



Annual Financial Report Audit – Planning Summary

Shire of Merredin
Year Ended 30 June 2021

15 June 2021

The Planning Summary

This Summary of our Audit Plan explains our approach to the audit of the annual financial report.

In particular, this Summary includes:

- Introduction
- Our Audit Approach
- Significant Risks and Other Audit Issues
- Audit Emphasis and Significant Account Balances
- Management Representation Letter
- Related Entities
- Reporting Protocols
- Proposed Audit Schedule
- Audit Requirements
- Your Audit Team

If there are any matters in the Summary that you would like clarified, please do not hesitate to contact us.

There may be areas where you would like us to increase the audit focus. We would be pleased to discuss these to determine the most efficient and effective approach to performing this work.

Introduction

The annual financial statement audit of your local government is one of 139 local governments and 9 regional councils that the Auditor General will perform for 2020-21. We have been contracted by the OAG to undertake this audit.

Our audit approach is designed to specifically focus audit attention on the key areas of risk you face in reporting on your finances and performance.

It is important to note that:

- Under the *Local Government Act 1995* and associated regulations, the Council and the CEO are responsible for keeping proper accounts and records, maintaining effective internal controls, preparing the annual financial report, and complying with the Local Government Act and Regulations, and other legislative requirements.
- An audit does not guarantee that every amount and disclosure in the annual financial report is error free. Also, an audit does not examine all evidence and every transaction. However, our audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the annual financial report.
- The Council and CEO are responsible for ensuring the accuracy and fair presentation of all information in its annual report, and that it is consistent with the audited annual financial report. We do not provide assurance over your annual report.
- Under the *Local Government Act 1995* and associated regulations, the Council and the CEO have responsibility for maintaining internal controls that prevent or detect fraud or error and to ensure regulatory compliance. The Audit Committee and the Auditor General should be informed by management of any fraud or material errors. During the audit we will make inquiries with management about their process for identifying and responding to the risks of fraud, including management override. It should be noted that our audit is not designed to detect fraud, however should instances of fraud come to our attention, we will report them to you.

Our audit is conducted in accordance with Australian Auditing Standards. Our aim is to provide reasonable assurance whether the annual financial report is free of material misstatement, whether due to fraud or error. We perform audit procedures to assess whether, in all material respects, the annual financial report is presented fairly in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards.

The nature of the audit is influenced by factors such as:

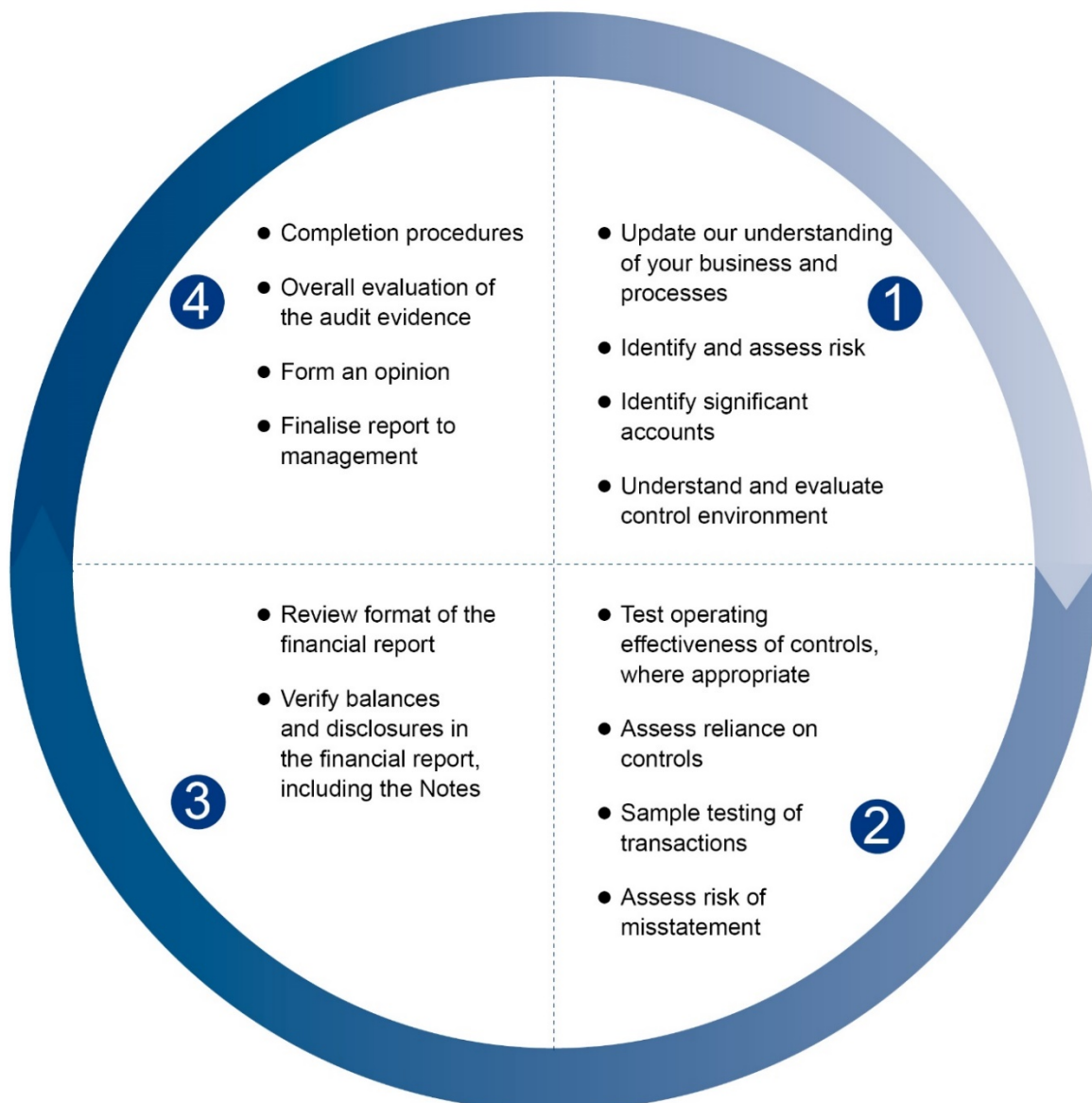
- the use of professional judgement
- selective testing
- the inherent limitations of internal controls

- the availability of persuasive rather than conclusive evidence.

As a result, an audit cannot guarantee that all material misstatements will be detected. We examine, on a test basis, information to provide evidence supporting the amounts and disclosures in the annual financial report, and assess the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by management.

Our Audit Approach

Audit Partners Australia audit approach comprises four steps:



Significant Risks and Other Audit Issues

Through discussions with your staff, we have identified the following issues and key areas of risk affecting the audit.

Details of Risk / Issue	Audit Approach
<p>Change of auditor – there are inherent risks associated with a change of auditor. The Australian Auditing Standards prescribe the audit requirements in this regard.</p>	<p>During our audit planning, we will:</p> <ul style="list-style-type: none"> • Consult with the previous auditor and review their working papers • Gain an understanding of your business and related practices and controls • Perform testing of the opening balances for 2020-21.
<p>Audit finding reported in the previous audit which included the following matter:</p> <ul style="list-style-type: none"> • Journals not independently review 	<p>We will follow-up the issue reported by the previous auditor during the 2019-20 audit.</p>
<p>Key changes to accounting standards that may impact your Shire:</p> <p><u>AASB 1059 Service Concession Arrangements – Grantors</u></p> <p>The Standard applies to service concession arrangements (Public Private Partnership arrangements) that involve an operator providing public services related to a service concession asset on behalf of a public sector grantor for a specified period of time and managing at least some of those services.</p> <p>The Standard will require the grantor to recognise a service concession asset (e.g. infrastructure, previously unrecognised intangible asset) and, in most cases, a service concession liability. The service concession liability will be accounted for, depending on the terms and conditions, under:</p> <ul style="list-style-type: none"> • the financial liability model (if the grantor pays the operator); or • the ‘grant of a right to the operator’ (GORTO) model (if the operator is not paid by the grantor but by third party users). 	<p>We will review management’s assessment of the impact of the new standards.</p>
<p>We have identified the following areas that we consider require additional focus during our 2020-21 local government audits:</p> <ul style="list-style-type: none"> • <i>Construction of retirement villages on behalf of Central East Accommodation & Care Alliance Inc (CEACA)</i> • <i>Revaluation of fixed assets</i> 	<p>We will review the accounting treatment and processes surrounding these items during the interim audit</p>

Details of Risk / Issue	Audit Approach
<ul style="list-style-type: none"> • <i>Joint arrangements</i> • <i>Development costs</i> • <i>Related party disclosures</i> • <i>Landfill Rehabilitation</i> • <i>Unauthorised Expenditure</i> 	
<p>The following annual financial report items are derived from accounting estimates and hence will receive specific audit attention:</p> <ul style="list-style-type: none"> • Provision for annual and long service leave • Fair value of assets • Impairment of assets 	<p>We will review the method and underlying data that management and where applicable third parties use when determining critical accounting estimates in accordance with the revised <i>ASA 540 Auditing Accounting Estimates and Related Disclosure</i>. This will include considering the reasonableness of assumptions and corroborating representations.</p>
<p>Important changes in management or the control environment</p>	<p>We will review any relevant changes to management roles and related delegations to confirm that no temporary or ongoing control gaps have occurred.</p>
<p>Casual employees entitlement to long service leave under the <i>Long Service Leave Act 1958</i></p> <p>Long service leave is a paid leave entitlement for employees who have worked continuously in a business for a specified period of time. Full time, part time and casual employees are entitled to long service leave.</p>	<p>We will review whether the Shire has provided for long service leave for casual employees in accordance with the Act.</p>

Audit Emphasis and Significant Account Balances

Our audit approach involves assessing your overall control environment and understanding key business processes/cycles and internal controls relevant to the audit.

As this is our first year as auditor, we will need to test key controls for all significant business cycles. The level of testing will be dependent on our assessment of the risk in each business cycle. We plan to cover the following cycles:

- Revenue
- Expenditure
- Payroll
- Cash and Bank
- Property, Plant, Equipment, and Infrastructure

The extent of our reliance on controls, together with the materiality level, determines the nature and extent of our audit procedures to verify individual account balances.

Our audit will be into two components, the interim audit and the final audit.

The interim audit includes:

- understanding your current business practices

- understanding the control environment, and evaluating the design and implementation of key controls and, where appropriate, whether they are operating effectively. Review of relevant policies and procedures.
- testing transactions to confirm the accuracy and completeness of processing accounting transactions
- clarifying significant accounting issues before the annual financial report is prepared for audit.
- Review of council minutes, monthly financial statement

The final audit focuses on verifying the annual financial report and associated notes, and includes:

- verifying material account balances using a combination of substantive analytical procedures, tests of details, substantiation to subsidiary records, and confirmation with external parties
- reviewing the annual financial report and notes for compliance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996*, and Australian Accounting Standards.

The table below lists those items in the Statement of Financial Position and the Statement of Comprehensive Income that are significant account balances and our planned audit approach for these balances. When selecting significant account balances, we consider materiality, the nature of the balance, inherent risk, and the sensitivity of disclosures.

Significant Account	2020 Draft Financial Report Balance \$'000	Audit Approach
Statement of Financial Position		
Cash and cash equivalents	9,120	<ul style="list-style-type: none"> • Review internal controls and reconciliations • Verify year end balance through bank confirmations • Analytical review
Receivables	716	<ul style="list-style-type: none"> • Year end cut-off testing • Review subsequent receipts • Review provision for doubtful debts in accordance with AASB 9 requirements • Analytical review
Other financial assets	327	<ul style="list-style-type: none"> • Agree the loan balances to repayment schedules
Inventories	487	<ul style="list-style-type: none"> • Land held for resale - Assess whether carrying amounts are valued at lower of cost and net realisable value
Property, plant, equipment and infrastructure	215,730	<ul style="list-style-type: none"> • Review key processes/controls • Verify asset additions and disposals • Assess assets for impairment

Significant Account	2020 Draft Financial Report Balance \$'000	Audit Approach
		<ul style="list-style-type: none"> • Test items posted to construction in progress to assess appropriateness of expenses being capitalised • Assess whether carrying amounts approximate fair value • Where relevant, confirm balances to independent valuation reports
Payables	462	<ul style="list-style-type: none"> • Review of key processes/controls • Test for unrecorded liabilities • Year-end cut off testing • Analytical review
Capital grant liabilities	697	<ul style="list-style-type: none"> • Review of Grant Contracts • Testing of the calculation to ensure it's in accordance with AASB 15 • Analytical Review
Borrowings	849	<ul style="list-style-type: none"> • Agree amounts to WATC confirmation
Provisions	537	<ul style="list-style-type: none"> • Review the reasonableness of assumptions and calculations • Agree amounts to actuary/expert's report (if applicable) • Analytical review
Statement of Comprehensive Income		
Rates	4,290	<ul style="list-style-type: none"> • Review of key processes and controls • Sample testing of transactions • Analytical review
Fees and charges	1,035	<ul style="list-style-type: none"> • Review of key processes and controls • Analytical review • Year end cut off testing • Assess for compliance with AASB 15 and 1058
Other revenue	7,035	<ul style="list-style-type: none"> • Review of key processes/controls • Sample testing of transactions • Analytical review • Confirmation to external sources for Grants where possible. • Assess for compliance with AASB 15 and 1058

Significant Account	2020 Draft Financial Report Balance \$'000	Audit Approach
Employee related expenses	3,169	<ul style="list-style-type: none"> Review of key processes and controls Sample testing of transactions Analytical review
Materials and contracts	2,598	<ul style="list-style-type: none"> Review of key processes/controls Sample testing of transactions Analytical review
Depreciation and amortisation	3,860	<ul style="list-style-type: none"> Review of management's assessment of the useful lives of assets and assess reasonableness. Analytical review
Other expenses	820	<ul style="list-style-type: none"> Review of key processes/controls Sample testing of transactions Analytical review

Management Representation Letter

The above audit procedures assume that management expects to be in a position to sign a management representation letter. This letter will be provided to you in due course and should be reviewed and tailored to meet your local government's particular circumstances. It is to be signed and dated by the CEO and Executive Manager Corporate Services as close as practicable to the date of the proposed auditor's report. Ordinarily, this would be no longer than five working days prior to the issue of the auditor's report.

Please bring to the attention of the President that we will also be relying on the signed Statement by CEO in the annual financial report 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) Regulations 1996* and Australian Accounting Standards
- they have provided us with all relevant information necessary or requested for the purpose of the audit
- all transactions have been recorded and are reflected in the annual financial report.

Related Entities

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 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 Executive Manager Corporate Services (or other nominated representative) for coordination of comments from appropriate members of your management. We request that these be returned quickly, 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.

After the audit, we propose to discuss the audit outcomes with the audit committee.

Thereafter, as required by section 7.12AD(2) of the *Local Government Amendment (Auditing) Act 2017* 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.

Proposed Audit Schedule

Key Timeline	Date
Interim Audit Visit	21 – 22 June 2021
Final Audit Visit	Week beginning 18 October 2021
Interim Management Letter – Post OAG Review	By 31 July 2021
Final Trial Balance	27 September 2021
Receipt of Annual Financial Report	27 September 2021
OAG File Review	19 November 2021
Exit Meeting – Audit Committee	30 November / 15 December 2021
APA to provide the signed APA Audit Report, stamped Financial Report, signed SRM, final Management Letter and signed Representation Letter to OAG	Within 1 working day of Exit Meeting
OAG to issue signed audit report and final Management Letter to the Shire	Within 5 working days of Exit Meeting

Audit Evidence

We will discuss our requirements with your staff to facilitate a timely, efficient and effective audit. We will formally agree our information requirements and timeframes for the final audit with your Executive Manager Corporate Services using our Information Listing. This Listing is intended to help your staff to have various documents readily available when we perform our audit. Please note however, that in several instances, particularly during our audit sampling at the interim visits, audit staff will need to retrieve some evidence themselves, rather than being given the evidence by your staff. This is essential for an independent audit.

Your Audit Team

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