



Cr Danielle Mulholland  
Mayor  
Kyogle Council  
PO Box 11  
KYOGLLE NSW 2474

Contact: Gearoid Fitzgerald  
Phone no: 9275 7392  
Our ref:

28 October 2019

Dear Mayor

**Report on the Conduct of the Audit  
for the year ended 30 June 2019  
Kyogle Council**

I have audited the general purpose financial statements (GPFS) of the Kyogle Council (the Council) for the year ended 30 June 2019 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's GPFS.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2019 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

**INCOME STATEMENT**

**Operating result**

|  | 2019  | 2018  | Variance |
|--|-------|-------|----------|
|  | \$m   | \$m   | %        |
| Rates and annual charges revenue                             | 10.1  | 9.6   | ↑ 5.2    |
| Grants and contributions revenue                             | 15.3  | 14.9  | ↑ 2.7    |
| Operating result for the year                                | 7.9   | 7.4   | ↑ 6.8    |
| Net operating result before capital grants and contributions | (0.6) | (0.8) | ↑ 25.0   |

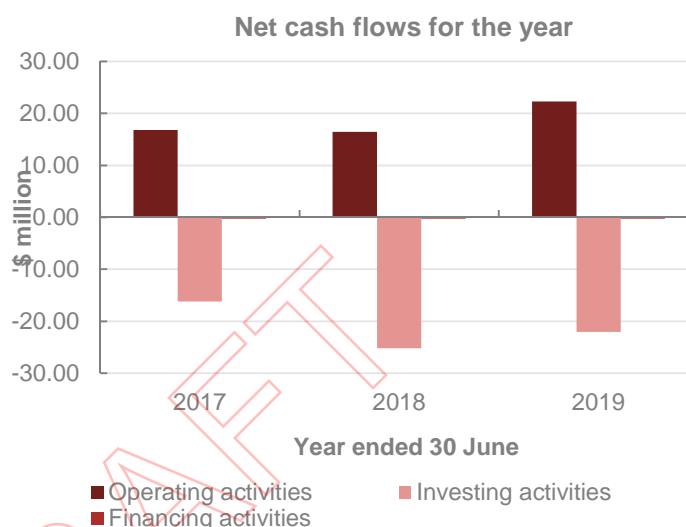
Council's operating result (\$7.9 million including the effect of depreciation and amortisation expense of \$7.5 million) was \$0.5 million higher than the 2017–18 result.

The increase is largely attributable to the following:

- Increase in 'User Fees and Charges' of \$3.4 million, mainly as a result of increased work performed on behalf of Roads & Maritime Services NSW (RMS) – RMS charges increased \$2.8 million.
- Increase in 'Materials and Contracts' of \$2.2 million, mainly as a result of the above noted increased work performed on behalf of RMS.

## STATEMENT OF CASH FLOWS

- Net cash provided by operating activities increased by \$5.8 million, mainly due to an increase in specific purpose unexpended grants and RMS charges (as noted above).
- Net cash used in investing activities decreased by \$3.1 million, mainly due to lower purchases of infrastructure, property, plant and equipment.
- Net cash used in financing activities has remained stable.



## FINANCIAL POSITION

### Cash and investments

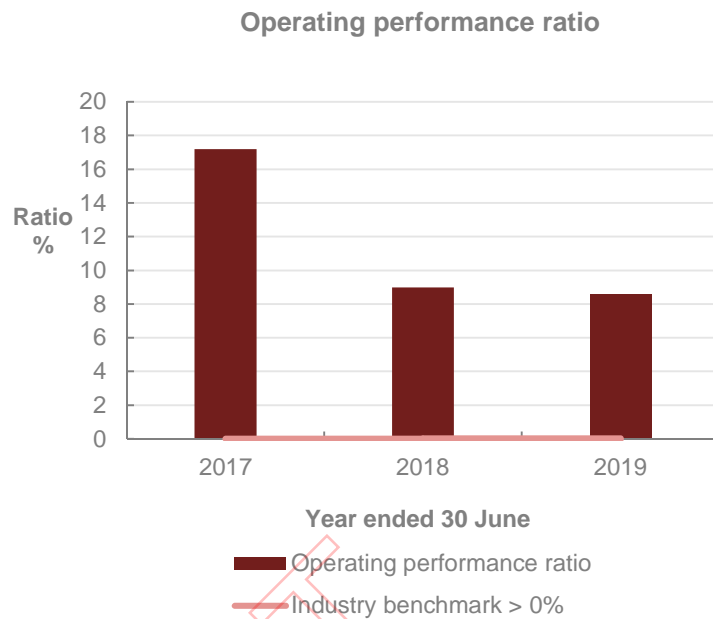
| Cash and investments        | 2019        | 2018        | Commentary  |
|-----------------------------|-------------|-------------|---|
|                             | \$m         | \$m         |   |
| External restrictions       | 2.4         | 1.5         | <ul style="list-style-type: none"> <li>• The increase in externally restricted cash and investments of \$0.9 million is predominantly due to an increase of \$1.7 million for unexpended specific purpose grants and a range of other decreases including \$0.4 million for sewerage services.</li> </ul>   |
| Internal restrictions       | 7.4         | 8.1         |   |
| Unrestricted                | 3.4         | 3.6         |   |
| <b>Cash and investments</b> | <b>13.2</b> | <b>13.2</b> | <ul style="list-style-type: none"> <li>• Internally restricted cash and investments has decreased by \$0.7 million. Carry over works and commercial waste decreased by \$1.4 million and \$0.7 million respectively, whilst restrictions for quarries and transport both increased by \$0.4 million and \$0.9 million respectively.</li> <li>• Unrestricted cash and investments has remained fairly consistent with the prior year.</li> </ul> |

# PERFORMANCE

## Operating performance ratio

Council's 'operating performance ratio' continues to exceed the industry benchmark and remained fairly consistent with the prior year.

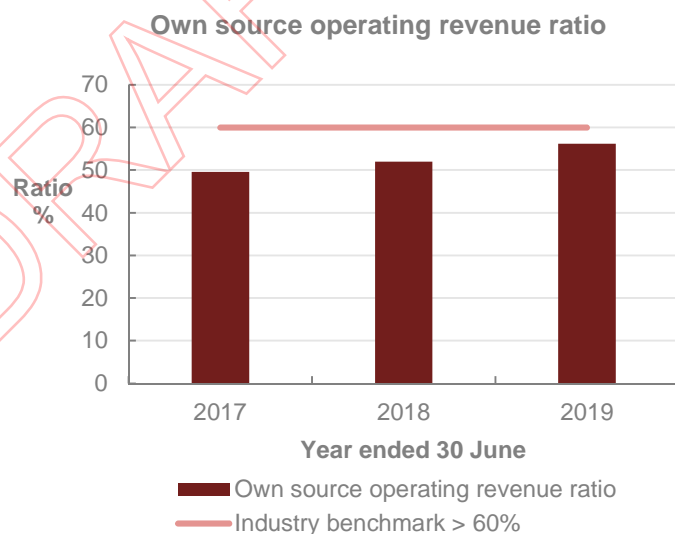
The 'operating performance ratio' measures how well Council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, net losses/gains from disposal of assets and reversal of revaluation decrements). The benchmark set by the former Office of Local Government (OLG) is greater than zero per cent.



## Own source operating revenue ratio

While Council's 'own source operating revenue ratio' is still below the industry benchmark, it has increased over the last two years mainly due to increased works performed on behalf of RMS.

The 'own source operating revenue ratio' measures Council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by the former OLG is greater than 60 per cent.

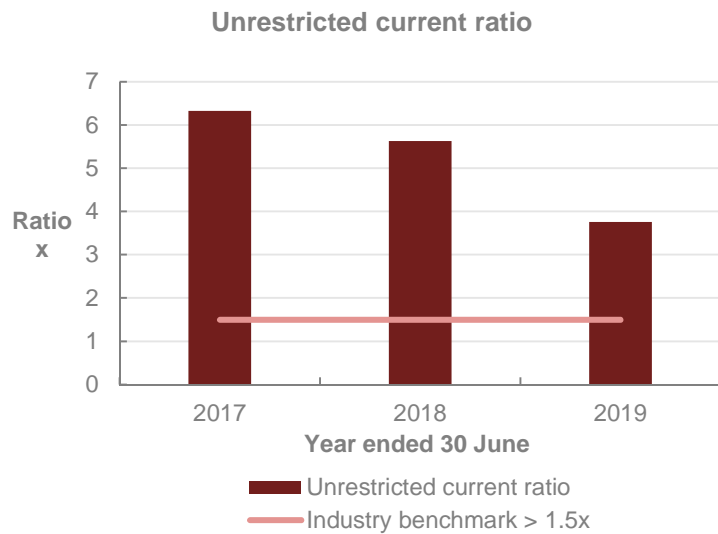


## Unrestricted current ratio

Council's 'unrestricted current ratio' exceeds the industry benchmark, however has declined over the last two years. The reduction from the prior year is due to a decrease in unrestricted current assets.

Council has \$3.76 in liquid current assets for every \$1 of current liabilities.

The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by the former OLG is greater than 1.5 times.

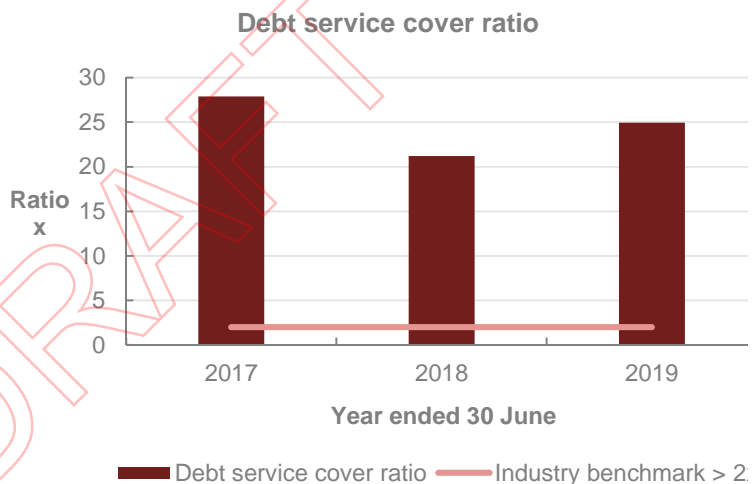


## Debt service cover ratio

Council's overall 'debt service cover ratio' continues to be well above the industry benchmark.

However, the 'debt service cover ratio' for the water fund is still below the industry benchmark.

The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by the former OLG is greater than two times.

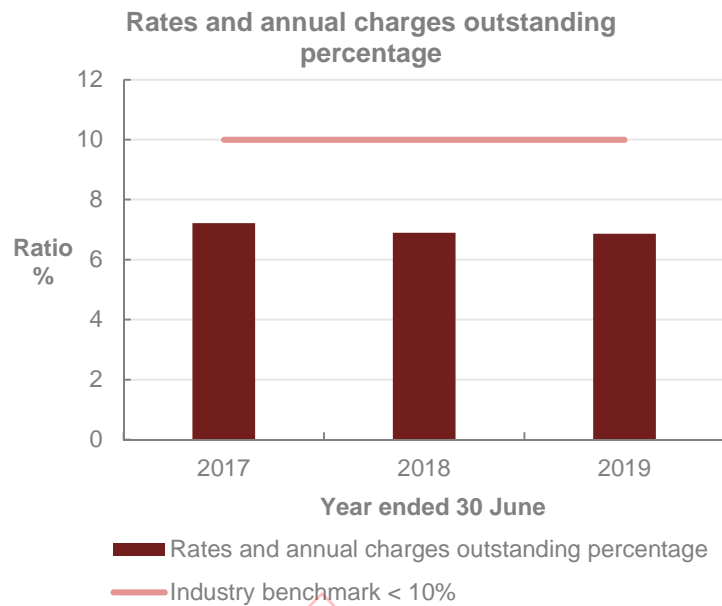


## Rates and annual charges outstanding percentage

Council has continued to meet the industry benchmark for the 'rates and annual charges outstanding ratio' as at 30 June 2019.

However, it is noted the 'rates and annual charges outstanding ratio' for both the water and sewer fund are higher than the industry benchmark.

The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by the former OLG is less than 10 per cent for regional and rural councils.

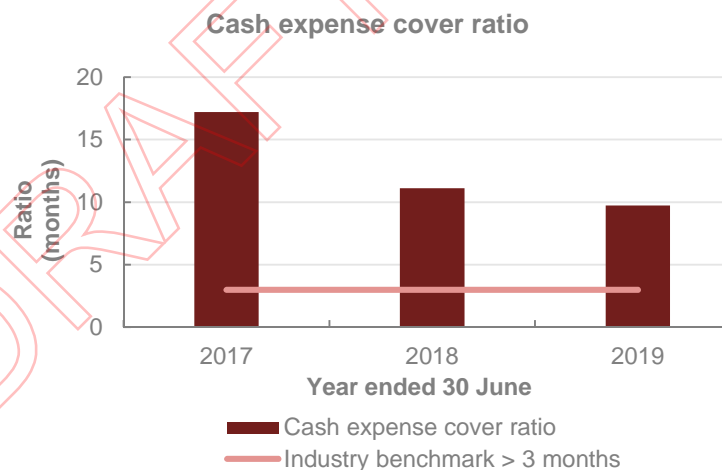


## Cash expense cover ratio

Council continues to maintain its 'cash expense cover ratio' well above the industry benchmark, however has declined over the last two years.

Further, it is noted that the 'cash expense cover ratio' for both the water and sewer funds is below the industry benchmark as at 30 June 2019.

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by the former OLG is greater than three months.



## Infrastructure renewals

Council's infrastructure renewal expenditure in the 2018-19 year was \$13.0 million compared to \$16.2 million in the 2017-18 financial year.

For the past two years, infrastructure renewal expenditure has been above the rate at which these assets are depreciating.

## OTHER MATTERS

### New accounting standards implemented

| Application period  | Overview   |
|---|--|
| <b>AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures'</b> |  |
| For the year ended 30 June 2019   | <p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none"><li>• a simplified model for classifying and measuring financial assets</li><li>• a new method for calculating impairment</li><li>• a new type of hedge accounting that more closely aligns with risk management.</li></ul> <p>The revised AASB 7 includes new disclosures as a result of AASB 9.</p> <p>Council's disclosure of the impact of adopting AASB 9 is disclosed in Note 12(b).</p> |

### Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial statements. The Council's:

- accounting records were maintained in a manner and form to allow the GPFS to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.

The Council's:

- accounting records were maintained in a manner and form that facilitated the preparation and the effective audit of the general purpose financial statements
- staff provided all accounting records and information relevant to the audit.

Gearoid Fitzgerald  
Delegate of the Auditor-General for New South Wales

cc: Graham Kennett, General Manager  
Andrew Stevens, Chair of the Internal Audit Committee  
Jim Betts, Secretary of the Department of Planning, Industry and Environment