



Town of Cottesloe

I hereby certify that the minutes of the Audit Committee meeting
held on

Tuesday, 24 June 2021

were confirmed as a true and accurate record by committee
resolution.

Signed:

A handwritten signature in blue ink, appearing to read "Craig M. Parsons".

Presiding Member

Date: 01/12/2021

TOWN OF COTTESLOE



AUDIT COMMITTEE

MINUTES

AUDIT COMMITTEE
HELD IN THE
Mayor's Parlour, Cottesloe Civic Centre
109 Broome Street, Cottesloe
4.00pm Thursday, 24 June 2021

MATTHEW SCOTT
Chief Executive Officer

29 June 2021

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1 DECLARATION OF MEETING OPENING/ANNOUNCEMENT OF VISITORS

The Presiding Member announced the meeting opened at 4:04pm and read the Acknowledgement of Country.

1.1 ACKNOWLEDGEMENT OF COUNTRY

I would like to begin by acknowledging the Whadjuk Nyoongar people, Traditional Custodians of the land on which we meet today, and pay my respects to their Elders past and present. I extend that respect to Aboriginal and Torres Strait Islander peoples here today.

2 DISCLAIMER

The Presiding Member drew attention to the Town’s Disclaimer.

3 ANNOUNCEMENTS BY PRESIDING MEMBER WITHOUT DISCUSSION

The Presiding Member announced that the meeting is being recorded, solely for the purpose of confirming the correctness of the Minutes.

4 ATTENDANCE

Members

Cr Craig Masarei	Elected Member
Cr Paul MacFarlane	Elected Member
Cr Kirsty Barrett	Elected Member
Ms Suzanne Tuite	Community Representative (@4:26pm)

Officers

Mr Matthew Scott	Chief Executive Officer
Mr Shane Collie	Director Corporate Services and Governance
Ms Lauren Davies	Finance Manager
Ms Irene Wai Shan Au-Yeung	Assistant Finance Manager
Ms Ann-Marie Donkin	Corporate Services and Engagement Officer

Visitors

Mr Michael Hoang	Ernst & Young
Ms Alveena Anthony	Ernst & Young
Ms Kellie Tonich	Office of the Auditor General (WA)

Apologies

At the close of the agenda no apologies had been received.

5 DECLARATION OF INTERESTS

Nil

6 CONFIRMATION OF MINUTES

AC006/2021

Moved Cr Barrett

Seconded Cr MacFarlane

That the Minutes of the Audit Committee Meeting held on Tuesday 23 March 2021 be confirmed as a true and accurate record.

Carried 3/0

7 PRESENTATIONS

Nil

8 REPORTS**8.1 REPORTS OF OFFICERS****8.1.1 DRAFT 2020/21 AUDIT PLAN**

Directorate: Corporate and Community Services
Author(s): Shane Collie, Director Corporate and Community Services
Authoriser(s): Matthew Scott, Chief Executive Officer
File Reference: D21/27344
Applicant(s):
Author Disclosure of Interest: Nil

SUMMARY

For Council to endorse the draft Audit Plan for the 2020/21 financial year.

OFFICER RECOMMENDATION IN BRIEF

Ernst and Young have produced a draft Audit Plan for the 2020/21 financial year. The plan is submitted as the document that will guide the audit and ultimately be submitted to the Office of the Auditor General for sign off once completed. The Plan is submitted for Council's endorsement.

BACKGROUND

An Audit Plan is fundamental to completing the audit of the Town's financial performance and compliance. Having a confirmed Plan in place ensures accountability, transparency and provides the basis of a positive audit for the Town.

OFFICER COMMENT

Ernst and Young representatives will be present to go through and/or discuss any aspect of the draft Audit Plan with the Audit Committee, including any matters that are new or changed from prior years.

ATTACHMENTS

8.1.1(a) Audit Plan Year Ending 30 June 2021- Finalised Copy [under separate cover]

CONSULTATION

Ernst and Young Auditors.

STATUTORY IMPLICATIONS

Local Government Act 1995.

Local Government (Audit) Regulations 1996.

POLICY IMPLICATIONS

There are no perceived policy implications arising from the officer's recommendation.

STRATEGIC IMPLICATIONS

This report is consistent with the Town's *Strategic Community Plan 2013 – 2023*.

Priority Area 6: Providing open and accountable local governance

RESOURCE IMPLICATIONS

Resource requirements are in accordance with the existing budgetary allocation.

ENVIRONMENTAL SUSTAINABILITY IMPLICATIONS

There are no perceived sustainability implications arising from the officer's recommendation.

VOTING REQUIREMENT

Simple Majority

AC007/2021

OFFICER AND COMMITTEE RECOMMENDATION

Moved Cr Masarei

Seconded Cr MacFarlane

THAT the Audit Committee recommends to Council that the Audit Plan produced by Ernst and Young Auditors be adopted for the Town's 2020/21 Audit

Carried 4/0

8.1.2 INTERIM AUDIT FINDINGS 2020/21

Directorate: Corporate and Community Services
Author(s): Shane Collie, Director Corporate and Community Services
Authoriser(s): Matthew Scott, Chief Executive Officer
File Reference: D21/27356
Applicant(s):
Author Disclosure of Interest: Nil

SUMMARY

For the Audit Committee to review the findings of the Interim Audit for the 2020/21 financial year.

OFFICER RECOMMENDATION IN BRIEF

As part of the 2020/21 Interim Audit conducted in March 2021 two findings were made, each of which are recommended to be addressed by the Administration.

BACKGROUND

The two findings are as follows:

1. System generating reconciling items not vouched to supporting documentation as part of the daily bank reconciliation control.
2. Bonds Payable Classification.

OFFICER COMMENT

The two items raised will be addressed by Finance Staff and do not present any ongoing significant issue. The issues raised were "Moderate", Reconciling Items, and "Minor" Bonds Classification. The Bonds Classification matter is one that is Authority software based and the split between current and non current can be undertaken manually with this matter proposed to be incorporated as part of the requirements for the new ERP system.

The system generating bank reconciliation items will be attached as supporting documentation to the relevant financial report as recommended.

ATTACHMENTS

8.1.2(a) Agenda Attachment - Interim Management Letter Point (MLP) Report 18 June 2021 [under separate cover]

CONSULTATION

Ernst and Young Auditors.

STATUTORY IMPLICATIONS

Local Government Act 1995.

Local Government (Audit) Regulations 1996.

POLICY IMPLICATIONS

There are no perceived policy implications arising from the officer's recommendation.

STRATEGIC IMPLICATIONS

This report is consistent with the Town's *Strategic Community Plan 2013 – 2023*.

Priority Area 6: Providing open and accountable local governance

RESOURCE IMPLICATIONS

Resource requirements are in accordance with the existing budgetary allocation.

ENVIRONMENTAL SUSTAINABILITY IMPLICATIONS

There are no perceived sustainability implications arising from the officer's recommendation.

VOTING REQUIREMENT

Simple Majority

OFFICER RECOMMENDATION

THAT the Audit Committee note the two items raised as part of the 2020/21 Interim Audit being:

1. System generating reconciling items not vouched to supporting documentation as part of the daily bank reconciliation control; and
2. Bonds Payable Classification,

with the Administration to action these matters to the satisfaction of the Auditor.

AC008/2021

PROCEDURAL MOTION

Moved Cr MacFarlane

Seconded Cr Barrett

That Council note the Audit Committee DEFERRED this item until receipt of the finalised interim report.

Carried 4/0

Minutes Note: The attachment circulated with this item was interim advice and has not been finalised. The Interim Management Letter will be removed from any public domain until such time it is finalised.

8.1.3 AUDIT COMMITTEE MEETING SCHEDULE 2021/22

Directorate: Corporate and Community Services
Author(s): Ann-Marie Donkin, Corporate Services and Engagement Officer
Authoriser(s): Shane Collie, Director Corporate and Community Services
File Reference: D21/27362
Applicant(s):
Author Disclosure of Interest: Nil

SUMMARY

For the Committee to set dates for Audit Committee meetings for the financial year 2021/22.

OFFICER RECOMMENDATION IN BRIEF

That the Audit Committee set a meeting schedule for the 2021/22 financial year and with the schedule to be advertised on the Town of Cottesloe website.

BACKGROUND

The Audit Committee meets approximately four times per year and has a range of statutory responsibilities to attend to over the financial year. Setting dates in advance is efficient and saves having to specifically determine when members are available in the lead up to meetings.

OFFICER COMMENT

Audit Committee meetings as are generally held to coincide with audit related matters and to meet deadlines associated with those matters. For example the March Audit Committee meeting would deal with the Annual Compliance Return, the June meeting the Interim Audit and the December meeting the Annual Audit and Annual Report.

ATTACHMENTS

Nil

CONSULTATION

Audit Committee Members.

STATUTORY IMPLICATIONS

Local Government Act 1995.

Local Government (Audit) Regulations 1996.

POLICY IMPLICATIONS

There are no perceived policy implications arising from the officer's recommendation.

STRATEGIC IMPLICATIONS

This report is consistent with the Town's *Strategic Community Plan 2013 – 2023*.

Priority Area 6: Providing open and accountable local governance

Major Strategy 6.2: Continue to deliver high quality governance, administration, resource management and professional development.

RESOURCE IMPLICATIONS

Resource requirements are in accordance with the existing budgetary allocation.

ENVIRONMENTAL SUSTAINABILITY IMPLICATIONS

There are no perceived sustainability implications arising from the officer's recommendation.

VOTING REQUIREMENT

Simple Majority

OFFICER AND COMMITTEE RECOMMENDATION

Moved Cr Masarei

Seconded Cr Barrett

THAT the Audit Committee recommends to Council that the following meeting schedule be observed for the 2021/2022 financial year and that the dates be advertised on the Town of Cottesloe website:

- 1. 4pm Wednesday 8 September 2021;**
- 2. 4pm Wednesday 1 December 2021;**
- 3. 4pm Wednesday 9 March 2022;**
- 4. 4pm Wednesday 8 June 2022.**

Carried 4/0

8.1.4 2019/20 FINANCIAL AUDITS OF WESTERN AUSTRALIAN LOCAL GOVERNMENTS

Directorate: Corporate and Community Services
Author(s): Shane Collie, Director Corporate and Community Services
Authoriser(s): Matthew Scott, Chief Executive Officer
File Reference: D21/28132
Applicant(s):
Applicant(s) Proponents:
Author Disclosure of Interest: Nil

SUMMARY

For the Audit Committee to note the Annual 2019/20 Financial Audits of Local Government entities.

OFFICER RECOMMENDATION IN BRIEF

That the Audit Committee note the above report as tabled in Parliament on 16 June 2021.

BACKGROUND

The Town has been provided with a copy of the Annual 2019/20 Financial Audits of Local Government entities as produced by the Office of the Auditor General. The document details the findings of the audits of local government over the past year with recommendations contained on page 7 of the Report.

OFFICER COMMENT

The report is available on the Office of Auditor General website at <https://audit.wa.gov.au/reports-and-publications> and is attached to this report.

In the report it is noted that many local governments, including the Town of Cottesloe, were late in completing their 2019/20 audit due in the main for the following reasons:

- New Financial Management regulations introduced as the Audit was undertaken.
- Specifically to the Towns of Cottesloe, Mosman Park and the Shire of Peppermint Grove, the requirement to have the Grove Library Audit complete before incorporation into the Town's Annual Statements impacted.
- COVID impact on dealing with certain matters.
- Delays incurred due to the increased complexity in Audit requirements incorporating both the Town's Auditor Ernst and Young, and the Office of the Auditor General creating an additional level of processing.

The Town's Annual General Meeting of Electors where the Audit Report was accepted was held on 22 April 2021. There are no matters outstanding from the 2019/20 Audit.

In terms of the industry recommendations contained on page 7 of the Annual 2019/20 Financial Audits of Local Government entities the following matters are relevant to the Town of Cottesloe:

Recommendation 2:

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;
- e. Maintain currency with new and revised accounting standards for their impact on financial operations in order to prepare a compliant financial report at year end.

Administration Comment

This is concurred with and regularly is undertaken. The Town does not have an internal Auditor however the checks and balances that are in place are considered sufficient to ensure a sound financial control environment as evidenced by consecutive non qualified audit reports.

Recommendation 4:

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

Administration Comment

If considered necessary this would be undertaken. Recent Regulation changes were not of a nature that required a position paper to be prepared or external advice. WALGA provide industry advice on all Regulation changes and their advice is utilised in ensuring compliance is achieved and industry best practice maintained.

Recommendation 8:

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

Administration Comment

Noted and if considered beneficial or able to add value this could be undertaken. Advice would be taken from the Town's Auditor in this regard. It is noted that the WA Public Sector Financial Statements – Better Practice Guide, does not include reference to the requirements under the local Government (Financial Management) Regulations 1996.

ATTACHMENTS

8.1.4(a) Audit Results Report - Annual 2019-20 Financial Audits for Local Government Entities [under separate cover]

CONSULTATION

Nil.

STATUTORY IMPLICATIONS

Local Government Act 1995.

Local Government (Audit) Regulations 1996.

POLICY IMPLICATIONS

There are no perceived policy implications arising from the officer's recommendation.

STRATEGIC IMPLICATIONS

This report is consistent with the Town's *Strategic Community Plan 2013 – 2023*.

Priority Area 6: Providing open and accountable local governance

RESOURCE IMPLICATIONS

Resource requirements are in accordance with the existing budgetary allocation.

ENVIRONMENTAL SUSTAINABILITY IMPLICATIONS

There are no perceived sustainability implications arising from the officer's recommendation.

VOTING REQUIREMENT

Simple Majority

AC009/2021**OFFICER AND COMMITTEE RECOMMENDATION**

Moved Cr MacFarlane Seconded Cr Barrett

THAT the Audit Committee recommends to Council that that the Annual 2019/20 Financial Audits of Local Government entities be received.

AMENDED COMMITTEE RECOMMENDATION

THAT the Audit Committee recommends to Council that the Annual 2019/20 Financial Audits of Local Government entities and the Officer's Report inclusive of the recommendations be received.

Carried 4/0

Ms Kelly Tonich, Mr Michael Hoang and Ms Alveena Anthony left the meeting at the conclusion of this item at 5:10pm.

8.2 ITEMS FOR DISCUSSION

8.2.1 AUDIT COMMITTEE RESOLUTION DATABASE

Attachments: 8.2.1(a) Audit Committee Resolution Database - Updated June 2021 [under separate cover]
8.2.1(b) Report - Summary of Financial and Regulatory Reviews - 8.1.2 - February 2021 [under separate cover]

The purpose of this item is to discuss pending and outstanding actions/items of the Audit Committee, including item updates from the Administration.

A. Actions from the September 2020 Audit Committee Meeting:

- Cr Masarei: City of Perth Report - Requested a report back to the committee addressing the following:

What are other Local Governments (local/similar size) doing in this regard. What is the Town doing currently to bolster internal reflection/continuous improvement (internal and external controls). Flagging internal issues – which would be better? A spectrum of 3 to 4 options of what management would see as beneficial vs putting together a full 5 year plan.

As a starting point, it was agreed by the Committee that the Finance Manager would provide at the next meeting, a list of the different types of reviews/audit requirements that are currently undertaken by the Town, as well as a list of reports that are available.

Item 8.1.2 of the 15 February 2021 Audit Committee meeting responded to this matter and is attached.

B. Establish a process to guide & assist the Committee to discharge its obligations under Regulation 16 & 17 of the Local Government (Audit) Regulations 1996 which are duplicated in the Committee's Charter (attached).

I specifically would like to address the issues of:

- Risk Management
- Internal Controls
- Legislative Compliance & key corporate documents we do not seem to have in place.

Item 8.1.2 of the 15 February 2021 Audit Committee meeting responded to this matter and is attached.

C. Explore whether the Audit Committee is willing to assume "Risk Management"

If the Committee resolves to assume Risk Management the following actions will be needed:

1. Recommend to Council the change to the accountability of the Audit Committee,
2. Undertake the necessary amendments to the Charter, and
3. Provide the necessary resources to oversee the risk management activities of the Town.

The town has a Risk Management Policy in place developed in conjunction with LGIS. The Policy can be applied to every activity that the Town undertakes however this is unrealistic and not pragmatic. There are 16 identified Risk Themes. Where occasions require officer will

apply those these Risk Themes and overlay the likelihood and consequence factors of action or non action.

Individual circumstances often prevail and the more common applications are as follows:

- *Procurement and Tendering*
- *Regulatory Enforcement (eg Playground equipment on Verges)*
- *Major Works and Contracts (Rotunda Drainage, Beach Access Paths)*
- *IT Systems and Business Continuity*
- *Event Management*
- *Occupational Health and Safety*
- *Misconduct/Employee Issues*
- *Environmental Management*
- *Engagement Practices*
- *Compliance and Documentation*
- *Asset Management*

AC010/2021

COMMITTEE RECOMMENDATION

Moved Cr Masarei

Seconded Cr Barrett

That the Administration provides the Committee with a Compliance Calendar that outlines all actions and due dates throughout the year inclusive of actions to occur in the non-annual financial year..

Carried 3/0

Cr MacFarlane left the meeting at 5:30pm, prior to the voting of the Committee Recommendation.

9 GENERAL BUSINESS

9.1 COMMITTEE MEMBERS

Nil

9.2 OFFICERS

Nil

10 MEETING CLOSED TO PUBLIC

10.1 MATTERS FOR WHICH THE MEETING MAY BE CLOSED

Nil

11 NEXT MEETING

Wednesday 8 September 2021.

12 MEETING CLOSURE

The Presiding Member announced the meeting closed at 5:40pm.

TOWN OF COTTESLOE



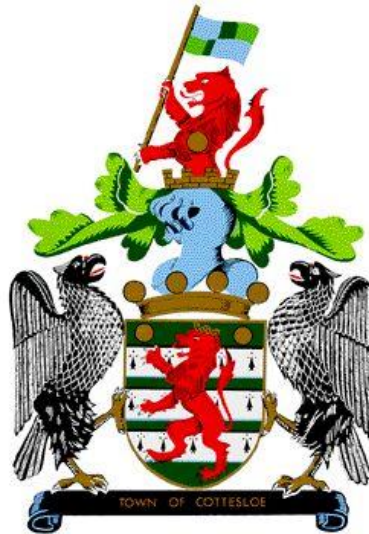
ATTACHMENTS

AUDIT COMMITTEE – 24 JUNE 2021

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TOWN OF COTTESLOE



AUDIT COMMITTEE

ATTACHMENT

**ITEM 8.1.1A:
AUDIT PLAN YEAR ENDING 30 JUNE 2021-
FINALISED COPY**



Town of Cottesloe
Audit Plan for the year ending 30 June 2021



Town of Cottesloe

For the year ending 30 June 2021

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Welcome

Dear Audit Committee members

We are pleased to present our External Audit Plan (Audit Plan) for the Town of Cottesloe ("the Town") for the year ending 30 June 2021.

Ernst & Young audit the financial statements of the Town on behalf of the Office of the Auditor General ("Auditor General"). The audit will be conducted in accordance with Australian Auditing Standards and practices, to enable the formation of opinions by the Auditor General on the financial statements of the Town.

The Auditor General or her representative will be informed of all significant issues as they are identified during the course of the audit and will attend all formal meetings between the Town and Ernst & Young.

Our plan has been co-developed with management and we believe it is responsive to your needs in understanding and assessing the appropriateness of the procedures undertaken by us in forming our opinion on the Town's financial statements.

If you have any questions regarding our Audit Plan please reach out to Kellie Tonich at (08) 6557 7525 or Michael Hoang at (08) 9429 2241.



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For the year ending 30 June 2021

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AREAS OF AUDIT FOCUS

8

The Areas of Audit Focus and the level of complexity or management judgement to be applied are:

- ▶ Compliance with operational procurement control requirements
- ▶ Grant contributions
- ▶ Revenue recognition for rates and parking infringements
- ▶ Valuation of property, plant and equipment, including infrastructure assets
- ▶ Financial ratio compilation
- ▶ Analysis of cash backed reserves
- ▶ Analysis of employee benefits expense
- ▶ Analysis of related party transactions

PLANNING MATERIALITY

We apply a percentage of operating expenses as our quantitative materiality level of the Town of Cottesloe. Our audit procedures will be designed to assist in identifying errors or misstatements, which cumulatively exceed our materiality level. Any individual errors greater than our adjustment listing scope, which come to our attention, will be reported to management and the Audit Committee.

OUR AUDIT APPROACH

We seek to take a control based approach for the following processes:

- ▶ Rates
- ▶ Fees and charges
- ▶ Capital expenditure management
- ▶ Payroll to cash disbursements
- ▶ Procurement to payables.

A substantive approach will be adopted for areas of significant management judgement, which includes the valuation of property, plant and equipment and infrastructure assets at fair value.

DIGITAL AUDIT



We have included in this Audit Plan our planned digital audit approach for certain components of the 2021 audit.

INDEPENDENCE



We will confirm our independence throughout the audit and remain in compliance with APES 110 Code of Ethics for Professional Accountants independence requirements.

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Areas of Audit Focus

Set out below are the areas of significant audit focus and a description of our planned approach.



Compliance with operational procurement control requirements

Our Understanding

- ▶ Purchases of goods and services are subject to the operational procurement controls codified under regulation 11A of the *Local Government (Functions and General) Regulation 1996* as follows:
 - ▶ The Council must implement a purchasing policy in relation to contracts for the supply goods or services where the consideration under the contract is \$150,000 or more
 - ▶ A purchasing policy must make provision in respect of (a) the forms of quotations acceptable and (b) the retention of all written information in respect of quotations received and purchases made.
- ▶ Payments for goods and services are subject to the operational procurement controls codified under regulation 11 and 12 of the *Local Government (Financial Management) Regulations 1996* as follows:
 - ▶ A local government must implement a procedure for the authorisation and payment of outstanding accounts
 - ▶ A local government must develop procedures for the approval of accounts to ensure that before settlement, a determination is made that the related debt was incurred by a person with the appropriate delegated authority.

Our Perspective

- ▶ We will enquire of management and perform a walkthrough of the procurement to payables process to identify key controls for testing. The scope of our walkthrough will capture tendering and quotation, authorisation of purchases and payments and vendor masterfile maintenance
- ▶ We will evaluate the adequacy of key controls implemented by the Town in addressing the operational procurement control requirements under the FGR and FMR
- ▶ We will communicate control deficiencies or process improvement opportunities to the Audit Committee
- ▶ We will inspect the trade and other payables reconciliations and test material reconciling items, if any
- ▶ We will test a representative sample of trade payables to supporting documentation, such as vendor invoices, progress certificates and subsequent payments
- ▶ We will perform tests of unrecorded liabilities for payments after balance date
- ▶ We will perform substantive analytical review procedures by comparing significant trade payables at 30 June 2021 against the prior period and preparing a monthly fluctuation analysis on materials and contracts expenses to identify any anomalies or outliers.

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Grant contributions

Background

- ▶ For the year ended 30 June 2020, the Town recognised contributions of \$0.536 million which are accounted for under AASB 1058 *Income of Not for Profit Entities* ("AASB 1058")
- ▶ AASB 1058's timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset) received by an entity. It is noted an agreement is considered a contract with a customer in the scope of AASB 15 if the agreement is an enforceable contract and sufficiently specific promises for the NFP to transfer goods or services to the customer, or third-party beneficiaries
- ▶ For transactions that are not within the scope of AASB 15, AASB 1058 provides guidance on when income should be recognised. Where there is no enforceable contract and performance obligations, revenue is recognised immediately under AASB 1058
- ▶ Pursuant to the terms of a grant contract, the funder may request a refund for (a) unspent grants or (b) in the situation where monies were expended for reasons other than the stated objective of the grant
- ▶ The Town carries an unspent grants reserve in equity to recognise the carry forward of available funding for incomplete grants in ensuing financial years.

Planned audit approach

- ▶ We will enquire of management and perform a walkthrough of grants, contributions and subsidies process to identify key controls for testing
- ▶ We will inspect the terms and conditions of material contracts to better understand the obligation, if any, to refund unspent monies
- ▶ We will obtain and review all new grant contracts and variations entered into for the year ended 30 June 2021
- ▶ We will test the receipt of material grants to supporting documentation, such as bank statements and contracts
- ▶ We will test the utilisation of the unspent grants reserve for the year ended 30 June 2021 to source documentation, such as vendor invoices and employee time writing.

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Revenue recognition for rates and parking infringements

Background

- ▶ For the year ended 30 June 2020, the Town recognised revenue of \$13.321 million. The composition of revenue is weighted to rates of \$10.708 million and parking infringements of \$0.609 million
- ▶ The Town continues to recognise prepaid rates, which are rates received in advance, as a financial liability until the taxable event occurs and the revenue will be recognised in the appropriate year
- ▶ Contributions to a local government, may be received in the form of involuntary transfers such as rates and parking infringements. Such contributions are recognised as income when the local government obtains control over them, irrespective of whether any restrictions or conditions are imposed on the use of the contributions
- ▶ Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Town and the revenue may be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, considering contractually defined terms of payment and excluding taxes or duties
- ▶ Control over involuntary, non-reciprocal contributions is established when the underlying transaction or event giving rise to control of the future economic benefits occurs (for example, control over parking infringements is established when the fine is issued).

Planned audit approach

- ▶ We will enquire of management and perform a walkthrough of each material revenue stream to identify and test key controls
- ▶ We will perform tests of revenue cut-off around balance date
- ▶ We will perform substantive analytical procedures by comparing revenue streams against the prior period and budget to identify any unusual or unexpected trends
- ▶ We will perform substantive analytical procedures by recalculating rates revenue, benchmarked to gross rental valuations and unimproved valuations from Landgate and the budgeted rates approved by the Council
- ▶ We will test a representative sample of revenue transactions to source documentation; for example, rates notices, land valuation reports published by Landgate and bank statements
- ▶ We will review the reasonableness of management’s expected credit loss model on infringement receivables.

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Valuation of property, plant and equipment, including infrastructure assets



Background

- ▶ At 30 June 2020, the Town carried property, plant and equipment and infrastructure assets of \$83.407 million and \$37.943 million on its balance sheet, respectively
- ▶ Management measures property, plant and equipment (excluding infrastructure assets and land and buildings) at historical cost, less accumulated depreciation and impairment losses, recognised after the date of purchase. This is a result of a change to *Local Government (Financial Management) Regulation 17A* effective 1 July 2019, whereby plant and equipment type assets are to now be measured under the cost model, rather than at fair value
- ▶ Management measures infrastructure assets and land and building at fair value, less accumulated depreciation and impairment losses, recognised after the date of revaluation.
- ▶ A revaluation surplus or deficit is recorded to other comprehensive income and credited to the asset revaluation reserve in equity
- ▶ The fair values of infrastructure assets and land and buildings are determined with reference to valuations performed by accredited external valuers
- ▶ For the year ended 30 June 2021, Land and buildings are scheduled for revaluation as follows:

Asset class	Latest revaluation	Planned revaluation
Land and buildings	30 June 2017	30 June 2021
Infrastructure assets	30 June 2018	30 June 2023

Planned audit approach

- ▶ We will enquire of management and perform a walkthrough of the capitalisation of capital expenditure to work in progress and the transfer of work in progress to the appropriate asset class to identify key controls for testing
- ▶ We will obtain and review the latest revaluations performed by managements expert and perform assessments to corroborate and concur with managements experts' conclusions
- ▶ We will consider the existence of internal and external indicators of impairment which may trigger an impairment assessment
- ▶ We will attend physical/virtual stock counts of property, plant and equipment and infrastructure assets
- ▶ We will evaluate the reasonability of the useful lives of depreciable assets against the accounting policies of the Town
- ▶ For a representative sample of depreciable assets, we will re-calculate the depreciation expense for the accounting period
- ▶ We will test a representative sample of additions and disposals to property, plant and equipment to supporting documentation; for example, quote, vendor invoices and bank statements.
- ▶ We will perform additional procedures in line with the requirements of ASA 540, the auditing standard on auditing accounting estimates, that has recently been revised with effect for the year ended 30 June 2021 audits for the Town. Refer to the "Other Communications" section of the appendices for further details on our approach to auditing accounting estimates for the year.

Town of Cottesloe
For the year ending 30 June 2021

Executive summary	Areas of Audit Focus	Audit approach	Your team	Appendices
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Financial ratio compilation

Background	Planned audit approach
<ul style="list-style-type: none"> ▶ Regulation 50 of the FMR requires the disclosure of the following financial ratios in the financial statements: <ul style="list-style-type: none"> ▶ The current ratio ▶ The asset consumption ratio ▶ The asset renewal ratio ▶ The asset sustainability ratio ▶ The debt service cover ratio ▶ The operating surplus ratio ▶ The own source revenue coverage ratio ▶ Regulation 10 of the <i>Local Government (Audit) Regulations 1996</i> requires the auditors to assess whether the asset consumption and asset renewal ratios are supported by verifiable information and reasonable assumptions ▶ Regulation 10 of the <i>Local Government (Audit) Regulations 1996</i> requires the auditor to assess whether there are any significant adverse trends in the financial position of the Town of Cottesloe, benchmarked to the Department of Local Government, Sport and Cultural Industries ("DLGSCI") standard. 	<ul style="list-style-type: none"> ▶ We will inspect the financial ratio calculations from management and test its clerical and computational accuracy ▶ We will cross-check key inputs within the financial ratio calculations to supporting documentation ▶ We will evaluate whether the calculation methodology complies with the requirements set out in the FMR ▶ We will evaluate the reasonability of the assumptions adopted as part of the calculation of the asset consumption and asset renewal funding ratios ▶ We will cross-check the financial ratios of the Town of Cottesloe to the DLGSCI standard to identify adverse trends, if any ▶ We will perform a substantive analytical review by comparing financial ratios against the prior period to identify any unusual or unexpected trends.

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For the year ending 30 June 2021

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Analysis of cash backed reserves

Background

- ▶ At 30 June 2020, the Town carried cash backed reserves accounts in equity of \$9.087 million
- ▶ Regulation 38.1 of the FMR defines the reserves disclosures to be included in the financial statement as follows:
 - ▶ The purpose for which the monies were set aside
 - ▶ The amounts set aside and expended for the reporting period
 - ▶ The opening and closing balances of the reserves at balance date
 - ▶ When the Council anticipates that the monies held in reserve will be expended
 - ▶ If monies held with a financial institution were insufficient to match the corresponding restricted cash asset carried on the balance sheet:
 - ▶ The extent of the deficiency
 - ▶ The reason for the deficiency
 - ▶ When the Council anticipates that the deficiency will be remedied
 - ▶ If the purpose of the reserves were changed or the monies set aside were used for another purpose:
 - ▶ The purpose for which the monies were used
 - ▶ The amount changed or used
 - ▶ The objects of, and the reasons for, the change or use.

Planned audit approach

- ▶ We will test material movements in cash backed reserves accounts to supporting documentation, such as vendor invoices and employee time-writing
- ▶ We will evaluate the appropriateness of amounts expended against reserve accounts in consideration of the stated objectives authorised by the Council
- ▶ We will test whether the cash backed reserve accounts are supported by restricted cash held with financial institutions and evaluate the extent of any insufficiency, if applicable
- ▶ We will evaluate the completeness and accuracy of the disclosures related to reserve accounts in consideration of regulation 38.1 of the FMR.

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For the year ending 30 June 2021

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Accuracy of employee benefits expense

Background	Planned audit approach
<p>▶ At 30 June 2020, the Town carried provisions for annual leave and long service leave of \$0.590 million and \$0.466 million on its balance sheet, respectively.</p> <p>Provision for long service leave</p> <p>▶ Long service leave entitlements are recognised as a liability based on the present value of the benefit obligation using the projected unit credit valuation method</p> <p>▶ AASB 119 <i>Employee benefits</i> (“AASB 119”) prescribes discount rates to be utilised in measuring long-term employee benefit obligations</p> <p>▶ The discount rate should be determined with reference to government bond rates at balance date, consistent with the currency and term of the employment benefit.</p> <p>Annual leave entitlements</p> <p>▶ The definition of short-term employee benefits set out in AASB 119 was revised in a prior period</p> <p>▶ The revised definition states that only benefits that are expected to be wholly settled within 12 months after balance are classified as a short-term employee benefit</p> <p>▶ Should there be evidence to suggest that employees will not use their accrued annual leave within 12 months of balance date, the annual leave liability should be measured as a long-term benefit and measured using the projected unit credit valuation method</p> <p>▶ Short-term benefits are recognised at the undiscounted amount of the benefit expected to be paid in exchange for services rendered</p> <p>▶ Casual employee’s entitlements may not be in accordance with relevant legislation and recent legal precedence.</p>	<p>▶ We will perform test of controls across the payroll to cash disbursements process to test the accuracy of employee benefits expense for the year</p> <p>▶ We will perform substantive analytical procedures, such as an analysis of employee benefits expense disaggregated by month, to identify unusual trends or outliers</p> <p>▶ We will evaluate the retention probabilities used in calculating the provision for long-service leave with reference to historical terminations</p> <p>▶ We will confirm the discount rates used in discounting benefit obligations to present value to publicly available government bond rates</p> <p>▶ We will re-calculate the calculation of gross employee entitlements with reference to source documents on a sample basis; for example, authorised leave request forms and employment contracts</p> <p>▶ We will evaluate and recompute the discounting of annual leave entitlements which are not expected to be settled within 12-months of balance date to its present value</p> <p>▶ We will evaluate management’s assessment of the Rossato case and its impact on the Town</p> <p>▶ We will cross-check the workers compensation accrual to the estimate provided by the Local Government Insurance Scheme in accordance with run-off insurance arrangements</p> <p>▶ We will communicate control deficiencies or process improvement opportunities to the Audit Committee.</p>

Town of Cottesloe

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Accuracy of related party transactions

Background

- ▶ At 30 June 2020, the Town identified related party relationships with key management personnel and joint arrangements, including the Western Metropolitan Regional Council and Grove Library
- ▶ Under AASB 124 Related Party Disclosures (“AASB 124”), if an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements
- ▶ At a minimum, disclosures shall include:
 - ▶ the amount of the transactions
 - ▶ the amount of outstanding balances, including commitments
 - ▶ their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement
 - ▶ details of any guarantees given or received
 - ▶ provisions for doubtful debts related to the amount of outstanding balances
 - ▶ the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Planned audit approach

- ▶ We will enquire of management as to the process to identify, appropriately account for and disclose related party relationships and transactions including necessary confirmations with key management personnel
- ▶ We will identify key controls, if any, over related party relationships and transactions, including how they are authorised and approved
- ▶ We will enquire of management as to the nature of relationships between the Town and identified related parties to understand their underlying business rationale and whether any transactions with related parties were outside of the ordinary course of business
- ▶ We will inspect bank confirmations, solicitor representation letters, the agenda and minutes to Council meetings and material contracts to evaluate the completeness of related party relationships disclosed by management.

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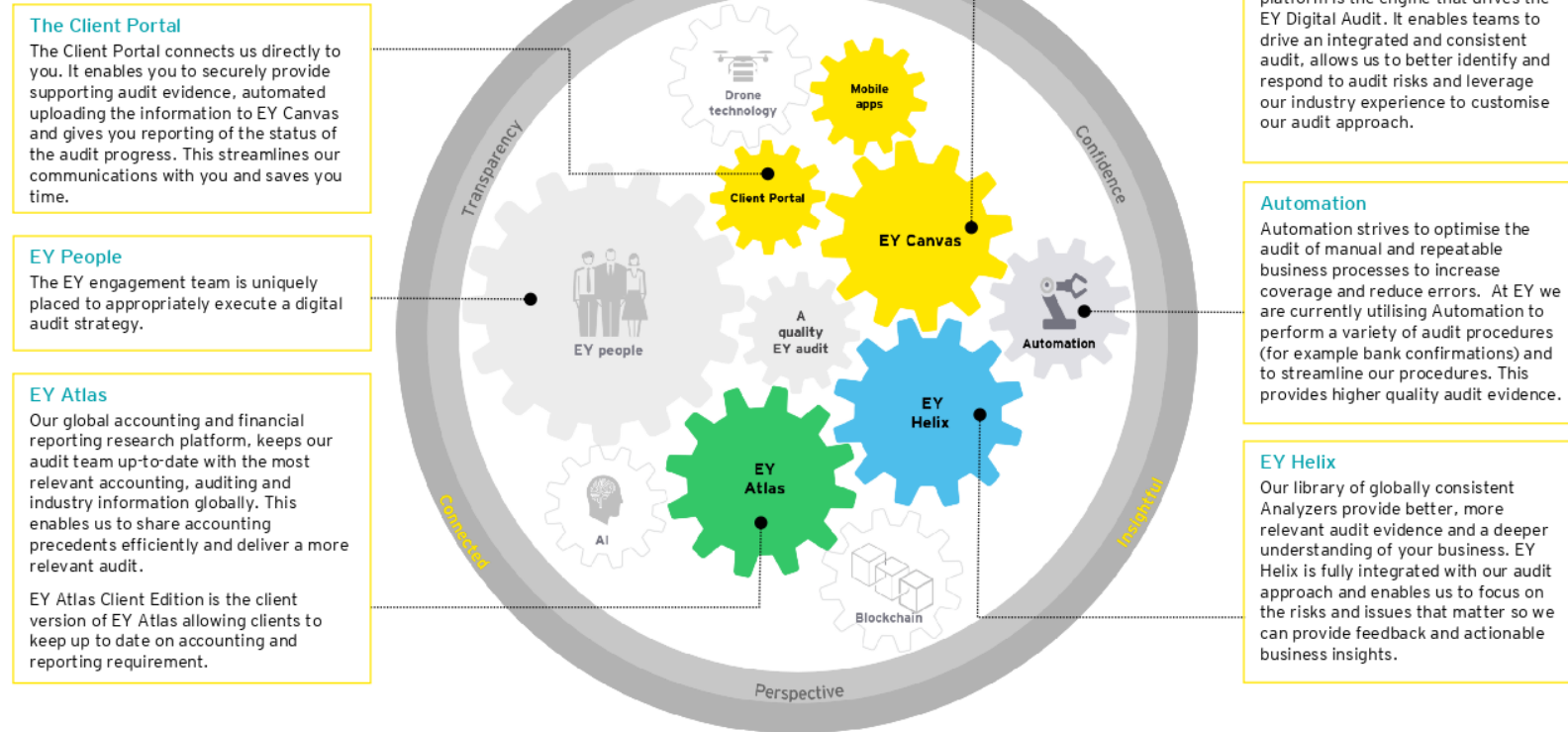
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Digital Audit

Each of the components of the EY Digital Audit work together to deliver a quality audit



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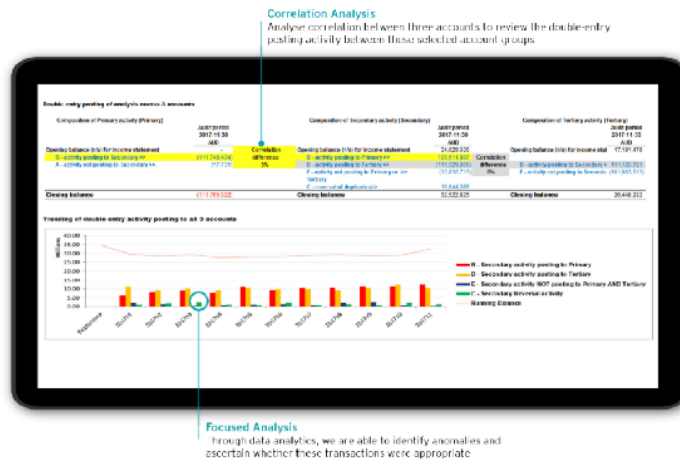
EY Helix

General Ledger Analyzer

General Ledger Analyzer uses general ledger data to assist in all phases of the audit.

This Analyzer (in conjunction with our journal entry sample selection tool - EY GLASS) enables us to deliver you a high-quality audit by:

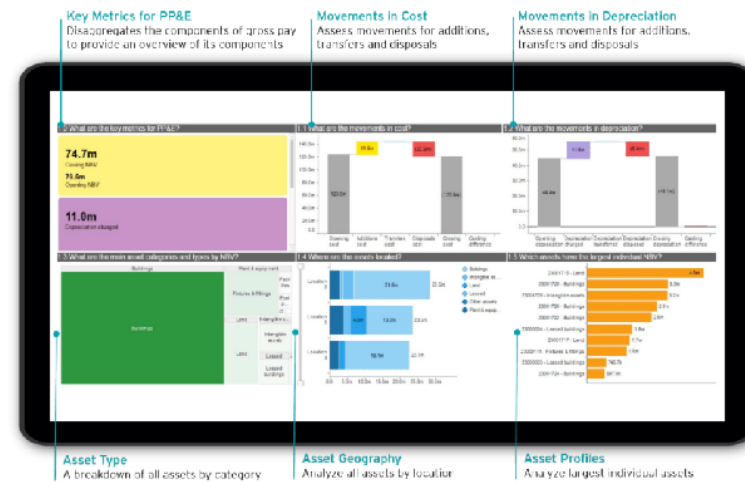
- ▶ Identifying business insights, hidden patterns, correlations and trends in 100 per cent of your general ledger data and direct our investigative effort in the right areas
- ▶ Allowing us a deeper understanding of your business by analysing larger populations of audit relevant data, to present a fuller picture of what happened and identify the risks that matter.



PP&E Analyzer

The Property Plant and Equipment Analyzer assists with organising and presenting subledger data when performing audit procedures over PP&E.

The Analyzer uses PP&E subledger data, including the fixed asset register to assist in assessing the opening and closing position along with additions, disposals, transfers and depreciation during the period.



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Assessment of internal control environment

The primary responsibility for the design and operating effectiveness of the internal control environment, including the prevention and detection of fraud and error, rests with those charged with governance and management.

We obtain an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit is not designed to express an opinion on the effectiveness of internal control, we are required to communicate significant deficiencies in internal control to you.

Our assessment of internal controls covers:

- ▶ The control environment including entity level controls
- ▶ Your internal risk assessment procedures
- ▶ The design and operating effectiveness of internal controls (including IT general controls)
- ▶ Monitoring of controls (including internal audit and self-assessment).

We will report any deficiencies noted in internal controls to the Mayor and CEO via a formal management letter process.

Internal audit

We consider where we can place reliance on internal audit during our audit procedures to minimise duplication and to rely on their work wherever possible.

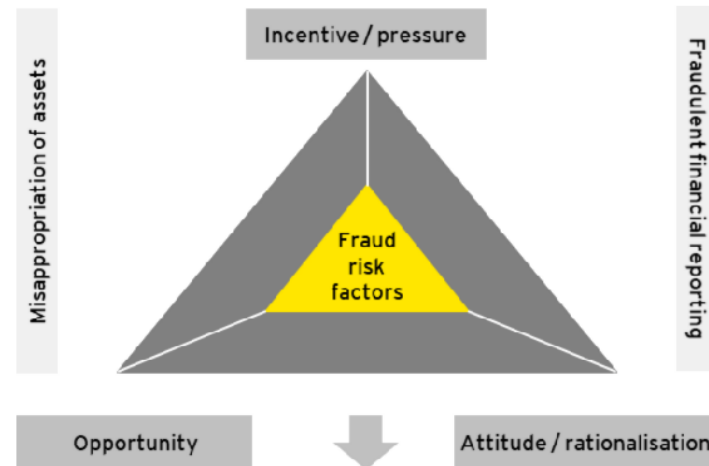
Where we rely on internal audit work, we will:

- ▶ Understand significant processes and perform walkthrough of a transaction through the entire process
- ▶ Retest a sample of the controls tested by internal audit
- ▶ Adjust substantive audit procedures at year end based upon the results of the testing.

The risk of fraud

Our responsibility as the external auditor is to consider the risk of fraud and the factors that are associated with it so as to provide reasonable assurance that the financial statements are free from material misstatement resulting from fraud. However, it is important to note that while our external audit work is not primarily directed towards the detection of fraud or other irregularities, we will report any matters identified during the course of our work.

When developing our Audit Plan, we use professional judgement in determining whether a fraud risk factor is present. We determine fraud risk factors in the context of the three conditions generally present when fraud occurs (i.e. incentive/pressure, opportunity and attitude/rationalisation).



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Controls reliance

We intend to place reliance on IT dependent manual and manual controls which operate across the financially significant processes of the Town. Set out below is the level of controls reliance we expect to achieve over the key financial statement processes.

Process	Internal controls	Inherent risk assessment
Revenue - Rates		Lower
Revenue - Fees and charges		Lower
Other income		Higher
Grant contributions and subsidies		Higher
CAPEX		Higher
Payroll to cash disbursements		Lower
Procurement to payables		Lower
Financial statement close		Higher
Compliance		Higher

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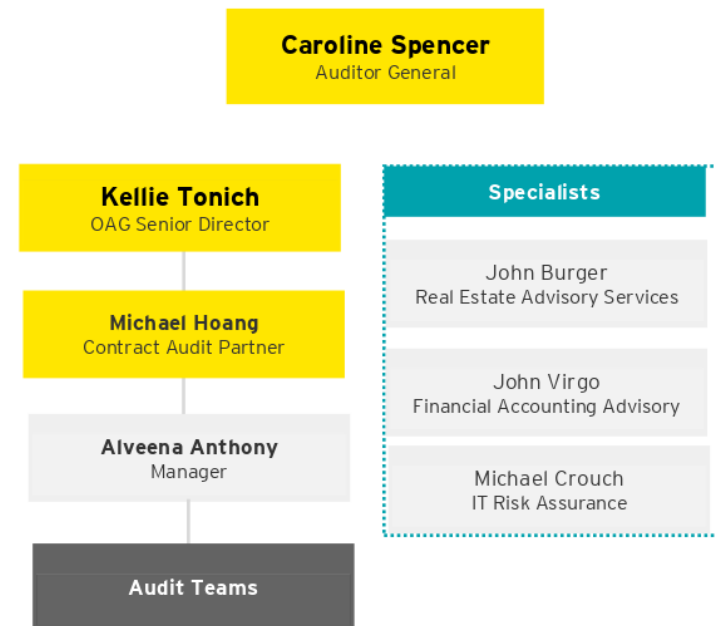
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Your team

We understand that our team is the most important element of your relationship with us.

A team aligned to your business was selected by Michael and is comprised of individuals who have successfully worked together before. Your team are experienced auditors in government sector entities and bring their collective experiences from their current clients.

Furthermore, we incorporated our embedded specialists from our other services lines to support our planned audit procedures.



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Independence

How we are meeting your independence requirements.



Data security and Privacy

Our digital audit is supported by a well-articulated data privacy and information security strategy.



Other Communications

Provides explanatory guidance on other communication such new regulatory requirements, etc.



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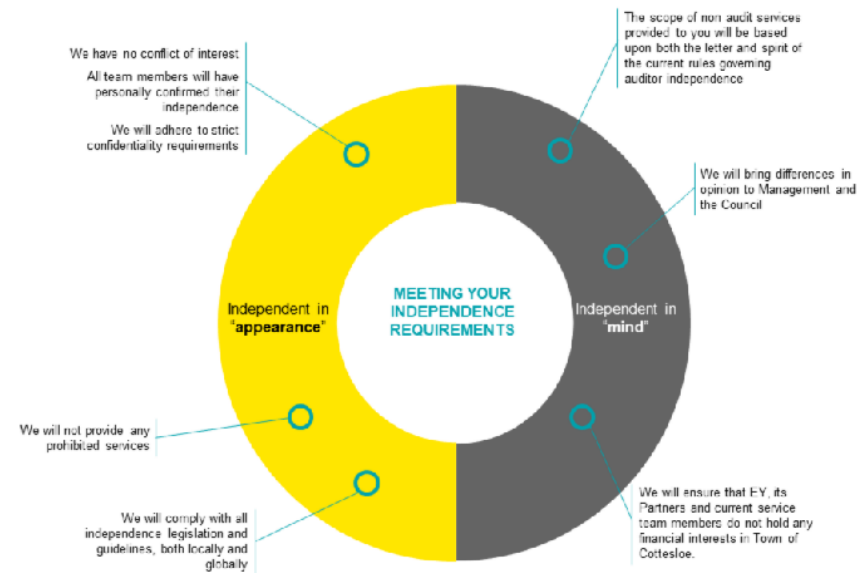
Independence

Independence is fundamental to EY as our ongoing reputation and success is connected to our ability to meet both the Town's and broader regulatory independence requirements.

We have consistently complied with all professional regulations relating to auditor independence, including those outlined in APES 110 *Code of Ethics for Professional Accountants*.

Accordingly, we ensure that there are controls in place and actions taken on a regular basis that mitigate any risks to our independence.

There are no matters that, in our professional judgement, bear on our independence which need to be disclosed to the Audit Committee.



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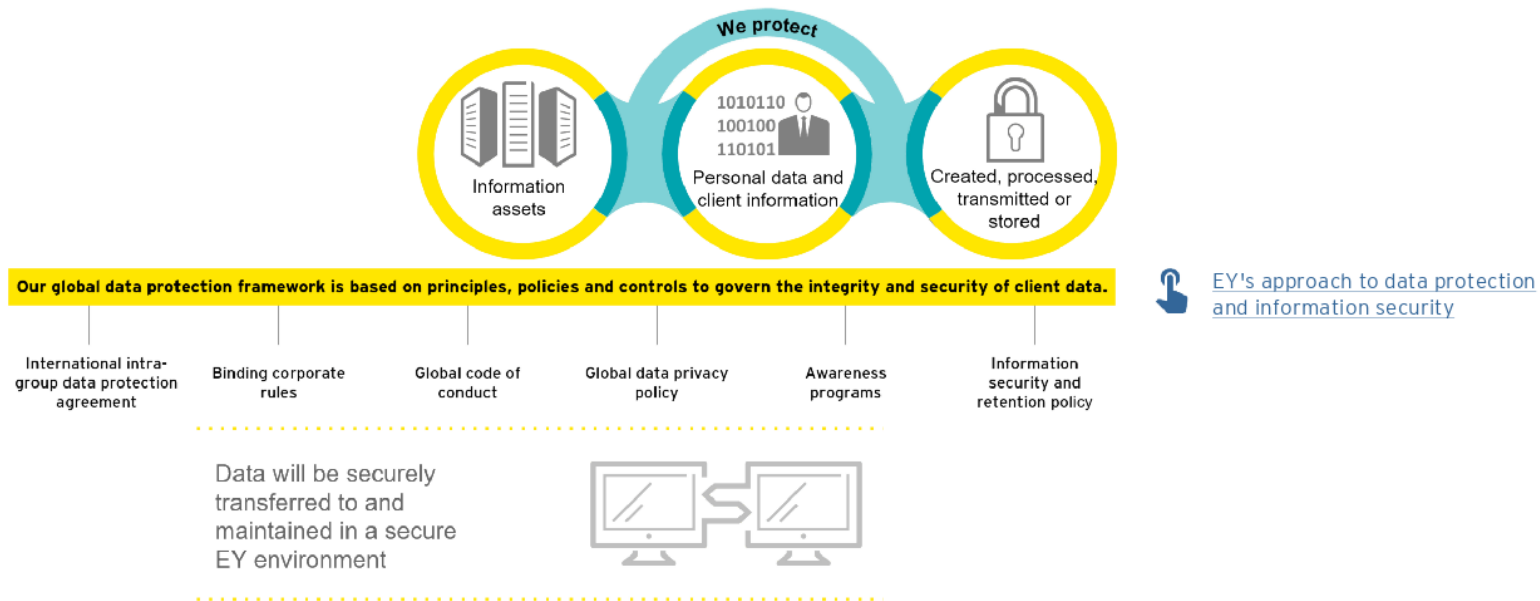
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Data security and privacy

Our ability to provide seamless, consistent, high-quality client service worldwide is supported by a well-articulated data privacy and information security strategy.

For the audit of the Town of Cottesloe, the following applies:

- ▶ Access to EY Canvas is restricted to members of the engagement team only
- ▶ Audit relevant information is transferred to EY securely via the EY Canvas Client Portal.



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For the year ending 30 June 2021

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ASA 540 revised - Auditing Accounting Estimates and Related Disclosures

New Audit Standard

Background

ASA 540, the auditing standard on auditing accounting estimates, has recently been revised with effect for the year ended 30 June 2021 audits for the Town.

The auditing standard was revised to address public interest issues:

- ▶ The evolving audit risks due to a more complex business environment
- ▶ Fostering improved exercise of professional skepticism
- ▶ Realising public interest benefits through improved communication and transparency.

The objective of the auditing standard has changed the level of assurance that is to be attained when auditing accounting estimates from "adequate" to "reasonable". As a result, auditors will need to perform additional work to get to this higher level of assurance. This has resulted in changes to the prescribed procedures that an auditor should undertake in the auditing accounting estimates standard. The key changes and consideration to be performed by auditors are as follows:

- ▶ Inherent risk factors considering:
 - ▶ Estimation uncertainty and the precision in the measurement
 - ▶ Complexity in the process of making an accounting estimate
 - ▶ Subjectivity and limitation in knowledge or data regarding valuation attributes
- ▶ Risk assessment - inherent and control risk
- ▶ Testing the operating effectiveness of controls relevant to accounting estimates
- ▶ Work effort - objectives-based effort requirements: Methods; Assumptions; and Data
- ▶ Focus on disclosures.

What this means for you and your audit

Management should clearly understand all estimates that they are making during the financial statement close process. Once management has a clear register of the estimates, an assessment should be made on the control design and the operating effectiveness of those controls to ensure estimates are complete, accurate and part of a robust controls process. The process should include controls over:

- ▶ The monitoring of outsourced providers and experts
- ▶ The quality of the data used
- ▶ Quality review and validation of inputs into models
- ▶ Changes to assumptions made and validation of assumptions
- ▶ Benchmarking of similar estimates to industry competitors
- ▶ Quality reviews of final estimates and financial statement disclosures.

The new standard will result in additional management and audit effort including:

- ▶ Enhanced requirement to obtain audit evidence about whether related disclosures are "reasonable"
- ▶ Increased skepticism by auditors
- ▶ Increase reporting to those charged with governance
- ▶ Enhanced management representations.

In our upcoming audit, we will consider whether management's current estimation processes are suitable under the new auditing standard and highlight areas where improvements should be made.



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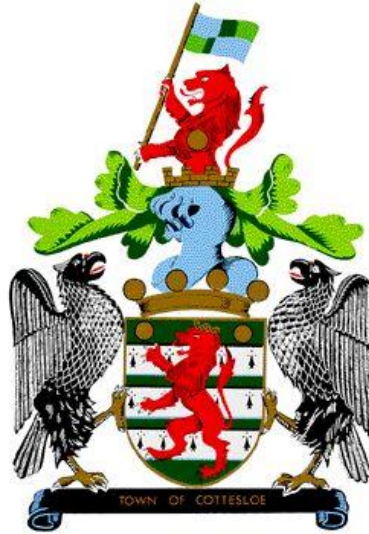
ED None

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TOWN OF COTTESLOE



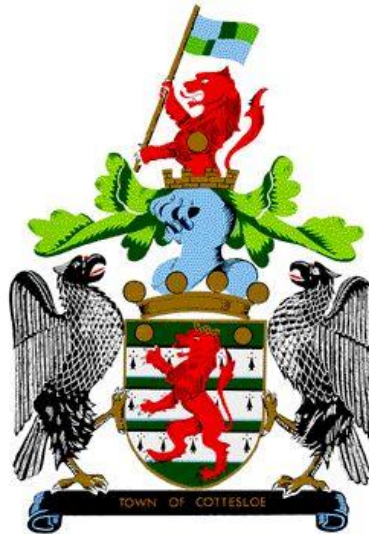
AUDIT COMMITTEE

ATTACHMENT

**ITEM 8.1.2A:
AGENDA ATTACHMENT - INTERIM
MANAGEMENT LETTER POINT (MLP) REPORT 18
JUNE 2021**

This attachment has been removed as the document was not the finalised report and had been released in error.

TOWN OF COTTESLOE



AUDIT COMMITTEE

ATTACHMENT

**ITEM 8.1.4A:
AUDIT RESULTS REPORT - ANNUAL 2019-20
FINANCIAL AUDITS FOR LOCAL GOVERNMENT
ENTITIES**

Western Australian Auditor General's Report



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



Report 30: 2020-21

16 June 2021

**Office of the Auditor General
Western Australia**

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

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

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ISSN: 2200-1913 (print)
ISSN: 2200-1921 (online)

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

WESTERN AUSTRALIAN AUDITOR GENERAL'S REPORT

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

Report 30: 2020-21
June 2021



**THE PRESIDENT
LEGISLATIVE COUNCIL**

**THE SPEAKER
LEGISLATIVE ASSEMBLY**

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

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

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

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

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

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

CAROLINE SPENCER
AUDITOR GENERAL
16 June 2021

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Auditor General's overview

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



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

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

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

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

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

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

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

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

Executive summary

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

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

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

Key findings

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

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

Recommendations

1. The Department of Local Government, Sport and Cultural Industries (DLGSC) should assess whether the current financial ratios in the FM Regulations remain valid criteria for fairly measuring and reporting the performance of each LG entity. This could also include a simplification of LG entity reporting requirements for financial ratios, and review of the requirement under the FM Regulations for the auditor to report on any adverse trends in the ratios as part of the annual financial audit. (page 17)
2. LG entities should ensure they maintain the integrity of their financial control environment by:
 - a. periodically reviewing and updating all financial, asset, human resources, governance, information systems and other management policies and procedures and communicating these to staff
 - b. conducting ongoing reviews and improvement of internal control systems in response to regular risk assessments
 - c. regularly monitoring compliance with relevant legislation
 - d. promptly addressing control weaknesses brought to their attention by our audits, and other audit and review mechanisms
 - e. maintain currency with new and revised accounting standards for their impact on financial operations in order to prepare a compliant financial report at year end. (page 22)
3. The DLGSC should seek ministerial approval for any proposed regulatory amendments well in advance of the financial year end to ensure timely gazettal to facilitate action and avoid rework by all entities when finalising their end of year financial report. (page 26)
4. LG entities should complete their assessment of the impact of any new regulations or accounting standards and prepare a position paper on the necessary adjustments to their financial report. If required, entities should seek external consultation when completing their assessment and adjust their financial report, prior to submitting it for audit. (page 26)
5. DLGSC should provide timely guidance to assist LG entities to update their accounting practices to ensure that their future reporting is compliant with all current accounting standards. (page 27)
6. DLGSC should re-assess the amount of detail required to be included in annual financial reports, in particular for small and medium sized LG entities. (page 28)
7. To improve the quality of financial reports and achieve greater consistency across LG entities, the DLGSC should prepare timely regulation amendments for the Minister's approval which improve the sector's financial report framework. The DLGSC should also provide accounting support services to the sector. Proper management of financial resources is the most basic priority as from there all else is enabled or eroded. (page 31)
8. We encourage entities to make use of our WA Public Sector Financial Statements – Better Practice Guide to improve their financial management and reporting practices, processes and procedures. (page 31)

About our financial audits

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

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

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

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

Annual financial reporting framework, timeline and audit readiness

Reporting framework and content

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

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

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

Financial reporting timeliness

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

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

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

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

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

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

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

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

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

Summary of audit results

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

The auditor's report includes:

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

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

Qualified audit opinions on annual financial reports

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

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

Shire of Goomalling

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

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

Audits in progress

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

Prior year qualified opinions removed in 2019-20

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

Shire of Bruce Rock

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

Shire of Ravensthorpe

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

Shire of Wagin

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

Emphasis of Matter paragraphs included in auditor's reports

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

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

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

- (i) Regulation 17A requires a LG entity to measure vested improvements at fair value and the associated vested land at zero cost. This is a departure from AASB 16 *Leases* which would have required the entity to measure the vested improvements also at zero cost.
- (ii) In respect of the comparatives for the previous year ended 30 June 2019, regulation 16 did not allow a LG entity to recognise some categories of land, including land under roads, as assets in the annual financial report.

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

City of Stirling – Infrastructure Assets Revaluation

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

Mindarie Regional Council – Contingent Liability

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

Town of Victoria Park – Land Assets Revaluation

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

Material matters of non-compliance with legislation

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

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

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

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

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

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

Issue	Finding
Controls over accounting journal entries	<p>At 8 entities we found that accounting journal entries were often posted with no evidence of independent review and approval by another person.</p> <p>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.</p>

Issue	Finding
Bank reconciliation process incomplete	<p>At 5 entities bank reconciliations of their municipal, reserve and/or trust accounts were not prepared, had long outstanding unreconciled items and/or there was no independent review by management.</p> <p>While we considered these instances to warrant reporting in the auditor's report, several other less significant control shortcomings in relation to bank reconciliations were reported to entities in our management letters.</p>
Other reconciliation findings	<p>At several entities we reported weaknesses in key controls for ensuring the completeness and accuracy of financial data within the general ledger and reported in the financial report:</p> <ul style="list-style-type: none"> • Reconciliations to the general ledger were not performed in a timely manner for payroll or the fixed asset register of property, plant and equipment and infrastructure • Reconciliations for trade payables, bank accounts and borrowings account were not sufficiently evidenced as completed and reviewed • Monthly reconciliations of cash, sundry debtors, rates debtors, sundry creditors and fixed assets were not carried out from July 2019 to May 2020.
Quotes not obtained or no evidence retained	<p>At 10 entities between 2% and 77% of purchase transactions sampled had inadequate or no evidence that a sufficient number of quotations was obtained to test the market and no documentation to explain why other quotes were not sought. This practice increases the likelihood of not receiving value for money in procurement or favouritism of suppliers.</p>
Tender register details	<p>The tender register at 1 entity did not include details of each tender and the names of the successful tenders.</p>
Procurement without purchase orders	<p>At 10 entities purchase orders were not prepared or were prepared after the suppliers' invoices were received.</p>
Procurement without required procedures	<p>At 2 entities approximately 30% of their purchase orders did not state a dollar value, quantity procured or there was inadequate or no evidence that a sufficient number of quotations were obtained to test the market, and no documentation to explain why other quotes were not sought.</p>
Procurement without appropriate segregation of duties	<p>At 2 entities the same officer requisitioned, approved and raised the purchase order then also approved the associated invoice payment for approximately 26% to 28% of sampled purchase transactions.</p>
Procurement transactions without payment approval	<p>At 1 entity 6% of the purchase transactions did not have evidence of payment approval prior to payment occurring.</p>
Other procurement findings	<p>We reported other instances of non-compliance with procurement policies and procedures:</p> <ul style="list-style-type: none"> • Declarations of interest were not made by panel members prior to evaluation of tender documents, increasing the risk that any actual or perceived conflicts of interest were not adequately identified and managed by the entity.

Issue	Finding
	<ul style="list-style-type: none"> • Goods and services were procured from suppliers without fully executed tender contracts, increasing the risk of not obtaining value for money or dispute over contract terms or conditions. • Expenditure transactions were not in the LG entity's adopted budget and not supported by an authorised budget variation request. These practices increase the risk of fraud or favouritism of suppliers, not obtaining value for money in procurement, and inappropriate or unnecessary purchases. • Delegations of authority were approved for officers, but payment limits per officer had not been set. • Delegated officers did not evidence examining supporting documents prior to authorising payment. • There was inadequate segregation of duties within the procurement process as officers that prepare financial information also had access to authorise payments from the bank account. • At 1 entity some services were procured where the total spend for each supplier during the year exceeded \$150,000, however tenders were not called. Section 11(1) of the Local Government (Functions and General) Regulations 1996 requires public tenders to be invited for services that are above \$150,000. • Credit card transactions were not posted, reviewed or reconciled in a timely manner, early payments were made effectively increasing the credit card monthly limit and a card holder did not sign the credit card acknowledgement form prior to using the card.
Records not presented to Council meetings as required by FM Regulations	The list of accounts paid from the municipal and trust funds and the statement of financial activity were not presented to Council within the timeframe specified in the FM Regulations for periods of 5 to 7 months.
Financial ratios not reported	<p>Nineteen entities did not report the Asset Renewal Funding Ratio, mostly for the 3 years, 2020, 2019 and 2018, in their annual financial report as required by FM Regulation 50(1)(c). Reasons for non-reporting included:</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 • information on planned capital renewals and required capital expenditure over a 10 year period was not available.

Issue	Finding
Review not performed of financial management systems and procedures	At 3 entities a review of the financial management systems and procedures was not completed at least once every 3 financial years as required by FM Regulation 5(2)(c).
Review not performed of risk management, internal control and legislative compliance	At 2 entities a review of systems and procedures in relation to risk management, internal control and legislative compliance was not completed at least once every 3 years as required by LG Audit Regulation 17.
No review and authorisation of changes to masterfiles	There was no evidence of independent review and authorisation of changes made to the creditor masterfile at 8 entities, the payroll masterfile at 3 entities and debtors and rate assessment masterfiles at 1 entity. This increased the risk of unauthorised changes to key information.
Payroll and human resources findings	<p>Several findings of payroll and employment non-compliance were also reported:</p> <ul style="list-style-type: none"> • a letter of employment was not signed by the employee until after commencement, resulting in an incorrect pay rate being paid • the payroll function was not supported by formal policies and supporting procedures • employee pay rate changes were not reviewed by an independent officer.
Revenue findings	<p>There was an increased risk that discounts, refunds or price changes may be unauthorised or go undetected, resulting in a loss of revenue. Findings included:</p> <ul style="list-style-type: none"> • inadequate internal controls over debtors accounts and staff discounts • no process in place to review changes made to approved rates, to ensure issue of correct rate invoices • a large number of users were able to issue refunds at a recreational facility with no independent review of the refunds issued • more employees than necessary having the ability to change rates, fees and charges within the finance and revenue systems and no process in place to review the price changes.
Asset control finding	One entity did not have formal policies and procedures for proper control over its fixed assets.
General computer control findings	<p>In depth findings of our IS audits at a selection of 50 LG entities are detailed in our Local Government General Computer Controls Report, Report 23, tabled on 12 May 2021. We reported 328 control weaknesses to 50 LG entities, with 10% (33) of these rated as significant and 72% (236) as moderate. As these weaknesses could significantly compromise the confidentiality, integrity and availability of information systems, the LG entities should act promptly to resolve them.</p> <p>Our financial audit approach to reporting IS issues and general computer controls changed partway through our 2019-20 audit</p>

Issue	Finding
	<p>cycle. This has resulted in audits completed later in our cycle having material matters of non-compliance with their IS and general computer controls included in the auditor's reports. In 2019-20 the following material matters of non-compliance were included in our auditors' reports:</p> <ul style="list-style-type: none"> At 1 entity we reported significant weaknesses in their general computer controls. These weaknesses increase the risk of inappropriate or unauthorised access to systems and loss of sensitive information, and undermine the confidentiality, integrity and availability of the entity's business systems and information. At other entities we reported instances of non-compliance that could lead to inappropriate use of systems and unauthorised changes, although our audit did not identify any. These include access controls over a key system being inadequate to enforce adequate segregation of duties and more employees than necessary having full access to key financial systems and no evidence of independent review of changes made to the systems or records.

Source: OAG

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

Adverse trends in the financial position of LG entities

We are required by Regulation 10(3)(a) of the LG Audit Regulations to report 'any material matters that in the opinion of the auditor indicate significant adverse trends in the financial position or the financial management practices of the local government'.

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

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

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

Review of financial ratios

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

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

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

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

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

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

Recommendation

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

132 audit certifications issued

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

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

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

Management control issues

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

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

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

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

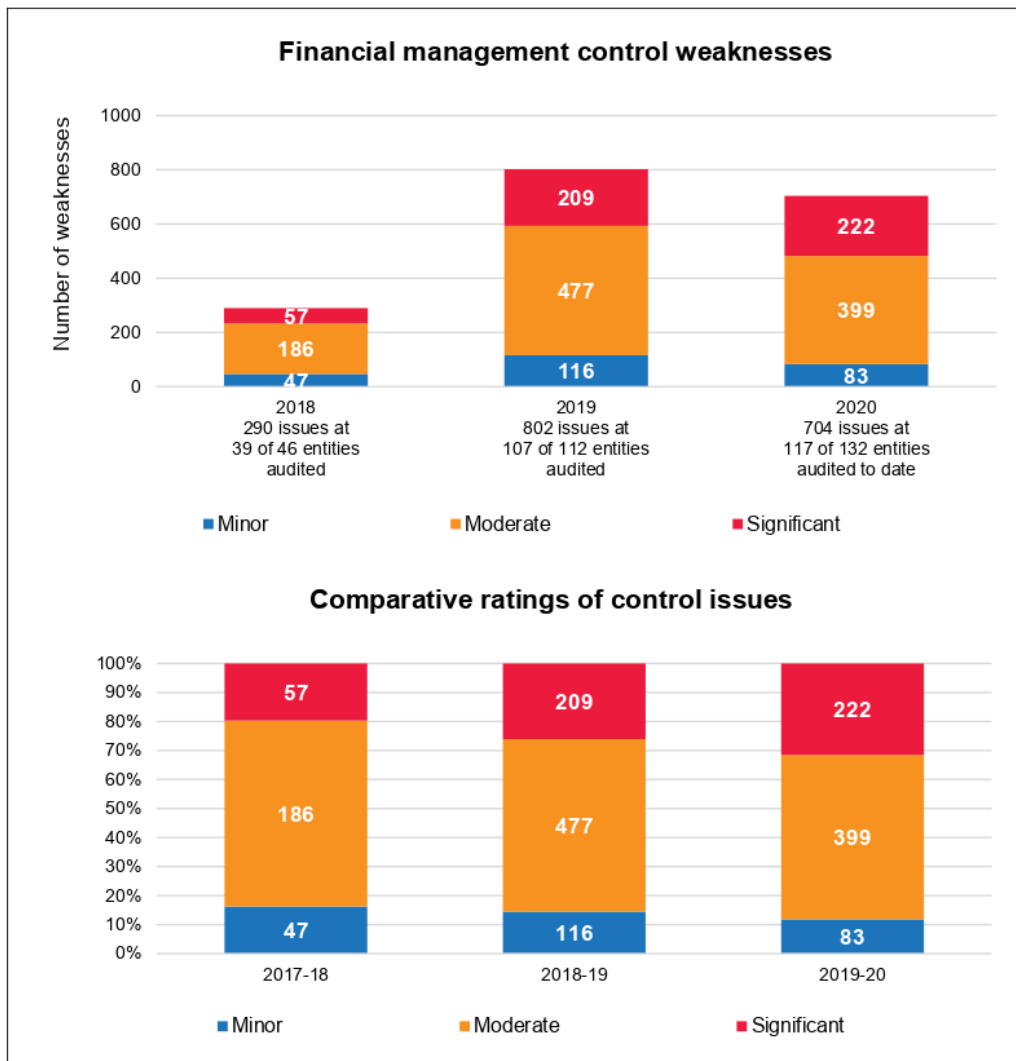
Source: OAG

Table 2: Risk categories for matters reported to management

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

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

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

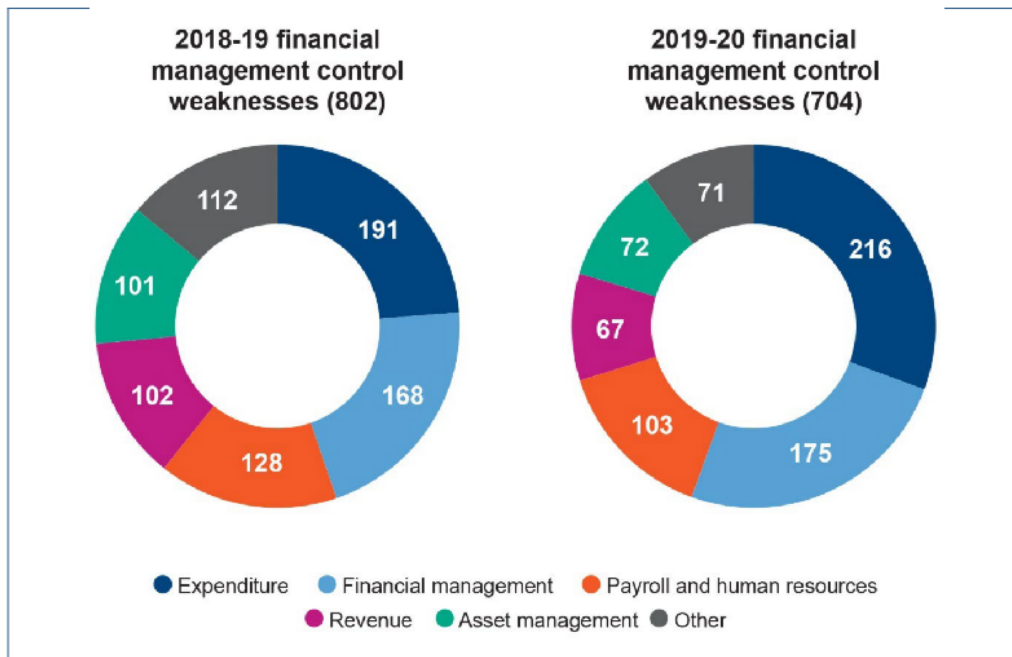


Source: OAG

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

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

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



Source: OAG

Figure 2: Financial management control weaknesses reported to entities

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

Expenditure

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

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

At 29 entities we reported that changes were made to the supplier masterfile without appropriate evidence of authorisation of the change or there was no independent review to

confirm checking for related party interests, authorisation, completeness and accuracy. These review procedures are essential as technology has increased the risk of fraud.

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

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

Financial management

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

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

Payroll and human resources

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

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

taking of leave and associated rotation of staff roles, increases the likelihood of any frauds remaining undetected.

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

Recommendation

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

Information system controls

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

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

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

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

Of the weaknesses identified in 2019-20:

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

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

Financial reporting issues for 2019-20

Valuation of assets

We continue to have concerns about inconsistencies in the valuation of property and infrastructure in the WA local government sector. Our Report 15: March 2019² and Report 16: March 2020³ detailed concerns about the variety of valuation methodologies used, especially for land with restricted use.

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

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

Valuation of assets transferred between entities

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

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

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

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

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

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

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

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

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

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

Local government financial management regulations

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

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

Valuation of certain classes of assets

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

Plant and equipment

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

Land, building, infrastructure and investment property

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

Lease right-of-use assets controlled by entities

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

Commercial leases

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

Concessionary leases

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

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

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

Recommendations

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

Accounting standards reporting changes for 2019-20

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

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

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

Reporting revenue and income under AASB 15 and AASB 1058

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

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

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

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

Reporting of leases – AASB 16

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

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

Future impact of changes to accounting standard

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

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

Recommendation

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

Opportunities to improve the efficiency of financial reporting

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

Reduced disclosure reporting by LG entities

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

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

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

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

Recommendation

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

Quality of financial reports submitted for audit

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

Our audits also noted that various LG entities:

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

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

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

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

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

To ensure timely and accurate financial reports it is important that management in each reporting entity keeps proper accounts and records. Management should undertake various

best practice initiatives throughout the financial year and after year end to improve the quality of their financial reporting.

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

Before year end, entities need to:

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

After year end, entities need to:

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

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

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

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

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

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

Recommendation

7. To improve the quality of financial reports and achieve greater consistency across LG entities, the DLGSC should prepare timely regulation amendments for the Minister's approval which improve the sector's financial report framework. The DLGSC should also provide accounting support services to the sector. Proper management of financial resources is the most basic priority as from there all else is enabled or eroded.
8. We encourage entities to make use of our WA Public Sector Financial Statements – Better Practice Guide to improve their financial management and reporting practices, processes and procedures.

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

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

Advice to LG entity management

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

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

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

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

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

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

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

LG regulations amended for COVID-19 response

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

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

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

Local Government (Functions and General) Regulations 1996

Amendments to the procurement regulations allowed LG entities to:

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

Local Government (Financial Management) Regulations 1996

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

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

Local Government (Long Service Leave) Regulations 1996

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

Local Government (Administration) Amendment Regulations 1996

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

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

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

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

compliance requirements were other means of assisting LG entities and the community to deal with the pandemic.

COVID-19 impacts on LG entities

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

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

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

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

Disruption of services and reduced revenue

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

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

Creation of COVID-19 emergency reserve

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

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

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

Stimulus or initiatives administered by LG entities

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

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

Future potential effect of COVID-19

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

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

Appendix 1: 2019-20 LG entities audits by OAG

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

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

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

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

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

Source: OAG

Appendix 2: LG entities' certifications issued

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

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

Source: OAG

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

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

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

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

Source: OAG

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


Source: OAG

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

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

Local government financial management regulation changes

Western Australian local government position paper 2
6 November 2020



Office of the Auditor General
Serving the Public Interest


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

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

Summary of changes

The changes to the FM regulations are:

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



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Application of main proposed changes

Plant and equipment

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

Changes to accounting standard for leases

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

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

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

Some practical implications for LG entities

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

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

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

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




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Source: OAG

Appendix 4: COVID-19 Financial control matters

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

COVID-19 Financial control matters



Office of the Auditor General
Serving the Public Interest


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

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

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

Some contextual considerations for entities

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



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Source: OAG

Assets – Risk of misappropriation, unauthorised purchases or disposals

Entities should ensure:

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

Cash – Risk of misappropriation

Entities should ensure:

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

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

Entities should ensure:

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

Queries

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



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Source: OAG

Appendix 5: Security considerations for remote working arrangements

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

Security considerations for remote working arrangements

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




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

The following table outlines some guiding principles entities should consider when rolling out remote working technology and procedures. This is not intended to be an exhaustive list. Entities can obtain further guidance from the Australian Cyber Security Centre¹ and the Office of Digital Government has recently issued some considerations for remote work.

Principle	Our expectation
Prioritise and simplify	Each entity needs to assess their unique risks associated with remote working arrangements and address critical risks as a priority. These risks will be different for each entity depending on the functions staff perform remotely and the types of information being accessed. Entities should ensure that procedures and technology for remote working are simple and easy to follow. Complex processes can introduce vulnerabilities that could result in undesired outcomes.
Engage with staff	Increase staff awareness by clearly communicating expectations including policies and any occupational health and safety requirements. The business continuity plan may come into effect and it is also important that staff understand how the plan impacts their day to day working procedures. Staff should have easy access to a forum or group where they can seek answers to their queries related to working from home and security.
Remote access technology	The technology used for remote access needs to be secure. The security controls that entities select will depend on the method of remote access, such as: <ul style="list-style-type: none"> • virtual private network (VPN) • web applications • remote desktop access Remote access servers should enforce technical controls in line with security policies.
Security of network	The majority of the remote workers will use internet to access entity resources. Entities should implement appropriate policies to secure remote access originating from untrusted networks. VPN is one of the better methods of securing remote access because it uses encryption to protect the confidentiality and integrity of communication over the network.

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



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Source: OAG

Principle	Our expectation
Physical security	Remote working locations may not be as secure as office environments. Entities need to understand the risks associated with this and define and implement appropriate controls to protect information. For example, implementing encryption on portable devices is a simple method to improve security. Entities also need to ensure the security of sensitive hard copy documents is maintained.
Multi-factor authentication	Remote access into entity systems and networks must be secured by strong authentication controls. Entities should implement multi-factor authentication for all remote access.
Bring your own device (BYOD) policies	A risk based policy should define the requirements for personal devices if they are allowed to access entity resources. Personal devices are generally not as secure as those provided by entities and attackers could exploit this weakness as more people work from home. Considerations should be given to: <ul style="list-style-type: none"> • encryption • access levels • segregated network zone for personal devices • security patch levels • malware controls.
Patch systems	All systems should be patched with latest updates. This applies to all the internet facing infrastructure and client applications.
Stay vigilant	Stay alert and educate staff on the risks especially phishing emails and text messages themed around COVID-19.

Source: OAG based on Australian Cyber Security Centre guidance



Office of the Auditor General WA

Source: OAG

Appendix 6: Better practice guidance

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

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

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

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

Source: OAG

Glossary and acronyms

AASB	Australian Accounting Standards Board
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.
LG Act	<i>Local Government Act 1995</i>
LG Audit Regulations	Local Government (Audit) Regulations 1996
FM Regulations	Local Government (Financial Management) Regulations 1996
Management letter	A letter to management of a local government that conveys significant audit findings and results of the audit. On completion of the audit, the management letter forms part of the audit report sent to the CEO, to the Mayor, President or Chairperson, and to the Minister for Local Government.
OAG	Office of the Auditor General
Qualified opinion	Auditor General's opinion expressed when an audit identifies aspects of the annual financial report that are likely to be misleading to users, there was material conflict with applicable financial reporting frameworks or a limitation of scope on audit work.

Auditor General's 2020-21 reports

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

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



**Office of the Auditor General
Western Australia**

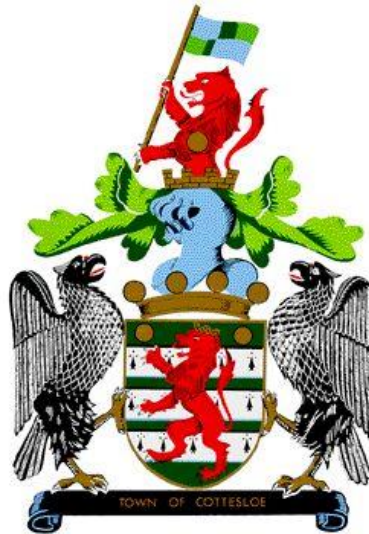
7th Floor Albert Facey House
469 Wellington Street, Perth

Perth BC, PO Box 8489
PERTH WA 6849

T: 08 6557 7500
E: info@audit.wa.gov.au
W: www.audit.wa.gov.au



TOWN OF COTTESLOE



AUDIT COMMITTEE

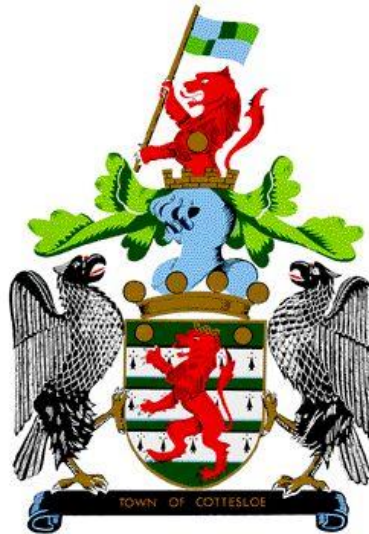
ATTACHMENT

**ITEM 8.2.1A:
AUDIT COMMITTEE RESOLUTION DATABASE -
UPDATED JUNE 2021**

Council Meeting Date	Item Number	Item Title	Resolution	Complete (Y/N)	Comments
27-Nov-18	11.1	Councillor Motion - Fossil Fuel Divestment	That the administration prepares a report for the Mid-Year budget review on the implications for the Town of Cottesloe of divesting from fossil fuels. This is to include: 1. The extent that it is possible for a WA Local Government to divest from fossil fuels. 2. That Council commits to consultation with ratepayers to establish community support before taking any further steps towards implementing a divestment policy. 3. The WALGA position on divestment from fossil fuels. 3. Information on how many Local Governments in WA have already taken this step. 4. Example(s) of divestment policy from a WA Local Government. 5. Financial implications for the Town of Cottesloe. 6. Realistic time frame in which any such policy may be introduced. 7. Alignment with the Town's Community Strategic Plan, Corporate Business Plan and existing policies.	N	Draft investment Policy was deferred via Audit Committee. Research ongoing on a broader Fossil Fuel Divestment Policy. UPDATE June 2021: The incoming Finance Manager to be tasked with this matter.
4/03/2020	8.1.2	2019 Compliance Audit Return	That the Town of Cottesloe Audit Committee recommend to Council the ADOPTION of the 2019 Compliance Audit Return, noting the areas of non-compliance and authorise the Mayor and Acting Chief Executive Officer to certify the Return so that it may be returned to the Department of Local Government and Communities by the due date of 31 March 2020. The Committee requested the Administration to undertake the following: 1. Update the Audit Committee with progress made on the Corporate Compliance Calendar to ensure future timely review of all legislative requirements including the Corporate Business Plan (Integrated Planning and Reporting s5.56 Admin Reg 190A (4)). 2. To determine whether or not the current purchase thresholds are acceptable, provide a sample analysis of at least three months of payments made to determine the percentage of payments greater and less than the purchasing policy thresholds (Tenders for Providing Goods and Services 27 F&G Reg 11A). 3. To provide an explanation for the response made on Disclosure of Interest Returns Register s5.88(3).	Y	Point 2. - Payment Analysis provided to the committee with the Notice of Meeting (9 September 2020) email issued on 4 September 2020.
9-Sep-20	8.1.1	Interim Audit Results For the Year Ending 30 June 2020	That the Audit Committee recommend to Council that Council: 1. NOTE the matters identified in the 2019/2020 Interim Audit Report; and, 2. ENDORSE the actions of staff in responding to the outlined issues.	Y	
9-Sep-20	8.1.2	Audit Plan for the Year Ending 30 June 2020	THAT the Audit Committee recommend to Council that Council ACCEPTS the Audit Plan for the year ending 30 June 2020 as attached.	Y	
9-Sep-20	8.1.3	Contract Management Plan	1. THAT the Audit Committee note the findings of the Office of the Auditor General and the action taken in respect of Contracts Register Maintenance and Contractor Performance Evaluation. 2. THAT the Audit Committee recommend to Council that the Delegated Authority Register (item 1.13) be updated to included specific financial parameters for the approval of contract renewals or extensions and variations to be consistent with the Purchasing Authority limits as set out in the Council's Purchasing Policy. 3. THAT the Audit Committee note the development of the Contract Variation Renewal Process and the Conflict of Interest form.	Y	

Council Meeting Date	Item Number	Item Title	Resolution	Complete (Y/N)	Comments
15-Feb-21	8.1.1	Adoption of the 2019/2020 Annual Report and Auditor's Report	That the Audit Committee: 1. Accepts points 1 and 2 only of the officers recommendation; and 2. Notes the finalised Annual report will be presented to Council at the March OCM.	Y	OFFICER RECOMMENDATION (Points 1 & 2 Only) That the Audit Committee recommends that Council, by Absolute Majority: 1. NOTES the Auditor's Report from the Office of the Auditor General (attached) and that no action is required by the Town's Audit Committee relevant to its responsibilities under the Local Government (Audit) Regulations; 2. ADOPTS the 2019/2020 Annual Financial Statements (as incorporated in the attached Annual Report);
15-Feb-21	8.1.2	Summary of Financial and Regulatory Reviews/Audits	That Council NOTE the information contained within this Summary of Financial and Regulatory Reviews/Audits report	Y	Audit Committee Minutes 15 February 2021 have been included in the Agenda for the OCM 23 February 2021 for Councils information/consideration
23-Mar-21	8.1.1	Compliance Audit Return 2020	That Council ADOPTS the 2020 Compliance Audit Return, noting the one area of non compliance – timing of the receipt of the Auditors Report, and authorise the Mayor and Chief Executive Officer to certify the Return so that it may be returned to the Department of Local Government and Communities by the due date of 31 March 2021	Y	

TOWN OF COTTESLOE



AUDIT COMMITTEE

ATTACHMENT

**ITEM 8.2.1B:
REPORT - SUMMARY OF FINANCIAL AND
REGULATORY REVIEWS - 8.1.2 - FEBRUARY 2021**

AUDIT COMMITTEE MEETING

15 FEBRUARY 2021

8.1.2 SUMMARY OF FINANCIAL AND REGULATORY REVIEWS/AUDITS

File Ref: SUB/2791
Applicant(s) Proponents: Nil
Attachments: Nil
Responsible Officer: Shane Collie, Director Corporate and Community Services
Author: Wayne Richards, Finance Manager
Author Disclosure of Interest: Nil

SUMMARY

At the audit committee on 9 September 2020, Cr Masarei requested a report be prepared that outlined the current audits/reviews of a financial and/or regulatory nature that the Town currently is required to perform.

BACKGROUND

This report was requested in light of the recent City of Perth report regarding the consideration of implementing a Strategic Audit Plan.

STRATEGIC IMPLICATIONS

This report is consistent with the Town's *Strategic Community Plan 2013 – 2023*.

Priority Area 6: Providing open and accountable local governance

Major Strategy 6.2: Continue to deliver high quality governance, administration, resource management and professional development.

POLICY IMPLICATIONS

There are no perceived policy implications arising from the officer's recommendation.

STATUTORY ENVIRONMENT

Local Government Act 1995

Local Government (Financial Management) Regulations 1996

Local Government (Audit) Regulations 1996

FINANCIAL IMPLICATIONS

There is currently no budget allocation to prepare a Strategic Audit Plan and therefore a budget amendment would be required should the Town wish to proceed with a plan of this nature.

STAFFING IMPLICATIONS

With the increased level of scrutiny relating to audits in the past couple of years with the introduction of the Office of the Auditor General, the Town's human resources in the

AUDIT COMMITTEE MEETING

15 FEBRUARY 2021

Finance area at capacity. The introduction of a Strategic Audit Plan would require either additional staff resources or be undertaken by contract.

ENVIRONMENTAL SUSTAINABILITY IMPLICATIONS

There are no perceived sustainability implications arising from the officer's recommendation.

CONSULTATION

Staff

Audit Committee

OFFICER COMMENT

The Town is currently required to undergo a number of financial and regulatory type reviews/audits which include, but are not limited to, the following:-

Statutory Audit of the Annual Financial Statements

As required by the Local Government Act the Town is required to produce Annual Financial Statements which are submitted to the Town's auditors Ernst Young who have been appointed by the Office of the Auditor General.

This audit consists of an interim audit performed around April/May each year and involves a two week onsite visit (the interim audit usually takes around six weeks in total to finalise). The interim audit focuses on processes and procedures and the Town's compliance with such processes and procedures. This is followed up by the end of year audit which focuses more on the year end financial statements. This usually entails a three week onsite visit with the whole process taking eight to twelve weeks to complete depending on legislation changes, staffing and the timing of third party information such as changes to the Financial Management Regulations, or information relating to joint arrangements such as the Grove Library and the WMRC.

Financial Management Review

As required by Regulation 5(2) of the Financial Management Regulations 1996, the CEO is required, every 3 years, to review the appropriateness and effectiveness of the financial management systems and procedures of the local government and report the findings to the Audit Committee. The Town engaged Butler Settineri to perform the most recent review in January 2019. The report was presented to the Audit Committee meeting on 19 March 2019. The next review is due next financial year in 2021/22.

Audit Regulation 17 Review

The CEO is required to review, every three years, the appropriateness of certain systems and procedures in relation to risk management, internal control and legislative compliance. The Town is planning to engage an external consultant to perform this review in the next financial year in 2021/22.

AUDIT COMMITTEE MEETING**15 FEBRUARY 2021**

Compliance Audit Return

This involves an in depth sample review of compliance with various acts and regulations including the Local Government Act 1995. It is conducted annually by way of a questionnaire sent by the Department of Local Government, Sport and Cultural Industries.

Ah hoc Focus Audits

Under the Local Government Amendment (Audit) Act 2017, the Office of the Auditor General conducts focus audits on sample local governments and regional councils with the aim of assessing how well local governments and regional councils perform common business practices and related controls. The Town was selected in 2019 for a focus audit relating to the management of contract renewals or extensions and variations.

VOTING REQUIREMENT

Simple Majority

OFFICER RECOMMENDATION

That Council **NOTE** the information contained within this Summary of Financial and Regulatory Reviews/Audits report.