

D

K



DRY / **KIRKNESS**

Audit Planning Summary for the year
ended 30 June 2024

Shire of Merredin

Accounting / Audit & Assurance /
Bookkeeping / Self-Managed
Superannuation Funds

Contents

The Planning Summary	3
Introduction	4
Our Audit Approach	7
Business Operations.....	9
Significant Risks And Audit Focus Areas.....	9
Audit Emphasis And Significant Account Balances	12
Compliance With Laws And Regulations.....	13
Going Concern	13
Accounting Policies	13
Internal Audit	13
Management Representation Letter	13
Related Parties	14
Reporting Protocols	14
Specific Audit Requirements	15
Your Audit Team	15
Proposed Audit Schedule	15
Other Audit Activities.....	17

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:

1. Introduction
2. Our Audit Approach
3. Business Operations
4. Significant Risks and Audit Focus Areas
5. Audit Emphasis and Significant Account Balances
6. Compliance with Laws and Regulations
7. Going Concern
8. Accounting Policies
9. Internal Audit
10. Management Representation Letter
11. Related Parties
12. Reporting Protocols
13. Specific Audit Requirements
14. Your Audit Team
15. Proposed Audit Schedule
16. Other Audit Activities

If there are any matters in the Planning 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

Auditor General

Following proclamation of the Local Government Amendment (Auditing) Act 2017, the Auditor General is responsible for the annual financial report audit of Western Australian Local Governments.

The Act allows the Auditor General to appoint contract audit firms to carry out the audit on their behalf.

Contractor Appointment – Dry Kirkness (Audit) Pty Ltd ("DK")

DK has been contracted by the Auditor General to perform the Shire of Merredin's financial report audit on the Auditor General's behalf for the year ending 30 June 2024.

Our audit procedures will be conducted under the direction of the Auditor General, who will retain responsibility for forming the audit opinion and issuing the audit report to the Shire of Merredin.

DK is required to report any matter to the Auditor General, which may affect the Auditor General's responsibilities under the Auditor General Act 2006.

Responsibility of the Council and the CEO

It is important to note that:

1. 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.
2. 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 and Risk Committee and the Auditor General should be informed by management of any fraud or material errors. During the audit we will make enquiries of 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.
3. 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 statements. We do not provide assurance over your annual report.
4. 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.

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.

Conflicts of Interest

We confirm we have completed our independence evaluation and are satisfied we do not have any actual or perceived conflicts of interest in completing the annual audit of the Shire of Merredin on behalf of the Auditor General.

Audit Approach

DK's approach is designed to:

- Focus on key risks and financial areas
- Add value to your business by providing constructive ideas for improving internal controls and on-going business systems.

The partner-led assurance service team is committed to meeting specific business needs by:

- Working closely with you to get to know the business whilst maintaining independence
- Using the latest computerised systems and audit techniques
- Conducting an in-depth review of financial records to enable identification of key areas where additional support and attention will improve the business.

The audit will meet the statutory requirements under the *Local Government Act 1995* and *Regulations* and will be carried out in accordance with the Australian Auditing Standards.

We will carry out such work as is necessary to form an opinion as to whether the annual financial report of the Council is:

- i) based on proper accounts and records
- ii) presents fairly, in all material respects, the results of the operations of the Council for the year ended 30 June 2024 and its financial position at the end of that period
- iii) in accordance with the Local Government Act 1995 (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

The attendance of at least one meeting per year of the Council's audit and risk committee by a member of our audit team will be carried out if required.

The audit team will visit the Council's offices during each stage of the audit and the engagement partner will be available for subsequent meetings at the Council's request.

OUR AUDIT APPROACH

Our audit approach comprises the following steps:

01	Pre-engagement activities	<ul style="list-style-type: none"> + Legislative requirements of independence
02	Risk assessment procedures	<ul style="list-style-type: none"> + Discussions with the management team and members of the audit and risk management committee + Review of key accounting systems and operations + Understand and evaluate control environment + Identify and assess risk + Identify significant accounts + Develop procedures to address risk and significant accounts
03	Audit procedures	<ul style="list-style-type: none"> + Assess reliance on controls + Perform tests of control, analytical review procedures and tests of detail at transaction level
04	Completion and review	<ul style="list-style-type: none"> + Completion procedures + Evaluation of audit evidence + Review format of the financial report + Verify balances and disclosures in the financial report, including the notes
05	Reporting and communication	<ul style="list-style-type: none"> + Form an opinion and provide opinion to OAG + Report to management and OAG + OAG issue their opinion

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

The level of testing will be dependent on our assessment of the risk in each business cycle.

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 split into two components as follows:

Interim audit

This includes:

1. Updating our understanding of your current business practices and IT systems.
2. Updating our understanding of the control environment and evaluating the design and implementation of key controls and, where appropriate, whether they are operating effectively.
3. Testing transactions to confirm the accuracy and completeness of processing accounting transactions, namely rates and grant revenue, expenditure and payroll.
4. Clarifying significant accounting issues before the annual financial report is prepared for audit.

Final audit

This focuses on verifying the annual financial statements and associated notes, and includes:

1. Verifying material account balances using a combination of substantive analytical procedures, tests of details, substantiation to subsidiary records and confirmation with external parties
2. 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.

BUSINESS OPERATIONS

The Shire of Merredin includes the towns of Hines Hill, Burracoppin, South Burracoppin, Goomarin, Korbelt, Merredin, Muntadgin, Nangeenan, Nokanning, Tangedin, Nukarni and Norpa. It is situated approximately 260 kilometres east of Perth (the capital city of Western Australia) and is the major commercial and retail centre for the eastern Wheatbelt.

The Shire encompasses an area of 3,296 km² and is home to a population of approximately 3,000 permanent residents.

Merredin is also a regional base for a range of Government agencies and services. It is an area with high employment and extensive community involvement.

Located on the Great Eastern Highway and having the benefit of railway facilities (Merredin is serviced daily by the TransWA Prospector train) it is convenient to find by road and rail.

From the proposed 2023/24 budget, we highlighted the following;

- Positive increase in the net result for the period from a \$519k deficit in 2022/23 to a \$822k surplus.
- Most substantial change to the budget and the reason for the increase in capital grants, subsidies and contributions from \$2.545 million to \$8.672 million.
- Also noted an increase in expenses, with the rise in materials and contracts from \$3.2 million to \$3.9 million being the largest contributor to this shift.

The Shire uses Synergy Soft accounting system. Our primary contacts at the Shire are Leah Boehme (EMCS)Lisa Davis (MCS).

SIGNIFICANT RISKS AND AUDIT FOCUS AREAS

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>Audit findings reported in the previous audit.</p> <ul style="list-style-type: none"> • Payments made above the delegated authorised limit • IT Governance, Policies and Procedures • Disaster Recovery Plan Testing • Network Access Management • Lack of Cybersecurity Training 	<p>We will follow up on the resolution of issues reported in last year's audit.</p>
<p>We have identified the following areas that we consider require additional focus during our 2023-24 local government audits:</p> <ul style="list-style-type: none"> • Revenue recognition, including contract liabilities • Unauthorised expenditure • Unrecorded liabilities and expenses • Fictitious employees • Related party disclosures • Joint arrangement disclosures • Contingent liabilities disclosures 	<p>We will review the accounting treatment and disclosure processes during our interim and final audits. We will ensure the disclosures in the annual financial report are appropriate and comply with the requirements of the Australian accounting standards.</p> <p>For related party disclosures, we will make enquiries to understand the process for identification of related parties, review the signed related party transaction declarations from key management personnel (both current and</p>

Details of Risk / Issue	Audit Approach
<ul style="list-style-type: none"> • Restricted reserve accounts • IT Environment and Controls 	<p>departed), and assess whether the disclosures made in the notes to the annual financial report are appropriate.</p> <p>For joint arrangement disclosures, we will review if there are any new joint arrangements entered into during the year and assess their disclosures in the annual financial report.</p> <p>For contingent liabilities disclosures, we will enquire with management for any contingent liabilities existing at reporting date and ensure appropriate disclosure in the annual financial report for identified contingent liabilities.</p> <p>For restricted reserve accounts, we will review the movements within the restricted reserve accounts, ensure that transfers out are used in accordance with the intended purpose of the respective reserve and agree to adequate supporting documents.</p> <p>ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement</i> includes obtaining an understanding of the IT environment and system controls that support the preparation of the financial report. In accordance with ASA 315, we will issue our revised IT Checklist to the Shire and review their responses In respect of any changes since the prior year, to ensure the Shire's information system remains relevant to the preparation of the financial report. We will also identify IT controls which address significant risks of material misstatement in the IT environment, such as controls over journal entries, and test the IT controls to ensure that they are operating effectively.</p>
<p>The following annual financial report items are derived from accounting estimates and will receive specific audit attention:</p> <ul style="list-style-type: none"> • Fair value of PPE and Infrastructure <ul style="list-style-type: none"> ○ Land and Buildings (last revalued 2021/22) ○ Infrastructure assets (last revalued in 2022/23) • Impairment of assets • Provision for annual and long service leave • Provision for rehabilitation of waste disposal sites (if any, at year end) 	<p>We will review the method and underlying data that management and, where applicable, third parties use when determining critical accounting estimates. This will include considering the reasonableness of assumptions and corroborating representations.</p>
<p>Important changes in management or the control environment</p>	<p>We note that Lisa Clack has resigned as CEO and that John Merrick has been appointed as temporary CEO.</p>

AUDIT EMPHASIS ON SIGNIFICANT ACCOUNT BALANCES

The table below lists those items in the Statement of Financial Position and the Statement of Comprehensive Income that are significant 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	Audit Approach
Cash and cash equivalents	<ul style="list-style-type: none"> Review internal controls and reconciliations Verify year-end balance through bank confirmations Analytical review Assess appropriateness of classification between unrestricted and restricted cash balances
Receivables	<ul style="list-style-type: none"> Year-end cut-off testing Review subsequent receipts Review provision for doubtful debts Analytical review
Financial assets	<ul style="list-style-type: none"> Verify assets to third party documentation Assess accounting treatment in line with accounting policies Assess assets for impairment
Inventory	<ul style="list-style-type: none"> Verify year end balances to supporting documentation Assess accounting treatment in line with accounting policies
Property, plant, equipment and infrastructure	<ul style="list-style-type: none"> Review key processes/controls Verify asset additions and disposals Assess assets for impairment Test items posted to construction in progress to assess appropriateness of expenses being capitalised Where relevant, confirm balances to independent valuation reports
Payables	<ul style="list-style-type: none"> Review of key processes/controls Test for unrecorded liabilities Year-end cut off testing
Contract liabilities	<ul style="list-style-type: none"> Review of key processes and controls Analytical review Sample testing of transactions
Provisions	<ul style="list-style-type: none"> Review the reasonableness of assumptions and calculations Agree amounts to actuary/expert's report Analytical review
Borrowings	<ul style="list-style-type: none"> Verification of year end balances to supporting documents
Rates	<ul style="list-style-type: none"> Review of key processes and controls Analytical review

Significant Account	Audit Approach
	<ul style="list-style-type: none"> • Sample testing of transactions
Grants, subsidies & contributions	<ul style="list-style-type: none"> • Review of key processes and controls • Analytical review • Sample testing of transactions
Fees and charges	<ul style="list-style-type: none"> • Review of key processes and controls • Analytical review • Year-end cut-off testing
Interest received	<ul style="list-style-type: none"> • Analytical review
Other revenue	<ul style="list-style-type: none"> • Analytical review • Sample testing of transactions
Employee related expenses	<ul style="list-style-type: none"> • Review of key processes and controls • Sample testing of transactions • Analytical review
Materials and contracts	<ul style="list-style-type: none"> • Review of key processes and controls • Sample testing of transactions • Analytical review
Utility charges	<ul style="list-style-type: none"> • Review of key processes and controls • Sample testing of transactions • Analytical review
Depreciation and amortisation	<ul style="list-style-type: none"> • Review of management’s assessment of the useful lives of assets and assess reasonableness. • Analytical review
Interest expenses	<ul style="list-style-type: none"> • Review of management’s assessment of the useful lives of assets and assess reasonableness • Analytical review
Insurance expenses	<ul style="list-style-type: none"> • Review of key processes/controls • Sample testing of transactions • Analytical review
Other expenses	<ul style="list-style-type: none"> • Review of key processes/controls • Sample testing of transactions • Analytical review

COMPLIANCE

Management is to ensure the entity complies with the Local Government Act 1995 (as amended), and the Local Government (Financial Management) Regulations 1996 (as amended).

We are required by the Local Government Act 1995 and Local Government (Audit) Regulations 1996 to test compliance with the Act and Regulation.

GOING CONCERN

Auditing Standard ASA 570 *Going Concern* requires that we consider the appropriateness of the going concern assumption at the planning stage.

The Council, being a form of local government is backed by the State Government; hence going concern assumption is deemed reasonable.

Based on the 2023/24 Annual Budget, the Council is expecting a net surplus of \$822,803. We further note that as at 30 June 2023, the Council had a net current asset position of \$10,847,490 of which \$8,264,643 related to restricted cash reserves and \$ 3,953,952 related to unrestricted cash reserves with further non-current liabilities of \$422,968.

The Council's current liabilities are less than its unrestricted cash holdings. Hence it is reasonable to expect that the Council is able to pay off its liabilities when they become due and payable.

Hence, the going concern basis of accounting is considered appropriate at planning stage.

ACCOUNTING POLICIES

The Council appears to be adopting all the recognition and measurement requirements of the applicable Australian Accounting Standards.

We do not anticipate any significant changes from new accounting standards during the year.

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.

This year, no reliance is planned to be placed on internal audits as the Council does not have an internal audit function and no internal audits are conducted.

MANAGEMENT REPRESENTATION LETTER

Our audit procedures assume that management expects to be in a position to sign a management representation letter.

This letter should be reviewed and tailored to meet your Council's particular circumstances and be signed and dated by the CEO and Deputy CEO 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 that:

- 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 PARTIES

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 (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.

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 1995*, we will give our auditor's report to the CEO, the President and the 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 the 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.

SPECIFIC AUDIT REQUIREMENTS

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 audit with your CEO and by using 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.

We also refer you to the various Better Practice guides, which are available on the OAG website.

YOUR AUDIT TEAM

	Name	Contact
OAG Representative	Ann Ang	(08) 6557 7509 Ann.Ang@audit.wa.gov.au
Dry Kirkness Director	Robert Hall	(08) 9480 2907 roberth@drykirkness.com.au
Dry Kirkness Manager	Eoin Condon	(08) 9480 2950 Eoin@drykirkness.com.au
Dry Kirkness Auditor	Hrithik Shreewastav	(08) 9480 2914 hrithik@drykirkness.com.au

Robert Hall will be your primary contact and will communicate progress and any emerging issues to you.

See attached team profiles.

PROPOSED AUDIT SCHEDULE

See attached Audit Timetable.

OTHER AUDIT ACTIVITIES

The OAG recently tabled the following reports in Parliament, which are available at www.audit.wa.gov.au along with details of other audits that are currently being performed. In reporting, the OAG aims to identify good practice and opportunities for improvement. You may wish to review these reports as they may have relevance to your local government.

A summary of relevant reports issued from June 20223 are listed below:

- Audit Readiness- Better Practice Guide (June 2023)
- Requisitioning of COVID-19 Hotels (August 2023)
- Electricity Generation and Retail Corporation (Synergy) (August 2023)
- Financial Audit Results- Local Government 2021-22 (August 2023)
- Staff Exit Controls for Government Trading Enterprises (September 2023)
- Triple Zero (September 2023)
- Annual Report 2022-23 (September 2023)
- 2023 Transparency Report: Major Projects (October 2023)
- Management of the Road Trauma Trust Account (October 2023)
- Electricity Generation and Retail Corporation (Synergy) (November 2023)
- Implementation of the Essential Eight Cyber Security Controls (December 2023)
- Funding for Community Sport and Recreation (March 2024)

Your Specialist Audit Team

Our partners are hands on to provide every client with greater continuity, individual attention and close partner involvement.

We have put together a specialist audit team for your organisation who we believe will add the greatest value to your business. Your engagement team for 2023 provides a combination of continuity and fresh ideas. This helps to ensure that we build on previous experience and make the audit process as smooth as possible.

Their combined skills and experience in your industry bring you the qualities that you should expect from your audit team; accessibility, specialist knowledge, technical expertise and corporate governance.

With every client, we first schedule meetings with the management team to review the progress and quality of our audit, and any concerns you may have including, industry issues, business, operational, accounting, taxation or reporting issues.

Regardless of the subject, you will have direct access to key members of our team. You will be able to schedule meetings as and when you need them.

We want you to be comfortable with the level and type of communication we are providing. Our goal is for you to always feel well informed but not overwhelmed by too much information.

Robert Hall

Director, Dry Kirkness (Audit) Pty Ltd



CONTACT DETAILS

Direct Line: (08) 9480 2907

Email: roberth@drykirkness.com.au

Originally from South Africa, Robert has degrees in both Accounting and Auditing. He is a qualified Chartered Accountant and Registered Company Auditor.

At Dry Kirkness, Robert brings over 25 years of experience in the audit of large private company's, public company's listed on the ASX and a range of community organisations including local governments.

He is a keen sportsman, loves playing golf, and is an active member of his triathlon club, competing regularly in events around Perth and southern WA.

Robert can be contacted at roberth@drykirkness.com.au

Eoin Condon

Manager, Dry Kirkness (Audit) Pty Ltd



CONTACT DETAILS

Direct Line: (08) 9480 2950
Email: eoin@drykirkness.com.au

Eoin trained and qualified as a Chartered Accountant in a mid-tier public practice firm in Galway, Ireland, where over four years he gained experience in both external and internal audits in many industries. He then moved to a mid-tier Perth firm to undertake the role of Senior Accountant and further his leadership skills.

Since moving to Australia in early 2022 Eoin has been overseeing audits in many industries, including Local and State Governments, Not-for-Profits and ASX Listed clients, where he collaborates with clients and staff continuously in order to achieve the best outcomes for all involved.

Eoin holds the following memberships:

- Member of Chartered Accountants Australia and New Zealand
- Member of Chartered Accountants Ireland
- Bachelor of Science in Medicinal Chemistry and Chemical Biology from University College Dublin