

7 December 2022

Hon John Carey
Minister for Housing, Lands, Homelessness, Local Government
7th Floor, Dumas House
2 Havelock Street
WEST PERTH WA 6005

Dear Minister,

MATTERS OF SIGNIFICANCE – 2021/2022 Audit Report

Under the section 7.12A (4) of the *Local Government Act 1995*, a Local Government is required to examine the Audit report issued by the Auditor and prepare a report on actions to be taken on significant matters identified in the Audit report.

The City's statutory Audit for the financial year ended 30 June 2022 was conducted by the Office of the Auditor General (OAG) who issued the Audit report in December 2022. For 2021/2022 the OAG issued a qualified audit opinion.

The audit qualification was related to the valuation of certain infrastructure assets. The Audit report was presented and noted at the City's Audit and Risk Committee on the 6 December 2022 and will be presented to the Council on the 13 December 2022.

Please find attached a report addressing the above matter and the actions the City intends to take in respect of those matters. This report will be published on our website as required by the *Local Government Act* section 7.12A (5).

Yours sincerely,



Rhonda Hardy
Chief Executive Officer

Attachments:

1. *Report on Matters of Significance – 2021/2022 Audit Report*

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

Memorandum: Independent Auditors Report

Background:

The Office of the Auditor General (OAG) performed the statutory audit of the Annual Financial Statements for the year ended 30 June 2022. The Annual Financial Statements along with the Audit Opinion were presented and noted at the City's Audit and Risk Committee on 6 December 2022, and will be presented at the Ordinary Council Meeting on 13 December 2022. The overall result of the audit was positive for the City with a qualified audit opinion.

As part of the Statutory Audit process of the Annual Financial Statements, the OAG is required to report on any matters relating to Legal and Regulatory Requirements that come to their attention. For the City's Annual Financial Statements for the year ended 30 June 2022, the OAG's opinion is that the financial report is a fair representation of the City's results and financial position *other than* unrecognised infrastructure assets. Due to the unrecognised assets, it is a qualified audit opinion with an emphasis of matter on the restatement of comparative balances.

This memorandum addresses the actions the City intends to take in respect of those matters. Additionally, it will be published on our website as required by the Local Government Act section 7.12A (5).

Extract from the Audit Opinion issued by the OAG:

Basis for Qualified Opinion – unrecognised infrastructure assets

The City has not recognised 969 Infrastructure assets (Drains) in the financial report at 30 June 2022. These assets have been included in the City's Asset Management System at nil values however, were never recorded in the Fixed Assets Register and revalued to their fair value. As these assets have not been recognised in the financial report at fair value in accordance with Regulation 17A(2)(a) of the Local Government (Financial Management) Regulations 1996, I am unable to determine whether the Infrastructure - Drains balance reported in Note 9 of the financial report at \$123,730,140 as at 30 June 2022 (2021: \$124,550,736) is appropriately stated at fair value in the Statement of Financial Position. Additionally, I am unable to determine whether any adjustments are necessary to the related balances and disclosures in the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, and related Notes thereto, in respect of Depreciation and Revaluation Surplus.

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 below.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Restatement of comparative balances

I draw attention to Note 34 to the financial report, which describes the correction of a prior year error. My opinion is not modified in respect to this matter. Infrastructure assets previously unrecognised have been recognised in the current year's financial report. The amount reported in the previously issued financial report for the year ended 30 June 2021 has been restated and disclosed as comparatives in the financial report for the year ended 30 June 2022.

Next steps and actions:

Management acknowledges the issues around the unrecognised assets and the restatement of comparative balances. Management has reviewed the overall process involved with the above matters and made following observations and commitments:

1. As there is no way to determine the condition of these 'nil' value assets in a timely manner, we are not currently able to reliably measure the value of these assets.
2. The City will review current processes and internal controls with the view to improve and ensure more regular reconciliations between the Fixed Asset Register and MyData. Additionally, ensuring when assets are entered into MyData a value is added.
3. In 2022/2023 the infrastructure asset class is subject to full revaluation cycle and all issues identified will be addressed during the process.
4. Given the nature and extent of underground services it is impractical to "dig up" each asset to validate its nature and condition. It is proposed that representative sampling is undertaken of each underground asset type currently recorded to validate assumptions made which can then guide the "whole of asset" class validation and valuation. During the infrastructure revaluation process, the City will follow the industry standard revaluation methods to determine the value of these categories