



AGENDA
AUDIT COMMITTEE MEETING
to be held on
Tuesday, 16 April 2019
at 5.00pm



WESTERN AUSTRALIA'S
WILDFLOWER COUNTRY

'This meeting is being recorded on audio tape and to assist with minute taking purposes. The public is reminded that in accordance with Section 6.16 of the Shire of Morawa Meeting Procedures Local Law 2012 that nobody shall use any visual or vocal recording device or instrument to record the proceedings of Council without the written permission of the presiding member.'

DISCLAIMER

No responsibility whatsoever is implied or accepted by the Shire of Morawa for any act, omission, statement or intimation occurring during Council Meetings. The Shire of Morawa disclaims any liability for any loss whatsoever and howsoever caused arising out of reliance by any person or legal entity on any such act, omission, and statement of intimation occurring during Council Meetings.

Any person or legal entity that acts or fails to act in reliance upon any statement, act or omission occurring in a Council Meeting does so at their own risk. The Shire of Morawa advises that any person or legal entity should only rely on formal confirmation or notification of Council resolutions.

DISCLOSURE OF FINANCIAL/ IMPARTIALITY/ PROXIMITY INTERESTS

Local Government Act 1995 – Section 5.65, 5.70 and 5.71 Local Government (Administration) Regulation 34C

<i>This form is provided to enable members and officers to disclose an Interest in a matter in accordance with the regulations of Section 5.65, 5.70 and 5.71 of the Local Government Act and Local Government (Administration) Regulation 34C</i>			
Name of person declaring the interest			
Position			
Date of Meeting			
Type of Meeting (Please circle one)	Council Meeting/ Committee Meeting/ Special Council Meeting Workshop/ Public Agenda Briefing/ Confidential Briefing		
Interest Disclosed			
Item Number and Title			
Nature of Interest			
Type of Interest (please circle one)	Financial	Proximity	Impartiality
Interest Disclosed			
Item Number and Title			
Nature of Interest			
Type of Interest (please circle one)	Financial	Proximity	Impartiality
Interest Disclosed			
Item Number and Title			
Nature of Interest			
Type of Interest (please circle one)	Financial	Proximity	Impartiality

Signature: _____ **Date:** _____

Important Note: Should you declare a **Financial** or **Proximity** Interest, in accordance with the Act and Regulations noted above, you are required to leave the room while the item is being considered.

For an **Impartiality** Interest, you must state the following prior to the consideration of the item:

“With regard to agenda item (read item number and title), I disclose that I have an impartiality interest because (read your reason for interest). As a consequence, there may be a perception that my impartiality on the matter may be affected. I declare that I will consider this matter on its merits and vote accordingly.”

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Item 1 Opening of Meeting

The President to declare the meeting open.

Item 2 Acknowledgement of Traditional Owners and Dignitaries

The President acknowledges the traditional custodians, the Yamatji people, and recognises the contribution of Yamatji elders past, present and future, in working together for the future of Morawa.

'This meeting is being recorded on audio tape and to assist with minute taking purposes. The public is reminded that in accordance with Section 6.16 of the Shire of Morawa Meeting Procedures Local Law 2012 that nobody shall use any visual or vocal recording device or instrument to record the proceedings of Council without the written permission of the presiding member.'

Item 3 Recording of Attendance

3.1 Attendance

Council

President Karen Chappel
Deputy President Dean Carslake
Councillor Darren Agar
Councillor Jane Coaker
Councillor Debbie Collins
Councillor Shirley Katona
Councillor Ken Stokes

Staff

Chief Executive Officer	Chris Linnell
Executive Manager Corporate & Community Services	Jenny Goodbourn
Acting Manager Development & Administration	Grace French
Principal Works Manager	Paul Buist
Executive Assistant to CEO	Sandy Adams

3.2 Attendance by Telephone / Instantaneous Communications

3.3 Apologies

3.4 Approved Leave of Absence

3.5 Disclosure of Interests

Item 4 Applications for Leave of Absence

Item 5 Response to Previous Questions

Item 6 Questions from Members without Notice

Item 7 Announcements by Presiding Member without Discussion

Item 8 Declarations of All Members to have Given Due Consideration to All Matters Contained in the Business Paper before the Meeting

The Elected Members to declare that they had given due consideration to all matters contained in the agenda.

Item 9 Confirmation of Minutes of Previous Meeting

OFFICER RECOMMENDATION

That Council confirm that the Audit Committee Meeting held on Thursday, 21 March 2019 are a true and correct record.

SIMPLE MAJORITY VOTE REQUIRED

Disclaimer

Members of the public are cautioned against taking any action on Council decisions, on items in this agenda in which they may have an interest, until formal notification in writing from the Shire has been received. Decisions made at this meeting can be revoked pursuant to the Local Government Act 1995.

Item 10 Reports of Officers**10.1 Audit Planning Memorandum**

Author: Executive Manager Corporate & Community Services

Authorising Officer: Chief Executive Officer

Disclosure of Interest: The Author and Authorising Officer declare that they do not have any conflicts of interest in relation to this item.

OFFICER'S RECOMMENDATION

That with regard to the 2019/20 Audit Planning Memorandum, the Audit Committee resolve to recommend to Council to adopt the Audit Planning Memorandum as presented as part of the annual audit process

SIMPLE MAJORITY VOTE REQUIRED

PURPOSE

The accounts and annual financial statements of a local government for each financial year are required to be audited by an independent auditor appointed by the Auditor General.

DETAIL

The Audit Committee has to meet with the Auditor and a representative of the Office of the Auditor General to review the Audit Planning Memorandum. The primary purpose of the Audit Planning Memorandum (APM) is to brief the Audit Committee on the proposed approach to the audit of the financial report of the Shire.

The APM is a key tool used by the auditor (RSM Cameron) to meet their responsibilities in communicating with those charged with governance of the Shire.

LEVEL OF SIGNIFICANCE

Medium – requirement under Local Government Act 1995 administered by the Department.

CONSULTATION

- Office of the Auditor General
- RSM Cameron

LEGISLATION AND POLICY CONSIDERATIONS

Local Government Act 1995

FINANCIAL AND RESOURCES IMPLICATIONS

Budget allocation

STRATEGIC AND SUSTAINABILITY IMPLICATIONS

Shire of Morawa Strategic Community Plan 2018-2028

A local government that is respected, professional and accountable.

RISK MANAGEMENT CONSIDERATIONS

Establishment of appropriate internal controls and procedures minimises the risk of oversight and loss to the Shire of Morawa.

CONCLUSION

That the Audit Committee resolve to recommend to Council to adopt the Audit Planning Memorandum as presented as part of the annual audit process.

ATTACHMENTS

Attachment 1 – 10.1a Audit Planning Memorandum

Item 11 Motions of Which Previous Notice Has Been Given

Item 12 New Business of an Urgent Nature
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Item 13 Closure

There being no further business, the President to declare the meeting closed.



SHIRE OF MORAWA

Audit Planning Memorandum

30 June 2019

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1 PURPOSE OF THE AUDIT PLANNING MEMORANDUM

The primary purpose of this Audit Planning Memorandum (APM) is to brief the Audit Committee on our proposed approach to audit the financial report of the Shire of Morawa (Shire) for the year ending 30 June 2019. This memorandum forms the basis for discussion at the Audit Committee meeting scheduled for 16 April 2019 and is a key tool for discharging our responsibilities in relation to communicating with those charged with governance.

2 KEY ENGAGEMENT INFORMATION

2.1 Key Shire of Morawa financial report stakeholders

Ratepayers of the Shire of Morawa	
Minister for Local Government	The Hon. David Templeman MLA
Shire President	Karen Chappel
Chief Executive Officer	Chris Linnell
Executive Manager Corporate and Community Services	Jenny Goodbourn

2.2 Key Office of the Auditor General personnel

Auditor General	Caroline Spencer
Director Financial Audit	Subha Gunalan

2.3 Key RSM Australia personnel

Audit Director	David Wall
Principal	Travis Bate
National Technical Director	Ralph Martin

3 BACKGROUND AND GENERAL INFORMATION

3.1 Background

The Shire of Morawa is situated in the North Midlands area of Western Australia, approximately 370kms due North of Perth.

With a multi-million-dollar health centre, excellent education options and first-rate sporting facilities, Morawa's community services are also thriving. Predominantly an agricultural based Shire, Morawa boasts excellent tourism facilities and attractions (particularly during the Spring wildflower season), a rich history, great business incentives and an active mining industry that has only recently been redeveloped.

The Shire is represented by 7 councillors. The Shire President is elected from among the councillors.

3.2 Shire President, Shire Council and Executives

Please refer to Appendix A for names of the Shire President, Shire Councillors and Executives.

3.3 Governance

The Shire is governed by an independent Council, whose members are elected to serve a 4-year term in office. The Council in turn appoints a Chief Executive Officer (**CEO**) to advise and provide information to Council in relation to the Shire's functions and ensure the resources of the Shire are effectively and efficiently managed.

3.4 Regulation

In terms of financial reporting, the Shire is subject to the *Local Government Act 1995 (Act)* and the *Local Government (Financial Management) Regulations 1996 (Financial Management Regulations)*.

4 KEY DELIVERABLES

4.1 Financial report and audit opinion

The annual financial report will be general purpose financial statements for the financial year ended 30 June 2019. The Auditor General is required by the Act to provide an opinion in accordance with the *Local Government (Audit) Regulations 1996 (Audit Regulations)* on whether the annual financial report of the Shire:

- Is based on proper accounts and records; and
- Fairly represents, in all material respects, the results of the operations of the Shire for the financial year and its financial position at the end of that period in accordance with the Act and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

The Auditor General is also required by the Audit Regulations to report:

- Any significant adverse trends in the financial position of the Shire;
- Any material matters indicating non-compliance with Part 6 of the Act, the Financial Management Regulations or applicable financial controls of any other written law;
- Whether all required information and explanations were obtained;
- Whether all audit procedures were satisfactorily completed; and
- Whether the asset consumption ratio and asset renewal funding ratio included in the annual financial report are supported by verifiable information and reasonable assumptions.

The objective of the Auditor General's audit is to obtain reasonable assurance about whether the Shire's financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes her opinion.

The Auditor General will also communicate with the Council and the CEO regarding, among other matters, any significant findings, including any significant deficiencies in internal control that may be identified during the audit.

The Auditor General's report will be sent to the Shire President, CEO and the Minister for Local Government in accordance with the Act. The Shire is required to publish the auditor's report with the annual financial report on its website. If the Auditor General has reported other significant matters, then the Shire is required to report the action it has taken about the matters to the Minister and to publish a copy of that report on its website.

4.2 Management Letters

Significant findings, emerging issues and their recommended resolution that arise during the audit will be progressively discussed and communicated to the Auditor General and then the CEO. Any weaknesses in controls, which may be identified during the current year audit, will be highlighted in the management letter to the CEO following the conclusion of the preliminary and final audits. The draft management letters will be reviewed by the Auditor General before being given to the Shire for comment.

Prior year management letter points will be followed up as part of the current year audit procedures. During the current year audit procedures, we will determine if any control weaknesses highlighted during the prior year audit have been properly resolved.

5 MILESTONE MEETINGS

5.1 Pre-planning meeting

The pre-planning meeting will be with the Shire management, the Auditor General's representative (if required) and RSM. The meeting will discuss current developments at the Shire and any changes in governance or systems. The meeting will form the basis for the preparation of the APM.

5.2 Entrance meeting

The entrance meeting will be held with the CEO, Audit Committee, the Auditor General's representative and RSM. The meeting will mainly cover the presentation and discussion of the APM.

5.3 Preliminary audit findings meeting

The preliminary audit findings meeting with the Auditor General's representative, the CEO, Audit Committee and RSM will mainly cover the presentation and discussion of the significant control matters as reported in the preliminary audit management letter, if any.

5.4 Final audit closing meeting

Significant accounting issues and audit findings, if any, noted during the final audit will be discussed with the Auditor General's representative, the CEO and RSM. If there are significant, unresolved matters, then a meeting will also be held with the Audit Committee.

5.5 Audit exit meeting

The exit meeting with the Audit Committee, the Auditor General's representative and RSM will mainly cover the presentation and discussion of the audit closing report, which will outline any significant audit related matters concerning the financial report, management letters and improvement suggestions for future audits.

5.6 Council meetings

Attendance at Council meetings is by invitation and provides insight into matters that may impact on our audit approach. Generally, the Auditor General's representative and RSM will attend the Council meetings as required.

6 TERMS OF ENGAGEMENT

6.1 Arrangements

Audits are not an absolute guarantee of the accuracy or reliability of the Shire's information and may not identify all matters of significance. This is because the work undertaken to form an opinion is permeated by judgement and most audit evidence is persuasive rather than conclusive. In addition, there are inherent limitations in any audit, including the use of testing, the effectiveness of internal control structures and the possibility of collusion.

Primary responsibility for the detection, investigation and prevention of irregularities rests with the Shire's management. Consequently, it is the Shire's management who remains responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing and presenting the financial report, complying with the Act and the Financial Management Regulations.

Under the *Auditor General Act 2006*, audit staff have unrestricted access to information held by the Shire, irrespective of any restrictions on disclosures imposed, such as secrecy provisions. Confidentiality of audit files and working papers is required under the *Auditor General Act 2006*. The Office of the Auditor General is an 'exempt agency' under the *Freedom of Information Act 1992*. The signed contract between the Auditor General and RSM contains strict confidentiality clauses.

6.2 Management representation letter

The audit plan assumes that the CEO will be able to sign a management representation letter. The letter would be signed at the same time as the annual financial report is signed.

RSM and the Auditor General will rely on the CEO signing the management representation letter as evidence to confirm:

- The CEO has fulfilled their responsibility for the preparation of the financial report in accordance with the applicable financial reporting framework, including their fair presentation;
- The CEO has fulfilled their responsibility for determining such internal controls as is necessary to enable the preparation of a financial report that is free from material misstatement;
- The CEO has provided us with access to all relevant information necessary or requested for the purpose of the audit; and
- All transactions have been recorded and are reflected in the financial report.

7 STAKEHOLDERS RELATIONSHIP

7.1 Auditor General

The *Local Government Amendment (Auditing) Act 2017* makes legislative changes to the Act to provide for the auditing of local governments by the Auditor General. The Act allows the Auditor General to contract out some or all of the financial audits, but all audits will be the responsibility of the Auditor General. It also allows for performance audits, which will examine the economy, efficiency and effectiveness of any aspect of local government operations. The Act also places an obligation on local governments to publish their annual report, including their annual financial report and auditor's report, on their website.

The Auditor General has been given the mandate to:

- Audit the annual financial report of WA local governments, related entities and subsidiaries;
- Conduct performance audits of local governments;
- Perform supplementary audits requested by the Minister; and
- Report to Parliament on the results of financial and performance audits.



Parliament has appointed the Auditor General as it expects this will raise the standards of accountability for local governments to a level more consistent with public sector entities. This follows recommendations by the Public Accounts Committee and the Corruption and Crime Commission that the Auditor General be appointed the auditor of all local governments.

This change brings Western Australia in line with most other Australian jurisdictions and New Zealand.

7.2 Auditor General Audits and Reports

The Auditor General has completed, is undertaking or planning the following audits relevant to local government:

- Controls over corporate credit cards (report issued 9 May 2018). Auditor General found that local governments generally managing credit cards well but identified some room for improvement.
- Timely payment of suppliers (report issued 13 June 2018). The Auditor General found that local governments are generally timely in paying suppliers, but recommended improvements.
- Local government procurement (report issued 11 October 2018). The Auditor General found that improvements are needed to strengthen local government procurement controls.
- Management of supplier master files (report issued 7 March 2019). The Auditor General found improvements are needed in the areas of policies or procedures and controls over creation or amendment of supplier master file records.
- Audit Results Report - Annual 2017-18 Financial Audits of Local Government Entities (report issued 7 March 2019). The Auditor General identified where improvements may be considered and where opportunities exist. One such stark governance-related opportunity relates to audit committees. The Auditor General also identified the need for more emphasis on auditor independence.
- Records management in local government (tabling is currently planned for the first quarter of 2019).
- Local government building approvals (tabling is currently planned for the first quarter of 2019).
- Fraud prevention in local government (tabling is currently planned for mid 2019).
- Verifying employee identity and credentials (tabling is currently planned for second quarter of 2019).

Further details of the current and forward audit program can be found on the Auditor General's website:

<https://audit.wa.gov.au/>

7.3 Staged transition to the Auditor General

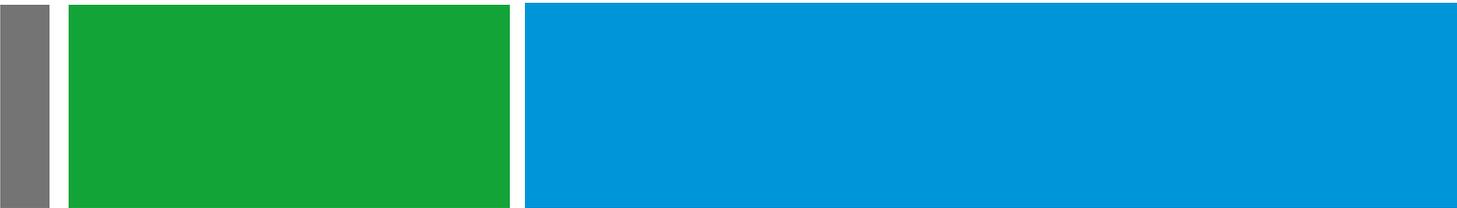
There is a staged transition for financial audits. As existing audit contracts expire, responsibility will transition to the Auditor General. There are 139 local governments and 9 regional councils in Western Australia. The Auditor General audited 46 local governments for the 2017-18 financial year. By financial year 2020-21, all local governments will be audited by the Auditor General, regardless of whether existing audit contracts have expired.

7.4 RSM's relationship with the Auditor General and the Shire

RSM has been contracted by the Auditor General to perform the audit of the financial report of the Shire.

Our services will be conducted under the overall direction of the Auditor General, who will retain responsibility for forming the audit opinion and issuing the audit report to the Shire. The contract requires RSM to use its audit approach and methodology. The engagement by the Auditor General of RSM is for the financial years ending 30 June 2019 and 2020, with an option to extend the term for a further two years at the Auditor General's sole discretion.

To comply with the Auditor General's contractual terms, RSM is required to form an opinion and report to the Auditor General. The objective of the RSM report is to enable the Auditor General to issue her report in accordance with the requirements detailed in section 4.1 of this APM.



RSM is also required to report any matter which may affect the Auditor General's responsibilities under sections 24 and 28 of the *Auditor General Act 2006*, section 7.12AD of the *Local Government Act* and the *Local Government (Audit) Regulations*.

7.5 Independence

The Auditor General is an independent officer of the Western Australia Parliament, appointed under legislation to examine, on behalf of Parliament and Western Australia taxpayers, the management of resources within the public sector. The Auditor General is not subject to control or direction by either Parliament or the government. In conducting the audit, the Auditor General, her staff and delegates will comply with all applicable independence requirements of the Australian accounting profession.

RSM International audit methodology requires that we conduct an annual re-evaluation of our independence prior to the commencement of each assignment. We have fully satisfied ourselves that we do not have any actual or perceived conflict of interest.

We are fully compliant with our Ethics and Independence Policies, which are verified and tested each year by our Partner Responsible for Ethics and Independence. Each year we are required to submit certain information to our Partner Responsible for Ethics and Independence, which is analysed and subjected to a series of stringent tests. This system has been extensively reviewed by the Australian Securities and Investments Commission and found to be in accordance with Australian Auditing Standards, the *Corporations Act 2001* and better practice.

8 CURRENT YEAR DEVELOPMENTS

The Shire has advised that there have been no major developments during the financial year that may affect our audit approach and procedures.

9 AUDIT APPROACH TO THE KEY AUDIT AREAS

9.1 Risk assessment

Key audit areas are those areas that, in RSM's professional judgment, present the most significant risk in our audit of the financial report.

As part of our audit approach we have conducted an initial financial report risk assessment to determine whether any of the risks identified are, in our judgment, significant or high. A significant or high risk is an identified and assessed risk of material misstatement in the financial report that, in our judgment is a key audit area and requires special audit consideration.

Our assessment of key audit areas is based upon:

- Discussion with the CEO and the Auditor General's representative;
- The complexity of transactions within each area;
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of uncertainty;
- The degree of susceptibility to fraud risk; and
- Consideration of any relevant matters that may be discussed during the audit planning stage.

9.2 Materiality

The scope of our audit is influenced by the application of materiality. Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial report line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial report and on our opinion.

In assessing the risk profile of the Shire, and in consideration of the users of the financial report, we have adopted materiality guidelines in accordance with Australian Auditing Standards.

For the purpose of this APM, we referred to the audited 30 June 2018 financial report of the Shire and used our professional judgment to determine a planning materiality amount. In line with Auditor General's policy, we have not disclosed the amount of planning materiality.

The basis of our materiality calculation is total expenditure, adjusted for our overall audit risk assessment. We have applied this benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial report. On this basis we believe that total expenditure is an important metric for the financial performance of the Shire. The scope of our audit is also influenced by the application of materiality. The planning materiality level will be calculated and determined using the RSM audit methodology. The amount may be adjusted during the audit, depending on the results of our audit procedures.

9.3 RSM approach to auditing high risk material areas

RSM's approach to high risk material (**HRM**) balances is to follow a hierarchy, which starts with testing of controls, then moves to substantive analytical review procedures and then finally testing of details.

Based on our prior years' audit experience and knowledge, we have assessed that we can rely on internal controls at the Shire, which effectively means we can then rely on a moderate level of analytical review and limited testing of details. This controls based approach is both efficient and effective.

Audit Reliance	High			
	Medium			
	Low			
		Controls	Substantive analytical review	Test of details
Audit technique				

9.4 RSM audit approach to low risk material areas

There are many low risk material (**LRM**) balances in the Shire's financial report, such as cash and cash equivalents, long term borrowings and employee costs.

RSM's approach to LRM balances is synchronised with our approach to the audit of HRM balances. Based on our prior year's audit experience and knowledge, we have assessed that we can rely on internal controls at the Shire, which effectively means we can rely on a low level of analytical review and very focused testing of details. Again, this controls based approach is both efficient and effective.

Audit reliance	High			
	Medium			
	Low			
		Controls	Substantive analytical review	Test of details
Audit technique				

9.5 Professional scepticism

We approach all our audits with a degree of professional scepticism as required by Australian Auditing Standards and the *Auditor General Act 2006*. In addition, professional scepticism is a key component of delivering an effective public sector audit. *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* defines professional scepticism as 'an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence'.

Professional scepticism is particularly relevant in areas that involve management assumptions and/or estimates. It is also critical when evaluating audit evidence to reduce the risk of the auditor:

- Overlooking unusual circumstances; and
- Over generalising when drawing conclusions from observations using inappropriate assumptions in determining the nature, timing and extent of evidence gathering procedures and evaluating the results thereof.

10 DESCRIPTION OF THE KEY AUDIT AREAS

Using the 2017/18 financial report as a guide and referring to the RSM calculated materiality amount and risk assessment, RSM has identified the following potential HRM balances for the current financial year:

High risk area	30 June 2018 \$	30 June 2017 \$
Revenue and receivables cycle		
Rates	1,809,317	1,664,137
Fees and charges	852,875	762,018
Trade and other receivables	1,277,716	685,729
Purchases and payment cycle		
Material and contracts	2,964,088	4,373,167
Property, Plant and Equipment (additions)	80,140	1,415,291
Infrastructure (additions)	1,343,703	2,700,965
Fixed assets cycle		
Property, Plant and Equipment	22,512,518	23,105,106
Infrastructure	47,544,308	44,071,710

10.1 Revenue and receivables cycle – rates / fees and charges / receivables

10.1.1 Reasons why RSM considered this area high risk

Revenue is measured by taking into account 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. GRV's and UV's vary between the various property types, such as mining and pastoral. The GRV / UV is supplied by Landgate. Furthermore, 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.

Fees and charges is a material amount and is measured by the application of an annual charge to rateable land supplied with specified services. For example, classic domestic bin services and swimming pool inspection fees. There are also further complexities with the application of the eligible pensioners rebate scheme.

In addition, further complexity and risk is associated with the requirement for the Shire to comply with Part 6, Division 6 'Rates and service charges' of the Act.

Based on the above complexities and the high risk of management override, revenue recognition for rates is considered high risk.

10.1.2 RSM audit response

RSM audit procedures will include, among other things, assessment of the Shire's effectiveness of key internal controls operating within the revenue cycle, including application controls. RSM will perform a walkthrough of the key management controls over the revenue cycle and test key management controls. RSM will review, on a sample basis, the reconciliations and calculation of rates and compare these against historical results. In order to assess the completeness of recording revenue in the correct accounting period, RSM will perform revenue cut-off testing and review credit notes.



To determine the existence of the receivable balance and the recoverability thereof as at 30 June 2019, RSM will review receivables balances on a sample basis and perform subsequent receipt testing. Furthermore, we will perform analytical procedures on rates through detailed comparison with prior year balances and budget forecasts. RSM will also determine if the disclosures in the notes to the financial report related to the Shire's revenue recognition policy are appropriate.

10.2 Purchases and payment cycle

10.2.1 Reasons why RSM considers this area high risk

All procurement made by the Shire is subject to the requirements of the Act and Part 4 of the *Local Government (Functions and General) Regulations 1996 (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.

10.2.2 RSM audit response

RSM will review the Shire's purchasing policies and assess the effectiveness of internal controls operating within the payment cycle. In addition, we will perform a walkthrough of the key management controls over the purchase and payment cycle, including tendering, and perform tests of control on key management controls over the purchase and payment cycle. Furthermore, we will perform analytical procedures on procurement through detailed comparison with prior year balances and budget forecasts. Our testing will include an evaluation of whether the Shire's purchasing activities have complied with the Act and the Functions and General Regulations.

10.3 Fixed asset cycle

10.3.1 Reasons why RSM considers this area high risk

Property, Plant and Equipment and Infrastructure respectively constitute 29% and 61% of the Shire's total assets as at 30 June 2018. 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 17(4) of the Financial Management Regulations, the Shire is required to revalue an asset:

- a) Whenever the local government believes the fair value of the asset is likely to be materially different from its carrying amount; and
- b) In any event, within a period of at least 3 years but not more than 5 years after the day on which the asset was last valued or revalued.

Furthermore, in accordance with paragraph 9 of AASB 136 *Impairment of Assets*, the Shire is required to assess at reporting date whether there is any indication that an asset may be impaired.

The Shire's Plant and Equipment and Furniture and Equipment will be valued by an independent valuer to be appointed by the Shire. The valuations rely on the correct determination and application of significant assumptions regarding the assets' service potential, consumption curves, useful life, asset condition and residual value. These factors, in combination with the significant share of total assets, made us conclude that plant and equipment and furniture and equipment are a key audit area.

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 by the local government is under \$5,000.

10.3.2 RSM audit response

We will carry out internal control testing over the Shire's processes for determining inputs into fair value measurements of Plant and Equipment and Furniture and Equipment and perform detailed substantive testing on a sample basis of the related fair value measurements. We will focus our testing on the key assumptions made by the valuer in determining the fair value, testing the mathematical accuracy of the calculation models, performing sensitivity analyses around the key assumption used in the models and reviewing the reference material used by the valuer to determine the Level 2 and 3 inputs.

We will also review the Shire's assessment that the fair value of Property and Infrastructure assets is not likely to be materially different from their carrying amounts and the Shire's consideration of any potential impairment indicators.

We will review management's assessment of those assets below \$5,000, obtain 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.

11 OTHER CRITICAL DISCLOSURES IN THE FINANCIAL REPORT

RSM will also audit the following critical disclosures in the financial report:

11.1 Related party disclosures

The Shire continues to be subject to the requirements of AASB 124 *Related Party Disclosures*. The Standard requires disclosures for senior officers' compensation and certain transactions with related parties. A review will be conducted to ensure proper accounting and disclosure of related party transactions and director and executive remuneration.

Further, section 7.12AL of the Act applies section 17 of the *Auditor General Act 2006* to a local government, which requires the Shire to advise the Auditor General in writing of details of all related entities that are in existence.

We will obtain and review the Shire's disclosure of related party transactions.

11.2 Financial ratios

Under regulation 50 of the Financial Management Regulations, the annual report is to include financial ratios. Financial ratios are designed to enable users of annual financial reports to interpret more clearly the Shire's performance and financial results as well as provide a comparison of trends over several years.

These indicators provide a measure of the financial sustainability of local governments 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 governments.

We will obtain and audit the ratios to assess compliance with regulation 50 of the Financial Management Regulations.

12 CONTROLS

12.1 Internal control

Internal controls are systems, policies and procedures that help an entity reliably and cost effectively meet its objectives. Sound internal controls enable the delivery of reliable, accurate and timely external and internal reporting. The Shire is responsible for developing and maintaining its internal control framework to enable:

- Preparation of accurate financial records and other information;
- Timely and reliable external and internal reporting;
- Appropriate safeguarding of assets; and
- Prevention or detection and correction of errors and other irregularities.

The annual financial audit enables RSM to form an opinion on the Shire's financial report. An integral part of this, and a requirement of Australian Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, is to assess the adequacy of an organisation's internal control framework and governance processes related to its financial reporting. While this understanding has a significant impact on our audit strategy, our audit of the Shire's financial report is not designed to assess, nor do we provide an opinion on, the effectiveness of internal controls.

We focus on the internal controls relating to financial reporting and assess whether the Shire has managed the risk that the financial report will not be complete and accurate. Poor controls diminish management's ability to achieve the organisation's objectives and comply with relevant legislation. They also increase the risk of fraud.

During our planning procedures we will gain an understanding of the following components of internal control:

- Control environment
- Risk assessment procedures
- Information systems
- Control activities
- Monitoring procedures

Our preliminary assessment of the internal control framework may indicate that the internal controls are likely to be effective in preventing or detecting and correcting material misstatements in the financial report. In these circumstances we would plan to place reliance on the key internal controls relating to the material components in the financial report to support our audit opinion.

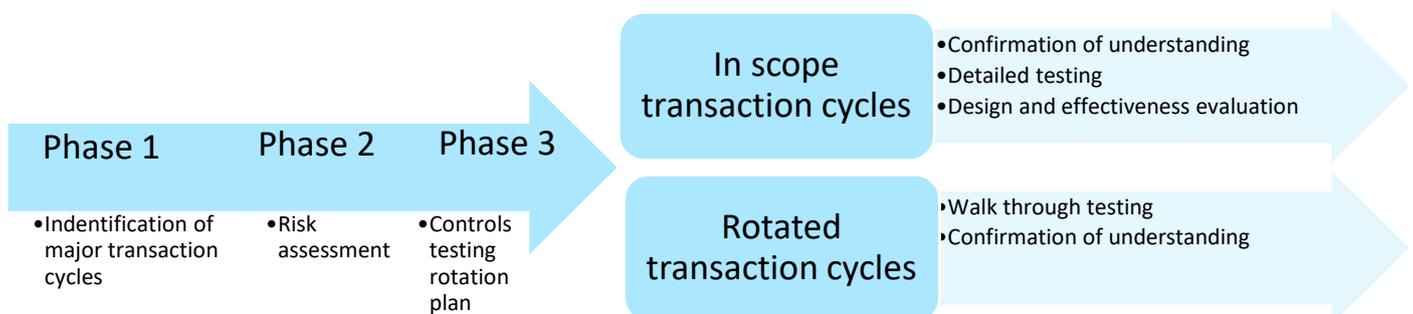
12.2 Significant changes to internal controls

The Shire has advised that they are not aware of any other major changes to internal controls.

12.3 Rotation approach

In accordance with our rotational controls testing approach, we will conduct a risk assessment for each major transaction cycle during our initial engagement year. The risk assessment is benchmarked against our knowledge of each transaction cycle within the local government sector. Using the risk assessment, we design a control testing rotation plan that will bring certain transaction cycles into audit scope each year. Those cycles not in scope will be subject to our normal walkthrough procedures and confirmation of our understanding of the key controls.

Those transactions cycles in scope will be subject to detailed controls testing, including testing of the design and effectiveness of those controls.



In the current year, in addition to control testing over revenue and payment cycles, we will be testing key management controls over the cash and fixed assets cycle. We will be rotating out the testing over the payroll cycle.

13 FRAUD RISK

Under Australian Auditing Standard ASA 240 *The Auditor's Responsibility Relating to Fraud in an Audit of a Financial Report*, when planning and performing audit procedures and evaluating the results, the auditor must consider the risk of material misstatement in the financial report because of fraud and error.

Although ASA240 sets out the principles and procedures we must follow, the primary responsibility for the prevention and detection of fraud and error rests with the Council and the management of the Shire. The Shire is responsible for maintaining accounting records and controls designed to prevent and detect fraud and error, and for the accounting policies and estimates inherent in the financial report.

Our audit procedures on fraud risk include the following:

- Forward a copy of the fraud control checklist for self-assessment to the Shire's management prior to our final audit visit. The checklist allows us to make inquiries of management, to obtain its understanding of the risk of fraud within the Shire and to determine whether management have any knowledge of fraud that has been perpetrated on or within the entity. We will review the fraud control self-assessment by the Shire;
- Review the Shire's fraud control procedures in place to reduce the risk of fraud occurring within the entity, including the Shire's code of conduct;
- Understand the Shire's fraud control environment;
- Understand the business rationale for significant or unusual transactions;
- Review current accounting estimates for biases;
- Review the appropriateness of year end accounting adjustments;
- Make enquiries of management and others within the Shire; and
- Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed as individuals within the entity who are familiar with the audit procedures normally performed on engagements may be more able to conceal fraudulent financial reporting.

14 OTHER AUDIT MATTERS

14.1 Audit preparation checklists

To assist the Shire to gather and collate the necessary audit information and documentation, we will issue in advance of each audit visit a Preliminary Audit Preparation Checklist and a Final Audit Preparation Checklist. As the requested information will be an important part of our audit working papers, the information must be made available to RSM on the dates specified at section 16 of this APM. This will assist us in delivering an efficient audit and minimising interruptions to Shire staff.

We have established a fully secure data upload function for the use of the Shire that is used to file the documents and records we will need for our audit. We have found this facility to be very useful and clients have appreciated the savings in time and reduced disturbance by auditors during the audit fieldwork.

14.2 Important changes in governance, management or internal control environments

The Shire has advised that there are no major changes to its governance, management or internal control environment that may significantly impact the 30 June 2019 financial report.

14.3 Cumulative knowledge of accounting and computer systems and any expected changes

The Shire has represented that they are not aware of any significant changes to the accounting and computer systems.

15 IMPLICATIONS OF ACCOUNTING STANDARDS

The Shire's management is required to assess the impact of the new standards and interpretations on its financial report. A detailed assessment is being conducted by the Shire and will be appropriately disclosed in the financial report for each new accounting standard. We will review the Shire's assessment and relevant disclosures.

The table below illustrates the standards and interpretations, which have been issued but are not yet effective, that may impact the Shire in the period of initial application.

15.1 Application dates of applicable standards and interpretations

Reference	Summary	Effective date to Shire
AASB 9 <i>Financial Instruments</i>	Addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and introduced a new impairment model. These latest amendments now complete the new financial instruments standard. The standard is applicable to the Shire for the reporting year ending 30 June 2019.	1 July 2018
AASB 15 <i>Revenue from Contracts with Customers</i>	Replaces AASB 118 <i>Revenue</i> , which covers contracts for goods and services, and AASB 111 <i>Construction Contracts</i> , which covers construction contracts. Establishes the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. The standard is not applicable to the Shire until the reporting year ending 30 June 2020.	1 July 2019
AASB 16 <i>Leases</i>	AASB 16 introduces a single lease accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard is not applicable to the Shire until the reporting year ending 30 June 2020.	1 July 2019
AASB 1058 <i>Income of Not-for-Profit Entities</i>	AASB 1058 has made complementary changes to the existing AASB 1004 <i>Contributions</i> and has also added new guidance <i>AASB 15 Revenue from Contracts with Customers</i> to clarify its application in the not for profit sector. The standard is not applicable to the Shire until the reporting year ending 30 June 2020.	1 July 2019

16 TIMETABLE

Phase	Task	Indicative Time Frame	Action
Planning	Preliminary planning phase, document and update overall audit approach and plan	March 2019	RSM
	Issue draft APM to the OAG and the Shire for commentary	9 April 2019	RSM
	Entrance meeting with Audit Committee and OAG, presentation and discussion of final APM	16 April 2019	RSM OAG Shire
Preliminary audit fieldwork	Issuing of Preliminary Audit Checklist	18 March 2019	RSM
	Based on risk assessment, performance of cyclical controls testing, walkthrough of major business cycles and review of key reconciliation procedures	13 – 15 May 2019	RSM
	Assessment of status of Management Letter points raised for the prior year		
	Performance of substantive tests for revenue and expenditure cycles for the 9 months ended 31 March		
Preliminary audit reporting	Issue the draft Preliminary Management Letter to the OAG for consideration and comment.	24 May 2019	RSM
	Issue of the draft Preliminary Management Letter to the Shire for consideration and comment.	28 May 2019	RSM
	Return of draft Interim Management Letter to RSM with commentary	31 May 2019	Shire
	Issuing of Final Interim Management Letter to OAG	4 June 2019	RSM
Draft financial report	The Shire submits shell financial report to RSM for review and comment	16 July 2019	Shire
	Shire to submit draft financial report as per the Act deadline.	30 September 2019	Shire

Phase	Task	Indicative Time Frame	Action
Final audit fieldwork	Issuing of Final Audit Checklist	31 July 2019	RSM
	Provision of trial balance as at 30 June 2019 to RSM	6 September 2019	Shire
	Performance of substantive tests for revenue and expenditure cycles for the 3 months ended 30 June 2019	16 – 19 September 2019	RSM
	Performance of substantive tests for balance sheet accounts as at year end		
Final audit reporting	Issuing of draft Final Management Letter for the year ended 30 June to the Auditor General for consideration and comment	25 September 2019	RSM OAG
	Issuing of draft Final Management Letter for the year ended 30 June to the Shire for consideration and comment	27 September 2019	Shire
	Return draft Final Management Letter for the year ended 30 June to RSM with commentary	1 October 2019	Shire
	Preparation of OAG Signing Review Memorandum	2 October 2019	RSM
	Review of audit file by OAG	3 October 2019	OAG
	Issue draft Management Representation Letter and draft Financial Report to Shire for consideration and comment	4 October 2019	RSM
	Closing Report issued	4 October 2019	RSM
	Exit Meeting with Shire	17 October 2019	Shire OAG RSM
	Issue final Management Representation Letter and approve Financial Report	18 October 2019	Shire
	Independent Contract Auditor's Report issued	21 October 2019	RSM
	OAG to sign and issue the Audit Report	November 2019	Auditor General



17 APPENDIX A: SUMMARY CORPORATE STRUCTURE

The corporate structure for the Shire of Morawa as at 26 March 2019 is as follows:

17.1 Council

- Karen Chappel, Shire President
- Dean Carslake, Deputy Shire President
- Jane Coaker, Councillor
- Ken Stokes, Councillor
- Darren Agar, Councillor
- Debbie Collins, Councillor
- Shirley Katona, Councillor

17.2 Executive team

- Chris Linnell, Chief Executive Officer
- Jenny Goodbourn, Executive Manager Corporate and Community Services
- Grace French, Acting Executive Manager Development and Administration
- Paul Buist, Principal Works Supervisor

18 APPENDIX B: ADDITIONAL INFORMATION CONTACTS

David Wall	Subha Gunalan
RSM Australia	Office of the Auditor General
Level 32, Exchange Tower	7 th Floor, Albert Facey House
2 The Esplanade	469 Wellington Street
Perth Western Australia 6000	Perth Western Australia 6000
Tel: +61 8 9261 9387	Tel: +61 8 6557 7716

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