Shire of Perenjori
MINUTES
Audit Committee Meeting

28th November 2018

Table of Contents
Held in the Shire of Perenjori Council Chambers, Fowler Street, Perenjori on the 28th November 2018, commenced at 4.00 pm.

18111 PRELIMINARIES ................................................................. 2
   18111.1 RECORD OF ATTENDANCE AND APOLOGIES .................. 2
   18111.2 CONFIRMATION OF MINUTES – 19 JULY, 2018 .................. 2
18112 AUDIT CLOSING REPORT 2017/18 ..................................... 2
18112 OTHER BUSINESS ............................................................ 6
   18112.1 DATE OF NEXT MEETING / MEETINGS .......................... 6
   18112.2 CLOSURE .................................................................. 7
18111 PRELIMINARIES

Cr L Butler opened the meeting at 4.00 pm.

18111.1 RECORD OF ATTENDANCE AND APOLOGIES

Cr L Butler – Chair Person
Cr L Smith
Cr K Pohl
Cr J Hirsch
Staff:
Pascoe Durtanovich – Acting CEO
Joelene Dennis – MCDS
The following participated in the meeting by teleconference:
Yusoof Ariff – Office of Auditor General
David Wall – RSM Australia PTY LTD
Travis Bate – RSM Australia PTY LTD

18111.2 CONFIRMATION OF MINUTES – 19 JULY, 2018

<table>
<thead>
<tr>
<th>Officer Recommendation and Committee Decision – Item 18111.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moved: Cr L Smith</td>
</tr>
<tr>
<td>That the minutes of the Audit Committee Meeting held 19 July, 2018 be confirmed as a true and correct record of the meeting.</td>
</tr>
</tbody>
</table>

Mr Yusoof Ariff gave a brief outline of the OAG’s role in the Local Government Audit process.

Mr David Wall commented on the items contained in the Audit Closing Report.

18112 AUDIT CLOSING REPORT 2017/18

**APPLICANT:** SHIRE OF PERENJORI  
**FILE:** NIL  
**DISCLOSURE OF INTEREST:** NIL  
**AUTHOR:** PASCOE DURTANOVICH – A/CEO  
**RESPONSIBLE OFFICER:** PASCOE DURTANOVICH – A/CEO  
**REPORT DATE:** 28TH NOVEMBER 2018  
**ATTACHMENTS** AUDIT CLOSING REPORT

Executive Summary

Committee is requested to consider and accept the 2017/18 Audit Closing Report.

Background
Section 6.4 of the Local Government Act 1995 requires Local Governments to prepare an Annual Financial Report and submit same to its Auditor by the 30th September of each year.

The Shire of Perenjori Audit is now the responsibility of the Office of the Auditor General (OAG). The OAG has contracted RSM Australian PTY LTD to undertake the Audit.

When received the Annual Financial Report and Audit Report needs to be accepted by Council to enable the required Annual General meeting of electors to be held at which the Shire’s Annual Report containing the Annual Financial Report and Audit Report will be considered.

The Annual Financial Report is also required to be submitted to the Department of Local Government, Sport and Cultural Industries.

Part of the Audit process is for the Auditor to present an Audit Closing Report to the Committee for consideration and acceptance. The Audit Closing Report is attached.

The actual Audit Report and Annual Financial Report for 2017/18 will be finalised by the OAG and submitted to Council in due course. A further meeting of the Audit Committee will then be held to consider the reports.

Statutory Environment

Local Government (Management Regulation) Regulation 51(2) states;

A copy of the annual financial report of a local government is to be submitted to the Departmental CEO within 30 days of the receipt by the local government’s CEO of the auditor’s report.

Section 5.53 of the Local Government Act 1995 states;

5.53 Annual reports

(1) The local government is to prepare an annual report for each financial year.

(2) The annual report is to contain —

(6) the financial report for the financial year; and

Section 5.54 of the Local Government Act 1995 states;

5.54 Acceptance of annual reports

(1) Subject to subsection (2), the annual report for a financial year is to be accepted* by the local government no later than 31 December after that financial year.

* Absolute majority required.

(2) If the auditor’s report is not available in time for the annual report for a financial year to be accepted by 31 December after that financial year, the annual report is to be accepted by the local government no later than 2 months after the auditor’s report becomes available.

Section 6.4 of the Local Government Act 1995 states;

6.4 Financial report
(1) A local government is to prepare an annual financial report for the preceding financial year and such other financial reports as are prescribed.
(2) The financial report is to —
(a) be prepared and presented in the manner and form prescribed; and
(b) contain the prescribed information.
(3) By 30 September following each financial year or such extended time as the Minister allows, a local government is to submit to its auditor —
(a) the accounts of the local government, balanced up to the last day of the preceding financial year; and
(b) the annual financial report of the local government for the preceding financial year.

Policy Implications
Nil

Financial Implications
Nil

Strategic Implications
Area 5: Investing in Councils Capacity – Our Leadership

Goal: Strengthen the Shire’s position as an innovative, independent local Government providing excellence in all areas of governance, management and leadership

Risk Management

<table>
<thead>
<tr>
<th>Risk Statement</th>
<th>Level of Risk</th>
<th>Risk Mitigation Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk of non-compliance with legislation.</td>
<td>A moderate consequence which is possible resulting in medium level of risk.</td>
<td>The audit is conducted in time and the proposed Electors Committee is planned to be compliant also.</td>
</tr>
</tbody>
</table>

Consultation
RSM
CEO
SFO
MIS
Megan Shirt – Consultant

Comment
The Audit Closing Report includes mention of three issues of non compliance. These are listed below together with management comment and timeline for compliance.

1.1 REVALUATION OF ROADS AND FOOTPATHS

Findings:
During the financial year, the Shire engaged an independent valuer to revalue its roads and footpaths infrastructure assets as at 30 June 2018. The valuation report indicated a material reduction of $16,750,858 in the carrying value of these assets. However, the Shire initially failed to
bring to account the impairment of these assets in the draft financial statements presented for audit. Failure to bring to account the impairment is a breach of Regulation 17A(4) of the Local Government (Financial Management) Regulations 1996 and is also a failure to comply with AASB 136 Impairment of Assets.

During the audit, the Shire subsequently brought to account the financial impact of the independent valuation in the revised 30 June 2018 financial statements, which resulted in a reduction of $16,750,858 in the carrying value of these assets, a decrement to the asset revaluation reserve of $16,644,221 and a charge to the Statement of Comprehensive Income of $106,637.

Implication:

Failure to bring to account the financial impact of the independent valuation of the roads and footpaths infrastructure assets in the initial 30 June 2018 financial statements presented for audit, resulted in the carrying value of these assets being overstated by $16,750,858.

Furthermore, the Shire was initially in breach of Regulation 17A(4) of the Local Government (Financial Management) Regulations 1996 and was not complying with AASB 136 Impairment of Assets.

Management Comment:

The findings are noted and agreed with. It is noted that this matter is now a resolved issue however to ensure compliance with Financial Management Regulation 17A (4) in the future, Administration will establish a compliance calendar so that the need to assess and document whether an asset category valuation is likely to be materially different from its carrying amount is drawn to the attention of the responsible officer.

Responsible Person:

Manager Corporate and Development Services.

Completion Date:

31 December, 2018

1.2 FAILURE TO COMPLETE RELATED PARTY DISCLOSURE DECLARATION FORMS

Findings:

At the time of drafting the 30 June 2018 financial statements, it was noted that Shire Councillors and key management staff had not completed the Related Party Disclosure Declaration forms. These forms are used by the Shire as a means of gathering evidence to demonstrate compliance with the disclosure requirements of AASB 124 Related Party Disclosures. Audit notes that these forms had been completed by Shire Councillors and key management staff during the prior financial year.

Rating: Moderate

Implication:

There is a risk that the Shire will fail to comply with the requirements of AASB 124 Related Party Disclosures.

Management Comment:

Noted and agreed.

Councillors and relevant staff will be provided with the necessary forms so the disclosures can be completed.

Responsible Person:
1.3 UPDATE OF LONG-TERM FINANCIAL PLAN AND ASSET MANAGEMENT PLAN

Findings:
The asset renewal funding ratio was calculated using required capital renewals per the asset management plan and planned asset renewals from the long term financial plan, with a rolling average applied for years beyond the period projected in the long term financial plan.

The asset renewal funding ratio must be calculated using both verifiable and reasonable assumptions and in accordance with Local Government (Financial Management) Regulation 50.

Implication:
There is a risk that the Shire will fail to comply with the requirements of Local Government (Financial Management) Regulation 50 in future years if the long term financial plan and asset management plan are not updated.

Management Comment:
Finding noted and agreed.
It is proposed to raise this issue with council on 20 December, 2018 with a view to resources being allocated so that the AMP and LTFP can be reviewed and updated prior to June 2019.

Responsible Person:
Chief Executive Officer

Completion Date:
AMP and LTFP to be reviewed and updated by May, 2019.

Voting Requirements – Simple Majority

<table>
<thead>
<tr>
<th>Officer Recommendation and Committee Decision – Item 18112</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moved: J Hirsch Seconded: L Smith</td>
</tr>
<tr>
<td>That Council receive the Audit Closing Report and note the management comments in respect to addressing the non compliant issues.</td>
</tr>
<tr>
<td>Carried: 4/0</td>
</tr>
</tbody>
</table>

OTHER BUSINESS

Nil.

DATE OF NEXT MEETING / MEETINGS

The next meeting of the Audit Committee Meeting be held prior to the Finance Committee at 5.00 pm on Tuesday 18 December, 2018.
18112.2 CLOSURE

Cr L Butler closed the meeting at 4.57 pm.
Attachment 18112

Audit Closing Report

Audit Committee Meeting
28th November 2018
INTRODUCTION

1.1 Purpose of the Audit Closing Report

This Audit Closing Report is the key document to summarise the results of our completed audit engagement and communicates any significant findings to those charged with governance at the Shire of Perenjori (Shire). This document should be read in conjunction with our Audit Planning Memorandum (APM) presented to the Audit Committee at the Audit Entrance Meeting on 15 May 2018.

1.2 Scope of the audit

There have been no changes to the engagement scope or approach set out in the APM.

1.2.1 Financial report audit

The Auditor General is required to issue an opinion on the financial report of the Shire for the year ended 30 June 2018. The objectives of the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes the audit opinion.

1.2.2 Other legal and regulatory requirements audit

The Auditor General is also required to report if she becomes aware of any instance where the Shire did not comply with the requirements of the Local Government Act 1995 (Act) or the Local Government (Financial Management) Regulations 1996 (Financial Management Regulations) as they relate to the financial report. Several such instances came to our attention during the course of the engagement and are outlined in section 2.3.

1.2.3 Audit report

The audit report will be addressed to the Councillors with a copy being forwarded to the Shire President, the Chief Executive Officer (CEO) and the Minister for Local Government in accordance with section 7.9(1) of the Act.

1.3 Independence

The Auditor General is an independent officer of the Western Australian Parliament, appointed under legislation to audit the finances and activities of the Western Australian state and local government. She must act independently in carrying out all her powers and duties. Independence is the cornerstone of public sector audit. The Auditor General must be free from pressure, influence or interference from any source that may erode that independence.

RSM Australia (RSM) has been contracted by the Auditor General to conduct the audit of the Shire on her behalf. The RSM audit methodology requires that we conduct a regular evaluation of our independence. We have fully satisfied ourselves that we do not have any actual or perceived conflict of interests.

1.4 Our appreciation

Finally, we wish to express our appreciation for the co-operation provided by the Shire during the course of the engagement.
2 ENGAGEMENT COMPLETION

2.1 Audit opinion - financial report

We have completed the audit engagement fieldwork on the financial report of the Shire for the year ended 30 June 2018. The financial report is a general purpose financial statement prepared in accordance with the Act, the Financial Management Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

We have discussed all significant auditing and accounting issues with management and these have been satisfactorily resolved and are discussed in this report. The audit procedures are designed to support the audit opinions and they cannot be expected to identify all weaknesses or inefficiencies in the Shire’s systems and working practices.

Based on the evidence that has been assessed as part of our engagement, we expect to conclude that the annual financial report of the Shire:

(i) Is based on proper accounts and records; and
(ii) Fairly represents, in all material respects, the results of the operations of the Shire for the year ended 30 June 2018 and its financial position at the end of that period in accordance with the Act, the Financial Management Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

We expect to recommend to the Auditor General that an unqualified opinion is issued on the financial report.

2.2 Emphasis of matter – basis of accounting

Note 1 and Note 10 to the financial report describe the basis of accounting for land under roads. The financial report has been prepared for the purpose of fulfilling the Shire’s financial reporting responsibilities under the Act. Regulation 16 of the Financial Management Regulations does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. The audit opinion will not be modified in respect of this matter.

2.3 Audit opinion - other legal and regulatory requirements

We have completed the audit engagement fieldwork on the requirements of the Local Government (Audit) Regulations 1996 (Audit Regulations) and Part 6 of the Financial Management Regulations for the year ended 30 June 2018. Based on the evidence that has been assessed as part of our engagement, we expect to report the following exceptions in accordance with the Audit Regulations:

(i) The following material matters indicate significant adverse trends in the financial position or the financial management practices of the Shire and are disclosed in Note 32 of the financial report:

a. The Operating Surplus Ratio is below the Department of Local Government, Sport and Cultural Industries (DLGSC) standard in the current year.
2.4 Management letter – control weaknesses

Our audit approach involves the use of a rotation approach when planning our test of controls. Consequently, not all control cycles are subject to testing and only certain transaction cycles are in audit scope each year. In accordance with the APM, we performed key management control testing over the revenue, payment, cash and fixed asset cycles. We rotated the control testing over the payroll cycle.

Based on our testing, the following control weaknesses were identified during the prior period audits, the current year preliminary and final audit stages:

2.4.1 Prior period audits

Four significant and four moderate matters were reported during the prior year audit:

<table>
<thead>
<tr>
<th>Findings</th>
<th>Rating</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Non-compliance with Tender Regulations – Granny Flat Modular Accommodation</td>
<td>Significant</td>
<td>Resolved</td>
</tr>
<tr>
<td>2. Non-compliance with Tender Regulations – Purchases foreseeably above tender limit</td>
<td>Significant</td>
<td>Resolved</td>
</tr>
<tr>
<td>3. Non-compliance with internal purchasing policy</td>
<td>Significant</td>
<td>Open</td>
</tr>
<tr>
<td>4. Identification and valuation of fixed assets</td>
<td>Significant</td>
<td>Resolved</td>
</tr>
<tr>
<td>5. Credit card supporting documentation</td>
<td>Moderate</td>
<td>Resolved</td>
</tr>
<tr>
<td>6. Review of journals</td>
<td>Moderate</td>
<td>Resolved</td>
</tr>
<tr>
<td>7. Ratio benchmarks</td>
<td>Moderate</td>
<td>Open*</td>
</tr>
<tr>
<td>8. Overhead allocation</td>
<td>Moderate</td>
<td>Resolved</td>
</tr>
</tbody>
</table>

* The Ratio finding is now reported in the Auditor General’s Report.

2.4.2 2017/18 interim audit

One significant and two moderate matters were identified during the 2017/18 interim audit:

| Findings                                                        | Rating     | Status  |
|                                                               |            |         |
| 1. Preparation and review of bank reconciliations              | Significant| Open    |
| 2. Review of payroll reconciliations and payroll variance reports | Moderate   | Open    |
| 3. Notice of Fees and Charges                                  | Moderate   | Open    |

*These findings were reported in the Auditor General’s Annual Financial Report Interim Audit Results for the Year Ended 30 June 2018 dated 22 June 2018.
2.4.3 2017/18 final audit

One significant, one moderate and one minor matters were identified during the 2017/18 final audit:

<table>
<thead>
<tr>
<th>Findings</th>
<th>Rating</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Revaluation of roads and footpaths</td>
<td>Significant</td>
<td>Resolved</td>
</tr>
<tr>
<td>2. Failure to complete Related Party Declaration forms</td>
<td>Moderate</td>
<td>Open</td>
</tr>
<tr>
<td>3. Update of long-term financial plan and asset management plan</td>
<td>Minor</td>
<td>Open</td>
</tr>
</tbody>
</table>

2.5 Compliance with laws and regulations

We have reviewed the Shire’s controls that are in place to manage the risk of systemic failure to comply with relevant laws and regulations. We also reviewed Council and Audit Committee minutes of meetings throughout the year to identify any reported non-compliance with relevant laws and regulations.

Except for those matters reported in the audit report and the management letter, nothing came to our attention, within the scope of our engagement, which would indicate the controls over compliance with laws and regulations are ineffective.

2.6 Unadjusted audit differences

There are no unadjusted audit differences remaining at the end of the audit.
2.7 Summary of audit adjustments

Four audit adjustments were passed during the course of the file audit.

<table>
<thead>
<tr>
<th>Entry</th>
<th>Account number</th>
<th>Account Description</th>
<th>Debit ($)</th>
<th>Credit ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1033000</td>
<td>Grants Commission Grant</td>
<td>458,717.00</td>
<td>458,717.00</td>
</tr>
<tr>
<td></td>
<td>1033010</td>
<td>Untied Road Grant</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Being to correct split of financial assistance grants</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>1012040</td>
<td>Equity in Local Government House Trust</td>
<td>61,867.08</td>
<td>61,867.08</td>
</tr>
<tr>
<td></td>
<td>1003060</td>
<td>GPF – Other Income Gen</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Being to recognise interest in Local Government House Trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>1114500</td>
<td>Capital – Perenjori Pavilion Building</td>
<td>55,974.75</td>
<td>55,974.75</td>
</tr>
<tr>
<td></td>
<td>1011000</td>
<td>Sundry Creditors</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Being to bring to account unrecorded liability at year end</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>1018140</td>
<td>Asset Revaluation Reserve Footpaths</td>
<td>16,396,131.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1018100</td>
<td>Asset Revaluation Reserve Roads</td>
<td>248,089.42</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TBA</td>
<td>Loss on Revaluation of Footpaths</td>
<td>106,636.46</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1014110</td>
<td>Footpaths</td>
<td></td>
<td>35,906.75</td>
</tr>
<tr>
<td></td>
<td>1015520</td>
<td>Footpaths – Accumulated Depreciation</td>
<td></td>
<td>318,819.48</td>
</tr>
<tr>
<td></td>
<td>1014100</td>
<td>Roads</td>
<td></td>
<td>5,077,049.56</td>
</tr>
<tr>
<td></td>
<td>1015510</td>
<td>Roads – Accumulated Depreciation</td>
<td></td>
<td>11,319,081.09</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Being to record roads and footpaths revaluation decrement</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Entry one relates to reclassification of the roads portion of financial assistance grant. Both sides of this journal entry were posted to the Statement of Comprehensive Income and has not impacted the net result.

Entry two relates to recognition of the Shire’s investment in the Local Government House Trust. This journal entry was posted to the Statement of Financial Position ($61,867.08 increase in net assets) and the Statement of Comprehensive Income ($61,867.08 increase in net result).

Entry three relates to accrual of a creditor invoice in relation to capital works in progress at year end. This journal entry was posted to the Statement of Financial Position ($55,974.75 increase in property, plant and equipment and $55,974.75 increase in trade and other payables).

Entry four relates to the recognition of the revaluation decrements of roads and footpaths infrastructure. These journal entries were posted to the Statement of Financial Position ($16,750,857 decrease in the value of roads and footpaths infrastructure and $16,644,220 decrease in the Asset Revaluation Reserve) and Statement of Comprehensive Income ($106,637 loss on revaluation of footpaths).
2.8 Contingent liabilities and commitments

Management has represented to us that, other than those matters disclosed in the financial report, there are no other outstanding or pending litigation, contingent liabilities or commitments.

We have received and reviewed all the solicitors’ confirmations and, except for those matters detailed in the financial report, we have not become aware of any other material contingent liabilities, pending litigation or commitments.

2.9 Subsequent events

Management has represented that, other than those matters disclosed in the financial report, there are no significant subsequent events between the end of the financial year and the date of this Audit Closing Report, which may significantly impact the results of the operations and the state of affairs of the Shire for the financial year.

2.10 Outstanding audit matters

The audit opinions on the financial report and the other legal and regulatory requirements, is subject to the finalisation of our audit process. The key matters still outstanding are:

a) Final review of the financial report;
b) Receipt of signed management representation letter;
c) Receipt of the signed financial report; and
d) Performing our subsequent events review.

3 AREAS OF AUDIT EMPHASIS

As mentioned in the APM, our audit focus was on those areas where we assessed there to be a higher risk of material misstatement in the financial report. We designed and performed procedures to be able to conclude, with reasonable assurance, whether or not each high-risk area is free from material misstatement.

The following is a summary of the high-risk material balances for the past three financial years:

<table>
<thead>
<tr>
<th>High risk area</th>
<th>30 June 2018</th>
<th>30 June 2017</th>
<th>30 June 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue and receivables cycle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Rates</td>
<td>2,605,331</td>
<td>2,601,371</td>
<td>2,616,541</td>
</tr>
<tr>
<td>• Trade and other receivables</td>
<td>463,764</td>
<td>779,723</td>
<td>281,841</td>
</tr>
<tr>
<td>Purchases and payment cycle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Materials and contracts</td>
<td>2,821,460</td>
<td>2,642,002</td>
<td>1,555,238</td>
</tr>
<tr>
<td>• Property, Plant and Equipment (additions)</td>
<td>469,150</td>
<td>1,576,733</td>
<td>1,359,042</td>
</tr>
<tr>
<td>• Infrastructure (additions)</td>
<td>2,126,543</td>
<td>2,266,615</td>
<td>2,445,561</td>
</tr>
<tr>
<td>Fixed assets cycle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Infrastructure</td>
<td>51,093,077</td>
<td>67,534,430</td>
<td>67,492,645</td>
</tr>
</tbody>
</table>

Audit Closing Report
<table>
<thead>
<tr>
<th>High-risk area</th>
<th>Key risks</th>
<th>Free from material misstatement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue and receivables cycle</strong></td>
<td>Rates revenue is material and is high-risk due to the multifaceted method of calculation, the high dependency on information systems and the significant regulatory compliance regime.</td>
<td>✓</td>
</tr>
<tr>
<td>• Rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Fees and charges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Trade and other receivables</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Purchases and payment cycle</strong></td>
<td>These expenditure items are high-risk due to the materiality of the amounts, the different cost allocation methods, the strict and complex requirements of the Shire’s purchasing policy and the risk of management override of controls.</td>
<td>✓</td>
</tr>
<tr>
<td>• Materials and contracts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Property, Plant and Equipment (additions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Infrastructure (additions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fixed assets cycle</strong></td>
<td>Infrastructure is a material asset in the Statement of Financial Position. Roads and footpaths classes of infrastructure were revalued by an independent valuer during the financial year. Infrastructure is a key audit area due to the complexity of the valuation model and reliance on significant assumptions regarding the assets’ service potential, consumption curves, useful life, asset condition and residual values.</td>
<td>✓</td>
</tr>
<tr>
<td>• Infrastructure</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4 OTHER CRITICAL DISCLOSURES IN THE FINANCIAL REPORT

We also audited the following critical disclosures in the financial report by verifying the underlying calculations and auditing the evidence to support the amounts disclosed:

<table>
<thead>
<tr>
<th>Critical disclosure</th>
<th>Key risks</th>
<th>Comply with accounting standards / Financial Management Regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Related party</td>
<td>Disclosures of key management personnel remuneration and related party transactions are not in accordance with AASB 124 Related Party Disclosures.</td>
<td>✓</td>
</tr>
<tr>
<td>Financial Ratios</td>
<td>The underlying data is incomplete or inaccurate and the calculations of the ratios are incorrect and not in accordance with Financial Management Regulations.</td>
<td>✓</td>
</tr>
<tr>
<td>Capital and other commitments</td>
<td>Capital and other commitments relating to future asset construction and replacements are inaccurately calculated or not sufficiently disclosed in accordance with AASB 17 Leases, AASB 116 Property, Plant and Equipment and AASB 101 Presentation of Financial Statements.</td>
<td>✓</td>
</tr>
</tbody>
</table>

5 FRAUD RISK

Under Australian Auditing Standard ASA 240 The Auditor’s Responsibilities Relating to Fraud in an Audit of a Financial Report, when planning and performing audit procedures and evaluating the results, the auditor must consider the risk of material misstatement in the financial report because of fraud and error. To address our responsibilities relating to fraud we designed and implemented audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud.

5.1 Management override of controls on key estimates and judgments

5.1.1 Key risks

Management is in a unique position to perpetrate fraud because of management’s ability to manipulate accounting records and prepare a fraudulent financial report by overriding controls that otherwise appear to be operating effectively.

5.1.2 Our audit approach

We have assessed the Shire’s processes in place to prevent and detect fraud. We documented our understanding of controls in place over the creation of manual journals as well as reviewing the list of personnel who have access to create journals in the general ledger. Our testing mainly focussed on unusual and non-routine journal entries.

We also incorporated an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed as individuals within the entity who are familiar with the audit procedures normally performed on engagements may be more able to conceal fraudulent financial reporting.

Management also completed a Fraud Risks Assessment Questionnaire as part of our audit procedures and confirmed that nothing has come to their attention to indicate any instances of material fraud in the current year.

5.1.3 Conclusion

Based on our work, nothing has come to our attention to indicate that the Shire does not have proper processes to manage the risk of management override of controls and that material key estimates and judgments are properly assessed and brought to account. Our audit did not detect any instances of fraud.
6 NEW ACCOUNTING STANDARDS NOT YET ADOPTED

6.1 Potential impact on new accounting standards

As disclosed in the notes to the 2018 financial report, the Shire has assessed, or is in the process of assessing, the implication of changes in Accounting Standards that have been issued but are not yet effective and have not been early adopted. The following Accounting Standards are considered to be the most relevant to the Shire:

<table>
<thead>
<tr>
<th>Reference</th>
<th>Summary</th>
<th>Effective date</th>
<th>Shire’s assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>AASB 9 Financial Instruments</td>
<td>Addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The standard is not applicable to the Shire until the reporting year ending 30 June 2019.</td>
<td>1 July 2018</td>
<td>The Shire has assessed that given the nature of the financial assets of the Shire, it is not anticipated the standard will have any material effect.</td>
</tr>
<tr>
<td>AASB 15 Revenue from Contracts with Customers</td>
<td>Replaces AASB 118 Revenue, which covers contracts for goods and services, and AASB 111 Construction Contracts, which covers construction contracts. Establishes the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. The standard is not applicable to Shire until the reporting year ending 30 June 2020.</td>
<td>1 July 2019</td>
<td>The Shire has not yet determined the potential impact of the Standard.</td>
</tr>
<tr>
<td>AASB 1058 Income of Not-for-Profit Entities</td>
<td>AASB 1058 has made complementary changes to the existing AASB 1004 Contributions and has also added new guidance AASB 15 Revenue from Contracts with Customers to clarify its application in the not for profit sector. The standard is not applicable to the Shire until the reporting year ending 30 June 2020.</td>
<td>1 July 2019</td>
<td>The Shire has not yet determined the potential impact of the Standard.</td>
</tr>
<tr>
<td>AASB 16 Leases</td>
<td>AASB 16 introduces a single lease accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard is not applicable to the Shire until the reporting year ending 30 June 2020.</td>
<td>1 July 2019</td>
<td>The Shire has assessed that, based on the number of operating leases held by the Shire, the impact is not expected to be significant.</td>
</tr>
</tbody>
</table>
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