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DRY / KIRKNESS

# Annual Audit Completion Report

Accounting  
Business Advisory  
Audit Services



Office of the Auditor General  
Serving the Public Interest



DRY / KIRKNESS

# Shire of Merredin

30 June 2023

Accounting  
Business Advisory  
Audit Services

**OAG**  
Office of the Auditor General  
Serving the Public Interest

# Introduction

## FROM OUR ENGAGEMENT PARTNER

Shire of Merredin for the year ended 30 June 2023

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 me.



## MARIUS VAN DER MERWE DIRECTOR

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# Executive Summary

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- + Butler Settineri (Audit) Pty Ltd was appointed as the contract auditor by the Office of the Auditor General for the years ended 30 June 2022, 2023 and ending 2024 and have changed names to Dry Kirkness (Audit) Pty Ltd on 1 July 2022.
- + Dry Kirkness (Audit) Pty Ltd has completed the external statutory audit for the year ended 30 June 2023 as contract auditor on behalf of the Office of the Auditor General.
- + No unresolved issues.
- + 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.
- + We noted that your certified draft financial report was provided on 29 Sept 2023 and was audit ready. This detail will be included in the OAG's Local Government results report to be tabled in Parliament. Audit ready means having full and complete financial statements (including disclosure notes).

# Independence

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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

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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:

- + Non-compliance issues reported in the audit findings where applicable.
- + 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
<p>Audit findings reported in the previous audit.</p> <ul style="list-style-type: none"> <li>• Bank Reconciliation</li> <li>• Review of Risk Management Systems and Procedures</li> <li>• End-of-Day reconciliation</li> <li>• Money Processed through the Trust Bank Account</li> <li>• Fixed Assets Registered not reconciling to Accounting Records</li> <li>• Fair Value of Infrastructure Assets - Frequency of Valuations</li> <li>• Compliance with Procurement Practices</li> <li>• Payroll Practices</li> <li>• Risk Register</li> <li>• Audit Committee Terms of Reference</li> <li>• Purchasing Policy</li> <li>• Asset Management Policy</li> <li>• Rates Reconciliation</li> <li>• Changes to Employee Master File</li> </ul>	<p>We followed up on last year’s audit issues during the audit. All issues from last year’s audit were resolved during the year.</p>
<p>Potential changes to Local Government (Financial Management) Regulations 1996 that have been signalled by the Department of Local Government, Sport and Cultural Industries (DLGSCI):</p> <ul style="list-style-type: none"> <li>• New standardised templates are expected to be established for local government financial statements for 2022-23. 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.</li> </ul>	<p>Upon communication of changes to the Local Government (Financial Management) Regulations 1996 by DLGSCI for 2022-23, we ensured management has used the appropriate Model Financial Statements for 2022-23 which has reduced financial reporting requirements. We are satisfied that the financial report has been disclosed appropriately.</p>



We have identified the following areas that we consider require additional focus during our 2022-23 local government audits:

- Revenue recognition, including contract liabilities
- Unauthorised expenditure
- Unrecorded liabilities and expenses
- Fictitious employees
- Revaluation of Infrastructure assets (last revalued in 2017-18)
- Related party disclosures
- Joint arrangement disclosures
- Contingent liabilities disclosures
- Restricted reserve accounts

We reviewed the accounting treatment and disclosure processes during our interim and final audits. We also ensured the disclosures in the annual financial report are appropriate, and have complied with the requirements of the Australian accounting standards.

For asset revaluation, we obtained the external valuation report and reviewed the appropriateness of the main assumptions, valuation techniques and unobservable inputs used. We also reviewed the fair value assessment performed by management for assets that were not revalued in 2022-23. We are satisfied that the Shire's assets have been reflected appropriately at fair value at 30 June 2023.

For related party disclosures, we made enquiries to understand the process for identification of related parties, reviewed the signed related party transaction declarations from key management personnel (both current and departed), and confirmed that the disclosures made in the notes to the annual financial report are appropriate.

For contingent liabilities disclosures, the Shire has listed one site to be possible sources of contamination, which has been disclosed as a contingent liability on the financial report. We enquired with management for any other contingent liabilities existing at reporting date, and we are satisfied with the contingent liability disclosure in the financial report.

For restricted reserve accounts, we reviewed the movements within the restricted reserve accounts, and ensured that transfers out are used in accordance with the intended purpose of the respective reserve from our testing.

<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"> <li>• Fair value of PPE and Infrastructure <ul style="list-style-type: none"> <li>o PPE last revalued in 2021-22</li> <li>o Infrastructure last revalued in 2017-18</li> </ul> </li> <li>• Impairment of assets</li> <li>• Provision for annual and long service leave</li> <li>• Provision for rehabilitation of waste disposal sites (if any, at year end)</li> </ul>	<p>We reviewed the method and underlying data that management use when determining critical accounting estimates. We are satisfied the accounting estimates and assumptions used are reasonable.</p>
<p>IT Environment &amp; Controls</p> <p>ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement</i> is a new Australian auditing standard that impacted your Shire for the first time this year. ASA 315 requires the auditor to obtain an understanding of the IT environment and system of controls at the application level, which support the preparation of the financial report, as part of risk identification and assessment.</p>	<p>We have addressed the requirements of ASA 315. We issued our IT Checklist to the Shire and reviewed their responses to ensure the Shire's information system is relevant to the preparation of the financial report. We also identified IT controls which address significant risks of material misstatement in the IT environment such as controls over Journal Entries and tested those controls. We are satisfied that we did not identify any significant vulnerabilities at the application level that impacted on the preparation of financial report.</p>
<p>Important changes in management or the control environment</p>	<p>None during the financial year. We noted that Leah Boehme was appointed as Executive Manager Corporate Services in August 2022.</p>

# Audit Misstatements

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There were no unadjusted misstatements clause the as a result of the audit.

# Audit Findings

Per the Interim Management Letter:

Index of findings	Potential impact on audit opinion	Rating			Prior year finding
		Significant	Moderate	Minor	
1. Approval of payment greater than limits set by Delegation of Authority	N			✓	

Per the Final Management Letter:

Index of findings	Potential impact on audit opinion	Rating			Prior year finding
		Significant	Moderate	Minor	
2. IT Governance, Policies and Procedures	No		✓		
3. Disaster Recovery Plan Testing	No		✓		
4. Network Access Management	No		✓		
5. Lack of Cybersecurity Training	No		✓		

# Key Changes For Next Year

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## Changes in LG regulations

- + An update on recent changes to the Local Government Act and Regulations, as part of the Local Government Reform, is available on the DLGSCI website ([Local government reform | DLGSC](#)).

One of the changes that impact the 2023-24 financial reporting included changes to the *Local Government (Financial Management) Regulations 1996*, where Regulation 17A has been amended to require local governments to revalue their land, buildings and infrastructure assets every 5 years from the asset's last valuation date. The change removed the previous requirement for local governments to revalue their assets whenever the local government is of the opinion that the fair value of the asset is likely to be materially different from its carrying amount.

## Accounting Issues for 2023

- + *Changes to Local Government (Financial Management) Regulations affected after 30 June 2023 no longer require a fair value assessment of PPE and Infrastructure assets at each reporting date.*
- + We are not aware of any new Australian Accounting Standards (AAS) or significant changes to existing AAS that will impact 2023-24. If we are aware of any new updates down the line, we will communicate them with you.

# Thank You

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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 Leah Boehme and the finance team for their support.







Accounting  
Business Advisory  
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