplicates much of the information shown in the Special Purpose Financial Statements and Special Schedules

Sub-Note D1-1 shows the income statement by fund

Sub-Note D1-2 shows the statement of financial position by fund

These sub-notes duplicate much of the information shown in the Special Purpose Financial Statements and Special Schedules

Sub-Note D1-3 shows the details of the Council's internal loans

These internal loans are shown separately in each fund but are eliminated when preparing the consolidated financial statements

Category E - Risks and accounting uncertainties

Note E1 sets out Council's financial risks

Sub-note E1-1 shows risks relating to financial instruments held

The Council holds most of its cash and investments in Term Deposits and at-call accounts while its only borrowings are standard loans with fixed interest rates for the term of the loan. As a result, the risk of default or interest rate movement to the Council is very slight.

Note E2 sets out accounting uncertainties when preparing the Council's financial statements

Sub-note E2-1 shows Council's fair value measurement

The note itself is quite arcane and the format and content of this note may continue to change over time as the industry comes to grips with the best method to provide the required information in the most efficient manner.

Note E3

Sub-note E3-1 shows Council's contingencies

Contingencies are other potential liabilities and assets that do not meet the threshold for inclusion in the financial statements or are otherwise difficult to value but are worthy of being disclosed

While the Council has some industry-wide contingent liabilities for items such as Defined Benefit Superannuation plans and Statewide and StateCover Mutual, there are no contingent liabilities specific to the operations of this Council.

Category F - People and relationships

Note F1 sets out the Council's related party disclosures

Sub-note F1-1 shows transactions between the Council and "Key Management Personnel"

Sub-note F1-2 shows fees and expenses paid to the Mayor and Councillors

Note F2 relates to the Council's other relationships

Sub-note F2-1 shows Council's audit fees

Category G - Other matters

Sub-note G1-1 reconciles the Council's operating result to the cash provided by the Council's net operating activities.

These can differ due to items such as depreciation, asset write-offs, contributed assets and changes in amounts owed to creditors and owed by debtors and in inventory levels.

Sub-note G2-1 details the Council's future expenditure commitments not shown in the balance sheet — i.e., where the Council has entered into a contract but not yet had the goods or service delivered

Sub-note G3-1 lists events after balance day

Note G4 shows changes from the prior year's statements

Sub-note G4-1 discusses changes in accounting policy

Sub-note G4-1 discusses changes in accounting estimates

Note G5 set out Council's developer contributions

Sub-note G5-1 is a summary of developer contributions

Sub-note G5-2 is a summary of contributions not under plans

Sub-note G5-3 shows Council's s64 contributions for headworks charges for water and sewer.

Note G6 is the Statement of Performance Measures

Sub-note G6-1 shows the performance measures as a consolidated entity

Sub-note G6-2 shows the performance measures broken down by fund - i.e. general, water and sewer

These measures were set out at the start of this report.

The Operating Performance ratio is below the benchmark level at (2.00%).

The Own Source Operating Revenue Ratio has increased from 50.84% in 2019/20 to 53.26% this year – not meeting the OLG benchmark. Overall, this means that the Council was able to raise 53.26% of its own revenue with the balance coming from grants from the other levels of government. Years with large grants always make achieving this ratio difficult, as they skew the results.

The Council's Unrestricted Current ratio has declined, from 5.01:1 in 2021 to 3.94:1 in 2022. This still comfortably meets the OLG benchmark.

The Debt Service Cover ratio, which is a measure of the Council's long-term ability to meet debt repayments, has declined from 15.40x to 10.15x. This still comfortably meets the OLG benchmark.

The Rates and Annual Charges ratio has remained steady moving from 4.11% to 4.13% – as stated earlier this is a magnificent result and the Council's revenue team deserve much praise.

The Cash Expense Cover ratio is 11.29 months — i.e., the Council has enough cash to pay 11.29 months of operating expenditure. The required benchmark is three months. Note that much of this cash is restricted.

Category H - Additional Council disclosures (unaudited)

Sub-note H1-1 shows the consolidated performance measures shown in Sub-note G6-1 in graphical form and with commentary

Special Purpose Financial Reports

The Special Purpose Financial reports have been prepared to report the results of Business Units determined by the Council in accordance with the requirements of the National Competition Policy (NCP) guidelines.

The Council has identified two business units being the Water Supply Service and the Sewerage Service. Both activities exceed the \$2m revenue threshold and therefore are considered Category 1 activities.

The Special Purpose Financial Reports comprise a balance sheet and operating statement along with associated notes to the accounts for each deemed business.

NCP imputation payments are added to total expenses in the operating statement for each business to accurately reflect the amount of expenditure each business would incur if they were not owned by the Shire. Items such as land tax and Council rates are calculated and included as NCP imputation payments which are then shown as expenditure against the business.

It is important to recognise that the businesses do not actually pay these NCP imputation charges. They are merely added to the total expenses to reflect what the business would have paid if they were not Council owned.

Special Schedules

These schedules contain the Council's financial data presented on a fund basis. They are unaudited but are used by other authorities and are also used as work sheets in preparing the annual statements.

Permissible Income for General Rates is a statement of Permissible Income — the amount that Council is permitted to raise from ordinary rates. Unlike the rest of the financial statements, this statement is for the 2022/23 (i.e. this) financial year

Report on Infrastructure Assets is a report on infrastructure assets. This includes condition assessments, estimates of infrastructure backlog and data on infrastructure renewal and maintenance.

Report on the Conduct of the Audit and Engagement Closing Report

The Engagement Closing report is attached as Appendix 2 to this report. This report gives the Mayor and Council the opportunity to assess the audit findings before the representation letter and the Statements by Council and Management are signed.

A draft Report on the Conduct of the Audit is attached as Appendix 3 to this report. This report will be issued following the Council's signing of the Statements by Council and Management.

Satisfaction and adoption

Prior to adoption of the Statements and referral to formal audit, the Councils should satisfy itself that the statements have been prepared in line with statutory and other requirements to present a true and fair view of the Council's financial position and financial performance.

To aid the Council in this task, a copy of a draft Representation Letter to the Council's auditors prepared by the Chief Executive Officer and Responsible Accounting Officer (Finance Manager) is attached as Appendix 4.

This letter, while prepared for the auditors rather than the Council, should be suitable for use by the Council for the purpose identified above. It is a draft letter only at this stage and a final letter will need to be provided by management to the auditors

The Council may, of course, take the opportunity to ask further questions to satisfy themselves in this matter.

Having satisfied itself the Council is then required to:

1. Send a copy of the Statements to its Auditor.
2. As soon as possible after adoption of the reports and receipt of the Auditors Report, the Council must:
 - a) Make available a copy of the Statements and Reports to the Chief Executive of the Office of Local Government and the Australian Bureau of Statistics.
 - b) Fix a date for a meeting at which it proposed to present its financial Statements and Auditor's Reports to the public.
 - c) Give Public Notice of the date so fixed (which must be more than two weeks after notice is given but not more than five weeks after the Auditor's reports are received).

5.6 ARIC Meeting Minutes and Recommendations for Financial Statements

Author:	Enterprise Risk Manager, Michelle Koopman
Strategic Outcome:	2. Good government
Strategic Objective:	2.1. Berrigan Shire 2032 objectives and strategic actions facilitate the effective governance by Council of Council operations and reporting
Delivery Program:	2.1.3. Council operations and financial management support ethical, transparent and accountable corporate governance
Council's Role:	Information Channel: Information about a service or activity of other bodies is channelled through, for example, brochures in Council office and other public spaces or links to third party websites
Appendices:	1. Minutes - ARIC 051222.docx ↓

Recommendation

That Council receive and note this report, and the recommendations regarding the Financial Statements.

Report

Attached are the minutes from the ARIC meeting held Monday, 5th December specifically to review Council's Audit Report, General Purpose and Special Purpose Financial Statements, the Engagement Closing Report, draft Management Letter and Council's Representation Letter.

Following discussion and clarification on several items (included in the minutes), the ARIC made the following recommendations:

1. Council adopt the General Purpose and Special Purpose Financial Statements for the financial year 2021/2022;
2. That Council note the Cash Flow Statement presentation will be amended to more accurately reflect receipts and payments relating to term deposits, noting the Cash Flow Statement outcome will not alter.
3. The Committee thank the Staff and Auditors involved in the preparation of the Financial Statements for ensuring the Financial Statements were available for the ARIC Meeting and the Council.

4. The Committee note the contents of the Engagement Closing Report; the draft Management Letter (including Management's responses to recommendations) and Council's Representation.

The minutes are included for noting.



ARIC MEETING

Held on Monday, 5th December, 2022
at 10:00am
via Microsoft Teams

Minutes



Minutes of the ARIC Meeting held
On Wednesday, 5th December, 2022 commencing at 10:00am via MS
Teams

PRESENT:

Linda MacRae (Chairperson); Cr. Julia Cornwell-McKean; Angela Urquhart (Independent Member); Todd Bentley (Independent Member); Michelle Koopman (Enterprise Risk Manager); Matthew Hansen (Deputy Chief Executive Officer/Director Corporate Services); Brad Bohun (Crowe - Auditors - For consideration of Item 5.1 – 2021/2022 Financial Statements); Hong Wee Soh (Audit Office of NSW - For consideration of Item 5.1 – 2021/2022 Financial Statements); Tahlia Fry (Finance Manager – For consideration of Item 5.1 – 2021/2022 Financial Statements).

1. APOLOGIES

Karina Ewer

2. ACKNOWLEDGEMENT OF TRADITIONAL OWNERS

3. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

Resolution: Minutes from previous meeting held on 12th October, 2022 be noted and accepted.

4. DECLARATIONS OF INTEREST

Nil

5. EXTERNAL AUDIT AND ACCOUNTABILITY

5.1 Financial Statements

Hong Wee Soh (Audit Office of NSW) and Brad Bohun (Crowe – Auditors) presented the General Purpose Financial Statements (GFPS); the Special Purpose Financial Statements (SPFS); the

Engagement Closing Report; the draft Management Letter and Council's Representation Letter.

The Committee noted that an unmodified Audit Opinion would be issued by the Audit Office of NSW. Considerable discussion took place regarding:

- Rural Fire Service assets
- The sound financial position of Council
- Council's restricted and unrestricted cash position
- The status of Capital Works expenditure and the amount of unspent Capital Works to be carried forward
- The payment in advance of the Federal Assistance Grants
- Additional financial staff resources had assisted with the preparation of the Financial Statements
- Planning and preparation of future Financial Statements
- Future changes in auditing standards may impact planning and preparation of the Financial Statements
- The necessity for vigilance relating to Cyber security
- System issues with budgeting processes and mapping
- Section 355 Committees of Management and banking recommendations

Resolution: ARIC recommends that:

1. Council adopt the General Purpose and Special Purpose Financial Statements for the financial year 2021/2022;
2. That Council note that the Cash Flow Statement presentation will be amended to more accurately reflect receipts and payments relating to term deposits, noting that the Cash Flow Statement outcome will not alter.
3. The Committee thank the Staff and Auditors involved in the preparation of the Financial Statements for ensuring that the Financial Statements were available for the ARIC Meeting and the Council.
4. The Committee note the contents of the Engagement Closing Report; the draft Management Letter (including Management's responses to recommendations) and Council's Representation .

6. CONTROL FRAMEWORK

6.1 Policy Review

Policies reviewed were the draft Legislative Compliance Policy, Fraud Control Policy and the adopted Investment Policy.

Resolution: Committee note the Legislative Compliance Policy has been reviewed and recommend to Council for adoption.

Resolution: Committee note the Fraud Control Policy has been reviewed and recommend a change to the wording under 6.1.2 to “aim for elimination”, and incorporating this, recommend to Council for adoption.

Resolution: The Committee noted that Council had adopted the Investment Policy in November 2022 and that the Investment Guidelines will be amended to reflect the Policy changes.

Action: ARIC requested a listing of Council Policies to determine, when developing the Work Plan, what policies are relevant for the Committee’s review.

Action : That Management give consideration to the training and reporting required to implement the requirements outlined in all Council Policies.

7. INTERNAL AUDIT

7.1 Tocumwal Foreshore Committee of Management Internal Audit update

A verbal update was provided on the current progression with the Committee Guidance Manual and the interim changes that are in place for the management of Town Beach.

Guidance was sought from the Committee regarding proposed banking changes for Council’s Committees’ of Management.

The Committee agreed in principle with suggested changes to the banking arrangements for Committees’ of Management noting that the Committees’ of Management would need to agree to such changes and that such changes would require consultation and training of volunteer Committee Members

8. GENERAL BUSINESS

8.1 Work Plan Update

The Chair advised that she would meet with relevant Staff in January 2023 to develop a draft ARIC Work Plan for the 2023 calendar year.

8.2 Meeting dates for 2023

Proposed dates to be circulated identifying five possible dates for 2023. Following consensus these will be diarised. It is proposed to hold ARIC Meetings in: February; May; August; October (Special Meeting for Financial Statements and other urgent items) and November/December.

CLOSE OF MEETING

There being no further business the meeting closed at 12:10pm.