



ATTACHMENTS

Audit and Risk Management Committee Meeting 9 February 2022

- 5(1) Minutes Audit and Risk Management Committee Meeting - 7 December 2021
- 6.1(1) Audit Concluding Memorandum



**AUDIT AND RISK MANAGEMENT COMMITTEE MEETING
AGENDA**

To be held on
Tuesday 7 December 2021

Commencing at 5.00pm

Shire of Donnybrook Balingup Council Chambers, Donnybrook

A handwritten signature in black ink, appearing to read "BGR" followed by a flourish.

**Ben Rose
Chief Executive Officer**

2 December 2021

Disclaimer

Please note the items and recommendations in this document are not final and are subject to change or withdrawal.

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SHIRE OF DONNYBROOK BALINGUP
AUDIT AND RISK MANAGEMENT COMMITTEE AGENDA

To be held at the Council Chambers
7 December 2021 at 5.00pm

1 DECLARATION OF OPENING

Chairperson – Acknowledgment of Country

The Chairperson acknowledged the traditional custodians of the land, the Wardandi People of the Noongar Nation, paying respects to Elders, past and present and emerging.

The Chairperson declared the meeting open at 5:01pm and welcomed the members of the Committee and guests in the public gallery.

2 ATTENDANCE

MEMBERS PRESENT

COUNCILLORS	STAFF
Cr Leanne Wringe (Shire President) Cr Chaz Newman Cr Chris Smith	Mr Kim Dolzadelli – Director Corporate Community
EXTERNAL MEMBERS	GUESTS
Mr Ian Telfer – Chairperson	Mr Shane Sercombe Mr Simon McInnes Ms Lisa Glover

2.1 APOLOGIES

Mr Ben Rose – Chief Executive Officer
Ms Carly Anderson

2.2 APPROVED LEAVE OF ABSENCE

Nil.

3 ANNOUNCEMENTS FROM CHAIRPERSON

Nil.

4 DECLARATION OF INTEREST

Division 6: Sub-Division 1 of the *Local Government Act 1995*. Care should be taken by all Committee Members to ensure that a financial/impartiality interest is declared and that they refrain from voting on any matter, which is considered to come within the ambit of the *Act*.

Nil.

5 CONFIRMATION OF MINUTES

Minutes of the Audit and Risk Management Committee meeting held **14 October 2021** are attached (Attachment 5(1)).

EXECUTIVE RECOMMENDATION

That the Minutes of the Audit and Risk Management Committee Meeting held 14 October 2021 be confirmed as a true and correct record.

Moved Cr Chaz Newman

Seconded Cr Leanne Wringe (Shire President)

6 REPORTS OF OFFICERS

6.1 INTERIM AUDIT RESULTS FOR THE YEAR ENDING 30 JUNE 2021

Location	Shire of Donnybrook Balingup
Applicant	Shire of Donnybrook Balingup
File Reference	FNC 02A
Author	Kim Dolzadelli, Director Corporate and Community
Responsible Manager	Kim Dolzadelli, Director Corporate and Community
Attachments	Office of the Auditor General – Interim Audit Opinion
Voting Requirements	Simple Majority

Executive Recommendation

That the Audit and Risk Management Committee receive and note the Interim Audit results for the year ending 30 June 2021.

Moved Cr Leanne Wringe Seconded Cr Chris Smith

STRATEGIC ALIGNMENT

The following outcomes from the Corporate Business Plan relate to this proposal:

Outcome	4.2	A respected, professional and trusted organisation
Strategy	4.2.1	Effective and efficient operations and service provision
Action	4.2.1.3	Monitor and measure organisational performance

EXECUTIVE SUMMARY

The Officer of the Auditor General (OAG) provided the Interim Audit results for the year ending 30 June 2021 on 10 November 2021. Moore Australia were the appointed contractors on behalf of the OAG.

No matters were raised as a result of the Interim Audit undertaken by the OAG.

BACKGROUND

The ARMC Charter adopted in October 2020, outlines that the Committee shall meet as often as it determines. In addition, the Committee Chairperson (or presiding person) may call such additional meetings as may be necessary to address any matters referred to the Committee or in respect of matters that the Committee wishes to pursue.

The Interim Audit is a standard legislated process under the Local Government (Audit) Regulations 1996.

FINANCIAL IMPLICATIONS

The annual audit costs estimated by the OAG for the Shire of Donnybrook Balingup are \$30k (includes Interim and Annual Audit).

POLICY COMPLIANCE

Not Applicable.

STATUTORY COMPLIANCE

Local Government Act 1995 Part – 7 Audit

Local Government (Audit) Regulations 1996

16. *Functions of audit committee*

An audit committee has the following functions —

- (a) to guide and assist the local government in carrying out —
 - (i) its functions under Part 6 of the Act; and*
 - (ii) its functions relating to other audits and other matters related to financial management;**
- (b) to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;*
- (c) to review a report given to it by the CEO under regulation 17(3) (the **CEO's report**) and is to —
 - (i) report to the council the results of that review; and*
 - (ii) give a copy of the CEO's report to the council;**
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
 - (i) regulation 17(1); and*
 - (ii) the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);**
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;*
- (f) to oversee the implementation of any action that the local government —
 - (i) is required to take by section 7.12A(3); and*
 - (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and*
 - (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and*
 - (iv) has accepted should be taken following receipt of a report of a review conducted under the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);**

- (g) *to perform any other function conferred on the audit committee by these regulations or another written law.*

CONSULTATION

Not Applicable.

OFFICER CONCLUSION

The Interim Audit of the Shire’s finances, conducted by Moore Australia for the OAG, has identified no issues for closer consideration; however, the Interim Audit process is not designed to identify all internal control deficiencies that may require management attention. The full Annual Report will interrogate the Shire’s financial management processes in more detail.

COMMITTEE RESOLUTION

Moved Cr Leanne Wringe Seconded Cr Chris Smith

That the Audit and Risk Management Committee receive and note the Interim Audit results for the year ending 30 June 2021.

Carried 4/0

6.2 INTERNAL AUDIT

Location	Shire of Donnybrook Balingup
Applicant	Shire of Donnybrook Balingup
File Reference	FNC 02A
Author	Kim Dolzadelli, Director Corporate and Community
Responsible Manager	Kim Dolzadelli, Director Corporate and Community
Attachments	Internal Audit - Request for Quotation
Voting Requirements	Simple Majority

Executive Recommendation
<p>That the Audit and Risk Management Committee notes that a Request for Expression of Interest for Internal Audit functions will be prepared by Officers to encompass the following requirements:</p> <ol style="list-style-type: none"> 1. To be undertaken in accordance with the Institute of Internal Auditors Code of Ethics; 2. To be undertaken in accordance with the Internal Auditors Professional Practices Framework; and 3. The broad scope of the Internal Audit program will include, at least, the following items with componentized costings:

- a. Information technology;
- b. Security and emergency procedures including accident / incident reporting;
- c. Vehicle fleet management;
- d. Lease management (where Local Government Lessor);
- e. Service contract management;
- f. FBT/GST review;
- g. Assessment of attractive asset control – i.e., phones, tablets and fraud awareness;
- h. Compliance (Local Government Act and local laws);
- i. Asset management (capital expenditure, asset control, depreciation schedules and preventative maintenance programs);
- j. Insurance management;
- k. Stock control; and
- l. Policy and procedure maintenance.

4. The Final Scope for the Internal Audit program will be reviewed at the Audit and Risk Management Committee and recommendations made to Council at the February 2022.

STRATEGIC ALIGNMENT

The following outcomes from the Corporate Business Plan relate to this proposal:

Outcome	4.2	A respected, professional and trusted organisation
Strategy	4.2.1	Effective and efficient operations and service provision
Action	4.2.1.3	Monitor and measure organisational performance

EXECUTIVE SUMMARY

Council has included a provision of \$15,000 in the 2021/22 Budget for the completion of an Internal Audit to be completed before 30 June 2022.

The role of an internal auditor is to operate as an independent appraisal function, for the review of operations and effectiveness of systems and controls, as a service to both Audit Committees and management.

The Institute of Internal Auditors Code of Ethics states:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve /he effectiveness of risk management, control and governance processes."

The Institute of Internal Auditors Professional Practices Framework identifies three broad categories in respect to Internal Audit as follows:

- Risk Management

"The internal audit activity should assist the organisation by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems".

- Controls

"The internal audit activity should assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement."

- Governance

"The Internal audit activity should assess and make appropriate recommendations for Improving the governance process in its accomplishment of the following objectives:

- *Promoting appropriate ethics and values within the organisation;*
- *Ensuring effective organisational performance management and accountability;*
- *Effectively communicating risk and control Information to appropriate areas of the organisation; and*
- *Effectively coordinating the activities of and communicating information among the Board, external and internal auditors and management."*

Broad Scope

Broad scope for the Internal Audit will include the following:

- Information technology;
- Security and emergency procedures including accident / incident reporting;
- Vehicle fleet management;
- Lease Management (where Local Government Lessor);
- Service contract management;
- FBT/GST review;
- Assessment of attractive asset control – i.e. phones, tablets and fraud awareness;
- Compliance (Local Government Act and local laws);
- Asset Management (Capital Expenditure, Asset Control, Depreciation Schedules and Preventative Maintenance programs);
- Insurance Management;
- Stock Control; and
- Policy and Procedure Maintenance

The Internal Audit is to be in addition to the requirement for the Chief Executive Officer to undertake the following reviews in the 2021/22 financial Year:

1. Local Government (Audit) Regulations 1996,

17. CEO to review certain systems and procedures

- 1) *The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —*
 - (a) *risk management; and*
 - (b) *internal control; and*
 - (c) *legislative compliance.*
- (2) *The review may relate to any or all the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.*
- (3) *The CEO is to report to the audit committee the results of that review*

2. Local Government (Financial Management) Regulations 1996

5. CEO's duties as to financial management

- (2) *The CEO is to —*
 - (c) *undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews.*

BACKGROUND

Council has included a provision of \$15,000 in the 2021/22 Budget for the completion of an Internal Audit to be completed before 30 June 2022.

FINANCIAL IMPLICATIONS

The 2021/22 Budget has provision of \$15,000 for the undertaking of an Internal Audit.

POLICY COMPLIANCE

Not Applicable.

STATUTORY COMPLIANCE

Local Government Act 1995 Part – 7 Audit

Local Government (Audit) Regulations 1996

16. **Functions of audit committee**

An audit committee has the following functions —

- (a) *to guide and assist the local government in carrying out —*
 - (i) *its functions under Part 6 of the Act; and*
 - (ii) *its functions relating to other audits and other matters related to financial management;*
- (b) *to guide and assist the local government in carrying out the local government's functions in relation to audits conducted under Part 7 of the Act;*
- (c) *to review a report given to it by the CEO under regulation 17(3) (the **CEO's report**) and is to —*
 - (i) *report to the council the results of that review; and*
 - (ii) *give a copy of the CEO's report to the council;*
- (d) *to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —*
 - (i) **regulation 17(1); and**
 - (ii) **the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);**
- (e) *to support the auditor of the local government to conduct an audit and carry out the auditor's other duties under the Act in respect of the local government;*
- (f) *to oversee the implementation of any action that the local government —*
 - (i) *is required to take by section 7.12A(3); and*
 - (ii) *has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and*
 - (iii) *has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and*
 - (iv) *has accepted should be taken following receipt of a report of a review conducted under the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);*
- (g) *to perform any other function conferred on the audit committee by these regulations or another written law.*

CONSULTATION

Not Applicable.

OFFICER CONCLUSION

The Internal Audit function is to operate as an independent appraisal function, for the review of operations and effectiveness of systems and controls, as a service to both Audit Committees and management.

COMMITTEE RESOLUTION

Moved Cr Chris Smith Seconded Cr Chaz Newman

That the Audit and Risk Management Committee notes that a Request for Expression of Interest for Internal Audit functions will be prepared by Officers to encompass the following requirements:

- 1. To be undertaken in accordance with the Institute of Internal Auditors Code of Ethics;**
- 2. To be undertaken in accordance with the Internal Auditors Professional Practices Framework; and**
- 3. The broad scope of the Internal Audit program will include, at least, the following items with componentized costings:**
 - a. Information technology;**
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 - c. Vehicle fleet management;**
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 - e. Service contract management;**
 - f. FBT/GST review;**
 - g. Assessment of attractive asset control – i.e., phones, tablets and fraud awareness;**
 - h. Compliance (Local Government Act and local laws);**
 - i. Asset management (capital expenditure, asset control, depreciation schedules and preventative maintenance programs);**
 - j. Insurance management;**
 - k. Stock control; and**
 - l. Policy and procedure maintenance.**

The Final Scope for the Internal Audit program will be reviewed at the Audit and Risk Management Committee and recommendations made to Council at the February 2022.

Carried 4/0

The Chairperson provided opportunity for visitors to ask questions at the meeting:

Question: Lisa Glover

The attached Letter from OAG has the word “Attach” in the bottom left hand corner. Why is there no attachment.

Response: Director Corporate and Community Services:

It is my believe that had there been any attachment word “Attach” would have been followed by the attachment name.

There was no attachment received.

Question: Simon McInnes

In the attachment to the minutes of the meeting of 14 October 2021 under the section 3.2.1 “Procurement and Contract Management”, page 3 of attachment 6.2 it states:

“Currently no formal contract management framework in place resulting in an inconsistent approach implemented by those responsible for contract management.”

Noting that the status of this Item remains unchanged as “Ongoing” and that the Risk Rating is “Significant I would ask that the Audit and Risk Management Committee make recommendation to Council to ensure appropriate funds can be allocated to resolve this issue.

Response: Chairperson took the question on notice.

Follow-up Response: Circulated by Director Corporate and Community on behalf of the Chairperson

17 December 2021 – also circulated to all members of the Audit and Risk Management Committee.

“Dear Mr McInnes,

I wish to convey the following response from the Chairperson, Mr Ian Telfer, of the Audit and Risk Management Committee.

I refer to your query at the Audit and Risk Committee meeting held 7 December 2021 which in essence was the following:

“In the attachment to the minutes of the meeting of 14 October 2021 under the section 3.2.1 “Procurement and Contract Management”, page 3 of attachment 6.2 it states:

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Noting that the status of this Item remains unchanged as “Ongoing” and that the Risk Rating is “Significant I would ask that the Audit and Risk Management Committee make recommendation to Council to ensure appropriate funds can be allocated to resolve this issue.”

As Chairperson of the Audit and Risk Management I will request the Chief Executive Officer provide an update on the matter you have raised and provide advice to the Audit and Risk Management Committee.

Kind Regards

Kim Dolzadelli
Director Corporate and Community”

Question: Simon McInnes:

The Shire needs to make people aware of when to expect the completion of Annual Financial Audit.

Response: it is expected that the Annual Financial Audit will be signed off by the Office of the Auditor General before Christmas 2021.

Question: Shane Sercombe

The attached Letter from OAG has the word “Attach” in the bottom left hand corner.

Why is there no attachment.

Response: Director Corporate and Community Services:

It is my believe that had there been any attachment word “Attach” would have been followed by the attachment name.

There was no attachment received.

Question: Shane Sercombe

In Agenda item 6.2 under “Statutory Compliance” point 16(c) there has been no report given by the Chief Executive Officer.

Response: Director Corporate and Community Services:

The report referred to is a report prepared in accordance with the Local Government (Audit) Regulations 1996, regulation 17 “CEO to review certain systems and procedures” not the Interim Audit which is the subject of the item.

The Statutory Compliance referred to in Agenda item 6.2 is with respect to the “Functions of Audit Committee”

Question: Shane Sercombe

I refer to an email that I have sent to committee members from the Office of the Auditor General regarding meeting members of Community regarding Annual Financial Audit and Audit report, can this happen.

Response: Chairperson taken on notice

Follow up Response: Director Corporate and Community Services

17 December 2021 – also circulated to all members of the Audit and Risk Management Committee and guests present at the meeting.

“Dear Mr McInnes,

I wish to convey the following response from the Chairperson, Mr Ian Telfer, of the Audit and Risk Management Committee.

I refer to your query at the Audit and Risk Committee meeting held 7 December 2021 which in essence was the following:

“In the attachment to the minutes of the meeting of 14 October 2021 under the section 3.2.1 “Procurement and Contract Management”, page 3 of attachment 6.2 it states:

“Currently no formal contract management framework in place resulting in an inconsistent approach implemented by those responsible for contract management.”

Noting that the status of this Item remains unchanged as “Ongoing” and that the Risk Rating is “Significant I would ask that the Audit and Risk Management Committee make recommendation to Council to ensure appropriate funds can be allocated to resolve this issue.”

As Chairperson of the Audit and Risk Management I will request the Chief Executive Officer provide an update on the matter you have raised and provide advice to the Audit and Risk Management Committee.

Kind Regards

Kim Dolzadelli
Director Corporate and Community”

7 CLOSURE

The Chairperson to declare the meeting closed at 6:08pm.

AUDIT CONCLUDING MEMORANDUM

Shire of Donnybrook Balingup

Year ended 30 June 2021



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CONFIDENTIAL

1. Executive Summary

Introduction

Moore Australia has been engaged by the Office of Auditor General (OAG) Western Australia to perform an audit of the Shire of Donnybrook Balingup (the Shire)'s annual financial report for the year ended 30 June 2021.

The key purposes of this memorandum is to communicate the results of the audit with those charged with governance.

We request management and the Audit Committee to review this document to ensure that

- the Shire concurs with the matters raised, and
- there are no further significant considerations or matters that could impact the audit and the financial report.

This document is strictly confidential and although it has been made available to management and those charged with governance to facilitate discussions, it may not be taken as altering our responsibilities to the Shire arising under our audit contract with OAG.

The contents of this document should not be disclosed to third parties without our prior written consent.

Audit Status and Report

We are pleased to advise that we have completed our audit of the Shire's financial report for the year ended 30 June 2021.

We will recommend to the OAG to issue an unmodified opinion on the audit of the Shire's financial report.

In addition, we noted the following matter to be reported in accordance with Reg 10(3) of the Local Government (Audit) Regulations 1996:

- There is a significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio has been below the industry benchmark for the past 3 years.
- Non-compliance with Part 6 of the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law as there were instances where manual accounting entries had been prepared and posted without any evidence of review by a second officer. Accounting journals can represent significant adjustments to previously approved accounting transactions, and therefore should be appropriately reviewed and approved.
- The Shire has not reported the Asset Renewal Funding Ratio for 2021, 2020 or 2019 in the annual financial report as required by section 50(1) of the Local Government (Financial Management) Regulations 1996, as the Shire's adopted long term financial plan does not include the required information to calculate the ratio.

Key Audit Risks or Focus Areas

We identified key audit risks or audit focus areas as part of our risk assessment procedures undertaken throughout the audit.

We are pleased to advise we have satisfactorily completed our audit procedures designed to address those risks and met our audit objectives. The identified key audit risks and results of the relevant procedures performed are detailed in Section 2 of this memorandum.

Summary of Audit Differences

We did not identify any non-trivial uncorrected audit differences.

Internal Controls Relevant to Audit

We identified one deficiency in internal controls during the final audit as detailed in Section 4 of this memorandum. There was no matters noted during our interim audit.

1. Executive Summary

Other Key Matters

We confirm we have no issues with other keys matters relating to our independence as auditor of the Shire, irregularities and illegal acts, non-compliance with laws and regulations, appropriateness of accounting policies and liaison with management.

CONFIDENTIAL

2. Key Audit Risks and Focus Areas

As part of our risk assessment, we identified key audit risks based on our extensive knowledge of the Shire, the industry and issues faced by regional local governments. This risk assessment process is designed to ensure that we focus our audit work on the areas of highest risk.

This risk assessment and our responses have been updated throughout the engagement to ensure that all areas of material risk are addressed by our audit.

Set out below is an overview of what we have identified as the key audit risks and focus areas for the audit of the Shire's financial report for the year ended 30 June 2021. The table below also includes our audit procedures performed to address these risks together with the outcomes.

RISK AREAS	AUDIT PROCEDURES TO ADDRESS RISK	CONCLUSIONS
PROPERTY, PLANT AND EQUIPMENT AND INFRASTRUCTURE		
<p>There is a significant industry risk given the nature of assets held and judgement applied in determining fair values as well as depreciation expense.</p> <p>As at 30 June 2021, the Shire reported a total property, plant and equipment and infrastructure of \$165.4mil. No revaluation of assets were carried out during the year ended 30 June 2021.</p>	<p>Property, Plant and Equipment and Infrastructure</p> <ul style="list-style-type: none"> Documented and tested key financial controls around Property, Plant and Equipment and Infrastructure balances. Assessed accounting policies associated with fair value assessments and ensured they were in accordance with accounting standards. Substantively tested samples of asset additions and disposals. Reviewed the application of amendments to Local Government (Financial Management) Regulations 16 and 17A. Reviewed management's impairment assessment against the Shire's circumstances. Reviewed fair value disclosures to ensure in accordance with AASB13 requirements. <p>Depreciation and amortisation</p> <ul style="list-style-type: none"> Reviewed depreciation policy for the various asset classes and assessed the reasonableness of rates used. Documented and tested key financial controls around the calculation of depreciation/amortisation. Performed depreciation recalculations based on our sampling approach. 	<p>Based on work performed, we are satisfied that the Shire's property, plant and equipment and infrastructure are fairly stated and disclosed in the 2021 financial report.</p>

2. Key Audit Risks and Focus Areas

RISK AREAS	AUDIT PROCEDURES TO ADDRESS RISK	CONCLUSIONS										
REVENUE												
<p>The Shire's main sources of revenue are:</p> <ul style="list-style-type: none"> • government grants; • rates; and • Other fee for service revenue streams. <p>Given the variety of revenue streams, there is a risk that revenue may not be recognised in accordance with AASB 15 and AASB 1058.</p> <p>For the year ended 30 June 2021, the Shire has recognised:</p> <table border="1"> <tr> <td>Rates</td> <td>\$5.1mil</td> </tr> <tr> <td>Operating grants, subsidies and contributions</td> <td>\$5.9mil</td> </tr> <tr> <td>Non- Operating grants, subsidies and contributions</td> <td>\$5.1mil</td> </tr> <tr> <td>Fees and Charges</td> <td>\$3.1mil</td> </tr> <tr> <td>Contract Liabilities</td> <td>\$2.4mil</td> </tr> </table>	Rates	\$5.1mil	Operating grants, subsidies and contributions	\$5.9mil	Non- Operating grants, subsidies and contributions	\$5.1mil	Fees and Charges	\$3.1mil	Contract Liabilities	\$2.4mil	<p>We reviewed the Shire's assessment of revenue recognition with respect to the recognition requirements of AASB 15 and AASB 1058.</p> <p>Given the nature of local government grants, we substantively tested this revenue to third party documentation such as funding agreements & invoices and vouch receipt of funds in accordance with our established sampling methodology.</p> <p>We also tested the recognition of contract liabilities to ensure proper accounting with AASB 15 and AASB 1058.</p> <p>For rates, and fees & charges, we documented and performed walkthroughs of the key financial controls. We also performed substantive tests of details utilising our sampling methodology. In addition, we performed analytical review to obtain the required level of assurance.</p> <p>We also reviewed the design and implementation of controls of all other main sources of revenue.</p> <p>We have considered the nature, complexity and materiality of the revenue transactions to assess the risk of fraud in revenue recognition.</p>	<p>Based on work performed, we are satisfied that the Shire's revenue is fairly stated and disclosed in the 2021 financial report.</p>
Rates	\$5.1mil											
Operating grants, subsidies and contributions	\$5.9mil											
Non- Operating grants, subsidies and contributions	\$5.1mil											
Fees and Charges	\$3.1mil											
Contract Liabilities	\$2.4mil											
EMPLOYEE BENEFIT PROVISIONS												
<p>Provisions for annual leave and long service leave involves a degree of management estimation and uncertainty in their calculation in respect of inflation rates, discount factors, timing and probabilities of settlement. There is risk that these liabilities may not be captured completely and recognised in accordance with AASB 119: Employee Benefits.</p> <p>As at 30 June 2021, the Shire reported a total provision of \$898k.</p>	<p>We documented and tested key audit controls and performed walkthroughs of the systems with a view to rely on the internal controls.</p> <p>We performed substantive test of details utilising our sampling methodology as well as year end analytical review to obtain the required level of audit assurance.</p> <p>We also reviewed employee benefit provisions to ensure they are consistent with the payroll records and calculated in accordance with AASB119.</p>	<p>Based on work performed, we are satisfied that the Shire's employee benefit provisions are fairly stated and disclosed in the 2021 financial report.</p>										
LEASES												
<p>The Shire recognised right of use assets and corresponding lease liabilities pertaining to its operating leases as at 30 June 2020. There is a risk that the assets and liabilities are not properly accounted for if there are new leases entered, old leases expired and changes to existing lease terms during the financial year.</p> <p>As at 30 June 2021, the Shire reported a total right of use assets and lease liabilities of \$66k and \$67k respectively.</p>	<p>We reviewed the supporting documents to ensure both assets and liabilities are properly accounted for in accordance with AASB 16.</p> <p>We reviewed the workings for the initial take up of new leases, the removal of expired leases and the recalculation arising from changes to existing lease terms during the year.</p> <p>We also completed depreciation recalculations and testing of lease liability payments based on our sampling approach.</p> <p>We also reviewed the adequacy of the required disclosures in the financial report.</p>	<p>Based on work performed, we are satisfied that the Shire's right of use assets and corresponding lease liabilities are fairly stated and disclosed in the 2021 financial report.</p>										

2. Key Audit Risks and Focus Areas

RISK AREAS	AUDIT PROCEDURES TO ADDRESS RISK	CONCLUSIONS						
EXPENDITURE								
<p>Expenditure forms a large part of a local government's operations. This takes the form of both operating and capital.</p> <p>For the year ended 30 June 2021, the Shire has recognised:</p> <table border="1"> <tr> <td>Employee costs</td> <td>\$7.8mil</td> </tr> <tr> <td>Materials and contracts</td> <td>\$4.1mil</td> </tr> <tr> <td>Depreciation</td> <td>\$5.7mil</td> </tr> </table>	Employee costs	\$7.8mil	Materials and contracts	\$4.1mil	Depreciation	\$5.7mil	<p>For the testing of expenditure, we performed walkthroughs of the systems and tested key financial controls with a view to rely on internal controls.</p> <p>We performed substantive test of details based on our sampling methodology as well as year-end analytical review to obtain the required level of assurance.</p> <p>We paid particular attention to the cost allocation methodology associated with administration allocations, Public Works Overheads and Plant Operating Costs to ensure these are properly allocated as they impacted the split between operational and capital expenditure.</p> <p>Specific attention was also paid to credit cards and changes to creditors' details, particularly in light of recent history in the industry.</p>	<p>Based on work performed, we are satisfied that the Shire's expenditure is fairly stated and disclosed in the 2021 financial report.</p>
Employee costs	\$7.8mil							
Materials and contracts	\$4.1mil							
Depreciation	\$5.7mil							
MANAGEMENT OVERRIDE OF CONTROLS								
<p>Management is involved in the day to day operations and monitoring of the business, which gives them the ability to manipulate accounting records and manipulate financial disclosures by overriding controls in place. Due to the unpredictable way in which such override could occur, this leads to potential fraud risk.</p>	<p>The following procedures had been performed:</p> <ul style="list-style-type: none"> Reviewed journal entries and other adjustments for evidence of possible material misstatements due to fraud; Reviewed accounting estimates and application of accounting policies for evidence of bias or aggressive accounting practices; and For significant or unusual transactions, evaluated the business rationale (or the lack thereof) for evidence of fraudulent financial reporting or misappropriation of assets. 	<p>Based on work performed, we have not identified any instances of management override of controls.</p>						
RELATED PARTY DISCLOSURE								
<p>The Shire has disclosed the following related party transactions for the year ended 30 June 2021:</p> <table border="1"> <tr> <td>Elected Members Remuneration</td> <td>\$114k</td> </tr> <tr> <td>KMP Compensation</td> <td>\$613k</td> </tr> <tr> <td>Transactions with related parties</td> <td>\$41k</td> </tr> </table>	Elected Members Remuneration	\$114k	KMP Compensation	\$613k	Transactions with related parties	\$41k	<p>We reviewed the processes to ensure the required disclosures were adequately addressed and a robust system is in place. We also ensured related party transactions are at arms' length basis.</p> <p>We also remained alert for any undisclosed related party relationships/transactions whilst performing other audit procedures.</p>	<p>Based on work performed, we are satisfied that related party transactions are properly disclosed and</p>
Elected Members Remuneration	\$114k							
KMP Compensation	\$613k							
Transactions with related parties	\$41k							

2. Key Audit Risks and Focus Areas

RISK AREAS	AUDIT PROCEDURES TO ADDRESS RISK	CONCLUSIONS
IT GENERAL CONTROLS		
<p>The Shire uses Synergy Soft as the key accounting package for its financial reporting purposes.</p> <p>The integrity of financial information relies on the security, integrity and reliability of an organisation's information technology environment.</p>	<p>We assessed the Information Technology General Controls (ITGC) environment to determine the extent to which financial information can be relied upon.</p> <p>We conducted a high level ITGC review, including the assessment of the key controls relating to:</p> <ul style="list-style-type: none"> • System Security; • Technology Framework; • Service Management, Operations and Change Control; • Security Governance and Reporting; and • Security Training. 	<p>As a result of the review, no further testing was required to enable us to rely upon the financial management information generated by the system.</p>
SIGNIFICANT ADVERSE TRENDS		
<p>Statutory reporting of any material matters that indicate significant adverse trends in the financial position of the Shire relating to the requirements of Local Government (Audit) Regulation 10(3)(a).</p>	<p>We used the statutory ratios disclosed and compared them against our criteria and previously reported ratios. We also assessed how the ratios impact the operations of the Shire.</p>	<p>Based on work performed, we noted a significant adverse trend in the financial position of the Shire as the Operating Surplus ratio has been below the industry benchmark for the past 3 years.</p>

3. Summary of Audit Differences

We are required by the auditing standards to communicate all unadjusted differences (other than clearly trivial) that we noted during the audit.

There were no unadjusted differences noted during the audit.

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4. Internal Controls Relevant to Audit

As part of our planned audit approach, we have evaluated the Shire's system of internal controls primarily to enable us to determine the appropriate nature and extent of our procedures.

This, however, does not constitute a comprehensive review. Accordingly, the Audit Committee may wish to discuss with management any matters they may have raised with respect to particular systems, which may necessitate a more comprehensive review.

It should be appreciated that our audit procedures are designed primarily to enable us to form an opinion on the financial statements and therefore may not bring to light all weaknesses in systems and procedures which may exist. However, we aim to use our knowledge of the Shire's organisation gained during our work to make comments and suggestions which, we hope, will be useful to you.

The following matter was identified during the final audit:

FINDING	RECOMMENDATION
GENERAL JOURNAL REVIEW	
<p>During the audit period there were instances where manual accounting entries had been prepared and posted without any evidence of review by a second officer.</p> <p>Accounting journals can represent significant adjustments to previously approved accounting transactions.</p>	<p>Journals should be appropriately reviewed and approved.</p>

5. Other Key Matters

In accordance with Auditing Standards, we are required to communicate a number of matters with those charged with governance which is covered in the table below.

Matters Considered	Outcome
Ethics and Independence	<p>We have obtained independence declarations from all staff engaged in the audit.</p> <p>We confirmed that to the best of our knowledge, we met the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report.</p> <p>We have further considered the safeguards the Moore Australia network has in place and we are not aware of any services being provided that would compromise our independence as external auditor.</p>
Fraud and Compliance with Laws and Regulations	<p>We have enquired with management regarding the existence of fraud and/or non-compliance with laws and regulations. We have also reviewed the general ledger and minutes for evidence of these.</p> <p>Based on confirmation obtained from management and the work performed, we are confident that the risk of fraud in relation to financial reporting and non-compliance with laws and regulations is low and have not identified any reportable matters for your attention.</p>
Appropriateness of Accounting Policies	<p>Based on the work performed, we are satisfied that accounting policies used for the preparation of financial report are acceptable financial reporting framework and in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.</p>
Appropriateness of the Use of Going Concern Basis of Accounting	<p>Based on the audit evidence obtained up to the date of our auditor's report, we are not aware of material uncertainty exists related to events or conditions that may cast significant doubt on the Shire's ability to continue as a going concern.</p>
Liaison with Management	<p>We had no disagreements with management about significant audit, accounting or disclosures matters.</p> <p>There were no difficulties encountered in dealing with management related to the performance of the audit.</p>

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