



City of Canning

Our Ref: D19/105096
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8 August 2019

Narrell Lethorn
Directors Industry and Sector Regulation
Department of Local Government, Sport and Cultural Industries
PO Box 8349
PERTH BUSINESS CENTRE WA 6849

Dear Ms Lethorn,

Response to DLGSC on Significant Audit Findings 2017-2018.

We refer to your letter dated 28 June 2019, in relation to the Audit Report issued by Grant Thornton on the annual financial statements for the year 2017-2018. The following matter was identified as a significant finding on the Audit Report.

Significant adverse trends in the financial position: Asset Sustainability and Operating Surplus Ratio are below the Department standard for the last three years.

We regret the fact that a report as required under section 7.12A of the *Local Government Act 1995* addressing the matters raised in the Audit Report was not submitted to the Minister within three months. We would like you to take note of the following in relation to the adverse findings on financial ratios:

Asset Sustainability Ratio

The purpose of this ratio is to measure if the Local Government is replacing or renewing existing non-financial assets at the same rate at which these assets are wearing out. As per the Department's guidelines: standard is met if the ratio is 90% or higher.

The City's renewal spend has been increasing in the past three years and was at 79%. While this did not meet the standard ratio of 90% as set by the Department, the City does not believe that it requires any specific corrective action due to following reasons:

1. The depreciation on each non-current asset is provided on a straight line basis, whereas the renewal expenditure on the asset is only incurred when an asset or component thereof reaches the end of its useful life. Accordingly, the rate of renewal does not always match with the rate of depreciation each year.
2. The City's Asset Consumption Ratio has been greater than 60% for past three years compared to the Department's standard ratio of 50%. This ratio indicates aged condition of the local government's non-current assets. Based on the asset replacement undertaken by the City on an annual basis, the non-current assets are 40% consumed; indicating that sufficient amount of replacement expenditure is incurred to keep these assets in relatively good condition.
3. The City's Asset Renewal Funding ratio is greater than 100%, demonstrating that the City has provided for sufficient allocation of funds for renewal of its non-current assets, as required in order to maintain its service potential.



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Operating Surplus Ratio

The purpose of this ratio is to measure the City's ability to cover its operational costs and have revenues available for capital funding and other purposes. The following should be noted with respect to City's operating surplus ratio:

1. The City has been budgeting to achieve operational surplus at the time of the adoption of budget as well as within the City's Long Term Financial Plan.
2. The shortfall in revenue and increase in expenditure, including increase in non-cash expenditure like depreciation due to periodical revaluation has resulted into operational deficits in the past.
3. The City did achieve a positive operating surplus ratio for the financial year 2017-2018 and it is also expected to achieve positive ratio for the year 2018-2019.

In view of the explanations above, the City believes that in spite of certain financial ratios not meeting the Department's standard, the City is in a financially sound position. This is evidenced by the City's current overall Financial Health Indicator (FHI) score of 79, and which has risen from 54 to 62 in the previous two years. We would like to reiterate that the City of Canning has been following prudent financial management to ensure that it continues to operate in a financially sustainable manner.

The Audit Report on the annual financial statements for the year 2017-2018 was presented at the Audit and Risk Committee meeting held on 6 December 2018. The matter relating to one of the financial ratios not meeting the Department's standard was reported at the meeting. This matter was further reported at the Ordinary Council Meeting held on 11 December 2018.

As required under section 7.12A(4)(b) of the *Local Government Act 1995* we will publish this response on the City's website.

Should you need any further information please contact Hitesh Attawala, Manager Finance and Asset Management on (08) 9231 0525.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'WB'.

Warren Bow

Acting Chief Executive Officer.

End.