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DRY / KIRKNESS

Annual Audit Completion Report

Accounting
Business Advisory
Audit Services



Office of the Auditor General
Serving the Public Interest



DRY / KIRKNESS

Shire of Kondinin

30 June 2023

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OAG
Office of the Auditor General
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Introduction

FROM OUR ENGAGEMENT PARTNER

Shire of Kondinin for the year ended 30 June 2023.

We would like to take this opportunity to thank the management team for their assistance during the audit process. If you have any queries on the report, please feel free to contact me.



ROBERT HALL **DIRECTOR**

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LIANG WONG **ASSISTANT DIRECTOR**

OAG Representative
Liang.Wong@audit.wa.gov.au

Executive Summary

- + Butler Settineri (Audit) Pty Ltd was appointed as the contract auditor by the Office of the Auditor General for the years ended 30 June 2021, 2022, and ending 2023 and have changed names to Dry Kirkness (Audit) Pty Ltd on 1 July 2022.
- + Dry Kirkness (Audit) Pty Ltd has completed the external statutory audit for the year ended 30 June 2023 as contract auditor on behalf of the Office of the Auditor General.
- + No unresolved issues.
- + Our findings are included in this report.
- + We intend to recommend to the Auditor General to issue an unqualified audit opinion in relation to the financial statements.
- + The first set of financials were received by audit on 29th September 2023 and were certified by the CEO.
- + The 2023 R2R certification has been completed and submitted. The 2023 LRCIP certification is currently in progress and is anticipated to be finalized by 21 December 2023. The audit work relating to the 2023 certifications and issuance of the opinion will be issued by DK.
- + There are no outstanding matters.

Independence

We are independent of the count in accordance with the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants.

Threats to independence include the following:

- + Self Interest Threats
- + Self Review Threats
- + Advocacy Threats
- + Familiarity Threats
- + Intimidation Threats

What we do to remain independent:

- + All team members sign an independence declaration at the commencement of the audit.
- + We monitor our individual independence throughout the audit.
- + All team members sign off an independence declaration at the completion of the audit.

Compliance With Laws & Regulations & Fraud

Laws and Regulations applicable to the Shire include the following:

- + Local Government Act 1995.
- + Local Government (Financial Management) Regulations 1996.
- + Local Government (Audit) Regulations 1996.
- + Australian Tax Office (GST / FBT / PAYG) Compliance.
- + Compliance with conditions of program funding arrangements.

During the audit process there have been:

- + Non-compliance issues reported in the audit findings where applicable.
- + No findings or indications of suspected fraud.

As far as the external audit relates to the matters noted above.



Key Audit Matters and Audit Outcomes

During the planning phase of the audit, we identified the following issues and key areas of audit risk.

Details of Risk / Issue	Audit Approach
<p>Audit findings reported in the previous audit:</p> <ul style="list-style-type: none"> + Compliance with Purchasing Policy + Staff Access to Financial Management System + Supplier Masterfile Amendment-no ABN Check + Overpayment of Employee + IT Security control environment-no cyber security policy and no physical access controls to the server + Excessive Annual leave + No risk treatment plan included in Risk Management Plan + Casual loading not applied to rate of pay of casual workers + Fair value of Infrastructure Asset 	<p>We followed up on last year’s audit issues during the audit. Certain issues remain as detailed under Audit Findings.</p>
<p>Changes to Local Government (Financial Management) Regulations that have been published by the Department of Local Government, Sport, and Cultural Industries (DLGSCI):</p> <ul style="list-style-type: none"> + New standardized templates are established for local government financial statements for 2022-23. The template for smaller (band 3 and 4) local governments is established to have more streamlined standard financial statements, reflecting the generally less complex operations of smaller local governments. 	<p>We reviewed the financial report and confirmed that management has complied with the change in Regulation.</p>
<p>We have identified the following areas that we consider require additional focus during our 2022-23 local government audits:</p> <ul style="list-style-type: none"> + Revenue recognition including contract liabilities. + Unauthorized expenditure + Unrecorded liabilities and expenses + Fictitious employees + Revaluation of Infrastructure assets (last revalued in 2017-18) + Related party disclosures 	<p>We reviewed the related audit evidence as part of our audit testing and confirmed that appropriate recognition and measurement and disclosures have been made in the financial report in relation to the risks identified.</p>

<ul style="list-style-type: none"> + Joint arrangement disclosures + Contingent liabilities disclosures + Restricted reserve accounts 	
<p>The following annual financial report items are derived from accounting estimates and hence will receive specific audit attention:</p> <ul style="list-style-type: none"> + Provision for annual and long service leave. + Fair value of PPE and Infrastructure. + Impairment of assets. + Provision for rehabilitation of waste disposal sites. 	<p>We reviewed the methodology and underlying data that management used when determining critical accounting estimates. We confirmed the reasonableness of the assumptions and corroborating representations.</p>
<p>Important changes in management or the control environment</p>	<p>None during the financial year.</p>

Audit Misstatements

The following are recorded misstatements arising from the audit during the year:

Account	Reported balance	Adjusted balance	Variance
Infrastructure	\$244,303,736	\$232,689,514	(\$11,614,222.33)
Revaluation Reserves	\$245,325,712	\$233,666,130	\$11,614,222.33
<i>Revaluation of infrastructure not included on the original Version 1 of the financials. Audit passed the journal to match the adjustment passed by management.</i>			
Trade and Other Receivables-Current	\$435,210	\$436,060	\$850
Trade and Other Payables	(\$703,906)	(\$713,120)	(\$9,214)
Contract Liabilities	(\$604,168)	(\$624,668)	(\$20,500)
Non-Operating Grant and Subsidies	(\$4,156,544)	(\$4,136,181)	\$20,363.24
Materials and Contracts	\$1,849,402	\$1,857,902	\$8,500.76
<i>Audit received Version 2 of the financials, made a comparison and passed the journal for the differences which are not material.</i>			
Infrastructure	\$ 232,689,514	\$232,586,941	(\$102,573)
Interest expense	\$125,585	\$119,597	(\$5,988)
Depreciation expense	\$3,388,626	\$3,354,435	(\$34,191)
Other Provision	(\$142,752)	0	\$142,752
<i>Adjustment to reverse the provision provided for the rehabilitation costs of the RoeROC controlled waste site.</i>			
Loss on Revaluation of Infrastructures	\$214,810	\$169,451	(\$45,359)
Revaluation Reserves	(\$245,325,712)	(\$233,666,130)	\$45,359
<i>Adjustment to correct the revaluation loss incorrectly recognised on revaluation of infrastructure.</i>			

The above adjusted items are deemed reasonable.

The following are unrecorded misstatements arising from the audit during the year:

Account	Reported balance	Actual balance	Variance
Trade and Other Payables	(\$713,120)	(\$851,937)	(\$138,817.37)
Materials and Contracts	\$1,857,903	\$1,996,720	\$138,817.37
<i>Unrecorded liabilities noted but the amount is not material, therefore no impact on the financials. Relates to culvert works on Hyden & Norseman Road in May and June 2023.</i>			
Provision -Current	(\$441,332)	(\$467,931)	(\$26,599)
Employee Cost	\$2,146,849	\$2,173,448	\$26,599
<i>Difference in Annual Leave calculation between audit and management.</i>			

The effects of uncorrected misstatements listed above and are immaterial to the financial report, both individually and in aggregate.

Audit Findings

Per the Final Management Letter:

Index of findings	Potential impact on audit opinion	Rating			Prior year finding
		Significant	Moderate	Minor	
1. Procurement practices	No	✓			✓
2. Review of Supplier Masterfile Amendments	No		✓		
3. IT Security Control Environment	No		✓		✓
4. No Business Continuity Plan and Disaster Recovery Plan	No		✓		
5. Lack of IT Risk register and periodic meetings for managing cybersecurity risks	No		✓		
6. No IT change management process in place	No		✓		
7. No Service Level Agreement with IT Service Provider	No		✓		
8. Absence of IT and security related training	No			✓	
9. Outdated Workforce Plan	No		✓		
10. Corporate Business Plan expired	No		✓		
11. No Risk Register	No		✓		
12. Payroll practices	No		✓		
13. Excessive Annual Leave	No			✓	✓

Key Changes for Next Year

Changes in regulations in 2023

Changes to Local Government (Financial Management) Regulations that have been published by the Department of Local Government, Sport and Cultural Industries (DLGSCI):

- + DLGSCI published new financial management and reporting templates for larger and smaller local government entities. Smaller local governments have more streamlined standard financial statements, reflecting the generally less complex operations of smaller local governments.

Accounting Issues for 2024

- + *Changes to Local Government (Financial Management) Regulations affected after 30 June 2023 no longer require a fair value assessment of Land & buildings and Infrastructure assets at each reporting date.*
- + No other changes anticipated that would have a significant impact on the financial statements for the year ending 30 June 2024.

Thank You

We would like to take this opportunity to once again thank the management team for their assistance during the audit process, in particular we would like to thank David Burton, Vince Bugna and the finance team for their support.





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