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EUROBODALLA SHIRE COUNCIL Independent Audit Report to the Council General Purpose Financial Report for the Year ended 30 June 2009

Report on the Financial Report

We have audited the general purpose financial report of Eurobodalla Shire Council for the financial year ended 30 June 2009 comprising the Statement by Councillors and Management, Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statements and accompanying notes.

Council's Responsibilities for the Financial Report

Council is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the statutory requirements under Local Government Act, 1993. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibilities

Our responsibility is to express an opinion on the financial report based on our audit. Our audit responsibility does not extend to the Original Budget figures disclosed in the Income Statement and Cash Flow Statement, Notes 2(a), and 16 to the financial statements, estimated income and expenditure in note 17, nor the attached Special Schedules.

We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Auditor's Opinion


At 30 June 2009, Eurobodalla Shire Council's investment portfolio totalled \$37.672 million and included CDO securities and other floating rate notes totalling \$7.688 million. Many of these securities do not have market values that are independently quoted and they are not widely traded. Independent market valuations are not readily available and in many cases, values are assessed based on estimates from issuers and/or evaluation models for which there is limited market evidence available to verify their reasonableness in the current economic environment. Further, the ongoing volatility of financial markets creates greater uncertainty in the valuation process and determination of future cash flows that can be attributed to these securities.

These circumstances have resulted in our inability to obtain sufficient appropriate audit evidence to satisfy ourselves as to the fair value and recoverability of \$7.688 million of Council's total investment portfolio or the impact of fair value movements in the income statement. The maximum impact on the operating surplus and net assets is the carrying amount of these investments as at 30 June 2008 (\$8.54 million), of which \$853k has already been recognised as a fair valuation movement in Note 3(c).

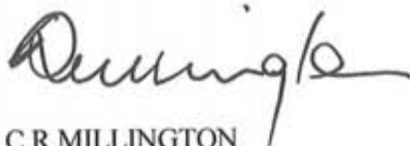
Qualified Audit Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the valuation of CDO investments:

- (a) the Council's accounting records have been kept in accordance with the requirements of the Local Government Act 1993, Chapter 13, Part 3, Division 2; and
- (b) the Council's general purpose financial report:
 - (i) has been prepared in accordance with the requirements of this Division;
 - (ii) is consistent with the Council's accounting records;
 - (iii) presents fairly the Council's financial position and the results of its operations;
 - (iv) is in accordance with Australian accounting standards and other professional reporting requirements.
- (c) all information relevant to the conduct of the audit has been obtained; and
- (d) there are no material deficiencies in the accounting records or financial reports that we have become aware of in the course of the audit.



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C R MILLINGTON
Partner

Sydney, 4 November 2009