APPENDICES

AUDIT & RISK COMMITTEE MEETING

To Be Held

Wednesday, 8th of September 2021
Commencing at 2.00pm

At

Shire of Dardanup
Administration Centre Eaton
1 Council Drive - EATON

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Office of the Auditor General
Serving the Public Interest

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Mr Andre Schonfeldt
Chief Executive Officer
Shire of Dardanup
PO Box 7016
EATON WA 6232

Dear Mr Schonfeldt

ANNUAL FINANCIAL REPORT
INTERIM AUDIT RESULTS FOR THE YEAR ENDED 30 JUNE 2021

We have completed the interim audit for the year ended 30 June 2021. We performed this phase of the audit in accordance with our audit plan. The focus of our interim audit was to evaluate your overall control environment, but not for the purpose of expressing an opinion on the effectiveness of internal control, and to obtain an understanding of the key business processes, risks and internal controls relevant to our audit of the annual financial report.

Management Control Issues
We would like to draw your attention to the attached listing of deficiencies in internal control and other matters that were identified during the course of the interim audit. These matters have been discussed with management and their comments have been included on the attachment. The matters reported are limited to those deficiencies that were identified during the interim audit that we have concluded are of sufficient importance to merit being reported to management. Some of the matters may be included in our auditor's report in accordance with section 7.9(2) of the *Local Government Act 1995* or regulation 10(3)(a) and (b) of the Local Government (Audit) Regulations 1996. If so, we will inform you before we finalise the report.

This letter has been provided for the purposes of your local government and may not be suitable for other purposes.

We have forwarded a copy of this letter to the President. A copy will also be forwarded to the Minister for Local Government when we forward our auditor's report on the annual financial report to the Minister on completion of the audit.

Feel free to contact me on 6557 7551 if you would like to discuss these matters further.

Yours faithfully

Suraj Karki CA
Assistant Director
Financial Audit
3 August 2021

Attach

SHIRE OF DARDANUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

INDEX OF FINDINGS	RATING		
	Significant	**Moderate**	**Minor**
CURRENT YEAR FINDINGS			
Revenue not recognised in accordance with AASB 15 or AASB 1058		✓	
Borrowings reconciliations not independently reviewed		✓	
Fixed Assets reconciliation not independently reviewed		✓	
Untimely removal of terminated employees			✓

KEY TO RATINGS

The ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

Significant - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating may be reported as a matter of non-compliance in the audit report in the current year, or in a subsequent reporting period if not addressed. However, even if the issue is not likely to impact the audit report, it should be addressed promptly.

Moderate - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.

Minor - Those findings that are not of primary concern but still warrant action being taken.

SHIRE OF DARDANUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

1. Revenue not recognised in accordance with AASB 15 or AASB 1058

Finding
During the interim audit our sample testing of revenue transactions (rates, grants and fees & charges) noted that:

- waste collection fees have not been recognised in accordance with AASB 15; and
- 3 out of 26 grant revenue transactions tested (12%) were not recognised in accordance with the requirements of AASB 1058 in relation to capital grants.

Rating: Moderate
Implication
This accounting treatment is non-compliant with AASB 15 or 1058. As application of these standards result in delayed income recognition, the Shire's revenue is overstated for the 2020-21 financial year. In addition, monthly financial information does not reflect accurate rates and grant revenue, which may result in financial decision-making being ill-informed.

Recommendation
The Shire should complete a detailed revenue recognition assessment of all revenue streams. This is to conclude if a particular revenue stream or transaction arises from an enforceable contract with a customer and has sufficiently specific performance obligations. The assessment will trigger the revenue recognition requirements under AASB 15, or if it falls outside this scope, under AASB 1058, so that revenue is not misstated for the year ending 30 June 2021.

Management comment
Waste Collection Fees and Grant Revenue
Agreed. Council's Management agree with the recommendation that revenue for the waste charges and grant revenue should be raised in accordance with the performance obligations and a monthly journal processed to recognise revenue in the period of when the service is delivered.

In agreement with your recommendation, Council has reviewed its revenue recognition assessment process, and has implemented processes to ascertain revenue streams on a regular basis. Management agree that a 'Moderate' rating is reasonable.

Responsible person: Manager Financial Services
Completion date: 12 July 2021

SHIRE OF DARDANUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

2. Borrowings reconciliations lacked evidence of independent review

Finding
There was no evidence that borrowings reconciliations were being independently reviewed.

Rating: Moderate
Implication
If this important reconciliation is not reviewed, erroneous or unusual reconciling items may not be detected and investigated in a timely manner.

Recommendation
The borrowing reconciliations should be subject to an independent supervisory review and signoff.

Management Comment
Agreed. As per the recommendation, Council staff have initiated a new process which incorporates the preparer completing this process (evidenced) and an independent reviewer signing the reconciliation report (Accountant or Manager Financial Services). Council's Management are in agreeance with the 'Moderate' rating.

Responsible Person:	Manager Financial Services
Completion Date:	12 July 2021

SHIRE OF DARDANUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

3. Fixed Asset reconciliation lacked evidence of independent review

Finding
There were no evidence that fixed assets reconciliations were being independently reviewed.

Rating: Moderate
Implication:
Lack of an independent review of reconciliations increases the risk of errors or omissions remain undetected, which could lead to significant misstatements in financial reporting.

Recommendation
The fixed asset reconciliations should be subject to an independent supervisory review and signoff.

Management Comment
Agreed. In May 2021, post interim audit, Council staff initiated a new process which now incorporates the preparer completing this process (evidenced) and an independent reviewer signing the reconciliation report (Accountant or Manager Financial Services).

Council's Management are supportive of the 'Moderate' rating and have actioned the recommendation accordingly.

Responsible Person: Manager Financial Services
Completion Date: 12 July 2021

SHIRE OF DARDANUP

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

4. Untimely removal of terminated employees

Finding
During our testing of employee termination process, we noted an employee who was terminated in December 2020 but was not removed from the payroll system until March 2021.

Rating: Minor
Implication:
We did not identify any salary overpayments during our audit. However, because the employee was retained on the system for an extended period, there was an increased risk of making erroneous payments subsequent to the employee leaving the Shire's employment.

Recommendation
To help ensure that payments are not made in error to ex-employees, terminated staff should be removal from the payroll system on their last day of work or as soon as their final termination pay is made.

Management Comment
It is noted the casual employee was not removed from Council's payroll system (SynergySoft) in December 2020. Payroll Officer was notified of the employee resignation in March 2021, and subsequently removed from the system. Management are in agreeance with the auditor's rating of 'Minor'.

Responsible Person:	Manager of Governance and HR
Completion Date:	12 July 2021

RISK ASSESSMENT TOOL

OVERALL RISK EVENT: Annual Financial Report – Interim Audit for the Year Ending 30 June 2021

RISK THEME PROFILE:

3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory)
8 - Errors, Omissions and Delays
12 - Misconduct
Choose an item.

RISK ASSESSMENT CONTEXT: Operational

CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATEMENT 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	Not presenting the Interim Audit Results for the year ending 30 June 2021 to the Audit and Risk Committee (and subsequently Council).	Moderate (3)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
REPUTATIONAL	Council's reputation could be seen in a negative light for not being open and transparent with disclosing findings from the Auditor General.	Not Required - No Risk Identified	Rare (1)	Low (1 - 4)	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.

RISK ASSESSMENT TOOL

OVERALL RISK EVENT: Update on Regulation 17 Audit Findings

RISK THEME PROFILE:

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

RISK ASSESSMENT CONTEXT: Strategic

CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATEMENT 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	Failure to fulfil obligations pursuant to the Local Government (Audit) Regulations 1996, Regulation 17.	Moderate (3)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
REPUTATIONAL	Council's reputation could be seen in a negative light for not adhering to its requirement to fulfil duties and functions that are prescribed in legislation.	Moderate (3)	Rare (1)	Low (1 - 4)	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.

RISK ASSESSMENT TOOL

OVERALL RISK EVENT: Biannual Compliance Task Report

RISK THEME PROFILE:

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

RISK ASSESSMENT CONTEXT: Strategic

CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATEMENT 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	Failure to fulfil compliance obligations pursuant to the Local Government (Audit) Regulations 1996, Regulation 17.	Moderate (3)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
REPUTATIONAL	Council's reputation could be seen in a negative light for not adhering to its requirement to fulfil duties and functions that are prescribed in legislation.	Moderate (3)	Rare (1)	Low (1 - 4)	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.

RISK ASSESSMENT TOOL

OVERALL RISK EVENT: Western Australian Auditor General –Annual 2019-20 Financial Audits of Local Government Entities and Schedule of Reports

RISK THEME PROFILE:

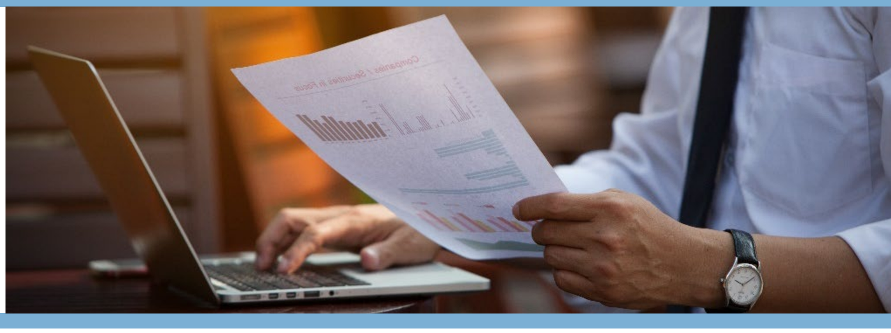
3 - Failure to Fulfil Compliance Requirements (Statutory, Regulatory)

RISK ASSESSMENT CONTEXT: Strategic

CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATEMENT 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	Not considering the risks, controls and recommendations arising from the Auditor General's report could have an impact on Council not meeting its compliance requirements.	Moderate (3)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
REPUTATIONAL	Council's reputation could be seen in a negative light for not adhering to its requirement to fulfil duties and functions that are prescribed in legislation.	Moderate (3)	Unlikely (2)	Moderate (5 - 11)	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.

(Appendix AAR: 8.4B)

Western Australian
Auditor General's Report



Western Australian Public Sector Financial Statements – Better Practice Guide

Office of the Auditor General
Western Australia

Report team:
Subha Gunalan

National Relay Service TTY: 133 677
(to assist people with hearing and voice impairment)

We can deliver this report in an alternative format for those with visual impairment.

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The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Western Australian Public Sector Financial Statements – Better Practice Guide

Report 28: 2020-21
June 2021

THE PRESIDENT
LEGISLATIVE COUNCIL

THE SPEAKER
LEGISLATIVE ASSEMBLY

WESTERN AUSTRALIAN PUBLIC SECTOR FINANCIAL STATEMENTS – BETTER PRACTICE GUIDE

This report has been prepared for submission to Parliament under sections 23(2) and 24(1) of the *Auditor General Act 2006*.

Better practice checklists regularly feature in my Office's performance audit reports as a means of providing guidance to help the Western Australian public sector perform efficiently and effectively. This is the second comprehensive stand-alone better practice guide we have produced.

CAROLINE SPENCER
AUDITOR GENERAL
14 June 2021

Contents

Auditor General's overview

I am pleased to present this Better Practice Guide – Public Sector Financial Statements. It is relevant for the Western Australian State and local government sectors. I am confident it will be a useful reference tool for WA public sector officers preparing and overseeing financial statements.

Financial reporting and auditing are substantial elements of external accountability, but they are not ends in themselves. They inform decision-making, provide confidence to stakeholders and enable comparisons over time with similar entities and other jurisdictions. High quality financial statements are an indicator of good governance, supporting the 3 pillars of integrity, accountability and transparency. This guide supports entities in a practical sense to implement sound financial reporting arrangements to fulfill statutory obligations. It will also help make the annual audit process as smooth and cost-effective as possible.

I recognise the challenge that exists in public sector financial reporting to balance the need for useful and reliable financial information in an increasingly complex sector with pressure to reduce costs and unnecessary compliance burden. Consequently, it has become critical that there is value in financial statements to stakeholders relative to costs of preparation without compromising on accuracy, reliability and meaningful disclosure. This practical guide and toolkit sets out better practice principles which, when applied, support a strong governance framework and an efficient and effective financial statement preparation process.

The guide is not exhaustive and has no legislative or policy status. It is not intended to be prescriptive or obligatory. I acknowledge that entities differ in nature and size and their financial statement preparation processes involve different layers of complexity and risk. As such, entities should interpret and tailor the material in the guide to their own circumstances.

Each year we assess and test State government entities against 7 best practice criteria (including timeliness of preparation and provision of information; quality of financial statements, key performance indicators and working papers; key staff availability and cooperation; and a low number of audit issues identified) and will implement this for local government entities as an incentive and recognition for those entities that strive to achieve excellence in their financial reporting arrangements.

This is the second stand-alone better practice guide produced by my Office, the first being better practice for public sector audit committees. Checklists also feature in relevant performance audit reports and are available on the OAG website under Reports and publications. I thank the organisations and many reviewers who provided permission and invaluable feedback in the preparation of this guide.

Part 1: Introduction

All Western Australian (WA) State and local government entities are required to prepare annual reports including financial statements. Financial statements are the primary mechanism by which entities discharge accountability for their financial management responsibilities.

Timely finalisation of the financial statements with an unqualified auditor's report is an important indicator of an entity's sound financial management performance. Sound financial management fosters confidence in the entity on the part of ministers, Parliament, councillors[1], the community and other stakeholders.

1.1 About this guide

This guide has been developed by the Office of the Auditor General (OAG) to promote better practice principles for financial statement preparation for the WA public sector.

The guide consists of 5 parts:

Part 1: Introduction outlines the purpose of the guide, who should use it and how to use it.

Part 2: Western Australian public sector financial reporting framework sets out key legislative, policy and other requirements that govern the preparation of financial statements.

Part 3: Principles for better practice financial statement preparation outlines core better practice principles for financial statement preparation. These principles are as follows:

Principles	
1	**Ownership and commitment:** The accountable authority, chief financial officer and senior management demonstrate their ownership and commitment to, and actively promote, financial management policies, principles and practices.
2	**Sound financial governance:** Robust risk management practices and internal controls are in place across the entity.
3	**Anticipating and responding to change:** Significant changes to the entity, the reporting framework or the entity's environment that impact on the financial statements are identified, communicated and addressed in a timely manner.
4	**Skilled and knowledgeable finance team:** The financial reporting team collectively has the appropriate skills and knowledge to deliver its role and responsibilities, with opportunities for continuous learning and/or professional development.
5	**Applying materiality:** Sound professional judgement is exercised in the preparation of financial statements, such as in the application of materiality.
6	**Good project management, skills, processes and practices:** Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.
7	**Adopting good financial practices:** Adopting good financial practices throughout the year and at year-end.

Source: OAG

Table 1: Better practice principles for financial statement preparation

[1] In this guide the term councillors includes local government mayors and presidents.

Part 4: Key challenges for smaller entities provides practical considerations for smaller entities with limited resources and different levels of complexity and risk.

Part 5: Toolkit includes a comprehensive compilation of templates and checklists to assist in the financial statement preparation process.

Throughout the guide, we have used the term accountable authority to collectively represent:

- for State government entities (State entities) – the director general, commissioner, board, or other person or body responsible for the direction and control of the entity as defined in the *Financial Management Act 2006* or other relevant legislation
- for local government entities (LG entities) – councils and the chief executive officer (CEO). Roles and responsibilities of council, councillors and the CEO's functions are prescribed by the *Local Government Act 1995.* Financial management responsibilities of the CEO are established under Regulation 5 of the Local Government (Financial Management) Regulations 1996. Both councillors and the CEO have responsibilities for financial reporting. Council's role centres on broader governance and oversight of financial responsibilities and reporting processes. The CEO has substantial operational responsibility to ensure financial management matters are handled effectively and efficiently, including systems of internal control and procedures.

In this guide, the terms:

- internal control encapsulates internal controls over financial reporting
- financial statement preparation also means financial reporting.

1.2 Who should use this guide

The primary audience of the guide is chief financial officers (CFOs), finance managers and financial reporting staff. However, some information is likely to be of interest to accountable authorities and/or audit committees.

The preparation of financial statements can be a complex annual project that requires a significant investment of time and resources.

This guide aims to support entities to efficiently prepare high quality financial statements and to continuously improve their financial statement practices and processes.

1.3 Using this guide

The better practice principles in this guide and the accompanying resources are guidance materials, not mandatory requirements. When preparing financial statements, entities may elect to use the guide by:

- adopting the better practice principles
- using all or some of the practical resources identified in the toolkit section of the guide.

However, the extent to which different entities refer to the guide can vary depending on factors such as the size and complexity of the entity, the experience and expertise of their finance team, and the maturity of their financial statement preparation processes and their audit committee. As these processes involve different levels of complexity and risk, material in the guide should be interpreted, customised and used in the context of each entity's own circumstances. Entities also need to be alert to ongoing legislative, policy and other reporting requirement changes.

It is important to note that while the guide is primarily focussed on year-end financial statement preparation as distinct from month-end financial reporting, better practice is to view financial reporting as a continuous process. Aligning internal month-end financial reporting with external year-end financial reporting is considered best practice. Further commentary is provided in *Part 3: Principles for better practice financial statement preparation*.

This guide comprehensively sets out better practice and extensive toolkits. While not exhaustive, we have tried to include detail that would be useful for finance practitioners. We acknowledge that much of the toolkit is better suited to larger entities and small entities may need to be selective in their application.

1.4 Limitations

The purpose of this guide is to synthesise and promote better practices for preparation and presentation of financial statements. Entities are encouraged to consider this guide in the context of other guidance material that may be produced by the Department of Treasury (Treasury), Public Sector Commission and the Department of Local Government, Sport and Cultural Industries (DLGSC). An organisational culture of excellence and accountability, and teams with strong professional skills and capability are critically important success factors for financial reporting and other controls.

The guide is not intended to be mandatory or prescriptive and the OAG will not monitor entities' compliance with it. Further, it is not intended to be a definitive point of reference for the legislative and policy requirements pertaining to entities. Each entity should ensure its own familiarity with the relevant requirements of applicable financial reporting frameworks including legislation, policy requirements and related guidance that may affect its financial management and reporting responsibilities.

We recommend that entities exercise their own skill and care with respect to their use of this guide and carefully evaluate the accuracy, currency, completeness and relevance of the material for their purposes.

1.5 Acknowledgements

We would like to express our appreciation to our contracted professional firms, the member bodies, public sector entities and their staff who provided feedback and comment on the draft guide. The feedback and comments received were valuable and insightful. In particular, a number of stakeholders experienced in financial reporting, such as the Treasury CFO Reform Steering Group and Local Government Finance Professionals Network, willingly shared their views and suggestions for this guide. We highly valued and appreciated their input, guidance, advice and time.

In addition, we would like to thank the Commonwealth Department of Finance who allowed us to use their resources to inform our guide.

Part 2: Western Australian public sector financial reporting framework

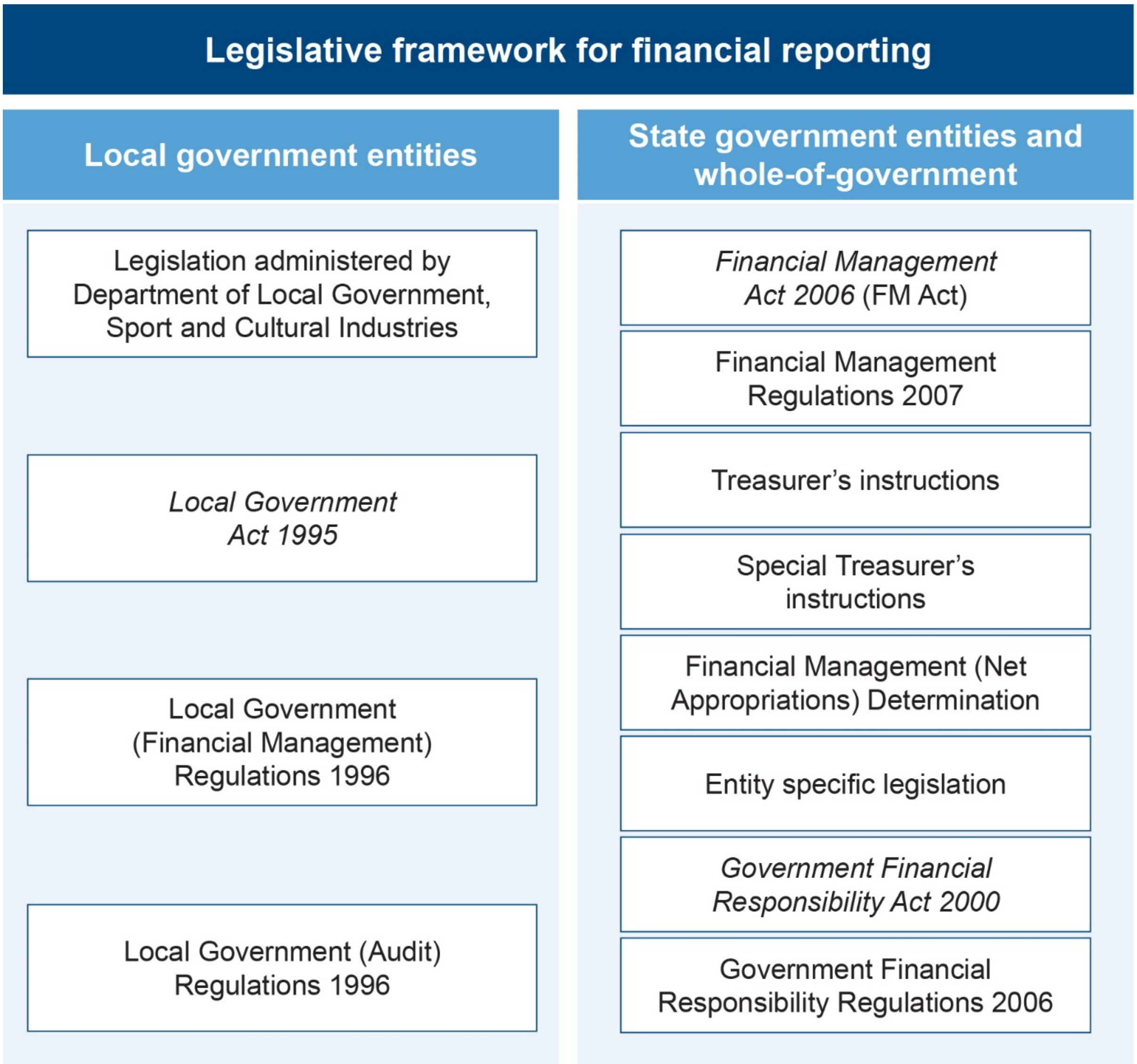
The Australian Accounting Standards Board's (AASB) *Framework for the Preparation and Presentation of Financial Statements* refers to the objective of financial reporting as providing financial information about the reporting entity that is useful for users in making decisions about providing resources to the entity.

There are many users of public sector financial statements. The users of State entity and whole-of-government[2] financial statements include ministers, Parliament (committees and individual parliamentarians), taxpayers, lenders to government (including buyers of Treasury notes), suppliers and recipients of goods and services provided to and by government, industry and community groups, and the media. Similarly, users of LG entity financial statements also include councillors, ratepayers, community groups, lenders and developers. This wide and diverse range of users underlines the importance of public sector entities meeting their responsibilities for financial accountability in an efficient and effective manner.

In WA, there are different financial reporting frameworks for State and LG entities. Figure 1 provides details of the main legislation, policies and guidelines relevant to the preparation of financial statements under these 2 financial reporting frameworks.

Each public sector entity needs to be familiar with relevant requirements of the applicable financial reporting framework. This includes legislation, policy requirements and related guidance that may affect its financial management and reporting responsibilities.

[2] Whole-of-government refers to the Annual Report on State Finances prepared by Department of Treasury (WA).



Source: OAG

Figure 1: Legislative framework for financial reporting

2.1 State entity and whole-of-government reporting requirements

Applicable standards and reporting requirements

The AASB sets the financial reporting standards for all reporting entities in Australia. All State entities are required to prepare annual financial statements under the *Financial Management Act 2006* (FM Act) and/or enabling legislation which includes the requirement to comply with Australian Accounting Standards (AAS), as issued by the AASB. The Treasurer's instructions (TIs) provide that if a requirement of the AAS is inconsistent with a provision of the FM Act, Financial Management Regulations 2007 and TIs, the legislative provisions shall prevail to the extent of the inconsistency.

Whole-of-government financial statements are also required to comply with AAS, the Government Finance Statistics standards and the Uniform Presentation Framework.

The AAS are set by the AASB, based on the standards set by the International Accounting Standards Board. The AAS include amendments that reflect Australian requirements, including Australian legislation, not-for-profit accounting issues and reduced disclosure requirements.

The Government Finance Statistics standards are set by the Australian Bureau of Statistics, based on the international system set by the International Monetary Fund.

The Uniform Presentation Framework (UPF) was agreed to by Commonwealth, state and territory governments at the May 1991 Premiers' Conference. The UPF ensures consistent minimum levels of details in whole-of-government disclosures.

The 2 sets of relevant external reporting standards prescribed in legislation and set independently of the government are:

- AAS – apply to financial statements prepared under the FM Act; enabling legislation of non-FM Act entities that are classified as public financial and non-financial corporations; *Government Financial Responsibility Act 2000* (GFR Act).
- Government Finance Statistics standards – apply to the whole-of-government financial statements under the *Government Financial Responsibility Act 2000,* applicable AAS and Interpretations, in particular AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, and the requirements of the UPF.

Requirement to prepare annual financial report

Section 61 of the FM Act requires the accountable authority of a State entity to prepare an annual report at the end of each financial year.

Section 78 of the FM Act provides that the Treasurer may issue instructions with respect to matters of financial administration. The TIs have the force of law and therefore must be observed by all entities to which they apply. TIs predominantly relate to the financial management framework of the State public sector. They contain provisions that support transactions of the State entities, in relation to accountability and control mechanisms.

TIs require State entities to prepare financial statements at either Tier 1 (full disclosure) or Tier 2 (simplified disclosure). TI 1107 *Application of Tiered Reporting – Reduced Disclosure Requirements* introduces 2 tiers of reporting requirements for preparing general purpose financial statements, as prescribed by AASB 1053 *Application of Tiers of Australian Accounting Standards*. Tier 1 comprises the full range of recognition, measurement and disclosure requirements of all AAS and Interpretations. Tier 2 includes the same recognition and measurement requirements as Tier 1, but with less disclosure.[3]

Non-FM Act entities are required to prepare their annual financial reports in accordance with their enabling legislation.

Section 14A of the GFR Act requires the Treasurer to release an Annual Report on State Finances for each budget year, which include general purpose financial statements.

Certification requirements for financial report

Financial statement certification

Section 62 of the FM Act requires the financial statements of State entities subject to the Act to be certified by the accountable authority in the manner prescribed by the TIs (TI 947 *Certification of Financial Statements*), stating that the financial statements are in compliance

[3] Note - applicable Tier 2 disclosures are set out in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* and apply to annual reporting periods beginning on or after 1 July 2021.

with the provisions of the FM Act, based on proper accounts and records, and present fairly the financial transactions and the financial position for the reporting period.

For some public financial corporations and public non-financial corporations that are not subject to the FM Act (non-FM Act entities) there are similar requirements. Declarations by directors that the financial statements are to give a true and fair view and to comply with AAS are outlined in the respective entity's enabling legislation which largely mirrors the requirements of the *Corporations Act 2001* (Cth).

For the Annual Report on State Finances, the Under Treasurer is required to certify and sign a statement of responsibility under the GFR Act.

Internal control certification

While there is no legislative requirement for State entities to attest to an adequate internal financial control environment, robust internal control systems and practices detect, prevent and mitigate the risk of misstatement of an entity's financial statements. An effective risk management and internal control regime is critical to the production of good quality financial information that is free of material misstatements due to fraud or error.

For FM Act entities, the Auditor General is required to provide an opinion on the design and implementation of controls in relation to whether the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities have been done in accordance with legislative provisions.

Requirement to publish financial statements in annual reports

Section 64 of the FM Act requires responsible ministers to table the entity's annual report, including the financial statements and the audit opinion on the financial statements and key performance indicators, in Parliament within 90 days of the financial year end.

Non-FM Act entities are required to give the responsible minister a copy of their financial report, directors' report and auditor's report (collectively, the 'annual report') for tabling in Parliament as required under their respective enabling legislation.

Section 14A of the GFR Act requires the Treasurer to table in Parliament the Annual Report on State Finances no later than 90 days after the end of the financial year.

Other references

There are a number of policy guidelines, frameworks and circulars that support and complement the legislative framework for financial reporting. They include Treasury's Accounting Policy Guidelines, Treasury Circulars, Premier's Circulars, Public Sector Commissioner's Annual Report Guidelines and Strengthening Integrity in Financial Management Framework.

2.2 Local government entity reporting requirements

Applicable standards and reporting requirements

The AASB sets the financial reporting standards for all reporting entities in Australia. LG entities are required to prepare annual financial statements under the *Local Government Act 1995* (LG Act) and Local Government (Financial Management) Regulations 1996 (LG Regs), which includes the requirement to comply with AAS, as issued by the AASB.

The AAS are set by the AASB, based on the standards set by the International Accounting Standards Board. The AAS include amendments that reflect Australian requirements, including Australian legislation and not-for-profit accounting issues. AAS are mandated by the LG Regs. If a provision of the AAS is inconsistent with a provision of the LG Regs, the provision of these regulations prevails to the extent of the inconsistency. The OAG is supportive of tiered financial reporting for the LG sector, so that different sized entities prepare financial statements that are fit for purpose.

Requirement to prepare annual financial report

Section 6.4 of the LG Act requires LG entities to prepare an annual financial report. LG entities are required to prepare general purpose financial reports in compliance with AAS under the LG Regs.

Certification requirements for financial report

Financial statement certification

LG Regs Schedule 2 requires a statement by the CEO to be signed that the financial statements are based on proper accounts and records, present fairly the financial position and the results of the operations for the financial year, and comply with the LG Act and, to the extent they are not inconsistent with the Act, the AAS.

Internal control certification

While, the LG Act and associated regulations require LG entities to undertake a number of prescribed reviews, such as finance system reviews, risk management reviews and self-assessment compliance audit returns, an external auditor sign-off on these reviews and internal controls is not required. However, the Auditor General is required to report under regulation 10(3)(b) of the Local Government (Audit) Regulations 1996, any matters indicating non-compliance with Part 6 of the LG Act, the LG Regs or applicable financial controls in any other written law. These matters may relate to the financial report or to other financial management matters.

We consider regulation 5 of the LG Regs ‘CEO’s duties as to financial management’ particularly important. Failure to effectively apply these requirements can result in significant financial loss, inefficiency, financial misreporting or fraud.

Requirement to publish financial statements in annual reports

Section 5.53(1) of the LG Act requires LG entities to prepare an annual report for each financial year. Section 5.53(2)(f) requires that the annual report contain the financial report.

Sections 5.55 and 5.55A of the LG Act require the CEO to give local public notice of the availability of the annual report and to publish the annual report on the entity’s official website within 14 days of acceptance by the council.

Part 3: Principles for better practice financial statement preparation

The following section outlines better practice principles for public sector entities undertaking financial statement preparation. The better practice principles in this guide are based on the Commonwealth Department of Finance's *Financial Statements Better Practice Guide* (updated 2020), a jurisdiction where financial statement preparation is generally considered to be mature.[4]

There are a number of commonly used sources of guidance on the elements of an effective risk management and internal control framework. These are globally recognised frameworks, such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO), that facilitate the development of an appropriate control environment, risk assessment, control activities, information and communication and monitoring activities.

We have applied the COSO – *Internal Control – Integrated Framework*, in particular the publication *Internal Control over External Financial Reporting: A Compendium of Approaches and Examples (May 2013)*[5], in determining better practice in designing, implementing and conducting a system of internal control over external financial reporting that supports the preparation of financial statements. It is equally applicable to other types of external financial reporting, such as key performance indicators (reported by State entities) to the extent they are derived from an entity's financial and accounting books and records.

We have applied the Commonwealth Department of Finance's better practice definition in this guide, modified slightly as follows:

Better practice refers to the structured and repeatable practices and processes that entities have applied to produce clear, succinct, accurate and timely financial statements that comply with requirements and meet the needs of users.[6]

Principle 1: Ownership and commitment

Staff at all levels are more likely to be committed to the timely and accurate preparation of financial statements, when the right environment is established.[7] The right environment is one where the accountable authority and senior management recognise that the preparation of annual financial statements is an important responsibility. They can establish this environment by providing the necessary leadership, implementing the required strategies and structures, and committing the necessary resources to financial management, including the preparation of timely financial statements during the year and at year-end.

[4] As observed by the Australian National Audit Office (ANAO), the large majority of Commonwealth entities' financial statement preparation processes can be expected to be mature or better practice. ANAO, *Public Sector Financial Statements – Better Practice Guide March 2015,* p.14 (withdrawn on 29 June 2018 and replaced by the Commonwealth Department of Finance Financial Statements Better Practice Guide).

[5] Internal Control - Integrated Framework: Internal Control Over External Financial Reporting: A Compendium of Approaches and Examples, © [2013] Committee of Sponsoring Organizations of the Treadway Commission (COSO). All rights reserved. Used with permission.

[6] Commonwealth Department of Finance, *Financial Statements Better Practice Guide*, Section 1.1.2 Better practice indicators.

[7] ANAO, *Public Sector Financial Statements - Better Practice Guide,* p. 15.

1. Ownership and commitment: The accountable authority, CFO and senior management demonstrate their ownership and commitment to, and actively promote, financial management policies, principles and practices.

1.1 Demonstrate commitment to integrity and ethical values

- Establish, communicate and regularly update the code of conduct. For example, provide staff periodic training sessions on various aspects of the code of conduct. Another example is providing the code of conduct as part of service level agreements with service providers, which serves as a basis for service delivery evaluation.
- The culture of the entity and management should promote ethical behaviour with a strong emphasis on zero-tolerance for anything other than ethical behaviour. For example, take action when such deviations occur to stated policy. Conduct ethics audits to determine if the approved standard of conduct has been received, understood and applied by staff. Culture can also be assessed for example via internal audit.[8]
- Implement whistleblowing mechanisms for staff to report potential fraud and ethical concerns.

1.2 Ensure that accountable authority exercises oversight responsibility

- Clearly define roles, responsibilities and delegation of authority for internal controls over financial reporting. For example, have an effective audit committee that oversees financial reporting[9], establish an audit committee charter and audit committee meeting schedule.
- Implement rigorous assurance processes, particularly for reviewing information from an expert or third party and management's assertions and judgements. For example, the audit committee meets regularly with management to review the reasonableness of management's assumptions and judgements used to develop significant estimates.
- Review sufficiency of the accountable authority's oversight of the system of internal control over financial reporting. Consider how the entity's control environment policies and procedures support the development and performance of internal controls over financial reporting. For example, a policy that requires an evaluation of the effectiveness of the audit committee.[10]
- Investigate and report whistleblower information about financial statement errors and irregularities.
- Include the preparation of the entity's financial statements on the agenda of executive and senior management meetings and staff forums.

1.3 Establish structures, reporting lines, authorities and responsibilities

- Define the role of internal audit in the preparation of the financial statements. For example, the audit committee should review the scope and coverage of internal controls over financial reporting in internal audit plans.
- Consider internal controls at service providers that might impact financial reporting. For example, the service level agreements should clearly specify the expectations around internal controls over outsourced activities.

1.4 Demonstrate commitment to a competent workforce

- Select and train staff and provide a clear understanding of their roles and responsibilities. Develop their understanding of financial reporting and accountability requirements to prevent non-compliance with legislation and ensure sound financial management and

[8] Western Australian Auditor General's Report, *Western Australian Public Sector Audit Committees – Better Practice Guide Report 26: 2019-20*, Part 2.5 for further guidance on how internal audit assurance on culture can be obtained.

[9] Ibid., for guidance on characteristics of an effective audit committee.

[10] Ibid., for guidance on performance and accountability of an audit committee.

reporting. For example, define performance expectations of key financial reporting staff, such as attendance at financial reporting workshops.

- Regularly review policies, job descriptions, workload and performance assessments to ensure alignment of competencies with key financial reporting positions.
- Assess the adequacy of staffing levels for financial reporting and develop contingency plans. For example, management undertakes an annual assessment which is overseen by the audit committee.

1.5 Hold individuals accountable

- Cascade responsibilities throughout the entity and certify results. For example, the CFO obtains certifications from line managers on internal controls over financial reporting.
- Link performance and recognition with intended influence. For example, provide recognition to staff who identify improvements to internal controls.

Principle 2: Sound financial governance

The timely and comprehensive identification and assessment of risks, both financial and operational, that may give rise to misstatements is critical to the production of good quality financial information. Internal financial controls should be fit for purpose and relied upon to produce fairly presented financial statements. Internal controls should be relevant and appropriately designed and executed to prevent or detect material misstatements of financial information and disclosures. Better practice entities have robust internal control systems and practices in place to detect, prevent and mitigate the risk of misstatement of an entity's financial statements.

2. Sound financial governance: Robust risk management practices and internal controls are in place across the entity.

Risk assessment

2.1 Specify appropriate objectives

- Set suitable financial reporting objectives. For example, the objective of financial reporting is to prepare reliable financial statements, which involves attaining reasonable assurance that the financial statements are free from material misstatements.
- Specify sub-objectives, such as accounting policies and financial statement assertions relating to the preparation of financial statements by linking accounts, financial statement assertions and risks. For example, expenditure account completeness and accuracy of financial statement assertions for all purchasing transactions recorded during the period.
- Regularly review and assess specific objectives, such as accounting policies, to ensure they are still suitable and appropriate. For example, the finance manager should review accounting policies to ensure they are compliant with accounting standards and applicable legislative frameworks. The results of the review should be discussed with the audit committee.
- Consider materiality assessment in setting appropriate objectives. For example, if a new expenditure account is material to the overall financial statement presentation, consider if the account requires unique objectives or whether it can be included in the overall expenditure objectives.

2.2 Identify and analyse risks

See Tool 1 example: Risk analysis for financial statements

- Undertake a risk identification process that identifies risks of material misstatement and the likelihood of occurrence of the risks to relevant financial statement assertions for each significant account and disclosure. In preparing this analysis, management considers the

2. Sound financial governance: Robust risk management practices and internal controls are in place across the entity.

business processes and business units supporting financial statement account balances and disclosures.

- For each financial statement account balance and associated assertions consider risk factors including both qualitative and quantitative factors. Examples of factors that can impact financial reporting risk include materiality, volume of transactions, operating environment, the level of judgement involved, reliance on third party data, manual intervention, disparity of data sources, evidence of fraud, system changes and results of previous audits by internal audit and the OAG.
- Summarise risk ratings and actions taken/required using for example, a risk and control matrix which allows entities to identify opportunities for improvement and make recommendations that can be used as a benchmark to develop or strengthen internal control systems and the reliability of financial statements.
- Linked to risk management, setting appropriate materiality thresholds enables entities to undertake risk assessments and establish risk treatments.

2.3 Evaluate fraud risks

- Management should conduct an annual fraud risk assessment and submit the results to the audit committee for consideration. Factors that should be taken into consideration include historical fraud activities, whistleblower reports and the number of manual entries versus automated entries.
- The audit committee should consider the management override of controls very seriously. The audit committee should:
  - maintain an appropriate level of scepticism
  - discuss management's assessment of fraud risks
  - use the code of conduct to assess financial reporting culture
  - ensure the entity has a robust whistleblower program
  - develop a broad information and feedback network.
- Consider fraud risk in the internal audit plan. The internal audit plan should address the relevant risks identified in any fraud risk assessment conducted.
- Risk analysis of financial statements should include consideration of fraud risk factors.

2.4 Identify and analyse changes that could significantly affect internal controls

- Internal control should be monitored and attested to periodically in response to changes in circumstance and risk assessments (such as changes in accounting standards or legislative rules adopted by the entity) and should form part of the focus by management.

Control activities

2.5 Select and develop control activities that mitigate risks

- Once risks have been identified and linked to relevant financial statements assertions, identify relevant business processes and select and develop control activities to address each risk. For example, a business process such as accounts payable can be further classified as sub-process - payment of supplier invoice. Link the payable balance to these processes. From a financial reporting perspective, perform a risk assessment on these processes and rank these risks according to likelihood and impact. Select and develop control activity to address the risk for example authorisation of supplier invoice payments.
- Control activities can be preventative or detective and include activities such as delegations, authorisations, reconciliations, segregation of duties, physical security of assets, systems access and security. These are important controls that individually or in combination with

2. Sound financial governance: Robust risk management practices and internal controls are in place across the entity.

others, can help prevent, detect, and correct misstatements in classes of transactions, account balances or note disclosures.

- Design and implement key controls[11] to address financial reporting risks adequately. Key controls must be designed and implemented to prevent or detect potential material misstatements related to the identified financial statement assertions in a timely manner.[12]
- A system of sound internal controls is not limited to just a financial system but one that integrates IT, human resource management and operational effectiveness. For example, ethical behaviour and decision making by management and staff and an effective internal control environment are interdependent.[13]
- Develop for example a risk and control matrix that maps the identified risks to control activities. The risk and control matrix must focus on internal controls over financial reporting, as well as from an operational or compliance perspective.[14] For example, non-compliance with specific TI or LG Regs requirements could lead to a misstated amount in the financial statements.
- When designing controls take consideration of the inherent limitations, such as segregation of duties within a control environment as discussed in Part 4. Limitations within key controls can be addressed by designing and implementing compensating controls.
- For all controls, establish a standard of what initiators and reviewers must do and how to evidence that they have performed the control or review (for example sign-offs, reconciliations and ensuring documentation is properly retained). This requires staff training and supervision.

2.6 Select and develop technology controls

- Better practice entities have financial management information systems capable of producing complete, accurate and reliable information. It is also important that system functionality supports processing and information requirements for the financial statements. For example, configure the IT infrastructure to support restricted access and segregation of duties.
- Risk and control matrix should be used to document IT dependencies that provide the linkage between control activities and technology. Management can use the matrix to determine what financially significant IT processes are covered, whether appropriate controls are in place and what controls are required to mitigate risks to financial reporting to an acceptable level.

2.7 Deploy control activities through policies and procedures

- Well defined policies should be developed to provide clear directions on how an entity approaches and discharges its external accountability responsibilities. Provide a link between the financial statements process and other business processes such as budgeting and business operations, and clearly define roles and responsibilities, structures, plans, performance and management oversight arrangements. For example, establish responsibilities for reviewing financial statements and document these in the policies and procedures relating to financial statement preparation.
- Clearly documented procedures provide guidance for all those who have financial management responsibilities. In this context, procedures approved by the accountable authority or their delegate, financial and administrative procedures, financial management

[11] *'A key control is usually the only control that covers a risk of material misstatement and is indispensable to cover its control objective'* - SAICA, *Guidance on the CFO/FD Sign-Off on Internal Financial Control,* August 2020, p.11.

[12] Ibid., p.10.

[13] Ibid., p.9.

[14] Ibid., p 11.

2. Sound financial governance: Robust risk management practices and internal controls are in place across the entity.
manuals, checklists and templates. To be effective, these must be kept up-to-date and readily accessible to staff.
Information and communication:
2.8 Use relevant, quality information to support the internal control function • Maintain data flow diagrams, flowcharts, descriptions and procedure manuals that support internal control and financial reporting. These documents are produced so that information about these processes can be easily understood by users throughout the entity, including the IT team, finance and accounting specialists, system developers, support staff and auditors. This documentation allows these staff and other users to identify the source of data, responsible staff, storage locations, source documents, relevant transformation processes, quality checks, and the primary users. • Maintain detailed records of any identified fraud or intentional errors and ensure it is included in the minutes of meetings with the audit committee and internal and external audit.[15]
2.9 Communicate internal control information internally and externally • Document internal control responsibilities which should include who is assigned to perform, review and assess individual internal controls. This documentation should be accessible to management and staff responsible for external financial reporting. • Review external audit findings, such as OAG management letters, and identify any internal control issues or recommendations. Assign an appropriate staff member to formally respond to these matters and communicate to senior management and audit committee the proposed resolution.
Monitoring activities
2.10 Perform ongoing or periodic evaluations of internal controls (or combination of the 2) • Better practice entities perform a comprehensive gap analysis over the adequacy of internal controls on a regular basis with a view to continuous monitoring and improvement over time.[16] • Develop a combined assurance program to evaluate the design and effectiveness of internal controls based on risk assessments with sufficient regularity and communicate deficiencies and corrective action required.[17]
2.11 Evaluate and communicate internal control deficiencies • Develop guidelines for assessing, reporting, monitoring and communication of any deficiencies regularly to appropriate levels of management, the audit committee and the OAG. • Establish a monitoring process to review status of deficiencies and corrective action taken. Better practice is to confirm and report that control evaluation procedures have been completed along with a mechanism to identify and report deficiencies and remedial actions.[18] • Better practice is for any control remediation plan to have that the control failure will not occur again as the ideal outcome.[19]

[15] SAICA, *Guidance on the CFO/FD Sign-Off on Internal Financial Control,* August 2020, p.7.

[16] Ibid., p.12.

[17] Ibid., p.11.

[18] Ibid., p.11.

[19] Ibid., p.7.

Principle 3: Anticipating and responding to change

The CFO/finance manager and other key staff should keep abreast of developments affecting financial statements so that new or changed requirements are incorporated into revised procedures and practices as early as possible.

It is important that the finance team identifies new or varied requirements arising from changes in legislation and accounting standards and assesses the impact on the entity's financial statements.

3. Anticipating and responding to change: Significant changes to the entity, the reporting framework or the entity's environment that impact on the financial statements are identified, communicated and addressed in a timely manner.

3.1 An event or change to the operating environment, government policy, legislation, business development

- Entities should be alert to any event or change which would impact their financial statements on an ongoing basis, not just at the time the financial statements are being prepared.
- Once a change has been identified as having an impact on the financial statements, an assessment should be undertaken to determine if it is material to the financial statements.
- Position papers and potential adjustments should be prepared. The audit committee and accountable authority should be briefed and approval obtained. The OAG should be consulted early and advised of any material adjustments.

3.2 Change to accounting requirements

- Assign specific responsibility for monitoring, identifying and assessing new and revised requirements. Attendance at CFO forums, member body conferences, professional firm updates and OAG entrance and exit meetings provides an avenue to keep up-to-date with accounting developments relevant to the public sector.
- Where changes to accounting requirements will affect, in a substantive way, the entity's accounting policies and presentation and disclosure in the financial statements, position papers should be prepared outlining the implications of the changes, including how the changes will be implemented. Entities should seek independent accounting advice where appropriate. The OAG should be consulted promptly to obtain early agreement.
- Review the statements at least annually and assess whether the most appropriate accounting policies have been selected and whether presentation can be improved. Accounting policies should only be changed when required by an AAS, or when the changes would result in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.
- Prepare draft pro-forma statements including accounting policy notes for review and agreement by the OAG well in advance of year-end.
- Brief the accountable authority and audit committee, as required, on any changes that are likely to have significant implications on the financial statements, how these affect the financial performance and position of the entity, and obtain approval of proposed changes, where appropriate.

Principle 4: Skilled and knowledgeable finance team

The preparation of accurate and timely financial statements requires capable and motivated staff. As such, the effective management of staff, skills and expertise is a critical component for development of the financial statements. It is important that the finance team collectively possesses the appropriate skills and knowledge required to prepare the financial statements. This will largely be achieved through sound workforce planning and recruitment, clear understanding of roles and responsibilities, on-going training and keeping abreast of accounting developments.

4. Skilled and knowledgeable finance team: The financial reporting team collectively has the appropriate skills and knowledge to deliver its role and responsibilities, with opportunities for continuous learning and/or professional development.

4.1 Selecting and training staff

- Better practice entities invest significant effort and resources in attracting, developing and maintaining high calibre finance professionals.
- Where necessary, external financial expertise should be engaged to supplement an entity's internal financial skills base.
- It is important that entities manage their financial skills base by maintaining an appropriate resource mix using contractors and consultants if necessary, recognising the importance of preserving corporate knowledge.
- Better practice organisations look for opportunities to place finance staff in business areas that have a significant input into the entity's financial statements for a period of time, and place staff from other business areas with appropriate skills in the finance area.

4.2 Roles and responsibilities

- Early assignment and clarification of key project roles is important, including:
  - project manager – responsible for planning, monitoring and implementing the project
  - audit liaison officer – a central point of contact for all internal audit, OAG matters and responsible for analysing the impact of audit findings and recommendations on the entity's financial statements
  - business area relationship manager/s – responsible for managing relationships with business managers and their staff
  - technical specialists – responsible for particular technical or specialist aspects
  - quality assurance reviewer/s – responsible for assuring the quality of the financial statements working papers, and the financial statements as a whole.
- Team members may have more than 1 role, and roles can be filled by more than 1 team member, depending on the size and complexity of the entity. Allocation of responsibilities should be flexible enough to enable team members to assist in other roles where required.
- Business managers and their staff also play an important role. They typically manage day-to-day accounting activities and most of an entity's assets and liabilities. Their primary responsibility is ensuring that reported information is accurate and timely, and internal controls are effectively applied. Other responsibilities can include:
  - processing transactions in financial management information systems
  - providing financial and non-financial information in the format and by the timeframes requested by the CFO
  - maintaining complete and accurate documentation to substantiate all transactions for their areas of responsibility for review, if required, by entity management and audit.
- CFO responsibilities in relation to financial statements include advising the audit committee, in a timely manner, of:
  - significant accounting and financial reporting issues that may affect the financial statements
  - the underlying systems of internal control
  - actions taken to address issues.

See Tool 12 checklist: CFO assurance

4. Skilled and knowledgeable finance team: The financial reporting team collectively has the appropriate skills and knowledge to deliver its role and responsibilities, with opportunities for continuous learning and/or professional development.

- Audit committee role and responsibilities is expected to include actively reviewing the entity's processes and systems for financial reporting.[20] As part of this active process, the entity has to stay informed of changed requirements in relation to financial reporting throughout the year.
  - in reviewing the entity's year-end financial statements, the audit committee may provide written advice to the accountable authority on the outcome of its review
  - to support the audit committee in performing this function effectively, it is important that the committee is kept informed throughout the year (not just at year-end), of all significant issues that may directly or indirectly affect the entity's resource management and financial reporting arrangements.

4.3 Right skills and knowledge

- The finance team's ability to prepare high quality financial statements, on time, is enhanced if they possess both financial acumen and a sound knowledge of accounting standards, legislative requirements, the entity, its operations and business environment.

4.4 Internal audit support

- Areas where internal audit can support the preparation of the financial statements include:
  - reviewing current and new systems during the implementation stage to help ensure that adequate control mechanisms and governance arrangements are in place
  - providing objective assistance in developing financial management systems to ensure compliance with accounting requirements and the provision of timely and reliable information for financial reporting purposes
  - following up remedial actions by management to assess whether they have been implemented in a timely manner.

Principle 5: Applying materiality

The AASB's *Framework for the Preparation and Presentation of Financial Statements* describes an amount as being material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports. In terms of the AASB Practice Statement 2 *Making Materiality Judgements*, materiality is specific to the reporting entity, i.e. 2 similar size entities that are dissimilar in nature could potentially conclude on 2 very different materiality levels. The term material should be considered not only in the context of financial reporting but also, financial and business risks to the extent that they could affect financial reporting. Therefore, materiality is a pervasive concept and requires judgement.

The materiality concept recognises that the reporting of excessive information may be counterproductive to making and evaluating decisions concerning the allocation of resources, and recognises that achieving greater accuracy or greater precision in financial statements will generally demand greater use of resources, higher costs and take more time to prepare.

The OAG's approach is not to disclose audit materiality. This is an optional requirement under the auditing standards. However, this should not prevent entities from applying the

[20] Refer to *Western Australian Public Sector Audit Committees – Better Practice Guide Report 26: 2019-20* for further guidance on audit committee's roles and responsibilities.

concept of materiality. It is important to note that while the concept of materiality and its application results in efficiencies described above, better practice entities will promote an environment in which the correction of errors, misstatements and addressing internal control deficiencies is seen as the appropriate course of action, regardless of whether or not they are considered to be material by value or nature.

5. Applying materiality: Sound professional judgement is exercised in the preparation of financial statements, such as in the application of materiality.

5.1 Planning for materiality

- The project manager, CFO and finance team should plan for the application of materiality in the preparation of the financial statements, with a view to improving the effectiveness of financial reporting, particularly the overall relevance and readability of the financial statements. The following are practical steps to consider:
  - in consultation with the CFO, consider the previous year's approach to materiality and any issues that may have been encountered and develop a proposed approach for the current year
  - obtain audit committee endorsement to the proposed approach
  - advise the accountable authority of the proposed approach
  - well in advance of year-end, develop guidance material on the application of materiality, the relevance and readability of the financial statements, and adjustment of errors and misstatements that take account of qualitative and quantitative factors
  - periodically review the materiality approach and supporting guidance, and monitor its application
  - encourage feedback from the finance team and business areas on its application.

5.2 Materiality thresholds for errors or misstatements and disclosures

- Setting appropriate materiality thresholds for the adjustments of errors or misstatements for year-end processing will minimise the likelihood that the finance team will spend disproportionate resources on matters that are clearly trivial while posting adjustments and corrections.
- Financial statement note disclosures is another area where the concept of materiality can usefully be applied. The overall readability and usefulness of financial statements can be adversely affected by excessive length and the complexity of particular disclosures, or by excessive brevity.

5.3 Materiality for internal controls

- Materiality should be considered not only in the context of financial statements but also financial and business risks and related internal controls to the extent they could affect financial reporting.

5.4 Setting a materiality threshold

See Tool 7 example: Materiality assessment paper

- The responsibility rests with both those charged with governance of the entity and its management for determining:
  - the overall approach to applying the concept of materiality
  - the application of materiality to particular transactions and other events.
- The entity and the OAG both have a responsibility to consider and apply materiality in the context of the accounting and auditing standards respectively. It is therefore important that an entity's approach to materiality takes into account the OAG's approach with the aim of ensuring as far as possible, that both approaches are compatible. It is also important to note

5. Applying materiality: Sound professional judgement is exercised in the preparation of financial statements, such as in the application of materiality.
that entity's management cannot set or influence materiality for the financial statements audit. • In making assessments on recognition, measurement, classification and disclosures in the financial statements, the responsibility of preparers is to include all information users require to understand the entity's financial performance and position during the reporting period. In a public sector context, these assessments must include any additional information required by the relevant minister and take into account significant matters of interest to the Parliament. • The application of materiality in the context of preparing the financial statements should not, however, detract from the responsibilities of entities to maintain proper accounts and records, and for those accounts and records, including relevant systems, to accurately record the entity's financial transactions and other events.

Principle 6: Good project management skills, processes and practices

Effective project management underpins the success of financial statement preparation processes. The primary aim is to achieve a quality work outcome within given timeframes and resource limits. It encompasses planning, control, monitoring and coordination.[21]

There are many approaches and methodologies that provide effective project management. The table below outlines commonly accepted principles of better practice drawn from the latest literature, and government and non-government frameworks. We have applied these principles in determining better practice attributes in the preparation of financial statements.

Principles	Our expectations
Business objective and scope	There should be clear and documented definitions of: • what business need the project is designed to meet • what business problem the project will resolve • project risks and how project success will be measured • any scope limitations of the project (to limit project creep).
Accountability and responsibility	Accountability and governance arrangements should be clear from the beginning: • there should be a single project owner/sponsor • project governance structure must be clearly defined, including boards and committees and their make-up, and proportionate to risks • responsibilities and powers of the project team and management must be clearly defined • project managers need authority to control the project • sponsor and delivery team are responsible for obtaining project funding.
Planning	Projects should be properly planned before work begins: • initial estimates should be converted into detailed delivery plans • plans should be revised periodically

[21] Commonwealth Department of Finance, *Financial Statements Better Practice Guide*, Section 4 Planning for year-end financial statements.

Principles	Our expectations
	• project risks should be identified and managed • procurement must be planned and carried out in line with any entity rules • current project cost must be known at all times • project should adopt an accepted methodology throughout.
Resourcing	Projects need appropriate funding and staffing: • project should be adequately funded • project manager and team should be adequately qualified • project team should have appropriate skills • project manager should manage team and stakeholder relationships well.
Monitoring and reporting	Managers should track delivery status and report effectively to oversight bodies: • project costs and progress should be tracked • cost and progress should be reported routinely to oversight bodies • project delays or issues should be reported as they arise • changes to the project scope should be managed and controlled • action should be taken if the project deviates from plan • oversight bodies should seek assurance on project status, based on risk, cost, complexity and business impact.
Learning	Organisations should review project management and delivery to improve processes and frameworks.

Source: OAG[22]

Table 2: Better practice principles for financial project management

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

Business objective and scope

6.1 Key project documents

- Should be developed or rolled over and refreshed from prior year, such as project plan, project schedule, project risk register and the register of lessons learned.

6.2 Key project documents should be regularly reviewed and refreshed to reflect significant events that may affect the plan, such as the receipt of:

- updated Financial Administration Bookcase released by Treasury or any relevant guidance from DLGSC
- updated LG entity rules and guidance
- the receipt of the OAG's planning summary for the entity
- entity changes to the planning approach for the project.

[22] Western Australian Auditor General's Report, *PathWest Laboratory Information System Replacement Project Report 25: June 2019*, Appendix 2

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

Accountability and responsibility

6.3 Appoint project manager and team for the preparation of the financial statements. Defining and assigning key project roles:

- **project manager** – responsible for planning, monitoring and implementing the project
- **audit liaison officer** – a central point of contact for all internal audit and OAG matters, and responsible for analysing the impact of audit findings and recommendations on the entity's financial statements
- **business area relationship manager/s** – responsible for managing relationships with business managers and their staff
- **technical specialists** – responsible for particular technical or specialist aspects
- **quality assurance reviewer/s** – responsible for assuring the quality of the financial statements working papers and the financial statements as a whole.

6.4 Pre-planning

- Plan should reflect the scope of work, governance arrangements, timeframes, risks and staff, key timelines and individual responsibilities for the current year. This enables project plans to continuously build from the experience of prior years, taking account of processes that worked well in the past and those that can be improved.
- Confirm governance structures that may be planned to oversee, guide or influence the project. For example, the audit committee provides the oversight, and if a financial statement sub-committee, steering committee and/or a stakeholder working group is needed.

Planning

6.5 Determine scope of work and develop a project plan that incorporate all aspects of financial reporting for both internal and external purposes. The project plan should outline, as a minimum, these factors that can affect the preparation process:

See Tool 6 example: Financial statements project plan

6.5.1 The activities that contribute to the production of financial statements should be clearly stated in the scope of works.

6.5.2 The financial reporting requirements that apply to the entity at the beginning of the project. However, the project manager must also remain alert to changes that may arise and adjust the scope of work accordingly, to ensure the financial statements meet the reporting requirements that apply at year-end.

6.5.3 Prior year learnings. Consider questions such as:

- What practices and processes worked well and can these be replicated?
- What processes took longer than originally expected?
- What did the auditors focus on (both internal and external)?
- Were there any audit findings, qualifications, recommendations or repeat issues and what is their status?

6.5.4 Activities required for setting and applying materiality. The project manager, CFO and finance team should also plan for the application of materiality in the preparation of the financial statements, with a view to improving the effectiveness of financial reporting, particularly the overall relevance and readability of the financial statements. See Part 3, Principle 5 for further discussion on materiality.

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

6.5.5 Review year-end processes and identify tasks that can be completed prior to year-end. Activities required before year-end may include:

- deciding on the need for actuarial and other valuations and completing as many of those valuations as possible prior to year-end:
  - valuations of property, plant and equipment (PPE) and intangible assets, and impairment allowances
  - actuarial assessments of superannuation and long service leave liabilities
  - measurement of work completed or work in progress on long-term revenue contracts
  - advice on the treatment of specialised accounting matters
  - legal opinions on legislation, legislative instruments or agreements
- obtaining early management approval for key accounting policies
- calculating balances where it is expected that there will be no major changes between the date of calculation and year-end e.g. depreciation, valuations, commitments, lease liabilities and loans
- determining the accounting implications of any organisational changes prior to their implementation.

6.5.6 Team resourcing, recruitment and any procurement requirements. Resourcing is discussed further at Part 3, Principle 4.

6.5.7 For project risks and dependencies:

- Identify data sources and the tasks and timing required for each financial statement item and the accompanying note and allocate resources to the items of highest risk.
- Use the risk and control matrix to allocate resources to the items of highest risk and identify the timing required.
- Example of risks that may affect the preparation of financial statements include:
  - insufficient appropriately skilled resources – a lack of appropriately trained staff will hinder an entity's ability to properly perform its financial management and reporting responsibilities
  - incorrect recording and non-recording of transactions – errors in recordkeeping are likely to result in misclassification of financial statements items and posting of amounts to incorrect reporting periods. This could be caused by an unsuitable financial management information system (FMIS)
  - restructures – restructures resulting from internal or external events may be accompanied by staff changes or other changes that affect an entity's risks or internal controls. The transfer of assets and liabilities may also result from a machinery of government change or other government decision. These changes may significantly impact on an entity's financial statement preparation process
  - fraudulent activity – the availability and extensive use of information and communication technologies has resulted in increased opportunities for fraud, including intentional misstatements, such as omissions of amounts or disclosures, intended to deceive or mislead users of the financial statements. This could be caused by an unsuitable FMIS
  - lack of timely reporting of information – delays in financial reporting may mean that reported information is out-of-date and of little value to users.

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

6.5.8 Stakeholders and communication/reporting arrangements. Better practice entities organise and structure their year-end activities in a way that encourages ongoing engagement, communication and sharing of accountability between the business areas and the finance team. Consider the following:

- stakeholders should be clearly defined and identified and should include service providers
- regular communication through meetings during the year to brief business areas on the latest developments in accounts processing and requirements
- training seminars held prior to the distribution of information packs
- policies and procedures being kept up-to-date and accessible
- hotline assistance and advice on accounting matters
- prompt feedback to business areas so that errors are corrected by the originators of transactions in the business areas
- rotating staff members between the finance team and the business areas
- seek suggestions for continuous improvement from business areas.

6.5.9 There should be on-going dialogue with Treasury/DLGSC and the OAG on new or revised reporting requirements and opportunities to improve the effectiveness of financial reporting. Matters relating to the implementation of any audit recommendations should be discussed with the audit committee and the OAG.

6.5.10 Planning for the presentation of financial statements:

- Consider the entity's model and what this means for project activities. More advanced models allow a trial balance to be imported from the FMIS and automatically populated with different notes before summarising them in the face statements to ensure consistency.
- Consider developing a pro-forma and obtaining early feedback from the audit committee and the OAG.
- A well-designed financial statement model will have inbuilt consistency checks that allows easy confirmation that all the notes and face statements are consistent across the document. Aim for automated consistency and validation checks. If the model does not have the ability to track changes, better practice is to use a log as a record of changes to the documents.

See Tool 5 example: Internal consistency checks

- Ensuring appropriate security requirements are in place and setting up the file structure for the project, should be assigned to an appropriate finance team member in the early stages of the project.

6.5.11 Planning for the use of information systems should include:

- understanding of the FMIS and any other systems and their capabilities to make the financial statements planning process more effective
- obtaining assurance that the FMIS is reliable and technical support is available.

6.5.12 Planning for quality assurance (QA) processes should consider:

- Degree of focus on the assurance process should be proportionate to the risk of error or misstatement.

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

- QA officers should be clearly assigned. They should be objective and independent. They should be aware of the possibility of misstatement due to unintentional or deliberate errors or fraud.
- Content and form of management sign-offs should be agreed as part of the planning process and be communicated at an early stage.
- Develop performance indicators and/or other mechanisms to measure assurance arrangements for key elements of the financial statement development process.

6.6 Prepare a project schedule and tasks for preparing financial statements

See Tool 3 template: Project schedule

- Identify milestones and critical events then build a list of activities, tasks, responsibilities and timeframes around these events.
- Work backwards from the most critical milestone date, which is generally the signing of the financial statements, to determine realistic timeframes.
- Consider contingency plans for dealing with unplanned tasks or delays. Management should commit sufficient resources to mitigate any risks associated with meeting the deadlines.
- Engage stakeholders such as shared service providers in preparing the schedule. Responsibilities of all these entities should be included in the project schedule and required timeframes should be communicated and agreed to.
- Distribute the draft schedule for comment and get audit committee agreement and CFO approval. The final schedule should be circulated to all stakeholders along with detailed instructions and/or briefings arrangements to ensure stakeholders understand and can meet key deliverables.

Resourcing

6.7 Insufficient appropriate skilled resources. Addressing resource shortfalls may include:

- recruiting or contracting staff with the skills, experience or expertise needed
- arranging additional training for staff (including for use of the FMIS)
- eliminating or modifying roles or tasks by reprioritisation or re-engineering of processes
- as staff engagement and on-boarding processes can take some time, it is wise to plan for succession arrangements in the event of the loss of key project staff.

6.8 Identify activities where expertise may be required

- A common feature of financial statements preparation is the need to obtain specialist expertise and knowledge to provide reports, advice or opinions, valuations or statements to assist entities in determining certain financial statements items at year-end.

6.9 Consider the need to engage

- When determining the need to engage an expert, management would generally consider:
  - whether the knowledge and expertise is available in-house
  - the benefits and cost involved
  - the risk of material errors based on the nature, complexity and materiality of the subject matter
  - the timing of the expert's involvement during the various phases of the financial statements

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

- timing of the expert reports should be adequately planned so that it is finalised prior to the end of the financial year
- availability of accurate and reliable data and information.

Monitoring and reporting

6.10 Monitoring progress

- The project manager should actively monitor progress against the plan and schedule. Where practical, contingency plans should be in place for staff departures, unforeseen leave, system failures, non-delivery of information from external stakeholders and the like.
- The tracking of external audit requests through a register allows monitoring on how the external audit is progressing and what items are currently outstanding. Better practice entities ensure the register is updated on a regular basis and shared with the OAG before any meetings regarding the progress of the audit.

See Tool 15 template: Register of audit requests

- Better practice entities should implement some or all of the following:
  - the project plan should be monitored closely on an ongoing basis
  - track the progress of activities against the schedule, for example check if planned activities, meetings and critical milestones are occurring on time
  - as the schedule changes, provide the updated schedule to relevant stakeholders
  - provide timely advice and guidance to the finance team and business areas
  - build in quality checks, such as reviews of supporting documentation and working papers at critical milestones
  - maintain contingency plans such as using back-up and/or temporary staff, or reaching prior agreement with staff to work overtime
  - address significant issues promptly, consider their impact and implement corrective action
  - periodically brief senior management and the audit committee regarding progress against the agreed timetable.

See Tool 4 example: Financial statements reporting timetable

6.11 Reviewing project risks and treatments

- Risks change over time and hence risk management will be most effective where it is dynamic and evolving. Monitoring and review is integral to successful risk management and entities may wish to consider articulating who is responsible for conducting monitoring and review activities. Key objectives of risk monitoring and review include:
  - detecting changes in the internal and external environment, including evolving entity objectives and strategies
  - identifying new or emerging risks
  - ensuring the continued effectiveness and relevance of controls and the implementation of treatment programs
  - obtaining further information to improve the understanding and management of already identified risks
  - analysing and learning lessons from events, including near-misses, successes and failures.

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

Learning

6.12 Reviewing the closing process involves examining current processes and documenting responsibilities and related timeframes during the year, and at year-end.

- By mapping all, or selected key processes, a clear picture can be gained of the work steps and related controls required, making it easier to streamline and standardise work activities, eliminate unnecessary steps, strengthen controls and prevent process errors. Ongoing improvements in individual processes can also help to ensure that the closing process remains efficient.

6.13 Annual process review by the CFO

- Such a review is very important to the planning process, as it provides the opportunity to make improvements in the future, where necessary. Aspects that could be considered in the review include:
  - the involvement of senior management
  - the leadership and expertise within the finance team
  - the appropriateness of information systems and other records
  - the extent and reliability of internal controls
  - the completeness and accuracy of the draft financial statements
  - the availability and knowledge of accounting staff resources
  - understanding and cooperation of business area management
  - the cost effectiveness of the contribution made by external specialists
  - the extent and timing of any work undertaken by internal audit
  - arrangements with the OAG for conducting its work
  - the involvement of the audit committee in reviewing the financial statements
  - any issues raised by the CFO and accountable authority affecting the financial statements
  - meeting of timelines for completing individual tasks
  - the effectiveness and efficiency of assurance arrangements
  - the adequacy of contingency plans.

6.14 Consultation and distribution for review

- An assessment should involve key members of the finance team as well as representatives of other contributors to the financial statements, such as business areas, the accountable authority, the audit committee, internal audit and the OAG.
- It should also involve any new members of the team so they can appreciate the strengths and weaknesses of the previous year’s process.
- Larger entities with many contributors may find it useful to supplement discussions with a survey of business areas and other stakeholders.

6.15 Review of the financial statements format

- Once the entity has developed a format for the financial statements, there should be a review process in each subsequent year to assess whether adjustments are required (or are recommended for future years) due to:
  - changes in accounting standards

6. Good project management skills, processes and practices: Good project management skills, processes and practices are applied to support the succinct, clear, accurate and timely preparation of financial statements.

- Treasury and LG Act and regulation requirements
- the nature of the entity's operations.

- This process should be integrated with the entity's normal process for considering the effect of such changes and should feed into planning for the following year's financial statements.

Principle 7: Adopting good financial practices

Maintaining good financial reporting practices throughout the year enables entities to be responsive to change, and significantly enhances the quality of financial statements. Better practice entities view financial management and reporting as a continuous process. They align their within-year financial reporting processes with year-end financial preparation processes, including the production of monthly accrual primary financial statements, and to the extent key reconciliations are performed they investigate and rectify any anomalies.[23]

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

7.1 Month-end processing

- Comprehensive policies and procedures for month-end accruals, close out and reporting are well understood by staff and updated for new or changed processes.
- Automated reconciliations are performed for all accounts. Management have established monitoring systems and processes over automated reconciliations.
- Streamline and simplify routine end-of month processes, such as calculating and estimating (where appropriate) accruals, performing reconciliations, processing journal entries and clearing suspense accounts.
- Aligning monthly and year-end reporting process, including production of monthly financial statements that include accruals and estimates.
- Monthly reports should meet the needs of users and be timely and accurate.
- Monthly reporting includes variance analysis which incorporates root cause and sensitivity analysis. It should also include any prospective matters that might arise in the future.

7.2 Give due consideration to accounting estimates

- Accounting estimates require exercise of judgement based on pre-determined assumptions. These estimates typically cover fair value measurements of property, plant and equipment; impairment; useful lives and residual values; employee entitlements and costs arising from litigation settlements and judgements. Better practice development of accounting estimates usually involves:
  - identifying applicable financial reporting requirements including conditions or methods for the recognition, measurement and disclosure of the item
  - using appropriate accounting policies and prescribing estimation processes
  - developing and documenting soundly based assumptions about future conditions, transactions or events that affect the estimates
  - collecting sufficient, relevant and reliable data on which to base accounting estimates

[23] Commonwealth Department of Finance, *Financial Statements Better Practice Guide*, Section 7 Development processes and procedures

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

- periodically reviewing the circumstances that give rise to the estimates and adjusting the estimates if necessary
- obtaining audit committee endorsement prior to year-end.

7.3 Using analytical procedures

- Rigorous and objective analytical procedures undertaken during the financial statement preparation process will help to improve the accuracy of the statements. Analytical procedures are used to identify unusual relationships and items in the statements that may affect their accuracy and completeness. Procedures can range from simple comparisons, to trend and ratio analysis, to complex analytical models of relationships.
- Key considerations on how to implement analytical procedures:
  - Use analytical procedures throughout the year – to review monthly financial statements. Reviewing against budget, previous years' results and month-on-month results can identify items such as expected expenditure amounts that have not been invoiced or accrued. Unusual items can be identified and explained, thus minimising issues at year-end.
  - Apply analytical procedures to each line item of the financial statements – during the preparation process to help provide additional assurance, conduct comparisons of current figures against the budget and past periods, and perform an analysis of what might be expected in view of known circumstances. Predictive analytical procedures are usually more useful, but they require a deeper understanding of the business. The finance team could seek assistance from business areas in preparing such analysis.
  - Review information provided by business areas – and seek explanations for variances. Information from 1 area can be compared with another to identify any unusual trends. Information from business areas can also be compared with other related information in the statements to check consistency. The procedure helps to highlight possible errors before final compilation of the statements:
    - investigate promptly any unusual relationships and items in the statements – consider the possibility of systematic breakdowns in internal controls and whether there might be similar errors in other accounts or items
    - conduct in-depth analytical reviews of the financial statements – particularly the first and final drafts. This process should involve providing explanations of significant changes in financial results from the previous year and from budget.

7.4 Using technology

- Automation of financial statement processes helps to:
  - eliminate the risk of keying and transposition errors
  - enable multiple draft statements to be produced with minimal effort
  - align various reporting requirements with financial statements processes
  - manage versions and updates
  - reduce the number of reconciliations that are required.
- In addition to a centralised FMIS, better practice entities require data entry at source, preferably online and in real time. Entities also foster a culture of getting it right the first time, with errors returned to the originator of the data for correction.
- Conduct regular reviews of arrangements with staff with system access.

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

- Work collaboratively with the IT team to establish processes and timeframes for discussing any system upgrades, breakdowns or other risks that may affect the integrity or timeliness of financial information.

7.5 Preparing accounting position papers

See Tool 8 template: Position paper

- Accounting position papers are an important tool that entities use to document key decisions and to keep stakeholders apprised of updates to accounting policies and processes, and how they will affect the financial statements. Accounting position papers should document all the matters considered when making the decision, and would normally include the following information:
  - the scope of the paper and any assumptions made
  - the related legislation and guidance, and how it has changed
  - a risk analysis of the change in policies or process
  - the proposed treatment (preferably with an example when possible)
  - the impact to the financial statements (e.g. which notes and disclosures will be affected and by estimated quantum)
  - implementation plan (timing and resources required)
  - a clear list of the interdependencies of the notes and disclosures affected
  - stakeholders affected by the change
  - a copy of any external advice that has been received.

7.6 Managing shared services arrangements

- Formalise expectations – put a contract or formal agreement, such as a service level agreement, in place with relevant parties that includes:
  - clearly defined roles and responsibilities and related timeframes in relation to information that affects the reporting entity's financial statements
  - the nature and timing of information required, together with certification and assurance requirements of the reporting entity and the provisions that allow the reporting entity access to relevant accounting records of shared service providers
  - service standards and performance measures to assess the performance of shared service providers
  - provisions that facilitate the audit by the OAG of shared service providers.
- Risk identification and assessment – identify and assess the risks of material misstatement, fraud and non-compliance with financial reporting requirements specific to shared services. This process should inform the internal controls and assurance provision needed to mitigate risks.
- Internal controls – implement control activities to assist in verifying the completeness and reliability of financial information supplied by shared service providers. Such procedures could include the physical inspection of records and the interrogation of electronic records of shared service providers considering authorisation, recognition and allocation of financial transactions or balances.
- Assurance from shared service providers – formal assurance statements should be sought at least annually from shared service providers on the operation of their control framework, along with the timely reporting of any material breakdowns in shared service provider internal control frameworks that could affect the reporting entity.

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

- Assurance requirements should be included in a formal agreement with shared service providers. Entities may find it useful to invite representatives from shared service providers to attend governance meetings (such as meetings of the audit committee, or executive board depending on the structure and risk profile of the entity) to discuss the assurance framework and walk through assurance items.
- Issue management – establish an escalation matrix with shared service providers to promote effective problem resolution. Formalised service standards and performance measures, along with close engagement commencing in the planning stages of the financial statement preparation, can support the identification and resolution of any difficulties that arise in a timely manner.

7.7 Use of an expert

- Management should assess the professional competence and objectivity of the person or firm they propose to engage. Factors to consider include:
  - experience
  - professional reputation
  - possible conflicts of interest
  - accreditation or membership of an appropriate professional body.
- Evaluate the work of the expert:
  - Establish whether the source data used is accurate and appropriate in the circumstances. A question that could be asked is:
    - Is the source data used by the actuary in the valuation of accrued long service leave liabilities consistent with the information from the entity's human resource system?
  - Obtain an understanding of the assumptions and methodology used. Assess whether they are appropriate and reasonable in the context of the entity's business and are consistent with any applicable legislation or accounting standards. Questions that could be asked include:
    - Are the assumptions within acceptable ranges and consistent with industry practice?
    - Are the valuation methods consistent with those used in prior periods?
    - Does the expert's sensitivity analysis highlight those assumptions and methods that can significantly affect the results?

7.8 Structuring financial statements

- The process of decluttering and streamlining is a way to simplify the financial statements and still remain compliant. This involves:
  - considering the needs of users
  - using plain English and unambiguous language
  - using pro-forma financial statements to identify opportunities early
  - removing non-material and irrelevant information
  - grouping or moving relevant notes together
  - creative use of graphs and tables
  - eliminating duplicate disclosures and information.

7.9 Quality assurance and certifications

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

- Implement a quality control and assurance regime to provide assurance about the accuracy and completeness of the statements and that they comply with all relevant legislative and policy requirements.
- Finance team quality control and assurance processes. Put in place review arrangements at key points during the preparation process.
- Analyse and adjust errors or misstatements including:
  - analyse the misstatements to consider their implications for the financial statements
  - assess the risk of other similar audit misstatements or omissions occurring
  - assess, in consultation with the OAG, if there is a need to investigate and quantify possible errors in a particular financial statement line item
  - correct all errors or misstatements, unless they are trivial
  - maintain a listing of any uncorrected misstatements, including those that arose in earlier periods and are of continued applicability in the current period, and assess their effect on the financial statements
  - advise appropriate levels of management, the audit committee and the OAG of all unadjusted errors or misstatements.

See Tool 9 template: Adjustments schedule

- Document issues and decisions in working papers. Benefits include:
  - aiding certification by the accountable authority in the discharge of their responsibilities
  - facilitating the preparation and quality assurance review processes, minimising rework and providing information on how decisions are made on significant matters
  - responding to questions from stakeholders, including parliamentary committees
  - having a record of information for the next set of financial statements, including identification of significant matters and comparisons in planning future work.
- Structure the content of working papers. At a minimum, working papers should include:
  - a clear title that properly describes the working paper and contains the date of creation
  - a brief statement of the purpose of the working paper
  - clear links to the specific balances or notes to the financial statements
  - alterations are clearly identified, dated and explained
  - identification and dates of sign-off of the preparer and reviewer
  - clear cross-reference to sources of information such as supporting documents, files, reports or ledger codes, with sufficient detail for the sources to be retrieved with minimal time and effort.

See Tool 10 template: Working papers cover sheet

See Tool 11 example: Requirements for supporting documentation

- Prepare lead schedules for assurance processes.
  - A lead schedule is a summary schedule that serves as a systematic means of providing assurance to management that:
    - all figures are complete, accurate and supported by evidence
    - the balances have been reviewed
    - variances from previous years and budgets are explained

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

- checking or sign-off has occurred.

- Lead schedules should only record the final, verified balances that agree with the final financial statements.
- Better practice entities have automated their lead schedule system by:
  - resetting to the current year – this involves moving the balances from the previous year-end to the comparatives column in each lead schedule, creating a comparative set of figures that are useful for analytical and review work:
    - sometimes the figures may need to be adjusted, due to changes in accounting standards and policies
    - this automated process is usually done once each year and well in advance of year-end, to ensure that correct figures are used
  - uploading the current year-end balances in the FMIS – to lead schedules in a specified, pre-determined manner
  - updating the lead schedule numbers each time new entries are posted to the general ledger – movements in balances are detailed in computer-generated worksheets to track and explain updates.

7.10 Audit committee financial reporting assurance reviews

See Tool 13 checklist: CFO and finance team assurance processes for audit committee

- The review of an entity's financial statements is an important aspect of an audit committee's responsibilities under their financial reporting review function. Some audit committees may prefer to schedule a separate meeting to consider the draft financial statements. It may assist the finance team, in planning their work, to consider when and how the audit committee intends to review the draft financial statements.
- The audit committee's review of the appropriateness of the accountable authority's financial reporting for the entity could entail a review of risks, internal controls and processes for preparing financial statements. This would include review of compliance with the mandatory requirements of applicable legislation, policy requirements and accounting standards. The audit committee may also consider guidance supporting the mandatory requirements.
- Audit committee reviews may also include whether:
  - any audit findings and management actions have been addressed in a timely manner
  - any estimates and judgements made by management are appropriate
  - any errors or adjustments identified during the audit process have been actioned or been informed of reasons for not actioning these
  - financial statements have been prepared in an efficient and effective manner, including having effective sign-off and quality assurance processes in place.
- To be able to perform this function effectively, it is necessary for the audit committee to be continually kept abreast of all significant issues that may affect the financial statements (not just at year-end) including significant changes in accounting policies and errors or misstatements identified during the year.

7.11 Chief financial officer's report to the audit committee

See Tool 14 template: Chief financial officer's report

- The CFO's report is 1 of the key sources of information and advice that the committee considers in advising on the appropriateness of the entity's financial reporting.
- The content of the CFO's report to the audit committee will typically be determined by a number of factors including:

7. Adopting good financial practices: Adopting good financial reporting practices throughout the year and at year-end.

- the complexity of the entity and the financial statements themselves
- the extent of estimates and judgements involved in preparing the financial statements
- the level of risk that the financial statements may contain errors or misstatements
- the extent and nature of changes to the financial statements compared with prior years.

7.12 Continuously improving assurance processes

See Tool 2 template: Lessons learned tracking sheet

- In view of the importance of preparing accurate and timely financial statements, and consistent with a culture of continuous improvement, entities should build into their processes a lessons learned review of their assurance performance. This may involve the establishment of appropriate performance measures.
- Set performance indicators for assurance processes.
- Entities should consider the benefits of developing performance measures for key elements of the financial statements development process and reporting on actual performance once the statements have been finalised and the annual report tabled. Aspects of performance that could be measured include:
  - the extent and nature of changes between the first draft and the signed financial statements
  - compliance with the reporting framework
  - the efficiency and timeliness of activities.
- Any performance indicators established should be readily measurable and recorded.
- Examples of performance indicators that may be useful include the:
  - number and significance of adjustments made to the financial statements as a result of internal reviews and OAG audits
  - number of versions prepared in drafting the financial statements
  - number of issues of non-compliance with legislation and accounting standards
  - number and significance of issues raised by audit (internal and external)
  - percentage of activities completed on schedule (for example, reconciliations)
  - number of days late where a reporting timeline is not met.
- By reporting performance information of this type, entities can identify opportunities for improving existing processes and procedures. Any unsatisfactory results should be investigated to ascertain the reasons why, and to implement remedial action, if appropriate.

Part 4: Key challenges for smaller entities

We recognise that it is difficult for smaller entities, including those located in regional or remote locations, to meet all of the better practice principles outlined in this guide. However, the risks of non-compliance and misstatement due to fraud or error is equally applicable to these entities. This section outlines some of the key challenges smaller entities face in the preparation of financial statements and strategies to help them improve the effectiveness of their preparation processes.

4.1 Limited resources

Having the people with the right skills, knowledge and experience in financial reporting and accounting standards is essential for better practice financial statements. Smaller entities may find it challenging to secure such resources at the right time. Possible solutions include resource sharing arrangements with other similar entities or engaging capable external consultants. When relying on external consultants, the principles noted in Part 3, Principle 7.6, under managing shared services arrangements should be adhered to.

4.2 Limited segregation of duties

In very small entities, where resources are limited and full segregation of duties is more difficult to achieve, there might be increased involvement of other senior staff in filling gaps. Management should consider alternative control activities such as timely periodic management reviews of reports that are prepared in sufficient detail for misstatements to be identified. Whilst this may address the gap from a governance perspective, moving from an oversight role to an operational role has its downsides such as override of established control procedures. But this can be addressed with specific protocols such as clear definitions and boundaries, so that the role definition is always clear. For example, management should acknowledge that they are in an operational role while performing these tasks.[24] Similarly in smaller entities, more frequent communication may be required with management, enabling greater reliance on accountable authority and audit committee oversight for achieving effective internal control.[25]

Stronger controls would also include, where possible, the implementation of automated systems that require segregation across the different functions. Management can identify gaps in functions that should be appropriately segregated by using automated tools, organisation charts, process flowcharts or documented policies. Any incompatible functions are considered when developing or revising the policies for granting access to assets and systems. The policies should be regularly updated to reflect changing responsibilities and activities. For example, management should create a matrix of incompatible functions across the financial reporting processes and assess any business justification for the incompatibility. If the business justification is deemed valid by management, the entity evaluates the sufficiency of compensating controls selected, developed and deployed. If the justification is found not to be valid or non-existent, the entity develops a recommendation to implement a policy for segregating the functions.[26]

[24] CPA Australia, *Internal controls for not-for-profit organisations*, 2011, p 15.

[25] Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control - Integrated Framework: Internal Control Over External Financial Reporting: A Compendium of Approaches and Examples*, May 2013, p 11.

[26] Ibid., p 92.

4.3 Strategies for risk management and internal controls

Attaining a cost-effective internal control environment can be challenging for smaller entities. There are numerous benefits to having an effective internal control environment however this should be balanced with the associated costs. A key question for management is how much the entity is prepared and/or able to invest in its internal financial control environment and what its tolerable risk/certainty appetite is. While costs can be proportionally higher for smaller entities, an effective internal control environment is achievable with the right strategies in place. The following strategies should be considered with cost-effectiveness in mind. Of course, fostering an organisational culture that seeks to build capability and openly address problems, risks and inefficiencies will support continuous improvement in organisations of all sizes and operating contexts.

Risk based approach

Evidence shows that efficiencies can be gained by firstly setting financial reporting objectives and secondly, identifying supporting objectives for those business activities, processes and events that can materially affect the financial statements.[27] Once this is in place, management should identify and assess risks to those objectives and determine which risks would result in material misstatement in financial reporting and how these risks can be managed by internal control activities. Significant efficiencies can be gained, by focusing on the risks to reliable financial reporting linked to key objectives.

When assessing the risk of misstatement, internal controls should be viewed in totality. In a smaller entity, weak controls in some areas might be mitigated by strong controls in other areas and therefore in totality the controls are sufficient to reduce the risk of misstatement to an acceptable level. For example, where it is not practical for ordering and receipting functions to be segregated, other mitigating controls such as regular stocktakes and reviews of expenditure exist to reduce the risks to an acceptable level.

Effective documentation

The extent of documentation to support design and operating effectiveness of internal controls over financial reporting is a matter of judgement. Management should ensure sufficient information is available that the accounting systems and related procedures, including actions taken in connection with preparation of reliable financial statements, are well designed, well understood, and carried out properly. Management should also consider how it will assert to external parties such as regulators and auditors that internal controls are designed and operating effectively over financial reporting.

The OAG generally requires some level of evidence to support effectiveness of internal control and therefore where practical, the creation and retention of evidence should be embedded with the various financial reporting processes. Some practical measures to mitigate the risks associated with limited segregation of duties include documenting key processes and key decisions, and justifying the use of exemptions. In smaller entities, for practical reasons, intended control reliance may not be achievable but such reasons and appropriate mitigating strategies should be documented. For example, if sufficient quotes cannot be obtained for purchases below the tender threshold, reasons for not obtaining quotes should be documented.

[27] Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control - Integrated Framework: Internal Control Over External Financial Reporting: A Compendium of Approaches and Examples*, May 2013, p. 53-54.

Part 5: Toolkit

This toolkit contains templates that public sector entities may find useful in their financial statement preparation process. The templates help to promote the better practice principles included in the guide and are designed to be easily tailored to meet the entity's specific circumstances.

Entities should take care to modify the tools to reflect their legal or regulatory requirements. For example, State and LG entities will need to adapt these templates to address the specific requirements of the FM Act, LG Act and relevant regulations.

In representing that the financial statements have been prepared in accordance with the applicable financial reporting framework, the accountable authority implicitly or explicitly makes the assertions regarding the recognition, measurement, presentation and disclosure of the various elements of the financial statements.

The accountable authority relies on the entity's internal controls and advice from the CFO and other senior managers on the integrity of entity processes to be satisfied that these assertions are valid in the preparation of the entity's financial statements. These assertions are set out below.

5.1 Financial statement assertions

Assertions in relation to classes of transactions and events for the period under audit

Assertion	Description
Occurrence	Transactions and events that have been recorded have occurred and pertain to the entity.
Completeness	All transactions and events that should have been recorded have been recorded.
Accuracy	Amounts and other data relating to recorded transactions and events have been recorded appropriately.
Cut-off	Transactions and events have been recorded in the correct accounting period.
Classification	Transactions and events have been recorded in the proper accounts.
Compliance	Transactions and events have been carried out in accordance with applicable laws, regulations or other authority.

Assertions in relation to account balances at period end

Assertion	Description
Existence	Assets, liabilities and equity interests exist.
Rights and obligations	The entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
Completeness	All assets, liabilities and equity interests that should have been recorded have been recorded.
Valuation and allocation	Assets, liabilities and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

Assertions in relation to presentation and disclosure

Assertion	Description
Occurrence and rights and obligations	Disclosed events, transactions, and other matters have occurred and pertain to the entity.
Completeness	All disclosures that should have been included in the financial statements have been included.
Classification and understandability	Financial information is appropriately presented and described, and disclosures are clearly expressed.
Accuracy and valuation	Financial and other information are disclosed fairly and at appropriate amounts.

Source: Commonwealth Department of Finance

These tools may be updated from time to time. Please check our website for the latest version.

5.2 List of tools

Toolkit 1 | Knowing your entity's risks and assurance processes

Tool name	Tool description
Example: Risk analysis for financial statements **Tool 1**	This risk analysis process for financial statements can assist management to prioritise the resources allocated to the preparation of the financial statements. High risk rating will be applied to balances that are subject to judgement. Actions required to include presentation of key assumptions and judgements underlying accounting estimates in the financial statements for audit committee consideration and accountable authority approval and sign-off.

Toolkit 2 | Planning for year-end financial statements

Tool name	Tool description
Template: Lessons learned tracking sheet **Tool 2**	This template assists in the tracking of lessons learned from previous years and implementing related proposed solutions.
Template: Project schedule **Tool 3**	Project schedule outlines the activities to be completed in the preparation process. Management to prioritise the resources allocated to the preparation of the financial statements.
Example: Financial statements reporting timetable **Tool 4**	A summary timetable to set out key financial reporting dates in a form that are easily consumable by key stakeholders.
Example: Internal consistency checks **Tool 5**	This spreadsheet provides examples of the consistency checks that entities should consider implementing.
Example: Financial statements project plan **Tool 6**	A detailed project plan outlines the activities to be completed in the preparation process, including the timeline and responsibility for the completion of each activity and its status.

Toolkit 3 | Development of financial statements

Tool name	Tool description
Example: Materiality assessment paper **Tool 7**	This paper is useful for documenting your entity's decisions in regard to materiality. The paper to emphasise the point about discussing materiality with the auditors to ensure an appropriate threshold is set for correction of errors.
Template: Position paper **Tool 8**	This template provides a useful structure/guidance to assist in the development of an accounting position paper.

Toolkit 4 | Quality assurance and certifications

Tool name	Tool description
Template: Adjustments schedule **Tool 9**	This schedule allows an entity to keep a record of all adjustments proposed/ made and to enable the changes to be considered and actioned as a whole.
Template: Working papers cover sheet **Tool 10**	This template can be used to assist in providing a reference to all relevant documents that support each financial statement item or note.
Example: Requirements for supporting documentation **Tool 11**	The example requirements documentation outlines the types of supporting evidence required for selected financial statements items.
Checklist: CFO assurance **Tool 12**	A checklist considering a range of issues relating to the preparation of an entity's financial statements and may assist the CFO in discharging his/her responsibilities.
Checklist: CFO and finance team assurance processes for audit committee **Tool 13**	This checklist is an example of what a finance area/CFO might provide to the audit committee to provide assurance in regard to the financial statements process.
Template: Chief financial officer's report **Tool 14**	Template for the CFO's report to the audit committee and accountable authority to provide assurance.

Toolkit 5 | External audit process

Template: Register of audit requests **Tool 15**	Provides an example template for tracking audit requests.

Tool 1 example: Risk analysis for financial statements

Introduction

Each entity has its own framework for risk management. Entities should implement a targeted risk management approach for financial statement development and assurance activities, to support the validity, accuracy and completeness of the accounts and balances. The framework adopted should align with the entity's risk management policy, risk appetite and approach to managing risk.

The degree of formality and rigour of the risk assessment will depend on a number of factors, including the overall complexity of the entity's financial statements, the maturity of its financial statement process and the level of financial reporting risk the entity is prepared to accept.

Source: OAG using information from the Commonwealth Department of Finance

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Purpose

A risk analysis framework establishes the analysis required for each financial statement line item and accompanying notes to:

- assist in the prioritisation of resources
- to determine if sufficient controls are in place to mitigate the risk of material misstatement to an acceptable level, to achieve necessary outcomes.

For example, a high-level financial reporting risk, will require ongoing and sustained resource requirement and likely to involve complex internal control, higher level of documentation and disclosure, and accounting issues or balances that require estimation or judgement. A low level of financial reporting risk will require minimal resource commitment and likely to involve routine control and accounting issues.

Risk management practices and processes

The entity should adopt best practices that formalise a policy for the risk assessment, based on a number of factors, including the complexity of the statements and the maturity of the process. The process should include:

- a regular cycle for reviewing financial statement line item risks
- reporting to governance committees
- a standard format, detailed analysis and information against each account.

Risk assessment steps

Step 1: Specifying objectives

A pre-condition to the conduct of risk assessment is establishing objectives. Entity management should specify high-level objectives and sub-objectives relating to the preparation of financial statements.

An example of a high-level objective is for the entity to prepare reliable financial statements that are in accordance with AAS and TIs/LG Regs.

Sub-objectives relate to account and business processes and activities and include accounting policies, financial statement assertions and qualitative characteristics.

Examples of sub-objectives include:

Property, plant and equipment held and recorded as of year-end meet the classification and valuation financial statement assertions.

Step 2: Conduct financial reporting risk assessment

In identifying risks to the achievement of financial reporting objectives noted in Step 1, management should consider the financial reporting risk factors related to each financial statement account and the associated financial statement assertions. Each entity should decide on the financial reporting risk factors most appropriate to its own operations and circumstances and the weightings to be applied to each factor.

The process of identifying and analysing risk factors includes both quantitative and qualitative factors. Examples of factors that can impact financial reporting risk include materiality, volume of transactions, operating environment, the level of judgement involved, reliance on third party data, manual intervention, disparity of data sources, evidence of fraud, system changes and results of previous audits by internal audit and the OAG.

Apply risk ratings to determine overall financial reporting risk assessment based on entity’s risk management framework.

An example risk analysis for the item property, plant and equipment is below. The example serves as an illustration only and does not cover all financial statements items.

<table>
<tr><th>Risk factor (See Note 1)</th><th>Key questions to consider</th><th>Rating (See Note 1)</th><th>Reason/analysis</th></tr>
<tr><td rowspan="3">Materiality</td><td>How significant is the item as a percentage of total income, expenses, assets or liabilities?</td><td rowspan="3">H</td><td>The item represents 12% of total assets.</td></tr>
<tr><td>How significant is the item to the key users of the financial statements?</td><td>The item is topical because of recent parliamentary interest.</td></tr>
<tr><td>How material are individual transactions?</td><td>About 40% of transactions have high dollar values.</td></tr>
<tr><td>Volume of transactions</td><td>Is there a significant number of transactions in the population?</td><td>M</td><td>A significant number of individual transactions are processed each year.</td></tr>
<tr><td rowspan="5">Operating environment</td><td>Are there any legislative or regulatory changes?</td><td rowspan="5">N/A</td><td rowspan="5">This factor is not applicable.</td></tr>
<tr><td>Are there significant budget constraints or other financial pressures?</td></tr>
<tr><td>Are there any changes in the key cost/revenue drivers?</td></tr>
<tr><td>Are there plans to outsource services or move to a shared service arrangement?</td></tr>
<tr><td>Is there likely to be any new significant contracts /arrangements entered into during the financial year?</td></tr>
</table>

Risk factor (See Note 1)	Key questions to consider	Rating (See Note 1)	Reason/analysis
	Are there any changes to accounting processes?		
Reporting requirements	Are there any complex or new accounting requirements?	L	None identified.
	Are there any significant compliance issues?		None identified.
Level of judgement	Does the item require considerable judgement to record the account balances and transactions correctly?	H	Judgement is required for capitalisation threshold, useful lives and revaluations.
	Does it require estimates, management judgement or specific knowledge and skills of the item and related accounting standards?		Judgement is required in determining whether the asset belongs to other related entities.
Extent of reliance on third parties	Is the accuracy of data dependent on areas, systems, experts or related entities outside the control of the finance team?	H	Significant reliance on business areas to provide information.
	Does experience suggest that such data is provided in a timely and accurate manner?		Data provided in prior year had significant errors.
			Reliance on external experts with respect to valuation.
			Reliance on related entities to manage and correctly record assets in regional offices.
Level of manual intervention	Is the level of manual intervention used to initiate, record, process or report transactions significant?	M	Manual adjustments are generally required to reflect revaluations and impairments of property, plant and equipment.
	Is manual intervention appropriate?		The level of manual intervention is appropriate because judgement is required to initiate and record the adjustments.
Disparity of data sources	Can data be easily and reliably retrieved?	M	Three different registers are used to manage and control assets.
System changes	Are there new/significant changes to systems or feeder systems?	N/A	This factor is not applicable
Evidence of fraud	Is there any evidence of significant internal or external fraud?	L	None identified.
Audit issues identified	How significant are previous audit findings in respect of this item?	M	Previous internal audit and OAG audit findings remain outstanding. Corrective action is in progress.

Risk factor (See Note 1)	Key questions to consider	Rating (See Note 1)	Reason/analysis
	Have these findings been adequately addressed?		
Financial reporting risk summary			
Financial reporting risk	Based on the assessment above:	H	Key contributing factors: Materiality of the balance.
	• Have key financial reporting risk been identified?		Level of judgement required in determining correct asset classification and valuation.
	• What are the key contributing inherent risk factors for the item?		High level of reliance on business areas to correctly identify assets for capitalisation.
	• What is the overall financial reporting risk rating?		Reliance on other related entities to manage some key assets.

Note 1: Different weightings should be given to each risk factor. The materiality of the financial statement item would be expected to have the greatest weighting

Step 3: Conduct a residual risk assessment

An effective system of internal control helps prevent material misstatements, errors and fraud. Key controls[28] must be designed and implemented in such a way that they will prevent or detect on a timely basis, potential material misstatements related to the identified financial statement assertions.

A residual risk assessment for each financial statement assertion should take into account the preventative and detective control framework and identification of other existing mitigating controls.

(i) Preventative controls: Pre month-end assurance framework

The entity should adopt best practices that control system access, security, procurement, payment of invoices, receipting and segregation of duties. In addition, the entity should adopt a risk-based control framework to prevent material errors going undetected and incorrect financial information being reported. This includes:

- journals being prepared and reviewed by 2 separate officers prior to posting
- processing the reversal of all accrual journals at the beginning of each month and re-accrual, as appropriate
- establishing a hierarchy of journal endorsement, such as:
    - executive endorsement for journals larger than an appropriate specified amount
    - CFO endorsement for:
        - journals directly affecting equity

[28] *'A key control is usually the only control that covers a risk of material misstatement and is indispensable to cover its control objective'* - SAICA, *Guidance on the CFO/FD Sign-Off on Internal Financial Control,* August 2020, p.11.

    - journals larger than an appropriate specified amount.

These controls combined with other pre month-end assurance processes are essential for preventing, identifying and correcting errors before the general ledger closing. To improve the accuracy, veracity and usefulness of the monthly management reports and reduce the need for post-close adjustments, the entity should adopt a pre month-end assurance process that includes finance team officers undertaking:

- a review of the reasonableness of the entity's financial statements (revenue, expense, assets, liabilities and equity) prior to the general ledger closing
- substantive testing (if large, unusual, complex or non-recurring items were identified to have material impact on period-end closing balances)
- investigation and further analysis where the movement is not considered reasonable when comparing:
    - actuals to budget (greater than X% or $X million variance to revised budgets)
    - monthly movement (greater than X% or $X million variance to expectations)
    - negative accounts
    - relationship to other items and external information
- correction of all identified material errors prior to the general ledger closing.

(ii) Detective controls: Post month-end assurance framework

Account reconciliations and analytics are the primary tools for detecting misstatements and internal control issues.

To complete the account reconciliations within the required timeframes, with the requisite levels of quality and analysis, the entity should adopt best practices that formalise a policy for appropriate staff in the finance team to reconcile and review all accounts, including:

- Undertaking a risk assessment of all accounts to determine a risk rating. Accounts that have a higher financial reporting risk of material misstatement should then be subject to more frequent reconciliations, analytical procedures, substantive testing and peer review to reduce risks to an acceptable level.
- Completing assessments to identify opportunities to redesign, reduce or remove compliance activities without significantly impacting on the outcomes.
- Adopting a cycle for reconciling, analysing and testing accounts based on the risk. For example, higher risk may require monthly reconciliations.
- Requiring reconciliations to be prioritised, based on risk and variance thresholds, with all reconciliations due for completion by the 10th working day of the subsequent month.
- Using a standard format and analysis for information against each account.
- Assigning 1 preparer and 1 reviewer to each account with each person understanding the: business activities; key drivers; purpose; source of documentation; and analysis to obtain a reasonable level of assurance over the account balance and reduce the risk of misstatement to an acceptable level.
- A review of the inherent risk assessment and mitigating controls where there are indications that the nature, materiality or risk profile of the account may have changed.

The effectiveness of existing controls is then assessed and an overall residual reporting risk rating of high, medium or low is assigned for each financial statement item. An example residual risk assessment for the property, plant and equipment example is provided below.

Analysis of existing key controls
Existing key controls in place are:
• Monthly reconciliation of property, plant and equipment movement schedules showing opening balances, additions, disposals, transfers, depreciation, impairments and closing balances is performed to ensure completeness of all asset movements in the asset registers and FMIS. • Year-end review is undertaken to ensure assets are categorised by class and appropriately disclosed in the financial statements, including movement tables. • Asset stocktakes are conducted in accordance with the policy on assets and stocktake reports are reconciled to the asset registers and FMIS. Stocktake reports are endorsed by management. • Year-end reviews of valuation reports are conducted. • Annual review for impairment in accordance with Accounting Standard AASB 136 *Impairment of Assets* is carried out to ensure property, plant and equipment value is not overstated. • Service agreements with related entities are reviewed annually to ensure that their management controls are adequate to minimise material misstatements in recording and ownership.

Residual risk summary:

Risk factor	Key questions to consider	Rating	Reason/analysis
Residual risk	Based on the analysis of existing controls above: • Have all existing key controls been identified? • What are the key contributing risks remaining after existing controls have been exercised? • What is the overall residual risk rating?	M	Key contributing factors: Controls in place are relatively mature and are subject to periodic review. However, the item is material and improvements are still required by business areas to provide more timely and accurate information.

Step 4: Summarise risk ratings and key actions taken or required

It is recommended that entities summarise their risk ratings in a format such as a risk and control matrix which identifies and classifies each of the risks within the internal financial reporting control environment that supports the transactions. Collate all individual risk ratings for each financial statement assertion to give an overall picture of the reporting risk for all financial statement items.

Determine required treatments, having regard to the entity's risk appetite. It is essential to identify those risk activities that require additional actions taken or required to reduce the risk to an acceptable level.

Entities may find it useful to present the summary table below to the audit committee for review of progress.

A risk and control matrix should be regularly reviewed and updated as the business, operations, technologies and processes change and evolve.

Financial reporting risk	Financial statement assertion	Effect of the financial reporting risk	Risk rating	Mitigating control for financial reporting risk	Residual risk rating	Date control tested	Findings	Key actions taken or required	Sign-off
AASB 116 revaluation adjustment is incorrect	Valuation of property, plant and equipment	Property, plant and equipment may be misstated and fair values are incorrect	High	Year-end reviews of valuation reports are conducted	Moderate	June 202x	Control functioning as documented	Valuation estimate and assumptions will be reviewed and approved by accountable authority and audit committee	Fixed asset officer

Tool 2 template: Lessons learned tracking sheet

Introduction

Developing a better practice financial statements process is an iterative process. It is important to take time at the end of each cycle to consider what went well and what could be improved.

This tracking sheet helps finance teams to communicate the issues and challenges from the previous financial statement process and document the proposed solutions for implementation.

Lessons learned in progress

A tracking sheet, such as this one, allows the team to record what didn't go to plan and track the progress of improvements.

Completed lessons learned

This register is for keeping track of completed items from previous year's lessons. It is important to keep a record of past items as a reference as this assists in the preparation of position papers and supporting information for future decisions.

Positive lessons

It is helpful to keep track of the positive lessons in addition to negative lessons.

Source: OAG using information from the Commonwealth Department of Finance

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An excel version of this document is available on our website

Lessons learned in progress

Financial statements
Lessons learned in progress tracking sheet

Ref	Key topic	Identified issue	Proposed resolution	Action assigned to	Progress to audit committ	Internal only	Status	Planned completion	Actual completion	Feedback/comments
Lessons learned identified in 202x - 202x financial year										
1	Financial statements model	The Model didn't detect several internal consistency errors that the auditors picked up.	Review internal consistency functionality and ensure it is working	Financial statements	No	Yes	In progress	30-Jun		
2	Valuation of Land and Buildings	Valuation report wasn't available untill just before sign-off which resulted in a late lodgement of financial statements	Review planning for next reporting cycle and ensure valuation reports are obtained in a timely manner	Financial statements	Yes	No	Not started	30-Jun		
3										
4										
5										
6										
Lessons Learned identified in 2014 - 2015 Financial Year										
1										
2										
3										

(Appendix AAR: 8.4B)

Completed lessons learned

Financial statements
Completed lessons learned tracking sheet

Ref	Key topic	Identified issue	Proposed resolution	Action assigned to	Progress to audit committee	Internal only	Status	Planned completion	Actual completion	Feedback/comments
***Lessons learned identified in 202x - 202x financial year -* COMPLETED**										
1	Use of external consultants for corporate services and financial statement preparation	The external consultant timetable for financial statement preparation did not align with external audit expectations and timetable which resulted in delays in completing the audit and signing off the financial statements.	Ensure the external consultant attends external audit meetings such as pre-planning and audit entrance meeetings to ensure concurrence of financial statement preparation timetable.	Financial statements	Yes	No	Completed	28/11/2021	8/12/2021	CFO with the external consultant to discuss timing issue and arranged for them to attend key meetings with external auditors to discuss and agree the timetable for financial statement preparation.
2	SIMS reporting	SIMS was not updated for late adjustments to the financial statements.	Finance manager regularly advises the responsible officer of changes and adjustments to financial statements, to facilitate the timely update of SIMS.	Financial statements	No	Yes	Completed	31/10/2021	15/11/2021	Finance manager met with responsible officer to discuss timely updates to SIMS and organise for weekly meetings to advise of changes and adjustments to financial statements.
3										
4										

Positive lessons

202x-2x Financial statements
Positive lessons

Ref	Key topic	Identified issue
1	Project plan	Project Plan allowed easy tracking for management on the progress of the financial statements and allowed them to reallocated resources where pressures where building.
2	Adoption of new accounting standards	Preparation of accounting position papers that clearly outlined the new requirements, our assessment and impact assisted greatly in providing the necessary assurance to the audit committee and obtaining their approval.
3		
4		
5		
6		

Tool 3 template: Project schedule

Introduction

Project schedule outlines the tasks to be completed in the preparation process from initial planning through to finalisation, including the timeline and responsibility for the completion of each activity. The plan assumes a year-end date of 30 June. It is better practice that the day of the week as well as the date be shown in the due date column.

The example project schedule should be tailored to meet the entity's particular circumstances and needs. The schedule does not necessarily cover all possible events and actions. Some smaller entities could have a shorter elapsed time if their tasks are less complex.

Source: OAG using information from the Commonwealth Department of Finance

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An excel version of this document is available on our website

Project schedule

Project schedule

Ref	Action required	Due date	Responsibility	Comment
Pre year-end				
1	Commence financial statements planning	dd/mm/yyyy	FT	
2	Review of accounting policies for the year	dd/mm/yyyy	FT	
3	CFO and the OAG present their audit planning summary including schedule of activities and timetable to the audit committee for discussion. CFO presents financial statements risk analysis and acceptable materiality levels for discussion.	dd/mm/yyyy	FT/OAG	
4	The OAG commences the interim audit phase.	dd/mm/yyyy	OAG	
5	Valuation instructions and timetable to be finalised with valuers and actuaries (for example, valuations for non-current assets and estimates of employee entitlements).	dd/mm/yyyy	BA/FT	
6	Prepare position papers on proposed accounting treatments of significant or contentious transactions.	dd/mm/yyyy	FT	
7	Agreement with the audit committee and the OAG on pro-forma financial statements and proposed accounting treatment of significant or contentious transactions. This action would include identifying opportunities to improve financial statements disclosures.	dd/mm/yyyy	FT/OAG	

KEY	Description
AA	Accountable authority
AC	Audit committee
OAG	Office of the Auditor General
BA	Business areas
CFO	Chief financial officer
FMIS	Financial management information system
FT	Finance team or members of the finance team
HR	Human resource branch

Tool 4 example: Financial statements reporting timetable

Introduction

This example provides a summary timetable of key financial reporting dates, in a form that is convenient for key stakeholders such as an audit committee or the OAG.

The appropriate level of detail is likely to differ between entities, depending on stakeholders' requirements – some stakeholders may require more or less detail than included in this example.

The timetable includes a number of acronyms and abbreviations for convenience and the effective use of available space. A list of acronyms and abbreviations is included at the end of the table.

This checklist is to assist in the planning of audit committee meetings. It is important to plan the date for each activity, working backwards from the meeting date, to ensure timely distribution of meeting papers to members and attendees.

Source: OAG using information from the Commonwealth Department of Finance

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Financial reporting timetable for the year ended 30 June 202x

Timeframe	Task	Responsibility	Status
August/ September	Lessons learnt from previous year's financial statements/audit process Organise a lessons learnt session to determine areas which require improvement, implement efficiencies and better practice methods.	Financial reporting team	Complete
November	Implement OAG audit recommendations: Implement any audit recommendations from final management letter/exit brief.	Financial reporting team, divisions, management	In progress
November / December	OAG conduct audit planning.	OAG	To be actioned
February	Stocktake Undertake the annual fixed asset and portable and attractive stocktake and valuation work.	Financial reporting team and finance officers	To be actioned
February	Audit committee First meeting for the year to agree on the financial statement timetable and key issues and risks.	CFO, director financial reporting, audit committee	To be actioned
March to June	OAG conduct interim audit work.	OAG	To be actioned
March	Accounting standards and legislative rule changes Review changes to AAS to assess the impacts on the financial statements for the coming years.	Financial reporting team	To be actioned

Timeframe	Task	Responsibility	Status
	Review changes to the FM Act, TIs/ LG Act and LG Regs to assess the impacts on the entity's financial statements for the coming years.		
March	Position/issues papers Prepare position/issues papers for consultation and agreement with the OAG covering any issues arising from the interim.	Financial reporting team, management	To be actioned
March	Pro-forma financial statement draft Review changes to Treasury's Financial Administration Bookcase/LG Regs to assess the impacts on the entity's financial statements for the coming years.	Financial reporting team	To be actioned
March/April	Asset valuation Finalise the stocktake and update asset register for results and revaluation.	Financial reporting team and valuation expert	To be actioned
April	Update the accounting policy manual Incorporate the changes to the AAS and legislative rules into the accounting policy manual.	Financial reporting team	To be actioned
June	Audit committee Discuss the results of interim audit, agree appropriate treatment of any accounting issues that have been identified.	CFO, director financial reporting, audit committee	To be actioned
June	Develop a timetable for year-end close based on CFO time requirements.	Financial reporting team	To be actioned
June	Prepare for end of year Organise reports, contracts etc. which will be incorporated into or used in the preparation of the year-end financial statements.	Financial reporting team, human resources team, divisions, legal team	To be actioned
July	Prepare outstanding position papers Prepare position/issues papers for consultation and agreement with the OAG covering any issues arising since the interim.	Financial reporting team	To be actioned
July/August	Conduct financial statements process Prepare financial statements and notes in accordance with timetable.	Financial reporting team	To be actioned
July to December	OAG final audit OAG to conduct final audit fieldwork.	OAG	To be actioned
August to December	OAG material clearance OAG to finalise audit and provide material clearance.	OAG	To be actioned
August	Audit committee	CFO, director financial	To be actioned

Timeframe	Task	Responsibility	Status
	Conduct detailed review of the annual financial statements.	reporting, audit committee	
August	Submit annual actuals to Department of Treasury (SIMS reporting) Submit materially cleared financial statements to the Department of Treasury.	Financial reporting team, management	To be actioned
August to December	Audit report OAG to finalise audit and provide the audit report. Other receivables from the OAG include: • final management letter to the accountable authority • exit brief on results of financial statements audit.	OAG	To be actioned
September to December	Audit committee Audit committee to recommend that the 202x-2x financial statements be signed by the accountable authority.	CFO, director financial reporting, audit committee	To be actioned
September to December	Accountable authority to sign 202x-2x financial statements.	CFO, accountable authority	To be actioned

Acronyms and abbreviations

Acronym/abbreviation	Title in full
AAS	Australian Accounting Standards as issued by the AASB
AASB	Australian Accounting Standards Board
OAG	Office of the Auditor General
CFO	Chief financial officer
FM Act	*Financial Management Act 2006*
TI	Treasurer's instructions
LG Act	*Local Government Act 1995*
LG Regs	Local Government (Financial Management) Regulations 1996
SIMS	Strategic information management system

Tool 5 example: Internal consistency checks

Introduction

A well-designed financial statements model will have inbuilt internal consistency checks. Internal consistency checks allow easy confirmation that all the notes and face statements are consistent across the document. This spreadsheet provides examples of the consistency checks that entities may consider including.

Source: OAG using information from the Commonwealth Department of Finance

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An excel version of this document is available on our website

Validations

Validations

No	Valuation Name	Column1	State government entity/Local government entity
1	**Net Assets = Total Equity**		PASS
	Net Assets (Statement of Financial Position)		
	Total Equity (Statement of Financial Position)		
2	**Total Equity**		PASS
	Total Equity (Statement of Financial Position)		
	Total Equity (Statement of Changes in Equity)		
3	**Cash at the end of the reporting period**		PASS
	Statement of Financial Position		
	Cash Flow Statement		
4	**Surplus/(Deficit) for the period**		PASS
	Statement of Comprehensive Income		
	Statement of Changes in Equity		
5	**Surplus/(Deficit) for the period - Comparative year**		PASS
	Statement of Comprehensive Income		
	Statement of Changes in Equity		
6	**Asset Class = Asset Reconcillation C/B**		
6.1	***Land***		PASS
	Balance Sheet		
	Asset Rec		
6.2	***Buildings***		PASS
	Balance Sheet		
	Asset Rec		
6.3	***Infrastructure***		PASS
	Balance Sheet		
	Asset Rec		
6.4	***Plant and equipment***		PASS
	Balance Sheet		
	Asset Rec		
6.5	***Furniture and equipment***		PASS
	Balance Sheet		
	Asset Rec		
6.6	***Works of art***		PASS
	Balance Sheet		
	Asset Rec		
7	**Depreciation (Expense) = Total Derpreciation (Asset Reconcilation)**		PASS
	Statement of Comprehensive Income		
	Asset Rec		
8	**Cash at Bank Balance Sheet = Cash at Bank Cash Flow Statement**		PASS
	Statement of Comprehensive Income		
	Cashflow Statement		
9	**Appropriation Note Movements = Cash Flow Statement Appropriation Movements**		PASS
	Appropriation Note		
	Cashflow Statement		

Tool 6 example: Financial statements project plan

Introduction

A detailed project plan outlines the activities to be completed in the preparation process, including the timeline and responsibilities for the completion of each activity and its status.

This example project plan assumes a year-end date of 30 June 202x. It is better practice that the day of the week and the date be shown in the due date column.

The example project plan should be tailored to meet the entity's particular circumstances and needs. The plan does not necessarily cover all possible events and actions. Some smaller entities could have a shorter elapsed time if their tasks are less complex.

Source: OAG using information from the Commonwealth Department of Finance

An excel version of this document is available on our website

June year end 202x-2x timetable

Pha	Task name	Start	Finish	Overdue	Status	Comments	Primary resour	Secondary resource	Submitted f review	First revie	Edits process	Manager revi	Edits processed2	Cleared	Additional comments
1.	***End of period Activities***	***Saturday, 0 January 1900***	***Saturday, 0 January 1900***												
	Update financial statements template														
	Review lessons learned														
	Audit confirmation letters														
2.	***Systems Processing***	***Saturday, 0 January 1900***	***Saturday, 0 January 1900***												
	Invoices to be processed in FMIS														
	Last payment run for June														
	EOM payroll accrual files for June 202x														
	Close travel module and goods receipt module in FMIS														
	Final credit card export for the month														
	Close accounts payable														
	Close accounts receivable														
	Final bank statement processing														
	Close June 202x period in FMIS														
	Open July 202x and period 13 in FMIS														
3.	***Period 13 activities***	***Saturday, 0 January 1900***	***Saturday, 0 January 1900***												
	Asset revaluation														
4.	***Employee leave liabilities***	***Saturday, 0 January 1900***	***Saturday, 0 January 1900***												
	Leave liability reconciliations														
5.	***SIMS reporting***	***Saturday, 0 January 1900***	***Monday, 13 July 2020***												
	Late adjustments reported to Treasury														
	Deadline to submit to Treasury		**Monday, 13 July 2020**												
6	***Financial statements***	***Saturday, 0 January 1900***	***Saturday, 0 January 1900***												
	Draft primary financial statements (week 1)														
	Statement of comprehensive income														
	Statement of financial position														
	Statement of changes in equity														
	Statement of cash flows														
	Rate setting statement														
	1. Financial performance														
	1.1: Expenses	**Saturday, 0 January 1900**	**Saturday, 0 January 1900**												
	1.1A: Employee benefits														
	1.1B: Supplier expenses (goods and services)														
	1.1B: Other supplier expenses														
	1.1C: Grants and subsidies														
	1.1D: Finance costs														
	1.1E: Write-down and impairment of assets														
	1.1F: Other expenses														
	1.1G: Depreciation and amortisation														
	1.2: Revenue and gains	**Saturday, 0 January 1900**	**Saturday, 0 January 1900**												
	1.2A: Rates or User charges and fees														
	1.2B: Grants revenue														
	1.2C: Other revenue														
	1.2D: Gains from sales of assets														
	1.2E: Other gains														
	1.2F: Income from State Government														
	1.3: Other comprehensive income	**Saturday, 0 January 1900**	**Saturday, 0 January 1900**												
	1.3: Other comprehensive income														
	2. Financial position														
	2.1: Financial assets	**Saturday, 0 January 1900**	**Saturday, 0 January 1900**												
	2.1A: Cash and cash equivalents														
	2.1B: Trade and other receivables														
	2.1C: Other financial assets														
	2.2: Non-financial assets														
	2.2A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles														
	2.2B: Other non-financial assets														

Manual tracking			
Completed			Overdue
WIP			Due for completion

Tool 7 example: Materiality assessment paper

Introduction

The following example of a materiality paper sets out the materiality thresholds for an entity. The entity and the OAG both have a responsibility to consider and apply materiality in the context of the accounting and auditing standards respectively. It is therefore important that an entity's approach to materiality takes into account the OAG's approach with the aim of ensuring as far as possible, that both approaches are compatible. It is also important to note that entity's management cannot set or influence materiality for the financial statements audit.

An overall materiality threshold may be a useful reference point to guide decisions about the application of materiality to particular items or groupings of items, and in determining the approach to be followed in respect to the correction of errors and misstatements.

In determining an overall materiality threshold, potential methods include a percentage of income; percentage of expenditure; percentage of gross profit; percentage of total assets; percentage of total revenue to equity; a mixture of the aforementioned methods or a scaled method that takes into account the size of the entity.

Common materiality guidelines include:

1. 5.0% of income (using a 3-year average)
2. 0.5% to 2.0% of revenue/expenses for non-profit organisations
3. 0.5% to 1.0% of net assets.

Reporting entities need to consider the materiality of variances. Accounting standards require judgement to be applied when deciding on an appropriate variance threshold. As a general guide, a variance may be considered material or major if it is in line with the above guidelines.

Source: OAG using information from the Commonwealth Department of Finance

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Materiality assessment for [Entity name] 202X-2X financial statements disclosures

Purpose

The purpose of this position paper is to document the materiality policy and thresholds to be used in the preparation of the [Entity name] 202X-2X annual financial statements. The materiality thresholds will be used to support management decisions in relation to information disclosure in the 202X-2X financial statements and identification of major variances for further investigation. Any audit differences will continue to be worked through with the OAG on a case-by-case basis.

This document should be reviewed annually and updated where necessary to account for any changes in funding, thresholds, legislation and guiding rules for the entity's assessment of materiality in its financial statements.

[Entity's name] position

[Entity's name] considers the appropriate materiality threshold for the 202X-2X financial statements information disclosure to be X% of total expenses. This results in a materiality threshold of $X million. Refer to Attachment A for 202X-2X materiality assessment.

In addition to applying materiality thresholds, [entity's name] will also apply professional judgement and consider relevance for users of its financial statements when assessing items for disclosure. This may result in information disclosed that may not be numerically material but by nature may assist users to understand the underlying business transactions. Application of professional judgement may result in disclosures for material items not being equal in terms of size and detail.

This materiality assessment applies to the 202X-2X financial statements. [Entity's Name] will undertake an annual review of materiality and adjust where necessary.

[Entity's Name] will not apply materiality assessment against disclosures which are material by nature such as appropriations and special purpose accounts, and mandatory requirements under the Australian Accounting Standards (AAS), the *Financial Management Act 2006* (FM Act), Treasurer's instructions, *Local Government Act 1995* (LG Act) and Local Government Regulations (LG Regs) and other authoritative requirements.

Background

Sections 61 and 62 of the FM Act requires State entities to prepare financial statements in accordance with AAS and TIs. AAS and TIs require that entities' financial statements are based on proper accounts and records to present fairly the financial transactions for the reporting period. Similarly, section 6.4 of LG Act require the financial statements to be based on proper accounts and records to present fairly the financial position and the results of operations for the reporting period and compliance with the LG Act to the extent they are not inconsistent with AAS. Furthermore, the AAS require that materiality must be assessed by entities in determining disclosure requirements noting that the TIs require the application of materiality.

For 202X-2X financial statements, [entity's name] is aiming to improve the usefulness and readability to users by simplifying disclosures and reducing unnecessary clutter. In revising the disclosures, the entity has also considered the materiality of information in addition to compliance with AAS and the TIs.

Defining materiality

Materiality can be difficult to define as it is based on both quantitative and qualitative factors, with the latter requiring more judgement. Some useful guidance is contained in AASB 101 *Presentation of Financial Statements* and in AASB Practice Statement 2 *Making Materiality Judgements*.

As per AASB 101.7, materiality is defined as: *'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.*

The entity needs to assess how users of financial statements (with a reasonable knowledge of business and economic activities) could reasonably be expected to be influenced in making economic decisions (AASB 101.7).

Finally, AASB 108.8 highlights the need to balance AAS requirements with materiality assessments. Whilst it is appropriate to not apply some accounting policies where the effect is immaterial, *'it is inappropriate to make, or leave uncorrected, immaterial departures from the AAS to achieve a particular presentation of an entity's financial position, financial performance or cash flows'.*

Setting the materiality threshold for 202X-2X

The OAG sets an audit materiality threshold for each entity in accordance with the auditing standards made by the Australian Auditing and Assurance Board. These materiality levels are expected to be conservative and are not generally shared with audit clients. Whilst [entity's name] does not have access to the OAG adopted materiality threshold, it is prudent to define materiality in [entity's name] financial statements.

The entity-defined materiality threshold for information disclosure which is calculated as X% of 202X-2X total expenditure is consistent with the AAS (refer Attachment A). This judgement is guided by consideration of the impact the omission, misstatement or non-disclosure has individually or collectively on the discharge of accountability by the accountable authority and discussion with the auditors and the audit committee.

Specific line item considerations

In applying the above levels, [entity's name] will remain mindful of any qualitative factors impacting on its materiality assessment - in particular whether the nature of the particular item causes it to be material even though it would be judged immaterial on the basis of the amount involved.

For other required disclosures, tolerance levels for misstatements at an individual line item needs to be assessed by [entity's name] on a case-by-case basis with regard to the inherent risk, effectiveness of internal controls, volume and quantum of errors expected and degree of subjectivity underpinning the measurement of the account balance.

While the materiality threshold is set at X% due to the impracticality in setting a single materiality level for individual line items, individual line items may also be considered in the context of other appropriate measurement bases. An appropriate measurement base could be all items in the financial statements, relative items, or classes of items. For example:

a) balance sheet items could be assessed relative to the appropriate asset or liability base

b) cash flow items could be assessed against the net cash flow for operating, investing or financing activities

c) statement of comprehensive income items could be assessed against relative net revenue and net expense figures.

Budgetary reporting

AASB 1055 *Budgetary Reporting* does not define a major variance or provide any specific guidance on what would constitute a major variance. However, TI 945 *Explanatory Statement* provides guidance to State entities subject to the FM Act. AASB 1055.15 states that explanations of major variances are: '*…those relevant to an assessment of the discharge of accountability and to an analysis of performance…, not merely focusing on the numerical differences between original budget and actual amounts. They include high-level explanations of the causes of major variances rather than merely the nature of the variances'.*

[Entity's name] has considered the requirements of AASB 1055 and TI 945 in addition to exercising judgement in adopting the materiality thresholds for budgetary reporting purposes.

Attachment A – Materiality assessment for 202X-2X

[Entity's name] has performed calculations for materiality on the following balances derived from actual total expenditure.

- Expenses – based on expenses included in net cost of services/total expenses.
- Assets – includes all financial and non-financial assets balances.
- Liabilities – includes all payables and provisions.

[The following tables are examples only. If these are used as a basis for preparing an entity- specific position paper they should reflect the relevant base amounts for the entity.]

State entity/LG entity		
Major category	**202X-2X actual expenditure $'000**	**0.5 to 2% materiality threshold $'000**
Expenses	550,000	2,750 to 11,000
Assets	1,000,000	5,000 to 20,000
Liabilities	700,000	3,500 to 14,000

Recalculation using prior-year financial statements actuals

These materiality levels are reasonably consistent when compared with a calculation based on the prior financial statements for 202X-2X using X% of actual total expenditure which yielded similar results.

State entity/LG entity		
Major category	**202X-2X actuals $'000**	**0.5 to 2% materiality threshold $'000**
Expenses	563,125	2,816 to 11,263
Assets	956,000	4,780 to 19,120
Liabilities	697,740	3,489 to 13,955

Tool 8 template: Position paper

Introduction

Position papers (technical accounting papers) are an important tool that entities use to analyse and document key judgements and decisions and to keep stakeholders apprised of better practice updates to accounting policies and processes, and how they will affect the financial statements. It is good practice to prepare these well in advance of implementation, and to share these with relevant stakeholders to understand potential impacts and refine as further information comes to hand.

The following template is an example on how you might structure a position paper, the detail required in relation to each issue will vary depending on each entity's particular circumstances and the expectations of key stakeholders and the accountable authority.

Source: OAG using information from the Commonwealth Department of Finance

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Position paper – XXXXXXXX

Purpose

Why are we preparing this paper?

Who originated the request? Name, entity, date and how the issue was raised.

If the position paper is dealing with implementation of a new accounting standard, the purpose should outline what the standard requires, when it is effective and a summary of the main issues that will be addressed. This may require discussion of the implications for whole-of-government reporting to ensure a consistent approach to preparation of budget estimates and to consolidated financial statements if applicable.

Scope

The conclusion may be reached under a restricted timeframe and with limited facts available. If the events or circumstances are changed this may affect the conclusion.

Outline what is in scope and what is out of scope.

Facts, circumstances and assumptions

Outline the facts that are presented and what documents were provided outlining the facts. What assumptions are made in the absence of complete knowledge? How would a different assumption influence the conclusion reached?

Consultation

In forming a position, whom did the preparer consult with and what was the nature of the consultation (e.g. phone discussions, draft paper circulated by email)?

If a substantial amount of consultation has occurred, the main conclusion or consensus can be summarised with detailed comments included as an appendix to the paper. The consultation section should note the respondent's position and organisation.

Relevant accounting pronouncements/related documents

Document the relevant legislation and AASB pronouncements that has been referred to in the analysis.

Position 1

Discuss the relevant AASB pronouncements (standards and interpretations) and how they apply to the circumstances outlined in this case. Are the facts in this case similar or different to those considered in accounting standards, in particular the facts discussed in the basis for conclusion or application guidance.

Consider any relevant research papers prepared by the AASB, International Accounting Standards Board (IASB) or major accounting firms.

Position 1 Conclusion/recommendation	
Prepared by	
Signature:	
Name:	
Position:	[e.g. Finance Officer]
Date:	
Reviewed by	
Signature:	
Name:	
Position:	[e.g. Chief Finance Officer]
Date:	
Approved by	
Signature:	
Name	
Position:	[e.g. Accountable authority/ Audit committee]
Date:	

Tool 9 template: Adjustments schedule

Introduction

Following the preparation and audit of the draft financial statements, management and the OAG may raise a number of issues requiring correction. Better practice entities record these adjustments in an accounting adjustments schedule, as a record of all adjustments proposed/made and to enable the changes to be considered and actioned as a whole, to minimise the number of draft versions of the financial statements. Better practice entities will make corrections to the draft financial statements irrespective of their materiality. The pro-forma should be tailored to meet the entity's particular circumstances. It should be supported by copies of journals to facilitate the final checking of adjustments, disclosures and authorisation.

Source: OAG using information from the Commonwealth Department of Finance

An excel version of this document is available on our website

Adjustments schedule

Template: Adjustments schedule

[Entity's name] Accounting adjustments schedule

No	Account code no	Account description	Debit $	Credit $	Explanation	Unadjusted*	Adjusted
Total unadjusted*						0	
Total adjusted							0

Tool 10 template: Working papers cover sheet

Introduction

Well-structured and complete working papers are essential to support and validate the financial statements. The following templates can assist in providing a reference to all relevant documents that support each financial statement item or note. Each template should be tailored to meet the entity's particular circumstances as they do not cover all matters that an entity may wish to include.

Working papers cover sheet

A cover sheet outlines key working papers for each financial statement item and/or note to provide a structure for organising the working papers and to help the ready identification of significant matters.

Completion checklist

A completion checklist is used as a verification control tool for the finance team when undertaking a review of the financial statements.

Lead schedule

A lead schedule serves as a systematic means of providing assurance to management that all figures are complete, accurate, supported by evidence; the balances have been reviewed; variances from previous years and budgets are explained; and reviews and sign-offs have been completed.

Source: OAG using information from the Commonwealth Department of Finance

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An excel version of this document is available on our website

Working papers cover sheet

Working papers cover sheet and checklist

[Entity's name] Financial Statements [current financial year]

FINANCIAL STATEMENTS ITEM/NOTE NO:

Account Codes: Refer to Lead Schedule at:

Ref	Description	Workpaper Reference
1	Completion checklist	
2	Lead schedule (including sign-off)	
3	Working papers supporting lead schedule	
4	Financial statements note disclosure	
5	Audit findings and remedial actions	
6	Compliance and legal issues	
7	Quality control and assurance	
8	Other work performed	
9	Matters for next financial year	
10	Background information	

Completion checklist

Working papers cover sheet and checklist

[Entity's name] Financial Statements [current financial year]
FINANCIAL STATEMENTS ITEM/NOTE NO:

Account Codes: Refer to Lead Schedule at:

Completion checklist	Wp ref	Explanation comments
Planning		
Risk management and planning decisions revised as necessary.		
Ensure that any data requested from the Business Areas has been:		
received by the due date and follow up if not received, and		
checked by the Finance Team for reasonableness and consistency with other related items in the financial statements.		
Review Treasury requirements for whole of government reporting and ensure that any additional information required is obtained for submission by due date.		
Preparation		
Agree lead schedule to financial statements.		
Agree lead schedule to trial balance.		
Ensure that the comparative amounts in the current financial statements match figures in last year's annual report.		
Complete relevant addition and validation checks. Complete cross referencing to supporting documents and schedules.		
Complete analytical review		
(+/–5% to prior year)* f (+/–2% to budget)* f (trend analysis)		
Verify to supporting documentation (attached).		
Ensure compliance with TI/LG FM Regs requirements.		
* These percentages will vary, depending on management's assessment of risk and materiality.		
Review		
Ensure that all material matters have been adequately disclosed. Are the figures complete, accurate and valid?		
Ensure that all adjustments have been resolved. Update the Adjustments schedule, if applicable.		
Consider whether the format is consistent with the TIs/LG FM Regs and Treasury Model Financial Statements issued by Treasury. Include narratives if applicable.		
Ensure the lead schedule is signed off.		

(Appendix AAR: 8.4B)

Lead schedule

Working papers cover sheet and checklist

[Entity's name] Financial Statements [current financial year]

FINANCIAL STATEMENTS ITEM/NOTE NO:

Account Codes: Refer to Lead Schedule at:

Account Code	Name	Source	Actual Current Yr $	Actual Last Yr $	Variance from Last Yr $	Variance from Last Yr %	Budget Current Yr $	Vairance from Budget $	Vairance from Budget %
Total									

Analytical review/Comments

Sign-Off

Completed checklist (attached)	
Prepared by:	*Time and Date:*
Reviewed and Approved by:	*Time and Date:*
Management Sign-off:	*Time and Date:*

Tool 11 example: Requirements for supporting documentation

Introduction

The financial statements are based on accounts and records. There should be a clear management trail of supporting evidence indicating how each item in the financial statements is derived and/or substantiated.

The following example outlines the types of supporting evidence required for selected financial statements items.

The example should be tailored to meet the entity's particular circumstances. It does not necessarily cover all possible items or supporting documents.

Source: OAG using information from the Commonwealth Department of Finance

Item	Supporting documentation	Responsibility	Due date
Cash on hand and at bank	Schedule of cash and bank balances as at year-end.		
	Confirmation certificates from cash holders stating the amount held at year-end.		
	Bank reconciliations for all bank accounts at year-end with bank statements and supporting documentation for reconciling items.		
	A schedule of all bank accounts including information on bank account numbers, branch and domicile. The schedule includes bank accounts as at year-end and accounts that were opened and/or closed during the year.		
	Confirmations from banks for all bank accounts, with explanations if there are differences between bank confirmations and the entity's own records.		
	Schedule of foreign exchange rates at year-end where applicable.		
Receivables	Schedules of receivables at year-end.		
	Ageing analysis of receivables and the impairment allowance.		
	Supporting documentation on impairment allowance made/reversed		
	Schedule of debt written off and recovered during the year.		
	Evidence of the basis of the impairment review.		
Investments	Schedule of investments showing opening, additions, disposals and closing balances during the year, reconciling to ledger balances for investments.		

Item	Supporting documentation	Responsibility	Due date
	Calculations and supporting documentation for any gain/loss on disposal or fair value gain/loss during the year.		
	Examples of documentation are:		
	• investment ledger		
	• policies on accounting for investments		
	• approval documentation for initial investments, rollovers and redeemed investments		
	• funds manager reports		
	• documentation to prove ownership		
	• classification and measurement of investments		
	• sale documentation and approvals		
	• independent confirmations from a third party		
	• delegation instruments for investing relevant moneys.		
Inventory	Supporting documentation for annual stocktakes carried out including obsolete/slow moving stocks.		
	Calculation of stock values at year-end with the basis of such valuations.		
	Documentation supporting any work-in-progress stock.		
Land, buildings and property, plant and equipment	A schedule showing opening balances, additions, disposals, transfers, depreciation, impairment loss/reversal, revaluation increments/decrements, write-offs, classified as held for sale and closing balances for all asset classes.		
	Property, plant and equipment reconciliation by each asset category from general ledger to assets register.		
	A copy of the assets register by asset category showing details such as asset numbers, location, depreciation rate, category, useful life etc.		
	Copies of stocktake procedures and stocktake report, endorsed by management. Reconciliation of stocktake report to asset register.		
	List of write-offs including approvals.		

Item	Supporting documentation	Responsibility	Due date
	Policies and documentation supporting the asset recognition threshold and depreciation rates and methods.		
	Basis for reassessment of useful lives.		
	Evidence that the entity has reviewed all assets for indicators of impairment and assessed the recoverable amounts for relevant assets.		
	Copies of title deeds showing ownership, as well as rights, obligations, or mortgages on the property.		
	Most recent valuation reports, where applicable, including basis, date and name and qualifications of valuer.		
	Reconciliation of the properties listed in the valuer's report to the entity's property records.		
Other assets	Schedule of the different categories of other assets. For example, prepayments.		
	Supporting details for significant account balances.		
Intangibles	Schedule showing opening balances, additions, disposals, transfers, amortisation, impairment loss/reversal, write-offs, classified as held for sale and closing balances for the year.		
	Policies and supporting rationale on capitalisation, carrying values and amortisation of intangibles.		
	Evidence that the entity has reviewed all intangible assets for indicators of impairment and assessed the recoverable amounts for relevant intangible assets.		
Leases (as lessee and as lessor)	Leasing details, especially new leases and leases terminated. Details of payment schedule, rent reviews, lease terms, lease incentives, make-good provisions, sub-leases, operating or finance lease.		
	Copies of lease agreements entered during the year.		
	Information on lease commitments and maturity profile.		
	Details of classification into current and non-current lease liabilities.		
Payables	Reconciliation of supplier ledgers to trial balance and ageing schedule.		
	Supporting documentation for significant account balances: for example, current suppliers, sundry suppliers, unearned revenue and clearing accounts.		
	Policies and supporting rationale on the level of threshold and cut-off for accruing expenses.		

Item	Supporting documentation	Responsibility	Due date
Provision for employee entitlements	Reconciliations and supporting details for material items such as provisions for annual leave, long service leave, superannuation, performance pay, redundancy and accrued salary, wages and benefits.		
	Policies including formula and factors used in the calculation of entitlements.		
	Details of classification of current and non-current provisions.		
	Actuarial assessment of provision for long service leave entitlements. Information on the use of shorthand method, if applicable.		
	Information on the bond rate used for discounting the liabilities to present values and probability factors used in discounting long service leave.		
Loans	Movement schedules showing opening balances, new borrowings, repayments and closing balances.		
	Copies of contracts and financing arrangements, including updated maturity schedule.		
Other payables, liabilities and provisions	Schedules and supporting documentation for different categories of liabilities and provisions. For example, overdrafts, taxation payable and provision for restoration obligations.		
Equity and reserves	A statement of changes in equity — supporting explanation for movements from prior year.		
Appropriations	Appropriation notes with supporting documentation.		
	Appropriation reconciliations — reconciliations of the general ledger to Treasury's appropriation system and bank statements.		
	Analysis of appropriation receivables i.e. holding account.		
	Confirmation of any amounts outstanding at balance date.		
	Supporting documentation for Appropriation Act items, any supplementary funding (new and existing items) and amounts authorised by other statutes (standing appropriations).		
Statement of cash flows	Details of workings and supporting documentation.		
General expense	Transactions download for the year reconciled to the general ledger and trial balance.		
Payroll expense	Listing of payroll expenses showing gross, superannuation, tax, on-cost, leave, award and net balance.		
	Listing of new and terminated employees.		

Item	Supporting documentation	Responsibility	Due date
	Reconciliations between payroll record and general ledger.		
Grant expenses and payables	Schedule of ongoing or new grants paid/payable during the year.		
	Grant agreements for the new grants paid/payable during the year.		
	Reviews performed on grant expenses to ensure compliance with grant agreement.		
	Monthly reconciliations between grants schedule and FMIS and supporting documentation for reconciling items.		
	Supporting documentation for grant payables.		
	Schedule of commitments information in relation to grant expenses.		
	Policies and supporting rationale for the recognition, measurement and disclosure of grant expenses and payables.		
Others	A schedule of resources provided free of charge, detailing their nature and amount or value.		
	Schedules and supporting documentation on grant and other contribution income.		
	Details of cost recovery arrangements and accounting treatment for the over and under recoveries.		
	Schedule of all contingent liabilities and assets.		
	Details of joint arrangements and their accounting treatments.		
	Details and supporting documentation for financial statement note disclosures.		
Minutes	Minutes of executive/board and audit committee meetings held since last audit.		

Tool 12 checklist: CFO assurance

Introduction

Smaller entities can combine Tool 12 and 13 and tailor it for their own circumstances

The Chief Financial Officer (CFO) of an entity generally has primary responsibility for the preparation of the financial statements and is a co-signatory, with the accountable authority, to the financial statements. It is therefore appropriate that the CFO ensures that necessary processes have been conducted and that the financial statements present fairly in accordance with the financial reporting framework.

The following checklist is provided as a tool in considering a range of issues relating to the preparation of an entity's financial statements. It may assist the CFO in discharging his/her responsibilities. Further, it may form the basis for providing assurance to the audit committee and the accountable authority in preparing the financial statements that all relevant matters have been considered.

The checklist does not necessarily cover all possible issues or questions and should be tailored to reflect the particular circumstances of each entity.

It also should be tailored to reflect, where applicable, the lines of responsibility and reporting structure of the entity, and the relationship the CFO has with other key officers involved in the preparation of the financial statements. This includes the finance team and business managers who may contribute to the financial statements.

It may also be appropriate for certain sections or questions of the checklist to be completed by other people within the entity.

The checklist is structured in 3 stages:

- **Stage 1:** Covers the planning phase (for entities with the financial year ending at 30 June, this would usually be September to April)
- **Stage 2:** Covers the preparation phase (May to June)
- **Stage 3:** Covers the production phase (July to September).

Source: OAG using information from the Commonwealth Department of Finance

CFO assurance checklist

CFO checklist item	Actioned? (Yes/No)
Planning phase (September to March)	
Review OAG and internal audit findings from previous year and ensure appropriate corrective action has been taken.	
Review the previous year's financial statements preparation process and identify opportunities for improvement.	
Review relevant OAG audit reports and better practice guides for suggestions for improved practice.	
Review the OAG audit planning summary document for the year and identify any implications of their approach.	
Identify and assess the risks to the completion of the financial statements, whether from fraud or error.	

CFO checklist item	Actioned? (Yes/No)
Identify changes in the entity's operations or environment that may affect the financial statements. Examples: new transactions, ceasing transactions, asset types or restructures; fluctuations in asset prices, exchange rates or discount rates.	
Identify changes in accounting standards and the TIs, LG Act and LG Regs that may affect the financial statements.	
Set materiality level for the financial statements (overall and for specific items).	
Decide how to address significant risks of material misstatement.	
Review list of entities the entity is involved with (subsidiaries, associates, joint arrangements and unconsolidated structured entities) and determine appropriate accounting treatment for each (consolidated, equity accounting, disclosure).	
Review thresholds (e.g. for capitalising property, plant and equipment and intangibles).	
Identify line items with a high risk of major variation from budget and document key assumptions underpinning the budgets for each.	
Decide on the strategy for valuing assets and disclosing fair value information; instruct valuers or internal staff accordingly.	
Decide whether to seek an exemption from any requirements of the TIs and discuss with Treasury.	
Review existing accounting policies and methodologies for accounting estimates.	
Identify opportunities to remove unnecessary disclosures and improve overall financial statements presentation.	
Review form of representation letters from the accountable authority and the CFO.	
Identify the extent of internal audit's involvement in the financial statements preparation process.	
Discuss the results of the above steps with the OAG.	
Identify the sequencing and estimates of time required for each step in the financial statements process.	
Determine resource requirements.	
Get agreement to, and document, roles and responsibilities for the financial statements process.	
Identify the required management and third party sign-off (including from shared services) and ensure there is commitment to the required timeframes.	
Establish processes for monitoring progress and completion of financial statements within agreed timeframes.	
Identify and document proposed quality assurance reviews.	
Document project plan for the completion of the financial statements.	
Report to the audit committee regarding the above steps.	
Make changes to systems and records where required.	
Preparation phase (April to June)	
Identify any significant changes since the planning phase and assess implications for the financial statements.	

CFO checklist item	Actioned? (Yes/No)
Review the useful life and depreciation rates for PPE and intangible assets.	
Review any internal audit or OAG findings during the year and assess the implications for the financial statements.	
Assess whether financial systems and controls were effective during the year and, if not, reassess the risks to the financial statements.	
Ensure monthly reconciliations are up-to-date and any discrepancies have been resolved. Examples: bank reconciliations; reconciliation of appropriation receivable balances to Treasury appropriation reports.	
For any errors identified during the year, correct current year records and determine the required adjustment to prior year's figures.	
Prepare pro-forma set of financial statements (without numbers for the current year).	
Ensure adequate staff resources will be available and develop contingency plan for unplanned absences.	
Identify likely variations from budget as per TI requirements, prepare draft explanations and discuss with the OAG.	
Review compliance certifications from line areas and external parties (including shared services) for completeness and adequacy of documentation; investigate anomalies.	
Obtain assurance that external systems relied on for the financial statements are providing accurate data.	
Obtain assurance that formal arrangements are in place for obtaining information from other parties.	
Obtain assurance that all necessary valuations and all impairment reviews are finalised and the results recorded in the FMIS.	
Decide the cut-off date(s) for accruals.	
Report to the audit committee on the above.	
Production phase (July to September)	
Ensure the trial balance of the financial statements has been prepared and resolve any anomalies.	
Ensure adjusting journal entries for end of year accruals and reversals have been prepared.	
Ensure final sign-off from line areas have been received, and are supported by appropriate documentation, with any anomalies investigated.	
Ensure all necessary information from external entities (including shared services and assurance statements) has been received.	
Investigate significant differences between the current year actual and the previous year, current year budget and revised budget.	
Prepare note disclosures.	
Consider whether to add, adjust or remove financial statement disclosures in light of entity materiality levels and actual outcomes.	

CFO checklist item	Actioned? (Yes/No)
Prepare a lead schedule for each financial statement line item or note disclosure.	
Perform a quality review of the financial statements and supporting documentation.	
Submit draft financial statements and lead schedules to the OAG.	
Consider all suggestions from the OAG and implement or document reasons for not implementing.	
Prepare final draft financial statements.	
Prepare written confirmation to the audit committee certifying that:	
• Proper financial accounts and records have been maintained by the entity.	
• Internal controls were sufficiently robust to prevent, detect, or correct material error and fraud.	
• Financial management and related systems were operating effectively during the year.	
• Quality control arrangements were in place to protect the integrity of the financial statements.	
• The information required from other parties to complete the financial statements was received and acted on.	
• There is adequate documentation supporting the financial statements, including lead schedules for every financial statement line item and note disclosure.	
• Guidance on entity financial reporting issued by the Department of Treasury has been considered.	
• The approved accounting policies have been consistently applied.	
• The approved materiality thresholds were applied in the preparation of the financial statements.	
• All material misstatements in the financial statements have been corrected.	
• All immaterial misstatements found have been discussed with the OAG.	
• All known or suspected instances of fraud or legal non-compliance have been disclosed to OAG.	
• All recommendations from OAG have been actioned or the reasons for not agreeing with the recommendations disclosed to the audit committee.	
• The financial statements materially comply with Australian Accounting Standards and the TIs or LG Regs.	
• The financial statements present fairly the financial performance, financial position and cash flows of the entity.	
• It is appropriate for the accountably authority to give the certificate required under the FM Act/LG Act and the TI/LG Regs.	
• Arrangements have been made to ensure that the financial statements will be included in the annual report exactly as signed.	

CFO checklist item	Actioned? (Yes/No)
Present final draft financial statements and written confirmation to the audit committee.	
Make changes to the financial statements in light of audit committee consideration.	
Seek OAG clearance of final financial statements.	
Discuss with the OAG any events occurring after the end of the financial year that may need to be disclosed in the financial statements.	
Prepare management representation letter and submit to the accountable authority.	
Arrange signing of certificate and OAG representation letters by the CFO and accountable authority.	
Arrange signing of the auditor's report and include in the financial statements package for publication.	
Arrange for hard and soft copies to be included in the annual report.	
Provide hard and soft copies of the annual report to the OAG for their review.	
Ensure that the financial statements as included in the annual report, both hard and soft versions, match with the signed financial statements.	
Hold exit interview with the OAG and document lessons learned.	

Tool 13 checklist: CFO and finance team assurance processes for audit committee

Introduction

Smaller entities can combine Tool 12 and 13 and tailor it for their own circumstances

This checklist is an example of what a CFO/finance area might provide to the audit committee in regard to the financial statements process. It includes examples of actions that the finance team may take throughout the year to support the CFO and audit committees in meeting their financial statements certification responsibilities. The checklist should be tailored to meet the entity's particular circumstances and actions completed.

The checklist would normally be applied on an annual basis, to align with the timing of the financial statements and annual report of the entity.

A no answer does not necessarily indicate a failure or breakdown in the entity's financial statements processes but may indicate where more detailed discussion or consideration by the CFO, or with the audit committee through the CFO, is warranted.

Source: OAG using information from the Commonwealth Department of Finance

CFO and finance team assurance processes for supporting audit committee certification checklist

CFO and finance team checklist item	Actioned? (Yes/no)
Planning phase (September to March)	
The project plan/schedule/risk assessments have been amended to reflect any relevant audit committee feedback from discussions with the CFO on lessons learnt from the prior-year financial statements preparation process and the completion of the OAG audit.	
The CFO/finance team has briefed the audit committee on management's response to any relevant audit committee or OAG feedback on implementation plans for addressing any outstanding audit findings and identified audit adjustments from the prior year.	
The CFO/finance team has briefed the audit committee on any changes in the entity's operations that may affect the financial statements, for example, new responsibilities, asset types or restructures.	
The CFO/finance team has briefed the audit committee on any changes in accounting standards and TIs/LG Regs that may affect the financial statements in the current year.	
The CFO/finance team has briefed the audit committee on the outcome of the review of the entity's accounting policies and the appropriateness of the policies.	
The CFO/finance team has briefed the audit committee on the proposed approach to materiality presented by the CFO for the preparation of the financial statements (overall and for specific items).	
The CFO/finance team has briefed the audit committee on the proposed approach for actuarial, valuations or external advice/assistance and reflected feedback in project plan/schedule.	
The CFO/finance team has confirmed that opportunities to remove unnecessary disclosures and improve financial statements presentation have been considered	

CFO and finance team checklist item	Actioned? (Yes/no)
by the CFO and presented to the audit committee for consideration and endorsement and reflected feedback in project plan/schedule.	
The CFO/finance team has briefed the audit committee on management's response to any OAG recommendations to the audit committee in its audit planning summary document for the year.	
The CFO/finance team has briefed the audit committee on the approach to managing risks to the completion of the financial statements e.g. risks associated with information from third parties, IT data integrity.	
The CFO/finance team has briefed the audit committee on the approach to managing the risks of material misstatement, whether from fraud or error.	
The CFO/finance team has briefed the audit committee on the approach to obtaining, reviewing and investigating compliance certifications from line areas and external parties (including shared services providers).	
The CFO/finance team has briefed the audit committee on instances of non-compliance identified as part of the entity's processes for periodically assessing the entity's compliance with the FM Act and LG Act.	
The CFO/finance team has briefed the audit committee on management's response to any relevant audit committee feedback about fraud risks at the entity, the governance approach in relation to fraud prevention, detection and reporting in the entity and its knowledge of any actual, suspected or alleged fraud affecting the entity.	
The CFO/finance team has briefed the audit committee on the progress made to address OAG recommendations, particularly those that may have financial statements implications.	
The CFO/finance team has briefed the audit committee on management's response to any audit committee feedback on the timetable for the preparation of the financial statements and completion of the OAG audit.	
The CFO/finance team has briefed the audit committee on management's response to any audit committee feedback on the project schedule (particularly about quality assurance reviews of data, to enable the financial statements to be prepared in accordance with requirements and agreed timeframes).	
Preparation phase (April to June)	
The CFO has briefed the audit committee and other management representatives on any significant changes since the planning phase, including on the implications of these for the financial statements.	
The CFO/finance team has briefed the audit committee on management's response to internal audit and OAG audit findings arising during the year and its satisfaction with implications for the financial statements.	
The CFO has briefed the audit committee on any significant changes to short- or long-term resource requirements and responded to any feedback on concerns about the sufficiency of resources to prepare the financial statements.	
Production phase (July to September)	
The CFO has briefed the audit committee on the outcome of reviews of compliance certifications from line areas and external parties (including shared services providers) since the preparation phase and responded to audit committee feedback on its satisfaction with any implications for the financial statements of actual breaches of the FM Act or LG Act.	
CFO has provided appropriate written assurance in relation to the following:	

CFO and finance team checklist item	Actioned? (Yes/no)
• proper financial accounts and records being maintained by the entity	
• internal controls being sufficiently robust to prevent, detect or correct material error and fraud	
• financial management and related systems having operated effectively during the year	
• adequate quality control arrangements being in place as part of the financial statement preparation process	
• the completeness and accuracy of information from other parties to complete the financial statements	
• the adequacy of documentation supporting the financial statements, including lead schedules for every financial statement line item and note disclosure	
• consideration of guidance on entity financial reporting issued by Treasury/Department of Local Government, Sport and Cultural Industries	
• consistency of the application of approved accounting policies throughout the financial statements	
• the application of approved materiality thresholds in the preparation of the financial statements	
• the correction of all material misstatements in the financial statements	
• confirmation that all immaterial misstatements found have been discussed with the OAG	
• confirmation that all known or suspected instances of fraud or legal non-compliance have been advised to the OAG	
• confirmation that all recommendations from the OAG have been actioned, or the reasons for not agreeing with the recommendations, advised to the audit committee	
• certification that the financial statements materially comply with Australian Accounting Standards (AAS) and the TIs/LG Regs	
• certification that the financial statements present fairly the financial performance, financial position and cash flows of the entity.	
The finance team has submitted the draft financial statements and supporting documentation that confirms:	
• the financial statements comply with the accounting standards and the TIs/LG Regs	
• the entity's accounting policies and disclosures, including any significant changes to accounting policies, are appropriate	
• there is an adequate explanation for all significant or unusual transactions	
• the response to the OAG's conclusion on the adequacy of the entity's processes for the preparation of the financial statements.	
The CFO/finance team has addressed the audit committee feedback on any significant events that have occurred since the end of the financial year that may need to be disclosed in the financial statements.	

CFO and finance team checklist item	Actioned? (Yes/no)
The CFO/finance team has addressed the audit committee feedback on the draft management representation letters and its satisfaction with the processes underpinning the statements in the management representation letters.	
The CFO/finance team has addressed the audit committee recommendations, from any private meetings between the audit committee and the OAG to discuss the outcomes of the audit process.	
The CFO/finance team has responded to any audit committee concerns raised with the accountable authority with respect to certification of the financial statements.	
The CFO/finance team has established appropriate arrangements to ensure that the financial statements included in the annual report are consistent with the audited and signed version.	

Tool 14 template: Chief financial officer's report

Introduction

The purpose of the CFO's report is to provide the accountable authority, through the audit committee, with assurance that an entity's financial statements are suitable for signing by the accountable authority (and the CFO) in accordance with the requirements of the FM Act, TIs, LG Act and LG Regs.

It is generally accepted that the report from the CFO is the primary source of assurance for the entity's audit committee, to support the committee in meeting its responsibilities in relation to an entity's financial statements.

The content of the report will be influenced by a number of factors, including:

- the complexity of the entity and the financial statements themselves
- the extent of estimates and judgements involved in preparing the financial statements
- the level of risk that the financial statements may contain errors or misstatements
- the extent and nature of changes to the financial statements compared with prior years.

Depending on the context of the report itself, it may also be useful for the report to be supported by a detailed sign-off sheet that covers all key elements of an entity's financial statements. The CFO assurance checklist (Tool 12) could be attached to the CFO Report.

The following is an outline of matters that could be expected to be addressed in the CFO report. The detail required in relation to each issue will vary depending on each entity's particular circumstances and the expectations of the audit committee and the accountable authority.

Source: OAG using information from the Commonwealth Department of Finance

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Chief financial officer report

Overview

Include a summary explanation that the financial statements are ready for signature, highlighting any particular issues that the audit committee and the accountable authority should be aware of, such as:

- expected modifications or other references to be included in the auditor's report
- significant improvements or deterioration in the entity's result or financial position
- significant movements in financial statements balances or significant write-offs.

Regulatory requirements

Indicate the basis on which the financial statements have been prepared and outline any substantive changes to legislative and accounting standards' requirements.

Accounting policies and disclosures

Outline the key accounting policies that underpin the financial statements and highlight any significant changes made to these during the year.

Significant events and decisions

Provide assurance that the financial statements are consistent with the entity's accounts and records and reflect where necessary, the decisions of management and the accountable authority (where relevant) during the year and any significant changes in the entity's responsibilities.

Highlights of the financial statements

Provide details of:

- key results for the year
- significant liabilities and contingencies at year-end
- material movements in financial statements balances (by statement)
- key prior year adjustments
- executive remuneration disclosures
- significant one-off events or transactions.

Significant accounting estimates and judgements

Provide details of all significant estimates and judgements made in preparing the financial statements, highlighting any significant changes from prior years.

Internal audit and OAG audit coverage

Provide a summary of the results of internal audit and OAG audit coverage that has impacted the financial statements and the entity's underlying internal controls.

Reliance on external parties

Provide details of the extent of reliance on information from external parties and the steps taken to ensure the accuracy and integrity of this information.

Assessment of internal controls and financial records

Provide assurance that the entity's internal controls and financial records are adequate to enable the preparation of financial statements free from material error.

Financial statements preparation processes

Provide assurance that the financial statements preparation process involved a review of all accounting policies and correction of all material errors and other adjustments identified by the entity's own review processes and audits by internal audit and the OAG.

Details of management sign-off and proposed representations to the OAG

Provide a summary of all management sign-off obtained and provide assurance that the financial statements reflect, to the extent necessary, the issues arising from these processes.

Provide details of, and attach to the report, proposed management and accountable authority representations to the OAG in line with standard audit requirements.

Recommendation

Recommend the audit committee endorse the signing of the financial statements by the accountable authority (and the CFO) (noting any particular matters that should be highlighted to these parties).

Tool 15 template: Register of audit requests

Introduction

The tracking of audit requests through a register allows monitoring on how the audit is progressing and what items are currently outstanding. Better practice entities ensure the register is updated on a regular basis and is shared with the OAG before any meetings regarding the progress of the audit.

Source: OAG using information from the Commonwealth Department of Finance

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An excel version of this document is available on our website

Register

[Entity Name]
Financial statements audit
Request Register *[Audit Phase]*

Key to Status
Outstanding - follow up
Complete
No change from prior year
To be provided

Reference numbe	Email sent dat	To person responsibl	OAG contact	Entity contact	Subject	Request details	Expected response dat	Date received	Status	Comments	Finance team - comments
1							5/01/1900				
2							5/01/1900				
3							5/01/1900				
4							5/01/1900				
5							5/01/1900				
6							5/01/1900				
7							5/01/1900				
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36							5/01/1900				
37							5/01/1900				

Enlarged from image above

[Entity Name]
Financial statements audit
Request Register *[Audit Phase]*

Key to Status
Outstanding - follow up
Complete
No change from prior year
To be provided

Auditor General's 2020-21 reports

Number	Title	Date tabled
27	Opinion on Ministerial Notification – Port Agreements	11 June 2021
26	Audit Results Report – Annual 2020 Financial Audits	2 June 2021
25	Delivering Essential Services to Remote Communities	2 June 2021
24	Opinion on Ministerial Notification – DPIRD Capability Review	18 May 2021
23	Local Government General Computer Controls	12 May 2021
22	Opinion on Ministerial Notification – Hospital Facilities Services	6 May 2021
21	Regulation and Support of the Local Government Sector	30 April 2021
20	Opinions on Ministerial Notifications – Policing Information	28 April 2021
19	Opinion on Ministerial Notification – Bennett Brook Disability Justice Centre	8 April 2021
18	Regulation of Consumer Food Safety by the Department of Health	1 April 2021
17	Department of Communities' Administration of Family and Domestic Violence Support Services	11 March 2021
16	Application Controls Audits 2021	8 March 2021
15	Opinions on Ministerial Notifications – Tax and Funding Information Relating to Racing and Wagering Western Australia	26 February 2021
14	Opinion on Ministerial Notification – Hotel Perth Campaign Reports	24 February 2021
13	Opinion on Ministerial Notification – Release of Schedule of Stumpage Rates	24 February 2021
12	Grants Administration	28 January 2021
11	COVID-19 Relief Fund	21 December 2020
10	COVID-19: Status of WA Public Testing Systems	9 December 2020
9	Western Australian Registry System – Application Controls Audit	26 November 2020
8	Regulating Minor Pollutants	26 November 2020

(Appendix AAR: 8.4B)

Number	Title	Date tabled
7	Audit Results Report – Annual 2019-20 Financial Audits of State Government Entities	11 November 2020
6	Transparency Report: Major Projects	29 October 2020
5	Transparency Report: Current Status of WA Health's COVID-19 Response Preparedness	24 September 2020
4	Managing the Impact of Plant and Animal Pests: Follow-up	31 August 2020
3	Waste Management – Service Delivery	20 August 2020
2	Opinion on Ministerial Notification – Agriculture Digital Connectivity Report	30 July 2020
1	Working with Children Checks – Managing Compliance	15 July 2020

Western Australian
Auditor General's Report

Audit Results Report – Annual 2019-20 Financial Audits of Local Government Entities

Office of the Auditor General
Western Australia

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The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Audit Results Report – Annual 2019-20
Financial Audits of Local Government Entities

Report 30: 2020-21
June 2021

THE PRESIDENT
LEGISLATIVE COUNCIL

THE SPEAKER
LEGISLATIVE ASSEMBLY

AUDIT RESULTS REPORT – ANNUAL 2019-20 FINANCIAL AUDITS OF LOCAL GOVERNMENT ENTITIES

Under section 24 of the *Auditor General Act 2006,* this report covers the third year of a 4-year transition for my Office to conduct the annual financial audits of the local government sector, following proclamation of the *Local Government Amendment (Auditing) Act 2017*.

This report on the 2019-20 financial audits of 117 of the applicable 132 local government entities includes:

- results of the audits of local government entities' annual financial reports, and their compliance with applicable legislation for the financial year ending 30 June 2020
- issues identified during these annual audits that are significant enough to bring to the attention of the Parliament.

I wish to acknowledge the assistance provided by the councils, chief executive officers, finance officers and others, including my dedicated staff and contract audit firms throughout the annual financial audit program and in finalising this report.

CAROLINE SPENCER
AUDITOR GENERAL
16 June 2021

Contents

Auditor General's overview

The 2019-20 financial year marked the third year of a 4-year transition of local government financial auditing to the Office of the Auditor General, following proclamation of the *Local Government Amendment (Auditing) Act 2017*. We performed the 2019-20 audits for 132 of the State's 148 local government entities (LG entities), of which we completed 117 audits by 31 May 2021. Fifteen remained outstanding.

In addition to summarising the results of the audits for Parliament, I have taken the opportunity to provide further insight into our financial audits of the local government sector. 2020 was an extraordinary year for local government financial reporting. The COVID-19 pandemic created resourcing pressures, while the new revenue accounting standards proved particularly difficult for many entities in the sector to adopt. Furthermore, amendments to the Local Government (Financial Management) Regulations 1996, gazetted on 6 November 2020, were retrospectively applicable from 30 June 2020. This caused unprecedented delays in entities finalising their financial reports as almost half of them needed to be recast after they had been submitted. The number of LG entities recasting and submitting many versions of their financial statements (the highest being 27 versions) during the audit process is also disappointing as this results in significant additional work for both the LG entity and the auditor and delays the finalisation of the audit.

I have delayed tabling this report until almost 90% of the auditor's reports have been issued. Of the 117 auditor's reports issued to 31 May, 1 included a qualified opinion on the financial report (page 10). There may be further qualifications in the opinions yet to be issued. There is little room for complacency as a clear audit opinion is the minimum we should all expect. Although most entities had satisfactory audit outcomes, it is concerning that we reported 101 material matters of non-compliance in the auditor's report for 45 entities, and 890 significant or moderate weaknesses in financial management and information systems controls in our management letters. Some of these were unresolved from the previous year. These omissions and exposures increase the risk of financial loss, error or fraud.

As we conclude our third year of transition into the financial audits of LG entities, I am encouraged that entities are adapting to the audit processes of my Office and embracing the changes suggested during our audits. Our recent seminar for audit committee chairs was open to local government representatives and I am pleased many attended online. With better informed and active audit committees, they will be equipped to quality review the financial report and assess the accountability and integrity of reporting and the operational activities of their entity.

Our audits again highlighted the need for the Department of Local Government Sport and Cultural Industries (DLGSC) to provide centralised professional support to assist entities to fulfil their financial reporting requirements. This includes professional advice on preparing for changes in accounting standards and legislation. This would be both financially beneficial and time efficient for all entities. However, my recent report into how effectively the DLGSC regulates and supports the local government sector found the Department has much work to do to provide the desired centralised sector support function.[1]

Further, we continue to support the need for the DLGSC to lead change in the sector's financial reporting requirements. This includes adopting reduced reporting principles, updating the long-standing legislative requirements for entities to report 7 financial ratios, and for the auditor's report to disclose any adverse trends. In the absence of cohesive advice for the Western Australian public sector, my office has recently produced a better practice guide

[1] Western Australian Auditor General's Report, *Regulation and Support of the Local Government Sector*, Report 21: April 2021

to assist local and State government entities with the preparation of their annual financial statements.

I wish to thank my incredibly hardworking staff, our contract audit firm partners and staff in the LG entities who contributed to this year’s audit process. Their adaptability, professionalism, skill and cooperation in working through uncommon challenges to complete the audits is appreciated.

Executive summary

This Audit Results Report contains findings from our 2019-20 financial audits of local governments and regional councils (LG entities).

Following proclamation of the *Local Government Amendment (Auditing) Act 2017* (Amendment Act), the Auditor General has progressively assumed responsibility for the annual financial audits of LG entities. We were responsible for 132 audits for 2019-20, the third year of the transition, and will have responsibility for all 148 Western Australian LG entities by 2020-21.

Our annual financial audits focus on providing assurance over an entity's annual financial report. During an audit we also make related recommendations in respect to compliance, financial management and information system controls. This report summarises our findings.

Key findings

- We issued auditor's reports for the 2019-20 financial year for 65 of the 132 LG entities by the required date of 31 December 2020 (96 of 112 in 2019) and a further 52 entities by 31 May 2021. The results of the remaining 15 will be tabled in Parliament once complete. (page 10)
- All but 1 auditor's report included a clear (unqualified) audit opinion on the financial report (page 10). However, we reported 101 material matters of non-compliance with the *Local Government Act 1995,* Local Government (Financial Management) Regulations 1996 (FM Regulations) or other written law in 45 of our auditor's reports. (page 12)
- An Emphasis of Matter was included in the auditor's report of most entities as the FM Regulations require vested land to be measured at zero cost and vested improvements at fair value. This is a departure from the Australian Accounting Standards AASB 16 *Leases* which requires LG entities to measure the vested improvements also at zero cost. (page 11)
- We issued 120 certifications to LG entities to acquit funding received under Commonwealth and State Government programs for projects such as Roads to Recovery and other capital works projects. We also certified 12 LG entities' annual claims for pensioner deferments of rates and charges. (page 17)
- We reported the following control weaknesses to LG entity management, those charged with governance (mayor, president or chairperson of the council) and to the Minister for Local Government:
    - 704 financial management control weaknesses at 117 entities, (802 at 107 entities for all entities last year). We considered 88% to be significant or moderate risk if not resolved in the short term (86% last year). Eighty percent of the weaknesses related to expenditure, financial management, payroll and human resources, and revenue. (page 18)
    - 382 information system (IS) control weaknesses at 50 entities (202 at 38 entities last year). Our capability assessments at 11 of the 50 LG entities showed that 79% of the audit results were below our minimum benchmark. (page 23)
- We continue to support the need for the DLGSC to develop more thorough and balanced performance assessment criteria to replace the existing reporting and audit of 7 financial ratios and any adverse trends in these ratios. (page 16)

- Sixty-seven of the 132 audits were not completed by 31 December 2020. Reasons mainly include entities adjusting their financial report to comply with late FM Regulation amendments that were not gazetted until 6 November 2020, and poor quality financial reports. We also acknowledge that our audit teams could not always immediately re-prioritise audits of entities not completed in their schedule. (page 9)
- In addition to the FM Regulation amendments, entities were required to apply 3 new accounting standards from 1 July 2019. Many entities were not adequately prepared for the impact of these changes and this resulted in further delay in finalising their financial report. (page 26)
- The quality of financial reports submitted for audit varied significantly across entities. Quality issues included multiple instances of statements that did not balance, not taking up prior year balances for the current year, and many entities not applying the new accounting standards or FM Regulations correctly. This resulted in significant additional audit work and consequential delays in finalising the audits. (page 29)
- During this, our third, year of performing annual financial audits in the local government sector, we have made further general observations included in this report, with a view to minimising the cost of financial reporting and auditing in the future. These relate mainly to:
    - amendment of the FM Regulations from 6 November 2020 simplifies entities' reporting of certain classes of assets and reduces the cost burden of having external valuations of plant and equipment assets (page 25)
    - valuation of assets transferred between entities must be appropriately disclosed in accordance with the Australian Accounting Standards in the financial reports of both entities (page 24)
    - opportunities to reduce the financial reporting burden on small and medium sized entities, as the quantity of detail that is being reported is onerous and exceeds that reported by most WA State government entities. (page 28)
- Entities benefited from the *Local Government (COVID-19 response) Act 2020* being enacted and amendments to a variety of the local government regulations being gazetted to allow modified operations during the COVID-19 pandemic. These changes temporarily remove restrictions on entities' operations for the benefit of the district or part of the district while a state of emergency declaration is in force. These changes included holding public meetings electronically, access to information when the council offices were closed and revised budgetary requirements, such as re-purposing money. (page 32)
- Entities generally did not separately account for COVID specific expenditures. They considered that any extra cleaning costs were offset by savings at their closed community facilities. However, there was added budgetary pressure on each entity as a result of their community facilities raising no revenue, and other financial waivers for local households, businesses, tenants and sporting and community groups to reduce their financial hardship. (page 34)
- The budget implications of the Minister for Local Government's Circular No 3-2020 that LG entities freeze their rates for 2020-21 will extend well beyond 1 year, as entities' current year budget restraint deals with only the short term ramifications. There will be significant challenges for entities preparing their long term financial plans and budgets for some years. (page 35)

Recommendations

1. The Department of Local Government, Sport and Cultural Industries (DLGSC) should assess whether the current financial ratios in the FM Regulations remain valid criteria for fairly measuring and reporting the performance of each LG entity. This could also include a simplification of LG entity reporting requirements for financial ratios, and review of the requirement under the FM Regulations for the auditor to report on any adverse trends in the ratios as part of the annual financial audit. (page 17)

2. LG entities should ensure they maintain the integrity of their financial control environment by:

   a. periodically reviewing and updating all financial, asset, human resources, governance, information systems and other management policies and procedures and communicating these to staff

   b. conducting ongoing reviews and improvement of internal control systems in response to regular risk assessments

   c. regularly monitoring compliance with relevant legislation

   d. promptly addressing control weaknesses brought to their attention by our audits, and other audit and review mechanisms

   e. maintain currency with new and revised accounting standards for their impact on financial operations in order to prepare a compliant financial report at year end. (page 22)

3. The DLGSC should seek ministerial approval for any proposed regulatory amendments well in advance of the financial year end to ensure timely gazettal to facilitate action and avoid rework by all entities when finalising their end of year financial report. (page 26)

4. LG entities should complete their assessment of the impact of any new regulations or accounting standards and prepare a position paper on the necessary adjustments to their financial report. If required, entities should seek external consultation when completing their assessment and adjust their financial report, prior to submitting it for audit. (page 26)

5. DLGSC should provide timely guidance to assist LG entities to update their accounting practices to ensure that their future reporting is compliant with all current accounting standards. (page 27)

6. DLGSC should re-assess the amount of detail required to be included in annual financial reports, in particular for small and medium sized LG entities. (page 28)

7. To improve the quality of financial reports and achieve greater consistency across LG entities, the DLGSC should prepare timely regulation amendments for the Minister's approval which improve the sector's financial report framework. The DLGSC should also provide accounting support services to the sector. Proper management of financial resources is the most basic priority as from there all else is enabled or eroded. (page 31)

8. We encourage entities to make use of our WA Public Sector Financial Statements – Better Practice Guide to improve their financial management and reporting practices, processes and procedures. (page 31)

About our financial audits

Our office was responsible for 132 LG entity audits for 2019-20. This year, OAG staff performed 21 of these, with the other 111 performed by contract audit firms on our behalf.

Our oversight of the local government audits, coupled with our in-house audits, has provided our staff with valuable insight and understanding of the sector. We will increase the number of audits we perform in house over time. However, we anticipate a large proportion will continue to be performed by our accredited contract audit firms. These will be periodically re-tendered to provide open and fair competition, and to ensure value for money.

We are committed to supporting the regions and, where possible and appropriate, we use local financial auditing professionals. From 2021 onwards we are seeking to leverage efficiencies by allocating sub-regions to a single firm.

Almost $43 billion of total assets were audited for the 117 LG entities. Their combined total operating revenue was $3.9 billion, of which rates contributed $2.3 billion (58%) and fees and charges $1.0 million (26%). The combined total operating expenditure was $4.0 billion.

Annual financial reporting framework, timeline and audit readiness

Reporting framework and content

Each LG entity is required to prepare an annual financial report that includes:

- a Statement of Financial Position, Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity and Statement of Cash Flows
- a Rate Setting Statement
- 7 financial ratios required under section 50(1) of the Local Government (Financial Management) Regulations 1996 (FM Regulations), to be reported in the Notes to the annual financial report
- other note disclosures such as trading undertakings and major land transactions.

The quantity of detail reported is onerous and exceeds that reported by most WA State government entities and by local governments in other jurisdictions. On page 28 we have recommended that the DLGSC re-assess the amount of detail required in annual financial reports.

Financial reporting timeliness

Under section 6.4(3) of the *Local Government Act 1995* (LG Act), entities must submit their annual financial reports to the OAG for audit by 30 September. Although many entities had supplied their financial reports within this timeframe, they could not be officially finalised because amendments to the FM Regulations, applicable to all entities for their 30 June 2020 year end reporting, had not been progressed by the DLGSC. These regulations impacted the asset values reported in the financial report of LG entities for their year ended 30 June 2020. The amendments were only provided for consideration on 3 November 2020 and gazetted on 6 November 2020, some 4 months after the end of the reporting year.

Many entities prepared their financial reports with the proposed changes in anticipation of gazettal of the amendments. However, we were unable to issue our auditor’s report until the amendments were gazetted.

Of the 132 entities we audited for 2019-20, 18 received approval from the Minister to extend their submission deadline to beyond 30 September, the latest being 30 November. Other entities did not meet the statutory deadline and did not have approval.

We completed 65 of the 132 audits (49%) by 31 December 2020 (compared to 96 of 112 (86%), by the same time last year) as required by section 7.9 of the LG Act. The main reason for the delay was that entities could not submit their finalised financial reports for audit on time. In addition to the late gazettal of regulation amendments, many entities had not revised their financial reporting for the recent accounting standards amendments relating to revenue recognition and leases. Their statements needed to be revised or notes added to inform users of their limitations on this matter. Some entities also experienced problems with insufficient evidence to support the financial report, numerous errors requiring correction or resignation of key persons preparing their financial report.

Overall, while there are some LG entities whose financial management procedures are sound and their teams are well prepared for audit, we again found the quality and timeliness of information provided by LG entities is lower than for the State sector.

Generally, those entities that could not provide turnaround amendments following the regulation changes, or had significant other audit issues, staffing or skills shortages, were not finalised by 31 December.

With our tertiary audit cycle (December year-end for universities and TAFEs) peaking from January to mid-March, and State sector interim audits commencing in March, OAG teams and contract firms have had to schedule LG audit finalisation so as to minimise impact on the rest of the work program. This has resulted in regrettable delays that have frustrated LG entities and our Office.

Timely LG regulation changes and financial reporting advice to the sector is a core responsibility of the DLGSC and we trust such delays will not recur in the future.

By 31 May 2021 we had completed a further 52 of the 67 audits that were incomplete at 31 December 2020, with 15 still outstanding.

Summary of audit results

At 31 May 2021, we had issued auditor's reports for 117 entities for the financial year ending 30 June 2020 (89% of the LG sector audits to be completed by the OAG this year).

The auditor's report includes:

- the audit opinion on the annual financial report
- any significant non-compliance in relation to the financial report or other financial management practices
- any material matters that indicate significant adverse trends in the financial position of the entity.

Under the Amendment Act, an entity's chief executive officer (CEO) is required to publish their annual report, including the audited financial report and the auditor's report, on the entity's website within 14 days of the annual report being accepted by the LG entity's council. Appendix 1, from page 36, outlines the date we issued each LG entity's 2019-20 auditor's report.

Qualified audit opinions on annual financial reports

An unqualified audit opinion in the auditor's report indicates the LG entity's annual financial report was based on proper accounts and records, and fairly represented performance during the year and the financial position at year end. All but 1 entity received an unqualified (clear) audit opinion. There were 6 qualified auditor's reports issued the previous year.

We issue a qualified opinion in our auditor's report on an annual financial report if we consider it is necessary to alert readers to material inaccuracies or limitations in the financial report that could mislead readers. The following entity received a qualified opinion on their 2019-20 financial report:

Shire of Goomalling

We issued a qualified opinion to the Shire as we identified that the balances for rates revenue and corresponding expenses for the year ended 30 June 2019 are not comparable to the balances for the year ended 30 June 2020. The Shire recognised rates revenue totalling $110,140 from its own properties during the year ended 30 June 2019. This is not in accordance with the presentation requirements of the Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, and overstated the total revenue and total expenses for the year ended 30 June 2019 by $110,140. We issued a qualified opinion for the year ended 30 June 2019 in relation to this matter.

We also were unable to obtain sufficient appropriate audit evidence to confirm that roads, drainage and footpaths infrastructure assets reported in the financial report represent fair value, or whether any adjustment to the values were necessary. These assets have not been revalued since June 2015. We were unable to determine whether the infrastructure assets of $38,841,166 are stated at fair value in the Statement of Financial Position.

Audits in progress

Audits yet to be finalised may result in modified opinions. Generally, audits in progress relate to entities that have more significant or complex issues to be resolved from a financial reporting and auditing perspective, or the LGs do not have the in-house expertise needed to manage their financial reporting. While some LGs collaborate and seek help to overcome these issues, this is often informal and ad-hoc. In the absence of formal support from the DLGSC or other sources, these issues have an impact on finalisation of the financial audits.

Prior year qualified opinions removed in 2019-20

Three entities revised their financial reporting or took necessary action to resolve the matters that led to a qualified opinion on their 2018-19 financial report and we removed the qualification for 2019-20.

Shire of Bruce Rock

An independent valuation of infrastructure assets of the Shire was undertaken and disclosed in note 10(b) of the Shire's 2019-20 financial statements. This action addressed the 2018-19 asset valuation qualification which has now been removed.

Shire of Ravensthorpe

The Shire's 2018-19 qualified opinion related to the reported valuation of assets at 30 June 2018. This balance is not included in the 2019-20 financial report, so the qualification has been removed.

Shire of Wagin

The Shire's 2018-19 audit opinion was qualified as the year end value of drainage assets for 2018 and 2019 may not have been comparable, as the 30 June 2019 value was adjusted following an independent valuation. As the 2018 value is not included in the 2019-20 financial report, the qualification has been removed.

Emphasis of Matter paragraphs included in auditor's reports

If a matter is appropriately presented or disclosed in the financial report but, in our judgement, is of such importance that it should be drawn to the attention of readers, we may include an Emphasis of Matter paragraph in our auditor's report.

This year, we again drew attention to the notes in each entity's annual financial report describing the basis of accounting. For 2019-20 this related to application of the new leases accounting standard from 1 July 2019 and entities being required to report some aspects of these standards differently due to the requirements of the FM Regulations. Further explanation of this matter is on page 25.

We did not modify our auditor's opinion but included an Emphasis of Matter in the auditor's report to state that entities continued their previous recognition of some categories of land, including land under roads, at zero cost. This treatment complies with the following amendments of the FM Regulations:

(i) Regulation 17A requires a LG entity to measure vested improvements at fair value and the associated vested land at zero cost. This is a departure from AASB 16 *Leases* which would have required the entity to measure the vested improvements also at zero cost.

(ii) In respect of the comparatives for the previous year ended 30 June 2019, regulation 16 did not allow a LG entity to recognise some categories of land, including land under roads, as assets in the annual financial report.

The following were other noteworthy matters that we highlighted through Emphasis of Matter paragraphs:

City of Stirling – Infrastructure Assets Revaluation

Our Emphasis of Matter highlighted the City's note 8(f) which explains the basis for their infrastructure assets revaluation in the year ended 30 June 2020 and the associated change in estimates. The opinion was not modified in respect of this matter.

Mindarie Regional Council – Contingent Liability

The Council's opinion included an Emphasis of Matter drawing attention to Note 34 'Contingent liabilities' which disclosed a contingent liability relating to the Tamala Park Waste Management Facility site. The opinion was not modified in respect of this matter.

Town of Victoria Park – Land Assets Revaluation

The Town's opinion included an Emphasis of Matter drawing attention to Note 7 of the financial report which explains the basis for the significant land revaluation decrement in the year ended 30 June 2020. The opinion was not modified in respect of this matter.

Material matters of non-compliance with legislation

Under Regulation 10(3)(b) of the Local Government (Audit) Regulations 1996 (LG Audit Regulations), we are required to report any matters indicating that a LG entity is non-compliant with:

- part 6 of the LG Act
- FM Regulations
- applicable financial controls in any other written law.

The matters may relate to the financial report or to other financial management matters.

In determining which matters to report, we apply the principles of materiality, as required by Australian Auditing Standard ASA 320 *Materiality in Planning and Performing an Audit.* Factors that we consider include the extent and frequency of the non-compliance, and the effect or potential effect.

We also consider regulation 5(1) of the FM Regulations to be particularly important, because failure to effectively apply those requirements can result in significant financial loss, inefficiency, financial misreporting or fraud.

If we find matters of non-compliance at an LG entity, we will report this in the auditor's report which becomes part of their annual report published on their website. There was no discernible trend regarding the type or size of entity to which these findings relate. For the convenience of Parliament and the public, we have summarised in Table 1 the noteworthy matters of the 101 matters of non-compliance we reported to 45 LG entities.

Issue	Finding
Controls over accounting journal entries	At 8 entities we found that accounting journal entries were often posted with no evidence of independent review and approval by another person. Accounting journals can represent significant adjustments to previously approved accounting transactions, and could result in, for example, one type of expenditure being re-coded to another type of expenditure. If not closely controlled, unauthorised journals could result in errors in financial reports, or fraud. Journals should therefore be subject to independent review.

Issue	Finding
Bank reconciliation process incomplete	At 5 entities bank reconciliations of their municipal, reserve and/or trust accounts were not prepared, had long outstanding unreconciled items and/or there was no independent review by management. While we considered these instances to warrant reporting in the auditor's report, several other less significant control shortcomings in relation to bank reconciliations were reported to entities in our management letters.
Other reconciliation findings	At several entities we reported weaknesses in key controls for ensuring the completeness and accuracy of financial data within the general ledger and reported in the financial report: • Reconciliations to the general ledger were not performed in a timely manner for payroll or the fixed asset register of property, plant and equipment and infrastructure • Reconciliations for trade payables, bank accounts and borrowings account were not sufficiently evidenced as completed and reviewed • Monthly reconciliations of cash, sundry debtors, rates debtors, sundry creditors and fixed assets were not carried out from July 2019 to May 2020.
Quotes not obtained or no evidence retained	At 10 entities between 2% and 77% of purchase transactions sampled had inadequate or no evidence that a sufficient number of quotations was obtained to test the market and no documentation to explain why other quotes were not sought. This practice increases the likelihood of not receiving value for money in procurement or favouritism of suppliers.
Tender register details	The tender register at 1 entity did not include details of each tender and the names of the successful tenders.
Procurement without purchase orders	At 10 entities purchase orders were not prepared or were prepared after the suppliers' invoices were received.
Procurement without required procedures	At 2 entities approximately 30% of their purchase orders did not state a dollar value, quantity procured or there was inadequate or no evidence that a sufficient number of quotations were obtained to test the market, and no documentation to explain why other quotes were not sought.
Procurement without appropriate segregation of duties	At 2 entities the same officer requisitioned, approved and raised the purchase order then also approved the associated invoice payment for approximately 26% to 28% of sampled purchase transactions.
Procurement transactions without payment approval	At 1 entity 6% of the purchase transactions did not have evidence of payment approval prior to payment occurring.
Other procurement findings	We reported other instances of non-compliance with procurement policies and procedures: • Declarations of interest were not made by panel members prior to evaluation of tender documents, increasing the risk that any actual or perceived conflicts of interest were not adequately identified and managed by the entity.

Issue	Finding
	• Goods and services were procured from suppliers without fully executed tender contracts, increasing the risk of not obtaining value for money or dispute over contract terms or conditions. • Expenditure transactions were not in the LG entity's adopted budget and not supported by an authorised budget variation request. These practices increase the risk of fraud or favouritism of suppliers, not obtaining value for money in procurement, and inappropriate or unnecessary purchases. • Delegations of authority were approved for officers, but payment limits per officer had not been set. • Delegated officers did not evidence examining supporting documents prior to authorising payment. • There was inadequate segregation of duties within the procurement process as officers that prepare financial information also had access to authorise payments from the bank account. • At 1 entity some services were procured where the total spend for each supplier during the year exceeded $150,000, however tenders were not called. Section 11(1) of the Local Government (Functions and General) Regulations 1996 requires public tenders to be invited for services that are above $150,000. • Credit card transactions were not posted, reviewed or reconciled in a timely manner, early payments were made effectively increasing the credit card monthly limit and a card holder did not sign the credit card acknowledgement form prior to using the card.
Records not presented to Council meetings as required by FM Regulations	The list of accounts paid from the municipal and trust funds and the statement of financial activity were not presented to Council within the timeframe specified in the FM Regulations for periods of 5 to 7 months.
Financial ratios not reported	Nineteen entities did not report the Asset Renewal Funding Ratio, mostly for the 3 years, 2020, 2019 and 2018, in their annual financial report as required by FM Regulation 50(1)(c). Reasons for non-reporting included: • planned capital renewals and required capital expenditures were not estimated as required to support the long term financial plan and asset management plan respectively • management could not confirm the reliability of the available information on planned capital renewals and required capital expenditure • information on planned capital renewals and required capital expenditure over a 10 year period was not available.

Issue	Finding
Review not performed of financial management systems and procedures	At 3 entities a review of the financial management systems and procedures was not completed at least once every 3 financial years as required by FM Regulation 5(2)(c).
Review not performed of risk management, internal control and legislative compliance	At 2 entities a review of systems and procedures in relation to risk management, internal control and legislative compliance was not completed at least once every 3 years as required by LG Audit Regulation 17.
No review and authorisation of changes to masterfiles	There was no evidence of independent review and authorisation of changes made to the creditor masterfile at 8 entities, the payroll masterfile at 3 entities and debtors and rate assessment masterfiles at 1 entity. This increased the risk of unauthorised changes to key information.
Payroll and human resources findings	Several findings of payroll and employment non-compliance were also reported: • a letter of employment was not signed by the employee until after commencement, resulting in an incorrect pay rate being paid • the payroll function was not supported by formal policies and supporting procedures • employee pay rate changes were not reviewed by an independent officer.
Revenue findings	There was an increased risk that discounts, refunds or price changes may be unauthorised or go undetected, resulting in a loss of revenue. Findings included: • inadequate internal controls over debtors accounts and staff discounts • no process in place to review changes made to approved rates, to ensure issue of correct rate invoices • a large number of users were able to issue refunds at a recreational facility with no independent review of the refunds issued • more employees than necessary having the ability to change rates, fees and charges within the finance and revenue systems and no process in place to review the price changes.
Asset control finding	One entity did not have formal policies and procedures for proper control over its fixed assets.
General computer control findings	In depth findings of our IS audits at a selection of 50 LG entities are detailed in our Local Government General Computer Controls Report, Report 23, tabled on 12 May 2021. We reported 328 control weaknesses to 50 LG entities, with 10% (33) of these rated as significant and 72% (236) as moderate. As these weaknesses could significantly compromise the confidentiality, integrity and availability of information systems, the LG entities should act promptly to resolve them. Our financial audit approach to reporting IS issues and general computer controls changed partway through our 2019-20 audit

Issue	Finding
	cycle. This has resulted in audits completed later in our cycle having material matters of non-compliance with their IS and general computer controls included in the auditor's reports. In 2019-20 the following material matters of non-compliance were included in our auditors' reports: • At 1 entity we reported significant weaknesses in their general computer controls. These weaknesses increase the risk of inappropriate or unauthorised access to systems and loss of sensitive information, and undermine the confidentiality, integrity and availability of the entity's business systems and information. • At other entities we reported instances of non-compliance that could lead to inappropriate use of systems and unauthorised changes, although our audit did not identify any. These include access controls over a key system being inadequate to enforce adequate segregation of duties and more employees than necessary having full access to key financial systems and no evidence of independent review of changes made to the systems or records.

Source: OAG

Table 1: Material non-compliance with legislation reported in auditor's reports

Adverse trends in the financial position of LG entities

We are required by Regulation 10(3)(a) of the LG Audit Regulations to report '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'.

We conducted a high level assessment of whether the 7 financial ratios reported in each LG entity's financial report achieved the standards set by the DLGSC. When determining whether a trend was significant and adverse, in some instances we allowed for a ratio to be slightly lower than the DLGSC standard, in recognition that failing to meet some standards are more significant and representative of an entity's financial position than failing to meet others.

Our financial audit assessments of the ratios are conducted objectively on the audited figures from the financial report on a comparable and consistent basis. Our assessments do not consider other aspects of the entity's finances, or the inter-relationships between the ratios. These considerations are outside the scope of the legislative audit requirement of regulation 10(3)(a) and more relevant to a performance audit into adverse trends.

Entities report their ratios for the current year and the preceding 2 years. Our trend analysis is therefore limited to these 3 years. This year, we reported that 139 ratios at 89 entities indicated adverse trends. Last year, for the 2018-19 audits, the comparative figures were 113 ratios with adverse trends at 76 entities.

Review of financial ratios

It continues to be our view that the annual financial report audit does not provide the opportunity for a thorough assessment of any adverse trends that may be apparent from the ratios, and that a more thorough performance assessment is needed to conclude on the overall financial position of an entity. For this reason, after completing our first year of auditing the local government sector for 2017-18, we identified the need for the DLGSC to review Regulation 10(3)(a) of the LG Audit Regulations.

We have also previously recommended that the DLGSC give consideration to simplifying and streamlining the ratios defined in FM Regulation 50(1). This may include using different financial indicators, possibly fewer in number, that are more commonly used in the not-for-profit and government sectors.

WALGA formed a Working Group in 2020 to review the current suite of ratios and provide recommendations going forward. The Working Group is comprised of sector representatives together with officers from the DLGSC, Office of the Auditor General and WA Treasury Corporation.

The Working Group's Local Government Financial Ratios Report was provided to the WALGA State Council Meeting on 5 May 2021. The report includes recommendations for prescribed ratios and other financial reporting related matters. WALGA State Council is the decision making representative body of all member councils with responsibility for advocating on sector-wide policy and strategic planning on behalf of local government.

The report's recommendations were carried by the WALGA State Council who resolved that WALGA advocate the recommended changes to the Minister for Local Government. Along with ratio changes the group also recommended the DLGSC prepare a model set of financial statements and annual budget statements, in consultation with the local government sector.

Our Office continues to support the need for change in financial ratio reporting and auditing and commends WALGA for its work. However, we also consider that the DLGSC should be taking a more proactive role in this change process.

Recommendation

1. The Department of Local Government, Sport and Cultural Industries (DLGSC) should assess whether the current financial ratios in the FM Regulations remain valid criteria for fairly measuring and reporting the performance of each LG entity. This could also include a simplification of LG entity reporting requirements for financial ratios, and review of the requirement under the FM Regulations for the auditor to report on any adverse trends in the ratios as part of the annual financial audit.

132 audit certifications issued

In addition to the auditor's report on the annual financial report, we also conduct audit work to certify other financial information produced by entities. These audit certifications enable entities to meet the conditions of State or Commonwealth funding or specific grant requirements or legislation. Our audit certification of these statements may be required to enable entities to receive ongoing funding under existing agreements or to apply for new funding.

Appendix 2, commencing on page 40, lists the 132 certifications issued and the date of issue under 3 headings:

- 12 claims by administrative authorities for pensioner deferments under the *Rates and Charges (Rebates and Deferments) Act 1992*
- 112 statements acquitting Roads to Recovery Funding under the *National Land Transport Act 2014*
- 8 other certifications for projects by entities.

Management control issues

We also report control weaknesses related to expenditure, financial management, human resources, revenue and asset management to LG entity management in our management letters. Controls weaknesses that represent matters of material non-compliance form part of the overall auditor's report that we provide under section 7.12AD of the LG Act to the mayor, president or chairperson, the CEO and the Minister for Local Government. During 2019-20, we alerted 117 entities of control weaknesses that needed their attention. Twelve percent of these were reported in our auditor's report as matters of material non-compliance.

Our management letters provide a rating for each matter reported. We rate matters according to their potential impact and base our ratings on the audit team's assessment of risks and concerns about the probability and/or consequence of adverse outcomes if action is not taken. We consider the:

- quantitative impact – for example, financial loss from error or fraud
- qualitative impact – for example, inefficiency, non-compliance, poor service to the public or loss of public confidence.

Risk category	Audit impact
Significant	Finding is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.
Moderate	Finding is of sufficient concern to warrant action being taken by the entity as soon as practicable.
Minor	Finding that is not of primary concern, but still warrants action being taken.

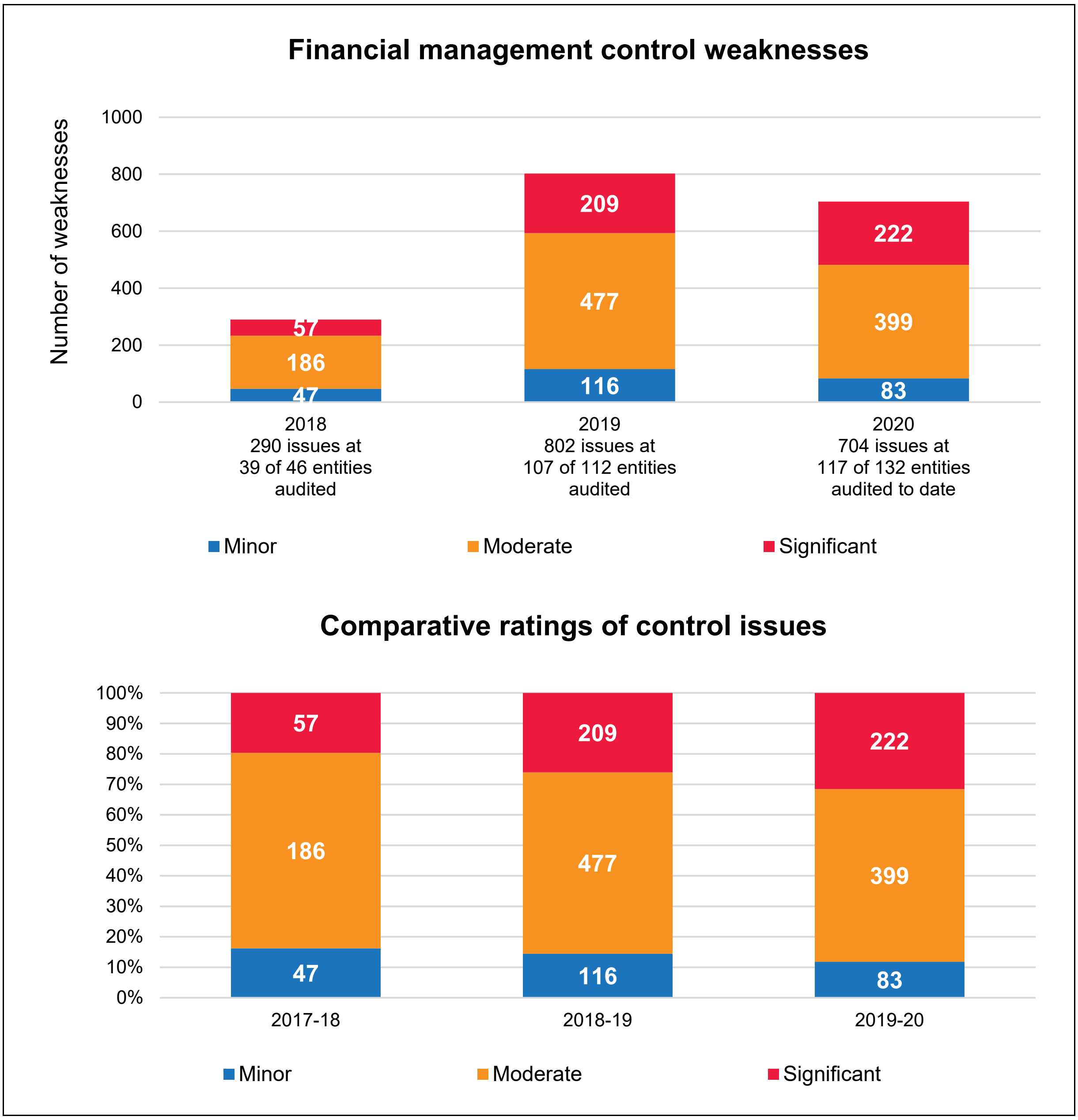
Source: OAG

Table 2: Risk categories for matters reported to management

We give LG entity management the opportunity to review our audit findings and provide us with comments prior to the completion of the audit. When they respond, we request they set a time frame for remedial action to be completed. Often management improves policies, procedures or practices soon after we raise them and before the audit is completed. Other matters may take longer to remedy and we will follow them up during future annual financial audits.

We reported 704 control weaknesses across the 3 risk categories as shown in Figure 1. The first chart shows the number of weaknesses in each risk category for the differing number of entities we audited during our first 3 years of LG entity transition into our audit program. The second chart shows the comparative proportion of weaknesses in each risk category.

The charts show that the proportion of control weaknesses with a significant rating have increased in number and by proportion over the last 3 years, and that weaknesses with a minor rating have decreased. The decline in minor weaknesses is in part because entities have been addressing minor issues detected in the early years of the OAG auditing the sector.

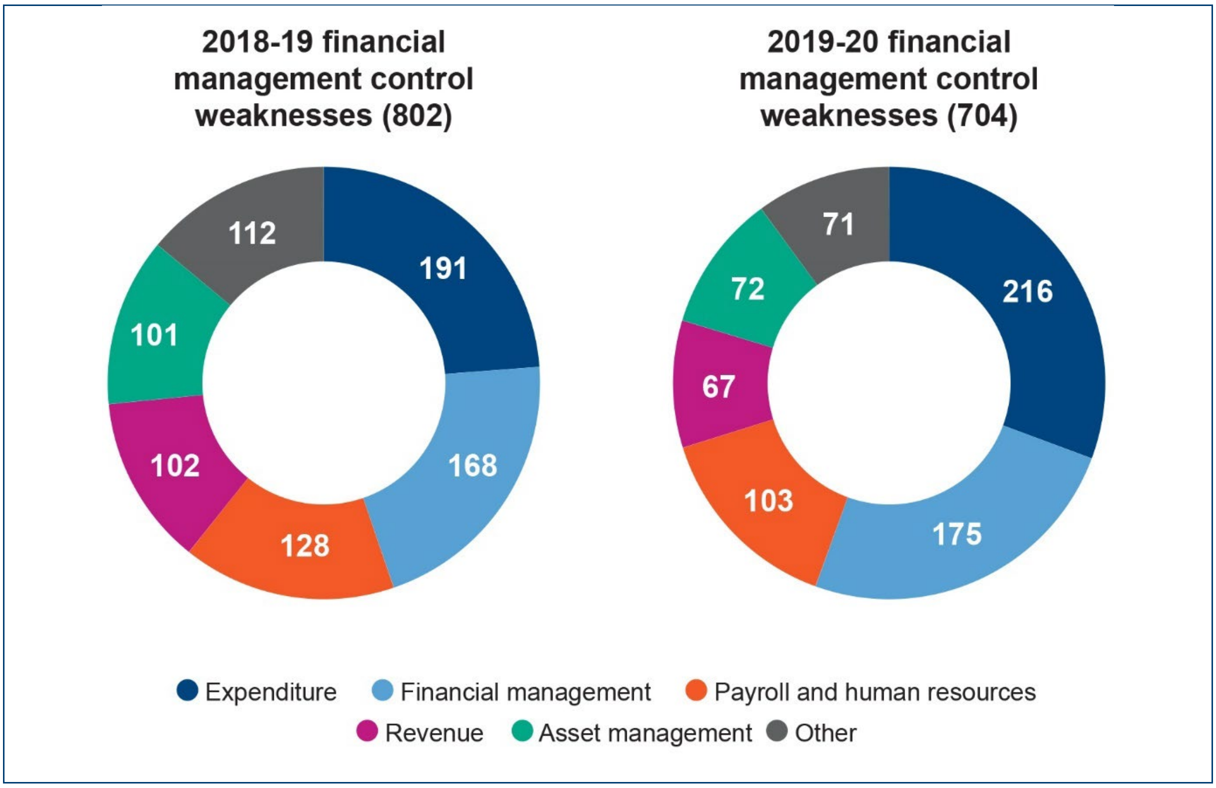


Source: OAG

Figure 1: Number of control weaknesses reported to management in each risk category and comparative ratings of the control weaknesses

Note: 2018-19 figures are higher than in last year's LG audit results report as not all LG entity audits were completed in time for inclusion in the report.

The 704 control weaknesses identified in our 2019-20 management letters are presented in their different financial management control categories in Figure 2. The control weaknesses relating to expenditure, financial management, and payroll and human resources accounted for 494 or 70% of the control weaknesses reported, compared to 487 or 61% in 2018-19.



Source: OAG

Figure 2: Financial management control weaknesses reported to entities

Examples of the weaknesses are below. We recommend that entities take timely action to improve their current practices and procedures to strengthen the accountability and integrity of their financial reporting and to comply with their legislated requirements.

Expenditure

We reported that good procurement procedures, such as obtaining quotes and completing purchase orders to start the ordering process and accountability trail, were not routinely practiced. These included:

- Quotes were not obtained as required by the entities' policy guidelines. There were also instances where evidence of the quotes received was not retained for the items purchased. This increases the risk of favouring specific suppliers and/or not obtaining value for money.
- We found purchase order control weaknesses at 47 entities. Purchase orders were often raised after the goods had been supplied or after the supplier's invoice had been received. The lack of adequate controls over purchase ordering increases the risk of inappropriate purchases or the entity being committed to pay for purchases made by officers who do not have authority or who have exceeded their delegated purchase limits.
- In some entities there was not adequate separation of tasks between ordering and receiving goods. Without this segregation, the entity needs other controls to ensure that all payments for goods are reviewed and authorised by an independent officer.
- Some entities' tender processes were not conducted in accordance with the entity's policies and procedures, including panel members not declaring their interests.

At 29 entities we reported that changes were made to the supplier masterfile without appropriate evidence of authorisation of the change or there was no independent review to confirm checking for related party interests, authorisation, completeness and accuracy. These review procedures are essential as technology has increased the risk of fraud.

We found payment acquittal procedures at 24 entities need improvement. Full supporting documentation for payments needs to be retained, along with the correctly coded payment acquittal approved by an appropriately authorised or delegated officer.

Of the 15 entities with control weaknesses over their purchasing cards, we found that 4 entities did not have evidence of signed purchasing card agreements with cardholders. These agreements set out the terms, conditions and the entity's level of authority for the cardholder's use of their purchasing card. Untimely acquittal and late cancellation of purchasing cards were also reported.

Financial management

The accounting procedures and practices of the financial management team should include appropriate controls for preparing the entity's financial report and mandatory annual reporting requirements.

- Fifty-three entities had not completed their review to assess and recognise the initial and subsequent application of the new accounting standards for revenue recognition and leases. Non-compliance with the revenue standards may result in earlier income recognition, which means the entity's 2019-20 revenue may be overstated. Non-compliance with the lease standard can result in depreciation and interest expense being understated and lease expenses being overstated for the 2019-20 year. Further details and information on these accounting standards issues are on page 26.
- Bank reconciliations were not routinely prepared on a monthly basis or were not reviewed by a second officer. Where long outstanding cheques continue to be reported, entities need to review these debts to locate the supplier and, if not found, action these funds as unclaimed money. Entities also recorded unreconciled items, which were not investigated and resolved when they were identified and remain unreconciled. The bank reconciliation is a key control. If not performed regularly and independently reviewed, there is a risk of erroneous or unusual (including fraudulent) reconciling items not being detected and investigated in a timely manner.
- Journal entries were made without supporting documentation or were not reviewed by an independent officer. These can represent significant adjustments to previously approved accounting transactions, and unauthorised journals could result in errors in financial reports, or fraud. They should therefore be clearly explained and subject to independent review.
- Access to the financial management, payroll and human resources systems was not restricted to appropriate staff. In some instances, we considered more staff than necessary for the efficient operation of the entity had passwords to access the key systems. Monitoring of access privileges needs to be conducted on a regular basis by a senior staff member.

Payroll and human resources

Payroll and human resource management are essential elements of any employer's business. During our interim and final audits of entities we reported:

- Some employees were not taking their annual and long service leave entitlements and therefore accumulating excessive leave balances. Entities should have a leave management plan to ensure suitable staff can undertake the roles of key staff while they are on leave and to continue to deliver the entity's required services. Infrequent taking of leave and associated rotation of staff roles, increases the likelihood of any frauds remaining undetected.

- Commencement and termination processes were not completed promptly to ensure timely and accurate processing and payment of staff. Evidence needs to be retained of all employment contracts, which should be signed by both parties on execution.
- Changes made to employee masterfiles need to be supported by appropriate authorisation from the employee. Masterfile changes also need to be independently reviewed for accuracy and completeness, to reduce the risk of payroll errors or fraud.
- Payroll reports sent to cost centre or business managers for confirmation of employees to be paid were not returned. Without regular checks by relevant managers on their current employees and their hours worked, especially for casual and contract staff, there is an increased risk of payment errors, ghosting or fraud passing undetected.

Recommendation

2. LG entities should ensure they maintain the integrity of their financial control environment by:
   a. periodically reviewing and updating all financial, asset, human resources, governance, information systems and other management policies and procedures and communicating these to staff
   b. conducting ongoing reviews and improvement of internal control systems in response to regular risk assessments
   c. regularly monitoring compliance with relevant legislation
   d. promptly addressing control weaknesses brought to their attention by our audits, and other audit and review mechanisms
   e. maintain currency with new and revised accounting standards for their impact on financial operations in order to prepare a compliant financial report at year end.

Information system controls

Information systems (IS) underpin most aspects of government operations and services. It is important that entities implement appropriate controls to maintain reliable, secure and resilient information systems.

Audits of general computer controls help to support our financial audits and are a major part of the IS audit work we undertake. These audits provide insights about the extent to which entities' IS controls support reliable and secure processing of financial information.

We reported 328 control weaknesses to 50 LG entities, with 10% (33) of these rated as significant and 72% (236) as moderate. Last year we reported 202 control weaknesses to 38 LG entities. As these weaknesses could significantly compromise the confidentiality, integrity and availability of information systems, the LG entities should act promptly to resolve them.

Our capability assessments at 11 of the 50 LG entities show that none met our expectations across 6 control categories, with 79% of the audit results below our minimum benchmark. We found weaknesses in controls for information security, business continuity, change management, physical security and IT operations. Entities also need to improve how they identify and treat information risks. Five of the entities were also included in last year's in-depth assessment and could have improved their capability by promptly addressing the previous year's audit findings but, overall, did not discernibly do so

Of the weaknesses identified in 2019-20:

- 49% related to information security issues. These included system and network vulnerabilities and unauthorised and inappropriate access to systems and networks
- 28% related to information technology (IT) operations issues. In particular, poor controls over the processing and handling of information, inadequate monitoring and logging of user activity, and lack of review of user access privileges
- 10% related to business continuity. For example, inadequate disaster recovery and business continuity plans
- 13% related to inappropriate IT risk management, poor environmental controls for the server room, and a lack of change management controls.

The information provided above is included in our Report 23, May 2021, Local Government General Computer Controls, tabled on 12 May 2021. Further details of the IS audit work and case studies from our IS audits of LG entities are included in the report.

Financial reporting issues for 2019-20

Valuation of assets

We continue to have concerns about inconsistencies in the valuation of property and infrastructure in the WA local government sector. Our Report 15: March 2019[2] and Report 16: March 2020[3] detailed concerns about the variety of valuation methodologies used, especially for land with restricted use.

Valuation concerns arise from LG entities engaging different valuers who use different methodologies or interpret some principles of the Australian Accounting Standards differently. This is particularly apparent for restricted assets. Consequently, LG entities can see significant valuation swings when they change their valuer, depending on which assumptions the valuer uses when assessing restricted land. Most entities revalued these assets in 2017 or 2018, in accordance with the LG FM Regulations, and their next 3-5 yearly valuations are due at the latest by 2022 or 2023.

As mentioned last year, the International Public Sector Accounting Standards Board and the Australian Accounting Standards Board have projects under way relating to fair value of public assets. Our Office will work with other audit offices to prepare a submission to this fair value project.

Valuation of assets transferred between entities

Our State government audit work in 2019-20 highlighted the need for entities to act fairly and openly where assets are transferred between them.[4]

Our role as auditor is to ensure that land sales and asset transfers are properly disclosed. The value or benefit of the asset to the ultimate owners, as well as any trade-offs must be adequately communicated and disclosed to residents and ratepayers. These particular transactions can represent significant value.

During 2019-20 the State Government decided to progress the Ocean Reef Marina project following community consultation on this development proposal, including its impact on the community and the City of Joondalup, which was undertaken over a number of years.

Following this, the City of Joondalup reviewed the fair value of the land assets included within scope of this development proposal. After seeking independent valuation advice and in consultation with Development WA, it was agreed that the City would transfer the associated land assets to Development WA in 2021 for $1 per lot for each of the two parcels of land in order for land development to proceed.

Following this decision, the City reclassified the associated land assets from Property, Plant and Equipment with a fair value of $63.1 million to Inventory (Land held for transfer) with a net realisable value of $1 per lot. The City recognised the resulting land revaluation decrement in its asset revaluation reserves in accordance with the accounting standards, and disclosed the decrement at note 6 in its 2019-20 annual financial report.

Documenting agreements between the parties of any transaction is prudent as it provides essential evidence of both parties' agreement to the transaction. The financial report of each

[2] Report 15: March 2019 – Audit Results Report – Annual 2017-18 Financial Audits of Local Government Entities

[3] Report 16: March 2020 - Audit Results Report – Annual 2018-19 Financial Audits of Local Government Entities

[4] Page 37 of Audit Results Report – Annual 2019-20 Financial Audits of State Government Entities, Report 7, November 2020

entity must provide sufficient disclosure of the transaction in accordance with accounting standards. Transparency of all such transactions – their costs and benefits - is paramount.

Local government financial management regulations

Amendments to the FM Regulations were gazetted on 6 November 2020. As requirements in these regulations impacted the financial reporting of entities for the year ending 30 June 2020, finalising and signing off each entity's financial report was delayed until after this gazettal.

Following the gazettal, we issued a position paper on 6 November 2020 (Appendix 3) to assist entities to meet the new reporting requirements. Any changes in reporting from the previous year are disclosed in the financial report of each entity. The key changes relate to the revaluation of certain asset classes, revenue recognition and accounting for leases.

Valuation of certain classes of assets

Amendment of FM Regulation 17(A) simplified LG entities' reporting of some classes of assets and reduced the cost burden of having valuations undertaken.

Plant and equipment

Entities no longer have to revalue plant and equipment assets they own and needed to transition to the cost model from the beginning of 2019-20, and report all plant and equipment at depreciated cost at year-end on 30 June 2020. Previously these assets were held at fair value.

Land, building, infrastructure and investment property

These assets continue to be carried at fair value, with the revaluation cycle reduced to a 5-year cycle rather than 3-yearly, unless the fair value is materially different from the carrying value.

Lease right-of-use assets controlled by entities

Amendment of regulation 17A removed the requirement to fair value all assets, including right-of-use assets. Removal of regulation 16 from 6 November 2020 impacts on the way LG entities are now required to report on commercial and concessionary leases under Accounting Standard AASB 16 *Leases.*

Commercial leases

Leases of assets such as vehicles, machinery, offices and ICT equipment from 2019-20 are now recognised on the balance sheet as the right-of-use asset and corresponding liability.

Concessionary leases

These peppercorn type leases relate to assets controlled or managed but not owned by the entity. They include vested crown land and other land, such as land under roads. These concessionary lease right-of-use assets are to be reported at cost, which in most cases is zero.

Previously, entities reported land under roads at zero cost, and this continues. However, adjustments were needed for land underneath buildings or other infrastructure, such as golf courses, showgrounds, racecourse or any other sporting or recreational facilities, so that this land is also reported at zero cost. Previously these lands were reported at fair value.

The FM Regulations retain reporting of improvements on these vested lands at fair value.

Recommendations

3. The DLGSC should seek ministerial approval to any proposed regulatory amendments well in advance of the financial year end to ensure timely gazettal to facilitate action and avoid rework by all entities when finalising their end of year financial report.
4. LG entities should complete their assessment of the impact of any new regulations or accounting standards and prepare a position paper on the necessary adjustments to their financial report. If required, entities should seek external consultation when completing their assessment and adjust their financial report, prior to submitting it for audit.

Accounting standards reporting changes for 2019-20

LG entities were required to apply 3 new accounting standards of the Australian Accounting Standards Board (AASB) from 1 July 2019. Unfortunately, entities could not adequately prepare as the DLGSC did not advise entities what FM Regulation changes in accounting treatments would be gazetted on 6 November 2020. Consequently, entities were delayed in finalising their financial reports and some incurred additional audit costs.

Fifty-three entities received a management letter issue as they had not taken appropriate steps to implement the new standards for their 30 June 2020 reporting.

Entities that applied the standards elected to apply the modified retrospective option for their transition. This approach meant comparative figures for prior years did not need to be restated, therefore reducing the amount of work required. A note in the financial report disclosed the impact of these changes in accounting treatment from 1 July 2019.

Reporting revenue and income under AASB 15 and AASB 1058

From 1 July 2019, revenue from contracts (AASB 15), such as grant money received with specific performance obligations, is reported by allocating the grant money to each performance obligation and recognising the revenue as or when the obligations are satisfied. Similarly, grant money received with an obligation to acquire or construct an asset that will be retained by the entity (i.e. a capital grant under AASB 1058) is recognised as income as or when the obligation to acquire or construct the asset is satisfied.

For example, LG entities receiving Roads to Recovery funding from the Commonwealth Government were required to report their grants in this manner. This means a grant received for the construction of an asset is recognised as income in stages during the construction. The full value of the grant is recognised by the time the constructed asset is put into operation.

Under AASB 1058, transactions relating to assets acquired at significantly less than fair value also have new recognition principles.

Where these standards were implemented, the LG entities adjusted their opening equity and recognised their contract liabilities and capital grant liabilities as required.

Reporting of leases – AASB 16

The key change in AASB 16 is that most operating leases, which were previously recorded off-balance sheet, are now required to be capitalised on the balance sheet (Statement of Financial Position). Accordingly, most property, motor vehicle and equipment operating leases are now accounted for as right-of-use assets with their associated lease liability. A note in the financial report explains the impact of this standard.

Using this approach, on initial application of AASB 16 from 1 July 2019, LG entities were required to recognise right-of-use assets and the lease liabilities.

Future impact of changes to accounting standard

The new standard, AASB 1059 *Service Concession Arrangements: Grantors*, applies for years beginning on or after 1 January 2020 (2020-21 reporting year). This standard is applicable to LG entities (grantors) that enter into service concession arrangements with generally private sector operators.

It requires grantors to recognise a service concession asset and, where applicable, a service concession liability on the balance sheet. The initial balance sheet accounting, as well as the ongoing income statement impacts, will have significant financial statement implications for grantors.

Recommendation

5. DLGSC should provide timely guidance to assist LG entities to update their accounting practices to ensure that their future reporting is compliant with all current accounting standards.

Opportunities to improve the efficiency of financial reporting

This section includes opportunities for LG entities that may contribute to savings in financial reporting costs and improved governance. It is important to note that while some of these issues may relate to all entities, others may only be applicable to some.

Reduced disclosure reporting by LG entities

As noted on page 8, the quantity of information that is being reported in the annual financial reports of LG entities is onerous and exceeds that reported by most State government entities. Western Australian State and LG entities also include several disclosures that are not common practice in other states. This contributes to the time and cost to prepare annual financial reports, and to audit costs.

The changes made to the FM Regulations gazetted on 6 November 2020 simplified some reporting by LG entities for 2019-20. Refer page 25.

However, other opportunities still exist to introduce a tiered reporting structure and reduce the amount of detail in local government financial reports without impacting the usefulness and completeness for users. We encourage efforts to streamline financial framework obligations, particularly for small and medium sized entities, wherever it does not impair accountability and transparency.

The AASB has a project to revisit the financial reporting framework for public sector entities, which may reduce the reporting burden on LG entities. Currently the LG Regulations do not provide LG entities as much opportunity to reduce financial report disclosures as State government entities.

Recommendation

6. DLGSC should re-assess the amount of detail required to be included in annual financial reports, particularly for small and medium sized LG entities.

Quality of financial reports submitted for audit

The quality of financial reports submitted for audit varied significantly across LG entities. This is not unexpected as some entities have finance staff without formal accounting qualifications and professional support is not readily available in some regions. We found that many entities were unable to implement the new accounting standards without professional assistance.

Our audits also noted that various LG entities:

- had poor record keeping practices and were unable to locate requested records, such as prior period valuations
- had conflicting priorities and urgency to comply with requests for information as part of normal operations and council business, plus audit and other independent investigations
- were unable to provide information within 2 weeks of a request by audit
- experienced finance staff turnover and attrition during crucial times in the financial year, or key personnel were not available to respond to the auditors at key times as they had taken leave.

We identified numerous errors that were corrected by the LG entities during the audit process. These errors included:

- incorrect or no adjustments made for adoption of the new revenue and lease standards due to lack of understanding of the standards and no assistance or direction on what action was needed, until raised by the auditor
- financial reports that did not balance
- data errors, such as the incorrect take up of closing balances from the prior year as opening balances for the current year
- accounting differently for the same transactions, balances or disclosures
- not recognising contingent liabilities or remediation provisions for contaminated sites
- not correctly accounting for their share of a joint arrangement with another party or parties, such as a library or contribution towards the local regional council
- prior year errors that had not been corrected.

Also disappointing was the number of LG entities submitting many versions of their financial statements to us during the audit process. This results in significant additional work for both the LG entity and the auditor and delays the finalisation of the audit. For example, 1 entity submitted 27 versions of its financial statements and our auditor's report was not issued until 20 May 2021.

We are pleased to support audit committees in State and local government through our audit committee forums. These seminars aim to improve audit committee members' knowledge and understanding of their role and responsibilities in the entity's financial management review process. These audit committees are becoming more active in their control oversight and quality review roles. This will assist entities to ensure the completeness and accuracy of their financial report and the supporting working papers presented for audit.

To ensure timely and accurate financial reports it is important that management in each reporting entity keeps proper accounts and records. Management should undertake various best practice initiatives throughout the financial year and after year end to improve the quality of their financial reporting.

Well before the beginning of the financial year, entities should confirm the accounting policies and accounting standards to be applied in the coming year. Entities should also determine, at that time, whether expert assistance is required in order to accurately adopt standards. Sharing specialist resources across LG entities may be cost effective and result in more timely resolution.

Before year end, entities need to:

- prepare a project plan of human and financial resources, assign responsibilities for tasks and set time frames for financial reporting
- avoid receiving asset valuations late in the financial year or after year end and ensure that management reviews the valuations before they are included in the financial reports
- identify and review changes to accounting standards and reporting requirements and confirm the approach to any changes with the auditors.

After year end, entities need to:

- analyse variations between actual and budget as well as previous year results to identify and correct omissions and/or errors
- ensure the draft financial report has received an internal quality assurance review, preferably by internal audit or other suitably qualified professionals.

Many LG entities would benefit from centralised support from the DLGSC, similar to that provided to State government entities by the Department of Treasury through the Treasurer's Instructions. The DLGSC's support should address timely regulation amendments to improve the financial report framework and offer practical accounting assistance. Actions should include:

- decluttering entities' financial reports
- implementing tiered reporting for different size of entities or the complexity of their operations
- providing a model financial report with current sample notes
- providing technical and accounting standards support to entities through a help desk.

These improvements would improve the quality of the sector's financial reports and also reduce the reporting burden on smaller LG entities.

Our Report 21: Regulation and Support of the Local Government Sector tabled on 30 April 2021 reports that LG entities' expectations are that the DLGSC should be providing support, guidance and education on the financial reporting framework and other sector issues, such as adoption of new accounting standards, to assist them to achieve good governance and reporting.

To assist public sector entities to assess their financial management and reporting practices, we have tabled a guide later titled *Western Australian Public Sector Financial Statements – Better Practice Guide*. This guide should assist entities to implement better practices, processes and procedures and achieve more efficient and timely financial reporting for their entity.

Recommendation

7. To improve the quality of financial reports and achieve greater consistency across LG entities, the DLGSC should prepare timely regulation amendments for the Minister's approval which improve the sector's financial report framework. The DLGSC should also provide accounting support services to the sector. Proper management of financial resources is the most basic priority as from there all else is enabled or eroded.

8. We encourage entities to make use of our WA Public Sector Financial Statements – Better Practice Guide to improve their financial management and reporting practices, processes and procedures.

Impact of COVID-19 on LG entities and our audit approach

In response to COVID-19, we engaged extensively with audited LG entities and State government entities around audit flexibility, key priorities, and other considerations. We communicated with all stakeholders on the need to work together and maintain good governance and controls during the time of disruption.

Advice to LG entity management

On 27 March 2020 we emailed all mayors, presidents and CEOs, recognising that LG entities have a role to play in the State Pandemic Plan.

We advised of our commitment to working with entities to minimise any disruption our audit work may have while still needing to deliver a level of essential assurance to the Parliament, local government councils, the public and other stakeholders on public sector finance and performance during the pandemic period and subsequently.

As a workforce accustomed to conducting audit work remotely, our well-established systems and processes only required some adjustments. Our strategies included:

- working with entities to identify audit areas that could be done earlier or later
- reducing the amount and length of audit meetings, conducting these via audio or video conference wherever possible or postponing them
- making increased use of technology to enable the collection of evidence and analysis of financial and performance data
- continuing to use a secure portal to transmit and receive all audit documents electronically
- re-evaluating our forward performance audit program.

At an early stage of the pandemic, we sent the following advice to entities about key risks that can be heightened in times of crisis:

- Good business governance and controls can be at risk during times of disruption, particularly in environments of crisis and urgent response. There are some who may seek to take advantage of any sense of chaos for their own interests. We encourage entities to maintain good controls, particularly over cash, expenditure and assets throughout this period.
- Information systems may be the subject of increased cyber-attacks and phishing attempts, so there needs to be continued focus on information security.

We also published on our website a guidance paper 'COVID-19 Financial controls matters' and an extract from our Report 18: 2019-20 – Information Systems Audit report 2020 – State Government Entities, 'Security considerations for remote working arrangements'. These guidance papers are presented as Appendix 4, page 46, and Appendix 5, page 48. For other better practice guidance published by our office, refer to the index at Appendix 6, page 50.

LG regulations amended for COVID-19 response

The *Local Government (COVID-19 Response) Act 2020* received Royal Assent on 21 April 2020. This allows LG entities to suspend a local law or part of it to temporarily remove restrictions for the benefit of the district or part of the district during the state of emergency.

The Act also enables the Minister, where such an order is necessary to deal with the consequences of the COVID-19 pandemic, to modify or suspend provisions of the LG Act. Some of these gazetted changes related to the requirement to hold public meetings, access to information when council offices are closed and budgetary matters.

Other amendments were detailed in specific regulations and also applied during the period the district or part of the district was in a state of emergency.

Local Government (Functions and General) Regulations 1996

Amendments to the procurement regulations allowed LG entities to:

- extend the use of their own purchasing policy and apply local content provisions more readily to acquire good and services via written quotes to the increased threshold of $250,000, similar to the State Government tendering thresholds
- source and secure essential goods or service to address needs arising from or impacts or consequences of the hazard to which the emergency relates, without publicly inviting tenders
- use discretion to renew or extend a contract that expires, even if not an option in the original contract. There were some limitations on this exemption
- purchase goods or services from an extended list of recognised goods or services supplied by Aboriginal businesses.

Local Government (Financial Management) Regulations 1996

These regulation amendments increased the flexibility of LG entities, to:

- decide and minute the reasons for changing the 'use of money' set aside in a Reserve Account without the public notice period, where it was used to address a need relating to the pandemic
- borrow money or re-purpose borrowed money, without the public notice period, to address a need arising from the pandemic. Any decision and reasons must be recorded in the council minutes.

Local Government (Long Service Leave) Regulations 1996

These regulation amendments gave local government employees who had been stood down during the state of emergency greater access to paid leave.

Local Government (Administration) Amendment Regulations 1996

Gazettal of these amendments on 25 March 2020 allowed local government councils to hold meetings electronically via teleconference, video conference or other electronic means during a public health emergency. This included committee meetings.

Provision for notice of any meeting and public question time were also amended to allow electronic facilitation of meetings.

Minister for Local Government's Circular No 03-2020, Local Government (COVID-19 Response) Order

The Minister's Circular of 8 May 2020 requested LG entities to freeze rates, and fees and charges during the pandemic period. Furthermore, residential and small business ratepayers suffering financial hardship as a consequence of the pandemic would not be charged interest in the 2020-21 financial year. The Circular also detailed maximum instalment interest charges and late payment interest charges. The Minister noted that removing red tape and compliance requirements were other means of assisting LG entities and the community to deal with the pandemic.

COVID-19 impacts on LG entities

As part of our audits we considered the impact of COVID-19 on each entity's financial reporting process and control environment. Risk assessment and responsive procedures were updated and additional attention was given to transactions testing for the March to June 2020 period.

We noted that the majority of staff generally continued to work from the office, sometimes on a rotation basis.

The Small Business Development Corporation's website has detailed information about local government COVID-19 initiatives. This includes a summary of the initiatives put in place by LG entities for their local small business community, and concludes with a link to the LG entity's own website for further details.

Information on the pandemic's impacts appear in each entity's annual report which are available on their websites. Some of the key or recurring disclosures are summarised below.

Disruption of services and reduced revenue

Local government venues were closed including council offices, recreational and sporting facilities, swimming pools, libraries and community facilities. These closures were intended to safeguard the health and wellbeing of residents, visitors, businesses, employees and volunteers but resulted in reduced revenue collections.

Larger LG entities also reported a reduction in parking fees and infringement revenue. Some city councils also reduced parking fees for on-street, carparks or all day parking.

Creation of COVID-19 emergency reserve

The FM Regulation amendments permitted entities to re-purpose reserves to address a need relating to the pandemic. At 31 May 2021 17 of the 117 audited to date had transferred $19.4 million of their funds into a reserve fund for this purpose during 2019-20. At 30 June 2020, 2 entities had cleared their emergency reserve accounts, while the remaining entities held a total of $17.0 million in their COVID reserve accounts.

LG entities' expenses for directly managing the impact of COVID-19

Differentiating between COVID specific expenditure and normal expenditure was difficult as entities generally did not separately account for these expenses. Extra cleaning was incurred at certain facilities, while other facilities were closed and did not incur their normal cleaning fees. In general, LG entities did not report incurring any significant expenditure as potential extra expenses were offset by savings elsewhere.

Stimulus or initiatives administered by LG entities

LG entities' actions supporting their local households, businesses, tenants and sporting and community groups included:

- stopping all interest charges on outstanding payments to the LG entity
- waiving loan repayments for sporting clubs and associations
- waiving lease payments for not-for-profit groups and sporting associations, and for commercial tenancies where hardship was demonstrated.

Future potential effect of COVID-19

LG entities generally prepared their 2020-21 budgets on the basis of no rate increase as requested by the Minister for Local Government's Circular No 3-2020. Entities were therefore challenged to rationalise services to pare back their budgeted expenses or seek other revenue sources to comply with this request when finalising their 2020-21 budget.

The impact of budget restraint for 2020-21 may impact on entities and the services they can reliably deliver in the short term. Although these 2020-21 budgetary constraints may provide significant short term challenges, the ongoing ramifications will continue to be experienced in the forward estimates and budgets of entities for some years.

Appendix 1: 2019-20 LG entities audits by OAG

We completed 117 of the 132 audits for 2019-20 by 31 May 2021. The auditor's reports issued are listed by entity in alphabetical order in the table below.

Local government	Opinion issued
Bunbury-Harvey Regional Council	15/12/2020
City of Albany	03/12/2020
City of Armadale	11/12/2020
City of Bayswater	08/02/2021
City of Belmont	13/11/2020
City of Bunbury	02/12/2020
City of Busselton	17/11/2020
City of Canning	22/12/2020
City of Cockburn	02/12/2020
City of Fremantle	01/04/2021
City of Gosnells	15/02/2021
City of Greater Geraldton	10/02/2021
City of Joondalup	07/12/2020
City of Kalamunda	03/12/2020
City of Kalgoorlie - Boulder	17/12/2020
City of Karratha	07/04/2021
City of Kwinana	08/12/2020
City of Melville	04/12/2020
City of Nedlands	Audit in progress
City of Perth	10/12/2020
City of Rockingham	23/11/2020
City of South Perth	03/12/2020
City of Stirling	25/02/2021
City of Subiaco	Audit in progress
City of Swan	18/12/2020
City of Vincent	08/12/2020
City of Wanneroo	09/12/2020
Eastern Metropolitan Regional Council	25/11/2020
Mindarie Regional Council	08/03/2021
Murchison Regional Vermin Council	16/02/2021
Pilbara Regional Council	Audit in progress
Rivers Regional Council	11/11/2020
Shire of Ashburton	23/02/2021
Shire of Augusta-Margaret River	17/12/2020

Local government	Opinion issued
Shire of Beverley	07/05/2021
Shire of Boddington	Audit in progress
Shire of Boyup Brook	Audit in progress
Shire of Bridgetown-Greenbushes	07/12/2020
Shire of Brookton	22/02/2021
Shire of Broome	26/11/2020
Shire of Broomehill-Tambellup	24/03/2021
Shire of Bruce Rock	19/05/2021
Shire of Capel	27/11/2020
Shire of Carnarvon	18/05/2021
Shire of Carnamah	29/03/2021
Shire of Chapman Valley	29/01/2021
Shire of Chittering	26/03/2021
Shire of Christmas Island	30/11/2020
Shire of Cocos (Keeling) Islands	26/11/2020
Shire of Coolgardie	10/12/2020
Shire of Coorow	17/02/2021
Shire of Corrigin	14/12/2020
Shire of Cranbrook	11/02/2021
Shire of Cuballing	24/02/2021
Shire of Cue	12/02/2021
Shire of Cunderdin	19/03/2021
Shire of Dalwallinu	15/12/2020
Shire of Dandaragan	13/11/2020
Shire of Dardanup	14/12/2020
Shire of Denmark	19/02/2021
Shire of Derby-West Kimberley	16/02/2021
Shire of Donnybrook-Balingup	11/12/2020
Shire of Dowerin	17/12/2020
Shire of Dumbleyung	16/12/2020
Shire of Dundas	26/02/2021
Shire of Exmouth	11/12/2020
Shire of Gnowangerup	09/12/2020
Shire of Goomalling (Qualified opinion. Refer page 10.)	27/04/2021
Shire of Halls Creek	16/12/2020
Shire of Harvey	03/12/2020
Shire of Irwin	04/02/2021
Shire of Jerramungup	11/12/2020

Local government	Opinion issued
Shire of Katanning	08/03/2021
Shire of Kellerberrin	16/12/2020
Shire of Kojonup	Audit in progress
Shire of Kondinin	14/12/2020
Shire of Koorda	17/12/2020
Shire of Kulin	30/03/2021
Shire of Lake Grace	17/12/2020
Shire of Laverton	Audit in progress
Shire of Leonora	17/02/2021
Shire of Manjimup	11/05/2021
Shire of Meekatharra	16/12/2020
Shire of Menzies	31/05/2021
Shire of Merredin	Audit in progress
Shire of Mingenew	11/12/2020
Shire of Moora	04/05/2021
Shire of Morawa	21/12/2020
Shire of Mount Magnet	07/04/2021
Shire of Mount Marshall	03/03/2021
Shire of Mukinbudin	18/12/2020
Shire of Mundaring	07/12/2020
Shire of Murchison	Audit in progress
Shire of Murray	19/02/2021
Shire of Nannup	18/03/2021
Shire of Narembeen	04/12/2020
Shire of Narrogin	Audit in progress
Shire of Northam	21/12/2020
Shire of Northampton	04/02/2021
Shire of Nungarin	11/03/2021
Shire of Peppermint Grove	Audit in progress
Shire of Perenjori	Audit in progress
Shire of Pingelly	16/12/2020
Shire of Ravensthorpe	11/03/2021
Shire of Sandstone	Audit in progress
Shire of Serpentine-Jarrahdale	22/12/2020
Shire of Shark Bay	19/02/2021
Shire of Tammin	23/12/2020
Shire of Three Springs	16/12/2020
Shire of Trayning	09/03/2021

Local government	Opinion issued
Shire of Upper Gascoyne	17/12/2020
Shire of Victoria Plains	25/02/2021
Shire of Wagin	19/02/2021
Shire of West Arthur	10/12/2020
Shire of Westonia	18/12/2020
Shire of Wickepin	16/12/2020
Shire of Williams	04/12/2020
Shire of Wiluna	Audit in progress
Shire of Woodanilling	20/04/2021
Shire of Wyalkatchem	01/04/2021
Shire of Yalgoo	Audit in progress
Shire of York	04/12/2020
South Metropolitan Regional Council	23/12/2020
Town of Bassendean	16/02/2021
Town of Cambridge	16/04/2021
Town of Claremont	08/03/2021
Town of Cottesloe	18/02/2021
Town of East Fremantle	22/12/2020
Town of Mosman Park	22/12/2020
Town of Port Hedland	16/03/2021
Town of Victoria Park	20/05/2021
Western Metropolitan Regional Council	14/12/2020

Source: OAG

Appendix 2: LG entities' certifications issued

In addition to annual auditor's reports, some entities needed to acquit moneys received from other sources under grant agreements or other legislation. We issued the following 132 certifications on statements of income and expenditure of entities, to help them discharge their financial reporting obligations, some being for Commonwealth grants.

Local government certifications	Certifications issued
Claims by administrative authorities – Pensioner deferments under the *Rates and Charges (Rebates and Deferments) Act 1992*	
City of Belmont	26/10/2020
City of Busselton	20/10/2020
City of Gosnells	26/11/2020
City of Joondalup	05/11/2020
City of Kalamunda	23/11/2020
City of South Perth	09/11/2020
City of Vincent	30/10/2020
Shire of Brookton	28/05/2021
Shire of Dandaragan	05/11/2020
Shire of York	16/12/2020
Town of Cambridge	06/05/2021
Town of Mosman Park	05/11/2020

Source: OAG

Local government certifications	Certifications issued
Roads to Recovery Funding under the *National Land Transport Act 2014*	
City of Albany	21/10/2020
City of Armadale	28/10/2020
City of Bayswater	30/10/2020
City of Belmont	28/10/2020
City of Bunbury	21/10/2020
City of Busselton	29/10/2020
City of Canning	30/10/2020
City of Cockburn	30/10/2020
City of Fremantle	27/10/2020
City of Gosnells	13/10/2020
City of Greater Geraldton	30/10/2020
City of Joondalup	27/10/2020
City of Kalamunda	21/10/2020
City of Kalgoorlie-Boulder	01/04/2021
City of Karratha	30/10/2020
City of Kwinana	30/10/2020

Local government certifications	Certifications issued
Roads to Recovery Funding under the *National Land Transport Act 2014*	
City of Melville	02/11/2020
City of Nedlands	30/10/2020
City of Rockingham	30/10/2020
City of South Perth	27/10/2020
City of Subiaco	09/11/2020
City of Swan	30/10/2020
City of Vincent	28/10/2020
City of Wanneroo	29/10/2020
Shire of Augusta-Margaret River	23/10/2020
Shire of Beverley	27/10/2020
Shire of Boyup Brook	10/11/2020
Shire of Bridgetown-Greenbushes	28/10/2020
Shire of Brookton	30/10/2020
Shire of Broome	27/10/2020
Shire of Bruce Rock	28/10/2020
Shire of Capel	23/10/2020
Shire of Carnamah	27/10/2020
Shire of Carnarvon	15/12/2020
Shire of Chapman Valley	21/10/2020
Shire of Chittering	17/12/2020
Shire of Christmas Island	09/10/2020
Shire of Cocos (Keeling) Islands	31/03/2021
Shire of Coorow	06/10/2020
Shire of Corrigin	19/10/2020
Shire of Cuballing	21/10/2020
Shire of Cue	29/10/2020
Shire of Cunderdin	26/02/2021
Shire of Dalwallinu	26/10/2020
Shire of Dandaragan	30/10/2020
Shire of Dardanup	20/10/2020
Shire of Denmark	08/02/2021
Shire of Derby-West Kimberley	23/02/2021
Shire of Donnybrook-Balingup	26/10/2020
Shire of Dowerin	29/10/2020
Shire of Dumbleyung	28/10/2020
Shire of Dundas	29/10/2020
Shire of Exmouth	21/10/2020

Local government certifications	Certifications issued
Roads to Recovery Funding under the *National Land Transport Act 2014*	
Shire of Gnowangerup	20/10/2020
Shire of Goomalling	22/03/2021
Shire of Halls Creek	10/02/2021
Shire of Harvey	28/10/2020
Shire of Irwin	22/10/2020
Shire of Katanning	12/02/2021
Shire of Kellerberrin	22/10/2020
Shire of Kojonup	27/10/2020
Shire of Kondinin	29/10/2020
Shire of Koorda	26/10/2020
Shire of Kulin	29/10/2020
Shire of Lake Grace	30/10/2020
Shire of Laverton	21/10/2020
Shire of Leonora	28/10/2020
Shire of Manjimup	26/10/2020
Shire of Meekatharra	27/10/2020
Shire of Menzies	27/04/2021
Shire of Merredin	18/12/2020
Shire of Mingenew	29/10/2020
Shire of Moora	24/11/2020
Shire of Morawa	29/10/2020
Shire of Mount Magnet	26/10/2020
Shire of Mount Marshall	10/10/2020
Shire of Mukinbudin	24/11/2020
Shire of Mundaring	26/10/2020
Shire of Murray	02/11/2020
Shire of Nannup	12/02/2021
Shire of Narembeen	16/10/2020
Shire of Northam	08/12/2020
Shire of Northampton	28/10/2020
Shire of Nungarin	30/10/2020
Shire of Peppermint Grove	28/10/2020
Shire of Perenjori	28/10/2020
Shire of Pingelly	28/10/2020
Shire of Ravensthorpe	10/11/2020
Shire of Sandstone	18/03/2021
Shire of Serpentine-Jarrahdale	10/11/2020

Local government certifications	Certifications issued
Roads to Recovery Funding under the *National Land Transport Act 2014*	
Shire of Shark Bay	11/11/2020
Shire of Tammin	09/11/2020
Shire of Three Springs	22/10/2020
Shire of Trayning	21/10/2020
Shire of Victoria Plains	29/10/2020
Shire of Wagin	28/10/2020
Shire of West Arthur	27/10/2020
Shire of Westonia	22/10/2020
Shire of Wickepin	27/10/2020
Shire of Williams	20/10/2020
Shire of Wiluna	20/10/2020
Shire of Wyalkatchem	29/10/2020
Shire of Yalgoo	28/10/2020
Shire of York	26/10/2020
Town of Bassendean	29/10/2020
Town of Cambridge	10/12/2020
Town of Claremont	15/12/2020
Town of Cottesloe	27/10/2020
Town of East Fremantle	28/10/2020
Town of Mosman Park	29/10/2020
Town of Port Hedland	30/10/2020
Town of Victoria Park	10/11/2020

Source: OAG

Local government certifications	Certifications issued
Other certifications	
City of Bunbury – UATToilet Facility to Des Ugles Park Public Toilet Facility	10/11/2020
City of Bunbury – Koombana Bay Community / Southern Ports Recreational Fishing and Crabbing Platform	10/11/2020
City of Joondalup – Community Sport Infrastructure Grant Program – Whitfords Nodes Park Health and Wellbeing Hub	30/03/2021
City of Kalamunda – Development Contribution Area 1 – Forrestfield Light Industrial Area	08/12/2020
Shire of Dandaragan – Bushfire Risk Management Plan	08/07/2020
Shire of Dandaragan – Jurien Bay Civic Centre Outgoings for Department of Biodiversity, Conservation and Attractions Tenancy	04/11/2020
Shire of Dandaragan – Regional Airports Development Scheme	16/07/2020
Town of East Fremantle – Better Bins kerbside Collection Program	16/02/2021

Source: OAG

Appendix 3: Position paper on local government financial management regulation changes

We issued this to all LG entities on 6 November 2020 following gazettal of regulatory changes

Local government financial management regulation changes

Western Australian local government position paper 2

6 November 2020

Office of the Auditor General
Serving the Public Interest

This position paper provides guidance on the application of the changes by the Department of Local Government, Sport and Cultural Industries (DLGSC) to the Local Government (Financial Management) Regulations 1996 (FM regulations).

The intention of the regulatory change is to reduce cost and reporting burden on local government entities (LG entities) by simplifying and removing requirements for revaluation of certain asset classes, and to address recent changes in accounting standards for leases, particularly right of use (ROU) assets. At this time, temporary relief is provided by the Australian Accounting Standards Board so a choice must be made as to the sector-wide approach for 2019-20.

Summary of changes

The changes to the FM regulations are:

- To simplify reporting and to reduce the cost burden of valuations, for local government owned assets:
  - Plant and equipment - the requirement to revalue plant and equipment type assets has been removed from the FM regulations – this asset category must be carried at depreciated cost.
  - Land, buildings, infrastructure and investment property must be carried at fair value, now revalued on a 5-year cycle (rather than 3-yearly), unless fair value is materially different from the carrying amount.
- To comply with the new requirements under Accounting Standard AASB 16 *Leases*, ROU assets (controlled but not owned by the LG entities) are:
  - Commercial leases (e.g. offices, vehicles, machinery, ICT equipment) – to be brought onto balance sheet by recognising the ROU asset and corresponding liability. The change to Regulation 17A would require these to be at cost rather than to be continuously revalued.
  - Concessionary leases ('peppercorn leases'), such as vested crown land and other land, such as land under roads, which is not owned by the LG entity, but which is under its control or management – concessionary lease ROU asset to be reported at zero cost.
    - Improvements on concessionary land leases such as roads, buildings or other infrastructure are to be reported at fair value, as opposed to the land underneath them, which will be at zero cost. This is a departure from AASB 16 which would have required the entity to measure any vested improvements at zero cost. LG entity feedback to DLGSC is that it is important to retain fair value for vested improvements on vested land.
    - Initial application in the 2019-20 year avoids restatement of comparative information.
    - Regulation 16 has been removed as it is redundant.

Application of main proposed changes

Plant and equipment

The proposed change to Regulation 17A requires plant and equipment type assets to be measured under the cost model, rather than at fair value. LG entities should transition to the cost model from the beginning of the current 2019-20 year. If a LG entity has already carried out a valuation exercise during the 2019-20 year and would like to book the valuation it can do so. However, the proposed regulation requires LG entities to refrain from obtaining valuations on plant and equipment in future years and instead continue with depreciated cost.

Changes to accounting standard for leases

The other main change to Regulation 17A results from recent changes to the accounting standard for leases - AASB 16. The new standard requires all leases (other than short term leases, low value leases and concessionary leases at zero cost) to be included by lessees in the balance sheet – that is, to recognise the ROU asset, and the corresponding liability. This change has been broadcast for some time, and may show a significant balance sheet impact for some entities.

The changes by DLGSC to Regulation 17A specifically require all ROU assets (other than vested improvements which are to be measured at fair value) to be measured at cost. This means all ROU assets under zero cost concessionary land leases are to be measured at zero cost (i.e. not included in the balance sheet), as opposed to fair value.

Regulation 16 had not permitted the inclusion of land under roads or land not owned by the LG entity but otherwise under its control or management, unless it was land under golf courses, showgrounds, racecourses or any other sporting or recreational facility of State, or of regional, significance. These proposed regulation changes will mean all vested land will be treated the same.

Some practical implications for LG entities

The removal of the Regulation 17A requirement to fair value *all* assets eliminates the previous departure from Australian Accounting Standards (i.e. the non-inclusion of vested land under roads at fair value), because the non-inclusion of vested land under roads as per Regulation 16 is consistent with AASB 16 measurement of concessionary lease ROU assets at zero cost.

Also, AASB 16 measurement of concessionary lease ROU assets at zero cost is consistent with the inclusion of vested land under golf course, etc. as per Regulation 16 at zero cost. Therefore AASB 16 measurement of concessionary lease ROU assets at zero cost is consistent with both inclusion (at zero cost) and non-inclusion of vested land. Therefore, Regulation 16 is now redundant and has been deleted.

LG entities need to account for the removal of the vested land values, such as those associated with golf courses, etc., by removing the land value and associated revaluation reserve at 1 July 2019. The previous year amounts will be retained as the modified retrospective approach of transition to AASB 16 does not require comparatives to be restated in the year of transition. The changes should be appropriately disclosed in the notes to the financial statements.

If subsequent to being granted the vested land by the State Government, the LG entity has constructed improvements (e.g. a building or a road) on the vested land, the LG entity will continue to recognise the improvements at fair value in its financial statements. This is also the case for the scenario in which the State Government vested land together with pre-existing improvements (e.g. a building or a road) to the LG entity. In this case the LG entity should measure the concessionary lease ROU asset of the vested land at zero cost, but the vested improvements at fair value.

Office of the Auditor General WA

Source: OAG

Appendix 4: COVID-19 Financial control matters

We issued this to all public sector entities on 6 April 2020

COVID-19
Financial control matters

Office of the Auditor General
Serving the Public Interest

We recognise that State and local government entities are spending significant time and effort dealing with the operational ramifications of the COVID-19 public health response. We have prepared consideration points to prevent key control breakdown during this period.

It is vitally important that entities are aware that times of disruption present a heightened risk environment. Those who are dishonestly inclined will be keen to take advantage of any sense of crisis. Good control over finances and key decisions during this period means that entities and senior decision-makers will be better prepared to resume normal operations when the crisis is over. It also means they won't be left dealing with the ramifications of fraud, error or decisions taken in haste that may be regretted when conditions are calmer. Importantly, public trust will be upheld.

Management should ensure staff maintain good controls, particularly over cash, expenditure and assets. Good controls are also important for any regulatory or non-financial decisions that bind the entity, or the State, into the future, such as for approvals, concessions, operating permits, or conditions.

Some contextual considerations for entities

- Consider if there is an exaggerated sense of urgency that may persuade or permit staff to override important controls.
- Recognise that existing gaps in controls, which in normal times may not be exploited, can become gaping holes when staff are not overseen as closely when working from home or key people are distracted by other matters.
- Have you explicitly promoted a culture encouraging staff to speak if they see something that poses a risk during this period? If staff or stakeholders see something, they should say something, are they aware of fraud control reporting, including public interest disclosures.
- Are credentials (for example, qualifications, working with children checks and police checks) and references still checked before on-boarding new personnel?
- Are delegations and authorisations valid, and changes to delegations approved (for example, if there are senior management absences due to illness or secondments)?
- Are licenses and/or permits lawfully issued/approved, and with due probity? A sense of urgency or chaos may override due process as well as bring opportunistic requests. Be cautious, weigh risks and benefits with probity to prevent conflicts of interest and good record keeping.
- Are debt waiver/acts of grace authorised in accordance with law?
- Are purchasing/corporate credit cards issued in line with policy? [See our better practice guidance on *Purchasing cards* (for State government) and our May 2018 report *Controls over Corporate Credit Cards* (for local government).]
- Are senior management continuing to monitor and scrutinise spending against the budget, with genuine understanding of the reasons for variances? And monitoring cash flow and balances?
- Is there timely cancellation of automatic/periodical payments for services that are no longer being provided?
- Are working from home conditions clearly defined and approved? [See our better practice guidance on *Security considerations for remote working arrangements*]

Office of the Auditor General WA

Source: OAG

Assets – *Risk of misappropriation, unauthorised purchases or disposals*

Entities should ensure:

- all purchases are in line with their procurement policy and any temporary divergence from the policy is approved by the DG or CEO and recorded in a central registry
- asset acquisitions are approved in line with the delegation of authority
- asset reconciliations between the register and the general ledger are prepared and reviewed on a timely basis
- asset disposals/write-offs are appropriately authorised
- loans of assets to other entities are properly recorded and authorised
- where necessary, key responsibilities continue to be segregated in relation to asset acquisition, recording, custody, disposal and reconciliation
- appropriate records of portable and attractive assets are maintained, particularly those that staff may take home to use when working from home.

Cash – *Risk of misappropriation*

Entities should ensure:

- regular bank reconciliations are prepared and reviewed, reconciling items are investigated and resolved
- all bank accounts have at least 2 signatories
- online purchasing policies are reviewed to reflect the current period
- increases in purchasing card limits are appropriately approved
- there are appropriate and timely reviews of credit card usage.

Expenditure – *Risk of unauthorised or invalid payments, incorrect or invalid suppliers, and increased risk of fraudulent payments*

Entities should ensure:

- all purchases are in line with their procurement policy and any temporary divergence from the policy is approved by the DG or CEO and recorded in a central registry
- changes to vendor master files are documented and approved (see our better practice guidance on *Management of supplier master files*)
- there is separation between the vendor creation and payment approval functions
- a 3-way match is performed of invoices, receipt of goods and purchase orders
- payment authorisation is made in line with the delegation of authority and requires 2 to sign. Signatories should pay particular attention to the delivery addresses of goods received
- purchase orders are prepared and appropriately authorised
- appropriate security and checks are in place over EFT payment data
- there is segregation of duties between officers performing the functions of ordering, receiving, incurring and certifying (for State government entities, in line with *Treasurer's Instruction 304*)

Queries

If you have any queries please contact your OAG financial audit engagement leader or our general enquiries via info@audit.wa.gov.au or phone (08) 6557 7500. For information on making a *Public Interest Disclosure* (PID), phone (08) 6557 7500 and ask to speak to a PID officer.

Office of the Auditor General WA

Source: OAG

Appendix 5: Security considerations for remote working arrangements

This was included in our *Information Systems Audit Report 2020 – State Government Entities* report tabled in Parliament on 6 April 2020

Security considerations for remote working arrangements

From report 18: 2019/20 – Information Systems Audit Report 2020 – State Government Entities

Office of the Auditor General
Serving the Public Interest

In response to the spread of the Coronavirus (COVID-19), entities in all sectors across Australia are encouraging staff to work remotely from home. Rapid transition to these arrangements can introduce risks and challenges for entities who may not have previously implemented large-scale remote working arrangements. It is important that entities manage and address these risks, as well as staff security behaviour, to prevent people from exploiting the current situation to compromise systems and information.

The following table outlines some guiding principles entities should consider when rolling out remote working technology and procedures. This is not intended to be an exhaustive list. Entities can obtain further guidance from the Australian Cyber Security Centre[1] and the Office of Digital Government has recently issued some considerations for remote work.

Principle	Our expectation
Prioritise and simplify	Each entity needs to assess their unique risks associated with remote working arrangements and address critical risks as a priority. These risks will be different for each entity depending on the functions staff perform remotely and the types of information being accessed. Entities should ensure that procedures and technology for remote working are simple and easy to follow. Complex processes can introduce vulnerabilities that could result in undesired outcomes.
Engage with staff	Increase staff awareness by clearly communicating expectations including policies and any occupational health and safety requirements. The business continuity plan may come into effect and it is also important that staff understand how the plan impacts their day to day working procedures. Staff should have easy access to a forum or group where they can seek answers to their queries related to working from home and security.
Remote access technology	The technology used for remote access needs to be secure. The security controls that entities select will depend on the method of remote access, such as: • virtual private network (VPN) • web applications • remote desktop access Remote access servers should enforce technical controls in line with security policies.
Security of network	The majority of the remote workers will use internet to access entity resources. Entities should implement appropriate policies to secure remote access originating from untrusted networks. VPN is one of the better methods of securing remote access because it uses encryption to protect the confidentiality and integrity of communication over the network.

[1] https://www.cyber.gov.au/news/cyber-security-essential-when-preparing-covid-19

Office of the Auditor General WA

Source: OAG

Principle	Our expectation
Physical security	Remote working locations may not be as secure as office environments. Entities need to understand the risks associated with this and define and implement appropriate controls to protect information. For example, implementing encryption on portable devices is a simple method to improve security. Entities also need to ensure the security of sensitive hard copy documents is maintained.
Multi-factor authentication	Remote access into entity systems and networks must be secured by strong authentication controls. Entities should implement multi-factor authentication for all remote access.
Bring your own device (BYOD) policies	A risk based policy should define the requirements for personal devices if they are allowed to access entity resources. Personal devices are generally not as secure as those provided by entities and attackers could exploit this weakness as more people work from home. Considerations should be given to: • encryption • access levels • segregated network zone for personal devices • security patch levels • malware controls.
Patch systems	All systems should be patched with latest updates. This applies to all the internet facing infrastructure and client applications.
Stay vigilant	Stay alert and educate staff on the risks especially phishing emails and text messages themed around COVID-19.

Source: OAG based on Australian Cyber Security Centre guidance

Office of the Auditor General WA

Source: OAG

Appendix 6: Better practice guidance

We continue to develop better practice guidance to help the Western Australian public sector perform efficiently and effectively. This includes:

- practical guidance in the application of standards
- case studies
- checklists to assess existing frameworks and processes
- information to help entities to better understand how to comply with legislation and standards.

Topic	Report	Date
Public sector financial statements	*Western Australian Public Sector Financial Statements – Better Practice Guide*	14 June 2021
Grants administration	*Grants Administration*	28 January 2021
Western Australian Public Sector Audit Committees	*Western Australian Public Sector Audit Committees – Better Practice Guide*	25 June 2020
Managing technical vulnerabilities	*Information Systems Audit Report 2020 – Local Government Entities*	25 June 2020
Contract management – extensions and variations	*Local Government Contract Extensions and Variations*	4 May 2020
Controls for the management of monies held for specific purposes	*Control of Monies Held for Specific Purposes*	30 April 2020
COVID-19 financial and governance matters	*Stand alone guidance*	6 April 2020
Security considerations for remote working arrangements	*Information Systems Audit Report 2020 – State Government Entities*	6 April 2020
Purchasing cards	*Controls over Purchasing Cards*	25 March 2020
Effective fee-setting	*Fee-setting by the Department of Primary Industries and Regional Development and Western Australian Police Force*	4 December 2019
Fraud prevention	*Fraud Prevention in Local Government*	15 August 2019
Regulating building approvals	*Local Government Building Approvals*	26 June 2019
Project management	*PathWest Laboratory Information System Replacement Project*	19 June 2019
Verifying employee identity and credentials principles	*Verifying Employee Identity and Credentials*	19 June 2019
Engaging consultants for strategic advice	*Engaging Consultants to Provide Strategic Advice*	5 June 2019
Cloud application (software as service agreement)	*Information Systems Audit Report 2019*	15 May 2019
Records management	*Records Management in Local Government*	9 April 2019

Topic	Report	Date
Management of supplier master files	*Management of Supplier Master Files*	7 March 2019
Procurement	*Local Government Procurement*	11 October 2018
Online services	*Delivering Services Online*	25 May 2016
Contract management	*Health Department's Procurement and Management of its Centralised Computing Services Contract*	17 February 2016

Source: OAG

Glossary and acronyms

AASB	Australian Accounting Standards Board
Amendment Act	*Local Government Amendment (Auditing) Act 2017*
Auditor's report	The Auditor General's auditor's report that is published in the local government's annual report by the CEO, in accordance with section 5.55A of the LG Act. This includes the audit opinion. It may also include any instances of material non-compliance that we identified.
Audit report	The overall report under section 7.12AD of the LG Act, formally issued to the Mayor, President or Chairperson, the CEO and the Minister for Local Government on completion of the audit, including the Auditor's Report and the management letter(s).
CEO	Chief Executive Officer
Clear opinion (or unqualified opinion)	Auditor General's opinion expressed when an annual financial audit concludes that in all material respects the financial report is presented fairly in accordance with the LG Act and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.
Contract audit	Audit of a local government undertaken by an appropriately qualified individual or firm, on behalf of the Auditor General, appointed under a contract.
DLGSC	Department of Local Government, Sport and Cultural Industries
Emphasis of Matter	A paragraph included in an auditor's report that refers to a matter that is appropriately presented or disclosed in the financial report but which, in the auditor's judgment, is of such importance that it should be emphasised in the auditor's report.
Entity/entities	Western Australian local government cities, towns, shires and regional councils
Financial audit	Work performed to enable an opinion to be expressed regarding a financial report prepared by the party who is accountable for the financial transactions.
LG Act	*Local Government Act 1995*
LG Audit Regulations	Local Government (Audit) Regulations 1996
FM Regulations	Local Government (Financial Management) Regulations 1996
Management letter	A letter to management of a local government that conveys significant audit findings and results of the audit. On completion of the audit, the management letter forms part of the audit report sent to the CEO, to the Mayor, President or Chairperson, and to the Minister for Local Government.
OAG	Office of the Auditor General
Qualified opinion	Auditor General's opinion expressed when an audit identifies aspects of the annual financial report that are likely to be misleading to users, there was material conflict with applicable financial reporting frameworks or a limitation of scope on audit work.

Auditor General's 2020-21 reports

Number	Title	Date tabled
29	Information Systems Audit Report 2021 – State Government Entities	16 June 2021
28	Western Australian Public Sector Financial Statements – Better Practice Guide	14 June 2021
27	Opinion on Ministerial Notification – Port Agreements	11 June 2021
26	Audit Results Report – 2020 Financial Audits of Universities and TAFEs	2 June 2021
25	Delivering Essential Services to Remote Aboriginal Communities – Follow-up	2 June 2021
24	Opinion on Ministerial Notification – DPIRD Capability Review	18 May 2021
23	Local Government General Computer Controls	12 May 2021
22	Opinion on Ministerial Notification – Hospital Facilities Services	6 May 2021
21	Regulation and Support of the Local Government Sector	30 April 2021
20	Opinions on Ministerial Notifications – Policing Information	28 April 2021
19	Opinion on Ministerial Notification – Bennett Brook Disability Justice Centre	8 April 2021
18	Regulation of Consumer Food Safety by the Department of Health	1 April 2021
17	Department of Communities' Administration of Family and Domestic Violence Support Services	11 March 2021
16	Application Controls Audits 2021	8 March 2021
15	Opinions on Ministerial Notifications – Tax and Funding Information Relating to Racing and Wagering Western Australia	26 February 2021
14	Opinion on Ministerial Notification – Hotel Perth Campaign Reports	24 February 2021
13	Opinion on Ministerial Notification – Release of Schedule of Stumpage Rates	24 February 2021
12	Grants Administration	28 January 2021
11	COVID-19 Relief Fund	21 December 2020

Number	Title	Date tabled
10	COVID-19: Status of WA Public Testing Systems	9 December 2020
9	Western Australian Registry System – Application Controls Audit	26 November 2020
8	Regulating Minor Pollutants	26 November 2020
7	Audit Results Report – Annual 2019-20 Financial Audits of State Government Entities	11 November 2020
6	Transparency Report: Major Projects	29 October 2020
5	Transparency Report: Current Status of WA Health's COVID-19 Response Preparedness	24 September 2020
4	Managing the Impact of Plant and Animal Pests: Follow-up	31 August 2020
3	Waste Management – Service Delivery	20 August 2020
2	Opinion on Ministerial Notification – Agriculture Digital Connectivity Report	30 July 2020
1	Working with Children Checks – Managing Compliance	15 July 2020

(Appendix AAR: 8.4D)

Western Australian
Auditor General's Report

Staff Exit Controls

Office of the Auditor General
Western Australia

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Jason Beeley
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(to assist people with hearing and voice impairment)

We can deliver this report in an alternative format for those with visual impairment.

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The Office of the Auditor General acknowledges the traditional custodians throughout Western Australia and their continuing connection to the land, waters and community. We pay our respects to all members of the Aboriginal communities and their cultures, and to Elders both past and present.

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

Staff Exit Controls

Report 3: 2021-22
August 2021

THE PRESIDENT
LEGISLATIVE COUNCIL

THE SPEAKER
LEGISLATIVE ASSEMBLY

STAFF EXIT CONTROLS

This report has been prepared for submission to Parliament under the provisions of section 25 of the *Auditor General Act 2006*.

Performance audits are an integral part of my Office's overall program of audit and assurance for Parliament. They seek to provide Parliament and the people of WA with assessments of the effectiveness and efficiency of public sector programs and activities, and identify opportunities for improved performance.

This audit assessed if the Department of Planning, Lands and Heritage; the Department of Finance and the Department of Local Government, Sport and Cultural Industries effectively and efficiently manage the exit of staff to minimise security, asset and financial risks.

I wish to acknowledge the entities' staff for their cooperation with this audit.

CAROLINE SPENCER
AUDITOR GENERAL
5 August 2021

Contents

Auditor General's overview

Entities need to have controls in place to make sure that when a member of staff leaves their job their access to buildings and information systems is cancelled and all assets that have been issued to them are returned. If these controls are absent or ineffective, entities increase the risk of unauthorised access to buildings and information, and the risk of losing sensitive information and public assets and money.

My financial and information systems audits in previous years have raised concerns over former employees having systems access after they leave an entity, and the failure to complete staff exit checklists. This report, based on a more in-depth review of 3 state entities, confirms those findings and identifies issues around asset return and physical access. It again highlights how critical effective exit controls are.

Having effective controls is not, however, straightforward. One of the reasons that entities can struggle with staff exit controls is that they are a shared responsibility across areas of entity operations that may not always work closely together. The controls also need to operate across multiple systems that may not be linked. To deliver prompt action there needs to be a shared understanding of the risks, and good coordination between the different divisions within the entity.

The risks and challenges identified in my report are not confined to the 3 entities we audited. I urge all state and local government entities to look at the findings and recommendations from this report, and draw on the better practice guidance provided in Appendix 1, to ensure that they have effective staff exit controls in place.

Introduction

This audit assessed if the Department of Planning, Lands and Heritage; the Department of Finance and the Department of Local Government, Sport and Cultural Industries effectively and efficiently manage the exit of staff to minimise security, asset and financial risks.

Our 2015 audit on *Controls Over Employee Termination* found that entities were not following their approved staff exit requirements. More recent financial and information systems audits from this office have also highlighted similar issues. This audit builds on this work.

Background

In December 2020, there were over 148,500 people employed in the Western Australian State sector to deliver a diverse range of government services and programs. Public sector employees (including contractors and consultants) generally have access to confidential information and use a range of public resources to carry out their daily duties. These include credit cards, cars, computers, mobile phones, laptops and tablets.

At the 3 audited entities, 957 people including third party contractors ceased their employment in the 18 month period to December 2020 (Table 1).

Entity	Employees	Contractors	Total exits	Selected sample
Department of Finance (DoF)	180	50	230	26
Department of Local Government, Sport and Cultural Industries (DLGSC)	429	36	465	30
Department of Planning, Lands and Heritage (DPLH)	148	114	262	27
Total	**757**	**200**	**957**	**83**

Source: OAG using audited entity information

Table 1: Number of staff exits at the audited entities

When staff leave an entity through dismissal, resignation, retirement, end of contract or permanent transfer to another public sector entity, entities should:

- immediately cancel access to information systems, premises and confidential information
- revoke all physical controls such as ID cards, security access passes (fobs or cards) and keys
- collect all entity owned property
- issue a reminder of the individual's ongoing obligations not to disclose entity information
- offer exit interviews.

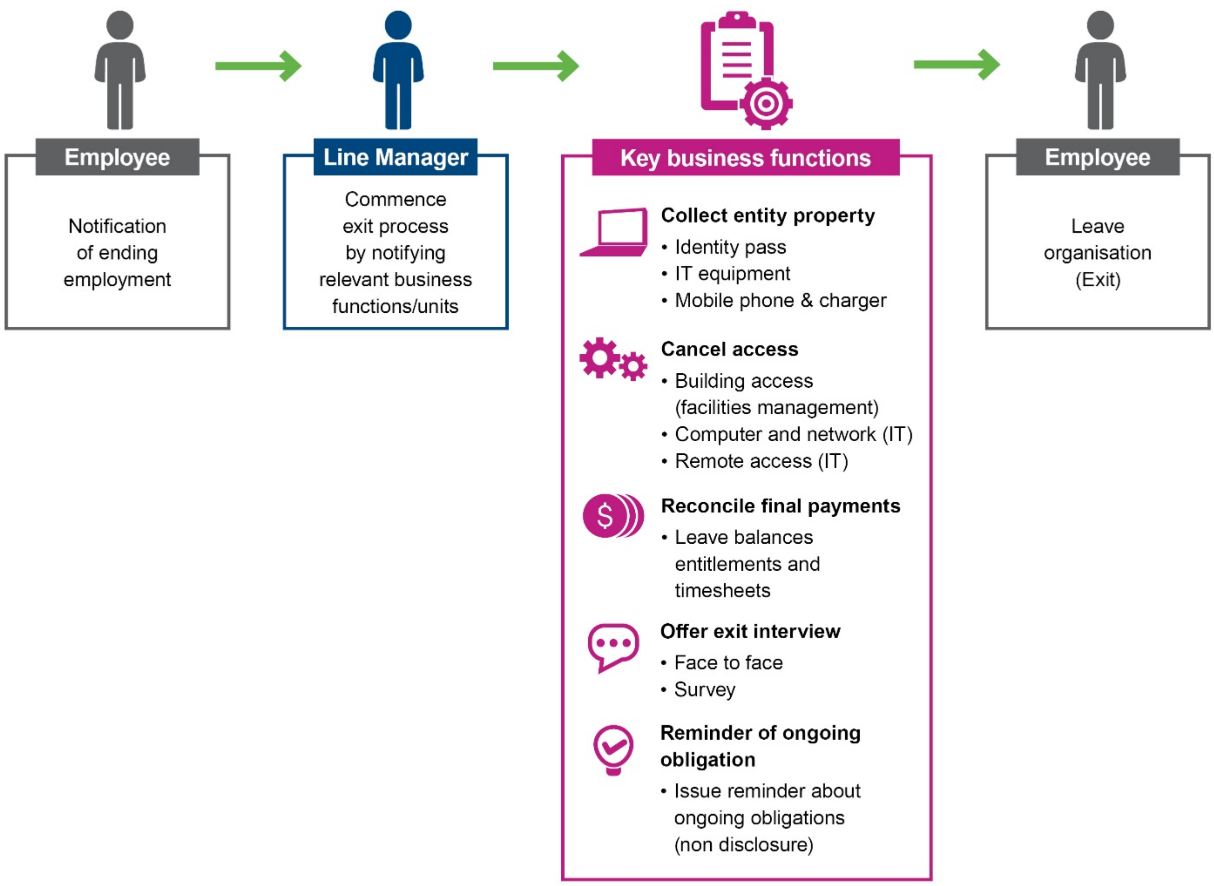
Entities should also assess the relative security implications and other risks posed by staff members who leave voluntarily or are terminated for misconduct or other adverse reasons (Appendix 1: Staff exit better practice guidance).

The Commonwealth Government established the *Protective Security Policy Framework* to assist Commonwealth entities to protect people, information and assets. It underpins the Commonwealth Government's security policy and aims to ensure the secure delivery of government business. The framework is not mandatory for state and territory government entities, but is considered better practice. It supports entities to implement policies across security governance and its principles reflect key aspects of minimising security risks that can come with staff exits:

- information security – maintaining the confidentiality, integrity and availability of all official information
- physical security – providing a safe and secure physical environment for people, information and assets
- personnel security – ensuring continued protection of resources after staff leave the entity.

The *Digital Security Policy* issued by the WA Office of Digital Government provides a checklist of controls that entities should apply. It includes making clear the enduring requirement on staff to maintain the security of information after they leave employment with a government entity, and that entities should ensure that all IT assets are returned when the person's employment ends.

At our sampled entities the staff exit process is a shared responsibility across multiple business areas and positions (Figure 1). Consequently, good staff exit processes require areas to work together to ensure responsibilities are actioned effectively and promptly. Failure to do this presents significant risks to the entity of a security breach, asset or financial loss.



Source: OAG using entity and Australian Public Service Commission information

Figure 1: Staff exit process

Conclusion

To varying degrees, the entities were not effectively or efficiently managing the exit of staff to minimise security, asset and financial risks. Although the Department of Finance managed its staff exits better than the other 2 entities, none of the 3 entities consistently met all the key criteria of an effective and efficient staff exit management process.

Physical and information security risks were not minimised because access to entity premises was not consistently cancelled immediately, or in some cases at all, when staff left. The cancellation of IT access at all 3 entities was also not timely.

Entities were not effectively or efficiently managing asset returns or recovery of salary overpayments. Two entities could not demonstrate that all assets were returned or accounted for when staff left because they did not keep adequate records of what assets were provided and what was returned. Not all salary overpayments or debt owed by exiting staff were settled at the time of leaving and in some cases, entities had no arrangements to recover the money. Across the 3 entities, 20 staff that had left still owed around $53,500.

The exit controls at the entities were not risk based to take account of high integrity positions and the circumstances in which staff leave. At all entities there were missed opportunities for identifying areas of improvement because they were not consistently offering or conducting exit interviews. Exit interviews or surveys can help entities assess organisational strengths and vulnerabilities with the aim to improve staff attraction, retention and performance.

Findings

Access to work premises and IT systems were not cancelled immediately when staff left

At all 3 entities access to premises and IT systems were not cancelled within 24 hours of staff leaving or, in some cases, at all. This means that government entities that are entrusted with significant resources and highly sensitive and confidential information, are not minimising the risk of:

- information and physical assets being made inoperable, lost or used without appropriate authorisation
- damage to the building
- compromised personal security.

Two of the entities could not demonstrate that all security access passes were returned or deactivated immediately or, in some cases, at all

We tested a sample of 57 people that had left the DPLH and DLGSC. The entities lacked adequate information to show that access passes had been returned or deactivated when 41 out of 57 (72%) staff left.

For 19 out of our sample of 27 people (70%) who left DPLH there was insufficient evidence to confirm that access passes were returned or disabled. The entity advised us that they had not previously tracked when passes were reallocated, deactivated or cancelled but a new process had been implemented in May 2021 in response to our audit.

At DLGSC, similar issues were evident. For 22 out of 30 (73%) people, there was insufficient evidence to verify that access passes were returned or disabled when staff left.

We were advised by staff at both entities that there was a disincentive to cancel or deactivate passes because they incurred a $12 fee for any changes to the status of passes from the private operator that managed the building.

At DoF all access passes were cancelled or deactivated after staff left the entity. However, for 5 out of 26 (19%) the cancellation of passes was not timely. For 4 people it took between 6 and 44 days. In another case it took 116 days to cancel the card after the person had left. The entity advised that this case related to a secondment arrangement where the former employee continued undertaking work on behalf of the entity following the end of their secondment.

Failure to reclaim, deactivate or cancel security passes when staff leave increases security risk to assets, information and people through unauthorised physical access.

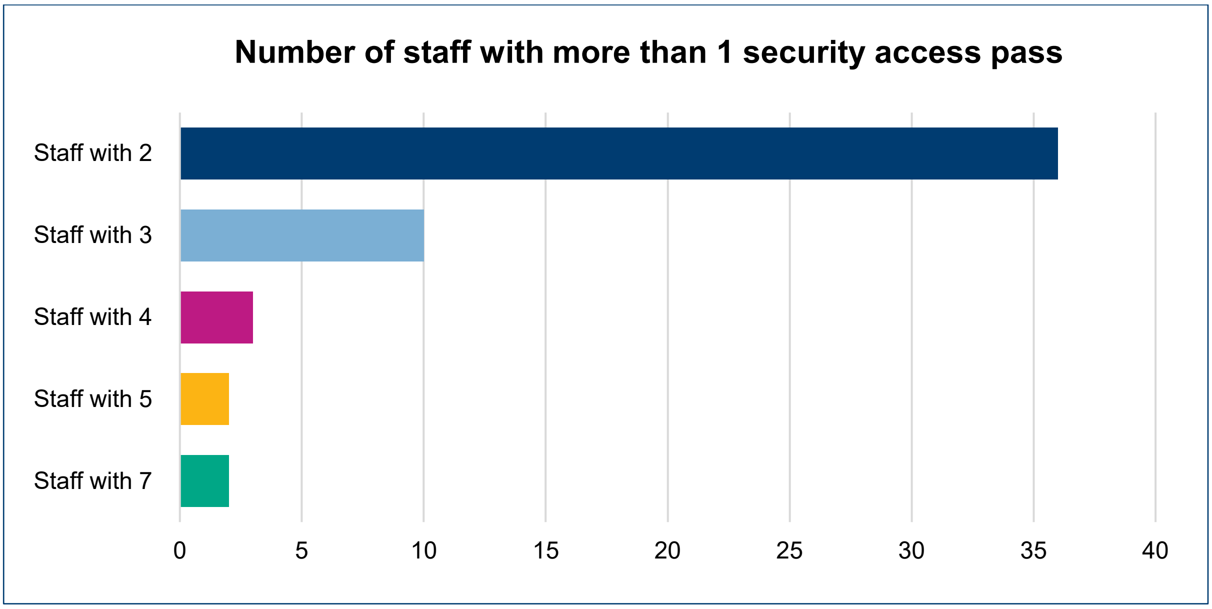
DLGSC and DPLH could not account for all active security passes with 24/7 access to key floors

Our review of records of all access passes issued by DLGSC at 1 of its premises showed that there were 320 unallocated but active security access passes with 24 hour access to all floors of the building. This contravened the entity's own access control procedures. On 4 June 2021, the entity advised that an audit of all security access passes had been completed and all unauthorised or unallocated passes had been deactivated.

The DPLH and its contracted building access control firm did an audit in 2019 and found 205 active passes where cardholders could not be identified. At the time of this audit we found that for 164 passes there was insufficient evidence to demonstrate that these had been deactivated or the cardholders identified. This increased the risk of these passes being used to access the premises without authorisation or knowledge of the entity.

DLGSC had current staff with multiple security passes even though it is prohibited under their policy

We found 17 staff still employed by the entity who each held between 3 and 7 active access passes to the same premises. An additional 36 people had 2 active passes each (Figure 2). Under the entity's *Key control guideline*, the keeping of spare keys and activated access passes is prohibited.



Source: OAG analysis using the DLGSC information

Figure 2: Number of current staff at DLGSC with more than 1 security access card

All entities cancelled exiting staff's IT system access, but not always immediately

Cancellation of exiting staff's IT system access at all 3 entities was not timely. It took between 2 and 161 days to deactivate or withdraw access to information systems after staff left the entity. This increases the risk of unauthorised access and can compromise the confidentiality, integrity and availability of the entities' information.

At DoF, it took between 6 and 161 days to cancel access to IT systems after the last day of employment. The entity advised that the case that took 161 days related to a secondment arrangement where the former employee continued undertaking work on behalf of the entity. Without that case it took the entity on average 7 days to cancel IT systems access. For 10 (38%) of the people in our sample, there was insufficient information to determine when their access was cancelled. DoF's security management framework notes that IT access for terminated staff is to be disabled on the last day of employment. In some cases, this may mean people continue to have access while clearing their remaining leave when they should have no need to access systems. This increases the risk of unauthorised access and weakens controls over inappropriate use. The entity advised that employees have genuine need to access systems such as HR self-service, email and other web systems while they remain formally employed.

DPLH confirmed that they did not routinely record specific dates when IT access is cancelled. Based on system log information where it was available, late cancellations ranged between 1 and 124 days after the individual had left. For 10 of our sample, there was no information to determine when access was cancelled.

At DLGSC there was insufficient information to determine when access to IT systems was cancelled for all 30 people in our sample. System logs showing the dates of when this occurred were not recorded. In the absence of this information, we checked whether any of the individuals had accessed the IT systems and found that 29 did not access the system after they left. One person had accessed the system 4 days after their exit date.

Concerns over ongoing systems access at the audited entities has been consistently raised in our financial and information systems audits for the last 6 years (2013-14 to 2019-2020).

None of the entities systematically remind all exiting staff of their obligation not to disclose information or access systems upon exit

At both DLGSC and DoF there was no evidence that 56 people in our sample had been reminded of their obligation not to disclose confidential information when they left.

At DPLH only 2 people out of 27 had been reminded of and acknowledged their obligation not to disclose confidential entity information or make any unauthorised disclosure after leaving. For the other 25 in our sample we found no evidence that this had occurred. The entity's policy requires employees not to disclose confidential entity information or make unauthorised disclosures after leaving.

All 3 entities have access to information that is not in the public domain and can be highly sensitive and confidential. The entities have obligations to manage how and when the information is released. Failure to remind exiting staff of their obligations not to disclose entity information increases the risk of its misuse.

Entities were not effectively managing asset returns or recovering salary overpayments prior to staff exit

Entities could not demonstrate that all assets were returned because they did not keep accurate records of what was provided to staff

None of the audited entities had a complete and easily accessible record of all assets, including ergonomic and IT equipment, provided to staff at the start and throughout their employment. Without sound information on assets that are issued to staff, entities cannot verify with certainty that all entity owned assets are returned when staff leave.

At DPLH, we could not verify whether all IT assets had been returned because there were insufficient records of what was issued to the 27 people in our sample:

- 15 staff had left with no evidence of laptop return or what was issued
- the entity advised that 6 people were not issued with IT equipment
- 6 had some information of laptop return.

The entity advised that the system overrides the history of ownership when the asset is re-issued and are confident that no assets had been taken from the entity when staff left.

Mobile phones were also inconsistently captured on the entity's asset management system or register of attractive assets. Without evidence of what mobile phones were issued, their return could not be verified. Only 2 of the 27 people in our sample at DPLH were known to have had a phone issued. Information provided at the time of the audit showed that only 1 had been returned.

At DLGSC records of only 6 exited staff in our sample of 30 had some evidence that laptops had been returned or re-issued. We were advised that historical information for the majority of laptops in our sample was not available. In the absence of this information or any other records we could not determine whether these were returned.

We note that at DPLH and DLGSC, accessories such as computer mouses, chargers and laptop bags are not captured increasing the risk that these are not returned when staff leave.

While employees are generally provided with computers and mobile phones for work, some positions are responsible for other valuable items. For example, at DLGSC camp managers have custody of items such as kayaks, canoes, electric bikes and portable radios. Entities should ensure that such items are adequately accounted for when staff leave. None of the individuals in our sample had such items.

DoF demonstrated that 19 of 26 staff in our selected sample returned their IT equipment. However, 7 did not have adequate documentation of asset return. The entity attributed this to previously having 2 different asset management processes. They advised that since February 2021, the administration of all hardware assets and mobile equipment was centralised within the Procurement and Asset team.

Lack of sound information increases the risk of asset loss. This may also increase the risk of sensitive information being compromised especially if access to systems is not terminated.

All entities identify overpayments to exiting staff but do not always implement strategies to recoup the payments in a timely manner

In some cases, staff may receive a salary overpayment, such as where salary is continued to be paid when staff are on leave but they have no leave entitlements. We found that in a number of cases the overpayments were not repaid before the person left the entity and that repayment plans were not always in place.

At 31 December 2020:

- At DoF 6 staff had left who had not fully repaid overpayments, leaving a total of $19,680 still owing. Two of the staff still owed a total of $3,735 but did not have a payment plan.
- At DPLH 13 staff had left with outstanding overpayments totalling $19,308. Six of them (accounting for $17,835) had repayment plans in place, but 7 ($1,473) did not. The DPLH's policy requires that any outstanding debt is settled before staff leave the entity.
- At DLGSC 3 staff who had received overpayments had left. Two had made full repayments but 1 person had $14,542 outstanding debt with no arrangements for repayment at the time the information was provided to us. The entity advised that they are in the process of undertaking a full audit and quality assurance check on the reported overpayment. Following this, DLGSC will commence the recoup and recovery of overpayment.

Causes of overpayments at all 3 entities included:

- late notification of termination
- incorrect higher duties allowance
- late notice of unpaid leave
- error on payment of leave entitlements.

All State government entities have an obligation under the *Financial Management Act 2006* to account for public money. Failure to collect all outstanding debt or make repayment arrangements before staff leave increases the risk of financial loss. Entities need to make payment arrangements whilst still complying with section 17D of the *Minimum Conditions of Employment Act 1993* that does not allow employers to withhold money from employees without their consent.

In a few cases procedures requiring a second person to check the accuracy of payments calculations to exiting staff were not followed

At DPLH records of human resources' calculations of final payments were available for the staff who had exited. However, for 5 in our sample of 27 they had not been checked by a second person. One was a fixed term contract employee and the other 4 were secondments. At DLGSC 3 cases in our sample of 30 were not reviewed by a second person. These were all before the entity established a formal quality assurance function in October 2019.

Failure to cross check calculations increases the risk of over or under payments due to calculation errors.

Controls for managing staff exits were not adjusted for risks posed by position and termination type

Entities do not evaluate risk posed by individual positions or the reason people leave

Although all 3 entities have procedures in place to manage staff exits, none assessed or evaluated risks posed by individual positions and the circumstance in which people left. Risk assessments can help entities identify security implications and use different approaches to adequately minimise risks to information and assets.

Not all positions and circumstances by which people leave an entity are the same. So, an entity's understanding of the risks and having sound processes is vital to allow for prompt adjustment of controls when needed. For example, controls may need to be adjusted to manage risks or security concerns for staff:

- whose employment or contract is terminated for adverse reasons
- who are subject to a code of conduct investigation, whether completed or not
- who have outstanding security issues, including any risks or issues identified through a risk assessment
- in positions of increased trust and access e.g. IT and senior positions.

Risks of information loss and other adverse impacts to the entity are increased when staff have access to sensitive or classified information or administrative rights to the entity's information systems.

Communication between business areas responsible for managing staff exits could be improved

At all entities, communication between the different functions, to verify that relevant tasks had been completed, could be improved to enhance timeliness and effectiveness of the staff exit process. Although managers are responsible for initiating the exit process, several business areas are involved and have different responsibilities for parts of the process. Consequently, clear and prompt communication is vital to ensure that risks are adequately mitigated. This is critical when, for instance, staff with access to privileged information are terminated for adverse reasons.

The relevant business functions included payroll, IT services/ help desk and facilities management.

The majority of exit checklists or forms used to ensure all staff exit requirements are met were not completed on time

Entities use an employee exit checklist or form as the main control to help relevant staff make sure that all steps are followed when an employee is terminated. However, none of the entities completed these promptly.

At DPLH, checklists for 20 out of 27 exited staff (74%) were completed after the individual had left the entity. On average it took 90 days after the person had left to finalise the checklist. In 1 instance it took 268 days for an exit form to be completed after the staff member had left. The DLPH's policy requires managers and employees to complete the forms and all the relevant responsibilities as soon as practicable.

Exit forms at DPLH were not completed for 4 contractors employed under a common use agreement (CUA). We were advised that the process of completing termination checklists for CUA contractors at the entity commenced in June 2020. This was evident for the 2 CUA contractors in our sample who had an exit form completed after that date.

At DLGSC we found no evidence that checklists had been completed for 21 of the 30 people (70%) in our sample. For 4 people we were advised that this was not necessary as 3 were still employed as casual and 1 was still working for the DLGSC but had moved roles. Nine (30%) people in our sample had completed checklists. Of these 2 had been completed late, 19 and 91 days after the termination date.

None of the contractors at DLGSC had a completed checklist on file. The entity requires that the employee checklist is actioned as soon as the employee has provided notice of termination or a decision has been made not to renew a contract.

At DoF just over half (14 of 26) of our sample had exit forms/checklists completed late. On average it took 23 days after the person left to finalise the checklist. For 9 people we could not determine when checklists were completed because the entity's system does not maintain an audit trail of the logs/records when the electronic service tickets are closed. For 1 person it took 169 days to complete their checklist.

Long timeframes to complete checklists increase access and security risks to the entity's IT system, information, property and premises, and over/under payments of staff. A checklist or form generally includes the requirement to return all entity property from the exiting employee and removal of physical and system access. Consequently, it is vital that these are completed and verified by all responsible parties in a timely way when staff leave.

Failure to complete termination checklists in a timely manner or at all has been consistently raised with the audited entities in our financial and information systems audits since at least 2015-16.

Entities were not consistently offering or conducting exit interviews to identify problems and areas for improvement

Only 1 of the 27 DPLH staff exits we looked at was offered an exit interview. Although the entity's policy requires that staff leaving are invited to participate in a voluntary exit interview, we were advised that these were not generally conducted. In the 1 instance where this had occurred, it was to manage a dispute regarding roles and responsibilities that arose during a secondment and not standard practice. The entity advised it has now introduced an exit survey for all employees leaving the entity to fill in.

At DLGSC only 5 staff of the 30 that we sampled had been asked to complete an exit survey. One declined, 2 accepted the offer and for the remaining 2 individuals there was no information on whether they declined or completed the survey.

Information from exit interviews and surveys can help entities to assess organisational strengths and vulnerabilities, and target workforce management strategies to drive talent attraction, retention and performance. Consequently, failure to consistently offer or conduct exit interviews presents a missed opportunity for the entity's business improvement.

Only DoF collates information from exit survey responses and reports key themes to its corporate executive on an annual basis

DoF offers exit surveys to staff but for 12 of 26 people (46%) in our sample, the entity did not offer an exit survey. We note that participation in the exit interview process is voluntary. However, failure to encourage departing staff to participate means that there are missed opportunities to improve management strategies to drive talent attraction, retention and performance.

DoF was the only audited entity that collated and reported the results of its exit surveys to management annually.

Case study 1: Use of exit interviews for business improvement

DoF gathers data from staff exit surveys to inform and identify issues relating to its staff retention strategies. In 2018, the entity identified that staff were leaving due to lack of career advancement and challenge. Using this insight, the entity introduced the Aspiring Leaders Pilot Program targeting level 3 to 6 staff as a retention strategy and development opportunity.

The entity's 2019 Exit Survey report was deferred due to the COVID-19 emergency in 2020 and was to be incorporated into the 2020 Exit Survey report which was in development at the time of the audit.

Recommendations

1. To minimise the risk of unauthorised access to premises when staff leave, DPLH and DLGSC should:

   a. maintain an accurate register of all access passes including returns, cancellation/deactivation

   b. conduct regular audits of all active passes held by staff

   c. immediately ensure that all unclaimed, duplicate or lost access passes are cancelled/ deactivated

   d. ensure all access passes are returned when staff leave.

   DPLH response: Accepted

   Implementation timeframe: by October 2021

   DLGSC response: Accepted

   Implementation timeframe: by October 2021

2. To minimise the risk of property and information loss entities should:

   a. ensure access to IT systems is removed or disabled immediately when staff leave

   b. clearly record when the removal of IT system access occurred

   c. maintain a register of all assets issued to staff at commencement, during employment and what is returned at exit

   d. ensure all assets are returned when staff leave

   e. maintain an audit trail of asset ownership.

   DPLH response: Accepted

   Implementation timeframe: by October 2021

   DLGSC response: Accepted

   Implementation timeframe: by October 2021

   DoF response: Accepted

   Implementation timeframe: by October 2021

3. To minimise the risk of financial loss from overpayments entities should ensure that overpayments are identified and repayment arrangements are determined before staff leave.

   DPLH response: Accepted

   Implementation timeframe: by October 2021

   DLGSC response: Accepted

   Implementation timeframe: by October 2021

   DoF response: Accepted

   Implementation timeframe: by October 2021

4. To better manage risks posed by different positions and circumstance of exit, all entities should:

   a. evaluate risk posed by different positions and termination types

   b. develop and document procedures to manage the risks effectively and efficiently

   c. communicate the process to key staff in the relevant business functions or areas.

   DPLH response: Accepted

   Implementation timeframe: by January 2022

   DLGSC response: Accepted

   Implementation timeframe: by January 2022

   DoF response: Partially accepted

   Implementation timeframe: by January 2022

5. To improve communication between business functions responsible for staff exits all entities should ensure:

   a. each business area knows its roles and responsibilities in relation to exiting staff and the action they need to perform

   b. there is good communication and coordination around staff exits at the right time.

   DPLH response: Accepted

   Implementation timeframe: by October 2021

   DLGSC response: Accepted

   Implementation timeframe: by October 2021

   DoF response: Accepted

   Implementation timeframe: by October 2021

6. All entities should:

   a. offer interviews to all staff leaving

   b. collate, analyse and internally report exit interview themes/results.

   DPLH response: Accepted

   Implementation timeframe: by October 2021

   DLGSC response: Accepted

   Implementation timeframe: by October 2021

   DoF response: Accepted

   Implementation timeframe: by October 2021

Response from Department of Finance

The Department of Finance (Finance) acknowledges the findings of this audit and will implement recommendations where they will strengthen its staff exit processes. Finance is pleased with the Auditor General observation of the strengths in its staff exit processes, including the exit interview process. Finance actively uses the exit interview process to improve staff attraction and retention.

Appendix 2 includes Finance's specific responses to recommendations.

Response from Department of Local Government, Sport and Cultural Industries

The Department of Local Government Sport and Cultural Industries (DLGSC) are committed to minimising the risks associated with staff exiting the department. We welcome the findings to review and enhance our processes. DLGSC are pleased to report that we have made steady progress in the 18 months since the audit sample and continue to make improvements.

Appendix 2 includes DLGSC's full response.

Response from Department of Planning Lands and Heritage

The Department welcomes the findings and recommendations contained within this performance audit. A number of improvement activities were underway at the time of the audit and the Department is confident that it can achieve all the recommended actions in line with the timeframes committed. Whilst the Department did not previously maintain an audit history of ICT asset and access card allocations, the Department has undertaken audits to verify all assets and access cards have been accounted for.

Appendix 2 includes the Department's specific responses to recommendations.

Audit focus and scope

The audit assessed whether the Department of Planning, Lands and Heritage, the Department of Finance and the Department of Local Government, Sports and Cultural Industries effectively and efficiently manage the exit of staff to minimise security, asset and financial risks. Our key questions were:

a) Do entities minimise the risk of financial, information and asset loss by effectively implementing staff exit controls?

b) Do entities conduct and consider exit interviews as part of the staff exit process?

The audit covered the period 1 July 2019 to 31 December 2020.

In conducting the audit, we:

- reviewed policies and procedures and records for staff exits at the entities
- reviewed OAG Financial Audit and Information Systems Audit management letters from 2013-14 to 2019-20
- interviewed key staff at the 3 entities responsible for staff exits (facilities management, human resources, payroll and information technology services)
- selected a sample of 30 staff from DLGSC, 27 from DPLH and 26 from DoF (including consultants and third-party contractors) that had left between 1 July 2019 to 31 December 2020. For each we sought evidence for whether:
    - termination checklists had been completed before or on the staff exit date and signed by the relevant authority
    - building security access passes had been de-activated and/or keys had been collected prior to staff leaving
    - assets issued to staff (computers, mobile phones, vehicles) were returned
    - credit cards were returned and cancelled, with no transactions occurring after this date
    - access to the entity's IT systems was revoked prior to their departure
    - an exit interview was offered or conducted
    - exiting staff were reminded and acknowledged their obligation not to disclose sensitive information
    - final payments were reviewed and money owed to the entity was identified and paid at the time of leaving
    - risks posed by departing staff and circumstances of their exit were assessed and controls modified accordingly.

We did not assess termination decisions and whether they complied with the relevant legislation.

This was an independent performance audit, conducted under Section 18 of the *Auditor General Act 2006*, in accordance with Australian Standard on Assurance Engagements ASAE 3500 *Performance Engagements*. We complied with the independence and other ethical requirements related to assurance engagements. Performance audits focus primarily on the effective management and operations of entity programs and activities. The approximate cost of undertaking the audit and reporting was $258,000.

Appendix 1: Better practice guidance

Key requirements	
Assess and mitigate risks posed by exiting staff	Entities should assess the security implication and other risks posed by the exiting staff member. Exiting staff can include those leaving voluntarily or terminated for misconduct or other adverse reasons. So, an assessment should include: • reason for leaving (resignation, retirement, transfer to another entity and termination for corruption or misconduct) • level of access to key IT systems and entity premises • access to confidential or secret information • position within the entity and level of delegated authority • financial delegations and purchasing card limit • assigned assets (vehicles, mobile phones, laptops etc.).
Collect all entity owned property	Entities should maintain an up-to-date register of all assets and property issued to staff from when they start and during their employment with the entity. Using information on the register ensures that all entity owned property is returned when staff leave. These include but are not limited to: • identification badges and name tags • office, cabinet and safe keys • access security passes, swipe cards • computer and other IT equipment - laptop, iPad, storage devices, wireless mouse and keyboards • mobile phone and charger • vehicles, keys, fuel cards and logbooks • cab charges. Where access passes and keys are not returned entities should take immediate action to cancel access passes, reprogram or change locks.
Cancel all access to premises and IT systems	Entities should ensure that exiting staff have their access to entity premises and information systems withdrawn or cancelled immediately when staff leave. This includes: • building (including carpark) access • computer login and network access • access to third party systems that they only have as a result of their employment • email address • voicemail • remote access • corporate memberships.
Prevent overpayments and recover debt owed	Entities should ensure that they meet their responsibility to recover overpayments and rectify underpayments, while considering the needs and special circumstances of employees. Timely review of payroll information will reduce the likelihood of errors. Overpayments can also be prevented by checking employee leave balances before approval and avoiding late changes to booked leave or working arrangements where possible. Where overpayments occur entities need to make timely payment arrangements in line with section 17D of the *Minimum Conditions of Employment Act 1993*.

Key requirements	
Issue reminder of ongoing obligations	Entities should ensure that all exiting staff especially those with access to sensitive or classified information are advised and acknowledge their obligation not to disclose entity information even after they leave. This helps safeguard entity resources and limit potential for the integrity, availability and confidentiality of sensitive information to be compromised.
Offer exit interview	Entities should offer exiting staff the option of an exit interview. This can be a structured discussion or survey to gauge their perception of working in the entity. Entities should also collate the data, report internally and where relevant act on the findings. Information from exit interviews can help entities assess organisational strengths and vulnerabilities and target workforce management strategies to drive attraction, retention and performance.
Regularly monitor and review staff exit processes	Entities should periodically review staff exits to ensure that they comply with: • entity policies and procedures • better practice.

Source: OAG, using the Australian Public Service Commission Information[1] and Australian Government, Protective Security Policy Framework[2]

[1] Australian Public Service Commission- Example employee exit checklist https://legacy.apsc.gov.au/checklistexample-employee-exit-checklist

[2] The Protective Security Policy Framework https://www.protectivesecurity.gov.au/

Appendix 2: Responses from audited entities

Department of Local Government, Sport and Cultural Industries

The Department of Local Government Sport and Cultural Industries (DLGSC) are committed to minimising the risks associated with staff exiting the department. We welcome the findings to review and enhance our processes. DLGSC are pleased to report that we have made steady progress in the 18 months since the audit sample and continue to make improvements.

We have already implemented, or commenced implementing processes to address Recommendations 1, 2, 3.

An asset register has been implemented to ensure the allocation, movement and return of all access passes are recorded and auditable. The register is regularly reviewed.
A digital solution is planned to provide greater security and auditability of the process.

The Digital and Technology Service Desk solution has been upgraded to enable the recording and tracking of IT systems access.

To strengthen and improve procedures and rates of recovery of overpayments, Payroll are reviewing and updating DLGSC overpayment processes and undertaking an audit of the current register of overpayments.

More broadly, key business functions are working together to implement an automated offboarding solution, clearly documented processes and communication strategies. The approach will improve on progress already made against Recommendations 1,2 and 3 also address Recommendations 4,5 and 6.

The offboarding solution will provide further security, transparency and the ability to produce information more efficiently for reporting purposes and further audits.

We are committed to implementing the solution by the October 2021 timeframe.

Specific responses to recommendations from DPLH and DoF

1. To minimise the risk of unauthorised access to premises when staff leave, DPLH and DLGSC should:

    a. maintain an accurate register of all access passes including returns, cancellation/deactivation

    b. conduct regular audits of all active passes held by staff

    c. immediately ensure that all unclaimed, duplicate or lost access passes are cancelled/ deactivated

    d. ensure all access passes are returned when staff leave.

    DPLH response: Agree with the identified recommendations and the proposed timeframes.

    Work has commenced on the identified recommendations and plans are in place to formalise the processes:

    a. In May 2021 an access card management process was implemented which included the introduction and maintenance of a comprehensive tracking sheet to manage all access card activity including new card issues, re-assigned cards, or cancellations (due to loss or damage, returns (dated)) and the responsible officer.

b. An audit of all access cards was completed in June 2021 including a reconciliation between the contracted building access control and internal records. Annual audits of cards will be carried out at the end of each financial year.

c. Access cards that are unaccounted for have been cancelled and the access card management processes have been updated to ensure unclaimed, duplicate or lost passes are cancelled and deactivated as soon as they are identified.

d. Where cessation forms have been completed for a departing officer, the returned access card identity number will be recorded on the form. The tracking sheets developed will record this action as described in a) above.

2. To minimise the risk of property and information loss entities should:

   a. ensure access to IT systems is removed or disabled immediately when staff leave

   b. clearly record when the removal of IT system access occurred

   c. maintain a register of all assets issued to staff at commencement, during employment and what is returned at exit

   d. ensure all assets are returned when staff leave

   e. maintain an audit trail of asset ownership.

   DPLH response: Agree with the identified recommendations and the proposed timeframes.

   Work has commenced on the identified recommendations and plans are in place to formalise the process to:

   a. Automate the off-boarding task to ensure access to IT systems is removed or disabled immediately when staff or contractors leave.

   b. The recording of the actual effective time of removing IT systems access.

   c. Tracking of the assets lifecycle to manage assets issued to staff at commencement, during employment and what is returned at exit.

   d. The tracking of the assets lifecycle will ensure the reconciliation of assets as they are returned when staff leave. Whilst the Department was unable to show a history of allocation for each individual asset, the Department can confirm that all assets are accounted for an no assets have been lost.

   e. The asset lifecycle will enable an audit trail of asset ownership.

   DoF response: Finance acknowledges the recommendation and will implement changes to strengthen processes to minimise the risk of property or information loss.

3. To minimise the risk of financial loss from over payments entities should

   a. ensure that overpayments are identified and repayment arrangements are determined before staff leave.

   DPLH response: Agree with the identified recommendation and the proposed timeframe.

The Department will review its staff termination and overpayment processes to ensure overpayments are identified and repayment arrangements are determined before staff leave.

Reporting on overpayments to the corporate executive was introduced in March 2021, with these reports to be presented to the corporate executive on a regular basis.

DoF response: Finance acknowledges the recommendation and will seek to ensure overpayments are identified prior to cessation of employment and repayment plans are put in place.

4. To better manage risks posed by different positions and circumstance of exit, all entities should:

   a. evaluate risk posed by different positions and termination types

   b. develop and document procedures to manage the risks effectively and efficiently

   c. communicate the process to key staff in the relevant business functions or areas.

DPLH response: Agree with the identified recommendations and the proposed timeframes.

The Department will review its cessation process to:

a. Identify positions and termination types that pose significant risks.

b. Develop and document procedures to manage the risk.

Communicate the procedures to key staff and include the procedures in the Department's Management Training Module.

DoF response: Finance acknowledges the risk involved in staff exits will vary depending on the circumstance. For staff exiting for disciplinary reasons, Finance proactively restricts access through the disciplinary process.

Finance considers its existing staff exit processes apply sufficient risk mitigation for all positions including high trust positions.

5. To improve communication between business functions responsible for staff exits all entities should ensure:

   a. each business area knows its roles and responsibilities in relation to exiting staff and the action they need to perform

   b. there is good communication and coordination around staff exits at the right time.

DPLH response: Agree with the identified recommendations and the proposed timeframes.

The Department's cessation form already generates notifications to the relevant line manager as each business function completes its allocated tasks.

Work on the identified recommendations has occurred and processes are being implemented to ensure:

a. Each business area knows its roles and responsibilities in relation to exiting staff and the action they need to perform, and

b. There is good communication and coordination around staff exits at the right time.

DoF response: The recommendation is acknowledged and Finance will remind business areas involved in the exit process of their responsibilities to ensure effective and timely exiting of staff.

6. All entities should:
   a. offer interviews to all staff leaving
   b. collate, analyse and internally report exit interview themes/results.

DPLH response: Agree with the identified recommendations and the proposed timeframes.

a. Exit interviews were introduced for all departing staff as standard practice in April 2021.

b. Analyse of exit interview data will be undertaken and included in the Business and Corporate Services' report to Corporate Executive on a quarterly basis from FY 2021-22.

DoF response: The recommendation is noted and Finance will explore options to maximise the offer of exit surveys for departing employees to assist its annual exit survey report findings.

Auditor General's 2021-22 reports

Number	Title	Date tabled
2	SafeWA – Application Audit	2 August 2021
1	Opinion on Ministerial Notification – FPC Arbitration Outcome	29 July 2021

Internal Audit Strategic Plan

2021/22 – 2023/24

Shire of Dardanup

Document Control	

Document ID: Internal Audit Strategic Plan					
Rev No	**Date**	**Revision Details**	**Author**	**Approver**	**Adopted**
1.0	01/07/2019	Original plan created and adopted	Cindy Barbetti / Phil Anastasakis	Phil Anastasakis	OCM 14-08-2019 Res 251-19
2.0	23/06/2020	Annual update of plan	Cindy Barbetti / Phil Anastasakis	Phil Anastasakis	OCM 30-09-2020 Res 280-20
3.0	03/08/2021	Annual update of plan	Cindy Barbetti / Phil Anastasakis	Phil Anastasakis	

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Contents

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Introduction

The primary purpose of the Shire of Dardanup's Internal Audit Plan is to align its focus and activities on the Council's key internal risks. The Internal Audit functional planning framework consists of two key elements:

- an Internal Audit Strategic Plan with a three year outlook that relates the role of internal audit to the requirements of the Council by outlining the broad direction of internal audit over the medium term, in the context of all the Council's assurance activities; and
- an Internal Audit Annual Work Plan which includes an Internal Audit Annual Work schedule.

Together, these plans serve the purpose of setting out, in strategic and operational terms, the broad roles and responsibilities of Internal Audit and identify key issues relating to internal audit capability, such as the required professional skills.

This Annual Work Plan covers a financial year in line with the Council's annual budgeting and planning cycle and specifies the proposed internal audit coverage within the financial year.

It is reviewed annually by the Deputy CEO in the first quarter of each financial year and presented to the Audit and Risk Committee for endorsement.

Internal Audit Activities Overview

It is important that internal audit has a predominant focus on the conduct of assurance and advisory activities. Nevertheless, audit support activities are also important activities generally undertaken by Internal Audit.

The relative proportion of resources devoted to audit support activities, compared with audit assurance and advisory activities, is an important matter for consideration by the Audit and Risk Committee when considering Internal Audit plans and budgets.

It is important to note that the smaller the size of the in-house Internal Audit team, the greater the proportion of the audit support activities will be.

Internal Audit conducts the following audit support activities which are generally non-discretionary:

- Internal Audit strategic and operational planning;
- Internal Audit functional and administrative reporting;
- Monitoring the implementation of audit recommendations made by Internal Audit and the External Auditor;
- Liaison with the External Auditor;
- Internal Audit Quality Assurance and Improvement Program;

- Performing any appropriate special tasks or projects requested by the Deputy CEO, CEO or the Audit and Risk Committee; and
- Disseminating better practice and lessons learnt arising from the internal audit activities across local government.

The Internal Audit **assurance activities** include engagements with the following orientation:

- Financial
    - Auditing the financial statements of externally funded grants including research, capital and other special purpose grants/programs; and
    - Auditing the special purpose financial statements of discrete business operations such as Eaton Recreation Centre.

  In performing financial statement audits, Internal Audit typically provides an audit opinion and a reasonable level of assurance to parties outside the Council, depending on the purpose for which the financial statements are prepared.

- Compliance
    - Compliance has traditionally been a focus area for Internal Audit activities. The objective of a compliance engagement is to enable Internal Audit to express an opinion on whether the Council or an organisational area has complied in all material aspects, with requirements as measured by the suitable criteria which include:
        - Federal and State legislation and regulatory requirements;
        - Federal and State Government policies and administrative reporting guidelines;
        - Council policies, procedures and Code of Conduct;
        - contracts to which the Council is a party;
        - strategic plans, or operational programs;
        - ethics related objectives and programs; and
        - other standards and good practice control models.

- Performance (improvement)
    - Performance (improvement) engagement is designed to assess the economy, efficiency and effectiveness of the Council's business systems and processes.

  A compliance or performance (improvement) engagement is conducted either as an audit, which provides reasonable assurance, or as a review, which provides limited assurance.

  For all assurance activities, Internal Audit observes, where applicable, the professional practice guidelines or statements issued by relevant professional bodies, including (but not limited to):

  - CPA Australia; and

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- Chartered Accountants Australia and New Zealand;

The Internal Audit **advisory activities** are to provide objective and relevant review services or ad hoc advice to management without assuming management responsibility.

The Deputy CEO considers accepting proposed review engagements based on the engagement's potential to improve the management of risks, add value, and improve the Council's operations.

Internal Audit applies the principle that issue prevention activities are more beneficial and could be more cost-effective than issue detection activities. Accordingly, Internal Audit acts proactively in providing ad hoc advice to utilise its control and risk evaluation skills in preventing control weaknesses and breakdowns by providing ad hoc advice to the Council's management on a range of matters, including:

- development of new programs and processes;
- risk management; and
- fraud control.

The percentages of Internal Audit effort to conduct audit support, assurance and advisory activities will fluctuate over the years depending on the Council's assurance needs and the Internal Audit's operational needs and priorities such as system, process, and staff professional development requirements. This is monitored by the Audit and Risk Committee.

Methodology

Internal Audit adopts a **risk based methodology**. The planning at both the functional and engagement levels is based on the risk assessment performed to ensure that it is appropriate to the size, functions and risk profile of the Council.

In order to provide optimal audit coverage to the Council and minimise duplication of assurance effort, due consideration is given to the following aspects:

- key Council business risks;
- any key risks or control concerns identified by management;
- assurance gaps and emerging needs; and
- scope of work of other assurance providers, internal and external.

Internal Audit maintains an open relationship with the external auditor and other assurance providers.

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Internal Audit Coverage Prioritisation

During each financial year, the Internal Audit coverage will have a different focus depending on the Council's current risk profile and assurance needs. The Internal Audit coverage is categorised into the following broad groups. The order in which these are listed is in line with the current priority given to each group based on the risk assessment.

1. **Annual audits** to review key areas of financial, operational, and human resources across the whole Council. This group of engagements are treated as first priority audits to meet the external reporting and compliance obligation of the Council, which can include:
    a. Grant Audits;
    b. Direct assistance to external audit by performing audit or review procedures under the direction of the external auditor; such activities customarily include the following engagements:
        i. Salaries Audit;
        ii. Expenditure Audit;
        iii. Revenue Audit; and
        iv. Follow up on audit recommendations made by the external auditor.
2. Audits of **high risk areas/systems** where the controls are considered to be effective, however, independent assurance is required to ensure that the controls are in fact operating as intended;
3. Audits that review particular topics **across the whole Council** – such as supplier selection and WHS management framework. This group of engagements are aimed at addressing systemic risks;
4. Audits that review **particular processes/activities** owned by a particular Directorate or Divisions such as gym membership; and
5. Consultancy/ad hoc advice on new systems, processes and initiatives.

A small contingent time budget may be set aside to accommodate ad hoc or special requests, particularly those from the CEO and the Audit and Risk Committee.

Objective

Engagement objectives are broad statements developed by Internal Audit that define intended engagement accomplishments. This is largely informed by the identified risks and assurance needs of the Council upon commencing of an engagement. Internal Audit provides opportunities for auditees to have input in formulating audit objective(s). For high risk audits, Internal Audit also seeks the CEO's endorsement of the audit objective(s).

Engagement scope is driven by:

- the determined objectives; the broader the objectives, the wider the audit scope; and
- the level of assurance required; an "audit" provides a reasonable level of assurance and requires wider scope than that for a "review" which provides limited level of assurance.

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Responsibilities

The Internal Audit program is to be undertaken by the Shire of Dardanup Senior Corporate Governance Officer, with oversight by the Deputy CEO and assistance of other Council staff when required or available.

Council staff involved with the Internal Audit program will have access to all areas of the Shire of Dardanup operations, including correspondence, files, accounts, records and documents as is necessary to perform the duties of the role, except those items that are noted as confidential and/or personal. Access to material noted as confidential and/or personal will only be provided upon request by the CEO.

Council staff involved with the Internal Audit program will conduct their reviews based on the methodology and internal audit coverage prioritization contained within the Internal Audit Plan, and report on the outcome of this review. Where it is reported that problems exist, corrective action will be recommended and followed through for action, ensuring that resources are directed towards areas of highest risk.

The Shire of Dardanup Internal Audit Plan will be reviewed and assessed on an annual basis. The Internal Audit Plan may be adjusted as a result of receiving requests to undertake special advisory services to conduct reviews that do not form part of the structured plan.

At the conclusion of each internal audit a report on the outcome will be forwarded to the Deputy CEO. This report will outline what auditing actions were actually taken, provide recommendations for corrective action as required, monitoring and reporting on the corrective actions undertaken.

Auditor General Reports

The Local Government Amendment (Auditing) Act 2017 was proclaimed on 28 October 2017. The purpose of the Act was to make legislative changes to the Local Government Act 1995 to provide for the auditing of local governments by the Auditor General.

The Act also provides for a new category of audits known as ‘performance audit reports’ which examine the economy, efficiency and effectiveness of any aspect of a local governments operations. The findings of these audits are likely representative of issues in other local government entities that were not part of the sample. In addition, the Auditor General releases ‘guides’ to help support good governance within a local government’s operations.

The Auditor General encourages all entities, not just those audited, to periodically assess themselves against the risks and controls noted in each of the performance audit reports and guides when published. Testing performance against the Auditor General findings and reporting the outcomes to the Audit and Risk Committee can be further viewed as a vital component of the internal control function under Regulation 17.

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Internal Audit Annual Work Plan

INTERNAL AUDIT ANNUAL WORK SCHEDULE 2021-2022					
PROJECT	**TYPE**	**RISK RATING**	**BUDGET DAYS**	**DATE**	**RESOURCES**
Procurement: 2020-21 Annual Spend Analysis	Assurance - Financial; Compliance	Moderate	15	July 2021 to August 2021	Senior Corporate Governance Officer
Grants Management – Contract Liabilities	Assurance - Financial; Compliance	Moderate	10	September 2021 to October 2021	Senior Corporate Governance Officer
Contract Management	Assurance - Financial; Compliance	Moderate	20	March 2022 to April 2022	Senior Corporate Governance Officer
Receipting Petty Cash	Assurance – Financial; Compliance	Low	5	May 2022	Senior Corporate Governance Officer

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Annual Audit Review 2021-2022

Assurance – Financial; Compliance

Procurement – Annual Spend Analysis

- Consider overall spend by good/service type for 2021-2022
- Recommend good/service to RFQ, RFT or Panel of Pre-Qualified Suppliers for 2021-2022
- Employee v Contractor analysis and correct cost allocation

Grants Management – Contract Liabilities

- Focus on management of grant funds received
- Alignment to Council Policy and Australian Accounting Standards
- Review process around recording

Contract Management

- Focus on the management of contracts
- Alignment to Procurement Framework
- Roles and responsibilities are clearly defined
- Effectiveness of recording and updating contractual information
- Effectiveness of contract governance including; monitoring, review, risk and reporting
- Adequate management of WHS/OSH requirements
- Perform testing on a sample basis over a selection of contractual arrangements

Receipting – Petty Cash

- Internal Controls
- Transaction Verification
- Authorising Process
- Compliance
- Perform testing on a sample basis over a selection of petty cash vouchers

Template – Internal Audit Assessment and Response Summary

SHIRE OF DARDANUP – INTERNAL AUDIT ASSESSMENT AND RESPONSE SUMMARY Prepared by Date Audit Focus Area		
ASSESSMENT	**OBJECTIVES MET Yes/No/NA**	**COMMENTS**
C1 Internal Controls C1.1 Ownership C1.2 Comprehensive Written Procedures C1.3 Confirm Staff Aware of Procedures C1.4 Confirm Staff Follow Procedures		
C2 Transaction Verification		
C3 Authorising Process		
C4 Processing		
C5 Compliance		
C6 Payments		
Reviewed by Date Signed		

RISK ASSESSMENT TOOL

OVERALL RISK EVENT: Internal Audit Program

RISK THEME PROFILE:

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

9 - External Theft and Fraud (including Cyber Crime)

8 - Errors, Omissions and Delays

12 - Misconduct

RISK ASSESSMENT CONTEXT: Strategic

CONSEQUENCE CATEGORY	RISK EVENT	PRIOR TO TREATMENT OR CONTROL			RISK ACTION PLAN (Treatment or controls proposed)	AFTER TREATEMENT 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	Not considering internal control within the organisation would result in non-compliance with Regulation 17	Moderate (3)	Rare (1)	Low (1 - 4)	Not required.	Not required.	Not required.	Not required.
REPUTATIONAL	Council's reputation could be seen in a negative light for not adhering to its requirement to fulfil duties and functions that are prescribed in legislation.	Moderate (3)	Unlikely (2)	Moderate (5 - 11)	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.