



Shire of Mt Marshall

— THE SANDALWOOD SHIRE —

IN REPLY PLEASE QUOTE: JN19 - 246
ENQUIRIES TO: Mr John Nuttall

FILE: 4.0049

17 December 2019

Hon David Templeman MLA
Minister for Local Government; Heritage; Culture and the Arts
7th Floor
Dumas House
2 Havelock Street
WEST PERTH WA 6005

Dear Minister Templeman,

SHIRE OF MT MARSHALL ANNUAL AUDIT 2018/19

This letter is in response to the audit report prepared by Moore Stephens on behalf of the Shire of Mt Marshall for the financial year 2018/19.

In the section headed 'Report on other Legal and Regulatory Requirements' the following is stated:

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

- a) In our opinion, the following matter indicates a significant adverse trend in the financial position of the Shire:
 - i) The Operating Surplus Ratio has been below the DLGSCI standard for the past 3 years as reported in the financial report.

This issue was discussed with the auditors during the 'exit meeting', and was presented to the audit committee at the meeting held on 19 November 2019 – along with a draft of this letter for adoption.

It is extremely important to note that in the view of the Mt Marshall Audit Committee, and supported by the Shire's auditors, the reason behind this adverse finding is due to the way in which the ratios are to be calculated. Explained simply Local Governments are required to show depreciation charge as part of operating expenditure, however non-operational grants (such as those provided for road funding in order to maintain those assets being depreciated)



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are not able to be shown as operating income.

For that reason the majority of regional Local Governments (who are reliant upon grants) show an operating expenditure greater than an operating income. It is impossible for Local Governments reliant upon grants to have a positive ratio.

We contend that if our non-operational grants are taken into account appropriately (that is as part of operating income) we would meet the relevant standards. We therefore urge the department to re-think the way in which these ratios are calculated and to therefore allow Local Government to 'compare apples with apples'.

On the basis of the above reasoning, and as it is impossible to believe that a small regional Local Government could survive without grant funding (for information we are a Shire that is 10,000 square kilometres in size, have a road network of 2,000kms to maintain and a population of around 550 people) at this point in time the Council of Mt Marshall does not intend to take any action in relation to the ratios, as if Capital Grants were included in the ratio calculation the Shire would meet the DLGSCI standard. We will continue to work in a responsible way having regard to the finances available, and the needs of the community.

The details presented in this letter were adopted by both the Mt Marshall Audit Committee at a meeting held on 19 November 2019, and by the full Council of Mt Marshall at a meeting held on 17 December 2019.

Should there be any queries please do not hesitate to contact the Chief Executive Officer for further details.

Yours faithfully,

John Nuttall
Chief Executive Officer



Department of
**Local Government, Sport
and Cultural Industries**

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SHIRE OF MT MARSHALL Received	
28 JAN 2020	
File No	4-0049
Officer	CEO
Copy	Cris.

Mr John Nuttall
Chief Executive Officer
Shire of Mt. Marshall
PO Box 20
BENCUBBIN WA 6477

Dear Mr Nuttall

**SHIRE OF MT. MARSHALL – RESPONSE TO SIGNIFICANT AUDIT FINDING IDENTIFIED
IN AUDIT OF THE SHIRE’S 2018/19 ANNUAL REPORT**

Thank you for your correspondence dated 17 December 2019 regarding the significant finding identified in the annual audit carried out by Moore Stephens relating to the Operating Surplus Ratio as reported in the Shire’s 2018/19 Annual Report. The Minister has requested that I respond to you on his behalf.

Section 7.12A(1) – (4) of the *Local Government Act 1995* (the Act) prescribes the local government response where significant findings are identified by a local government’s independent auditor.

The Department is currently reviewing the Act with a view to drafting a new Act. Local government financial ratios are being reviewed as part of this process. The issues you raised in relation to non-operating grants will be considered as part of this review.

Compliance with Section 7.12(5) of the Act will be achieved by publishing the Shire’s response to the audit finding on the Shire’s website.

Thank you for advising Minister Templeman of your response.

Yours sincerely

Stuart Fraser
Acting Director, Industry and Sector Regulation

20 January 2020

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