



Shire of Dardanup

APPENDICES

AUDIT & RISK COMMITTEE MEETING

To Be Held

Wednesday, 8 April 2020
Commencing at 1.00pm

At

Shire of Dardanup
ADMINISTRATION CENTRE EATON
1 Council Drive - EATON

This document is available in alternative formats such as:
~ Large Print
~ Electronic Format [disk or emailed]
Upon request.



Our Ref: 8658

7th Floor, Albert Facey House
469 Wellington Street, Perth

Mr Andre Schonfeldt
Chief Executive Officer
Shire of Dardanup
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EATON WA 6232

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PO Box 8489
PERTH WA 6849

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Dear Mr Schonfeldt,

ARRANGEMENTS FOR THE AUDIT OF THE ANNUAL FINANCIAL REPORT OF THE SHIRE OF DARDANUP

I am writing to you to confirm arrangements for the annual audit of the Shire's annual financial report. This is an important part of the audit process because it helps to ensure that you are fully informed regarding our respective responsibilities under the engagement.

The responsibilities apply to audits for the current financial year, as well as to the audits for subsequent financial years, unless circumstances change, and are detailed in the Attachment.

It would be appreciated if you and the President could confirm your acknowledgement of the responsibilities by signing and returning the Attachment.

Feel free to contact me on 6557 7716 if you would like to discuss this or any other matter in relation to the audit.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Subha'.

SUBHA GUNALAN
ACTING SENIOR DIRECTOR
FINANCIAL AUDIT

17 March 2020

Attach

RESPONSIBILITIES FOR THE AUDIT

This document sets out the responsibilities for the audit of the annual financial report of the Shire of Dardanup.

Objective and Scope of the Audit

Under the *Local Government Act 1995*, the Auditor General is to audit the accounts and annual financial report of the Shire of Dardanup. The annual financial report comprises the Statement of Financial Position as at 30 June 2020, the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and Rate Setting Statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Chief Executive Officer. As a part of the audit, we also report on matters as detailed under Other Legal and Regulatory Requirements in the Reporting section of this document.

The objective of the audit is to obtain reasonable assurance about whether the annual 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 the Auditor General's opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

Responsibilities of the Auditor General and the Office of the Auditor General (OAG)

The audit will be conducted in the manner determined by the Auditor General in accordance with Australian Auditing Standards. Those standards require that we comply with ethical requirements. As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for the opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Shire's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial report that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Shire's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report, as we cannot predict future events or conditions that may have an impact.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed.

In carrying out the audit, the OAG will also adhere to the following principles and reporting obligations:

- the highest standards of ethical and personal behaviour are demonstrated
- the audit is approached in a fair and constructive way
- the audit is conducted and reported in an impartial manner
- matters of significance arising from the audit are collated and reported at a sector level to the Parliament.

Responsibilities of the Council and the Chief Executive Officer

We acknowledge that we are responsible for:

- (a) keeping proper accounts and records
- (b) the preparation and fair presentation of the annual financial report in accordance with the *Local Government Act 1995* (the Act), Local Government (Financial Management) Regulations 1996 and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards
- (c) such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error
- (d) providing you with:
 - (i) access to all information that is relevant to the preparation of the financial report such as records, documentation and other matters;
 - (ii) additional information that you may request from us for the purpose of the audit; and
 - (iii) unrestricted access to staff and councillors of the Shire from whom you determine it necessary to obtain audit evidence.
- (e) the preparation of other information (i.e. financial or non-financial information (other than the financial report and the auditor's report thereon) included in the Shire's annual report) that is consistent with the financial report, and which does not contain any material misstatements.

As part of the audit process, we will also request, from the Chief Executive Officer and the Deputy Chief Executive Officer, written confirmation concerning representations made to us in connection with the audit.

We look forward to the full cooperation from your staff during our audit.

Reporting

Annual Financial Report

The Auditor General's auditor's report will be prepared in accordance with the *Local Government Act 1995*, Local Government (Audit) Regulations 1996 and Australian Auditing Standards and include the audit opinion on the annual financial report.

Other Legal and Regulatory Requirements

The Local Government (Audit) Regulations 1996 also require the auditor's report to include:

- a) any material matters that in the opinion of the auditor indicate significant adverse trends in the financial position or the financial management practices of the local government
- b) any material matters indicating non-compliance with Part 6 of the *Local Government Act 1995*, the Local Government (Financial Management) Regulations 1996 or applicable financial controls in any other written law
- c) details of whether information and explanations were obtained by the auditor
- d) a report on the conduct of the audit
- e) the opinion of the auditor as to whether or not the asset consumption and asset renewal funding ratios in the annual financial report are supported by verifiable information and reasonable assumptions.

The form and content of the auditor's report may need to be amended in the light of our audit findings and future amendments (if any) to the Local Government (Audit) Regulations 1996.

The auditor's report will be sent to the CEO, President and the Minister for Local Government in accordance with the *Local Government Act 1995*.

Management Letter

Deficiencies in internal controls and other relevant matters identified during the audit will be included in a management letter sent to the CEO and President.

Audit Fee

The fee for the audit will be determined by the Auditor General in accordance with the *Local Government Act 1995*. We will provide you with an indicative audit fee in the first quarter of the calendar year. This indicative fee is an estimate based on full cost recovery and a number of assumptions. The fee may be increased if there are additional costs due to matters such as a poor quality financial report and supporting working papers, deficiencies in internal controls and delays in receiving information from Shire staff.

Publication of the Audited Annual Financial Report

The Shire is required by the *Local Government Act 1995* to publish its annual report, including the audited annual financial report and the Auditor General's auditor's report, on its official website. When information is presented electronically on a web site, the security and controls over information on the web site should be addressed by the Shire to maintain the integrity of the data presented. The examination of the controls over the electronic presentation of audited financial information on the Shire's web site is beyond the scope of our audit of the financial report. Responsibility for the electronic presentation of the financial report on the Shire's web site is that of the Council.

ACKNOWLEDGEMENT OF RESPONSIBILITIES FOR THE AUDIT

We acknowledge the responsibilities for the audit for the year ended 30 June 2020 and subsequent years as set out in this letter for the audit of the annual financial report, including our respective responsibilities as the President and the CEO.

Michael Bennett
President

Date

Andre Schonfeldt
Chief Executive Officer

Date

RISK ASSESSMENT TOOL

OVERALL RISK EVENT: Appointment of Auditors

RISK THEME PROFILE:

Choose an item.

3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory)

Choose an item.

Choose an item.

RISK ASSESSMENT CONTEXT: Operational

CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATMENT OR CONTROL		
		CONSEQUENCE	LIKELIHOOD	INHERENT RISK RATING		CONSEQUENCE	LIKELIHOOD	RESIDUAL RISK RATING
HEALTH	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
FINANCIAL IMPACT	Risk that the Appointment of Auditors is not endorsed by Council may result in the audit contract budget provision being under or over budget.	Minor (2)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
SERVICE INTERRUPTION	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
LEGAL AND COMPLIANCE	Risk of Council breaching the Local Government Act 1995 if no annual audit is undertaken. However the appointment of audit contract is now under the Office of the Auditor General control. <i>Council no longer awards a tender contract for Audit Services as changes in legislation mandates that audit services are longer under Councils control.</i>	Minor (2)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.

CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATMENT OR CONTROL		
		CONSEQUENCE	LIKELIHOOD	INHERENT RISK RATING		CONSEQUENCE	LIKELIHOOD	RESIDUAL RISK RATING
REPUTATIONAL	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
ENVIRONMENT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required	Not required.	Not required.	Choose an item.

CLIENT NAME: SHIRE OF DARDANUP

YEAR END: 30 JUNE 2020

ENTRANCE MEETING AGENDA

Date of Meeting: 8 APRIL 2020

Time: 1pm

Location: Teleconference

Attendees: Andre Schonfeldt (CEO), Philip Anastasakis (Director, DCEO), Natalie Hopkins (Manager Financial Services), Audit Committee
Marius van der Merwe (Butler Settineri Audit Director),
Suraj Karki (Director, OAG)

DISCUSSION POINTS

1.	OUR AUDIT APPROACH
2.	BUSINESS OPERATIONS
3.	SIGNIFICANT RISKS AND AUDIT FOCUS AREAS IDENTIFIED <ul style="list-style-type: none">• RELATED PARTY DISCLOSURES• REVENUE RECOGNITION AND CUT-OFF• UNAUTHORISED & INCOMPLETE EXPENDITURE• UNRECORDED LIABILITIES• FICTITIOUS EMPLOYEES• PROVISION FOR LEAVE ENTITLEMENTS• PROVISION FOR THE REHABILITATION OF LANDFILL SITES• VALUATION OF EASEMENTS FOR LAND RIGHT OF USE
4.	SIGNIFICANT ASSETS ACQUIRED AND DISPOSED
5.	COMPLIANCE WITH LAWS AND REGULATIONS
6.	CHANGES IN ACCOUNTING POLICIES
7.	RELATED PARTIES / ENTITIES
8.	REPORTING PROTOCOLS <ul style="list-style-type: none">• SIGNIFICANT ISSUES IDENTIFIED DURING THE AUDIT• INTERIM MANAGEMENT LETTER• FINAL MANAGEMENT LETTER
9.	AUDIT TEAM
10.	AUDIT TIME TABLE
11.	INTERIM AUDIT VISIT



AUDIT PLANNING SUMMARY

SHIRE OF DARDANUP

YEAR ENDING 30 JUNE 2020

*“Better Business
People”*

www.butlersettineri.com.au



Contents

THE PLANNING SUMMARY.....	3
INTRODUCTION.....	4
OUR AUDIT APPROACH.....	7
BUSINESS OPERATIONS.....	9
SIGNIFICANT RISKS AND AUDIT FOCUS AREAS.....	9
AUDIT EMPHASIS AND SIGNIFICANT ACCOUNT BALANCES.....	11
COMPLIANCE WITH LAWS AND REGULATIONS.....	13
GOING CONCERN AND ADVERSE FINANCIAL TRENDS.....	13
ACCOUNTING POLICIES.....	13
INTERNAL AUDIT.....	13
MANAGEMENT REPRESENTATION LETTER.....	14
RELATED PARTIES.....	14
REPORTING PROTOCOLS.....	14
SPECIFIC AUDIT REQUIREMENTS.....	15
YOUR AUDIT TEAM.....	155
PROPOSED AUDIT SCHEDULE.....	155
OTHER AUDIT ACTIVITIES.....	15

THE PLANNING SUMMARY

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

In particular, this Summary includes:

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

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

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

INTRODUCTION

Auditor General

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

The Act allows the Auditor General to contract out financial audits however by the year ending 30 June 2021 all Western Australian Local Government audits will become the responsibility of the Auditor General and Office of the Auditor General (“OAG”).

Contractor Appointment – Butler Settineri Audit (“BSA”)

BSA has been contracted by the Auditor General to perform the Shire of Dardanup financial report audit on the Auditor General’s behalf for the year ending 30 June 2020.

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

BSA is required to report any matter to the Auditor General which may affect the Auditor General’s responsibilities under the Auditor General Act 2006.

Responsibility of the Council and the CEO

It is important to note that:

1. Under the *Local Government Act 1995* and associated regulations, the Council and the CEO are responsible for keeping proper accounts and records, maintaining effective internal controls, preparing the annual financial report, and complying with the Local Government Act and Regulations, and other legislative requirements.
2. Under the *Local Government Act 1995* and associated regulations, the Council and the CEO have responsibility for maintaining internal controls that prevent or detect fraud or error and to ensure regulatory compliance. The Audit 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.
3. The Council and CEO are responsible for ensuring the accuracy and fair presentation of all information in its annual report, and that it is consistent with the audited annual financial statements. We do not provide assurance over your annual report.
4. An audit does not guarantee that every amount and disclosure in the annual financial report is error free. Also, an audit does not examine all evidence and every transaction. However, our audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the annual financial report.

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

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

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

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

Conflicts of Interest

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

BSA's approach is designed to:

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

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

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

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

We will carry out such work as is necessary to form an opinion as to whether the:

- a) Accounts of the Shire are properly kept; and
- b) Annual financial report of the Shire,
 - i) Is prepared in accordance with its financial records; and
 - ii) Represents fairly, in all material respects, the results of the operations of the Shire for the year ending 30 June 2020 and its financial position at the end of the period in accordance with the Local Government Act 1995 (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

We will also include the following matters in the auditor's report:

- a) Any material matters that in the opinion of the auditor indicate significant adverse trends in the financial position or the financial management practices of the Shire;
- b) Any material non-compliance with Part 6 of the Act, the Local Government (Financial Management Regulations 1996 or applicable financial controls in any other written law;
- c) Details of whether information and explanations were obtained by the auditor;
- d) A report on the conduct of the audit; and
- e) The opinion of the auditor as to whether or not the asset consumption ratio and the asset renewal funding ratio included in the annual financial report are supported by verifiable information and reasonable assumptions.

In addition to the standard audit structure, additional audit matters may be performed upon direction from yourself.

The attendance of at least one meeting per year of the Shire's audit committee by a member of our audit team may also be carried out if required. The engagement partner and audit team will visit the Shire's offices during each stage of the audit and will be available for subsequent meetings at the Shire's request.

OUR AUDIT APPROACH

Our audit approach comprises the following steps:

Pre-engagement activities

- Legislative requirements of independence

Risk assessment procedures

- Discussions with the management team and members of the audit committee
- Review of key accounting systems and operations
- Understand and evaluate control environment
- Identify and assess risk
- Identify significant accounts
- Develop procedures to address risk and significant accounts

Audit procedures

- Test operating effectiveness of controls over credit card payments & related parties
- Assess reliance on controls
- Sample testing of transactions

Completion and review

- Completion procedures
- Evaluation of audit evidence
- Review format of the financial report
- Verify balances and disclosures in the financial report, including the Notes

Reporting and communication

- Form an opinion and provide opinion to OAG
- Report to management and OAG

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

The level of testing will be dependent on our assessment of the risk in each business cycle. We plan to cover the following cycles:

- Revenue
- Expenditure
- Payroll
- Cash and Financing
- Property, Plant, Equipment and Infrastructure

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

Our audit will be split into two components as follows:

Interim audit

This includes:

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

Final audit

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

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

BUSINESS OPERATIONS

The Shire of Dardanup is located 185 km south of Perth (just north of Bunbury) and has seen consistent growth over recent years.

The main activity of the Shire is to provide infrastructure, recreation facilities and community services to the local residents and aims to encourage balanced growth and development within the Shire region.

The Shire uses Synergy Soft Accounting System. Our primary contact at the Shire is Phil Anastasakis (Deputy CEO).

SIGNIFICANT RISKS AND AUDIT FOCUS AREAS

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

Details of Risk / Issue	Audit Approach
COVID-19	<p>We will work with your management to minimise the risk for your staff and councillors, our staff, and to your operations, while completing audits in the best timeframe possible under the circumstances.</p> <p>This will likely involve more audit work being performed remotely rather than at your premises, and/or delaying audit work as and when unforeseen circumstances arise.</p>
<p>Audit findings reported in the previous audit as under:</p> <ul style="list-style-type: none"> • Journal entries not reviewed • Ratio benchmarks not met • Purchase orders not created for some payments • Related party declarations missing for some councillors 	<p>We will follow-up the issues reported during the 2019-20 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"> • <u>AASB 15 Revenue from Contracts with Customers</u> New requirements for recognising revenue i.e. when performance obligations are satisfied. Critical elements that need to be satisfied: <ul style="list-style-type: none"> - Agreement between parties must create 'enforceable' rights and obligations - Entity's promise to transfer goods or services needs to be 'sufficiently specific' to be able to determine when the obligation is satisfied. 	<p>We will review management's assessment of the impact of the new standards, determine whether, to the extent necessary, your entity has applied the standards correctly, and ensure the annual financial report complies with the revised requirements of each standard.</p>

Details of Risk / Issue	Audit Approach
<ul style="list-style-type: none"> • <u>AASB 1058 Income of Not-for-Profit Entities</u> Applies to transactions of not-for-profit entities where the consideration to acquire an asset is significantly less than fair value principally to enable the entity to further its objectives. Whether income is recognised and its timing will depend on whether a transaction gives rise to a performance obligation, liability or contribution by owners. Transactions include those where an entity acquires or receives an asset in exchange for no consideration (i.e. cash grants, taxes and rates). • <u>AASB 16 Leases</u> For lessees the distinction between operating leases and finance leases has been removed and requires all leases (except short term leases and leases of low-value) to be recognised as lease assets and lease liabilities on the balance sheet. This will result in the grossing up of the balance sheet and higher expenses in the early years of the lease term. Lessor accounting remains similar to current practice (i.e. lessors continue to distinguish between operating leases and finance leases). 	
<p>Changes to <i>Local Government (Financial Management) Regulations</i> that have been signalled by the Department of Local Government, Sport and Cultural Industries (DLGSCI):</p> <ul style="list-style-type: none"> • None 	We do not anticipate any significant impact on your financial report for this year.
<p>We have identified the following areas that we consider require additional focus during our 2019-20 local government audits:</p> <ul style="list-style-type: none"> • Related party disclosures • Revenue recognition • Unauthorised expenditure • Unrecorded liabilities and expenses • Fictitious employees 	We will review the accounting treatment and disclosure processes during our interim and final audits.
<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 • Fair value of Property, Plant and Equipment • Impairment of assets • Provision for rehabilitation of landfill sites • Valuation of easements for land right of use 	We will review the method and underlying data that management and where applicable third parties use when determining critical accounting estimates. This will include considering the reasonableness of assumptions and corroborating representations.
Important changes in management or the control environment	None at this stage

AUDIT EMPHASIS AND SIGNIFICANT ACCOUNT BALANCES

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	2019 Audited Balance \$	Audit Approach
Statement of Financial Position		
Cash and cash equivalents	\$19,441,957	<ul style="list-style-type: none"> • Review internal controls and reconciliations • Verify year end balance through bank confirmations • Analytical review
Receivables	\$931,383	<ul style="list-style-type: none"> • Year end cut-off testing • Review subsequent receipts • Review provision for doubtful debts • Analytical review
Financial assets	\$70,068	<ul style="list-style-type: none"> • Agree to third party valuation
Other current asset and inventories	\$187,809	<ul style="list-style-type: none"> • Analytical review
Property, plant, equipment and infrastructure and intangible assets	\$178,120,602	<ul style="list-style-type: none"> • Review key processes/controls • Verify asset additions and disposals • Assess assets for impairment • Test items posted to construction in progress to assess appropriateness of expenses being capitalised • Assess whether carrying amounts approximate fair value • Where relevant, confirm balances to independent valuation reports
Payables	\$2,359,794	<ul style="list-style-type: none"> • Review of key processes/controls • Test for unrecorded liabilities • Year end cut off testing
Borrowings	\$2,242,864	<ul style="list-style-type: none"> • Verify balance to third party documentation
Provisions	\$1,500,861	<ul style="list-style-type: none"> • Review the reasonableness of assumptions and calculations • Agree amounts to actuary/expert's report • Analytical review •

Significant Account	2019 Audited Balance \$	Audit Approach
Statement of Comprehensive Income		
Rates	\$13,091,847	<ul style="list-style-type: none"> • Review of key processes and controls • Analytical review • Sample testing of transactions
Operating grants, subsidies & contributions;	\$2,202,844	<ul style="list-style-type: none"> • Review of key processes and controls • Analytical review • Sample testing of transactions
Non-operating grants, subsidies & contributions	\$1,874,654	
Fees and charges	\$3,112,535	<ul style="list-style-type: none"> • Review of key processes and controls • Analytical review • Year end cut-off testing
Interest received	\$581,228	<ul style="list-style-type: none"> • Analytical review
Other revenue	\$27,855	<ul style="list-style-type: none"> • Analytical review • Sample testing of transactions
Employee related expenses	\$9,793,985	<ul style="list-style-type: none"> • Review of key processes and controls • Sample testing of transactions • Analytical review
Materials and contracts	\$4,049,538	<ul style="list-style-type: none"> • Review of key processes and controls • Sample testing of transactions • Analytical review
Utilities	\$551,434	<ul style="list-style-type: none"> • Review of key processes and controls • Sample testing of transactions • Analytical review
Depreciation and amortisation	\$5,042,270	<ul style="list-style-type: none"> • Review of management's assessment of the useful lives of assets and assess reasonableness. • Analytical review
Insurance and interest	\$380,500	<ul style="list-style-type: none"> • Analytical review • Sample testing of transactions
Other expenses	\$357,532	<ul style="list-style-type: none"> • Review of key processes/controls • Sample testing of transactions • Analytical review

COMPLIANCE WITH LAWS AND REGULATIONS

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

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

GOING CONCERN AND ADVERSE FINANCIAL TRENDS

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

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

However, the auditor's report, per the Local Government (Audit) Regulations 1996, is still required to disclose if there are any significant adverse trends in the financial position or financial practices.

Based on the 2019/20 Amended Budget, the Council is expecting a net surplus of \$3.2M after non-operating grants and disposals. We further note that as at 30 June 2019, the council has a net current asset position of \$16.5M of which \$16.4M relates to restricted cash reserves and liabilities of \$3.9M.

The Shire's liability is significantly less than its total cash holdings. Hence it is reasonable to expect that the Shire is able to pay off its liabilities when it becomes due and payable.

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

ACCOUNTING POLICIES

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

Three potentially major changes to accounting policies noted during the year as discussed under significant risks.

INTERNAL AUDIT

We seek to rely on internal audit work to reduce our own audit work wherever possible. This avoids duplication of audit effort and the associated workload on your operational and administrative staff.

MANAGEMENT REPRESENTATION LETTER

Our 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 Shire'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.

We will also be relying on the signed Statement by CEO in the annual financial report as evidence that they confirm that:

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

RELATED PARTIES

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

REPORTING PROTOCOLS

Significant issues identified during the course of the audit will be discussed with relevant staff and management as soon as possible after being identified. Draft management letters will be provided to your Deputy CEO 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. Interim management letters will be forwarded to the President and Minister with the auditor's report.

SPECIFIC AUDIT REQUIREMENTS

We will discuss our requirements with your staff to facilitate a timely, efficient and effective audit. We will formally agree our information requirements and timeframes for the audit with your Deputy CEO and by using your staff to have various documents readily available when we perform our audit.

Please note however that in several instances, particularly during our audit sampling at the interim visits, audit staff will need to retrieve some evidence themselves, rather than being given the evidence by your staff. This is essential for an independent audit.

YOUR AUDIT TEAM

	Name	Contact
OAG Representative	Suraj Karki	(08) 6557 7551 Suraj.Karki@audit.wa.gov.au
Butler Settineri Director	Marius van der Merwe	(08) 6389 5222 mvd@m@butlersettineri.com.au
Butler Settineri Audit Manager	Marcia Johnson	(08) 6389 5222 mjohnson@butlersettineri.com.au
Butler Settineri Auditor	Waleed Khan	(08) 6389 5222 wkhan@butlersettineri.com.au

Marcia Johnson will be your primary contact and will communicate progress and any emerging issues to you.

PROPOSED AUDIT SCHEDULE

See attached Audit Timetable.

OTHER AUDIT ACTIVITIES

The OAG has recently completed or undertaking the following audits relevant to local government. Through these audits, OAG aims 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. They are available at www.audit.wa.gov.au:

- Controls over corporate credit cards (May 2018)
- Timely payment of suppliers (June 2018)
- Local Government procurement (October 2018)

- Management of supplier master files (March 2019)
- Records management in Local Government (April 2019)
- Cloud application (software as a service arrangement) (May 2019)
- Local Government building approvals (June 2019)
- Project Management (June 2019)
- Engaging consultants for strategic advice (June 2019)
- Verifying employees identity and credentials (June 2019)
- Fraud prevention in Local Government (August 2019)
- Effective Fee-setting (December 2019)
- Audit Result Report – Annual 2018-19 Financial Audits of Local Government Entities (March 2020) – This report summarises the results of 112 local government entities' annual financial report audits for the year ended 30 June 2019. All but 5 auditor's reports included clear (unqualified) audit opinions on the financial reports. The OAG reported 93 material matters of non-compliance with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996, or other written law in 48 of our auditor's reports. In addition, 823 financial management and control matters of varying significance were also reported to management in the management letters. In accordance with the Local Government (Audit) Regulations 1996, the OAG reported 106 ratios with adverse trends in the financial position of 72 LG's.

Our Ref:
Your Ref:

Ms Caroline Spencer
Auditor General
Office of the Auditor General
7th Floor, Albert Facey House
469 Wellington Street
PERTH WA 6000

Dear Ms Spencer

REPRESENTATION LETTER IN RESPECT OF THE SHIRE OF DARDANUP'S ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2020

This representation letter is provided in connection with your audit of the Shire of Dardanup's annual financial report for the year ended 30 June 2020 for the purpose of expressing an opinion as to whether the annual financial report is fairly presented in accordance with the *Local Government Act 1995* (the Act), the *Local Government (Financial Management) Regulations 1996* and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

We submit the following representations for the year ended 30 June 2020 after making appropriate enquiries and according to the best of our knowledge and belief. This representation covers all material items in each of the categories listed below.

1. GENERAL

- (a) We have fulfilled our responsibilities for the preparation and fair presentation of the annual financial report in accordance with the *Local Government Act 1995* (the Act), the *Local Government (Financial Management) Regulations 1996* and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.
- (b) We have advised your auditors of all material contentious methods used in the presentation of the financial report.
- (c) There have been no changes in accounting policies or application of those policies that would have a material effect on the financial report, except as disclosed in Note ~~XX~~ to the financial report.
- (d) The prior period comparative information in the financial report has not been restated except as disclosed in Note ~~XX~~ to the financial report.
- (e) Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We confirm the disclosures related to accounting estimates are complete and appropriate.

- (f) We have established and maintained an adequate internal control structure and adequate financial records as we have determined are necessary to facilitate the preparation of the financial report that is free from material misstatement, whether due to fraud or error.
- (g) We have provided your auditors with
 - (i) Access to all information of which we are aware that is relevant to the preparation of the financial report, such as records, documentation and other matters.
 - (ii) Additional information that your auditors have requested for the purpose of the audit.
 - (iii) Unrestricted access to staff and councillors of the Shire from whom your auditors determined it necessary to obtain audit evidence.
- (h) All transactions have been recorded in the accounting and other records and are reflected in the financial report.
- (i) All internal audit reports and reports resulting from other management reviews, including legal issues and legal opinions which have the capacity to be relevant to the fair presentation of the financial report including, where relevant, minutes of meetings, have been brought to your auditors' attention and made available to them.
- (j) We have advised your auditors of all known instances of non-compliance or suspected non-compliance with laws and regulations, and all known data or security breaches whose effects should be considered when preparing the financial report.
- (k) We have provided to your auditors the results of our assessment of the risk that the financial report may be materially misstated as a result of fraud.
- (l) No frauds or suspected frauds affecting the Shire involving:
 - (i) Management;
 - (ii) Employees who have significant roles in internal control; or
 - (iii) Others

have occurred to the knowledge of management of the Shire.

[OR]

We have provided information to your auditors of our knowledge of fraud or suspected fraud affecting the Shire involving:

- (i) Management;
- (ii) Employees who have significant roles in internal control; or
- (iii) Others

A summary of these is *provided below/attached*.

- (m) To our knowledge no allegations of fraud or suspected fraud affecting the Shire's financial report has been communicated to us by employees, former employees, analysts, regulators or others.

[OR]

We have provided information to your auditors of our knowledge of any allegations of fraud or suspected fraud affecting the Shire's financial report communicated by employees, former employees, analysts, regulators or others.

Details are as follows/attached.

- (n) We have disclosed to your auditors all known actual or possible litigation and claims whose effects should be considered when preparing the financial report, and they have been accounted for and disclosed in accordance with Australian Accounting Standards.

2. FAIR VALUE MEASUREMENTS AND DISCLOSURES

We confirm that where assets and liabilities are recorded at fair value, the value attributed to these assets and liabilities is the fair value.

We confirm that the carrying amount of each physical non-current asset does not materially differ from its fair value at the end of the reporting period. Significant fair value assumptions, including those with high estimation uncertainty, are reasonable.

We confirm the measurement methods, including related assumptions, used by management in determining fair values are appropriate and have been consistently applied.

We confirm that the fair value disclosures in the financial report are complete and appropriate.

3. GOING CONCERN

We confirm that the going concern basis of accounting is appropriate for the annual financial report.

4. CONTINGENT LIABILITIES

There are no material contingent liabilities at year end that have not been completely and adequately disclosed in the Notes to the financial report.

5. COMMITMENTS FOR CAPITAL AND OTHER EXPENDITURE

Other than those commitments reported in the Notes to the financial report, there were no significant commitments for capital or other expenditure contracts carrying over at year end.

6. FINANCIAL LIABILITY FOR CONTAMINATED SITES

We are aware of our obligations under the *Contaminated Sites Act 2003* and have reported to the Department of Water and Environmental Regulation, all land owned, vested or leased by the Shire that is known to be, or is suspected of being, contaminated. All actual liabilities or contingent liabilities, if any, have been recognised and/or disclosed in the financial report as appropriate.

7. RELATED ENTITIES

We acknowledge our responsibility under section 17(1) of the *Auditor General Act 2006* (as applied by section 7.12AL of the *Local Government Act 1995*) to give written notice to the Auditor General if any of the Shire's functions are being performed in partnership or jointly with another person or body, through the instrumentality of another person or body, and/or by means of a trust. We confirm that we have provided the Auditor General with details of all related entities in existence at 30 June 2020.

8. RELATED PARTIES

We have disclosed to your auditors the identity of the Shire's related parties, as defined in Australian Accounting Standards, of which we are aware, and all the related party relationships and transactions of which we are aware. These include the Shire's key management personnel (KMP) and their related parties, including their close family members and their controlled and jointly controlled entities.

We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of Australian Accounting Standards.

9. KEY MANAGEMENT PERSONNEL COMPENSATION

We confirm the Shire's key management personnel (KMP) have not received any other money, consideration or benefit (except amounts being reimbursements for out of pocket expenses) which has not been included in the compensation disclosed in the Notes to the financial report.

10. SUBSEQUENT EVENTS

All events subsequent to the date of the financial report and up to the date of this letter for which Australian Accounting Standards require adjustment or disclosure, have been adjusted or disclosed.

[OR]

No matters or occurrences have come to our attention between the date of the financial report and the date of this letter which would materially affect the financial report or disclosures therein, or which are likely to materially affect the future results or operations of the Shire.

11. INTERNAL CONTROL

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

12. INSURANCE

We have established procedures to assess the adequacy of insurance cover on all assets and insurable risks. We believe, where appropriate, assets and insurable risks are adequately covered by insurance.

13. RISK MANAGEMENT

We confirm that we have established and maintained a risk management framework that is appropriate to the Shire.

14. FINANCIAL RATIOS

We confirm that the financial ratios included in the annual financial report have been prepared and fairly presented in accordance with the *Local Government (Financial Management) Regulations 1996*.

We confirm that the asset consumption ratio and the asset renewal funding ratio are supported by verifiable information and reliable assumptions.

15. ACCOUNTING MISSTATEMENTS

There are no uncorrected misstatements in the financial report

OR

The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial report taken as a whole. A summary of these uncorrected misstatements is listed below.

Account	Reported balance	Actual balance	Variance

16. ELECTRONIC PRESENTATION OF THE AUDITED ANNUAL FINANCIAL REPORT AND AUDITOR'S REPORT

- (a) We acknowledge that we are responsible for the electronic presentation of the annual financial report.
- (b) We will ensure that the electronic version of the audited annual financial report and the auditor's report presented on the Shire's website is the same as the final signed versions of the audited annual financial report and the auditor's report.
- (c) We have clearly differentiated between audited and unaudited information in the construction of Shire's website and understand the risk of potential misrepresentation in the absence of appropriate controls.
- (d) We have assessed the security controls over the audited annual financial report and the auditor's report and are satisfied that procedures in place are adequate to ensure the integrity of the information provided.
- (e) We will ensure that where the auditor's report on the annual financial report is provided on the website, the annual financial report is also provided in full.

17. OTHER (UNAUDITED) INFORMATION IN THE ANNUAL REPORT

We will provide the final version of the annual report to you when available, to enable you to complete your required procedures.

Deputy Chief Executive Officer

Date

NAME:

Chief Executive Officer

Date

NAME:

RISK ASSESSMENT TOOL

OVERALL RISK EVENT: Audit Entrance Meeting

RISK THEME PROFILE:

3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory)

Choose an item.

Choose an item.

Choose an item.

RISK ASSESSMENT CONTEXT: Choose an item.

CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATMENT OR CONTROL		
		CONSEQUENCE	LIKELIHOOD	INHERENT RISK RATING		CONSEQUENCE	LIKELIHOOD	RESIDUAL RISK RATING
HEALTH	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
FINANCIAL IMPACT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
SERVICE INTERRUPTION	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
LEGAL AND COMPLIANCE	Risk that Council is non-compliant in providing information as requested by the Office of the Auditor General, as detailed in the Responsibilities of the Audit.	Minor (2)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
REPUTATIONAL	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.
ENVIRONMENT	No risk event identified for this category.	Not Required - No Risk Identified	N/A	N/A	Not required.	Not required.	Not required.	Not required.