

## ANNUAL FINANCIAL STATEMENTS 2018-2019 AUDIT

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 2018-2019

**Council Meeting:** 17 December 2019

**Minute Number:** G.17/12/19

### Management responses to matters raised in the Auditor's report

#### 1. Accuracy of financial ratios and related disclosures

*We did not become aware of any material matters that indicate significant adverse trends in the financial position or the financial management practices of the local government, other than the City's Operating Surplus Ratio which has been below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard for the past 3 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 is currently developing a long term financial plan with the view of considering this and other ratio's over time.

This report submission was made to the Minister for Local Government on 4 May 2020.

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