

Office of the Auditor General
Western Australia

Annual Financial Report Audit - Planning Summary

Shire of Brookton

Year ended 30 June 2021

15 July 2021



1. The Planning Summary

This Summary of our Audit Plan explains our approach to the audit of the annual financial report.

In particular, this Summary includes:

- Introduction
- Our Audit Approach
- Significant Risks and Other Audit Issues
- Audit Emphasis and Significant Account Balances
- Management Representation Letter
- Related Entities
- Reporting Protocols
- Proposed Audit Schedule
- Specific Audit Requirements
- Audit Fee
- Your Audit Team
- Other Audit Activities

If there are any matters in the Summary that you would like clarified, please do not hesitate to contact us.

There may be areas where you would like us to increase the audit focus. We would be pleased to discuss these to determine the most efficient and effective approach to performing this work.

2. Introduction

The annual financial statement audit of your local government is one of 148 that the Auditor General will perform for 2020-21.

Our audit approach is designed to specifically focus audit attention on the key areas of risk you face in reporting on your finances and performance.

It is important to note that:

- Under the *Local Government Act 1995* and associated regulations, the Council and the Chief Executive Officer (CEO) are responsible for keeping proper accounts and records, maintaining effective internal controls, preparing the annual financial report, and complying with the Local Government Act and Regulations, and other legislative requirements.
- An audit does not guarantee that every amount and disclosure in the annual financial report is error free. Also, an audit does not examine all evidence and every transaction. However, our audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the annual financial report.
- The Council and CEO are responsible for ensuring the accuracy and fair presentation of all information in its annual report, and that it is consistent with the audited annual financial report. We do not provide assurance over your annual report.
- Under the *Local Government Act 1995* and associated regulations, the Council and the CEO have responsibility for maintaining internal controls that prevent or detect fraud or error and to ensure regulatory compliance. The Audit Committee and the Auditor General should be informed by management of any fraud or material errors. During the audit we will make inquiries with management about their process for identifying and responding to the risks of fraud, including management override. It should be noted that our audit is not designed to detect fraud, however should instances of fraud come to our attention, we will report them to you.

Our audit is conducted in accordance with Australian Auditing Standards. Our aim is to provide reasonable assurance whether the annual financial report is free of material misstatement, whether due to fraud or error. We perform audit procedures to assess whether, in all material respects, the annual financial report is presented fairly in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards.

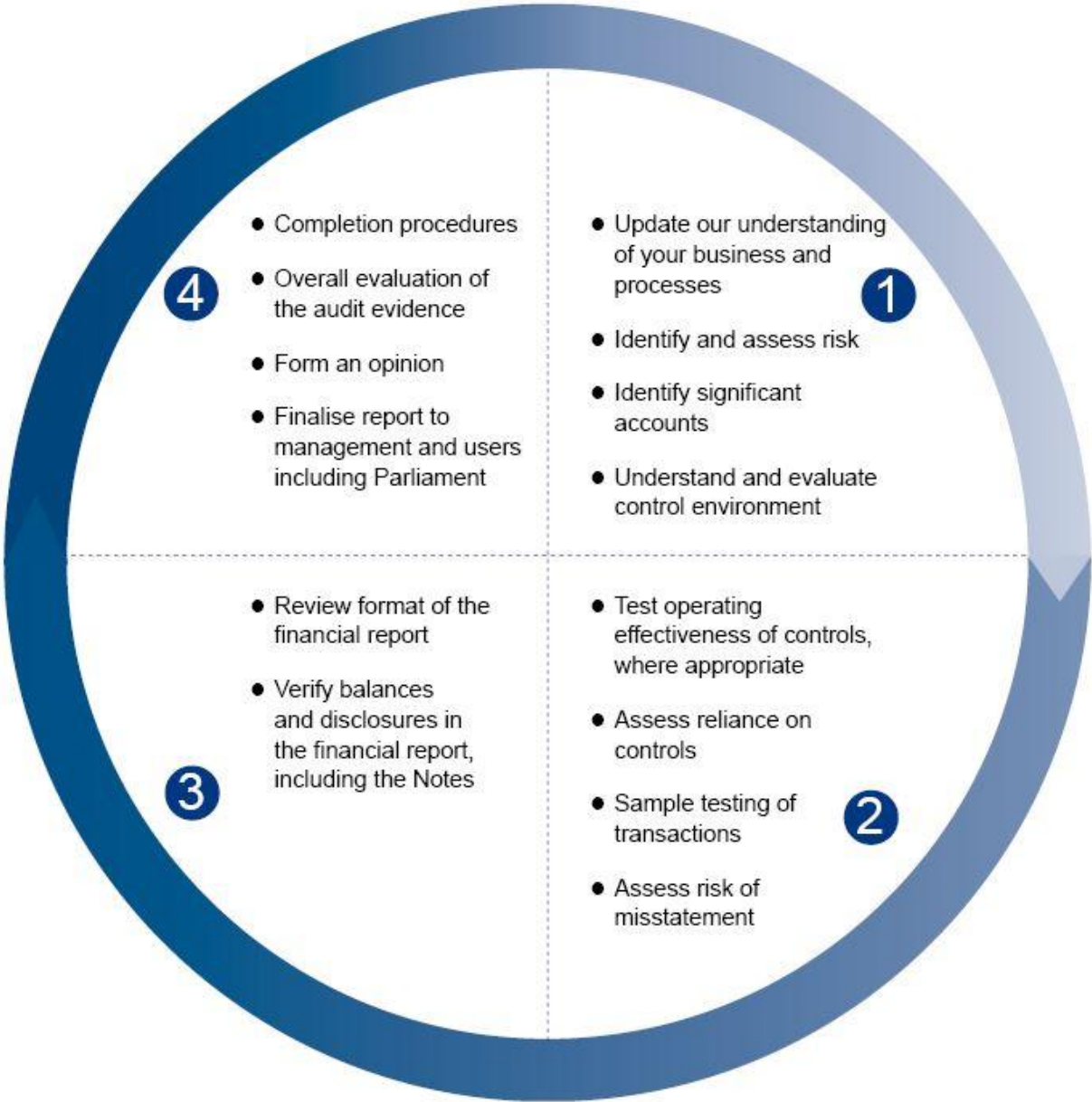
The nature of the audit is influenced by factors such as:

- the use of professional judgement
- selective testing
- the inherent limitations of internal controls
- the availability of persuasive rather than conclusive evidence.

As a result, an audit cannot guarantee that all material misstatements will be detected. We examine, on a test basis, information to provide evidence supporting the amounts and disclosures in the annual financial report, and assess the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by management.

3. Our Audit Approach

Our nationally recognised audit approach comprises four steps:



4. Significant Risks and Other Audit Issues

Through discussions with your staff and the previous auditors, we have identified the following issues and key areas of risk affecting the audit.

Details of Risk / Issue	Audit Approach
<p>Prior year management letter issues: 3 significant, 7 moderate.</p> <p>The significant issues related to:</p> <p>Expenditure</p> <ul style="list-style-type: none"> • Purchasing policies and procedures <p>Asset</p> <ul style="list-style-type: none"> • Asset management plan review <p>Other</p> <ul style="list-style-type: none"> • User access management 	<p>We will review the progress made in relation to addressing prior-year issues identified in the audit.</p>
<p>Key changes to accounting standards that impact your entity for the first time this year:</p> <ul style="list-style-type: none"> • AASB 1059 <i>Service Concession Arrangements: Grantor</i> <p>This Standard addresses the accounting for a service concession arrangement (a type of public private partnership) by a grantor that is a public sector agency by prescribing the accounting for the arrangement from the grantor's perspective.</p> <p>Timing and measurement for the recognition of a specific asset class occurs on commencement of the arrangement and the accounting for associated liabilities is determined by whether the grantee is paid by the grantor or users of the public service provided.</p>	<p>We will review management's assessment of the impact of the new standard.</p> <p>Following this, we will determine whether, to the extent necessary, your entity has applied the standard correctly, and ensure the annual financial report complies with the revised requirements of the standard.</p>
<p>Capital works in progress</p>	<p>We will review the accounting treatment of the capitalisation of capital works in progress. This will include sample testing to assess the appropriateness of the accounting treatment.</p>
<p>New financial management systems that impact for the first time this year</p>	<p>We are not aware of any new financial management systems that impact for the first time this year.</p>
<p>The following annual financial report items are derived from accounting estimates and hence will receive specific audit attention:</p> <ul style="list-style-type: none"> • Provision for annual and long service leave including casual employees covered by the <i>Long Service Leave Act 1985 (WA)</i> • Fair value of assets • Impairment of assets 	<p>Recent changes to auditing standards have increased the amount of rigour auditors must demonstrate when auditing balances that are derived from estimates.</p> <p>We will review the method and underlying data that management and where applicable third parties use when determining critical accounting estimates. This will include considering the</p>

Details of Risk / Issue	Audit Approach
	reasonableness of assumptions and supporting representations.
Important changes in management or the control environment: <ul style="list-style-type: none"> • Manager Corporate and Community • Manager Infrastructure and Emergency Services 	We will review any relevant changes to management roles and related delegations, to confirm that no temporary or ongoing control gaps have occurred.
Certification – Pensioner Deferments	We will review the pensioner deferments certification that the Shire provides to the Office of State Revenue to confirm that deferred rates have been appropriately recorded.
Certification – Roads to Recovery	We will review the Roads to Recovery certification that the Shire provides to the Department of Infrastructure, Transport, Regional Development and Communications to confirm that the expenditure reported appropriately recorded in line with Roads to Recovery funding conditions.

5. Audit Emphasis and Significant Account Balances

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

The extent of our reliance on controls, together with the materiality level, determines the nature and extent of our audit procedures to verify individual account balances.

Our audit will be split into two components, the interim audit and the final audit.

The interim audit includes:

- understanding your current business practices
- understanding the control environment and evaluating the design and implementation of key controls and, where appropriate, whether they are operating effectively
- testing transactions to confirm the accuracy and completeness of processing accounting transactions
- clarifying significant accounting issues before the annual financial report is prepared for audit.

The final audit focuses on verifying the annual financial report and associated notes, and includes:

- verifying material account balances using a combination of substantive analytical procedures, tests of details, substantiation to subsidiary records and confirmation with external parties
- reviewing the annual financial report and notes for compliance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards.

The table below lists those items in the Statement of Financial Position and the Statement of Comprehensive Income that are significant account balances, and our planned audit approach for these balances. When selecting significant account balances, we consider materiality, the nature of the balance, inherent risk and the sensitivity of disclosures.

Significant Account	Audit Approach
Cash and cash equivalents	<ul style="list-style-type: none"> • Review internal controls and reconciliations • Verify year-end balance through bank confirmations • Analytical review
Trade and other receivables	<ul style="list-style-type: none"> • Year-end cut-off testing • Review subsequent receipts • Review provision for doubtful debts • Analytical review
Property, plant, equipment, and Infrastructure	<ul style="list-style-type: none"> • Review key processes and controls • Verify asset additions and disposals • Assess assets for impairment • Test items posted to construction in progress to assess appropriateness of expenses being capitalised • Assess whether carrying amounts approximate fair value • Confirm balances to independent valuation reports
Trade and other payables	<ul style="list-style-type: none"> • Review key processes and controls • Test for unrecorded liabilities • Year-end cut off testing • Analytical review
Long term borrowings	<ul style="list-style-type: none"> • Agree amounts to WATC confirmation
Lease liabilities Right of use assets	<ul style="list-style-type: none"> • Review internal controls and reconciliations • Review the reasonableness of assumptions and calculations • Analytical review
Provisions	<ul style="list-style-type: none"> • Review reasonableness of assumptions and calculations • Analytical review
Rates	<ul style="list-style-type: none"> • Review key processes and controls • Analytical review • Year-end cut off testing
Fees and charges	<ul style="list-style-type: none"> • Review key processes and controls • Analytical review • Year-end cut off testing

Significant Account	Audit Approach
Operating and Non-operating grants, subsidies and contributions	<ul style="list-style-type: none"> Review key processes and controls Review significant grants and ensure that they are accounted for correctly
Employee costs	<ul style="list-style-type: none"> Review key processes and controls Sample testing of transactions Analytical review
Materials and contracts	<ul style="list-style-type: none"> Review key processes and controls Sample testing of transactions Analytical review
Depreciation on non-current assets	<ul style="list-style-type: none"> Review management's assessment of the useful lives of assets and assess reasonableness. Analytical review

6. Management Representation Letter

The above audit procedures assume that management expects to be in a position to sign a management representation letter. The proposed letter for this purpose is attached. This letter should be reviewed and tailored to meet your local government's particular circumstances, and be signed and dated by the CEO as close as practicable to the date of the proposed auditor's report. Ordinarily, this would be no longer than five working days prior to the issue of the auditor's report.

Please bring to the attention of the President that we will also be relying on the signed Statement by CEO in the annual financial report as evidence that they confirm:

- they have fulfilled their responsibility for the preparation of the annual financial report in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards
- they have provided us with all relevant information necessary or requested for the purpose of the audit
- all transactions have been recorded and are reflected in the annual financial report.

7. Related Entities

Section 7.12AL of the *Local Government Act 1995* applies section 17 of the *Auditor General Act 2006* to a local government. Section 17 requires a local government to advise the Auditor General in writing of details of all related entities that are in existence.

8. Reporting Protocols

Significant issues identified during the course of the audit will be discussed with relevant staff and management as soon as possible after being identified. Draft management letters will be provided to your CEO (or other nominated representative) for coordination of comments from

appropriate members of your management. We request that these be returned quickly, preferably within 10 working days.

At the conclusion of the audit, the abovementioned management letter will accompany the auditor's report and the audited annual financial report forwarded to the President, the CEO and the Minister for Local Government. The management letter is intended to communicate issues arising from the audit that may impact on internal control, compliance, and financial reporting.

Where considered appropriate, and to ensure timely reporting of audit findings and action by management, interim management letters may be issued to the CEO.

On conclusion of the audit we propose to discuss the audit outcomes with the audit committee, CEO and Councillors.

Thereafter, as required by section 7.12AD(2) of the *Local Government Amendment (Auditing) Act 2017* we will give our auditor's report to the CEO, the President and Minister. We will also give them any management letter issues, including interim management letters.

Specific matters resulting from issues identified during the audit may be reported in an Auditor General's Report to Parliament. Should this occur, you will be consulted in advance to assure the context and facts of the issue are adequately represented.

9. Proposed Audit Schedule

	Date	
Planning	June 2021	
Interim Audit	5 July to 15 July 2021	
Final Audit	11 October to 22 October 2021	
Critical Target Dates		
Interim Management Letter	30 July 2021	
Receipt of proforma Annual Financial Report	By 13 September	*
Final Trial Balance	27 September 2021	*
Receipt of Annual Financial Report	27 September 2021	*
Exit Meeting (week ending)	5 November 2021	
Issue of Auditor's Report	12 November 2021	

* To be agreed with management at the entrance meeting.

10. Specific Audit Requirements

We will discuss our requirements with your staff to facilitate a timely, efficient and effective audit. We will formally agree our information requirements and timeframes for the final audit with your Manager Corporate and Community using our Prepared by Client Listing. This Listing is intended to help your staff to have various documents readily available when we perform our audit. Please note however that in several instances, particularly during our audit sampling at the interim visits, audit staff will need to retrieve some evidence themselves, rather than being given the evidence by your staff. This is essential for an independent audit.

11. Audit Fee

Our indicative audit fee for this year's audit is \$51,000.

The indicative fee is based on full cost recovery. It is calculated from an estimate of the time required by our staff to complete your audit, and includes a proportion of the OAG's financial audit related overheads, for example the cost of preparing reports to Parliament.

We are constantly searching for ways to improve efficiency and reduce audit costs within the constraints of legislative requirements and auditing standards. However, your entity can also contribute to reducing the cost of your audit. A well prepared financial report, working papers, and internal audit programs that dovetail well with the work we are required to perform are some ways that costs can be contained.

Additional costs requiring a supplementary fee can arise from such things as significant accounting issues, errors in the financial report, breakdowns in internal controls, delays in providing information to audit staff, or your staff being unavailable to discuss issues with the audit team. Where circumstances arise that impact on our audit costs we may need to revise the indicative fee at the completion of the audit.

12. Your Audit Team

	Name	Contact
Senior Director	Jordan Langford-Smith	(08) 6557 7609 Jordan.Langford-Smith@audit.wa.gov.au
Audit Manager	Xuan Shan Ong	(08) 6557 7608 XuanShan.Ong@audit.wa.gov.au
Other Audit Staff	Louis De Robillard	(08) 6557 7614 Louis.DeRobillard@audit.wa.gov.au
Assistant Auditor General	Grant Robinson	(08) 6557 7526 Grant.Robinson@audit.wa.gov.au

Jordan Langford-Smith is responsible for the overall quality of the audit. As your primary contact, Jordan will communicate progress and any emerging issues to you.

13. Other Audit Activities

The OAG has recently tabled the following reports in Parliament. These are available at wwzzw.audit.wa.gov.au along with details of other audits we are currently performing. In reporting, we aim to identify good practice and opportunities for improvement. You may therefore wish to review these reports as they may have relevance to your local government.

Report	Date Tabled
Temporary Abbreviated State Procurement Control Requirements	30 June 2021
Improving prisoner Literacy and Numeracy	23 June 2021
Local Government General Computer Controls	12 May 2021
Applications Controls Audit 2021	9 March 2021
Grants Administration	28 January 2021
COVID-19 Relief Fund	21 December 2020
Regulating Minor Pollutants	26 November 2020
Audit Results Report – Annual 2019-20 Financial Audits of Local Government Entities	11 November 2020
Transparency Report: Major Projects	29 October 2020
Transparency Report: Current Status of WA Health's COVID-19 Response Preparedness	24 September 2020
Waste Management – Service Delivery	20 August 2020
Regulation of Consumer Food Safety by Local Government Entities	30 June 2020
Information Systems Audit Report 2020 – Local Government Entities	25 June 2020
Western Australian Public Sector Audit Committees – Better Practice Guide	25 June 2020
Audit Results Report – Annual 2019 Financial Audits	12 May 2020
Local Government Contract Extensions and Variations	4 May 2020
Controls of Monies Held for Specific Purposes	30 April 2020
Information Systems Audit Report 2020 – State Government Entities	6 April 2020
Controls Over Purchasing Cards	27 March 2020