

File Ref: 22/18174
Enquiries: Bimsara Pathirathna (9405 5563)

21 February 2022

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

Dear Minister

MATTERS OF SIGNIFICANCE - 2020/21 AUDIT REPORT

Under section 7.12A(4) (a) and (b) of the *Local Government Act 1995*, the City is required to prepare a report addressing any matters identified as significant by the auditor in the auditor's report, stating what action the local government has taken or intends to take with respect to each of those matters and give a copy of that report to the Minister within 3 months after the auditor's report is received by the local government.

Please find attached the report (**attachment 1**) addressing the matters of significance raised in the 2020/21 Auditor's Report. This report will be published on our website within 14 days as required by the *Local Government Act 1995*, section 7.12A (5).

The statutory audit of the City of Wanneroo's annual statutory financial statements for the year ended 30 June 2021 was completed by the Office of the Auditor General (**OAG**) and reported one significant adverse trend on their audit report dated 17 December 2021. Please refer to the OAG's Independent Auditor's Report (**attachment 2**).

The OAG noted that the City's Asset Sustainability Ratio was below the standard set by the Department of Local Government, Sport and Cultural Industries for the last three years.

The attached Council report (**attachment 3**) addressing this matter and the actions the City intends to take in respect of the adverse trend was presented to Council on the 15 February 2022.

Yours sincerely



DANIEL SIMMS
CHIEF EXECUTIVE OFFICER

Attachments:

1. Report addressing Matters of Significance as identified in 2020/21 Auditor's Report
2. The OAG Independent Auditor's Report 2020/21
3. Council Report CS06-02/22 – Report on Matters of Significance highlighted in the 2020/21 Audit Report

cc: Lanie Chopping, Acting Director Local Government Support, Department of Local Government, Sport and Cultural Industries

Report to the Minister for Local Government, Heritage, Culture and the Arts on Matters of Significance noted in the Independent Auditor's Report 2020/21

Background

As part of the Statutory Audit process of the Annual Statutory Financial Statements, the Office of the Auditor General (OAG) is required to report of any matters relating to Legal and Regulatory Requirements that come to their attention. For the City's Annual Statutory Financial Statement for the year ended 30 June 2021, the OAG identified the City was not compliant with the Asset Sustainability Ratio standard set by the Department of Local Government, Sport and Cultural Industries (DLGSCI) for the past three years, which was highlighted in their Independent Auditor's Report dated 17 December 2021.

This was presented to Council on the 15 February 2022 along with proposed actions by the City.

Detail

Please find below specific details of the adverse ratio and the reasons explaining why the City is unable to meet the set parameters.

Description	2020/21	2019/20	2018/19	Benchmark
Asset Sustainability Ratio	0.73:1	0.39:1	0.44:1	0.90:1

The DLGSCI Asset Management Framework and Guidelines publication provide the following description in respect to the Asset Sustainability Ratio (ASR):

$$\text{Asset Sustainability Ratio} = \frac{\text{Capital Renewal and Replacement Expenditure}}{\text{Depreciation}}$$

"If capital expenditure on renewing or replacing assets is at least equal to depreciation on average over time, then the local government is ensuring the value of its existing stock of physical assets is maintained. If capital expenditure on existing assets is less than depreciation then, unless a local government's overall asset stock is relatively new, it is likely that it is underspending on renewal or replacement."

A large percentage of the City's assets are new or in good condition with approximately 63% of the total asset base at or below condition 2 (a rating of '0' represents a new asset and a '10' represents an asset that has failed). Less than 1.4% of the asset base is at or above condition 8, which represents assets that require intervention.

With the City's current mix of old and new assets and continued high growth, a lower than average ASR is expected, and the current condition of assets and level of renewal expenditure confirms this position. As the asset stock ages and renewal expenditure incrementally increases, the ratio should improve accordingly.

It is also acknowledged by the DLGSCI guidelines that the Asset Sustainability Ratio can be below the benchmark, if the local government's overall asset stock is relatively new.

Taking a long-term outlook, the level of asset stock and renewal demand necessitates the development of strategies to address the future impact and ensure that the City can continue

to grow and maintain its assets in a financially sustainable manner. Given that renewal expenditure is lower than the depreciation being charged and that there are spikes in demand in certain years, a specific Asset Replacement/Enhancement Reserve has been established to address these spikes in demand.



Auditor General

INDEPENDENT AUDITOR'S REPORT 2021 City of Wanneroo

To the Councillors of the City of Wanneroo

Report on the audit of the annual financial report

Opinion

I have audited the financial report of the City of Wanneroo (City) which comprises:

- the Statement of Financial Position at 30 June 2021, the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and Rate Setting Statement for the year then ended
- Notes comprising a summary of significant accounting policies and other explanatory information
- the Statement by the Chief Executive Officer.

In my opinion the financial report of the City of Wanneroo:

- is based on proper accounts and records
- fairly represents, in all material respects, the results of the operations of the City for the year ended 30 June 2021 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Basis for opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's responsibilities section below. I am independent of the City in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional & Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to my audit of the financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Associate entity restatement and guarantee payment

I draw attention to Note 38 of the annual financial report, which:

- discloses the 2020 financial impact of the initial application of accounting standard AASB 1059 from the associate entity, and
- discloses a guarantee payment made by the City subsequent to reporting date.

My opinion is not modified in respect of this matter.

Responsibilities of the Chief Executive Officer and Council for the financial report

The Chief Executive Officer (CEO) of the City is responsible for the preparation and fair presentation of the financial report in accordance with the requirements of the Act, the Regulations and Australian Accounting Standards. The CEO is also responsible for managing internal control (as required by the CEO) to ensure the financial report is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the CEO is responsible for assessing the City's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State Government has made decisions affecting the continued existence of the City.

The Council is responsible for overseeing the City's financial reporting process.

Auditor's responsibility for the audit of the financial report

As required by the *Auditor General Act 2006*, my responsibility is to express an opinion on the financial report. The objectives of my audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

A further description of my responsibilities for the audit of the financial report is located on the Auditing and Assurance Standards Board website. This description forms part of my auditor's report and can be found at https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

Report on other legal and regulatory requirements

In accordance with the Local Government (Audit) Regulations 1996 I report that:

- (i) In my opinion, the following material matter indicates a significant adverse trend in the financial position of the City:
 - a) The asset sustainability ratio as reported in Note 25 of the financial report has been below the Department of Local Government, Sport and Cultural Industries' standard for the current year and past 2 years.
- (ii) All required information and explanations were obtained by me.
- (iii) All audit procedures were satisfactorily completed.
- (iv) In my opinion, the asset consumption ratio included in the financial report was supported by verifiable information and reasonable assumptions.

Other information

The other information is the information in the entity's annual report for the year ended 30 June 2021, but not the financial report and my auditor's report. The CEO is responsible for the preparation and the Council for overseeing the other information.

My opinion does not cover the other information and, accordingly, I do not express any form of assurance conclusion thereon.

Matters relating to the electronic publication of the audited financial report

This auditor's report relates to the financial report of the City of Wanneroo for the year ended 30 June 2021 included on the City's website. The City's management is responsible for the integrity of the City's website. This audit does not provide assurance on the integrity of the City's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.



Caroline Spencer
Auditor General for Western Australia
Perth, Western Australia
17 December 2021

CS06-02/22 Report on Matters of Significance highlighted in the 2020-2021 Audit Report

File Ref: 42791 – 22/18853
Responsible Officer: Director, Corporate Strategy & Performance
Attachments: 1

Issue

To consider the matters identified as significant in the Independent Auditor's Report for the year ended 30 June 2021 by the Office of the Auditor General (**OAG**). Specifically, an adverse trend of one of the reportable Ratios which was calculated in-line with reporting requirements as specified in the guidelines issued by the Department of Local Government, Sports and Cultural Industries (**DLGSCI**).

The matters require specific action and disclosure as per section 7.12A(4) and (5) of the *Local Government Act 1995* (the **Act**).

Background

As part of the Statutory Audit process of the Annual Statutory Financial Statements, the OAG is required to report of any matters relating to Legal and Regulatory Requirements that come to their attention. For the City's Annual Statutory Financial Statement for the year ended 30 June 2021, the OAG identified the City was not compliant with the Asset Sustainability Ratio standard set by the DLGSCI for the past three years, which was highlighted in their Independent Auditor's Report dated 17 December 2021 (**Attachment 1**).

Under the *Local Government Act 1995* section 7.12A(4) and (5), Duties of local government with respect to of the Act audits:

- (4) *A local government must —*
- (a) *prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and*
 - (b) *give a copy of that report to the Minister within 3 months after the audit report is received by the local government.*
- (5) *Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.*

Detail

As indicated above, the OAG has highlighted under the heading, 'Report on Other Legal and Regulatory Requirements' in the Independent Auditor's Report dated 17 December 2021 that the Asset Sustainability Ratio has been below the DLGSCI set standard for the past three years.

The adverse position has been presented to the Audit and Risk Committee on the 17 December 2021 as part of the 2020/21 Annual Financial Statements. Explanation of this position is detailed below.

Description	2020/21	2019/20	2018/19	Benchmark
Asset Sustainability Ratio	0.73:1	0.39:1	0.44:1	0.90:1

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A large percentage of the City's assets are new or in good condition with approximately 63% of the total asset base at or below condition 2 (a rating of '0' represents a new asset and a '10' represents an asset that has failed). Less than 1.4% of the asset base is at or above condition 8, which represents assets that require intervention.

With the City's current mix of old and new assets and continued high growth, a lower than average ASR is expected, and the current condition of assets and level of renewal expenditure confirms this position. As the stock ages and renewal expenditure incrementally increases, the ratio should increase accordingly. However, continued growth may keep it relatively lower than the industry standard.

It is also acknowledged by the DLGSCI guidelines that the Asset Sustainability Ratio can be below the benchmark, if the local government's overall asset stock is relatively new.

Taking a long-term outlook, the level of asset stock and renewal demand necessitates the development of strategies to address the future impact and ensure that the City can continue to grow and maintain its assets in a financially sustainable manner. Given that renewal expenditure is lower than the depreciation being charged and that there are spikes in demand in certain years, a specific Asset Replacement/Enhancement Reserve has been established to address these spikes in demand.

Consultation

Nil

Comment

On receipt of this report, the Chief Executive Officer (CEO) must notify the Minister of the action taken and ensure the same is published on the City's website within 14 days of issuance of the letter.

Currently, the Local Government Act review is being undertaken and more relevant financial ratios and appropriate benchmarking for local government sector are considered in the review. One of those ratios which is being reviewed is the "Assets Sustainability Ratio".

Statutory Compliance

Local Government Act 1995

Local Government (Audit) Regulations 1996

Strategic Implications

The proposal aligns with the following objective within the Strategic Community Plan 2021 – 2031:

7 ~ A well governed and managed City that makes informed decisions, provides strong community leadership and valued customer focused services

7.1 - Clear direction and decision making

Risk Title	Risk Rating
Financial Management	Moderate
Accountability	Action Planning Option
Executive Management Team	Manage

The above risk relating to the issue contained within this report has been identified and considered within the City's Corporate Risk Register. Action plans have been developed to manage this risk to improve the existing management systems.

Policy Implications

Nil

Financial Implications

Nil

Voting Requirements

Simple Majority

Recommendation

That Council:-

- 1. APPROVES** this report identifying reasons for matters identified as significant by the Office of the Auditor General in their Independent Auditors Report dated 17 December 2021; and
- 2. REQUESTS** the Chief Executive Officer to submit a report to the Minister for Local Government, Sports and Cultural Industries commenting on the reasons for the deficiencies noted by the Office of the Auditor General and actions to be taken, and publish this report on the City of Wanneroo's website within 14 days of submitting the report to the Minister.

Attachments:

[1](#). Attachment 1 - OAG Audit Opinion - City of Wanneroo - 30 June 2021 21/564233