

ANNUAL FINANCIAL STATEMENTS 2020/2021

In accordance with section 7.12A(4)(a) of the *Local Government Act 1995*, a local government must 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.

The following action plan that the City of Mandurah has prepared relates to the significant matters raised by the Auditor.

This action plan was accepted by Council at the following meeting:

Report Title: Annual Financial Statements 2020 / 2021

Council Meeting: 21 December 2021

Minute Number: SP.10/12/21

Management Report to Addressing the Matter Identified as Significant by the Auditor in the Audit Report.

Operating Surplus Ratio

The Operating Surplus Ratio as reported in Note 35 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries standard for the last three financial years.

Management Response

The ratio includes non-cash expenses which includes depreciation and profit and loss on sale of assets. It is important for local governments to recognise that assets depreciate and there should be sufficient funds available for renewal and replacement of these assets, however the funding of this can be by other means such as transfer from reserves, capital grants and loan funds. The Department of Local Government, Sports and Cultural Industries (DLGSC) states that this ratio indicates how much of a local government's percentage of total own source revenue is available to help fund proposed capital expenditure, transfer to cash reserves, reduce debt or other purposes, however local governments are required to include non-cash items in the calculation. It is important to note that non-cash items are not required to be included in the calculation of a rate setting statement. A rate setting statement, which determines how much rates income is required to be raised to balance a budget, excludes non-cash items such as depreciation and profit and loss on sale of assets. The rate setting statement's purpose is to determine the amount required to be raised to deliver the services, programs, capital expenditure, and transfer to cash reserves and cover the financing and investing activities. The City has developed a Long Term Financial Plan and Council are aware of how the services, programs and projects impact the ratio.

Asset Sustainability Ratio

The Asset Sustainability Ratio as reported in Note 35 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries standard for the last three financial years.

Management Response

The Council are aware of the low ratio result and recognise that the Long Term Financial Plan will be instrumental in reducing the gap between the required expenditure needed to invest in renewal and replacement assets and the amount that is currently invested. The City has a large range of services that are integral to the community and this has been the focus of the City's investment, resulting in a higher operating expenditure compared to asset renewal expenditure (capital expenditure).

Procurement Controls

There were weaknesses in the City of Mandurah's procurement controls which were identified by the City's internal auditors. For some of the purchases sampled, there was insufficient evidence that a sufficient number of quotations were obtained to test the market. In addition, there was one instance where the City purchased services in excess of its tender threshold without a public tender process. These practices increase the likelihood of not receiving value for money in procurement or favouritism of suppliers.

Management Response

As identified in the Procurement Internal Audit, presented to the Audit and Risk Committee on 13 September 2021, the City procured a contractor for an amount over the tender threshold of \$250,000. The City should have engaged the Contractor through a tender process and therefore breached the *Local Government (Functions and General) Regulations 1996*.

The following actions are recommended by City officers, and they include:

1. Additional training and reminders for managers on the Council Procurement Policy and Procedures with a focus on ensuring appropriate planning is undertaken to identify budget and contract spend prior to the commencement of a financial year.
2. Training for all staff to raise awareness of the Policy which will include staff responsibilities when procurement is undertaken by the team and not through a centralised procurement process, Procedures Forms, Conflicts of Interest, Risk assessment, obtaining qualifications and how to locate contracts in OneCouncil.
3. Implementation of quarterly reporting on supplier spend (under existing contracts and outside contracts).

This report submission was made to the Minister for Local Government on 22 December 2021.

Date of publication on website: 10 January 2022.