



PUBLIC ATTACHMENTS

Audit Committee Meeting

15 May 2023

PUBLIC ATTACHMENTS

PUBLIC ATTACHMENTS

Shire of Victoria Plains

Audit Strategy Memorandum
Year Ending 30 June 2023

Contents

Introduction.....	3
Audit Approach.....	3
Audit Team	4
Preliminary identification of significant audit and accounting focus areas	5
Amendments / revisions to Australian Accounting Standards (AASB) and Local Government Legislation.....	8
Internal Audit.....	8
Management Representation Letter	8
Related Entities.....	9
Reporting Protocols	9
Timing of Events.....	10
Shire of Victoria Plain’s responsibilities.....	10
Other Audit Activities.....	10

PUBLIC ATTACHMENTS

Introduction

This Audit Strategy Memorandum (“ASM”) sets out our approach to the audit of the Shire of Victoria Plains (‘the Shire’). The engagement covers the financial year ending 30 June 2023.

William Buck conducts an independent audit in order to enable the Auditor General to express an opinion regarding the financial report. Our audit is conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements will be detected.

We perform procedures under the Auditor General Act 2006 to assess whether in all material aspects all procedures are performed in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulation 1996* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Shire’s financial position, and of its performance as represented by the results of its operations and cash flows.

Our audit approach is designed to specifically focus audit attention on the key areas of risks faced by the Shire in reporting on finances and performance. We form our recommended audit opinion on the basis of these procedures, which include:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates.

We will carry out such work as is necessary to form an opinion as to whether the accounts of the Shire are properly kept, and the annual financial report is prepared in accordance with these financial records.

Our approach focuses on the key risk areas where the potential for misstatement of account balances is considered greatest; and

This ASM is an integral part of the audit planning process. It is a preliminary audit plan, which will be updated with any issues identified during the course of the audit.

The Shire prepares general purpose financial statements in accordance with the Australian Accounting Standards and the financial reporting provisions of the *Local Government Act 1995* and the *Local Government (Financial Management) Regulation 1996*.

Audit Approach

Our Audit approach focuses on the following:

- Key risk areas where the potential for misstatement of account balances is considered greatest;
- Key strategic business risks and related financial statement risks that are highly dependent on IT systems and environment;
- The use of IT within the Shire which will affect the way that control activities are implemented;
- Whether the Shire’s controls over the IT systems are effective and that they maintain the integrity of information and the security of the data;
- Nature, extent and scope of the internal audit work that has been performed, the related findings and its relevance to the external audit overall audit strategy and plan;

- Management's assessment of the risk that the financial report may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;
- Management's processes for identifying and responding to the risks of fraud and the internal control that management has established to mitigate these risks;
- Effectiveness of relevant internal controls on all business cycles including expenses, the different revenue streams, and payroll which we will test annually via controls and substantive procedures. The different revenue streams which we will be testing include rates, fees, grants, subsidies and contributions;
- Effective two-way communication between the auditor and those charged with governance with timely observations arising from the interim and final audit that are significant and relevant presented in the Management Letter;
- Our views about significant qualitative aspects of the Shire's accounting practices, including accounting policies, accounting estimates and financial report disclosures listing presented in the Management Letter; and
- The determination of materiality affected by our perception of the financial information needs of the users of the financial report. As we develop our audit strategy and audit plan, we consider materiality at least at two levels: at the overall level, as it relates to the financial report taken as a whole – Planning Materiality (PM); and at the performance level (PLM).

In accordance with our approach, the phases of our audit will be as follows:

- Preliminary planning
 - Update knowledge of the Shire's business
 - Update understanding of the Shire's accounting process
 - Perform preliminary analytical review procedures
 - Assess the effectiveness of the control environment
- Risk assessment process
- Documentation and communication of audit plan
- Evaluation and testing of internal controls (as appropriate)
- Execution of substantive auditing procedures
- Evaluation of audit results, potential errors and resolution of audit issues
- Audit conclusions
- Financial statements review
- Subsequent events review

Audit Team

Audit Director	-	Conley Manifis
Manager	-	Martanki Mathew (on maternity leave mid-June – late October)
Office of Auditor General	-	Fatima Padia

Preliminary identification of significant audit and accounting focus areas

Audit and accounting areas of focus are as follows:

1. Revenue Recognition

The Shire's main sources of revenue are rates, fees and charges. The Shire also receives significant grants, subsidies and contributions. Completeness, existence and accuracy of revenue are identified as a risk.

We will document and assess controls relating to the Shire's revenue process. We will also:

- perform walkthroughs on the revenue process;
- test of internal controls relating to the revenue process;
- perform substantive analytical review of the revenue process;
- review management's revenue recognition policy and determine whether the policy is in accordance with AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income for Not For Profit Entities*; and
- perform cut off testing by evaluating revenue transactions either side of the balance sheet date as well as credit notes issued after year end.

2. Employee expenses and provisions

Employee costs is one of the major expenses of the Shire. Employee costs comprises of wages and salaries and employee on-costs.

We will document and assess controls relating to the payroll process.

We will also:

- perform walkthroughs on the payroll process;
- test of internal controls relating to payroll and employee related liabilities; and
- perform substantive analytical review of employee costs and related liabilities.

For annual leave and long service leave provisions which are derived from accounting estimates, we will review the method and underlying data that management uses when determining critical accounting estimates. This will include considering the reasonableness of assumptions and corroborating representations.

3. Materials and contracts

Another major expense of the Shire are materials and contracts. We will document and assess controls relating to the materials and contracts process.

We will also:

- perform walkthroughs on the materials and contracts expenditure process;
- test of internal controls relating to materials and contracts expenditure with regard to areas such as tendering, supplier's selection process (including checking to completed verbal quotation forms where necessary), approval and contracting;
- perform substantive analytical review of materials and contracts expenditure; and

- obtain the current policies and procedures implemented on the procurement process and ensure that they are reviewed on a regular basis and that they are aligned with the Local Government Act and Regulations.

4. Cash and cash equivalents

The Shire has a significant cash and cash equivalent balance represented mainly by bank balances, restricted and unrestricted cash. There is a potential risk of misappropriation, unauthorised use, and incorrect classification in the financial report in accordance with the relevant accounting standards.

We will:

- obtain and review bank reconciliations of the municipal, trust accounts and term deposit statements as at reporting date and ensure evidence of the preparer and reviewer are recorded;
- obtain a bank confirmation and investigate any significant exceptions;
- verify that restricted cash and cash equivalents have been used for their intended purposes;
- ensure the correct split between unrestricted and restricted cash and ascertain that it is in accordance with the imposed regulations and legislation;
- review the process around approvals of setting up term deposits and renewals; and
- review terms and conditions to verify if term deposits have been correctly classified in the financial report in accordance with the Shire's applicable accounting policies and the relevant accounting standards.

5. Property, Plant and Equipment and Infrastructure

The Shire owns significant amounts of property, plant and equipment and infrastructure. Impairment, accuracy of the depreciation charge and appropriateness of asset capitalisation are identified as risks.

Property Plant and Equipment, and Infrastructure includes land, buildings and infrastructure assets, which are measured at fair value and revalued at least every 5 years in accordance with Regulation 17A(4) of the *Local Government (Financial Management) Regulations 1996*. The last revaluation was performed in the following years:

- Land and building – 2022
- Infrastructure – 2018

The Shire will engage an external expert to perform a valuation of infrastructure in the current financial year. We will obtain the external (or management) valuation report and review the main assumptions, valuation techniques and unobservable inputs used.

For other assets that will not be revalued, we will review management's assessment of carrying values of its land and buildings, to ensure that it is not materially different from their fair values.

We will review the asset capitalisation policy and its implementation to ensure that it is in accordance with *AASB116 Property, Plant and Equipment*, and Regulation 17A(5) of the *Local Government (Financial Management) Regulations 1996*. We will also:

- recalculate depreciation and review the reasonableness of the assets useful life;
- verify significant additions and disposals;
- evaluate management's assessment of impairment; and

- consider the appropriateness of the accounting treatment of costs incurred as either maintenance or capitalised as asset enhancements.

6. Provision for Landfill Site Rehabilitation

The Shire has 3 landfill sites - Mogumber, Bolgart and Calingiri. These sites are licensed under the Department of Water and Environment Regulation. Completeness and accuracy of this provision is identified as a risk.

We will consider whether there are any changes in circumstances which indicate that there is an obligation to remediate the landfill sites. If a provision is required, we will evaluate this provision by agreeing the estimated balance to the actuarial valuation. We will evaluate the appropriateness of the valuation model and the experience and qualification of the valuer. We will also evaluate judgements, assumptions and inputs used in the provision estimate, and we will ensure appropriate disclosures have been made in the annual financial report.

7. Disclosure of Related Party Transactions

The Shire has transactions with related parties which are on normal commercial terms and conditions. There is a risk that related party transactions and balances are not appropriately disclosed in the financial report in accordance with the Shire's applicable accounting policies and the relevant accounting standards.

We will address the risk of material misstatements of related party transactions and balances in the financial report as follows:

- review and determine whether the Shire's accounting policy is in line with AASB 124 *Related Party Disclosures*;
- make enquiries to understand the process for identification of related parties, review the register of related party transactions, and assess whether the disclosures made in the notes to the annual financial report are appropriate; and
- review the signed declarations from Key Management Personnel and ensure appropriate disclosures (if any) have been included in the notes to the annual financial report.

8. Joint arrangements

The Shire together with Homeswest have a joint arrangement agreement with regards to the provision of two aged persons units in Bolgart, and four aged persons units in Calingiri. The agreement represents a joint operations. We will ensure the Shire's share of income earned, expenses incurred as well as the assets and liabilities of the joint operations have been appropriately disclosed in the annual financial report.

Amendments / revisions to Australian Accounting Standards (AASB) and Local Government Legislation

Australian Accounting Standards

There were no material new and revised Australian accounting requirements that apply mandatorily for the first time to annual reporting periods ending 30 June 2023.

The following new accounting standards will apply for future years:

- AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*, effective for financials beginning on or after 1 January 2024; and
- AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of liabilities as Current or Non-Current – Deferral of Effective Date*, effective for financials beginning on or after 1 January 2024.

Management has assessed the new Australian accounting requirements for future years and have been considered to have little to no impact on the Shire's financial statements.

Local Government legislation

A second tranche of regulatory amendments to underpin the Model Financial Statements is underway which will be introduced to the local government sector and available for use. The template for smaller (band 3 and 4) local governments is expected to have more streamlined standard financial statements, reflecting the generally less complex operations of smaller local governments.

Internal Audit

We seek to rely on internal audit work to reduce our own audit work wherever possible. This avoids duplication of audit effort and the associated workload on your operational and administrative staff. Although the Shire does not have an internal audit function, they appointed Dry Kirkness to perform an internal audit on Financial Management, Risk Management, Internal Control and Legislative Compliance. The report was tabled at the 16 March 2023 Audit Committee Meeting.

Management Representation Letter

The above audit procedures assume that management expects to be in a position to sign a management representation letter. The proposed letter for this purpose is similar to what was signed in the prior year. This letter should be reviewed and tailored to meet your Shire's particular circumstances and be signed and dated as close as practicable to the date of the proposed audit opinion. Ordinarily, this would be no longer than five days prior to the issue of the opinion.

We will also be relying on the CEO signing the financial statements as evidence that they confirm:

- They have fulfilled their responsibility for the preparation of the annual financial report in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulation 1996* and Australian Accounting Standards.
- They provided us with access to all relevant information necessary or requested for the purpose of the audit
- All transactions have been recorded and are reflected in the financial report.

Prior Year Management Letter

Prior year management letter noted the following issues. We will follow up on the status of management's action to rectify these points and assess implication in the current year.

FINDINGS	RATING		
	Significant	Moderate	Minor
1. Fair value of Infrastructure Assets	✓		
2. Management of Unrestricted Funds		✓	
3. Accounts Payable Suspense Account			✓
4. Mismanagement of Legal Costs			✓
5. Depreciation Rates and Useful Lives			✓
6. Outstanding Cheque in Bank Reconciliations			✓
7. Noncompliance With Control Procedures for Grant Acquittal Reporting			✓

Related Entities

The Shire is required to advise us in writing details of all related entities that are in existence at reporting date.

Section 7.12AL of the *Local Government Act 1995* applies section 17 of the *Auditor General Act 2006* to a local government. Section 17 requires a local government to advise the Auditor General in writing of details of all related parties and entities that are in existence.

Reporting Protocols

Significant issues identified during the course of the audit will be discussed with relevant staff and management as soon as possible after being identified. Draft management letters will be provided to your CEO for coordination of comments from appropriate members of your management. We request that these be returned, preferably within 10 working days.

At the conclusion of the audit, the abovementioned management letter will accompany the auditor's report and the audited annual financial report forwarded to the President, the CEO and the Minister for Local Government. The management letter is intended to communicate issues arising from the audit that may impact on internal control, compliance, and financial reporting. Where considered appropriate, and to ensure timely reporting of audit findings and action by management, interim management letters may be issued to the CEO.

On conclusion of the audit, we propose to discuss the audit outcomes with the audit committee, CEO and Councillors.

Thereafter, as required by section 7.12AD(2) of the *Local Government Act*, we will give our auditor's report to the CEO, the President and Minister. We will also give them any management letter issues, including interim management letters.

Specific matters resulting from issues identified during the audit may be reported in an Auditor General's Report to Parliament. Should this occur, you will be consulted in advance to assure the context and facts of the issue are adequately represented.

Timing of Events

Events

Entrance Meeting

Interim Audit

Communicate interim audit issues to OAG (if any)

Final Audit Visit Commencement

First Draft of the Financial Statement

Timing

15 May 2023

22 May 2023

01 June 2023

02 October 2023

29 September 2023

Reporting to OAG:

- File Review and any final management letter issues 13 November 2023
- Exit Meeting 22 November 2023
- Issue of Opinion, Management Letter and Other Reporting Documents 29 November 2023

Acquittal / certification of:

- Road To Recovery 31 October 2023
- Local Roads and Community Infrastructure Program 31 October 2023

Shire of Victoria Plain's responsibilities

The Shire will be responsible for the following items:

- preparation of the schedules required for the audit as advised and requested by the auditors; and
- preparation of good quality financial statements and notes to the financial statements. The schedules for the notes to the financial statements must be in the form and content as prescribed in the statutory financial statements.

Other Audit Activities

The OAG has recently completed or undertaking the following audits relevant to local and state government. Through these audits, OAG aims to identify good practice and opportunities for improvement. You may therefore wish to review these reports as they may have relevance to your local government. They are available at www.audit.wa.gov.au.

- Information Systems Audit – State Government Entities 2021-22 (March 2023)
- Information Systems Audit – Local Government Entities 2021-22 (March 2023)
- Financial Audit Results – State Government 2021-22 (December 2022)
- Funding of Volunteer Emergency and Fire Services (December 2022)
- Forensic Audit Results 2022 (November 2022)
- Compliance Framework for Anti-Money Laundering and Counter-Terrorism Financing Obligations (October 2022)
- Audit Committees - Summary of Audit Committee Chair Forum (October 2022)
- Financial Audit Results – Local Government 2020-21 (August 2022)
- Information Systems Audit Report - Local Government Entities (June 2022)
- Fraud Risk Management – Better Practice Guide (June 2022)
- 2022 Transparency Report: Major Projects (June 2022)
- Information Systems Audit Report – State Entities (March 2022)
- Audit Results Report – Annual 2020-21 Financial Audits of State Government Entities Part 2: COVID-19 Impacts (May 2022)
- Covid-19 Contact Tracing System - Application Audit (May 2022)

PUBLIC ATTACHMENTS