



PUBLIC ATTACHMENTS

Audit Committee Meeting

7 November 2022

PUBLIC ATTACHMENTS

Shire of Victoria Plains
Audit Strategy Memorandum

Year Ending 30 June 2022

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Shire of Victoria Plains Audit Strategy Memorandum Year Ending 30 June 2022

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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 2022.

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.

The Audit report will include the following matters:

- Any material matters that in the opinion of the Auditor indicate significant adverse trends in the financial position of the Shire;
- Any material non-compliance with Part 6 of the Act, the *Local Government (Financial Management) Regulation 1996* or applicable financial controls in any other written law;
- Details of whether information and explanations were obtained by the Auditor;
- A report on the conduct of the audit; and
- The opinion of the auditor as to whether or not the asset consumption ratio and the asset renewal funding ratio included in the annual financial report are supported by verifiable information and reasonable assumptions.

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 following:

- key risk areas where the potential for misstatement of account balances is considered greatest; and
- information used in the computation of the ratios.

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
 - i) Update knowledge of the Shire's business
 - ii) Update understanding of the Shire's accounting process
 - iii) Perform preliminary analytical review procedures
 - iv) 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 back July 22)
OAG representative	- Jordan Langford-Smith

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, and 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*, including enquiring the type of information being provided to the external auditor for assessment as we noted in the prior year management letter that there were two instances of revenue incorrectly recognised due to incomplete information provided to the external accountant; 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, whereby it was noted in prior year management letter that 2 out of 25 samples tested were for expenses incurred without adhering to the procurement process.

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 – 2017;
- Infrastructure (road and footpaths) – 2018; and
- Infrastructure (other and bridges) – 2018.

The Shire will engage an external expert to perform a valuation of land and building in the current financial year.

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:

- obtain the external valuation report and review the main assumptions, valuation techniques and unobservable inputs used;
- 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.

9) Financial ratios

Regulation 50 of the *Local Government (Financial Management) Regulations 1996* requires the Shire to disclose seven financial ratios in the annual financial report, for the current financial year and two preceding financial years. There is a risk that the financial ratios may not be calculated correctly resulting in inaccurate results disclosed. We will:

- ensure financial ratios covered by the current audit period and the two preceding financial years will be checked and verified to supporting documents;
- report any non-compliance and where the financial ratios indicate significant adverse trends with Part 6 of the *LG Act 1995*, *LG Financial Management Regulations 1996* in the auditor's report; and
- perform recalculation of financial ratios.

10) Local Government Regulations

Regulation 10(3)(b) of the Local Government (Audit) Regulations 1996 (LG Audit Regulations) requires the auditor to report, in the auditor's report, any matters indicating non-compliance with Part 6 of the LG Act 1995, LG Financial Management Regulations 1996 or applicable financial controls in any other written law. These matters may relate to the financial report or to other financial management matters. There is a risk of breach of the Local Government Regulations.

Management is to ensure that the Shire complies with the LG Act 1995 and the LG Financial Management Regulations 1996, which we are required by the LG Act 1995 and the LG Financial Management Regulations 1996 to test for compliance.

Amendments / revisions to Australian Accounting Standards (AASB)

There were no material new and revised Australian accounting requirements that apply mandatorily for the first time to annual reporting periods ending 30 June 2022.

The following new accounting standards will apply for future years:

- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments*, effective for financials beginning on or after 1 January 2022;
- AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies or Definition of Accounting Estimates*, effective for financials beginning on or after 1 January 2023; and
- AASB 2020-1 and 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*, effective for financials beginning on or after 1 January 2023.

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.

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.

We note that although the Shire does not have an internal audit function, there are plans to appoint an external consultant to perform "Financial Management Review and Risk Management Review" during the year.

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 Chief Executive Officer (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; and
- All transactions have been recorded and are reflected in the financial report.

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

<u>Events</u>	<u>Timing</u>
Entrance Meeting	02 May 2022
Interim Audit	23 May 2022
Communicate interim audit issues to OAG (if any)	20 June 2022 (TBC)
Final Audit Visit Commencement	3 October 2022(TBC)
First Draft of the Financial Statement	Late August 2022 (TBC)
Reporting to OAG:	
- File Review and any final management letter issues	By Late October 2022 (TBC)
- Exit Meeting	November 2022 (TBC)
- Council meeting for the tabling of the financial report	November 2022 (TBC)
- Issue of Opinion, Management Letter and Other Reporting Documents	November 2022 (TBC)
Acquittal / certification of:	
- Road To Recovery	Before 31 October 2022 (TBC)
- Local Roads and Community Infrastructure Program	Before 31 October 2022 (TBC)

Shire of Victoria Plains's responsibilities

The Shire will be responsible for the following items:

- a) preparation of the schedules required for the audit as advised and requested by the auditors; and
- b) preparation of the financial statements and all 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 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.

- Viable Cycling in the Perth Area (December 2021)
- Forensic Audit Report – Establishment Phase (December 2021)
- Audit Results Report – Annual 2020-21 Financial Audits of State Government Entities (November 2021)
- Cyber Security in Local Government (November 2021)
- WA's COVID-19 Vaccine Roll-out (November 2021)
- Water Corporation: Management of Water Pipes – Follow-Up (November 2021).

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