



Our ref: 067/001
067/003

1 February 2021

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

Dear Minister

Significant Matter Reported by the Auditor in 2019-20 Audit Report

In accordance with Section 7.12A of the Local Government Act 1995 (the Act), the City has responded to a significant matter raised in the Auditor General's independent auditor's report on the City's 2019-20 Annual Financial Report. The matter raised indicates a *significant adverse trend* in the asset sustainability ratio, having been below the Department of Local Government, Sport and Cultural Industries' benchmark for the last three financial years.

Specifically, the City's response to this significant matter entailed the following:

- A report was prepared on the 2019-20 Annual Financial Report and external Audit Report that addressed the matter and intended actions.
- This report was presented to the Audit Committee meeting held on 26 November 2020 (minutes attached).
- The Office of the Auditor General's (OAG) appointed contract auditor (KPMG) highlighted the significant adverse trend in their report presented to the audit committee on 26 November 2020 (attached).
- There was a discussion at the meeting on this (and other matters) between the auditor, audit committee members and the City's management that explained the reasons and intended actions.
- The Audit Committee accepted the explanations given and recommended the 2019-20 annual financial report and audit report for adoption by Council.
- Council adopted the 2019-20 annual financial report and audit report at a ordinary Council meeting held on 10 December, 2020. (minutes attached).
- In providing this information to you at this time, the City has complied with the 'within 3 months' requirement under Section 7.12A (4)(b) .

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The significant matter was addressed in the report under the section on the financial ratios as per the extract below:

The Asset Sustainability Ratio saw an improvement on last year to 0.71 (from 0.46), but still sits below the benchmark of 0.90. As previously explained to Council, the City is confident that its financial planning strategies are appropriate for the current high growth phase the City is experiencing.

This particular ratio assesses the City's spend on asset renewal as a percentage of the depreciation expense on its asset base.

Half of the City's depreciation is generated from its roads and road related assets, for which the City has well developed asset management plans that determine the optimal timing for renewal spending. Cockburn's road network is overall in relatively good condition, with a significant proportion of the roads having been contributed in recent years through subdivision developments.

Although these assets generate annual depreciation on a straight line basis, the associated renewal spend will not be required until sometime later. Further, the City is currently focusing much of its roads capital spend on several new major roads to address growing pains and traffic issues.

This is a typical scenario for an outer growth Council (as opposed to a developed inner metropolitan Council) and the Asset Sustainability Ratio fails to distinguish between the two. This ratio is expected to gradually improve in coming years as the City delivers renewal projects contained within the Community Sport and Recreation Facilities Plan.

The City continues to place funds into reserves to fund future renewal plans in accordance with the adopted Asset Management Plans. If these funds were added to the expenditure contained within abovementioned ratio, the City would exceed the benchmark.

The City will publish a copy of this information on the City's website within 14 days of submitting this letter in accordance with Section 7.12A (5)

Should you require further information, please contact me on 9411 3521 or my email sdowning@cockburn.wa.gov.au or the City's Manager, Finance – Mr Nelson Mauricio on 9411 3517 or email nelson@cockburn.wa.gov.au
Yours sincerely



STUART DOWNING
DIRECTOR FINANCE AND CORPORATE SERVICES