



TOWN OF PORT HEDLAND

Audit Planning Memorandum

30 June 2021



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1 PURPOSE OF THE AUDIT PLANNING MEMORANDUM

The primary purpose of this Audit Planning Memorandum (**APM**) is to brief the Town of Port Hedland (**Town**) on the proposed approach by RSM Australia (**RSM**), on behalf of the Office of the Auditor General (**OAG**), to audit the financial report of the Town for the year ending 30 June 2021. The APM is a key tool for discharging the auditor's responsibilities in relation to communicating with those charged with governance.

2 KEY ENGAGEMENT INFORMATION

2.1 Key Town stakeholders and personnel

Ratepayers	Town of Port Hedland
Minister for Local Government	The Hon. John Carey MLA
Mayor	Cr Peter Carter
Chief Executive Officer (CEO)	Carl Askew
Director Corporate Services	Karren MacClure
Manager Financial Services	Christine Pidgeon

2.2 Key OAG personnel

Auditor General	Caroline Spencer
Director, Financial Audit ⁽¹⁾	Aram Madnack

2.3 Key RSM personnel

Audit Director ⁽¹⁾	David Wall
Audit Manager	Domenic Zappa
National Technical Director	Ralph Martin

⁽¹⁾ Refer to Appendix A for contact details

3 BACKGROUND AND GENERAL INFORMATION

3.1 Background

The Town is a Western Australian local government located in the Pilbara Region and is home to approximately 16,000 people from diverse cultural backgrounds and covers 11,844 square kilometres. The Kariyarra, Ngarla, and Nyamal people are acknowledged as the Traditional Custodians of the Port Hedland lands.

The Town is Australia's largest bulk export port. The Town attracts internationally prominent resource companies and contributes at a nationally recognised level to the broader Australian economy. Port Hedland International Airport provides a gateway to the Pilbara, the North West of Australia and a direct link to the world's largest bulk tonnage export port.

3.2 Council and Executives

Hon. Frederick Riebeling was appointed to the position of Commissioner on 9 July 2019, following the State Government's decision to suspend Elected Members until 17 October 2020, when the Town held an Extraordinary Local Government Election to elect Mayor Peter Carter and eight Councillors.

The Town's Executive team at the date of this APM are:

- Carl Askew, CEO
- Karren MacClure, Director Corporate Services
- Lee Furness, Director Infrastructure
- Craig Watts, Director Regulatory Services
- Josephine Bianchi, Director Community Services

3.3 Governance

The Town is governed by Council, which appoints the CEO to advise and provide information to Council in relation to the Town's functions and ensures the resources of the Town are effectively and efficiently managed.

3.4 Regulation

In terms of financial reporting, the Town is subject to the *Local Government Act 1995 (Act)* and the *Local Government (Financial Management) Regulations 1996 (Financial Management Regulations)*.

4 KEY DELIVERABLES

4.1 Financial report audit and opinions

The annual financial report will be general purpose financial statements for the financial year ending 30 June 2021. The Auditor General is required by the Act to provide an opinion on the financial report and other legal and regulatory requirements in accordance with the *Local Government (Audit) Regulations 1996 (Audit Regulations)*. The objective of the Auditor General's audit is to obtain reasonable assurance about whether the Town's financial report, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an auditor's report.

The Auditor General's report will be sent to the Mayor, CEO and the Minister for Local Government in accordance with the Act. The Town is required to publish the auditor's report with the annual financial report on its website. If the Auditor General has reported other significant matters, then the Town is required to report the action it has taken about the matters to the Minister and to publish a copy of that report on its website.

The Auditor General will also communicate with the Mayor and the CEO regarding, among other matters, any significant findings regarding deficiencies in internal control that may be identified during the audit.

4.2 Management letters

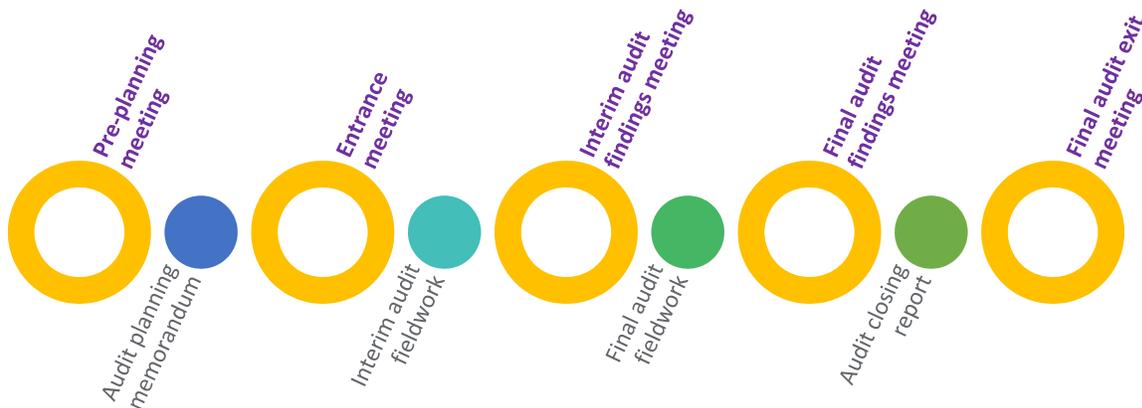
Significant findings, emerging issues and their recommended resolutions that arise during the audit will be progressively discussed and communicated by RSM and the OAG to the Town to factually validate the findings, then the Mayor and the CEO in a management letter. Any weaknesses in controls, which may be identified during the current year audit, will be highlighted in the management letter following the conclusion of the interim and final audits. The draft management letters will be reviewed by the OAG before being provided to the Town for comment.

Prior year management letter points will be followed up as part of the current year audit procedures to determine if any control weaknesses, highlighted during prior year audits, have been properly resolved.

4.3 Matters of significance

In accordance with section 24(1) of the *Auditor General Act 2006*, the Auditor General is required to report on matters arising out of the performance of the Auditor General's functions that are, in the opinion of the Auditor General, of such significance as to require reporting.

5 MILESTONE MEETINGS



5.1 Pre-planning meeting

The pre-planning meeting will be with the Town's Administration, OAG (if required) and RSM. The meeting will discuss current developments at the Town and any changes in governance or systems. The meeting will form the basis for the preparation of the APM.

5.2 Entrance meeting

The entrance meeting will be held with the Audit, Risk and Compliance Committee, the Town's Administration, OAG and RSM. The meeting will mainly cover the presentation and discussion of the APM. If it is not practicable for the Audit, Risk and Compliance Committee to meet for an audit entrance meeting, we suggest at least one Elected Member (the Chairperson of the Audit, Risk and Compliance Committee) attends the entrance meeting.

5.3 Interim audit findings meeting

The interim audit findings meeting with the Town's Administration, OAG (if required) and RSM will mainly cover the presentation and discussion of the significant control matters as reported in the interim audit management letter, if any.

5.4 Final audit findings meeting

Significant accounting issues and audit findings, if any, noted during the final audit will be discussed with the Town's Administration, OAG (if required) and RSM. If there are significant, unresolved matters, then a meeting will also be held with the Audit, Risk and Compliance Committee.

5.5 Final audit exit meeting

The exit meeting with the Audit, Risk and Compliance Committee, the Town's Administration, OAG and RSM will mainly cover the presentation and discussion of the audit closing report, which will outline any significant audit related matters concerning the financial report, management letters and improvement suggestions for future audits.

5.6 Council and Audit, Risk and Compliance Committee meetings

Meetings with Council and the Audit, Risk and Compliance Committee are by invitation and provides insight into matters that may have an impact on our audit approach. Generally, OAG and RSM will attend meetings as required.

6 TERMS OF ENGAGEMENT

6.1 Arrangements

Audits are not an absolute guarantee of the accuracy or reliability of the Town's information and may not identify all matters of significance. This is because the work undertaken to form an opinion is permeated by judgement and most audit evidence is persuasive rather than conclusive. In addition, there are inherent limitations in any audit, including the use of testing, the effectiveness of internal control structures and the possibility of collusion.

Primary responsibility for the detection, investigation and prevention of irregularities rests with the Town's Administration. Consequently, it is the Town's Administration who remain responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing and presenting the financial report, complying with the Act and the Financial Management Regulations.

Under the *Auditor General Act 2006*, audit staff have unrestricted access to information held by the Town, irrespective of any restrictions on disclosures imposed, such as secrecy provisions.

Confidentiality of audit files and working papers is required under the *Auditor General Act 2006*. The OAG is an 'exempt agency' under the *Freedom of Information Act 1992*.

The signed contract between the Auditor General and RSM contains strict confidentiality clauses.

6.2 Management representation letter

The audit plan assumes that the Mayor and the CEO will be able to sign a management representation letter. The OAG and RSM will make available to the Town a draft management representation letter during the course of the audit. The letter would be signed at the same time as the annual financial report is signed.

RSM and the OAG will rely on the Mayor and CEO signing the management representation letter as evidence to confirm they have:

- Fulfilled their responsibilities for the preparation and fair presentation of the financial statements in accordance with the Act and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards;
- Established and maintained an adequate internal control structure and adequate financial records;
- Provided the auditors with access to all information of which they are aware, that is relevant to the preparation of the financial statements and the operation of controls, such as records, documentation and other matters;
- Recorded all transactions in the accounting and other records and are reflected in the financial statements;
- Advised the auditors of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements; and
- Provided the auditors with the results of their assessment of the risk of fraud, any instances of fraud (not just material fraud) and any known data and security breaches.

7 AUDITOR GENERAL

7.1 Audit of local government

The *Local Government Amendment (Auditing) Act 2017* makes legislative changes to the Act to provide for the auditing of local governments by the Auditor General. The Act allows the Auditor General to contract out some or all of the financial audits, but all audits will be the responsibility of the Auditor General. It also allows for performance audits, which will examine the economy, efficiency and effectiveness of any aspect of local government operations. The Act also places an obligation on local governments to publish their annual report, including their annual financial report and auditor's report, on their website.

The Auditor General has been given the mandate to:

- Audit the annual financial report of WA local governments, related entities and subsidiaries;
- Conduct performance audits of local governments;
- Perform supplementary audits requested by the Minister; and
- Report to Parliament on the results of financial and performance audits.

7.2 Auditor General audits and reports

During the current financial period, the OAG has issued a number of reports, which may be relevant for the Town to consider:

- Waste Management – Service Delivery (issued 20 August 2020). The report noted the waste planning at a sample of six local governments is inadequate and inconsistent and there is a need to do more to manage waste in line with current community and State expectations.
- Annual Report 2019-2020 (issued 24 September 2020). The report acknowledged the challenges faced by local government due to COVID-19. The report also noted that local government financial audits continue to take more time than comparably sized State government audits.
- Grant Administration (issued 28 January 2021). The audit found that a sample of eight State entities need to improve their grant administration practices.
- Application Controls Audits 2021 (issued 9 March 2021). The audit found that a sample of four State entities could improve their controls around user access, vulnerability management and situational awareness to address cyber risks.
- Regulation and Support of the Local Government Sector (issued 30 April 2021). The audit found the Department of Local Government, Sport and Cultural Industries use of its limited resources is not underpinned by a good understanding of risk and clear objectives for the local government sector. Moreover, its performance in regulating and supporting the sector does not currently reflect the expectations of local government entities and their communities.

Further details of the current and forward audit program can be found on the OAG website:

<https://audit.wa.gov.au/>

Also, the OAG website has a library of better practice guidance that the OAG has developed to help the Western Australian public sector perform efficiently and effectively.

8 STAKEHOLDER RELATIONSHIP

8.1 RSM's relationship with the Auditor General and the Town

RSM has been contracted by the Auditor General to perform the audit of the financial report of the Town and report on whether the annual financial report of the Town:

- Is based on proper accounts and records; and
- Fairly represents, in all material respects, the results of the operations of the Town for the financial year and its financial position at the end of that period in accordance with the Act and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

RSM is also required by the Auditor General to report:

- Any material matters indicating non-compliance with Part 6 of the Act, the Financial Management Regulations or applicable financial controls of any other written law;
- Any significant adverse trends in the financial position of the Town;
- Whether all required information and explanations were obtained;
- Whether all audit procedures were satisfactorily completed; and
- Whether the asset consumption ratio and asset renewal funding ratio included in the annual financial report are supported by verifiable information and reasonable assumptions.

RSM is also required to report any matter which may affect the Auditor General's responsibilities under sections 24 and 28 of the *Auditor General Act 2006*, section 7.12 AD of the Act and the Audit Regulations.

8.2 Term of the audit contract

RSM has been re-appointed by the OAG for a term of three years commencing with the financial year ending 30 June 2021.

RSM's services will be conducted under the overall direction of the Auditor General, who will retain responsibility for forming an audit opinion and issuing an audit report to the Town. The contract requires RSM to use its audit approach and methodology.

8.3 Grant acquittals

Grants received by the Town may need to be acquitted in accordance with the terms and conditions of the relevant Funding Agreement. Acquitting a grant means accurately reporting on the funded activities and the expenditure of the funding. Grant acquittal reports, providing activity and financial information, are generally required at certain stages during the funded project and / or on completion of the funded project. If satisfactory grant acquittal reports are not provided at the times and in the manner detailed in the Funding Agreement, there is a risk that any further payments due to the Town will be withheld and the Town may be ineligible to apply for further grants.

In most circumstances the grant acquittal reports are required to be audited. Generally, the Funding Agreement will require the Town to engage an auditor to form an opinion that the receipts and payments are true and fair and that the Town has complied with the terms and conditions of the Funding Agreement.

If RSM is invited by the Town to complete the audit of grant acquittal reports, then RSM must first obtain approval from the OAG before the audit begins.

8.4 Independence

The Auditor General is an independent officer of the Western Australia Parliament, appointed under legislation to examine, on behalf of Parliament and Western Australian taxpayers, the management of resources within the public sector. The Auditor General is not subject to control or direction by either Parliament or the government. In conducting the audit, the Auditor General, staff and delegates will comply with all applicable independence requirements of the Australian accounting profession.

RSM Orb, our optimal risk-based audit methodology requires that we conduct an annual re-evaluation of our independence prior to the commencement of each assignment. We have fully satisfied ourselves that we do not have any actual or perceived conflict of interest.

We are fully compliant with our Ethics and Independence Policies, which are verified and tested each year by our Partner Responsible for Ethics and Independence. Each year we are required to submit certain information to our Partner Responsible for Ethics and Independence, which is analysed and subjected to a series of stringent tests. This system has been extensively reviewed by the Australian Securities and Investments Commission and found to be in accordance with Australian Auditing Standards, the *Corporations Act 2001* and better practice.

As advised by RSM to the OAG and the Town, Domenic Zappa, the RSM Audit Manager for this engagement, was elected to Council of City of Wanneroo in October 2013 and subsequently re-elected in 2017. Following consultation with the RSM Partner in Charge of Ethics and Independence Policies, the firm has concluded that these circumstances do not threaten compliance with the RSM Ethics and Independence Policies or other regulatory / professional body independence requirements. The OAG and the Town have confirmed they are satisfied with these arrangements.

9 CURRENT YEAR DEVELOPMENTS

We had discussions with the Town Administration and reviewed the 30 June 2020 financial statements and the 30 June 2020 audit file to identify any significant matters that may affect the audit planning and process. As at the date of this audit plan, we have identified the following development, which is expected to impact the financial statements audit for the year ending 30 June 2021.

9.1 COVID-19

We will work with the Town's Administration to minimise the risk for your staff and Councillors, our staff, and to your operations, while completing audits in the best timeframe possible under the circumstances. This will likely involve more audit work being performed remotely rather than at your premises, and / or delaying audit work if unforeseen circumstances arise.

10 AUDIT APPROACH TO THE KEY AUDIT AREAS

10.1 Risk assessment

Key audit areas are those areas that, in RSM's professional judgment, present the most significant risk in our audit of the financial report.

As part of our audit approach, we have conducted an initial financial report risk assessment to determine whether any of the risks identified are, in our judgment, significant. A significant risk is an identified and assessed risk of material misstatement in the financial report that, in our judgment, is a key audit area and requires special audit consideration.

Our assessment of key audit areas is based upon:

- Discussion with the Town's Administration and the OAG;
- The complexity of transactions within each area;
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of uncertainty;
- The degree of susceptibility to fraud risk; and
- Consideration of any relevant matters that may be discussed during the audit planning stage.



10.2 Materiality

For the purpose of this APM, we referred to the audited 30 June 2020 financial report of the Town and used our professional judgment to determine a planning materiality amount. In line with OAG policy, we have not disclosed the amount of planning materiality.

The scope of our audit is influenced by the application of materiality. Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial report line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial report and on our opinion.

In assessing the risk profile of the Town, and in consideration of the users of the financial report, we have adopted materiality guidelines in accordance with Australian Auditing Standards.

For the purpose of determining materiality, total assets are considered a key metric of interest to the users of the financial statements. Therefore, they will be used as the main benchmark for the calculation of overall materiality.

However, expenses are of significant interest to users of local government financial statements, as they seek to ensure funds are being spent appropriately. Therefore, we will consider a specific lower materiality for those account balances where there are circumstances (including qualitative factors) for which misstatements of lesser amounts than overall materiality could reasonably be expected to influence the economic decisions of users of the financial statements. For example, specific lower materiality will be calculated using total expenses as the benchmark for items such as revenue, other income, expenses, payroll and liability balances.

10.3 RSM's approach to auditing significant risk

RSM's approach to auditing a class of transactions, account balance or disclosure is to initially assess whether there is a reasonable possibility that it could contain a material misstatement. Our risk assessment is based on both quantitative and qualitative criteria to determine whether they are significant.

Our audit strategy follows a hierarchy, which starts with testing of controls, then moves to substantive analytical review procedures and then finally, testing of details. The following diagram shows an example where a high level of reliance on controls, along with a moderate level of reliance on substantive analytics is likely to result in testing of details that can safely rely on smaller sample sizes.

Audit Reliance	High			
	Medium			
	Low			
		Controls	Substantive analytical review	Test of details
Audit technique				

Based on our review of the Town's available financial information, the 30 June 2020 audit file and prior period assessment of the design and implementation of controls, we have concluded that we can rely on internal controls, which effectively means we can apply a moderate level of substantive analytics and limited testing of details. This controls based approach is both efficient and effective.

10.4 Professional scepticism

We approach all our audits with a degree of professional scepticism as required by Australian Auditing Standards. In addition, professional scepticism is a key component of delivering an effective public sector audit. *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* defines professional scepticism as 'an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence'.

Professional scepticism is particularly relevant in areas that involve assumptions by the Town's Administration and / or estimates. It is also critical when evaluating audit evidence to reduce the risk of the auditor:

- Overlooking unusual circumstances; and
- Over generalising when drawing conclusions from observations using inappropriate assumptions in determining the nature, timing and extent of evidence gathering procedures and evaluating the results thereof.

11 SIGNIFICANT RISK AREAS

Using the 30 June 2020 financial report as a guide and referring to the RSM calculated materiality amount and risk assessment, RSM has identified the following potential significant risk areas for the current year:

Significant risk area	30 June 2020 \$'000	30 June 2019 \$'000
Revenue and receivables cycle		
Rates	53,700	45,025
Fees and charges	13,060	11,630
Trade receivables (current and non-current)	9,326	14,546
Purchases and payment cycle		
Material and contracts	15,646	20,659
Property, Plant and Equipment (additions)	11,601	3,096
Infrastructure (additions)	16,922	3,511
Fixed assets cycle		
Property, Plant and Equipment	124,963	117,712
Infrastructure	176,764	168,195
Other provisions		
Provision for Airport Projects	14,810	14,810

11.1 Revenue and receivables cycle

Reasons why RSM considers this area a significant risk

Revenue is measured by considering multiple elements, for example rates transactions are calculated by the application of a rate in the dollar to the Gross Rental Value (**GRV**) or Unimproved Value (**UV**), which is in turn determined by dividing the required rate collection amount by the total valuations on the roll. GRV's and UV's vary between the various property types, such as mining and pastoral. The GRV / UV is supplied by Landgate. Furthermore, rates revenue represents a significant portion of the Town's annual operating income and is an important revenue stream in terms of the Town's cash flows.

Fees and charges is a material amount and is measured by the application of an annual charge to rateable land supplied with specified services. For example, classic domestic bin services and swimming pool inspection fees. There are also further complexities with the application of the eligible pensioners rebate scheme. In addition, further complexity and risk is associated with the requirement for the Town to comply with Part 6, Division 6 'Rates and service charges' of the Act.

Based on the above complexities and the high risk of management override by Administration, revenue recognition for rates is considered significant risk.

RSM audit response

RSM audit procedures will include, among other things, assessment of the Town's effectiveness of key internal controls operating within the revenue cycle, including application controls. RSM will perform a walkthrough of the key management controls over the revenue cycle and test key management controls. RSM will review, on a sample basis, the reconciliations and calculation of rates and compare these against historical results. In order to assess the completeness of recording revenue in the correct accounting period, RSM will perform revenue cut-off testing and review credit notes.

To determine the existence of the receivable balance and the recoverability thereof as at 30 June 2021, RSM will review receivables balances on a sample basis and perform subsequent receipt testing. Furthermore, we will perform analytical procedures on rates through detailed comparison with prior year balances and budget forecasts. RSM will also determine if the disclosures in the notes to the financial report related to the Town's revenue recognition policy are appropriate.

11.2 Purchases and payment cycle

Reasons why RSM considers this area a significant risk

All procurement made by the Town is subject to the requirements of the Act and Part 4 of the *Local Government (Functions and General) Regulations 1996 (Functions and General Regulations)*, which is the basis for the Town's purchasing policy (**Policy**). The Act and the Functions and General Regulations are there to guide the Town in delivering best practice in the purchasing of goods, services and works that align with the principles of transparency, probity and good governance. Errors, uncertainty and unrealistic timelines can undermine market confidence, discredit a purchasing process and devalue the outcome of the procurement. Due to the strict and complex requirements of the Policy, including value for money, regulatory compliance, record management, transparency and professionalism, there is potential for insufficient knowledge of the Policy's requirements or failure to comply with the Policy.

RSM audit response

RSM will review the Town's purchasing policies and assess the effectiveness of internal controls operating within the payment cycle. In addition, we will perform a walkthrough of the key controls over the purchase and payment cycle, including tendering, and perform tests of control on key controls over the purchase and payment cycle. Furthermore, we will perform analytical procedures on procurement through detailed comparison with prior year balances and budget forecasts. Our testing will include an evaluation of whether the Town's purchasing activities have complied with the Act and the Functions and General Regulations.

11.3 Fixed assets cycle

Reasons why RSM considers this area a significant risk

Property, Plant and Equipment and Infrastructure respectively constituted 20% and 29% of the Town's total assets as at 30 June 2020. Under regulation 17A of the Financial Management Regulations, the Town's Plant and Equipment assets are to be measured under the cost model whereas Property and Infrastructure is to be carried at fair value less accumulated depreciation and accumulated impairment losses. Under regulation 17(4) of the Financial Management Regulations, the Town is required to revalue an asset:

- Whenever the local government believes the fair value of the asset is likely to be materially different from its carrying amount; and
- In any event, within a period of at least 3 years but not more than 5 years after the day on which the asset was last valued or revalued. We understand that the Town will be revaluing land and buildings for the year ending 30 June 2021.

Furthermore, in accordance with paragraph 9 of AASB 136 *Impairment of Assets*, the Town is required to assess at reporting date whether there is any indication that an asset may be impaired.

RSM audit response

We will carry out internal control testing over the Town's processes for determining inputs into fair value measurements and perform detailed substantive testing on a sample basis of the related fair value measurements.

We will review the Town's assessment that the fair value of Property and Infrastructure assets is not likely to be materially different from their carrying amounts and the Town's consideration of any potential impairment indicators.

11.4 Provision for Airport Projects

Reasons why RSM considers this area a significant risk

Provision for Airport Projects is a material liability in the 30 June 2020 Statement of Financial Position. The liability is recognised on approval of a grant of aid based on a provisional cost estimate. The provision reflects the Town's obligations under the Novation and Operating Deed – Port Hedland International Airport (**Agreement**) with PHIA Operating Company Pty Ltd (**PHIA**) and PHIA Asset Pty Ltd to operate the Port Hedland International Airport on March 2016.

While the Agreement and associated leasing documentation required upgrade and enhancement works to be undertaken by the Lessee, the document also bound the Town to undertake certain works. The Agreement includes clauses whereby the Town is responsible for removal and remediation of contamination known within the site at the time the Agreement was signed. Some works have been completed with the balance of works being negotiated with PHIA. These factors, in combination with the significant share of current liabilities and the high level of Administration estimation and judgment involved in determining the value of the Provision for Airport Projects is an area of significant risk.

RSM audit response

We will obtain an understanding from the Town's Administration of any changes to the Town's obligations and responsibility under the Agreement for providing certain works, including the review of any recent legal advice provided to Council and the Town's Administration regarding the Agreement.

We will review the Town's Administration accounting treatment in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and AASB 110 *Events after the Reporting Period* and Administration's assumptions in determining the estimated value of provision at year end. RSM will also determine if the disclosures in the notes to the financial report related to the Town's provision are appropriate.

12 OTHER CRITICAL DISCLOSURES IN THE FINANCIAL REPORT

RSM will also audit the following critical disclosures in the financial report:

12.1 Related party disclosures

The Town is subject to the requirements of AASB 124 *Related Party Disclosures*. The Standard requires disclosures for senior officers' compensation and certain transactions with related parties. A review will be conducted to ensure proper accounting and disclosure of related party transactions and executive remuneration.

Further, section 7.12AL of the Act applies section 17 of the *Auditor General Act 2006* to a local government, which requires the Town to advise the Auditor General in writing of details of all related entities that are in existence.

RSM audit response:

We will review the disclosures and supporting material to ensure compliance with AASB 124. We will also assess the Town's internal controls around the identification and proper disclosure of related party transactions and executive remuneration.

12.2 Financial ratios

Under regulation 50 of the Financial Management Regulations, the annual report is to include financial ratios. Financial ratios are designed to enable users of annual financial reports to interpret more clearly the Town's performance and financial results, as well as provide a comparison of trends over several years.

These indicators provide a measure of the financial sustainability of local governments and complement the national criteria endorsed by the Local Government and Planning Ministers' Council. They provide for a comprehensive tool for monitoring the financial sustainability of local governments.

RSM audit response:

We will obtain and audit the ratios to assess compliance with regulation 50 of the Financial Management Regulations.

12.3 Capital and other commitments for expenditure

The Town must disclose in the financial statements its capital and other commitments relating to future asset construction and replacements.

RSM audit response:

We will check the underlying calculations and review the evidence to support the amounts disclosed.

12.4 Reserve accounts

The Town has established several reserve accounts under section 6.11 of the Act for the purpose of setting aside money for a specific purpose to be used in a future period. Cash reserves are required to be held in separate bank accounts. However, reserve accounts are aggregated and segregated in the financial statements as restricted (reserve funds) or unrestricted (municipal funds).

RSM audit response:

RSM will review the reserve account reconciliations and test that the transfers to and from these accounts are in accordance with the specific purpose of the reserve.

12.5 Major land transactions

Regulation 46 of the Financial Management Regulations prescribes the disclosure requirement for major land transactions. The information to be disclosed by the Town is set out in regulation 47 and includes:

- Details of the total income and expenditure for the transaction; and
- Details of the amount or value of any surplus of money or assets.

RSM audit response:

RSM will review the financial records of the Town to assess whether all major land transactions have been identified and disclosed in accordance with regulation 47.

13 CONTROLS

13.1 Internal control

Internal controls are systems, policies and procedures that help an entity reliably and cost effectively meet its objectives. Sound internal controls enable the delivery of reliable, accurate and timely external and internal reporting. The Town is responsible for developing and maintaining its internal control framework to enable:

- Preparation of accurate financial records and other information;
- Timely and reliable external and internal reporting;
- Appropriate safeguarding of assets; and
- Prevention or detection and correction of errors and other irregularities.

The annual financial audit enables RSM to form an opinion on the Town's financial report. An integral part of this, and a requirement of Australian Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, is to assess the adequacy of an organisation's internal control framework and governance processes related to its financial reporting. While this understanding has a significant impact on our audit strategy, our audit of the Town's financial report is not designed to assess, nor do we provide an opinion on, the effectiveness of internal controls.

We focus on the internal controls relating to financial reporting and assess whether the Town has managed the risk that the financial report will not be complete and accurate. Poor controls diminish Administration's ability to achieve the organisation's objectives and comply with relevant legislation. They also increase the risk of fraud.

During our planning procedures we will gain an understanding of the following components of internal control:

- Control environment;
- Risk assessment procedures;
- Information systems;
- Control activities; and
- Monitoring procedures.

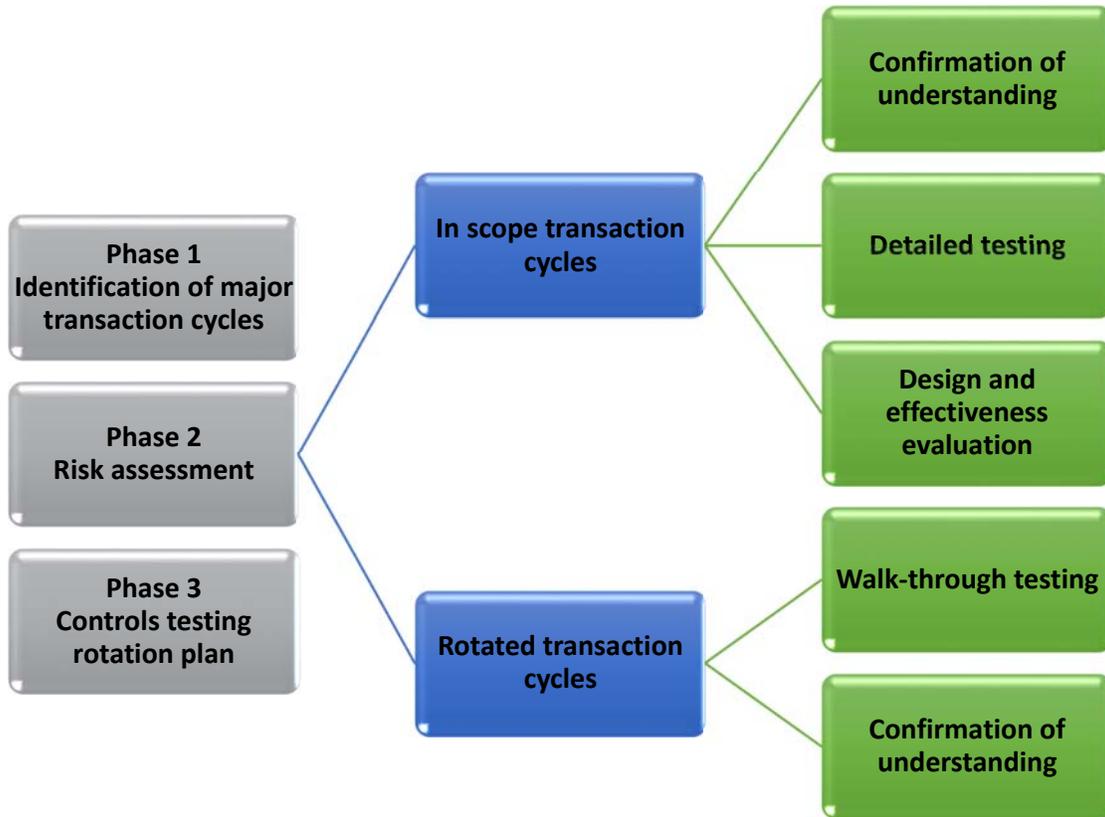
Our preliminary assessment of the internal control framework may indicate that the internal controls are likely to be effective in preventing or detecting and correcting material misstatements in the financial report. In these circumstances, we would plan to place reliance on the key internal controls relating to the material components in the financial report to support our audit opinion.

13.2 Significant changes to internal controls

The Town has represented that there are no significant changes to internal controls for the 2021 financial period to date.

13.3 Rotation approach

In accordance with our rotational controls testing approach, we will conduct a risk assessment for each major transaction cycle during our initial engagement year. The risk assessment is benchmarked against our knowledge of each transaction cycle within the local government sector. Using the risk assessment, we design a control testing rotation plan that will bring certain transaction cycles into audit scope each year. Those cycles not in scope will be subject to our normal walkthrough procedures and confirmation of our understanding of the key controls.



During the current audit, we will use a rotation approach to test the design and effectiveness of key controls used in a sample of major transaction cycles linked to significant risk areas. Some transaction cycles will be rotated out and not subject to design and effectiveness testing. Instead, we will update our understanding of the controls and confirm our understanding using walk-through procedures.

14 FRAUD RISK

Under Australian Auditing Standard ASA 240 *The Auditor's Responsibility 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.

Although ASA240 sets out the principles and procedures we must follow, the primary responsibility for the prevention and detection of fraud and error rests with the Town. The Town is responsible for maintaining accounting records and controls designed to prevent and detect fraud and error, and for the accounting policies and estimates inherent in the financial report.

Our audit procedures on fraud risk include the following:

- Forward a copy of the fraud control checklist for self-assessment to the Town's Administration prior to our final audit visit. The checklist allows us to make inquiries of Administration, to obtain its understanding of the risk of fraud within the Town and to determine whether Administration have any knowledge of fraud that has been perpetrated on or within the entity. We will review the fraud control self-assessment by the Town;
- Review the Town's fraud control procedures in place to reduce the risk of fraud occurring within the entity, including the Town's code of conduct;
- Understand the Town's fraud control environment;
- Understand the business rationale for significant or unusual transactions;
- Review current accounting estimates for biases;
- Review the appropriateness of year end accounting adjustments;
- Make enquiries of Administration and others within the Town; and
- Incorporate 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.

15 OTHER AUDIT MATTERS

15.1 Internal audit

An effective internal audit function is important for ongoing maintenance and improvement of risk management, internal control overseen by an effective Audit, Risk and Compliance Committee, and governance processes. The internal audit function acts as the independent eyes and ears for Council on Administration and controls in key areas of risk.

Internal audit is a key component of the defence against fraud, including misrepresentation. Although the Town's financial management governance and risk framework, and Administration oversight and monitoring are the initial lines of defence against fraud or error, internal audit is also a crucial component.

Subject to the requirements of Auditing Standard ASA 610 *Using the Work of Internal Auditors*, if we have satisfied ourselves regarding the competence and objectivity of the Town's internal audit function, we plan to rely on their work where possible. The use of the Town's internal audit function may be used in the following ways:

- To obtain information that is relevant to RSM's assessments of the risks of material misstatement due to error or fraud; and
- As partial substitution for audit evidence to be obtained directly by RSM.

The responsibility for internal audit rests with the Town. The Town has engaged William Buck to perform internal audits. We have discussed the current year internal audit work program with the Town and plan to rely on the internal auditor's work where relevant and appropriate.

15.2 Audit preparation checklists

To assist the Town to gather and collate the necessary audit information and documentation, we will issue in advance of each audit visit an electronic Interim Audit Preparation Checklist and a Final Audit Preparation Checklist utilising CaseWare Xtend.

The benefits of CaseWare Xtend include:

- Securely request, file and store sensitive data within the audit engagement.
- Collaborate and communicate in real time, allowing for a more adaptable and transparent workflow.
- Manage requests in one centralised location that is readily accessible.
- Track the status of audit requests.



CaseWare Xtend will facilitate the delivery of an efficient audit and help to minimise interruptions to the Town's staff.

We have found this facility to be very useful and clients have appreciated the savings in time and reduced disturbance by auditors during the audit fieldwork.

15.3 Important changes in governance, Administration or internal control environments

The Town has advised that, other than those matters mentioned in the APM, there are no other major changes to its governance, Administration or internal control environment that may significantly impact the 30 June 2021 financial report.

15.4 Cumulative knowledge of accounting and computer systems and any expected changes

The Town has represented that they are not aware of any significant changes to the accounting or computer systems, although the Town has commenced a process for the replacement of the Town's ERP systems.

16 INVOLVEMENT OF INFORMATION SYSTEMS AUDIT SPECIALIST

The financial management systems being used by the local government entities is varied, but there is a general reliance on "Synergy Soft". In some circumstances, the information systems are integrated, whereas in others they are separate and rely on manual transfer of data between systems.

Due to the varying degree of financial system integration at each local government, RSM has assessed the information system environment as being sophisticated and we will engage an Information System Auditor (ISA) specialist to assess the risk of material misstatement imposed by the Information Technology (IT) environment at each local government.

The audit procedures conducted by the ISA will be:

- Testing general IT controls around system access and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements; and
- Reviewing the key controls around change management related to significant IT systems.

RSM complies with Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*. Our approach to information systems audit is to obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including (amongst others) how the information system captures events and conditions, other than transactions, that are significant to the financial statements.

17 TIMETABLE

Phase	Task	Indicative timeframe ⁽¹⁾	Action
Planning	Issue draft APM to the Town for commentary	30 April 2021	RSM
	Pre-planning meeting to review and update the overall audit approach and plan	3 May 2021	RSM OAG Town
	Entrance meeting with the Audit, Risk and Compliance Committee, the Town's Administration, OAG and RSM for the presentation and discussion of final APM	11 May 2021	RSM OAG Town
Interim audit fieldwork	Issuing of Interim Audit Preparation Checklist to the Town	17 May 2021	RSM
	Based on risk assessment, performance of cyclical controls testing, walkthrough of major business cycles and review of key reconciliation procedures for the 10 months ended 30 April 2021	31 May to 4 June 2021	RSM
	Performance of substantive tests for revenue and expenditure cycles for the 10 months ended 30 April 2021		
	Assessment of status of Management Letter points raised for the prior year		
	Review of audit file by OAG	Mid June 2021	OAG
Interim audit reporting	Interim audit findings meeting (if required) with the Town's Administration, OAG and RSM to discuss any significant control matters surrounding the major transaction cycles and content of the management letter, if any	18 June 2021	RSM OAG Town
	Issue the draft Interim Audit Management Letter (if any) for the year ending 30 June 2021 to the OAG for consideration and comment	21 June 2021	RSM OAG
	Issue of the draft Interim Audit Management Letter (if any) to the Town for consideration and comment.	23 June 2021	RSM Town
	Return of draft Interim Audit Management Letter (if any) to RSM with commentary	28 June 2021	Town
	Issue the Interim Audit Management Letter (if any) to the OAG	30 June 2021	RSM
Draft financial report	The Town submits proforma financial report to RSM for review and comment. This will be in the form of the statutory model with the previous year's actuals displayed.	31 August 2021	Town

Phase	Task	Indicative timeframe ⁽¹⁾	Action
Final audit fieldwork	Issuing of Final Audit Preparation Checklist	31 August 2021	RSM
	Provision of trial balance as at 30 June 2021 to RSM	No later than 30 September 2021	Town
	Town to submit draft financial report as per the Act deadline.	No later than 30 September 2021	Town
	Performance of substantive tests for revenue and expenditure cycles for the 2 months ending 30 June 2021	11 – 15 October 2021	RSM
	Performance of substantive tests for balance sheet accounts as at year end		
	Review of audit file by OAG	Late October 2021	OAG
Final audit reporting	Final audit findings meeting (if required) with the Town's Administration, OAG and RSM to discuss any significant control matters surrounding the major transaction cycles and content of the management letter, if any.	2 November 2021	RSM OAG Town
	Issue the draft Final Audit Management Letter (if any) for the year ending 30 June 2021 to the OAG for consideration and comment	3 November 2021	RSM OAG
	Issue the draft Final Audit Management Letter (if any) for the year ending 30 June 2021 to the Town for consideration and comment	5 November 2021	RSM Town
	Return draft Final Audit Management Letter (if any) for the year ending 30 June 2021 to RSM with commentary	10 November 2021	Town
	Issue the Final Audit Management Letter (if any) to the OAG	12 November 2021	RSM
	Issue draft Management Representation Letter and draft Financial Report to the Town for consideration and comment	15 November 2021	RSM
	Issue final Management Representation Letter, Financial Report and Audit Closing Report at least 1 week before exit meeting.	24 November 2021	RSM
	Final audit exit meeting with the Audit, Risk and Compliance Committee, the Town's Administration, OAG and RSM.	1 December 2021	RSM OAG Town
	Independent Contract Auditor's Report issued	2 December 2021	RSM

Phase	Task	Indicative timeframe ⁽¹⁾	Action
	OAG to sign and issue the Audit Report	Within 5 working days (latest 10 December 2021) of receiving the signed financial statements and reporting from RSM.	OAG
	Town's Ordinary Council Meeting for the adoption of the 30 June 2021 Financial Report	15 December 2021	Town

(1) The above dates are tentative at this stage and are subject to amendment as a result of staff availability from the Town due to any COVID-19 restrictions.

18 APPENDIX A: ADDITIONAL INFORMATION CONTACTS

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