



City of Nedlands

Agenda

Audit & Risk Committee Meeting 8 June 2020

ATTENTION

This Agenda has yet to be dealt with by the Committee.

The Administration Recommendations, shown at the beginning of each item, have yet to be considered by the Committee and are not to be interpreted as being the position of either the Committee or Council.

The Minutes of the meeting held to discuss this Agenda should be read to ascertain the decision of the Committee.

Before acting on any recommendation of the Committee a check must also be made in the Ordinary Council Minutes following the Committee Meeting to ensure that Council did not make a decision at variance to the Committee Recommendation.

A Livestream link for the public is available on the City's website.

The public can continue to participate by submitting questions and addresses via the required online submission forms at:

<http://www.nedlands.wa.gov.au/intention-address-council-or-council-committee-form>

<http://www.nedlands.wa.gov.au/public-question-time>

Mark Goodlet
Chief Executive Officer
3 June 2020

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2. Addresses By Members of the Public (only for items listed on the agenda)

Addresses by members of the public who have completed Public Address Session Forms will be invited to be made at this point.

3. Disclosures of Financial and/or Proximity Interest

The Presiding Member to remind Councillors and Staff of the requirements of Section 5.65 of the Local Government Act to disclose any interest during the meeting when the matter is discussed.

A declaration under this section requires that the nature of the interest must be disclosed. Consequently a member who has made a declaration must not preside, participate in, or be present during any discussion or decision making procedure relating to the matter the subject of the declaration.

However, other members may allow participation of the declarant if the member further discloses the extent of the interest. Any such declarant who wishes to participate in the meeting on the matter, shall leave the meeting, after making their declaration and request to participate, while other members consider and decide upon whether the interest is trivial or insignificant or is common to a significant number of electors or ratepayers.

4. Disclosures of Interests Affecting Impartiality

The Presiding Member to remind Councillors and Staff of the requirements of Council's Code of Conduct in accordance with Section 5.103 of the *Local Government Act*.

Councillors and staff are required, in addition to declaring any financial interests to declare any interest that may affect their impartiality in considering a matter. This declaration does not restrict any right to participate in or be present during the decision-making procedure.

The following pro forma declaration is provided to assist in making the disclosure.

"With regard to the matter in item x I disclose that I have an association with the applicant (or person seeking a decision). This association is (nature of the interest).

As a consequence, there may be a perception that my impartiality on the matter may be affected. I declare that I will consider this matter on its merits and vote accordingly."

The member or employee is encouraged to disclose the nature of the association.

5. Declarations by Members That They Have Not Given Due Consideration to Papers

Members who have not read the business papers to make declarations at this point.

6. Confirmation of Minutes

6.1 Audit & Risk Committee Meeting 10 February 2020

The minutes of the Audit & Risk Committee held 10 February 2020 are to be confirmed.

7. Matters for Which the Meeting May Be Closed

Council, in accordance with Standing Orders and for the convenience of the public, is to identify any matter which is to be discussed behind closed doors at this meeting, and that matter is to be deferred for consideration as the last item of this meeting.

8. Items for Discussion

Note: Regulation 11(da) of the *Local Government (Administration) Regulations 1996* requires written reasons for each decision made at the meeting that is significantly different from the relevant written recommendation of a committee or an employee as defined in section 5.70, but not a decision to only note the matter or to return the recommendation for further consideration.

8.1 Appointment of Community Member

Committee	8 June 2020
Applicant	City of Nedlands
Employee Disclosure under section 5.70 Local Government Act 1995	Nil.
Director	Lorraine Driscoll – Director Corporate & Strategy
Attachments	1. Audit & Risk Terms of Reference
Confidential Attachments	1. Stephen Foley's CV

Executive Summary

The purpose of this report is to bring Stephen Foley's application before the Audit & Risk Committee to consider his appointment as a Community Member on the Audit & Risk Committee and to make a recommendation to Council.

Recommendation to Committee

That the Audit & Risk Committee recommend the appointment of Stephen Foley as Community Member for a period ending immediately prior to the next Local Government elections in 2021.

Discussion/Overview

The Audit and Risk Committee assists the Council to meet its statutory audit requirements under the *Local Government Act 1995* and related regulations.

The purpose of the Audit & Risk Committee (the Committee) is to assist the Council to discharge its responsibilities with regard to the exercise of due care, diligence and skill in relation to:

1. The reporting of financial information, the application of accounting policies, and the management of the financial affairs of the City, and
2. The assessment of the adequacy of the management of risks.

Key Relevant Previous Council Decisions:

The appointment of elected members to the Committee were confirmed at the Special Council Meeting of 5 November 2019 for a period ending immediately prior to the next Local Government elections in 2021.

Mr. P Setchell was reappointed as a Community Member of the Committee at the Ordinary Council Meeting of 26 November 2019 for a period ending immediately prior to the next Local Government elections in 2021.

Councillor Hodsdon resigned his position on the Committee on 26 March 2020 and Councillor Poliwka was appointed to replace him at the Ordinary Council Meeting of 28 April 2020.

Mr Foley has significant experience relevant to the role of Community Member of the Audit and Risk Committee as demonstrated by the attached CV. The Community Member brings a fresh perspective to the Committee and is seen as a very valuable member.

Consultation

The position of Community Member was advertised in the local newspaper several times, as listed below;

1. 5 October 2019;
2. 7 December 2019;
3. 28 March 2020; and
4. 11 April 2020.

Strategic Implications

The purpose of the Audit & Risk Committee is to determine all risks that they City might have and ensure that the Council fulfils its strategic direction in relation to risk management.

The Council and community benefit from the Audit & Risk Committee as it assists in managing and mitigating risk.

Budget/Financial Implications

There is no financial implication.

Audit and Risk Committee

Terms of Reference of Audit & Risk Management Committee

Purpose

To assist the Council to discharge its responsibilities with regard to the exercise of due care, diligence and skill in relation to:

- the reporting of financial information, the application of accounting policies, and the management of the financial affairs of the City,
- the assessment of the adequacy of the management of Risk.

Scope

The committee shall have as its primary duties and responsibilities the following tasks:

Audit

1. To consider and approve the brief for the provision of audit services;
2. To evaluate the responses to the request for the provision of audit services and to make a recommendation to Council on the appointment of an auditor;
3. To meet with Council's external auditors and review the Audit Plan prior to the conduct of the interim audit each year;
4. To ensure that the audit is being conducted in accordance with the brief and the terms of appointment and that matters of concern to the Council and/or the Committee are being addressed;
5. Ensure that the Council's financial affairs and systems and processes are being managed and reported in accordance with statutory requirements and Australian Accounting Standards;
6. Ensure that relevant financial information is reported to Council in a form that meets the needs and expectations of Council, clearly setting out the key relevant financial data, such that the Council can confidently understand the financial performance of the Council's affairs;
7. Review the audit report and make appropriate recommendations to Council; and
8. Where appropriate and with the approval of Council seek advice and/or assistance in relation to matters pertaining to the audit or financial affairs of the City.

Risk Management

1. At least once every year consider a report in relation to the management of risk within the City of Nedlands, and satisfy itself that appropriate controls and processes are in operation, and are adequate for dealing with the risks that impact on the City.
2. To address any specific requests referred to it from Council in relation to issues of risk and risk management.

Membership

1. The membership of the committee shall comprise the Mayor and one Councillor from each ward with the Councillors being determined by nomination and if necessary a ballot conducted at a Council Meeting and up to three non-Councillor Members, being residents of The City of Nedlands
2. Council may if it considers it appropriate appoint deputies to the members of the committee.
3. If a vacancy on the committee occurs for whatever reason then Council shall appoint a replacement in accordance with the same arrangements as for the original appointment set out in 1 above.
4. The quorum for a meeting shall be when at least 50% of the eligible members are present.
5. The term of membership expires with the expiry of the committee immediately prior to the next ordinary Council election.
6. The presiding member shall be determined by election amongst the members of the committee. The election will take place at the first meeting following the reconstitution of the committee after each ordinary Council election. The Mayor is eligible to vote for a presiding member but is not eligible to sit as the presiding member.
7. The term of the presiding member expires with the expiry of the committee immediately prior to the next ordinary Council election; and
8. Should the elected presiding member not be present during a meeting of the committee then a temporary presiding member shall be elected in accordance with 3 above.
9. Community members shall have appropriate qualifications in Audit and/or Risk.

Staff

The following staff will attend committee meetings to provide technical support and advice:

- Chief Executive Officer;
- Director of Corporate and Strategy;
- Manager Finance; and
- Manager Health & Compliance

Other staff may attend committee meetings when requested by the Committee through the Chief Executive Officer:

Invitees/Attendees

The committee may invite relevant persons to attend and address or advise the committee, within the ambit of its scope and where necessary with the approval of Council (eg if authorisation of funding is required), as it sees fit including but not limited to:

- the external auditor or his/her representative,
- internal auditors,
- relevant consultants.

Meetings

The Committee shall have flexibility in relation to when it needs to meet, but as a minimum shall meet twice a year. It is the responsibility of the presiding member to call the meetings of the committee. As a minimum the following business shall be conducted either at each or collectively over the two meetings:

- meet with the internal auditor with regards to the Audit Plan;
- consider a report in relation to the management of risk and review the insurance requirements of the City of Nedlands; and
- meet with the auditor with regards to the Annual Audit and the issue of the interim and/or final Audit Report.

Delegated Authority

The Audit and Risk Committee will have delegated authority to meet with the auditor in accordance with Section 7.12A(2) of the Local Government Act 1995

8.2 External Audit Plan by KPMG on Behalf of Office of the Auditor General (OAG)

Committee	8 June 2020
Owner	City of Nedlands
Employee Disclosure under section 5.70 Local Government Act 1995	Nil.
Director	Lorraine Driscoll – Director Corporate & Strategy
Attachments	1. External Audit Plan for the Year Ending 30 June 2020

Executive Summary

The report is prepared to present the External Audit Plan for the year ending 30 June 2020 prepared by the City's External Auditor's, KPMG. The External Audit Plan outlines the key information regarding the approach adopted by the Auditor's to execute the statutory audit of the City for the current financial year.

Recommendation to Committee

The Audit and Risk Committee receives the External Audit Plan prepared by KPMG on behalf of the OAG and notes the critical information and contents of the report.

Discussion/Overview

KPMG have been appointed as the City's External Auditor's by the Office of the Auditor General to conduct an independent external audit in order to enable the Auditor General to express an opinion on the financial report to the Key Stakeholders and Community of the City of Nedlands.

As part of the statutory audit, KPMG have provided an External Audit Plan. The plan has been prepared to inform the officers and the Audit and Risk Committee of the City of Nedlands about KPMG responsibilities as External Auditor's and how Macri Partners plan to discharge them.

The plan focuses on:

- KPMG's audit responsibility
- Audit approach
- Audit scope
- Business risks relevant to the audit
- Key audit focus areas
- Timeline of the audit

The external audit plan is presented to the Audit and Risk Committee for their information.

Key Relevant Previous Council Decisions:

Nil.

Consultation

Nil.

Strategic Implications

The audit of the financial statements of the City is regulated by the Local Government Act 1995 and enables the City to fulfill our annual financial reporting responsibilities under the Act.

Performing the audit of the financial statements provides all stakeholders in the City to be assured that there is effective stewardship over the City assets.

There is no risk involved.

The Audit Plan is prepared by KPMG and all information has been provided

Budget/Financial Implications

The cost of External Audit fees was within the City's existing monetary budget limits for the 2019/20 Financial Year.

City of Nedlands

For the year ending 30 June 2020



Introduction

To the Accountable Authority

We are pleased to have the opportunity to discuss our audit of the financial report of the City of Nedlands, as at and for the year ending 30 June 2020.

This audit plan and strategy document is intended to provide the accountable authority with our audit approach, our risk assessment, an overview of our audit focus areas, our procedures over these areas, deliverables and timelines.

Restrictions on distribution

This report is intended solely for the information of those charged with governance of City of Nedlands and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Your Team

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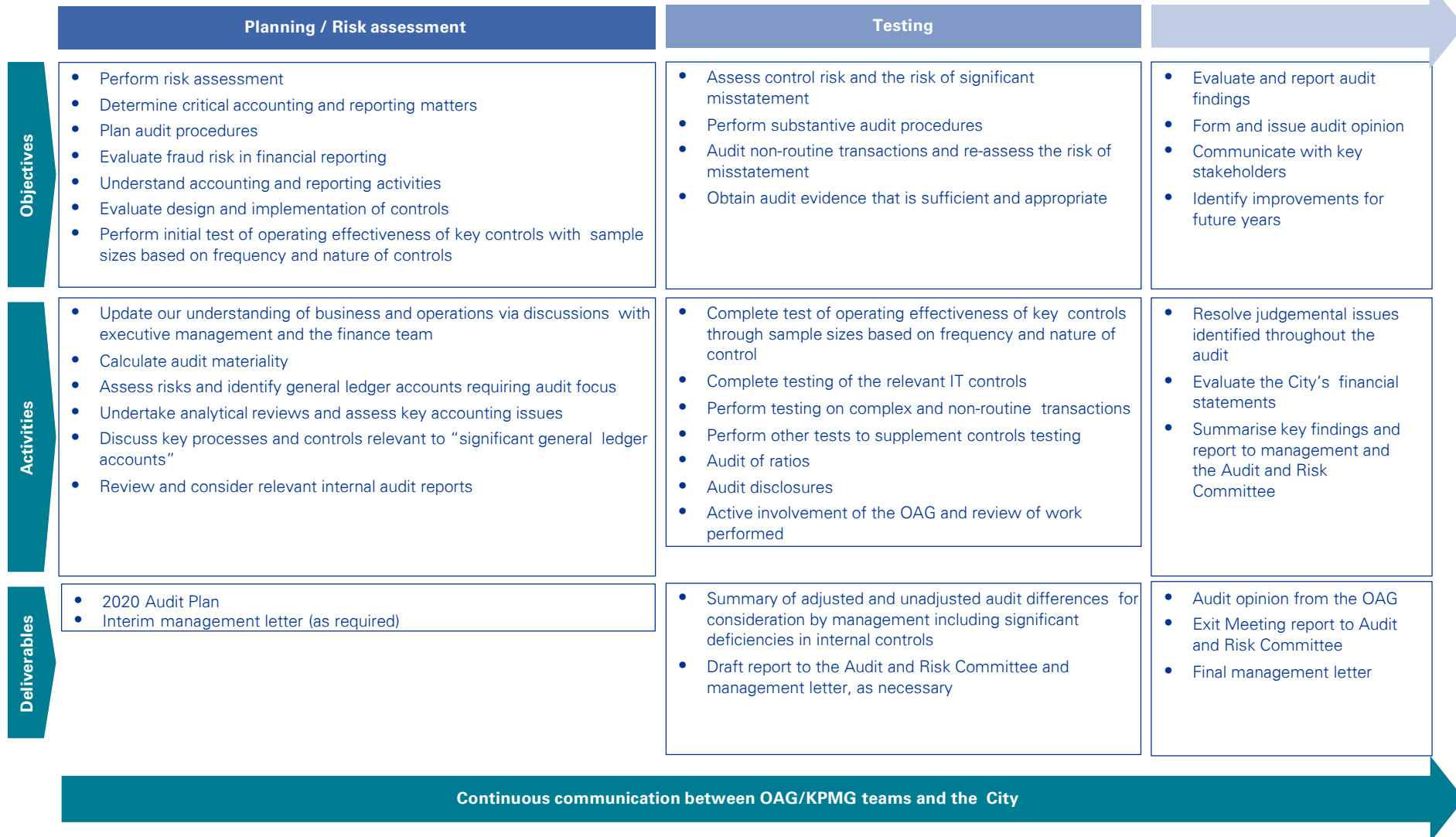
KPMG's audit responsibility

- KPMG has been contracted by the Office of the Auditor General ("OAG") to perform the audit of the City of Nedlands (the "City"). The contract requires KPMG to use their audit approach and methodology. The engagement covers a three year period commencing with the financial year ending 30 June 2020.
- KPMG conducts an independent audit in order to enable the OAG to express an opinion regarding the financial statements and ratios. Our audit is conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements will be detected.
- We perform procedures to assess whether the financial statements present fairly with the City's financial position as at 30 June 2020, and its performance for the year ending on that date in accordance with the Local Government Act 1995, Local Government (Audit) Regulations 1996, Australian Accounting Standards and other mandatory financial reporting requirements applicable to the City.
- We form our recommended audit opinion on the basis of these procedures, which include: examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the City.
- We consider the effectiveness of management's internal controls over financial and performance reporting when determining the nature and extent of our procedures.
- We will express an opinion recommendation to the OAG on the matters to be reported under Reg 10 of the Local Government (Audit) Regulations 1996, including :
 - An opinion on the financial position and results of the operations of the City;
 - Any matters that indicate significant adverse trends in the financial position or the financial management of the City;
 - Whether or not the asset consumption ratio and asset renewal ratio are supported by verifiable information and reasonable assumptions.
- The OAG and KPMG understand the importance of our role as auditors in the external reporting framework and we work to maintain an extensive system of quality control over our audit practices.

Audit Approach

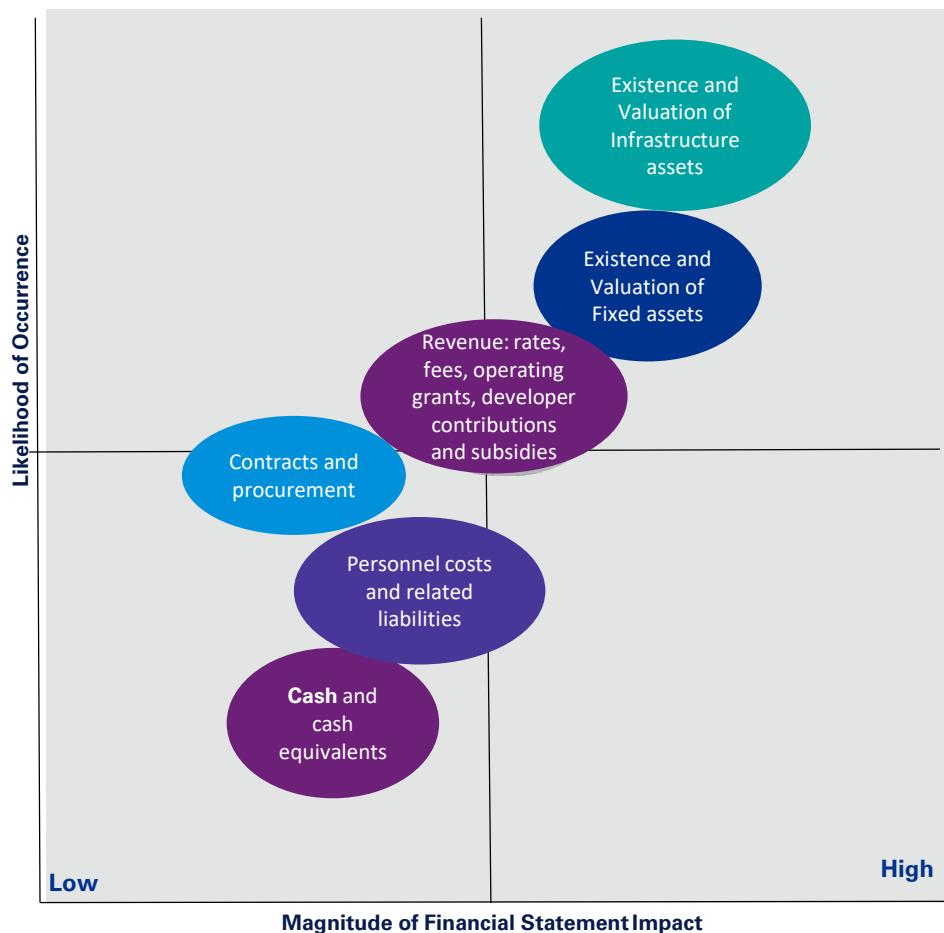
Area	Assessment & Approach
Methodologies and activities	<ul style="list-style-type: none"> - Our audit approach is tailored to address financial statement risks unique to the City. In tailoring our approach, we have held discussions with management, considered any changes to operations, and considered both external and internal developments that may impact our audit risk. - A summary of the activities in each phase of our audit is provided. - On completion, we will evaluate the evidence we obtained and report our findings to you.
Materiality	<ul style="list-style-type: none"> - Planning materiality is determined at the overall financial statement level. Where appropriate, based on qualitative factors, we may lower our materiality threshold. - The extent of audit procedures on balance sheet and income statement numbers is based on our professional judgement and materiality applicable to the City. - During the course of our work, we will accumulate and report all identified uncorrected and corrected misstatements above our audit difference posting threshold, as well as material misstatements or omissions in presentation and disclosures, to the Audit and Risk Committee. - As required by auditing standards, we will request correction of identified differences.
Risk assessment	<ul style="list-style-type: none"> - Based on our experience, our knowledge of the City and discussions with management, we will perform an assessment of your business risks relevant to our audit and identify financial statement captions that may be affected by these risks to identify audit focus areas. - We have summarised the relevant risks faced by the City; and - The audit focus areas are identified, our planned procedures and key accounting and reporting matters for consideration.
Independence	<ul style="list-style-type: none"> - Our audit services are subject to the OAG's, KPMG's and our profession's strict rules and policies regarding auditor independence. - We will not undertake services that are incompatible with our role as your auditor, or that could compromise our independence in any way. - We will continue to monitor our independence on an ongoing basis and will confirm our independence at the time of audit completion and signing the audit opinion.
Approach to fraud	<ul style="list-style-type: none"> - The primary responsibility for preventing and detecting fraud rests with the Audit and Risk Committee and management. - We are responsible for obtaining reasonable assurance that the financial report, taken as a whole, is free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit there is an unavoidable risk that some material misstatements of the financial report may not be detected. - We will assess the risk of fraud and design procedures that respond to that risk including, but not limited to, making enquiries of management about actual, suspected or alleged fraud and testing journal entry posting controls and a sample of journal entries. - We request at this time the accountable authority, in consultation with the Executive, to identify matters relating to fraud consideration for incorporating into our audit approach. We will report fraud related issues identified to the accountable authority if identified during our audit.

Audit Approach – phases



Audit risk assessment

In our assessment of inherent audit risks impacting the financial report, we consider the nature of the risk, likelihood of its occurrence and potential impact it could have on the City's financial report.



Key	Factors influencing our assessment
Existence and valuation of Infrastructure assets	<ul style="list-style-type: none"> Valuation methodology and assumptions can be complex and judgmental Significant volume of individual assets
Existence and valuation of Fixed assets	<ul style="list-style-type: none"> Valuation methodology and assumptions can be complex and judgmental Significant volume of individual assets
Revenue – rates, fees, operating grants, and subsidies	<ul style="list-style-type: none"> High volume of transactions that management are required to process accurately Inherent risk of fraud in terms of revenue recognition
Contracts and procurement	<ul style="list-style-type: none"> High volume of transactions that management are required to process accurately Inherent risk of fraud in the procurement process
Personnel costs and related liabilities	<ul style="list-style-type: none"> Existence and accuracy of payroll related costs Risk of payments made to fictitious employees
Cash and cash equivalents	<ul style="list-style-type: none"> High volume of transactions of significant value

Key audit focus areas

1 Existence and valuation of Infrastructure Assets

Audit risk H Higher M Moderate L Lower

Significant Risks	Size	Complexity	Susceptibility to fraud/error
	H	H	Error

Areas of audit focus

- Valuation methodology and assumptions can be complex and judgmental
- Significant volume of individual assets

Planned audit procedures

Test of Controls

- None planned



Substantive Procedures

- Review all independent/internally prepared valuations for the City's infrastructure assets
- Utilising our infrastructure valuation specialist, assess the competence and capabilities of the valuers, including valuation method and assumptions used
- On a sample basis, select assets for sighting noting their existence and physical condition
- Recalculate any revaluation gain/loss arising from the revaluation and ensure this has been appropriately recorded.
- Review management's impairment assessment/calculation for reasonableness
- Assess appropriateness of asset classification

Key audit focus areas

2 Existence and valuation of Fixed Assets

Audit risk  Higher  Moderate  Lower

Significant Risks	Size	Complexity	Susceptibility to fraud/error
			Error

Areas of audit focus

- Valuation methodology and assumptions can be complex and judgmental
- Significant volume of individual assets

Planned audit procedures

Test of Controls

- None planned

Substantive Procedures

- Review all independent/internally prepared valuations for the City's fixed assets
- Utilising our property valuation specialist, assess the competence and capabilities of the valuers, including valuation method and assumptions used
- On a sample basis, select assets for sighting noting their existence and physical condition
- Recalculate any revaluation gain/loss arising from the revaluation and ensure this has been appropriately recorded
- Review management's impairment assessment/calculation for reasonableness
- Assess appropriateness of asset classification
- Identify and ensure Crown Land have been appropriately recorded

Key audit focus areas

3 Revenue – rates, fees, charges, operating grants and subsidies

Audit risk **H** Higher **M** Moderate **L** Lower

Significant Risks

Size

Complexity

Susceptibility to fraud/error

H**M**

Error

Areas of audit focus

- High volume of transactions that management are required to process accurately
- Inherent risk of fraud in terms of revenue recognition

Planned response

Test of Controls

- Management review of rates table
- OAG to complete testing of the operating effectiveness of information system general controls

Substantive Procedures

- Management review of rates table
- Testing of controls over the Tech One system generated reports used
- Review the City's rates policy in place
- Preview of Landgate's General Valuation of the Gross Rental Values (GRV's) of properties within the City

- Recalculate the rates revenue for the year ensuring the correct rates were used and verifying the accuracy thereof
- Focus testing around financial year ends to ensure revenue recorded in the correct period
- Assess the recoverability of the related debtor raised
- Agree a sample of fees and charges to supporting documents
- Vouch grants to relevant grant agreement and bank
- Consider transition implications of AASB 15 and AASB 1058

Key audit focus areas

4 Contracts and Procurement

Audit risk H Higher M Moderate L Lower

Significant Risks	Size	Complexity	Susceptibility to fraud/error
	H	M	Fraud

Areas of audit focus

- High volume of transactions that management are required to process accurately
- Inherent risk of fraud in the procurement process

Planned audit procedures

Test of Controls

- Fortnightly review of authorisation of payments in line with Delegation of Authority
- Fortnightly review approval of contracts in line with Procurement Policy of the City

Substantive Procedures

- Review of authorisation of payments in line with Delegation of Authority
- Review approval of contracts in line with Procurement Policy of the City

- Review of internal audit reports for internal controls tested, specific contracts reviewed or key findings noted in procurement
- Review of the City's procurement policy
- Review the City's contract register for long running contracts or overspent contracts
- On a sample basis for expenditure, agree payments made to supporting documentation and sighting authorisation of such payments in line with the Delegation of Authority
- For new contracts awarded during the year, review to ensure the City's Procurement Policy was followed (quotations, request for tender, etc)
- Search for unrecorded liabilities
- Consider transition implications of AASB 16

Key audit focus areas

5 Cash and cash equivalents

Audit risk H Higher M Moderate L Lower

Significant Risks	Size	Complexity	Susceptibility to fraud/error
	M	M	Error

Areas of audit focus

- High volume of transactions of significant value

Planned audit procedures

Test of Controls

- Identify key controls within the Treasury process, including controls surrounding the preparation and review of bank reconciliations

Substantive Procedures

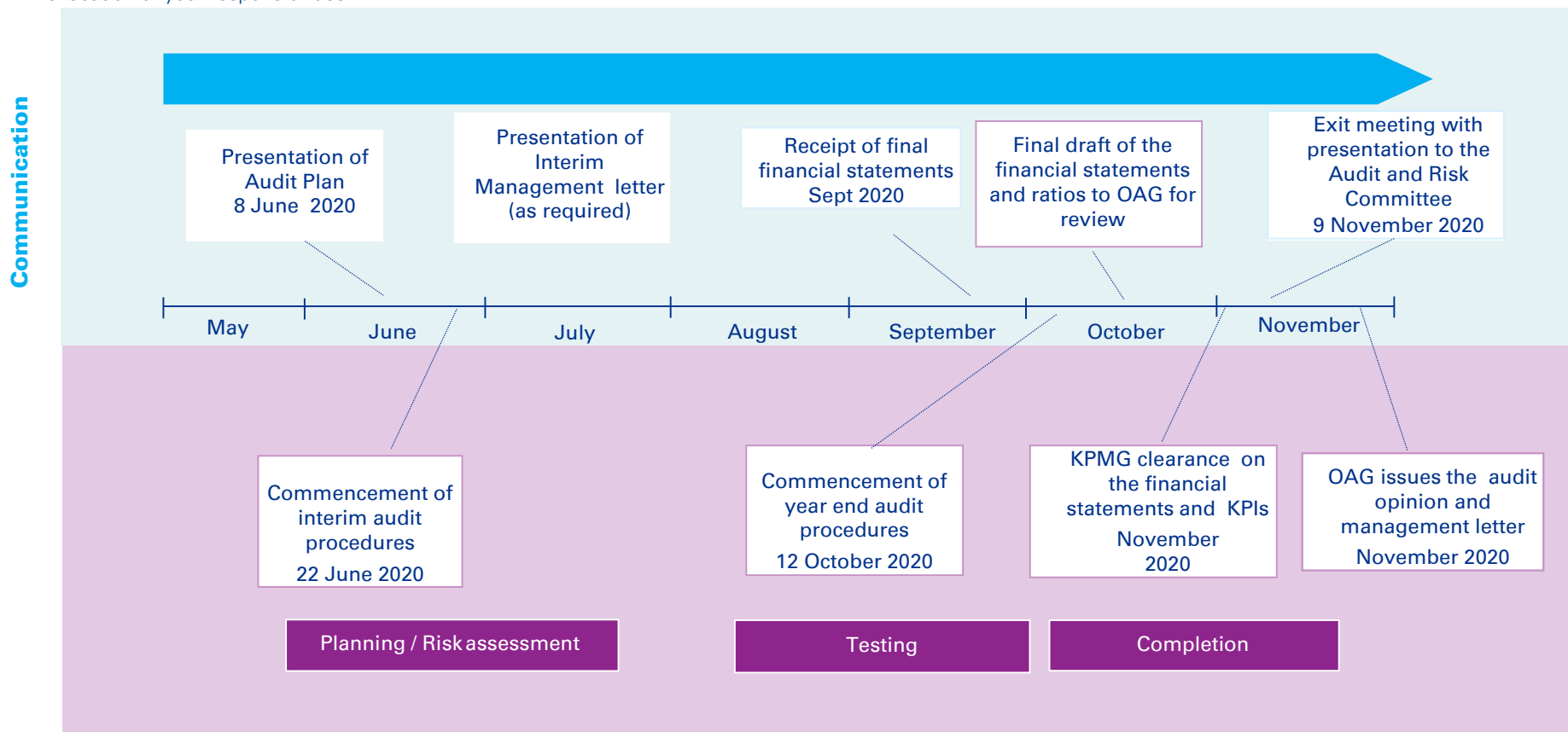
- Identify key controls within the Treasury process, including controls surrounding the preparation and review of bank reconciliations
- On a sample basis, vouch term deposits to confirmations and consider appropriateness of classification
- Circularize independent bank confirmations at year end
- Review the year end bank reconciliation and agree to bank confirmations

8.2 Attachment

Timeline of the audit

Communicating with and reporting to the City, with no surprises, underpins the quality of our audit. There are two main elements: the formal audit report, and ongoing communications. Two-way communication with management is a key aspect of our reporting and service delivery. We stress the importance of keeping you informed of issues arising throughout the audit and of understanding your views.

We deliver insights on aspects of the audit and your business practices such as the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements and any matters where we may disagree with management's view, and any audit differences or errors identified. We ensure the content of these reports meets the requirements of auditing standards and we share our industry experience to encourage discussion and debate with management. We see these insights as a key mechanism to support you in the execution of your responsibilities.



New standards – More than accounting change

Effective dates – the City Financial year

New standards	
	2020
AASB 15 <i>Revenue from Contracts with Customers</i> / AASB 1058 <i>Income of not-for-profit entities</i>	✓
AASB 16 <i>Leases</i>	✓

New standards

AASB 15/AASB 1058

- New contract-based five-step analysis of transactions, focusing on transfer of control
- New control based model
- New method for measuring revenues (each component)
- Specific guidance for performance obligations - contracts might need to be combined or separated
- Extensive new disclosures

AASB 16

COVID-19 impacts



Business impacts

The COVID-19 outbreak and the increasingly stringent government responses are causing significant business interruption, volatility in capital, commodity and currency markets and a deteriorating macroeconomic outlook.



What does this mean for the audit of the City of Nedlands?

We are committed to continuing to deliver a quality audit and are adapting our delivery in innovative ways:

- Modifications to the audit strategy and plan, including risk assessment as outlined on page 15, given the impacts of COVID 19.
- Increased focus on the issues critical to you in these uncertain times, in particular financial reporting estimates, judgements and transparent disclosures.
- Virtual secure access to your books, records and financial reporting, in particular:
 - Video access to perform walkthroughs of processes and test certain controls – our experience to date suggests these take more preparation to set up and longer to achieve;
 - Video access to observe and inspect significant assets, as applicable.
- Adaptation of our testing methods to new risk areas:
 - Nature of testing – focus on estimates and judgements, using authoritative external credible sources;
 - Extent of testing – split testing populations into pre and post-COVID given differing control environments.
- Sourcing further specialist advice including technical teams, risk management given additional judgements.

Your readiness will shape the following:

- Ability to gather sufficient appropriate audit evidence, in particular:
 - Process and control maintenance during the disruptions and your teams working from home, at a entity-level and books & records;
 - Work-arounds adopted by your teams adapting to working from home, increases our need to test pre and post-COVID methods;
 - Sources of evidence for estimates and judgements, in particular with respect to valuation of the infrastructure and fixed assets, as well as the landfill site's rehabilitation asset and provision. Disclaimers on behalf of management experts or other sources may significantly impact our work and conclusions;
 - Preparedness for relevant executives to sign off on financial reporting in the conditions, including representation letters, CEO and CFO declarations, etc.
- Timing, timelines and deadlines, including within the City, and reliance on others such as management experts, financiers and other external parties.
- Communication effectiveness – we recommend specific protocols be applied for us to communicate with you, including timing, secure technologies, and extended duration to address the wide ranging issues.

There may be instances where sufficient appropriate audit evidence cannot be easily obtained e.g. due to unavailability of critical information or key personnel. If any such difficulties emerge we will immediately alert management, the OAG and escalate key concerns, where required, with to the Audit & Risk Committee.

Impact of COVID-19 - Risk assessment



Audit focus areas	Relative risk	Movement due to COVID-19	Impact of COVID-19
Potential key audit matters			
Assets – valuations and impairment	H	↑	Could result in greater uncertainty for forecast cash flows and other key assumptions including discount rates. Where management has engaged experts, or makes use of internal specialists, such experts should give consideration to this increased risk.
Loans and receivables - Expected credit losses	H	↑	Could result in increased risk of defaults by debtors, specifically rates payers and sundry debtors. Management's ECL's assessment should consider and assess this increased risk.
Contracts in progress – fulfilment costs, receivables, and WIP	H	New risk	Increased challenges to negotiating claims and variations could be experienced by the City. This could increase the City's exposure to potential claims or contingent liabilities.
Other significant audit matters			
Financial report disclosures	M	New risk	Complexity in disclosures in particular those involving significant estimation and judgement, e.g. impairment, ECL, asset fair values.

Higher
 Moderate
 Lower
 Potential impact from COVID 19

8.2 Attachment



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kpmg.com.au/app



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8.3 Office of the Auditor General (OAG) Audit Results Report – Annual 2018/19 Financial Audits of Local Government Entities

Committee	8 June 2020
Applicant	City of Nedlands
Employee Disclosure under section 5.70 Local Government Act 1995	Nil.
Director	Lorraine Driscoll – Director Corporate & Strategy
Attachments	1. Audit Results Report – Annual 2018/19 Financial Audits of Local Government Entities

Executive Summary

The key purpose of this report is to present the Audit Results Report – Annual 2018/19 Financial Audits of Local Government Entities prepared by the Office of the Auditor General (OAG). The report comprises findings and other key details from the 2018/19 annual financial audits of the WA local governments and regional councils performed by the Office of the Auditor General (OAG). The report covers the matters relating to annual financial audits of 112 WA entities.

Recommendation to Committee

The Audit & Risk Committee:

1. receives the Audit Results Report – Annual 2018/19 Financial Audits of Local Government Entities; and
2. notes and review the information and contents of the report.

Discussion/Overview

The Local Government Amendment (Auditing) Act 2017 made legislative changes to the Local Government Act 1995 to provide for the auditing of Local Governments by the Auditor General. Accordingly, the Office of the Auditor General conducted the annual financial audit of the WA local governments and prepared this report under section 24 of the Auditor General Act 2006 to be presented to the State Parliament. The report was tabled in State Parliament on 11 March 2020. The report incorporates overview of the various findings and relevant recommendations made by the OAG as a part of their auditing of 112 WA Local Governments. Further, the report includes other improvement recommendations for the wider Local Government Industry in the following areas:

- Opportunities to minimize the cost of preparation of financial reporting and auditing in the future.
- Opportunities for the Department of Local Government, Sport and Cultural Industries (DLGSC) to reassess the principle of cost and benefit of performing periodic valuations of non-current assets.
- Department of Local Government, Sport and Cultural Industries (DLGSC) should explore the opportunity of facilitating a shared service of internal audit function for the councils who do not have their own internal audit function.

The tabled report is presented to the Audit and Risk Committee for their information and consideration.

Key Relevant Previous Council Decisions:

Nil.

Consultation

Nil.

Budget/Financial Implications

Nil.

Western Australian Auditor General's Report



Audit Results Report – Annual 2018-19 Financial Audits of Local Government Entities

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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 2018-19
Financial Audits of Local Government Entities**



**THE PRESIDENT
LEGISLATIVE COUNCIL
WESTERN AUSTRALIA**

**THE SPEAKER
LEGISLATIVE ASSEMBLY
WESTERN AUSTRALIA**

**AUDIT RESULTS REPORT – ANNUAL 2018-19 FINANCIAL AUDITS OF LOCAL
GOVERNMENT ENTITIES**

Under section 24 of the *Auditor General Act 2006*, this report covers the second 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 2018-19 financial audits of 112 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 2019
- 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.

A handwritten signature in black ink, appearing to read 'C Spencer'.

CAROLINE SPENCER
AUDITOR GENERAL
11 March 2020

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Auditor General's overview

The 2018-19 financial year marked the second 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 2018-19 audits for 112 of the State's 148 local government entities, of which 106 were completed by 3 March 2020 and are included in this report.



In addition to summarising the results of the audits for Parliament, I have taken the opportunity to provide Parliament and the local government sector with further insight to our approach for performing financial audits. We have also highlighted opportunities for streamlining accounting practices and the preparation of annual financial reports and their audit, with a view to reducing annual reporting costs.

Five auditor's reports included a qualified opinion on the financial report (page 10). Despite this low number of qualifications, there is little room for complacency, as a clear audit opinion is the minimum we should all expect. Although some entities had good audit outcomes, it is concerning that we reported 93 material matters of non-compliance in the auditor's reports of 48 entities, and 823 significant or moderate weaknesses in financial management and information systems controls in our management letters. Some of these were unresolved from the previous year. If not addressed, these omissions and exposures increase the risk of financial loss, error or fraud.

Most entities need to implement a more robust quality review process to ensure that their financial reports are complete and accurate and the working papers adequately support the figures in their financial reports. Many entities also need to maintain an effective internal audit function, supported by an active audit committee, to improve the level of accountability and integrity of reporting and operational activities.

As we have taken on more financial audits for the sector, we have actively engaged with key governance officers and operational staff in local government entities. We have found this very rewarding. In particular, attending zone meetings and participating in audit entrance and exit meetings of our local government clients has enabled valuable exchanges of information on audit expectations and matters of accountability in the sector. In addition to undertaking our audit work, fostering an open dialogue in this manner assists my office to deliver enhanced audit outcomes for the sector and Parliament.

I am however concerned that a small number of local governments do not recognise the need for council to be involved with the external audit. A few have attempted to avoid councillors being consulted by our auditors. Australian Auditing Standards require auditors to consider whether any matters need to be communicated with management, those charged with governance, or others. In some instances, it is essential that I and my staff liaise with council or council members and we will continue to do so, to avoid a restriction on the scope of the audit, and in recognition that under section 2.7 of the *Local Government Act 1995* the role of the council is to govern.

I am encouraged that the sector is embracing changes suggested during our audits. I also support future action to streamline preparation for changes in accounting standards and policies, particularly those relating to the valuation of assets.

I wish to thank my staff, our contract auditors, and staff in the local government entities we audited who contributed and assisted during our second year of transition into the annual financial audits of local government entities.

Executive summary

This Audit Results Report contains findings from the annual financial audits of the local governments and regional councils that we audited for the 2018-19 financial year.

Following proclamation of the *Local Government Amendment (Auditing) Act 2017* (Amendment Act), the Auditor General has been progressively assuming responsibility for the audits of the annual financial reports of local government entities. This report covers the annual financial audits of 112 entities, with the remaining 36 due to transition to the Auditor General by 2021.

Under the Amendment Act, the Auditor General also assumed responsibility for performance audits of the local government sector. We report to Parliament on those audits when they are completed.

Key findings

- We issued auditor's reports for 106 entities by 3 March 2020 for the 2018-19 financial year. (page 10)
- All but 5 auditor's reports included clear (unqualified) audit opinions on the financial reports (page 10). However, we reported 93 material matters of non-compliance with the *Local Government Act 1995*, Local Government (Financial Management) Regulations 1996, or other written law in 48 of our auditor's reports. If not addressed, these non-compliance matters may result in significant financial loss, inefficiency, financial misreporting or fraud. (page 12)
- At 13 entities, required related party disclosures were not made by all councillors and other key management personnel. Three entities currently do not have a related party declarations policy in place and at some entities there were several non-disclosures. (page 23)
- In addition to material matters of non-compliance reported in auditor's reports, we reported the following to entity management and the Minister for Local Government:
 - 766 financial management control weaknesses at 104 entities, of which 74% related to expenditure, financial management, payroll and human resources, and revenue. We considered 85% to be significant or moderate risk if not resolved in the short term (page 16)
 - 202 information system (IS) control weaknesses at 38 entities. This includes 125 weaknesses identified at 9 of the 10 entities subjected to a specific IS audit. (page 19)
- The audits of 16 entities were not completed by 31 December 2019, mainly because the entities were still investigating or correcting errors in their financial reports. (page 9)
- The quality of financial reports submitted for audit varied significantly across entities, from good to very poor, including some that did not balance and required significant levels of additional audit work. (page 24)

- During our second year of performing annual financial audits in the local government sector, we have made further general observations and included these in the report, with a view to minimising the cost of financial reporting and auditing in the future. These relate mainly to:
 - 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 8 and 26)
 - concern that there are reporting inconsistencies in the sector as a variety of valuation methodologies are being used for property and infrastructure (page 20)
 - the costs and benefits of requiring all asset classes to be valued. (page 26)
- We have also commented on the low proportion of entities that have an internal audit function and continue to identify significant opportunities to increase the effectiveness of audit committees and enhance auditor/entity communications. (page 27)
- Entities are preparing for upcoming changes to Australian Accounting Standards on revenue, income and leases for 2019-20, and we have recommended this be completed by 30 June 2020. (page 29)

Recommendations

1. Local government 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. (page 18)
2. Entities should ensure that reports from their valuers clearly explain key aspects of the valuations, and that management has a comprehensive understanding of the reports. (page 20)
3. Management should annually review the estimated useful lives of assets used for calculating depreciation, if necessary in consultation with their valuers or other experts. In addition, for greater consistency across entities, the Department of Local Government, Sport and Cultural Industries (DLGSC) should review its guidance regarding potential ranges for useful lives of assets, and entities should consider the guidance when doing their annual reviews. (page 21)
4. Entities who have not yet done so, should implement the recommendations of our local government position paper number 1 '*Accounting for work bonds, building bonds and hire bonds*'. (page 23)

5. DLGSC should consider extending existing declaration processes to include annual related party declarations for councillors and key management personnel that assist compliance with Australian Accounting Standard AASB 124 and that are fit-for-purpose to the local government environment. (page 23)
6. Local government entities should, where necessary, seek advice in advance of year end if uncertain about appropriate accounting treatments. (page 25)
7. To improve the quality of financial reports and achieve greater consistency across entities, DLGSC should consider providing an accounting advice helpdesk to the local government sector. (page 25)
8. DLGSC should re-assess the amount of detail required to be included in annual financial reports, in particular for small and medium sized entities. (page 26)
9. DLGSC should re-assess the potential advantages and disadvantages if smaller local government entities reported some asset classes such as plant and equipment using the cost model, rather than periodically re-valuing those assets. (page 27)
10. Entities and DLGSC should monitor the progress of the Australian Accounting Standards Board (AASB) and the International Public Sector Accounting Standards Board (IPSASB) public sector fair value projects relating to the valuation of assets. (page 20)
11. DLGSC should consider facilitating a shared internal audit service for the local government sector, as a service available to small and medium entities who do not have their own internal audit function. (page 28)
12. To facilitate timely preparation of annual financial reports, and to minimise the additional audit costs associated with Australian Accounting Standards on revenue, income and leases (AASB 15, AASB 1058 and AASB 16), entities should complete preparations for those new standards by 30 June 2020. (page 29)

Introduction

Under the *Local Government Amendment (Auditing) Act 2017* (Amendment Act), proclaimed in October 2017, a staged program commenced for local government annual financial audits to transition to the Auditor General as and when existing audit contracts between audit firms and entities expire. The Office of the Auditor General (OAG) was responsible for 112 audits for 2018-19, the second year of the transition. All financial audits will fall under the OAG by 2020-21.

OAG audit staff performed 13 of the 112 financial audits, with the others performed by contract audit firms on our behalf. Our oversight of these audits, coupled with in-house OAG audits, has provided our staff with valuable insight and understanding of the sector. We will be increasing the number of audits performed using in-house audit teams, however we anticipate a large proportion will continue to be performed by contract audit firms, under our oversight. 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 in regional areas.

Over \$39.6 billion of total assets were audited for the 106 entities. Their combined total operating revenue was \$3.6 billion, of which rates contributed \$2 billion (56%) and fees and charges \$945 million (27%). The combined total operating expenditure was \$3.6 billion.

Annual financial reporting framework, timeline and audit readiness

Reporting framework and content

Each 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* (LG Financial Management Regulations), to be reported in the Notes to the annual financial report.

The quantity of detail that is being reported is onerous and exceeds that reported by most WA State government entities and includes details not included by local governments in other jurisdictions. On page 26 we have recommended that DLGSC re-assess the amount of detail 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 for audit to the OAG by 30 September. (See appendix 3 on page 37 for full timeline.) Many of the entities we audited for 2018-19 submitted their financial reports for audit in advance of this deadline. However, 16 of the 112 we audited did not meet the statutory deadline, and sought approval from the Minister to instead submit for audit by various deadlines, the latest being 30 November. There were a variety of reasons for these delays, including staffing shortages in some entities and a few instances of illness.

We completed 96 of the audits by 31 December 2019 as required by section 7.9 of the LG Act. The main reasons for delays finalising the audits included the abovementioned late submission by entities, problems with asset valuations that entities only received after year end and which required various clarifications, insufficient evidence to support the financial report, and numerous errors requiring correction.

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

By 3 March 2020 we had completed a further 10 of the 16 audits that were incomplete at 31 December 2019.

Summary of auditor's reports issued

At 3 March 2020, we had issued auditor's reports for 106 entities for the financial year ending 30 June 2019.

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 local government council. Appendix 1, from page 32, is a table of all local government entities' auditor's reports issued by the Auditor General for 2018-19.

Audit opinions on annual financial reports

An unqualified audit opinion in the auditor's report indicates the 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 5 entities received unqualified (clear) audit opinions.

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 5 entities received a qualified opinion:

Shire of Bruce Rock

Other than for roads, the Shire's 2017-18 valuation of infrastructure assets including bridges, footpaths, drainage, other infrastructure and the airstrip, was a desktop valuation and did not include an assessment of the condition of assets. We therefore issued a qualified audit opinion because we were unable to obtain sufficient appropriate audit evidence to confirm the value reported for infrastructure assets, other than roads, at 30 June 2019 and 30 June 2018.

Shire of Goomalling

We issued a qualified opinion as the Shire recognised rates revenue from properties owned by the Shire, along with a corresponding expense. This is not in accordance with the requirements of Australian Accounting Standard AASB 101 – *Presentation of Financial Statements*, and overstated the total revenue and total expenses by \$110,140 for the year ended 30 June 2019 and by \$112,403 for the previous year. The Shire identified this incorrect practice during the year and advised that it has taken steps, during its 2019-20 budget process, to ensure correct rating for the future.

Shire of Ravensthorpe

The audit opinion for the year ending 30 June 2018 was qualified because the Shire's infrastructure assets had not been revalued since 30 June 2015.

An appropriate valuation was performed for 2018-19, and the amount of \$124,591,608 reported at 30 June 2019 is considered to represent fair value. However, in accordance with Australian Auditing Standards, we have issued a qualified opinion to alert users of the annual

financial report that the balance at 30 June 2019 may not be comparable to the balance reported for 30 June 2018, because of the uncertainty over the 2018 balance.

Shire of Sandstone

A qualified audit opinion was issued as the Shire's roads and footpaths infrastructure were last valued in June 2014. Because the assets have not been re-valued with sufficient regularity or in accordance with Regulation 17A of the LG Financial Management Regulations, we were unable to determine whether infrastructure of \$38,203,388 in the Statement of Financial Position represents fair value.

Shire of Wagin

The Shire's previous auditor issued a qualified audit opinion in relation to infrastructure assets for the year ended 30 June 2018 because drainage assets had not been valued for several years. The drainage assets were valued during 2018-19 at \$3,416,594. However, in accordance with Australian Auditing Standards, we have issued a qualified opinion to alert users of the annual financial report that the balance of infrastructure assets at 30 June 2019 may not be comparable to the balance reported at 30 June 2018, because of the uncertainty over the 2018 balance.

Prior year qualified opinions removed in 2018-19

Two entities revised their financial reporting or took necessary action resulting in the 2017-18 matters in their qualified opinions being resolved and the qualification removed for 2018-19.

Shire of Brookton

In 2018-19, the Shire recognised its grant revenue in accordance with the accounting standards and disclosed the correction of the 2017-18 figures in the notes. The qualified opinion has therefore been removed.

Town of Cambridge

During 2018-19, the Town transferred bond moneys held into the Municipal Fund. Interest earned on the bond moneys whilst they were previously held in trust has been calculated and a refund process has commenced. The Town's previous qualified opinion on this matter 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 financial report users, we may include an Emphasis of Matter paragraph in our auditor's report.

This year, we again included an Emphasis of Matter in every auditor's report to highlight the inconsistency between Regulation 16 of the LG Financial Management Regulations and the Australian Accounting Standards. The regulation does not allow a local government 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 Cockburn – correction of prior period errors

We included an Emphasis of Matter to highlight the City's disclosure that several account balances previously reported in 2017-18 have been restated in the comparative information reported in the 2018-19 annual financial report.

City of Karratha – liability to remediate waste disposal site

We included an Emphasis of Matter to highlight the City's disclosure of a contingent liability for the rehabilitation of its Seven Mile Waste Disposal site. The City has indicated it is obtaining a reliable estimate of its liability with a view to reporting it in the 2019-20 annual financial report. Provisional estimates indicate that the liability is likely to be significant. There is \$20.1 million in funds in its Waste Management Reserve which the City has advised exceeds the provisional estimate of the liability and can be used for the rehabilitation of this site.

Material matters of non-compliance with legislation

Regulation 10(3)(b) of the Local Government (Audit) Regulations 1996 (LG Audit Regulations) requires the auditor to report, in the auditor's report, any matters indicating non-compliance with Part 6 of the LG Act, LG Financial Management Regulations or applicable financial controls in any other written law. These 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.

Some of the matters we have reported relate to non-compliance with specific sections of the LG Act or regulations. We consider regulation 5(1) of the LG Financial Management Regulations to be particularly important, because failure to effectively apply those requirements can result in significant financial loss, inefficiency, financial misreporting or fraud. We considered many of the findings that we reported to represent non-compliance with this important section of the LG Financial Management Regulations.

Our individual findings are included in our auditor's reports which become part of the annual report of each entity and are presented on their websites. 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 more notable matters we reported:

Issue	Finding
Controls over accounting journal entries	At 22 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.
Bank reconciliation process incomplete	At 1 entity the municipal and trust account bank reconciliations provided at 30 June 2019 had no evidence of who prepared them and were not independently reviewed. In addition, the municipal bank reconciliation included numerous uncleared reconciling items more than 12 months old. At 6 other entities

Issue	Finding
	<p>bank reconciliations were not independently reviewed by management.</p> <p>While we considered these instances to warrant reporting in the auditor's report, we have also reported in our management letters, several other less significant control shortcomings in relation to bank reconciliations.</p>
Quotes not obtained or no evidence retained	<p>At 9 entities between 17% and 75% 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 increased the likelihood of not receiving value for money in procurement, or favouritism of suppliers.</p>
Procurement without purchase orders	<p>At 6 entities purchase orders were not prepared or were prepared after the suppliers' invoices were received.</p>
Financial ratios not reported	<p>Nineteen entities did not report the Asset Renewal Funding Ratio, mostly for the 3 years, 2019, 2018 and 2017, in their annual financial report as required by regulation 50(1)(c) of the LG Financial Management Regulations. Reasons for non-reporting included:</p> <ul style="list-style-type: none"> • 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 • the assets management plan was not current • information on planned capital renewals and required capital expenditure over a 10 year period was not available • the asset renewal program had not been updated due to the proposed divestment of an asset. <p>In addition, 1 entity did not report the Asset Consumption Ratio for 2017 in the annual financial report, as required by regulation 50(1)(c) of the LG Financial Management Regulations, as current replacement cost of depreciable assets was not estimated in 2017.</p>
Review not performed of financial management systems and procedures	<p>At 7 entities a review of the financial management systems and procedures was not completed at least once every 3 financial years, as required by section 5(2)(c) of the LG Financial Management Regulations.</p>
Review not performed of risk management, internal control and legislative compliance	<p>At 3 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 Regulation 17 of the LG Audit Regulations.</p>
No review and authorisation of changes to masterfiles	<p>There was no evidence of independent review and authorisation of changes made to the creditor masterfile at 5 entities, the payroll masterfile at 4 entities and the debtors master file at 3 entities. This increased the risk of unauthorised changes to key information, although our audit sampling did not identify any.</p>

Issue	Finding
<p>Miscellaneous findings</p>	<p>We also reported several isolated instances of non-compliance:</p> <ul style="list-style-type: none"> • Bonds and other monies incorrectly held in the trust fund which are not held in trust, or required to be credited to the trust fund under section 6.9(1) of the LG Act. • Two entities continued to procure goods and services from suppliers after their contracts had expired, without a valid extension. This practice increases the likelihood of not receiving value for money in procurement. • At 2 entities some services were procured where the total spend for each supplier during the year exceeded \$150,000, however tenders were not called. In 1 of these instances, there was also no written contract in place. 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. • Rates adjustment entries were posted by 1 employee, without being reviewed by a senior staff member independent of preparation. This increases the risk of errors or fraud passing undetected. • An entity transferred money from the building reserve via a transfer from cash backed reserves to unrestricted cash in excess of the amount approved within the entity's annual budget. • The unrestricted cash position at 30 June 2019 was a negative balance as the entity had transferred funds into reserves that exceeded the balance of unrestricted cash that was in the Municipal Fund. • At 1 entity monitoring and control activities for revenue and receipting processes were inadequate. Furthermore, internal controls relating to purchases of goods, fundraising activities, staff discounts and review of attendance fees at a child care centre were inadequate during the period.

Source: OAG

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

Adverse trends in the financial position of local government entities

Regulation 10(3)(a) of the LG Audit Regulations requires the auditor to report, as part of the annual audit of the financial 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'.

A performance audit of adverse financial trends would typically consider numerous aspects of an entity's finances, and inter-relationships between financial ratios. However, for purposes of the annual financial audit process, and meeting the requirement of the regulation, we have limited our audit to a high level assessment of whether the 7 financial ratios reported in the 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's standard, in recognition that failing to meet some standards is more noteworthy than failing to meet others.

Entities report these ratios for the current year and the preceding 2 years. Our trend analysis is therefore limited to these 3 years of information. We reported that 106 ratios at 72 entities indicated adverse trends.

Most of the ratios are useful indicators. However, we note that DLGSC is reviewing the ratios. We support the intent to simplify this reporting, as some ratios are more robust than others. For example, the definition of 'current ratio' in the regulations excludes restricted assets and liabilities associated with restricted assets. This means that the ratio is directly affected by the amount of funds that management and council decide to transfer to and hold in reserves. This appears to render the ratio more complex than common business practice and may make it more difficult to compare different entities. Also, reporting the operating surplus ratio may be unnecessary as users of the financial report can get similar information about any deficit from the Statement of Comprehensive Income.

Financial management controls

In addition to the material non-compliance matters reported in our auditor's reports (see Table 1 on pages 12 to 14), we reported other matters to management, including less material non-compliance as well as financial management and information system control weaknesses identified in our audits. These management letters, together with the auditor's report, form part of the overall audit 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 on completion of the audit.

In our management letters, we 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.

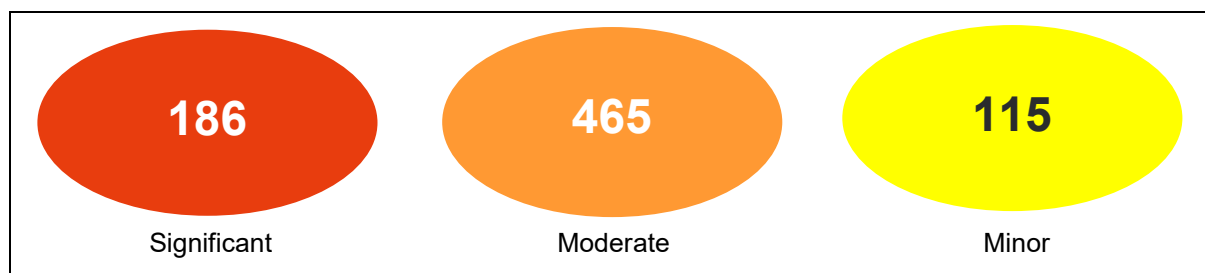
Source: OAG

Table 2: Risk categories for matters reported to management

We give management the opportunity to review our audit findings and provide us comments prior to completion of the audit. When management responds to our draft management letter, 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 our subsequent annual audits.

Of the 290 control weaknesses we reported at 40 entities in our report 15: March 2019, 251 recommendations had been addressed or substantially addressed for 2018-19.

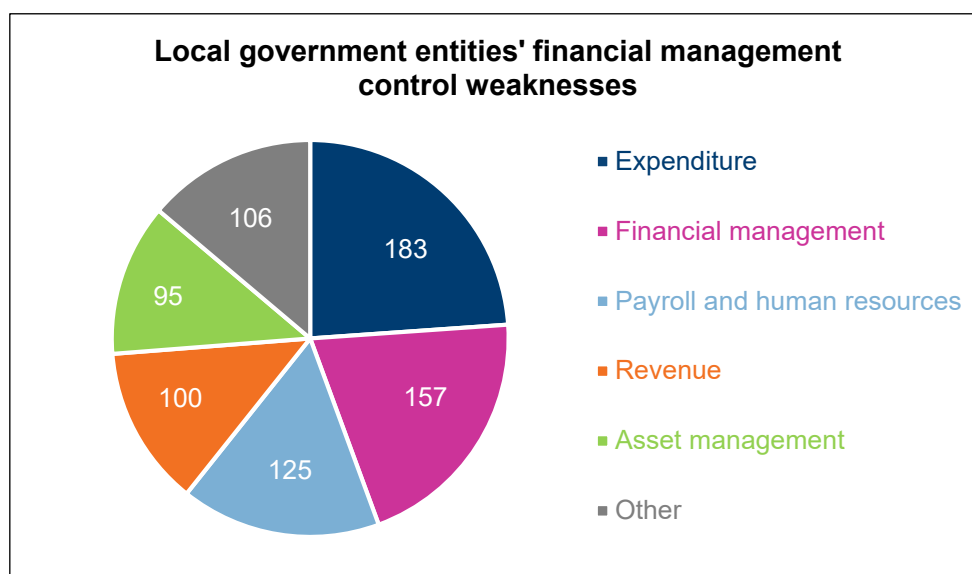
During 2018-19, we alerted 104 entities to control weaknesses that needed their attention. We reported 766 control weaknesses across the 3 risk categories as follows:



Source: OAG

Figure 1: Number of control weaknesses reported to management in each risk category

The 766 control weaknesses identified in our 2018-19 management letters are presented in their different financial management control categories in Figure 2. The control weaknesses relating to expenditure, financial management, payroll and human resources and revenue accounted for 565 or 74% of the control weaknesses reported.



Source: OAG

Figure 2: Financial management control weaknesses reported to entities

Examples of the weaknesses are reported 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 also comply with their legislated requirements.

Expenditure

- Quotes were not obtained as required by entities' policy guidelines. This increases the risk of favouring specific suppliers and/or not obtaining value for money. There were also instances where evidence of quotes was not retained for items purchased.
- Purchase orders were raised after the goods had been supplied and often after the suppliers' invoices had been received. At a few entities, a number of purchases were not supported by appropriately approved purchase orders. This increases the risk of inappropriate purchases.
- Supplier masterfile changes were not supported or not independently reviewed to confirm checking for related party interests, authorisation, completeness and accuracy. This increases the risk of fraud.
- Purchasing card expenditures by cardholders were not undertaken and acquitted in accordance with the approved policies and procedures.
- Supporting documentation for payments was incomplete, not authorised by an appropriately authorised or delegated officer or incorrectly cost coded.

Financial management

- 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.

- Bank reconciliations were not routinely prepared on a monthly basis or were not reviewed by a second officer. 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.
- User password access to financial management, payroll and human resources systems was not restricted to appropriate staff. Monitoring of access privileges was not completed by a senior staff member on a regular basis.
- Daily cash summaries were usually prepared at the cash collection point but often were not reviewed and signed by a second officer to verify that all money received was recorded and submitted for banking. This increases the risk of theft.

Payroll and human resources

- Commencement and termination processes were not completed promptly to ensure timely and accurate processing and payment of staff.
- Employee masterfile changes were not always supported by related records. This is contrary to good recordkeeping practices, and makes verification of transactions more time consuming. Some masterfile changes were also not reviewed for accuracy and completeness, increasing the risk of payroll errors or fraud.
- Some employees were not taking annual and long service leave entitlements and therefore accumulating excessive leave balances. Infrequent taking of leave and associated rotation of staff roles, increases the likelihood of any frauds remaining undetected.
- Payroll reports were not reviewed by cost centre or business managers, increasing the risk of errors or fraud passing undetected.

Revenue

- No evidence was available that rates and charges were checked before ratepayers were billed.
- Daily receipts listings were prepared by 1 person, often unsigned, and in many instances there was no evidence of review by a second officer.
- Trust funds were not banked separately or interest was incorrectly recorded and treated (refer page 22).

Recommendations

Local government 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.

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. In 2019, we performed IS audits at 9 metropolitan and 1 regional local government entities.

We identified 125 IS control weaknesses across 9 entities where our IS audits have been completed. We rated 10% of the weaknesses as significant, 76% as moderate, and the remainder as minor.

Of the weaknesses identified:

- 49% related to information security issues. These included system and network vulnerabilities and unauthorised and inappropriate access to systems and networks
- 30% 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
- 8% 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.

In addition to these findings, our financial audit teams also identified 77 IS control issues at 29 entities during the financial audits. Our IS team did not perform general computer controls audit at these entities.

As these issues have the potential to compromise the confidentiality, integrity and availability of key computer systems, and the information they contain, entities should take prompt corrective action to address them.

More information on these IS audit results will be included in our first IS audit report of local government entities which is expected to be tabled in the second quarter of 2020.

Specific financial reporting issues arising from 2018-19 audits

Financial reporting of non-current assets

Quality of valuation documentation

For the 66 entities that we audited for the first time in 2018-19, we reviewed opening balances, as required by Australian Auditing Standards. As part of our review, we considered the reliability of re-valuations of infrastructure and of property that occurred in 2017-18 (the comparative reported amounts). Several of these asset balances had experienced significant increases or decreases in 2017-18.

We experienced some difficulty in obtaining explanations for these large differences in value. We expected that valuers' reports and internal records would have clearly documented the main reasons for such large changes in value. In several instances, management and our audit teams concluded that the large changes were because the previous valuations, generally performed between 2013 and 2015, were less robust. We were able to confirm that most of the assets revalued in 2018 and 2019 were now reported at amounts that materially represented fair value. However, some required adjustments which were made during the audit process, (refer to page 24).

Inconsistent valuation methods

As reported in our Report 15: March 2019, our 2017-18 financial audits noted that a variety of valuation methodologies were used for property and infrastructure in the WA local government sector. We continue to have concerns about the inconsistencies of valuation methods.

Different valuers are applying different interpretations of some principles of the Australian Accounting Standards, in particular those relating to restricted use assets, resulting in significant differences in values across entities. This impacts comparability of the assets of local governments. Both the Australian Accounting Standards Board (AASB) and the International Public Sector Accounting Standards Board (IPSASB) currently have projects under way relating to fair value of public sector assets.

Most entities revalued these assets in 2017 or 2018 and, in accordance with LG Financial Management Regulation 17A(4), their next valuations are not imminent. It is therefore anticipated that the accounting standards boards will by then provide guidance that could be consistently and efficiently applied when these assets next require a valuation.

Recommendations

1. Entities should ensure that reports from their valuers clearly explain key aspects of the valuations, and that management has a comprehensive understanding of the reports.
2. Entities and DLGSC should monitor the progress of the AASB and IPSASB public sector fair value projects relating to the valuation of assets.

Significant changes in estimated useful lives of assets, and associated depreciation rates

At some entities, we noted significant changes in the amount of depreciation expense recognised in 2019 compared to 2018. To confirm the validity of the mostly lower depreciation, we made further audit inquiries. We established that the entities' valuers had, while performing the 5-yearly re-valuations, recommended revised remaining useful lives for the assets. After further consideration, we were able to confirm that the estimates were reasonable and that depreciation expense for 2019 was appropriate.

However, as depreciation expense is dependent on the estimated useful life of assets, it is of concern that:

- in most instances, there was no evidence that management had assessed the remaining useful life of assets over the intervening period since the last valuation. AASB 116 - *Property, Plant and Equipment* states 'the useful life of an asset shall be reviewed at least at each financial year-end'. If the useful lives of assets had been reviewed by management annually as required by AASB 116, the large one-off adjustments to depreciation expense that we observed in 2019, could have been avoided at those entities.
- a depreciable asset has to be depreciated over its useful life. AASB 116 defines useful life as 'the period over which an asset is expected to be available for use by an entity'. It is therefore essential that entity management considers whether the valuer's estimate of useful life matches management's expectation of how long the asset will be used by the entity. There was however no evidence that management had discussed the valuers' useful life estimates or taken into account management's expectation of how long the entity expected to continue using the assets.

Recommendation

Management should annually review the estimated useful lives of assets used for calculating depreciation, if necessary in consultation with their valuers or other experts.

In addition, for greater consistency across entities, DLGSC should review its guidance regarding potential ranges for useful lives of assets, and entities should consider the guidance when doing their annual reviews.

Expensing assets with a value at acquisition under \$5,000

Regulation 17A(5) of the LG Financial Management Regulations required, with effect from 2018-19, assets with a value below \$5,000 at the time of acquisition, to be excluded from the assets reported in the financial report. This is consistent with the State sector and also reduces financial administration costs. These assets will instead be reported as an expense in the Statement of Comprehensive Income in the year of acquisition.

The vast majority of entities successfully implemented this change.

Accounting for bond monies

During the 2017-18 annual financial audits and the planning phase of the 2018-19 audits, we noted significant variation in the accounting treatment for bond moneys, such as work bonds, building bonds and hire bonds. This included:

- Some entities held bond moneys in the Municipal Fund and therefore retained any interest income on those moneys.
- A small number of entities held bond moneys in the Trust Fund and, in accordance with section 6.9(3)(a) of the LG Act, repaid interest together with the principal amount to the developer/hirer.
- Some entities held bond moneys in the Trust Fund but retained any interest earnings as revenue of the entity.
- Some entities held bond moneys in the Trust Fund, and in a non-interest bearing bank account.

Section 6.9(1) of the LG Act states:

A local government is to hold in the trust fund all money or the value of assets —

(a) that are required by this Act or any other written law to be credited to that fund; and

(b) held by the local government in trust.

Section 6.9(3)(a) states:

Where money or other property is held in the trust fund, the local government is to —

(a) in the case of money, pay it to the person entitled to it together with, if the money has been invested, any interest earned from that investment.

To help achieve an appropriate, consistent accounting approach, we carefully considered the matter and sought independent legal advice. We concluded that:

- there are no provisions in the Act or any other written law that specify that work bonds, building bonds and hire bonds are to be credited to, or held in, the Trust Fund, and
- unless agreements between developers/hirers and the local government entity require bond moneys to be held in the Trust Fund, they should not be held in the Trust Fund.

On 1 July 2019, we issued our local government position paper number 1 '*Accounting for work bonds, building bonds and hire bonds*'. While some entities were already appropriately accounting for these monies, the vast majority of other entities have now also followed this guidance. Apart from achieving consistent reporting, other outcomes included:

- the monies are now held in the Municipal Fund and are therefore included in the Statement of Financial Position
- entities that previously held the monies in non-interest bearing bank accounts, can now earn and retain interest on these monies for the benefit of the community
- although our position paper mainly addressed bond monies, entities have also applied the principles of the position paper to more consistently identify whether other monies should continue to be held in the Trust Fund or in the Municipal Fund. Importantly, monies that are required to be held in the Trust Fund will continue to be subject to the additional provisions of relevant sections of the LG Act.

Recommendation

Entities who have not yet done so, should implement the recommendations of our local government position paper number 1 '*Accounting for work bonds, building bonds and hire bonds*'. This is available on our website.

Related party disclosures

Australian Accounting Standard AASB 124 – *Related Party Disclosures* requires not-for-profit public sector entities to disclose material transactions with related parties in the notes to the annual financial report. This is important to help identify known or unknown extraction of value from an entity, as well as potential bias in procurement, recruitment or other operational activities. The objective of the standard is to draw attention to the possibility that the financial position and profit or loss may have been affected by related party transactions, or by outstanding balances with related parties. Open disclosure of any related parties and related party transactions by councillors and other key management personnel (KMP) helps financial statement preparers and CEOs to report transparently.

Under AASB 124, related parties in a public sector context include councillors and other KMP of the reporting entity, their close family members, and entities controlled or jointly controlled by any of them.

Citizen transactions, where KMP or their close family members or their related entities are interacting with a public sector entity under the same terms and conditions as a public citizen, are not required to be disclosed. Examples include motor vehicle registration, rates, electricity or water charges.

To assist accounting staff and the CEO when preparing the annual financial report, entities generally require councillors and KMP to complete a declaration regarding their related parties and any related party transactions they may have had with the entity.

There is some overlap between the conflict of interest declarations made by councillors under the LG Act and the disclosures required for purposes of AASB 124. However, it was of significant concern that at 13 entities, related party declarations to address the requirements of AASB 124 were not made by some councillors and/or KMP. Three entities currently do not have a related party declarations policy in place and at some entities there were several councillors or KMP failing to complete declarations. Our annual financial audit process cannot identify all undeclared related parties or instances of payments to those parties. Therefore, it is important entities have strong frameworks in place with rigorous safeguards for disclosure of private interests and related parties in order to support and demonstrate probity in decision-making.

Recommendation

DLGSC should consider extending existing declaration processes to include annual related party declarations for councillors and key management personnel that assist compliance with AASB 124 and that are fit-for-purpose to the local government environment.

Quality of financial reports submitted for audit

The quality of financial reports submitted for audit varied significantly across entities, from good to very poor, including some that did not balance. Our audits also noted that various entities were often accounting differently for the same accounting transactions, balances or disclosures.

We identified numerous errors that were corrected by the entities during the audit process. In addition, 29 of the 106 entities had errors made in prior reporting periods that required correction in 2018-19. Some of these were identified by entity management while others were identified by our audit teams. These prior period errors included:

- property assets not previously recognised
- property assets incorrectly recognised as being controlled by the entity
- asset valuations not correctly taken up in the financial report
- asset valuations not comprehensive
- entities' share in Local Government House, which they had not previously recognised in their financial reports
- entities' investment in regional councils not consistently accounted for
- share of joint ventures overstated.

In most entities a more robust quality review process needs to be implemented to ensure that their financial reports are complete and accurate and the working papers adequately support the figures in their financial reports.

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.

At the beginning of the financial year, entities should confirm the accounting policies to be applied for the ensuing year.

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:

- 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.

There is also an opportunity to improve the quality of financial reports and achieve greater reporting consistency across entities, through a helpdesk provided by DLGSC. This would be similar to the service provided by Department of Treasury to the State government sector.

Recommendations

1. Local government entities should, where necessary, seek advice in advance of year end if uncertain about appropriate accounting treatments.
2. To improve the quality of financial reports and achieve greater consistency across entities, DLGSC should consider providing an accounting advice helpdesk to the local government sector.

Opportunities to improve the efficiency of financial reporting, and the effectiveness of internal audit

Our annual financial audits focus on providing assurance over an entity's annual financial report. During the audit we also make related recommendations in respect of compliance, financial management and information system controls, as reported above.

This section of the report includes other opportunities 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 local government entities

As noted on page 8, the quantity of detail that is being reported in the annual financial reports of WA local government entities is onerous and exceeds that reported by most WA State government entities. WA entities also include several disclosures that are not common practice in other states. This contributes to the cost of, and delays in preparing annual financial reports, and to audit costs.

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

However, opportunities already exist to reduce the amount of detail in local government financial reports without impacting their usefulness and understandability for users. Wherever it does not impair usefulness, accountability and transparency, we encourage efforts to streamline financial framework obligations, particularly for small and medium sized entities.

Recommendation

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

The cost and benefit of performing valuations of non-current assets

The cost of periodically revaluing infrastructure and property, plant and equipment assets can be significant. For some smaller entities, the benefits of valuations for the entity and for users of the annual financial report may not always justify the cost.

AASB 116 – *Property, Plant and Equipment* requires entities to choose to measure property, plant and equipment, including infrastructure, using either a re-valuation model (at fair value) or a cost model. WA local government entities are required however, by Regulation 17A of the LG Financial Management Regulations, to choose the fair value method, which requires periodic re-valuations.

WA State government entities are required to perform periodic re-valuations because their financial results are consolidated into the Annual Report on State Finances at fair value. This is not applicable to local government entities, as they are not consolidated into State financial reports.

The opportunity therefore exists to allow some local government entities, particularly smaller entities where re-valuation costs can take up a significant portion of rates income, to make savings by not re-valuing all assets. For example, plant and equipment could be reported at

cost less accumulated depreciation. This would be consistent with the State government sector, and would save costs without reducing the amount of useful information for users of the annual financial report.

Recommendation

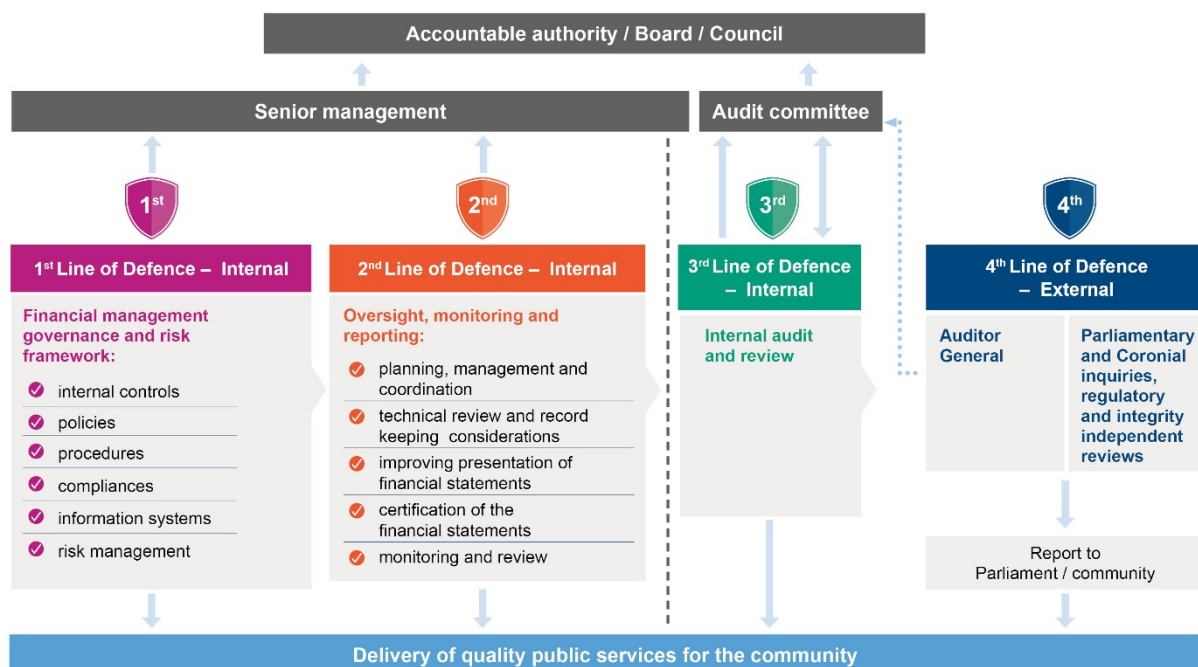
DLGSC should re-assess the potential advantages and disadvantages if smaller local government entities reported some asset classes using the cost model, rather than periodically re-valuing these assets.

Internal audit

In our report number 15: March 2019, which reported on our 2017-18 financial audits of the sector, we noted that only 11 of the 42 entities we surveyed had an internal audit function. Although we did not do a formal survey this year, overall this low implementation of internal audit continued.

An effective internal audit function is important for ongoing maintenance and improvement of risk management, internal control overseen by an effective audit committee, and governance processes. The internal audit function acts as the independent eyes and ears for council on administration and controls in key areas of risk.

As shown in the 4 lines of defence model below, internal audit is a key component of the defence against fraud, including misrepresentation. Although an entity's financial management governance and risk framework, and management oversight and monitoring are the initial lines of defence against fraud or error, internal audit is also a crucial component.



Source: OAG

Figure 3: Four lines of defence model

We recognise the challenges for some regional entities in particular to maintain an effective, independent internal audit function. A shared internal audit service, should be considered for

voluntary use by the local government sector. We propose to cover this topic further in future performance audits.

Recommendation

DLGSC should consider facilitating a shared internal audit service for the local government sector, as a service available to small and medium entities who do not have their own internal audit function.

Disclosure of audit communications

We have noted that, historically, sometimes details in audit management letters have included the names of suppliers. The reports have also sometimes included the names or system logon-ids of local government staff. These findings, reported in accordance with regulation 10(4) of the LG Audit Regulations, form part of our report under section 7.12AD of the LG Act to the CEO, mayor/president and the Minister.

Although the CEO is required to include our auditor's report on the annual financial report in the entity's annual report, there is no legislative requirement for entities to publish our management letters. They are however sometimes made public as part of the proceedings of council meetings.

As this personal/security information could potentially be misused if made public, we have adopted a practice of omitting or redacting a limited amount of this sensitive information from our management letters. We also encourage entities, when providing management comments for inclusion in our management letters, to apply these principles. It is our view that this provides an appropriate balance between transparent reporting and security of information, in the event that an entity decides to make our management letters public.

Upcoming changes to accounting standards and the local government regulations

A number of significant changes to Australian Accounting Standards will be applicable over the next few years, some commencing for local government entities in 2019-20. These, and a change to the LG Financial Management Regulations, are expected to require close attention by entities' finance officers and our audit teams.

Future impact of changes to accounting standards

The following new and revised standards issued by the AASB are expected to impact local government entities to varying extent:

- **AASB 15 – Revenue from Contracts with Customers** – This standard requires revenue to be recognised by entities on the fulfilment of the performance obligations of an enforceable contract at a point in time or over time, as applicable. An example is receiving grant moneys. Entities need to allocate the grant amount to each performance obligation in the contract and recognise the revenue only when the related performance obligations are satisfied. This will be consistent with current practice for the private sector.
- **AASB 1058 – Income of Not-for-profit Entities** – This standard, in combination with AASB 15, establishes new principles for income recognition for not-for-profit entities from 1 January 2019 reporting and will therefore apply to entities for the 2019-20 reporting year. AASB 1058 applies to transactions where assets are acquired at significantly less than fair value, including rates and grant moneys. It is anticipated that the implementation of these 2 standards will result in more delayed income recognition.
- **AASB 16 – Leases** – For lessees, this standard removes the distinction between operating leases and finance leases, and requires all leases (except short-term leases and leases of low-value assets) to be recognised as lease assets and lease liabilities on the balance sheet. This will result in the grossing-up of the balance sheet and higher expense in the early years of the lease term. This standard applies from 1 January 2019 and will therefore apply to local government entities for the 2019-20 reporting year.
- **AASB 1059 – Service Concession Arrangements: Grantors** – This standard is applicable to public sector entities (grantors) that enter into service concession arrangements with operators (generally from the private sector). 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 implications for grantors. AASB 1059 will apply for years beginning on or after 1 January 2020 and will apply to local government entities for the 2020-21 reporting year.

We acknowledge that there are varying degrees of readiness and preparation for these new accounting standards. We are preparing and training financial audit staff in the new and revised requirements and updating relevant audit policies and procedures.

Recommendation

To facilitate timely preparation of annual financial reports, and to minimise the additional audit costs associated with Australian Accounting Standards on revenue, income and leases, AASB 15, AASB 1058 and AASB 16, entities should complete preparations for those new standards by 30 June 2020.

Financial performance of local government entities

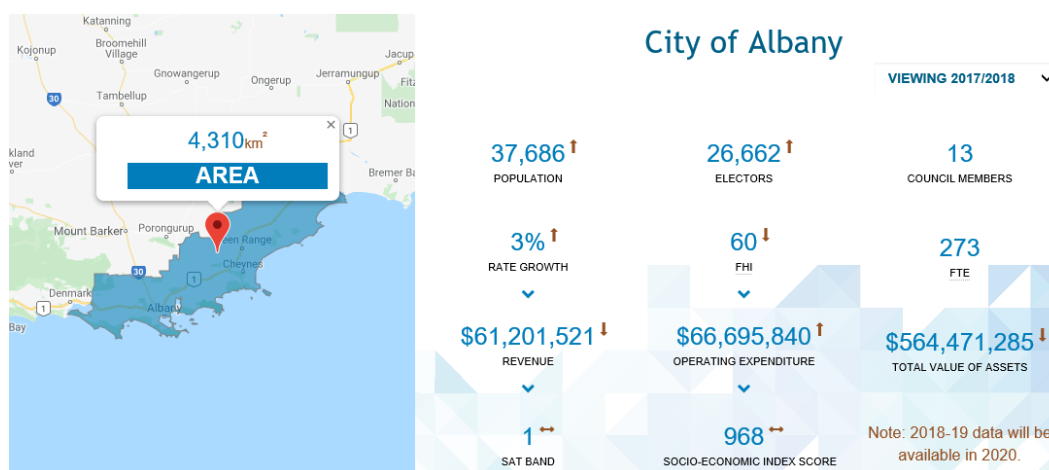
The Amendment Act requires that each entity's annual report, including the audited financial report, be available on the entity's website within 14 days of the annual report being accepted by the local government council.

A central source of financial information and ratios for each entity is the MyCouncil website. This website is maintained by the DLGSC and includes information, including audited financial data, about each entity.

DLGSC uses audited financial information for MyCouncil, however we do not check the website for the accuracy of information and do not propose to report similar financial information in our Audit Results Report.

The information on the MyCouncil website can be viewed in tables or graphically for a number of years for each entity. The website also enables readers to compare aspects of the financial operations of different entities in Western Australia over a number of years.

As an example, the first entity on the site is City of Albany. Some examples of the information available on the MyCouncil website for the City of Albany are show below:



Source: DLGSC's MyCouncil Website

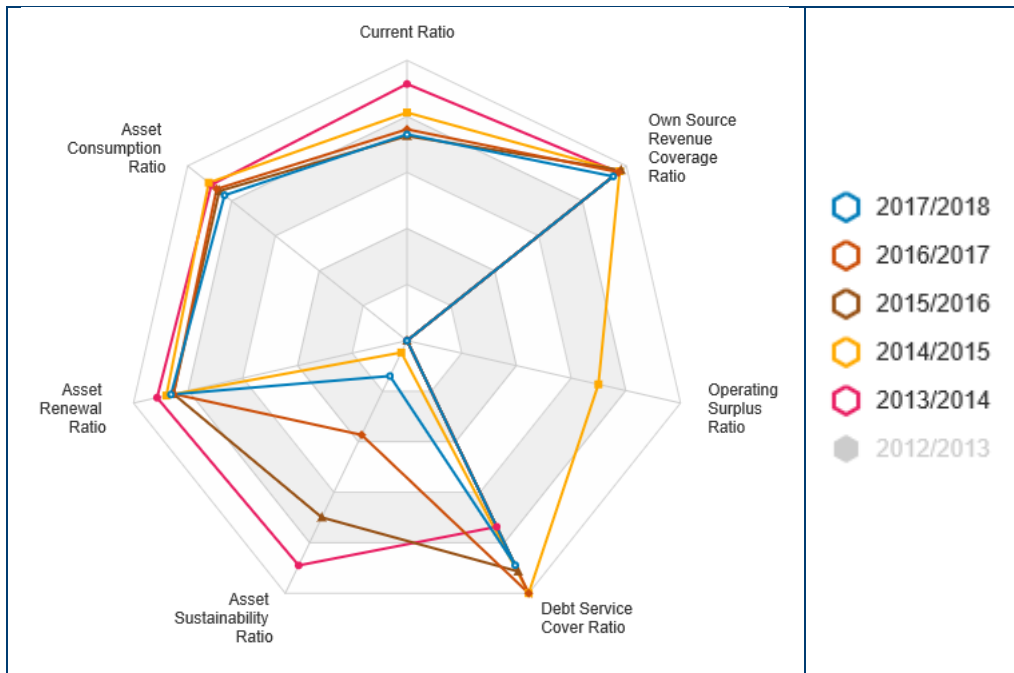
Figure 4: City of Albany, example of local government entity information on MyCouncil website

Financial Year	This council	Current Score	Asset Consumption Score	Asset Renewal Score	Asset Sustainability Score	Debt Service Cover Score	Operating Surplus Score	Own Source Revenue Coverage Score
2012/2013	90.0	10.0	7.5	8.8	7.0	10.0	7.9	10.0
2013/2014	69.0	9.2	8.9	9.1	8.9	7.4	0.0	9.6
2014/2015	79.0	8.1	9.0	8.8	0.5	10.0	7.0	9.7
2015/2016	65.0	7.3	8.6	8.5	7.0	9.1	0.0	9.8
2016/2017	65.0	7.5	8.7	8.5	3.7	10.0	0.0	9.6
2017/2018	60.0	7.4	8.3	8.6	1.4	8.9	0.0	9.4

Source: DLGSC's MyCouncil Website

Figure 5: Table of financial health indicator scores for City of Albany

Explanations of indicators are available on the MyCouncil website

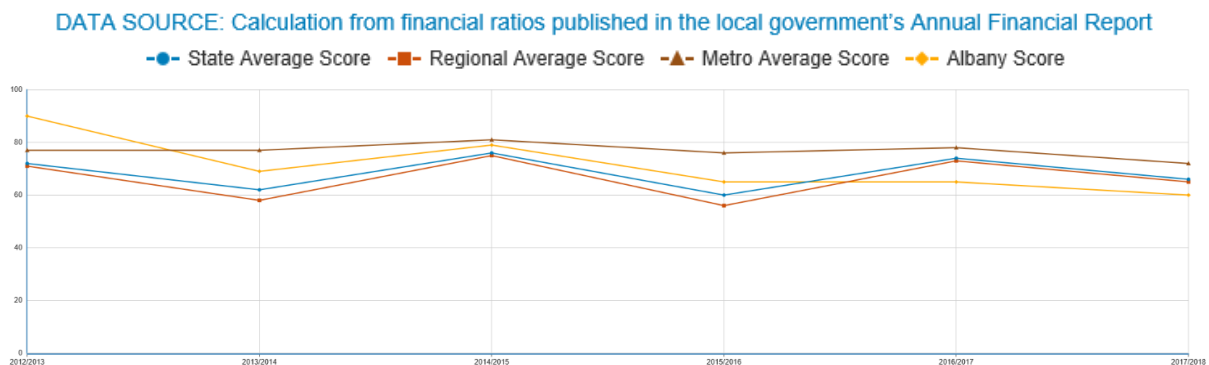


Source: DLGSC's MyCouncil Website

Figure 6: Graph of financial health indicator scores for City of Albany

Financial Health Indicator Comparisons

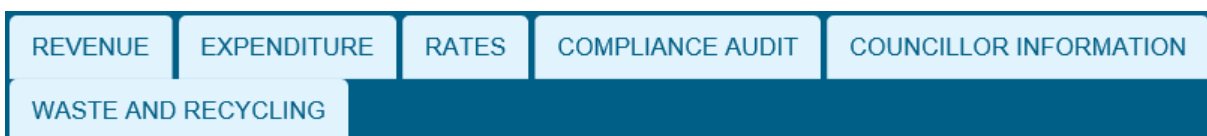
This graph provides a comparison of Financial Health Indicator results.



Source: DLGSC's MyCouncil Website

Figure 7: Comparison of City of Albany to State average, regional average and metropolitan average

Further tabs, see below, can be used to access other information for each local government entity. However, readers of the DLGSC's MyCouncil website need to be aware that not all information for each entity is audited information.



Source: DLGSC's MyCouncil Website

Figure 8: Other MyCouncil tabs to access further information for each local government entity

Appendix 1: Local government entities audited by OAG

We completed 106 of the 112 audits for 2018-19 by 3 March 2020. The auditor's reports issued are listed by entity in alphabetical order in the table below.

Local government	Opinion issued
Bunbury-Harvey Regional Council	29/11/2019
City of Albany	12/11/2019
City of Bayswater	27/11/2019
City of Belmont	06/11/2019
City of Bunbury	08/11/2019
City of Busselton	29/10/2019
City of Canning	29/11/2019
City of Cockburn	13/12/2019
City of Fremantle	09/12/2019
City of Gosnells	26/11/2019
City of Greater Geraldton	29/10/2019
City of Joondalup	05/11/2019
City of Kalamunda	13/11/2019
City of Kalgoorlie - Boulder	19/12/2019
City of Karratha	17/02/2020
City of Kwinana	29/11/2019
City of Melville	04/12/2019
City of Nedlands	15/11/2019
City of Perth	02/12/2019
City of Rockingham	14/11/2019
City of South Perth	21/11/2019
City of Stirling	03/10/2019
City of Subiaco	15/11/2019
City of Swan	05/11/2019
City of Vincent	29/11/2019
City of Wanneroo	22/11/2019
Eastern Metropolitan Regional Council	25/11/2019
Murchison Regional Vermin Council	20/12/2019
Pilbara Regional Council	Not finalised
Rivers Regional Council	07/11/2019
Shire of Ashburton	20/12/2019
Shire of Boddington	11/12/2019
Shire of Boyup Brook	27/11/2019

Local government	Opinion issued
Shire of Bridgetown-Greenbushes	22/11/2019
Shire of Brookton	16/12/2019
Shire of Broome	09/10/2019
Shire of Bruce Rock	18/02/2020
Shire of Capel	27/11/2019
Shire of Carnamah	26/11/2019
Shire of Christmas Island	30/10/2019
Shire of Cocos (Keeling) Islands	19/11/2019
Shire of Coorow	05/12/2019
Shire of Corrigin	18/12/2019
Shire of Cranbrook	11/12/2019
Shire of Cuballing	Not finalised
Shire of Cue	12/12/2019
Shire of Cunderdin	10/12/2019
Shire of Dalwallinu	29/11/2019
Shire of Dandaragan	22/10/2019
Shire of Denmark	05/12/2019
Shire of Derby-West Kimberley	12/12/2019
Shire of Donnybrook-Balingup	11/02/2020
Shire of Dowerin	19/12/2019
Shire of Dundas	18/10/2019
Shire of Exmouth	21/11/2019
Shire of Gnowangerup	02/12/2019
Shire of Goomalling	20/02/2020
Shire of Halls Creek	10/12/2019
Shire of Irwin	15/10/2019
Shire of Jerramungup	11/12/2019
Shire of Katanning	16/12/2019
Shire of Kellerberrin	22/11/2019
Shire of Kojonup	Not finalised
Shire of Kondinin	16/12/2019
Shire of Koorda	30/10/2019
Shire of Kulin	Not finalised
Shire of Lake Grace	30/11/2019
Shire of Laverton	Not finalised
Shire of Meekatharra	13/12/2019
Shire of Menzies	19/12/2019
Shire of Merredin	15/10/2019

Local government	Opinion issued
Shire of Mingenew	24/11/2019
Shire of Moora	18/12/2019
Shire of Morawa	13/12/2019
Shire of Mount Magnet	12/12/2019
Shire of Mukinbudin	05/12/2019
Shire of Mundaring	29/11/2019
Shire of Murchison	27/02/2020
Shire of Nannup	11/12/2019
Shire of Narrogin	28/11/2019
Shire of Northam	05/12/2019
Shire of Northampton	10/12/2019
Shire of Nungarin	11/12/2019
Shire of Peppermint Grove	13/12/2019
Shire of Perenjori	11/02/2020
Shire of Pingelly	25/11/2019
Shire of Ravensthorpe	11/12/2019
Shire of Sandstone	19/12/2019
Shire of Serpentine-Jarrahdale	18/11/2019
Shire of Tammin	12/12/2019
Shire of Three Springs	04/12/2019
Shire of Upper Gascoyne	27/11/2019
Shire of Victoria Plains	17/12/2019
Shire of Wagin	11/02/2020
Shire of West Arthur	05/12/2019
Shire of Westonia	12/12/2019
Shire of Wickespin	18/12/2019
Shire of Williams	13/11/2019
Shire of Wiluna	Not finalised
Shire of Woodanilling	18/12/2019
Shire of Wyalkatchem	14/02/2020
Shire of Yalgoo	31/01/2020
Shire of York	09/12/2019
South Metropolitan Regional Council	04/12/2019
Town of Bassendean	29/11/2019
Town of Cambridge	10/12/2019
Town of Claremont	06/12/2019
Town of Cottesloe	09/12/2019
Town of East Fremantle	13/12/2019

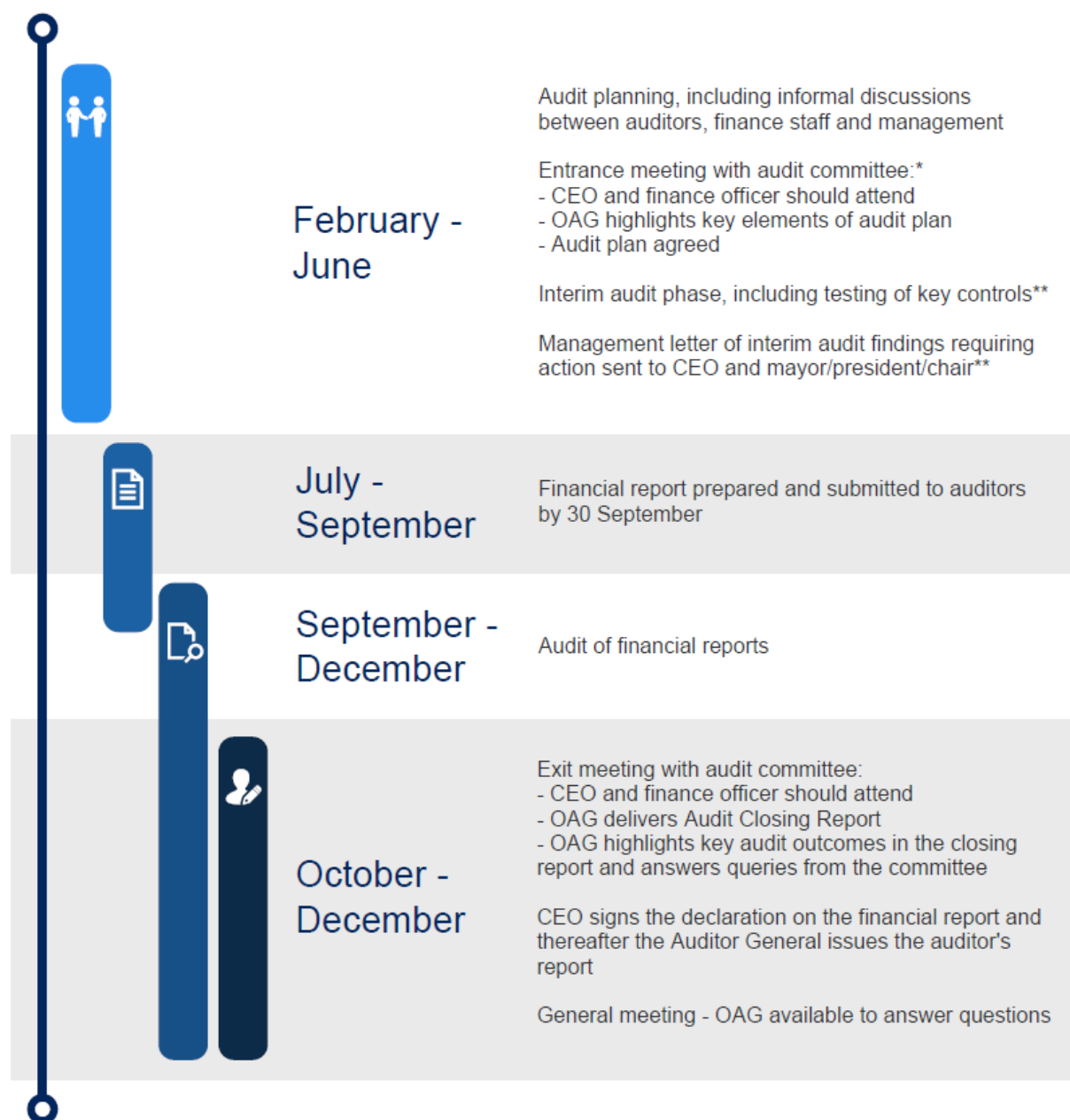
Local government	Opinion issued
Town of Mosman Park	21/11/2019
Town of Victoria Park	06/02/2020
Western Metropolitan Regional Council	06/12/2019

Appendix 2: Local government 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 16 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 <i>Rates and Charges (Rebates and Deferments) Act 1992</i>	
City of Belmont	31/10/2019
City of Joondalup	21/10/2019
City of Kalamunda	06/12/2019
City of South Perth	28/10/2019
Shire of Brookton	19/12/2019
Shire of Dandaragan	01/11/2019
Town of Cambridge	10/12/2019
Roads to Recovery Funding under the <i>National Land Transport Act 2014</i>	
City of Joondalup	25/10/2019
City of Kalamunda	28/10/2019
City of South Perth	28/10/2019
Shire of Dandaragan	30/10/2019
Town of East Fremantle	31/10/2019
Other certifications	
City of Joondalup – Department of Fire and Emergency Services Mitigation Activity Fund Emergency Services Levy Funding	17/07/2019
City of Kalamunda – Development Contribution Area 1 – Forrestfield Light Industrial Area – Stage 1	06/12/2019
Shire of Dandaragan – Bushfire Risk Management Plan	04/11/2019
Shire of Dandaragan – Jurien Bay Civic Centre Outgoings for Department of Biodiversity, Conservation and Attractions Tenancy	04/11/2019

Appendix 3: Timeline of communications between auditors, management and council members



Source: OAG

Notes

Meetings with some remote local government entities are conducted by teleconference due to cost and logistical reasons.

** If it is not practicable for the audit committee to meet for an audit entrance meeting, we suggest at least one councillor attends the entrance meeting.*

*** For small regional entities, there may not be an interim audit visit. This work is usually completed at the same time as the audit of the financial report, and findings are reported at that time. The extent and proposed timing of interim work will be outlined in the audit plan.*

Glossary and acronyms

AASB	Australian Accounting Standards Board
AG Act	<i>Auditor General Act 2006</i>
Amendment Act	<i>Local Government Amendment (Auditing) Act 2017</i>
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.
IS	Information systems, primarily computerised systems
IT	Information technology
LG Act	<i>Local Government Act 1995</i>
LG Audit Regulations	Local Government (Audit) Regulations 1996
LG Financial Management 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.
Materiality	The characteristic based on the size and/or nature of an omission or misstatement of accounting or compliance information that, in the light of context or circumstances, has the potential to adversely affect the economic decisions of users of the information or the discharge of accountability by senior management.
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.
Significance	Relative importance in the circumstances, in relation to audit objectives, of an item, event or information, or problem the auditor identifies.

Auditor General's reports

Report number	2019-20 reports	Date tabled
15	Opinion on Ministerial Notification	28 February 2020
14	Opinion on Ministerial Notification	31 January 2020
13	Fee-setting by the Department of Primary Industries and Regional Development and Western Australia Police Force	4 December 2019
12	Audit Results Report – Annual 2018-19 Financial Audits of State Government Entities	14 November 2019
11	Opinion on Ministerial Notification	30 October 2019
10	Working with Children Checks – Follow-up	23 October 2019
9	An Analysis of the Department of Health's Data Relating to State-Managed Adult Mental Health Services from 2013 to 2017	9 October 2019
8	Opinions on Ministerial Notifications	8 October 2019
7	Opinion on Ministerial Notification	26 September 2019
6	Opinions on Ministerial Notifications	18 September 2019
5	Fraud Prevention in Local Government	15 August 2019
4	Access to State-Managed Adult Mental Health Services	14 August 2019
3	Delivering Western Australia's Ambulance Services – Follow-up Audit	31 July 2019
2	Opinion on Ministerial Notification	26 July 2019
1	Opinions on Ministerial Notifications	19 July 2019

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 Office of the Auditor General for
Western Australia

8.4 Internal Audit Actions Log

Committee	8 June 2020
Applicant	City of Nedlands
Employee Disclosure under section 5.70 Local Government Act 1995	Nil.
Director	Lorraine Driscoll – Director Corporate & Strategy
Attachments	Nil
Confidential Attachments	1. Internal Audit Actions Log

Executive Summary

The attached Internal Audit Actions Log contains details of the matters raised by the Auditors during the City's Internal Audit program. The list apportions information detailing the Log Reference, Audit Item Name, Original and Revised Due Dates, Action Owner details, Item Status, Status Comments and Rating.

The recently updated internal audit Actions Log is presented to the Audit and Risk Committee for their information.

Recommendation to Committee

The Audit and Risk Committee receives the internal audit Actions Log.

Discussion/Overview

An audit is a process through which internal control effectiveness is examined and assessed. The objective is to provide an audit for compliance with relevant management policies and procedures. Each internal audit undertaken results in actions being recommended to the City's Administration. These actions are monitored for completion using the internal audit Actions Log.

The attached list contains details of the Actions raised and outcome.

The recently updated internal audit Actions Log is presented to the Audit and Risk Committee for their information.

Key Relevant Previous Council Decisions:

Nil

Consultation

Nil.

Budget/Financial Implications

Nil.

Any actions requiring expenditure that is not allocated to an existing budget will be considered by Council during budget deliberations.

8.5 City Wide Insurance Brokerage Services Tender

Committee	8 June 2020
Applicant	City of Nedlands
Employee Disclosure under section 5.70 Local Government Act 1995	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
Director	Lorraine Driscoll – Director Corporate & Strategy
Attachments	Nil

Executive Summary

The report is presented to the Audit and Risk Committee outlining the proposed Tender activities to be undertaken by the City's Management regarding the new Insurance Brokerage services for the next 3 years.

Recommendation to Committee

The Audit and Risk Committee receives the report prepared by the City's Management and notes the information and contents of the report.

Discussion/Overview

The provision of Insurance Brokerage and Risk Management Service is a key focus area of the Strategic Plan and provides compliant governance to the Council.

Until 2013/14, the City managed its insurance service requirements through the Local Government Insurance Scheme (LGIS) – an Industry Based Self-Insurance services. However, when Council elected not to renew its membership with WALGA in 2013/14, it had the opportunity to seek its insurance coverage requirements via a competitive process.

Since the market testing performed for the first time in 2013/14 and the departure from LGIS, the City has noted a substantial increment in the market competition for Local Government Insurance services in the recent years. Based on the above facts and the expiration of previous Insurance Brokerage and Risk Management Service contract, the City's Management performed a market evaluation last year through Tender Process. The outcome of this process resulted in Council awarding contract to Marsh Pty Ltd with a contract term of 1 year with renewal option of 1year + 1year .

For 2020/21, the City's management has determined to retest the market for the provision of Insurance Brokerage and Risk Management Services and will execute this through its Tendering Process in accordance with the requirements of Local Government Act 1995 and Local Government (Functions and General) Regulations 1996.

Management has initiated the process with the aim to have all formalities completed and have 2020/21 Insurance Policies in place by 30 September 2020. Based on last year's Council resolution, the Tender process will be performed in house, unlike prior years, without any assistance from the external expert.

Key Relevant Previous Council Decisions:

Nil.

Consultation

Nil.

Budget/Financial Implications

The cost and fees related to the Tendering Process will be within the City's monetary budget limits for the 2019/20 Financial Year.

8.6 Borrowing Analysis

Committee	8 June 2020
Applicant	City of Nedlands
Employee Disclosure under section 5.70 Local Government Act 1995	No officer involved in the preparation of this report had any interest which required it to be declared in accordance with the provisions of the Local Government Act (1995).
Director	Lorraine Driscoll – Director Corporate & Strategy
Attachments	1. Borrowings Analysis Report 30 April 2020

Executive Summary

The report is prepared to present the borrowings analysis report as at 30 April 2020. The City has total borrowings of \$6,228,991 as at 30 April 2020 at various interest rates ranging from 2.78% to 6.04%. No additional borrowings have been budgeted in the financial year 2019/20 and the balance at year end is estimated to be \$5,864,653.

Recommendation to Committee

The Audit and Risk Committee receives the borrowings analysis report.

Discussion/Overview

As at 30 April 2020, the City has a total of 11 borrowings, as follows:

Purpose	Number of loans	Value of loans
Capital works	6	\$3,428,403
Underground Power Project - City	1	\$1,995,170
Self-supporting – Dalkeith Bowling Club	1	\$82,262
Underground Power Projects – West Hollywood, Alfred Rd & Alderbury Res	3	\$723,156
Total	11	\$6,228,991

Key Relevant Previous Council Decisions:

Nil.

Consultation

Nil.

Strategic Implications

Nil.

Budget/Financial Implications

The cost of interest on borrowings was within the City's existing monetary budget limits for the 2019/20 Financial Year.



**SUMMARY STATEMENT OF BORROWING ACTIVITY
FOR THE PERIOD ENDING 30 APRIL 2020**

Purpose	Interest Rate Per Annum	Actual YTD 30 APRIL 2020					Adopted Budget 2019/20		
		Principal 01-Jul-19 \$	New loans \$	Principal Repayment \$	Principal 30-Apr-20 \$	Interest(YTD) \$	New loans \$	Principal 30-Jun-20 \$	Interest \$
Loan 179 - Road Infrastructures	6.04%	654,992	0	(86,182)	568,810	30,812	0	539,211	36,972
Loan 181 - Building and Road Infrastructures	5.91%	498,901	0	(180,263)	318,638	20,158	0	256,766	24,184
Loan 182 - Building	4.67%	649,125	0	(186,889)	462,236	22,369	0	398,479	25,967
Loan 183 - Building	2.78%	1,031,607	0	(118,672)	912,935	22,515	0	871,357	27,018
Loan 184 - Building	3.12%	921,181	0	(129,895)	791,286	22,441	0	791,286	27,231
Loan 185 - Building	3.12%	435,974	0	(61,476)	374,498	10,621	0	374,498	12,888
Loan 187 - Underground Power (CON)	2.64%	2,464,759	0	(469,589)	1,995,170	50,070	0	1,831,084	58,831
Loan 188 - Underground Power (W.Hollywood Res)	3.07%	645,499	0	(66,873)	578,626	15,149	0	578,626	18,277
Loan 189 - Underground Power (Alfred & MTC Res)	3.07%	94,279	0	(9,767)	84,512	2,205	0	84,512	2,669
Loan 190 - Underground Power (Alderbury Res)	3.07%	66,956	0	(6,937)	60,019	1,576	0	60,019	1,896
		7,463,273	0	(1,316,543)	6,146,730	197,917	0	5,785,838	235,933
Self Supporting Loans									
Loan 186 - Dalkeith Bowling Club	3.07%	92,445	0	(10,183)	82,262	2,261	0	78,815	2,682
					0				
Total		7,555,718	0	(1,326,727)	6,228,991	200,178	0	5,864,653	238,615

8.7 2019/20 Year End Forecast and Impact of COVID-19

Committee	8 June 2020
Applicant	City of Nedlands
Employee Disclosure under section 5.70 Local Government Act 1995	Nil.
Director	Lorraine Driscoll – Director Corporate & Strategy
Attachments	Nil

This will be a verbal update on the 2019/20 year end forecast and impact of COVID-19.

9. Urgent Business Approved By the Presiding Member or By Decision

Any urgent business to be considered at this point.

10. Confidential Items

There are no confidential reports.

11. Date of next meeting

The next meeting of the Audit & Risk Committee will be held on 5 October 2020 at 5.30 pm.

Declaration of Closure

There being no further business, the Presiding Member will declare the meeting closed.