



7 January 2022

Hon John Carey  
Minister for Housing, Lands, Homelessness and Local  
Government

7th Floor, Dumas House  
2 Havelock Street,  
WEST PERTH WA 6005

### **Significant Matter Reported by the Auditor in 2020-21 Audit Report**

Dear Minister

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 2020-21 Annual Financial Report. The matter raised indicates a *significant adverse trend* in the Asset Sustainability ratio, having been below the Department of Local Government's 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 2020-21 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 25 November 2021 (minutes attached).
- The Office of the Auditor General's (OAG) appointed contract auditor (KPMG) highlighted the significant adverse trend in their report (page 11) presented to the audit committee on 25 November 2021 (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 2020-21 annual financial report and audit report for adoption by Council.
- Council adopted the 2020-21 annual financial report and audit report at a ordinary Council meeting held on 9 December, 2021. (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 a reverse on last years to 0.53 (from 0.71), and 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.*

*Approximately 40% 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 metro growth Council (as opposed to a developed inner metropolitan Council) and the Asset Sustainability Ratio fails to distinguish between the two. This ratio does not take into account the significant reserving of funds (from depreciation) for future projects. The asset sustainability ratio appears to "punish" councils in the prudent allocation of funds (to reserve) for future expenditure on assets which have not reached a point in their depreciation cycle requiring funds to be expended.*

*The City believes this ratio should be modified to take into account the reserving of funds in a current budget from depreciation cash for a future asset replacement or refurbishment not yet required.*

*I note for the record that the City meets or exceeds the benchmarks for the remaining five ratios.*

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](mailto:sdowning@cockburn.wa.gov.au) or the City's Manager, Finance – Mr Nelson Mauricio on 9411 3517 or email [nelson@cockburn.wa.gov.au](mailto:nelson@cockburn.wa.gov.au)

Sincerely,

  
Stuart Downing  
Chief Financial Officer