



Shire of Broomehill - Tambellup

REPORT TO THE AUDIT COMMITTEE
FOR THE YEAR ENDED 30 JUNE 2019

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1. EXECUTIVE SUMMARY

Purpose	<p>This report summarises significant audit findings and matters which have come to our attention during our audit of the financial statements of the Shire of Broomehill - Tambellup for the financial year ended 30 June 2019.</p> <p>This report is provided to enable the Audit Committee to clarify outstanding issues with us and discuss key audit findings. It includes only those audit matters of governance interest that have come to our attention as a result of the performance of our audit. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not usually identify all such matters.</p>
Audit status	<p>We have completed our audit for the year ended 30 June 2019 except for:</p> <ul style="list-style-type: none">▪ Receipt of signed Management Representation Letter to Lincolns <p>We expect to issue an unmodified audit report after these matters are completed.</p>
Audit misstatements	<p>A list of corrected and uncorrected differences is included in Section 5. Additionally, corrected and uncorrected misstatements in presentations and disclosures are discussed in this section.</p>
Disclaimer	<p>This report is provided solely for the benefit of the Shire of Broomehill - Tambellup and is not to be copied, quoted or referred to without prior written consent. Lincolns accepts no responsibility to anyone other than the parties identified in the Local Government Act for the information contained in this report.</p>

2. AUDIT SCOPE

Lincolns conducted an independent audit in order to express an opinion to the Council on the financial report of Shire of Broomehill - Tambellup for the year ended 30 June 2019. Our audit was conducted in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We perform procedures to assess whether in all material respects the financial report presents fairly, in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the Local Government Act 1995 and the Local Government (Financial Management) Regulations 1996, a view which is consistent with our understanding of the Shire of Broomehill - Tambellup's financial position and of its performance as represented by the results of its operations, changes in equity and cash flows.

Our audit procedures included;

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- evaluating the appropriateness of accounting policies and disclosures used, the reasonableness of accounting estimates

We considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures.

An audit is not designed to identify all matters that may be relevant to the accountable authority and management, nor to relieve management or those in charge of governance of their responsibilities. Accordingly, this report includes only those significant matters that have come to our attention as a result of performing our audit.

3. AUDIT FOCUS

We refer to our audit plan where we identified areas for potential for increased audit risk and our planned responses in the audit.

The following presents our audit findings in these areas.

Area of Risk	Audit Outcomes
Grant Funding and Other Revenue	<ul style="list-style-type: none"> • Significant grant revenue was agreed to third party documentation. • Risk of fraud in the revenue cycle was also considered including testing of key controls and analytical review Audit procedures undertaken rebutted the risk of fraud to an acceptable level. • We also reviewed related party transactions. The financial statements adequately disclose related party transactions for Councillors and Key Management Personnel.
Rates	<p>Audit work included the following:</p> <ul style="list-style-type: none"> • Rateable values agreed to the Valuer General rates. • We checked control procedures for the transfer of rates from Valuer General to Internal Software system. • Testing of rates notices was undertaken both on a sample basis and analytically. <p>Results supported the rate revenue and financial statement disclosures.</p>
Expenses	<p>Our audit of expenses included testing of key financial controls over the recognition of expenses, vouching significant expenses and analytical reviews.</p> <p>Expenditure as disclosed in the financial statements is materially correct.</p>
Payroll/Provisions	<p>Audit sampling tested pay-run to the following:</p> <ul style="list-style-type: none"> • Employee awards • Employee contracts • Check calculation of superannuation and tax • Check authority to deduct salary sacrifice • Check the control procedures in payroll department in line with internal policies • Our audit of provisions included reviewing the reasonableness of assumptions used to calculate annual leave and long service leave • Analytical review <p>Results of audit procedures indicate employee costs are materially correct and disclosed correctly in the financial statements.</p>

<p>Management's monitoring of the control environment</p>	<p>We reviewed council minutes for the following:</p> <ul style="list-style-type: none"> • Process for reviewing internal control procedures including evidence of periodic review of policy manual. • Management's implementation and monitoring of new control procedures. • Management's implementation and monitoring for amending current control procedures. <p>We are satisfied that management is applying effective controls and that Council are aware of the control environment.</p>
<p>Management Override of Controls</p>	<p>Audit processes were undertaken to:</p> <ul style="list-style-type: none"> • Sample test and judgementally review general journals • Understand and test the adequacy and effectiveness of division of duties • Controls testing • Substantive procedures <p>Sufficient audit evidence was obtained to support the view that controls are operating effectively.</p>
<p>Revaluation of assets</p>	<p>Audit processes were undertaken to:</p> <ul style="list-style-type: none"> • Evaluate skills, qualifications and expertise of independent valuer • Evaluate valuation methodology to ensure consistent with Standards and assumptions reasonable • Ensure completeness and validity of uptake to asset register by agreeing to valuation report • Ensure depreciation basis correctly reflects rates and remaining useful life by agreeing asset register to valuation report. <p>This was a significant area of audit focus. It is a complex area with a high degree of estimation.</p>

4. AUDIT & ACCOUNTING ISSUES

4.1 Significant Adverse Trends

Following Office of the Auditor General guidelines, the following significant adverse trends occurred and will be reported within the audit report;

- The Operating Surplus Ratio has progressively declined over the past 3 years and this ratio for 2017-18 and 2018-19 is below the DLGSCI standard.

4.2 Audit Report

The audit report will have an unqualified opinion, and the following matter of non-compliance with the Local Government Act 1995 will be reported:

- The Operating Surplus Ratio has progressively declined over the past 3 years and the ratio as reported for the 2017-18 and 2018-19 years is below the DLGSCI standard.

4.3 Significant Non-Compliance

There were no matters of significant non-compliance.

4.4 Management Letter Findings

The management letter contains the following finding and its rating:

- Maintenance of Investment Register – Minor

5. ACCOUNTING MISSTATEMENTS

5.1 Uncorrected Audit Misstatements

	Financial Statements Accounts Impacted	Statement of Financial Position Adjustment	Effect on Operating Surplus	Effect on Other Comprehensive Income	Comment
1.	Nil				

5.2 Corrected Audit Misstatements

	Financial Statements Accounts Impacted	Statement of Financial Position Adjustment	Effect on Operating Surplus	Effect on Other Comprehensive Income	Comment
1.	Restricted Cash Other Payables	\$184,421 \$184,421			Being reclassification of Trust monies to Restricted Cash
2.	Retained Surplus Revaluation Surplus Depreciation Loss on Disposal of Assets	(\$149,555) (\$7,140)	 (\$12,368) (\$130,047)		Being prior period adjustment due to adoption of new accounting policy to write off assets less than \$5k.

6. ACTIONS / ISSUES FOR NEXT YEAR'S AUDIT

New accounting standards will have application from 1 July 2019. The Shire will adopt all new standards from 1 July 2019 resulting in changes to accounting policies. A brief discussion of the impact of these follows.

1. AASB 15 Revenue from Contracts with Customers

In accordance with the transition provisions AASB 15, the Shire will adopt the new rules retrospectively with the cumulative effect of initially applying these rules recognised on 1 July 2019. The initial impact is expected to be minor and will disclose unspent capital grants as a liability until expended.

2. AASB 16 Leases

Fundamentally, all leases (i.e. any agreements over 12 months with some minor exceptions) will be recorded in the balance sheet as a non-current Right of Use asset with an associated lease liability (separated into current and non-current components). The income statement (statement of profit or loss and other comprehensive income) will show the lease expense as depreciation (relating to the Right of Use asset) and interest relating to the lease liability rather than rent expense being shown as an operating expense.

3. AASB 1058 Income for Not-for-Profit Entities

The objective of the standard is to establish principles for recognising income:

- a. On transactions where the consideration to acquire an asset is significantly less than fair value principally to enable the Shire to further its objectives, and
- b. For the receipt of volunteer services.

Initial impact is expected to be minor as it is anticipated that volunteer services cannot be reliably measured and will not be recognised.