

20 October 2014

The Mayor  
Narromine Shire Council  
124 Dandaloo Street  
**NARROMINE NSW 2821**

Mayor,

### **Audit Report - Year Ended 30 June 2014**

We are pleased to advise completion of the audit of Council's books and records for the year ended 30 June 2014 and that all information required by us was readily available. We have signed our reports as required under Section 417(1) of the Local Government Act, 1993 and the Local Government Code of Accounting Practice and Financial Reporting to the General and Special Purpose Financial Statements.

Our audit has been conducted in accordance with Australian Auditing Standards so as to express an opinion on both the General and Special Purpose Financial Statements of the Council. We have ensured that the financial statements have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations and the Local Government Code of Accounting Practice and Financial Reporting.

This report on the conduct of the audit is also issued under Section 417(1) and we now offer the following comments on the financial statements and the audit;

## **I. RESULTS FOR THE YEAR**

### ***I.1 Operating Result***

The operating result for the year was a deficit of \$539,000 as compared with \$33,000 in the previous year.

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The following table sets out the results for the year and the extent (%) that each category of revenue and expenses contributed to the total.

	2014	% of	2013	% of	Increase
	\$000	Total	\$000	Total	(Decrease)
					\$000
<b>Revenues before capital items</b>					
Rates & annual charges	6,975	44%	6,636	39%	339
User charges, fees & other revenues	3,287	21%	2,997	18%	290
Grants & contributions provided for operating purposes	4,813	30%	6,506	38%	(1,693)
Interest & investment revenue	809	5%	905	5%	(96)
	<b>15,884</b>	<b>100%</b>	<b>17,044</b>	<b>100%</b>	<b>(1,160)</b>
<b>Expenses</b>					
Employee benefits & costs	6,618	37%	6,178	35%	440
Materials, contracts & other expenses	5,950	33%	5,482	31%	468
Depreciation, amortisation & impairment	5,369	30%	5,911	34%	(542)
Borrowing costs	61	0%	72	0%	(11)
	<b>17,998</b>	<b>100%</b>	<b>17,643</b>	<b>100%</b>	<b>355</b>
<b>Surplus (Deficit) before capital items</b>	<b>(2,114)</b>		<b>(599)</b>		<b>(1,515)</b>
Grants & contributions provided for capital purposes	1,575		566		1,009
<b>Net Surplus (Deficit) for the year</b>	<b>(539)</b>		<b>(33)</b>		<b>(506)</b>
<b>Performance Measures</b>	<b>2014</b>		<b>2013</b>		
Operating Performance	-12.21%		-3.51%		
Own Source Operating Revenue	63.41%		59.80%		

The table above shows an overall decrease from the previous year of \$506,000 and can be primarily attributed to decreased revenue from grants and contributions compared to the previous year. As part of the financial assistance grant was prepaid in previous years, the amount received in 2013/14 was \$1.931 million compared to \$3.603 million in the previous year.

**Operating Performance** measures the ability to contain operating expenditure within operating revenue excluding capital amounts. For 2014, this indicator was -12.21% and was below the benchmark of 0%.

**Own Source Operating Revenue** measures the degree of reliance on external funding sources such as grants and contributions. For 2014, this indicator was 63.41% and exceeded the benchmark of 60%.

## 1.2 Funding Result

As the operating result only accounts for operating income and expenditure, in reviewing the overall financial performance of Council, it is useful to consider the total source of revenues and how they were applied during the year which is illustrated in the table below.

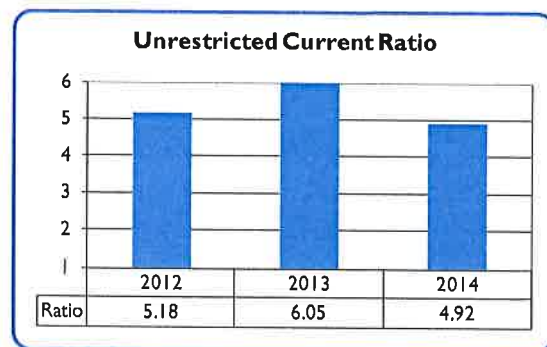
	2014	2013
	\$000	\$000
<b>Funds were provided by:-</b>		
<b>Operating Result (as above)</b>	<b>(539)</b>	<b>(33)</b>
Add back non funding items:-		
- Depreciation, amortisation & impairment	5,369	5,911
- Book value of non-current assets sold	432	565
- (Surplus)/Deficit in joint ventures	4	(20)
	5,266	6,423
New loan borrowings	0	25
Transfers from internal reserves (net)	2,120	115
Net Changes in current/non-current assets & liabilities	20	49
	7,406	6,612
<b>Funds were applied to:-</b>		
Purchase and construction of assets	(6,041)	(4,689)
Principal repaid on loans	(79)	(92)
Transfers to externally restricted assets (net)	(934)	(1,467)
	(7,054)	(6,248)
<b>Increase/(Decrease) in Available Working Capital</b>	<b>352</b>	<b>364</b>

## 2. FINANCIAL POSITION

### 2.1 Unrestricted Current Ratio

The Unrestricted Current Ratio is a financial indicator specific to local government and represents Council's ability to meet its debts and obligations as they fall due.

After eliminating externally restricted assets and current liabilities not expected to be paid within the next 12 months net current assets amounted to \$7.373 million representing a factor of 4.92 to 1.



## 2.2 Available Working Capital – (Working Funds)

At the close of the year the Available Working Capital of Council stood at \$2.705 million as detailed below;

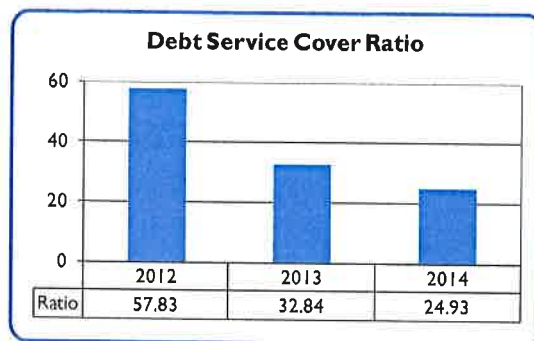
	2014 \$000	2013 \$000	Change \$000
<b>Net Current Assets (Working Capital) as per Accounts</b>	<b>19,507</b>	<b>20,373</b>	<b>(866)</b>
<b>Add:</b> Payables & provisions not expected to be realised in the next 12 months included above	808	791	17
<b>Adjusted Net Current Assets</b>	<b>20,315</b>	<b>21,164</b>	<b>(849)</b>
<b>Add:</b> Budgeted & expected to pay in the next 12 months			
- Borrowings	84	80	4
- Employees leave entitlements	725	717	8
- Deposits & retention moneys	11	8	3
<b>Less:</b> Externally restricted assets	(12,942)	(12,008)	(934)
<b>Less:</b> Internally restricted assets	(5,488)	(7,608)	2,120
<b>Available Working Capital as at 30 June</b>	<b>2,705</b>	<b>2,353</b>	<b>352</b>

The balance of Available Working Capital should be at a level to manage Council's day to day operations including the financing of hard core debtors, stores and to provide a buffer against unforeseen and unbudgeted expenditures. Taking into consideration the nature and level of the internally restricted assets (Reserves) set aside to fund future works and services and liabilities, Council's Available Working Capital at year end was sound.

## 2.3 Debt

After repaying principal and interest of \$140,000, total debt as at 30 June 2014 stood at \$921,000 (2013 - \$1 million).

The debt service cover ratio measures the availability of operating cash to service debt repayments. For 2014, the ratio indicated that operating results before capital, interest and depreciation covered payments required to service debt by a factor of 24.93 to 1.



## 2.4 Summary

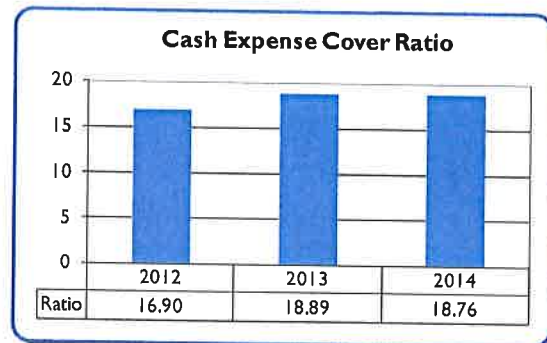
Council's overall financial position, when taking into account the above financial indicators was, in our opinion, sound.

### 3. CASH ASSETS

#### 3.1 Cash Expense Cover Ratio

This liquidity ratio indicates the number of months of expenditure requirements that can be met with available cash and term deposit balances without the need for additional cash inflow.

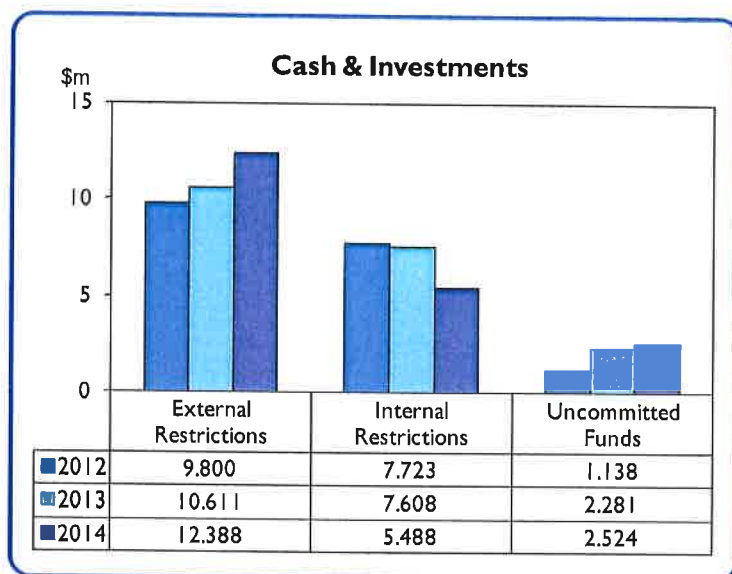
For 2014, this ratio stood at 18.76 months compared to the benchmark of 3.



#### 3.2 Cash & Investment Securities

Cash and investments amounted \$20.4 million at 30 June 2014 as compared with \$20.5 million in 2013 and \$18.661 million in 2012.

The chart alongside summarises the purposes for which cash and investments securities were held.



**Externally restricted cash and investments** are restricted in their use by externally imposed requirements and consist of unexpended loans, grants and contributions (\$1.837 million), domestic waste funds (\$728,000) and water and sewerage funds (\$9.823 million).

**Internally restricted cash and investments** have been restricted in their use by resolution or policy of Council to reflect forward plans, identified programs of works, and are, in fact, Council's "**Reserves**". These Reserves totalled \$5.488 million and their purposes are more fully disclosed in Notes 6 of the financial statements.

**Unrestricted cash and investments** amounted to \$2.524 million.

### 3.3 Cash Flows

The Statement of Cash Flows illustrates the flow of cash (highly liquid cash and investments) moving in and out of Council during the year and reveals that cash increased by \$600,000 to \$4.9 million at the close of the year.

In addition to operating activities which contributed net cash of \$5.699 million were the proceeds from the sale of investment securities (\$38.2 million) and sale of assets (\$262,000). Cash outflows other than operating activities were used to purchase investment securities (\$37.5 million), repay borrowings (\$79,000) and to purchase and construct assets (\$5.982 million).

## 4. RECEIVABLES

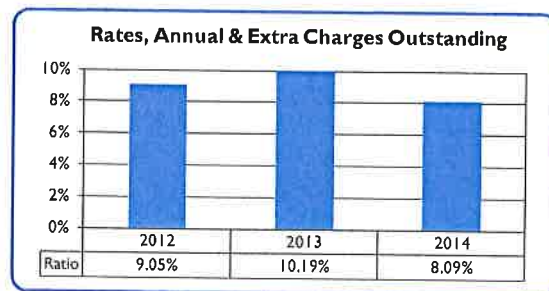
### 4.1 Rates & Annual Charges (excluding interest & extra charges)

Net rates and annual charges levied during the year totalled \$6.975 million and represented 40% of Council's total revenues.

Including arrears, the total rates and annual charges collectible was \$7.625 million of which \$7.089 million (93%) was collected.

### 4.2 Rates, Annual & Extra Charges

Arrears of rates, annual and extra charges stood at \$629,000 at the end of the year and represented 8.09% of those receivables.



### 4.3 Other Receivables

Receivables (other than Rates & Annual Charges) totalled \$1.238 million and included amounts due from other levels of government of \$392,000 and user charges amounting to \$454,000.

## 5. PAYABLES

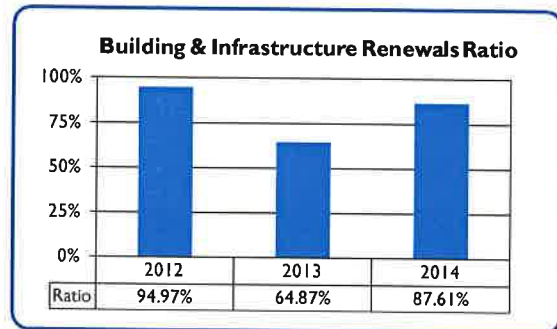
### Employees Leave Entitlements

Council's provision for its liability toward employees leave entitlements and associated on costs amounted to \$1.953 million. Internally restricted cash and investments of \$560,000 was held representing 29% of this liability and was, in our opinion, sufficient to meet unbudgeted and unanticipated retirements.

## 6. BUILDING AND INFRASTRUCTURE RENEWALS

The Building and Infrastructure Renewals ratio measures the rate at which these assets are renewed against the rate at which they are depreciating.

Special Schedule No. 7 discloses that asset renewals for 2014 represented 88% of the depreciation charges for these assets. An industry benchmark is considered to be 100%, measured annually over the long term.



## 7. MANAGEMENT LETTER

An audit management letter addressing the findings from our interim audit was issued on 4 June 2014. This included our recommendations on possible ways to strengthen and/or improve procedures and management's comments and proposed actions.

## 8. CONCLUSION

We wish to record our appreciation to your General Manager and his staff for their ready co-operation and the courtesies extended to us during the conduct of the audit.

Yours faithfully,

**HILL ROGERS SPENCER STEER**

**BRETT HANGER**

Partner