



**ANNUAL AUDIT
COMPLETION REPORT**

**SHIRE OF MERREDIN
30 JUNE 2020**

Real People.
Better **Business**

Introduction

From our Partner

The Shire of Merredin for the year ending 30 June 2020.

We would like to take this opportunity to thank the management team for their assistance during the audit process. If you have any queries on the report, please feel free to contact Robert Hall or myself.



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EXECUTIVE SUMMARY






- ✔ Butler Settineri (Audit) Pty Ltd was appointed as the contract auditor by the Office of the Auditor General for the year ended 30 June 2020.
- ✔ Butler Settineri (Audit) Pty Ltd has completed the external statutory audit for the year ended 30 June 2020 as contract auditor on behalf of the Office of the Auditor General.
- ✔ Unresolved issues from the prior year have been re-raised in the final management letter
- ✔ Our findings are included in this report.
- ✔ We intend to recommend to the Auditor General to issue an unqualified audit opinion in relation to the financial statements.
- ✔ There are no outstanding matters.






INDEPENDENCE

We are independent of the Shire in accordance with the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants.

Threats to independence include the following:

-  SELF INTEREST THREATS
-  SELF REVIEW THREATS
-  ADVOCACY THREATS
-  FAMILIARITY THREATS
-  INTIMIDATION THREATS

What we do to remain independent:

-  All team members sign an independence declaration at the commencement of the audit;
-  We monitor our individual independence throughout the audit;
-  All team members sign off an independence declaration at the completion of the audit.

COMPLIANCE WITH LAWS & REGULATIONS & FRAUD

Laws and Regulations applicable to the Shire include the following:

- ✔ Local Government Act 1995;
- ✔ Local Government (Financial Management) Regulations 1996;
- ✔ Local Government (Audit) Regulations 1996;
- ✔ Australian Tax Office (GST / FBT / PAYG) Compliance;
- ✔ Compliance with conditions of program funding arrangements.

During the audit process there have been:

- ✔ No issues found in relation to the above Laws and Regulations.
- ✔ Non-compliance issues have been reported in the audit report where applicable and are detailed on page 11 of this document.
- ✔ No findings or indications of suspected fraud.

As far as the external audit relates to the matters noted above.

Key Audit
Matters and
Audit
Outcomes



During the planning phase of the audit, we identified the following issues and key areas of audit risk.

Details of Risk / Issue	Audit Approach
Audit findings reported in the previous audit <ul style="list-style-type: none"> • One significant issue • Five moderate issues 	We followed up on last year's audit issues during the audit. All issues were resolved except for one issue <i>Journals not independently reviewed</i> .
Changes to accounting standards: <ul style="list-style-type: none"> • AASB 15 Revenue from Contracts with Customers • AASB 16 Leases • AASB 1058 Income of Not-for Profit Entities 	We reviewed management's assessment of the impact of these accounting standards on the financial statements. The Shire has correctly adopted the new accounting standards at the effective date 1 July 2019. The modified retrospective approach has been correctly applied whereby comparative figures in the financial statements have not been restated.
Changes to <i>Local Government (Financial Management) Regulations</i> that have been signalled by the Department of Local Government, Sport and Cultural Industries (DLGSCI): <ul style="list-style-type: none"> • Regulation 16 deleted • Regulation 17A amended 	We assessed management's implementation of the changes to regulations and the effect on the financial report. The Shire has correctly applied the change in regulations as a change in accounting policy at the effective date 1 July 2019. The modified retrospective approach has been applied correctly whereby comparative figures in the financial statements have not been restated.
We have identified the following areas that we consider require additional focus during our 2019-20 local government audits: <ul style="list-style-type: none"> • Related party disclosures • Revenue recognition • Revaluation of Plant & Equipment • Unauthorised expenditure • Unrecorded liabilities and expenses • Fictitious employees 	We reviewed the related audit evidence as part of our audit testing and confirmed that appropriate disclosures have been made in the financial statements.

Details of Risk / Issue	Audit Approach
<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 • Impairment of assets 	<p>We reviewed the methodology and underlying data that management used when determining critical accounting estimates. We confirmed the reasonableness of the assumptions and corroborating representations.</p>
<p>Important changes in management or the control environment</p>	<p>There were no changes in management or the control environment during the year under review.</p>

SIGNIFICANT AUDIT FOCUS

- ▀ New AASB 15 & 1058 Revenue from Contracts with Customers and Income for Not-For-Profit Entities

Policy updated and implemented.

- ▀ New AASB 16 Leases

Policy updated and implemented.

- ▀ Amended Local Government (Financial Management) Regulations 1996

Policies updated and implemented in the 2019-20 year to comply with:

- *Regulation 17A – plant & equipment measured under the cost model*
- *Regulation 16 deleted as covered by AASB 16 Leases.*

- ▀ CEACA Inc Housing Project

The Shire of Merredin entered into a funding agreement with the Department of Regional Development (DRD) in June 2017 on behalf of CEACA Inc. whereby the DRD made available funds to the Shire to be utilised by the Shire to prepare 21 lots for construction of 75 independent living units across 11 Shires (Bruce Rock, Kellerberrin, Koorda, Merredin, Mt Marshall, Mukinbudin, Nungarin, Trayning, Westonia, Wyalkatchem and Yilgarn) in the eastern Wheatbelt.

All 11 shires are members of CEACA Inc. (in equal voting capacity per the Constitution) and nominated the Shire of Merredin to enter into the agreement with the DRD on it's behalf and also administer and account for the funds & costs of the project as WIP asset until such time as the project is completed.

AUDIT MISSTATEMENTS

- There were no uncorrected misstatements.

AUDIT FINDINGS

▀ *Per the Interim Management Letter:*

No interim management letter issued

▀ *Per the Final Management Letter:*

Issue outstanding from prior year

1. Journals not independently reviewed (rating: significant)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS IN THE AUDITOR'S REPORT

The following material matters indicate significant adverse trends in the financial position of the Shire:

- a) The Operating Surplus Ratio as reported in Note 28 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries' standard for the last three financial years.

The following material matters indicating 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 were identified during the course of our audit:

Accounting journal entries were posted by one employee, with no evidence of review by second employee. Accounting journals can represent significant adjustments to previously approved accounting transactions and should therefore be appropriately reviewed and approved.

Key Changes for next year

Changes in regulations

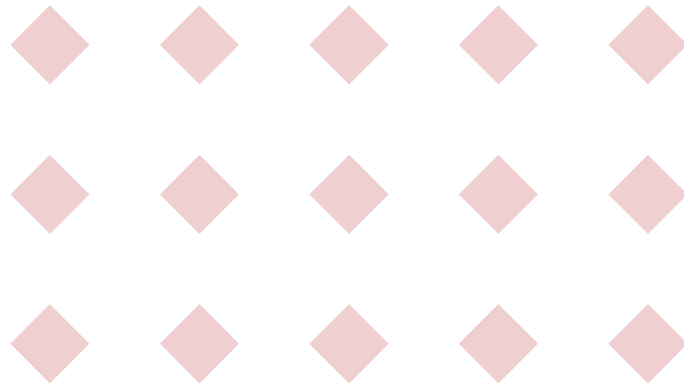
- None anticipated.

Accounting Issues for 2021

- AASB 1059 Service Concession Arrangements: Grantors

THANK YOU

We would like to take this opportunity to once again thank the management team for their assistance during the audit process, in particular we would like to thank Mark Dacombe, Geoff Garside and the finance team for their support.





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