



SHIRE OF MORAWA

AUDIT & RISK COMMITTEE MEETING

ATTACHMENTS

Thursday, 9 June 2022



Agenda Attachments

Shire of Morawa

Audit and Risk Committee Meeting

9 June 2022

List of Attachments

11.1 Audit Strategy Memorandum 2021-2022

Attachment 1 – Audit Strategy Memorandum for the year ending 30 June 2022.

11.2 Financial Management Review 2022

Attachment 1 – Financial Management Review Status Report Update

Audit & Risk Committee

Meeting

9 June 2022

Attachment 1 Audit Strategy Memorandum for the
year ending 30 June 2022

Item 11.1 Audit Strategy Memorandum 2021-2022

Shire of Morawa

Audit Strategy Memorandum Year Ending 30 June 2022



27 April 2022

Strictly Private & Confidential



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1. Introduction

Nexia Perth Audit Services Pty Ltd has been engaged by the Office of the Auditor General (OAG) Western Australia to perform an audit of the Shire of Morawa (the Shire) annual financial report for the year ending 30 June 2022.

The key purposes of this memorandum are to:

- set out the audit scope and approach in summary;
- identify and communicate the key audit risk areas which we expect to be the focus of our audit procedures; and
- promote effective communication between the auditor and those charged with governance.

This document is strictly confidential and although it has been made available to management and those charged with governance to facilitate discussions, it may not be taken as altering our responsibilities to the Shire arising under our audit contract with the OAG.

The contents of this Audit Strategy Memorandum should not be disclosed to third parties without our prior written consent.

2. Audit Scope and Key Deliverables

Scope

Financial Audit

The primary scope and objective is to express an opinion to the electors of the Shire on whether the Shire's general purpose financial report as a whole is free from material misstatements (whether due to fraud or error) and is prepared (in all material respects) in accordance with applicable Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

Statutory Reporting

The audit will also report on the following matters in accordance with Reg 10(3) of the Local Government (Audit) Regulations 1996:

- a) trends in the financial position or the financial management practices of the Shire;
- b) compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law;
- c) whether or not the following financial ratios included in the annual financial report are supported by verifiable information and reasonable assumptions
 - i. the asset consumption ratio; and
 - ii. the asset renewal funding ratio.
- d) conduct of audit; and
- e) whether all required information and explanations were obtained by the auditor.

2. Audit Scope and Key Deliverables

Key Deliverables

The following timetable is a broad outline of the key deliverables and timing aspects of the audit:

Engagement Activity	Timing
Audit Planning	11 April 2022
Entrance Meeting (Interim)	27 April 2022
Interim audit visit	16 May to 18 May
Interim management report (if any matters to be reported)	On or before 15 June 2022
Nexia to provide final audit requirements list	8 August 2022
Receipt of complete and balanced draft financial report	On or before 30 September 2022
Final audit visit	17 October to 21 October 2022
OAG Review	Week commencing 14 November 2022
Issuance of Audit Concluding Memorandum	25 November 2022
Concluding (Exit) Meeting	Early December 2022
Date CEO expected to sign off on financial statements	Early December 2022
Final sign-off of Auditor's report & management report	Early December 2022

3. Audit Methodology

General Overview

Objective

The objective of the audit is to enable us to express an opinion to the OAG as to whether the financial report of Shire of Morawa is prepared, in all material respects, in accordance with;

- the Local Government Act 1995 (the Act);
- the Local Government (Financial Management) Regulations 1996 (the Financial Management Regulations or Regulations);
- Australian Accounting Standards (AAS) including applicable interpretations; and
- where appropriate, those AAS paragraphs applicable for not-for-profit entities have been applied.

Auditor’s Responsibilities

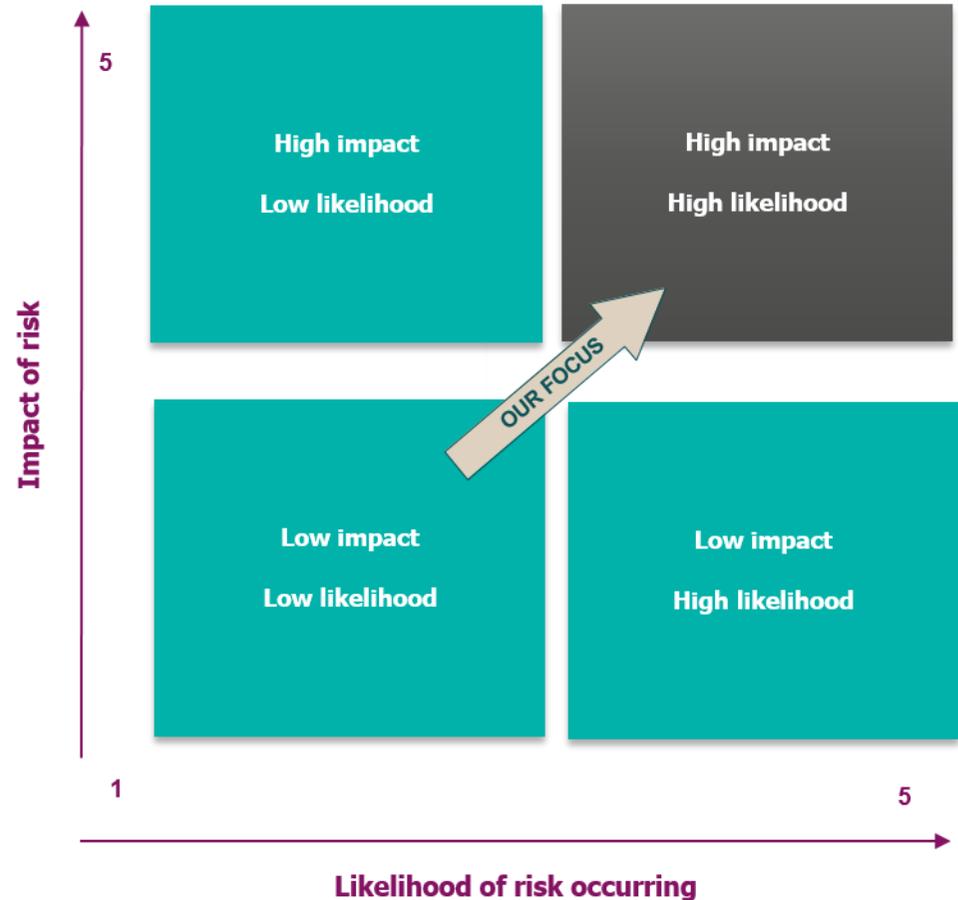
Our audit will be conducted in accordance with Australian Auditing Standards in order to provide the OAG with reasonable assurance (high but not an absolute level of assurance) as to whether the financial report is free of material misstatement.

An audit requires:

- understanding the entity and its operations;
- assessment of risk of material misstatement;
- developing procedures/gathering evidence to respond to that risk;
- a high level of documentation (as required by law); and
- consideration of the risk of fraud.

We adopt a risk based audit methodology whereby we identify and focus on areas which have a greater risk of material misstatement. This approach allows us to focus on key areas of business risk that are generally affected and monitored by management. Our focus is therefore on high impact risks.

The following matrix illustrates this approach:



3. Audit Methodology

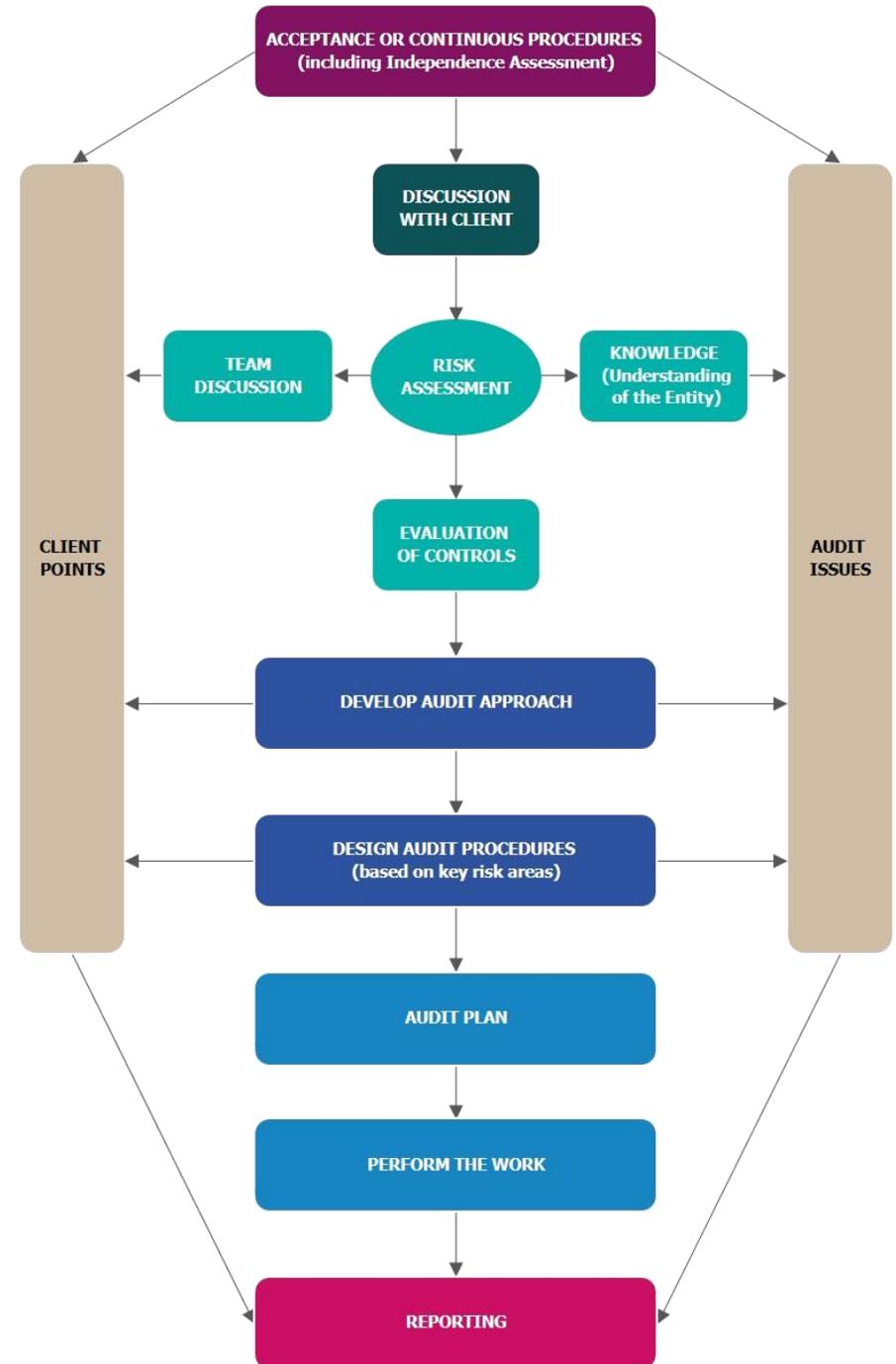
Approach

Our approach delivers:

- an efficient audit process focusing on key risk areas within the agencies;
- the ability to identify control deficiencies and assist management in maintaining an effective internal control environment;
- an audit process aligned with the business risks identified by management; and
- compliance with external reporting requirements.

Our audits are performed using CASEWARE (Computer Audit Software Tool) and Computer Assisted Audit Techniques which assists in efficiently meeting the requirements of Auditing Standards.

We can confirm that the Audit Methodology we will use is the same as the methodology which was previously reviewed by the Office of the Auditor General and is compliant with Australian Auditing and Assurance Standards.



4. Key Audit Risks and Focus Areas

Set out below is an overview of what we consider to be the key audit risks and focus areas for the year ended 30 June 2022. This preliminary risk assessment has been compiled based on our audit experience gained from audit of Shire's annual report for the year ended 30 June 2021 and preliminary discussions with management. This risk assessment process is designed to ensure that we focus our audit work on the areas of highest risk.

The table below also includes our audit procedures to be performed to address these risks. This risk assessment and our responses will be updated throughout the engagement to ensure that all areas of material risk are addressed by our audit.

Risk Identified	Description of the risk identified and Nexia's audit response
Operational expenditure and capital expenditure	<p>As is prevalent in the local government sector, expenditure forms a large part of the Shire's operations. This takes the form of both operating expenditure and capital expenditure.</p> <p>All procurement made by the Shire are subject to the requirements of the Act and Part 4 of the <i>Local Government (Functions and General Regulations) 1996</i> ('Functions and General Regulations'), which is the basis for the Shire's purchasing policy ('Policy'). The Act and the Functions and General Regulations are there to guide the Shire in delivering best practice in the purchasing of goods, services and works that align with the principles of transparency, probity and good governance. Errors, uncertainty and unrealistic timelines can undermine market confidence, discredit a purchasing process and devalue the outcome of the procurement. Due to the strict and complex requirements of the Policy, including value for money, regulatory compliance, record management, transparency and professionalism, there is potential for insufficient knowledge of the Policy's requirements or failure to comply with the Policy.</p> <p>For the testing of Operational expenditure and capital expenditure, we will:</p> <ul style="list-style-type: none">▪ document and test key internal controls;▪ enquire about the use of credit cards and document key internal controls around these;▪ perform walkthroughs of the systems with a view to relying on internal controls;▪ perform substantive test of details utilising our sampling methodology; and▪ perform year-end analytical reviews to add to the level of assurance obtained from the above procedures. <p>We will pay particular attention to the cost allocation methodology associated with administration allocations, Public Works Overheads and Plant Operating Costs to ensure these are properly allocated as they can impact the split between operational and capital expenditure.</p>

4. Key Audit Risks and Focus Areas (Continued)

Risk Identified	Description of the risk identified and Nexia's audit response
<p>Revenue (presumed risk in accordance with ASA 240 <i>The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report</i>)</p> <p>The Shire's main sources of revenue are:</p> <ul style="list-style-type: none">▪ government grants;▪ rates; and▪ other fees and charges.	<p>Given the nature of local government grants, substantive testing of details including verification to third party documentation and vouching receipt of funds will be completed in accordance with our sampling methodology. We will also perform analytical review procedures.</p> <p>Rates revenue represents a significant portion of the Shire's annual operating income and is an important revenue stream in terms of the Shire's cash flows. Rates revenue is measured by considering multiple elements. For example, rates transactions are calculated by the application of a rate in the dollar to the Gross Rental Value (GRV) or Unimproved Value (UV), which is in turn determined by dividing the required rate collection amount by the total valuations on the roll. GRVs and UVs vary between various property types. The GRV / UV is supplied by Landgate. The GRV is calculated every 3 to 6 years and UV every year.</p> <p>We will review and assess the Shire's revenue recognition policies to ensure these are in accordance with AASB 15 <i>Revenue from Contracts with Customers</i> and AASB 1058 <i>Income of Not-For-Profit Entities</i>.</p> <p>With respect to rates revenue, we will:</p> <ul style="list-style-type: none">▪ document key internal controls;▪ perform walkthroughs of the systems;▪ perform substantive test of details utilising our sampling methodology; and▪ perform year-end analytical reviews to add to the level of assurance obtained from the above procedures. <p>Fees and charges are a material revenue for the Shire. Fees and charges are approved by members of the Council and are based on budgeted fees and charges budgeted for specified services for the year. Specified services include community amenities and recreation and culture fees.</p> <p>With respect to fees and charges, we will:</p> <ul style="list-style-type: none">▪ document key internal controls;▪ perform walkthroughs of the systems;▪ perform substantive test of details utilising our sampling methodology; and▪ perform year-end analytical reviews to add to the level of assurance obtained from the above procedures. <p>Cut-off testing will form part of these procedures to help ensure revenue is correctly recognised and recorded in the correct financial year.</p> <p>In the process of identifying the risk of fraud in revenue, we will consider the following factors:</p> <ul style="list-style-type: none">▪ nature of the revenue transactions;▪ the complexity of the transactions; and▪ materiality of the transactions. <p>Based on the factors and complexities noted above and the risk of management override, revenue recognition for rates and other fees and charges are deemed to be a significant risk.</p>

4. Key Audit Risks and Focus Areas (Continued)

Risk Identified	Description of the risk identified and Nexia's audit response
Property, Plant and Equipment and Infrastructure	<p>Under regulation 17A of the Financial Management Regulations, the Shire's Property, Plant and Equipment and Infrastructure is to be carried at fair value less accumulated depreciation and accumulated impairment losses. Under regulation 17A (4) of the Financial Management Regulations, the Shire is required to revalue an asset:</p> <ul style="list-style-type: none">▪ whenever the local government believes the fair value of the asset is likely to be materially different from its carrying amount; and,▪ in any event, within a period of at least 3 years but no more than 5 years after the day on which the asset was last valued or revalued. <p>There is a risk that the fair value assessment has not been performed in accordance with AASB 13 <i>Fair value measurement</i>.</p> <p>Furthermore, in accordance with paragraph 9 of AASB 136 <i>Impairment of Assets</i>, the Shire is required to assess at each reporting date whether there is any indication that an asset may be impaired.</p> <p>Effective from 1 July 2018, regulation 17A (5) of the Financial Management Regulations provides that an asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition is under \$5,000.</p> <p>Our approach for testing Property, Plant and Equipment and Infrastructure will be as follows:</p> <ul style="list-style-type: none">▪ document and test key audit controls around Property, Plant and Equipment and Infrastructure balances;▪ assess accounting policies associated with fair value assessments and ensure in accordance with accounting standards;▪ sample testing of asset additions and disposals;▪ review and assess management's impairment assessments;▪ review fair value disclosures to ensure these are in accordance with AASB 13 <i>Fair Value Measurement</i> requirements; and▪ review management's assessment to assess if the fair values of PPE/Infrastructure assets aren't significantly different from their carrying values, when these assets aren't subject to revaluation. <p>Our approach for testing depreciation and amortisation will be as follows:</p> <ul style="list-style-type: none">▪ understand and document the depreciation policy and how it relates to the various asset classes;▪ document and test key audit controls around the calculation of depreciation/amortisation;▪ perform depreciation recalculations based on our sampling approach; and▪ perform substantive analytical procedures. <p>We will review management's assessment of assets below \$5,000 and review the action taken by the Shire to expense these assets from the asset register and confirm that the local government is properly and accurately recording portable and attractive assets.</p>

4. Key Audit Risks and Focus Areas (Continued)

Risk Identified	Description of the risk identified and Nexia's audit response
<p>Management Override of Controls</p> <p>(presumed risk in accordance with ASA 240 <i>The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report</i>)</p>	<p>Management is involved in the day-to-day operations and monitoring of the business, which gives them the ability to manipulate accounting records and manipulate financial disclosures by overriding controls in place. Due to the unpredictable way in which such override could occur, this leads to potential fraud risk.</p> <p>To address the risk of management override, the following procedures will be performed:</p> <ul style="list-style-type: none">▪ review of journal entries and other adjustments for evidence of possible material misstatements due to fraud;▪ review accounting estimates and application of accounting policies for evidence of bias or aggressive accounting practices; and▪ for significant or unusual transactions, evaluate the business rationale (or the lack thereof) for evidence of fraudulent financial reporting or misappropriation of assets.
<p>Related party transactions and disclosures</p>	<p>The Shire is subject to the requirements of AASB 124 <i>Related Party Disclosures</i> (AASB 124) as they prepare general purpose financial statements. AASB 124 requires the disclosures of key management personnel compensation, elected members remuneration and other transactions and balances with related parties.</p> <p>Additionally, under section 17 of the <i>Auditor General Act 2006</i> (by virtue of section 7.12AL of the Act), the accountable authority of the Shire is obliged to advise the OAG in writing of details of instances where the Shire performs any of its functions in one or more of the following ways:</p> <ol style="list-style-type: none">a) in partnership or jointly with another person or body;b) through the instrumentality of another person or body;c) by means of a trust. <p>We will review the disclosures and obtain supporting documentation to substantiate the transactions and balances disclosed in the financial report. We will also assess the Shire's internal controls around the identification and proper disclosure of related party transactions, key management personnel compensation and elected members remuneration.</p> <p>We will also remain alert for any undisclosed related party relationships/transactions whilst performing our other audit procedures.</p>

4. Key Audit Risks and Focus Areas (Continued)

Risk Identified	Description of the risk identified and Nexia's audit response
Financial ratios	<p>Under Regulation 50 of the Financial Management Regulations, the Shire needs to include financial ratios in their financial report. Financial ratios are designed to enable users of the financial reports to interpret more clearly the Shire's performance and financial results as well as provide trend analysis over a number of years.</p> <p>These ratios provide a measure of the financial sustainability of local government entities and complement the national criteria endorsed by the Local Government and Planning Ministers' Council. They provide for a comprehensive tool for monitoring the financial sustainability of local government entities.</p> <p>We will obtain the calculations used to formulate the ratios and assess the completeness and accuracy of these. We will also consider any breakdowns in systems or procedures that are indicative of a significant adverse trend in the financial management practices of the Shires.</p> <p>We have noted that we will need to communicate significant adverse trends identified for each Shire to the OAG. The Auditor General is obligated to report on these significant adverse trends in the <i>Report on Other Legal and Regulatory Requirements</i> section of their Independent Auditors' Report.</p>
Reserve accounts	<p>The Shire has set up various reserve accounts under section 6.11 of the Act for the purpose of setting aside money for a specific purpose to be used in a future period. Cash reserves are required to be held in separate bank accounts. However, reserve accounts are not separate funds and are consolidated with the municipal fund in the financial statements of the Shire.</p> <p>We will review the reserve account reconciliations and test that the transfers to and from these accounts are in accordance with the specific purpose of the reserves and have been approved by Council.</p>
Impact from COVID-19 pandemic	<p>COVID-19 pandemic may impact number of operational areas which may in turn have a financial impact. The potential impacts include;</p> <ul style="list-style-type: none">▪ breakdown in the internal control procedures; and▪ impairment of trade and other receivables; <p>To address the risk of financial impacts from the COVID-19 pandemic, we will;</p> <ul style="list-style-type: none">▪ discuss with management the impact on the Shire's operations; and▪ assess the recoverability of trade and other receivables at the reporting date with a higher level of scrutiny.

4. Key Audit Risks and Focus Areas (Continued)

Risk Identified	Description of the risk identified and Nexia's audit response
Employee benefit provisions	<p>Employee benefit provisions are a material balance in the Statement of Financial Position. Provisions for annual leave and long service leave involve a degree of management estimation and a level of uncertainty in their calculations.</p> <p>For the testing of employee benefit provisions, we will:</p> <ul style="list-style-type: none">▪ document and test key internal controls around the payroll function;▪ perform walkthroughs of the systems with a view to relying on internal controls;▪ perform substantive test of details utilising our sampling methodology;▪ review the reasonableness of assumptions used for probabilities and discount rates in calculating the net present value (NPV) of the long service leave provision; and▪ perform year-end analytical reviews to add to the level of assurance obtained from the above procedures. <p>Further, employee benefit provisions will also be reviewed to ensure they are consistent with the payroll records and calculated in accordance with AASB 119 <i>Employee Benefits</i>.</p>
Integrated Financial Information relies on the security, integrity and reliability of a shire's information technology environment	<p>We will assess the Information Technology General Controls (ITGC) environment to determine the extent to which financial management information can be relied upon.</p> <p>We will conduct a high level ITGC review of key controls by assessing:</p> <ul style="list-style-type: none">▪ Information Security;▪ Business Continuity;▪ Management of IT risks;▪ IT operations;▪ Change control; and▪ Physical Security of IT assets. <p>We will evaluate the results of the high level ITGC review to determine that we can rely upon the financial management information generated by the system. Alternatively, where weaknesses are identified, we will ensure we scope in additional procedures accordingly.</p>

4. Key Audit Risks and Focus Areas (Continued)

Risk Identified	Description of the risk identified and Nexia's audit response
Impact of any natural disaster i.e. cyclone, floods or bushfire	<p>Natural disasters may impact number of operational areas which may in turn have a financial impact. The potential impacts include;</p> <ul style="list-style-type: none">▪ breakdown in the internal control procedures;▪ impairment of assets; and▪ lack of provision for rehabilitation work. <p>To address the risk of financial impacts from the natural disaster , we will;</p> <ul style="list-style-type: none">▪ discuss with management the impact on the Shire's operations;▪ assess the carrying value of assets at the reporting date with a higher level of scrutiny; and▪ check the adequacy of the rehabilitation provision.
Local Government Reform changes Local Government Reform changes that may impact for the first time this year	The Local Government Reforms project is currently underway and at this stage it is unclear if there will be any impacts on the Shire this financial year. We will continue to review developments arising from the reform project and will assess the impact of any changes to regulatory requirements.

4. Key Audit Risks and Focus Areas (Continued)

Risk Identified	Nexia's audit response
<p>Prior Year Management Letter Findings</p> <p>There were five Management Letter Findings identified in the audit for the financial year ended 30 June 2021. These were as follows:</p> <ul style="list-style-type: none">▪ Payroll and Human Resource Management – It was noted that no award level was mentioned in the employment contract of an employee. Another employee had received an increase in pay as per WA State Award wage increases, however it was not correctly reflected in the payment increase letter.▪ Untimely Bank reconciliation - We noted that the year end reconciliation for the Muni bank account was not performed until 17th August 2021. We also noted that 32 bank payments totalling \$158,301 made between 1 July to 16 August 2021 were dated back to June 2021, which resulted in an understatement of Sundry creditor and Cash and cash equivalents in the initial financial statements for the year ended 30 June 2021.▪ Bank access for Former Councillors - We noted 2 instances where the former Councillors of the Shire still remained a bank signatories for the following bank accounts:<ul style="list-style-type: none">- Corporate Transaction Account- Business Telenet Saver▪ Financial Management Review - The last financial management review was performed in 2016. Regulation 5 of the <i>Local Government (Financial Management) Regulations 1996</i> requires the Chief Executive Officer to perform a review and report the results to council not less than once in every 3 financial years.▪ Excess leave management - We noted two instances of employees having annual leave balances exceeding 300 hours and one instance of employees with long service leave balances exceeding 13 weeks. <p>In our final exit meeting for the audit for the year ended 30 June 2021 with management, it was noted that:</p> <ul style="list-style-type: none">▪ The current Chief Executive Officer (CEO) & Executive Manager Corporate & Community Services (EMCCS) are making the necessary changes to Offer of Employment letters, onboarding, payment increase letters and procedures for all new employees;	<p>To address the risks associated with these matters, we will:</p> <ul style="list-style-type: none">▪ we will obtain the relevant supporting documentation to ensure the matters have been addressed;▪ When we are testing payroll process we will ensure proper documentation in place in the current year;▪ We will check bank reconciliations are prepared on timely manner;▪ We will review bank confirmations to ensure validity of the signatories;▪ Discuss with the management the progress of review of financial management system and procedures and we will obtain the review report and check for any exceptions noted; and▪ As part of our testing of annual leave provisions, we will check for existence of excess leave as at 30 June 2022;

4. Key Audit Risks and Focus Areas (Continued)

Risk Identified	Description of the risk identified and Nexia's audit response
Prior Year Management Letter Findings (Continued)	
<ul style="list-style-type: none">▪ Normally bank reconciliations are completed within 3 days of the end of month. 2020/2021 year end was extraordinary compared to previous years. Shire also had the Senior Finance Officer resign and leave in August leaving all the financial reconciliations to the EMCCS.▪ A procedure around off-boarding is being developed and should be in place by 30 June 2022. A request has been submitted to the bank for a full list of current signatories so that applications can be completed to remove any that should no longer be listed.▪ The discussions held by the management with relevant staff resulted in a commitment being made by one employee to take all their leave. This person is currently on leave and will be until the end of April 2022. The other person is in a senior role, and at this time the CEO deemed that it would pose a greater risk to Council having the person on extended leave than having high leave balances. In general, Council has limited capacity to backfill or allocate personnel higher duties when staff are on leave thus contributing to this issue.▪ The CEO is planning on putting in place an annual review of all outstanding leave to ensure leave balances are kept under control. Evidence of these reviews will be made available for future audits.	

5. The Audit Team and Independence

The Nexia Perth Audit Services Pty Ltd team will be working closely with the following representative of the OAG in completion of the audit:

NAME	ROLE	CONTACT DETAILS
Suraj Karki	Assistant Director (OAG)	Suraj.Karki@audit.wa.gov.au Phone No: 6557 7551

The audit team assigned to this engagement is set out below:

NAME	ROLE	CONTACT DETAILS
Justin Mulhair	Engagement Director	justin.mulhair@nexiaperth.com.au Phone No: 9463 2463
Chethakee Kumarage	Engagement Manager	chethakee.kumarage@nexiaperth.com.au Phone No: 9463 2463

The primary objective will always be to balance our experience and knowledge of the Shire with appropriate independence and objectivity of thinking. The development of our people will always be a key objective. Our assurance team will be supported by our specialist technical, taxation and support teams.

Independence

We have established policies and procedures designed to ensure our independence, including policies on holding financial interests in the Shire and other related parties, business relationships, employment relationships, and the provision of non-audit services.

We have assessed our audit independence at the planning stage and to the best of our knowledge and belief, we are of the opinion that each engagement team member and partners of all Nexia network firms in Australia are not in contravention of the auditor independence and ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities with the Code. We have further considered the safeguards the Nexia Australia network has in place, and we are not aware of any services being provided that would compromise our independence as external auditor.

6. Other Key Matters

Auditor's Responsibility to Consider Fraud

As auditors, we obtain reasonable assurance that the financial statements (taken as a whole) are free from material misstatements due to fraud or error. Accordingly, certain procedures will be performed as part of our audit by way of enquiry, evaluation and review as required by ASA 240 - *The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report*.

Responsibilities of Management and Council

Financial Reporting

Management is responsible for the preparation of the Shire's Annual Financial Report that gives a true and fair view in accordance with Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended) and for such internal control as management determines is necessary to enable the preparation of the Annual Financial Report that is free from material misstatement, whether due to fraud or error.

The primary responsibility for the prevention, deterrence and detection of fraud remains with the Council.

In preparing the Annual Financial Report, management is also responsible for assessing the Shire's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The Council is responsible for overseeing the Shire's financial reporting process.

Under Australian Auditing Standards, as a precondition of accepting the engagement we are required to determine whether the financial reporting framework to be applied in the preparation of the Shire's Annual Financial Report is acceptable. Given that the Shire's Annual Financial Report continues to be prepared as general-purpose financial reports in line with previous years and with no changes in terms of regulations or other issues that might impact the requirements of the report, as at the date of issuing this report we continue to consider this framework acceptable.

Representations by Management

As part of the audit requirements, Management is to provide the auditor a written representation that:

- it has fulfilled its responsibility for the preparation of the financial report in accordance with the applicable and other statutory reporting requirements, including where relevant their fair presentation, as set out in the terms of the audit engagement;
- It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement;
- All transactions have been recorded and are reflected in the financial report; and
- (if any) significant representations made by management for which the auditor is relying on in forming the audit opinion.

6. Other Key Matters (Continued)

Additional Scope / Work

Should any matters or issues arise requiring additional scope we will in the first instance contact the Shire's management and will agree with the OAG prior to commencing the work.

In this regard, we note that there are likely to be some grant acquittals which we may be engaged to perform work. These include (but are not limited to) the following;

- Deferred Rates Certificate;
- Roads to Recovery Program;
- Local Road and Community Infrastructure Program; and
- Drought Community Grant Program.

Should we be engaged to perform work on these grant acquittals, we would propose to perform the necessary audit work while on-site for the final audit (early October).

Relevant documents should be provided to OAG by 30 September 2022 to enable issuing the opinion by end of October 2022.



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Audit & Risk Committee

Meeting

9 June 2022

Attachment 1

Financial Management Review
Status Report Update

Item 11.2

Financial Management Review 2022 –
Status Report Update



SHIRE OF MORAWA – STATUS REPORT – FINANCIAL MANAGEMENT REVIEW 2022

Monitoring Activities (MA):

Risk area	Monitoring activities to be verified	Risk Rating	Issue Identified	Planned Action	Responsible Officer	Timeline	Action to Date	Date Completed
Receipting	Statements of accounts receivable are sent to customers enabling review. (Exception 1)		We noted no evidence of statements for accounts receivable being sent to customers prior to January 2022.	Development and Implementation of an Accounts Receivable Executive Policy & Procedure	EMCCS & Debtors Officer (DO)	Dec-22	Instructions have been given to responsible officer to ensure that statements are sent out monthly. Copies of all statements will be saved electronically. The Executive Policy – Accounts receivable has been drafted and is currently with the CEO for review. Once any updated the document will be distributed to the relevant staff for their review and feedback. Expected to be completed by 30 June	31/05/2022
Fixed Assets	Management regularly reviews valuation of fixed assets (i.e. methodology and useful lives of assets) to ensure that assets' valuation is appropriate and in accordance with Australian Accounting Standards. (Exception 2)		Unable to obtain evidence of management's review of fixed assets (methodology & Useful lives).	Development and implementation of year end procedures that ensure asset depreciation rates and useful lives are reviewed and evidence retained.	EMCCS & CCSO	Jun-22	These procedures have not yet been started but will be part of the year end process.	
	Management reviews depreciation rates and methodology (at least annually) to ensure that rates and remaining useful lives are reasonable. (Exception 2)		Unable to obtain evidence of management's review of depreciation rates and methodology.		EMCCS & CCSO	Jun-22	These procedures have not yet been started but will be part of the year end process.	
	Fixed asset register to the general ledger reconciliation is prepared and reviewed routinely. (Exception 3)		From the review it was noted that the last time the fixed asset register had been reconciled to the general ledger was June 2021.	Development and implementation of month end procedures that encompass all reconciliations required to be done.	EMCCS & CCSO	Jun-23	Monthly financial report template has been updated to include asset reconciliation.	Mar-22

Key control (KC) activities

Risk area	Monitoring activities to be verified	Risk Rating	Issue Identified	Planned Action	Responsible Officer	Timeline	Action to Date	Date Completed
Revenue	Monthly statements are issued to trade debtors. (Exception 1)		We noted no evidence of statements for accounts receivable being sent to customers prior to January 2022.	Development and Implementation of an Accounts Receivable Executive Policy & Procedure	EMCCS & DO	Dec-22	Instructions have been given to responsible officer to ensure that statements are sent out monthly. Copies of all statements will be saved electronically. The Executive Policy – Accounts receivable has been drafted and is currently with the CEO for review. Once any updated the document will be distributed to the relevant staff for their review and feedback. Expected to be completed by 30 June	
	Rates are raised in line with the approved budgeted rate in the dollar. (Exception 4)		We noted that the rate in the dollar in Note 1 of the Budget was displayed to 5 decimal places where in the Council Resolution it was to 6 decimal places.	Ensure that the rounding is to the same decimal place on all documents	EMCCS	Jun-22	Budget Template has been checked to ensure the decimal points are the same in all documents	Jun-22



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Monitoring Activities (MA):

Risk area	Monitoring activities to be verified	Risk Rating	Issue Identified	Planned Action	Responsible Officer	Timeline	Action to Date	Date Completed
Revenue	Documented procedures are in place to ensure the VGO is informed of any building works approved. (Exception 5)	High	The Shire does not have documented procedures to ensure the VGO is informed of any building works approved.	Ensure that a procedure is written and followed when a permit is issued and is reportable	EMCCS & Rates Officer	Jun-23	This has not been started at this time	
	The rates ledger is reconciled to the General Ledger. (Exception 6)	Medium	On review of the monthly rates reconciliation, it was found that a hard copy of the general ledger balance was not saved with the reconciliation so the reported balance could not be verified.	Ensure that a copy of the General Ledger balances is included as part of the reconciliation.	EMCCS & Rates Officer	Mar-22	This process has already been implemented.	24-Feb-22
	Credit note approvals are independent accounts receivable (Exception 7)	Medium	We noted that; 1) There is no formal process for the raising and approval of credit notes; and 2) Credit notes are raised by the accounts receivable officer	Development and Implementation of an Accounts Receivable Executive Policy & Procedure	EMCCS & ARO	Jun-22	Credit note form has been developed with appropriate authorisations required. The Executive Policy – Accounts receivable has been drafted and is currently with the CEO for review. Once any updated the document will be distributed to the relevant staff for their review and feedback. Expected to be completed by 30 June	
Receivables/Receiving	Bank reconciliation is prepared monthly (with statements from bank) and management approval documented. (Exception 8)	Medium	3 accounts linked to term deposits did not have a monthly bank reconciliation prepared. These accounts have the interest earned on the investments receipted to them and it is then transferred to the Reserve Telenet account. As the 3 accounts were not reconciled the interest deposited into the accounts were not receipted into Synergy.	Management will move to have the 3 accounts closed and all interest earnings to be paid directly into the Telenet Account, which is reconciled monthly, and the interest allocated across the reserves.	EMCCS	Mar-22	Bank has been contacted to determine why the request for interest not to be deposited into these 3 accounts was deactivated. 2 of the 3 bank accounts linked to the term deposits have been closed. Due to the structure of the Reserve accounts it was necessary to keep one open for the interest to be deposited.	May-22



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Monitoring Activities (MA):

Risk area	Monitoring activities to be verified	Risk Rating	Issue Identified	Planned Action	Responsible Officer	Timeline	Action to Date	Date Completed
Receivables/Receipting	Customers are informed (signs, etc.) that they should obtain receipts. (Exception 9)	Green	From the review of receipting, there was no evidence that customers are informed that they should obtain receipts.	A sign will be placed at the front counter telling customers that they should obtain a receipt and a procedure will be implemented that ensures that email or over the phone transactions are sent a copy of the receipt.	EMCCS & CSO	May-22	Signs have been installed. Procedure has been updated to include the requirement to provide a copy of the receipt to the customer either in person, by email or in the post.	May-22
	When opening mail, cheques are stamped "for deposit only" with the local government bank account number. Cheques received are listed, totalled and reviewed before deposit. (Exception 10)	Green	The Shire does not maintain a cheque register evidencing that cheques have been stamped "for deposit only" with the Shires bank details, and that the cheques are listed, totalled and reviewed before deposit.	Management will ensure that all cheques received by mail are recorded in a cheque register.	EMCCS & CSO	Jun-22	This process has been reinstated and is included in the Front Counter procedures.	Apr-22
	A reconciliation of aged receivables to control accounts is prepared monthly and management approval documented. (Exception 11)	Yellow	On review of 2 monthly aged receivables reconciliations, we noted 1 instance where the reconciliation had no evidence of management approval.	Development and Implementation of an Accounts Receivable Executive Policy & Procedure	EMCCS & ARO	Dec-22	The Executive Policy – Accounts receivable has been drafted and is currently with the CEO for review. Once any updated the document will be distributed to the relevant staff for their review and feedback. Expected to be completed by 30 June	
	Significant overdue customer accounts are investigated by management and actions taken documented. (Exception 12)	Yellow	On review it was noted that there were significantly overdue customers' accounts and credit balances on others.	Development and Implementation of an Accounts Receivable Executive Policy & Procedure	EMCCS & Debtors Officer	Dec-22	In January a review was carried out and reviewed by EMCCS on all overdue customers and actions taken. Customer accounts in credit were due to rental properties not having the monthly invoices raised against the income received. A report was tabled at Council to write off some overdue debts and implemented in April 2022. The Executive Policy – Accounts receivable has been drafted and is currently with the CEO for review. Once any updated the document will be distributed to the relevant staff for their review and feedback. Expected to be completed by 30 June	



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Monitoring Activities (MA):

Risk area	Monitoring activities to be verified	Risk Rating	Issue Identified	Planned Action	Responsible Officer	Timeline	Action to Date	Date Completed
Receivables/Receipting	A list of preferred suppliers is maintained and used where possible. (Exception 13)		On review of corporate credit cards, it was noted that one employee did not have a Corporate Credit Card Holder Agreement. A later appointed employee did have an agreement.	A Corporate Credit Card Holder Agreement should be issued to all employees that are to hold a credit card for Shire purchases	EMCCS	44593	The employee has since signed the implemented Corporate Credit Card Holder Agreement.	Feb-22
	Unit prices on invoices received are checked against price lists, quotes or approved purchase orders. Invoices are checked for correct calculations, discounts, taxes and freight before payment (Exception 14)		From the sample of 23, we noted 6 instances where the invoice did not reconcile to the purchased order. These related to: 1) Purchase order raised for the amount of a rejected quote 2) Multiyear service contracts did not reflect the escalation in pricing; and 3) GST Incorrectly accounted for	Implement the Draft Accounts Payable Executive Policy and Procedure.	EMCCS	Apr-22	The Executive Policy and Procedure have been completed and approved by the CEO. The documents have been distributed to staff.	3-Jun-22
	Suppliers' statements are reconciled to accounts payable monthly and reviewed by management. (Exception 15)		Review of accounts payable found that supplier statements are not reconciled against accounts monthly and reviewed by management.	Management are happy with the current controls it has in place and believes there is no benefit to carrying out this time consuming process.	EMCCS	Feb-22	No Action to be taken	Feb-22

Risk Matrix

Controls in place satisfactory	Minor	Moderate	Significant