

File Ref: 20/548347
Enquiries: Bimsara Pathirathna (9405 5563)

16 December 2020

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 - 2019/20 AUDIT REPORT

Please find the report (**attachment 1**) addressing the matters of significance raised in the 2019/20 Audit Report. This report will be published on our website within 14 days as required by the *Local Government Act 1995, section 7.12A (5)*.

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 audit report, and 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 audit report is received by the local government.

The statutory audit of the City of Wanneroo's annual statutory financial statements for the year ended 30 June 2020 was completed by the Office of the Auditor General (OAG) and reported one significant adverse trend on their audit report dated 9 December 2020. 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 the Audit and Risk Committee on the 7 December 2020 and Council on the 15 December 2020.

Yours sincerely



DANIEL SIMMS
CHIEF EXECUTIVE OFFICER

Attachments:

1. Report on Matters of Significance – 2019/20 Audit Report
2. The OAG Independent Auditor's Report 2019/20
3. Council Report SCS02-12/20 – Report on Matters of Significance highlighted in the 2019/20 Audit Report

cc: Narrell Lethorn, 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 2019/20

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 2020, 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 9 December 2020.

This adverse position was presented to the Audit and Risk Committee on the 7 December 2020 and Council on the 15 December 2020.

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	2019/20	2018/19	2017/18	Benchmark
Asset Sustainability Ratio	0.39:1	0.44:1	0.34:1	0.90:1

The DLGSCI Asset Management Framework and Guidelines publication provides the following explanation 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 75% 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). Approximately 1.2% 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 significant spikes in demand in certain years, a specific Asset Renewal Reserve and Asset Replacement Reserve have been established.



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Councillors of the City of Wanneroo

Report on the Audit of the Financial Report

Opinion

I have audited the annual financial report of the City of Wanneroo which comprises the Statement of Financial Position as at 30 June 2020, and 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, as well as notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.

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

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of the City for the year ended 30 June 2020 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 for the Audit of the Financial Report* section of my report. I am independent of the City in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the annual 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 – Basis of Accounting

I draw attention to Notes 1 and 7(a) to the annual financial report, which describe the basis of accounting. The annual financial report has been prepared for the purpose of fulfilling the City's financial reporting responsibilities under the Act, including the Local Government (Financial Management) Regulations 1996 (Regulations). My opinion is not modified in respect of these matters:

- (i) Regulation 17A requires a local government to measure vested improvements at fair value and the associated vested land at zero cost. This is a departure from AASB 16 *Leases* which would have required the entity to measure the vested improvements also at zero cost.
- (ii) In respect of the comparatives for the previous year ended 30 June 2019, Regulation 16 did not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report.

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 annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal control as the CEO determines is necessary to enable the preparation of the annual financial report that is free from material misstatement, whether due to fraud or error. In preparing the annual 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

The objectives of my audit are to obtain reasonable assurance about whether the annual 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 annual financial report.

A further description of my responsibilities for the audit of the annual financial report is located on the Auditing and Assurance Standards Board website at https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This includes the identification and assessment of the risk of material misstatement due to fraud arising from management override of controls. This description forms part of my auditor's report.

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 has been below the Department of Local Government, Sport and Cultural Industries' standard for the past 3 years.
The financial ratios are reported in Note 25 of the annual financial report.
- (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 and the Asset Renewal Funding Ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

Other Matter

The financial ratios for 2018 in Note 25 of the annual financial report were audited by another auditor when performing their audit of the City for the year ending 30 June 2018. The auditor expressed an unmodified opinion on the annual financial report for that year.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of the City of Wanneroo for the year ended 30 June 2020 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 annual financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this annual financial report. If users of the annual 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 annual financial report to confirm the information contained in this website version of the annual financial report.



CAROLINE SPENCER
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
9 December 2020

Transactional Finance

SCS02-12/20 Report on Matters of Significance highlighted in the 2019-2020 Audit Report

File Ref: 40620 – 20/522052
Responsible Officer: Director Corporate Strategy & Performance
Disclosure of Interest: Nil
Attachments: 1

Issue

To consider the matters identified as significant in the Independent Auditor's Report for the year ended 30 June 2020 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 2020, 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 9 December 2020 (**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 9 December 2020 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 7 December 2020 as part of the 2019/20 Annual Financial Statements. Explanation of this position is detailed below.

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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 certain years' experience significant spikes in demand, a specific Asset Renewal Reserve and Asset Replacement Reserve have been established.

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.

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 2017 – 2027:

- “4 Civic Leadership
 - 4.2 Good Governance
 - 4.2.1 Provide transparent and accountable governance and leadership”

Risk Management Considerations

Risk Title	Risk Rating
CO-017 Financial Management	Moderate
Accountability	Action Planning Option
Director Corporate Strategy and Performance	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.

In pursuing growth under the Economic objectives of the existing SCP, Council should consider the following risk appetite statements:

Local Jobs

The City is prepared to accept a high level of financial risk provided that the City implements a risk management strategy to manage any risk exposure.

Strategic Growth

The City will accept a moderate level of financial risk for facilitating industry development and growth.

Any strategic objective including ongoing planning, funding and capital investment to develop infrastructure strategic assets carries financial risks.”

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 9 December 2020; 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. OAG Audit Opinion - City of Wanneroo - 30 June 2020 20/554249