

AUDIT CONCLUDING REPORT

Shire of Cunderdin

Audit for the year ended 30 June 2024

Table of Contents

Executive Summary.....	3
Significant Audit and Accounting Issues	4
Audit Adjustments.....	7
Other Key Matters	7

Executive Summary

The key purpose of this report is to communicate the results of the audit with those charged with governance.

We have performed an audit of the financial report of the Shire of Cunderdin (the Shire) for the year ended 30 June 2024 in accordance with Australian Auditing Standards ('ASAs').

The purpose of the audit is to express an opinion as to whether the Shire's financial report fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2024 and its financial position at the end of that period in accordance with the Local Government Act 1995 (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

We request management and those charged with governance review this document to ensure that the Shire concurs with the matters raised, and there are no further significant considerations or matters that could impact the audit and the financial report.

Key Audit Risks or Focus Areas

As part of our risk assessment, we identified key risks based on our knowledge of the industry and experience. This risk assessment process is designed to ensure that we focused our audit work on the areas of highest risk.

This risk assessment and our responses were updated throughout the engagement to ensure that all areas of material risk are addressed.

We are pleased to advise we have satisfactorily completed our audit procedures designed to address these risks and meet our audit objectives.

Set out below, are what we have identified as the key risks and focus areas for the audit:

- Fraud risk and management override of controls (Significant Risk)
- Revenue recognition
- Completeness of liabilities and expenses
- Property, Plant and Equipment and Infrastructure
- Accounting for employee related provisions
- Disclosures in the financial report
- Adequacy of the design and implementation of internal controls

Audit Opinion

We will recommend to the OAG to issue an unmodified opinion on the audit of the Shire's financial report.

Significant Audit and Accounting Issues

Particulars of the significant audit and accounting issues which arose, are included in this section of the report for further consideration, where appropriate. Appropriate action has been taken by management to resolve any issues and there is no further action that we are aware of that needs to be taken prior to the submission of the financial report for tabling in parliament.

Accounting Policies

The 30 June 2024 financial report has been prepared in accordance with the *Local Government Act 1995* and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards. The accounting policies are consistent with those applied in the financial report for the 30 June 2023 year.

We are not aware of any other material changes in accounting policies applied during the financial year. In addition, we are not aware of any significant unusual transactions in controversial or emerging areas.

Our audit procedures included a review of the accounting policies to ensure that they were consistently applied throughout the period.

Adoption of changes to The Act and Accounting Standards

We have also considered changes that have occurred in Australian Accounting Standards and other relevant parts of the regulatory framework as part of our audit. There are no significant changes that impacted on the accounting results and disclosure requirements of the Shire for the year ended 30 June 2024.

No other major accounting standards are coming into force over the next year that have the potential to significantly impact the financial report.

Judgmental Matters and Estimations

The preparation of the financial report requires the use of management judgments and accounting estimates or assumptions, which affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and contingent liabilities. Certain estimates can be particularly sensitive because of their significance to the financial report and the possibility that actual future events affecting them may differ significantly from management's current assumptions and expectations.

In relation to the Shire, our assessment is that the following account balances are critically affected by management judgments or accounting estimates. Given the nature of the Shire's revenue, expenses, assets and liabilities - accounting for them is not overly complex nor affected by contentious accounting practices.

Major accounts affected by management judgments or accounting estimates are:

- Accounting for employee related provisions
- Depreciation rates of non-current assets
- Fair value of land and buildings and infrastructure assets

Where necessary we have challenged the judgments of management based on our examination of evidential matter relating to those estimates. We are satisfied that the accounting estimates for the current financial period are reasonable in light of known circumstances. In our view a prudent approach has been adopted by management in applying judgments and in making estimates.

Key Audit Risks and Focus Areas

Fraud Risk and Management Override of Controls

Management is involved in day-to-day operations and monitoring of the Shire, which gives them the ability to manipulate accounting records and prepare fraudulent financial reports by overriding controls in place. Due to the unpredictable way in which such override could occur, this leads to potential fraud risk and is always assessed as a significant risk.

To address the risk of management override, the following procedures were performed:

- Reviewed journal entries and other adjustments for evidence of possible material misstatements due to fraud;
- Reviewed accounting estimates and application of accounting policies for evidence of bias or aggressive accounting practices; and
- For significant or unusual transactions, evaluated the business rationale (or the lack thereof) for evidence of fraudulent financial reporting or misappropriation of assets.

Based on testing performed, we are satisfied that the risk of fraud from management override has been reduced to an acceptable level.

Revenue recognition

Revenue is being recognised in accordance with AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not-for-Profit Entities. We have rebutted the presumption of fraud risk in revenue recognition, as our analysis indicates minimal incentives and/or pressure to commit fraudulently financial reporting. The Shire's main sources of revenue are government grants, rates, and other fee for service revenue streams. Given the different revenue streams, there is a risk that revenue may not be recognised as required.

Key audit procedures performed were:

- Reviewed and tested the application of the Shire's revenue recognition policies for application under AASB 15 and 1058;
- Reviewed and documented system procedures and, performed a walkthrough for the revenue cycles;
- Sample tested revenue streams to supporting grant agreements, tax invoices and bank statement receipts; and
- Sample tested the recognition of contract liabilities to ensure proper accounting in accordance with AASB 15 and AASB 1058.

Based on procedures performed, we are satisfied that revenue has been recognised appropriately for the year ended 30 June 2024.

Completeness of Liabilities and Expenses

There is an inherent risk that expenditure, and corresponding liabilities (creditors, payroll accruals and expense accruals), are not brought to account in the correct accounting period. Most of the Shire's expenses relate to employee benefits expenses, materials and contracts and depreciation. To address the risk of underreporting we:

- Obtained post period end bank statements up until the time of our audit testing and agreed a sample of bank payments to supporting documentation (e.g. tax invoices, payroll reports) to ensure no material unrecorded liabilities at reporting date;
- Supporting documentation was traced to posted expenditure accounting transactions to check if transactions were recorded in the correct accounting period;
- Ensured classification of expenditure transactions have been coded appropriately to their function and activities;
- Ensured GST has been properly accounted for; and
- Reviewed the fixed asset register for capital transactions that were operational in nature that should have been expensed as repairs and maintenance rather than being capitalised.

From the work performed, we are satisfied that transactions have been recognised in the correct accounting periods and therefore expenditure is accurately recorded for the year ended 30 June 2024.

Property, Plant and Equipment and Infrastructure

There is a significant industry risk given the nature of assets held and judgement applied in determining fair values as well as depreciation expense.

For the year ended 30 June 2024, the Shire reported Property, Plant and Equipment and Infrastructure balances of \$18.3mil and \$99.5mil respectively. For 30 June 2024 the Shire recognised a depreciation expense of \$3.3mil and a revaluation increment of \$838.6k.

Key audit procedures performed were:

- Reviewed and documented key financial controls around property, plant and equipment and infrastructure balances;
- Assessed accounting policies associated with fair value assessments and ensured they were in accordance with accounting standards;
- Conducted sample substantive testing of asset additions and disposals;
- Reviewed the fair value report for the infrastructure valuation that was performed during the year, including a review of valuation techniques and assumptions applied. We also assessed the valuer's qualifications and expertise;
- Reviewed management's impairment assessment against the Shire's circumstances;
- Also reviewed fair value disclosures to ensure they are in accordance with AASB 13 requirements;
- Finally with respect to depreciation, the following procedures were performed:
 - Reviewed depreciation policy for the various asset classes and assessed the reasonableness of rates used;
 - Documented and tested key financial controls around the calculation of depreciation/amortisation; and
 - Performed recalculations based on our sampling approach.

Based on testing performed, we are satisfied that the Shire's property, plant and equipment and infrastructure are fairly stated and disclosed in the 2024 financial report.

Accounting for employee related provisions

A major part of the Shire's liabilities pertains to employee-related annual leave and long service leave provisions. As at 30 June 2024 the annual leave and long service leave provision value is \$136.7k and \$172.9k respectively. Provisions involve a degree of management estimation and uncertainty in their calculation in respect of present value inputs (inflation rates and discount factors), timing and probabilities of settlement.

Key audit procedures performed were:

- Substantive test of details on the calculation of the provisions to the payroll records (employment contracts and approved leave applications) utilising our sampling methodology as well as year-end analytical review to obtain the required level of audit assurance.
- Reviewed inflations, discount, and probability factors to ensure they are in line with the Shire's circumstances and industry standards.
- Reviewed the disclosure of the provisions to ensure they are consistent with AASB 119.

Based on procedures performed, we are satisfied that the provisions for annual leave and long service leave as at 30 June 2024 are reasonable and fairly stated.

Disclosures in the Financial Report

The Shire is required to disclose information in relation to:

- Contingent assets and liabilities;
- Post balance date events;
- Key management personnel;
- Related party transactions; and
- Auditor remuneration.

Our procedures indicate that appropriate and adequate disclosures have been made in respect of the above.

As at this date we are not aware of any significant post balance date events that need to be disclosed in the financial report, however we seek to reconfirm this position just prior to signing of the audit report.

Review of the System of Internal Control (including IT General Controls)

The integrity of financial information relies on the integrity and reliability of the Shire's system of internal controls and its information technology environment. As part of our planned audit approach, we have evaluated the Shire's system of internal controls primarily to enable us to determine the appropriate nature and extent of our procedures.

In addition, we conducted a high level ITGC review, including the assessment of the key controls relating to:

- System Security;
- Technology Framework;
- Service Management, Operations and Change Control;
- Security Governance and Reporting; and
- Security Training.

This, however, does not constitute a comprehensive review. Accordingly, the Audit Committee may wish to discuss with management any matters they may have raised with respect to particular systems, which may necessitate a more comprehensive review.

It should be appreciated that our audit procedures are designed primarily to enable us to form an opinion on the financial statements and therefore may not bring to light all weaknesses in systems and procedures which may exist. However, we aim to use our knowledge of the Shire gained during our work to make comments and suggestions which, we hope, will be useful to you.

We are pleased to advise that we did not note any significant deficiencies in internal controls during the audit.

Significant Representations by Management

Both our and the OAG's representation letters have been provided and a signed copy is to be returned to us prior to our submission of the financial report with the OAG.

There are no significant representations (other than the ones referred to in our and the OAG's standard representation letters) made by management for which we and OAG are relying on in forming our audit opinions.

Audit Adjustments

We are required by the auditing standards to communicate all unadjusted differences (other than clearly trivial) that we noted during the audit.

There are no material unadjusted audit differences noted from the audit.

Internal Controls

As part of our planned audit approach, we evaluated the Shire's system of internal controls primarily to enable us to determine the appropriate nature and extent of our procedures.

This, however, does not constitute a comprehensive review. Accordingly, the Audit and Risk Committee may wish to discuss with management any matters they may have raised with respect to particular systems, which may necessitate a more comprehensive review.

It should be appreciated that our audit procedures are designed primarily to enable us to form an opinion on the financial statements and therefore may not bring to light all weaknesses in systems and procedures which may exist. However, we aim to use our knowledge of the Shire gained during our work to make comments and suggestions which, we hope, will be useful to you.

The table below provides a summary of the findings from our prior year audit and an update on the findings based on our follow up of the management's actions to address the findings:

Findings	Rating	Update
1. Asset Stocktakes	Moderate	Resolved
2. Changes to Supplier Master File	Minor	Resolved
3. Fair value of infrastructure assets - Frequency of valuations	Minor	Resolved
4. IT Governance, Policies and Procedures	Moderate	Resolved
5. Business Continuity	Moderate	Resolved
6. Change Management	Moderate	Resolved
7. Lack of Cybersecurity Training	Moderate	Resolved
8. Signed Service Level Agreement with IT Service Provider	Moderate	Resolved
9. Access Management	Moderate	Resolved

The management letter for the interim audit identified some findings to be actioned by the Shire. Below is an update on the findings based on our follow up:

Findings	Rating	Update
1. Revenue has not been recognised in accordance with AASB 15	Moderate	Resolved
2. Sundry creditor reconciling item not cleared promptly	Moderate	Resolved
3. Fixed assets reconciliation not performed correctly	Moderate	Resolved

No key internal control deficiency was noted in the final audit of the Shire.

Other Key Matters

Non-Compliance with Laws and Regulations or Fraudulent Activity

We confirm no matters have come to our attention that indicate material misstatement in the financial report due to non-compliance with laws and regulations or fraudulent activity. Management has confirmed that they are unaware of any fraudulent activity.

Auditor's Responsibility to Consider Fraud

As auditors, we obtain reasonable assurance that the financial report is free from material misstatements due to fraud or error.

Accordingly, certain procedures were performed as part of our audit by way of enquiry, evaluation and review as required by the Australian Auditing Standards on fraud, ASA 240.

We have enquired with management regarding the existence of fraud and/or non-compliance with laws and regulations. We have also reviewed the general ledger and minutes for evidence of these.

Based on representations obtained from management and the work performed, we are confident that the risk of fraud in relation to financial reporting and non-compliance with laws and regulations is low and we have not identified any reportable matters for your attention.

Liaison with Management

We had no disagreements with management about significant audit, accounting or disclosures matters.

We identified no errors or irregularities that would cause the financial report to contain a material misstatement and noted no apparent illegal acts.

The audit process experienced delays compared to the initially agreed timeline for completion, which we understand were beyond the control of management. These delays impacted the timely provision of required information and documentation. In addition to the delays experienced, the audit has also saw additional time and resources allocated in sections of preparation of annual financial report, infrastructure revaluation exercise, employee benefits provisions and expected credit loss assessment with respect to receivables. Management has agreed to an additional fee of \$2,000 to cover the additional time and resources required.

We appreciate management's cooperation during the audit process and recommend exploring contingency measures to help ensure that critical deliverables are provided within agreed timelines in the future. This will support a more efficient and effective audit process.

There was no correspondence between us and management relating to any significant audit and accounting issues during the period other than those discussed under the Significant Audit and Accounting Issues section above.

Independence

We have established policies and procedures designed to ensure our independence, including policies on holding financial interests in the Shire and other related parties, business relationships, employment relationships, and the provision of non-audit services.

We have assessed our audit independence at the planning stage and to the best of our knowledge and belief, we are of the opinion that each engagement team member and partners of all Moore network firms in Australia are not in contravention of the auditor independence and ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* that are relevant to our audit of the financial report in Australia.

We have also fulfilled our other ethical responsibilities with the Code. We have further considered the safeguards the Moore Australia network has in place, and we are not aware of any services being provided that would compromise our independence as external auditor.

Confidentiality

This document is strictly confidential and although it has been made available to management and those charged with governance to facilitate discussions, it may not be taken as altering our responsibilities to the Shire arising under our audit contract with the OAG.

The information contained in this document is confidential and cannot be conveyed to any party other than the party to which it is directed.

Conflicts of Interest

The firm is not aware of any existing or potential relationship, transaction or holding that would compromise its objectivity in the conduct of the services provided. Should the possibility of a perceived or actual conflict arise the matter would be raised with the Shire immediately and activities suspended until the issue was resolved to your satisfaction.

Outstanding items

The following items remain outstanding at the time of writing:

- Signed management representation letter; and
- Signed financial report.

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