



# Shire of Jerramungup

REPORT TO THE AUDIT COMMITTEE  
FOR THE YEAR ENDED 30 JUNE 2018

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## 1. EXECUTIVE SUMMARY

<b>Purpose</b>	<p>This report summarises significant audit findings and matters which have come to our attention during our audit of the financial statements of the Shire of Jerramungup for the financial year ended 30 June 2018.</p> <p>This report is provided to enable the Audit Committee to clarify outstanding issues with us and discuss key audit findings. It includes only those audit matters of governance interest that have come to our attention as a result of the performance of our audit. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not usually identify all such matters.</p>
<b>Audit status</b>	<p>We have substantially completed our audit for the year ended 30 June 2018 except for:</p> <ul style="list-style-type: none"><li>▪ Subsequent events review</li><li>▪ Receipt of signed Management Representation Letter</li><li>▪ Receipt of signed Financial Statements</li></ul> <p>We expect to recommend to the Office of the Auditor General an unmodified audit report after these matters are completed.</p>
<b>Audit misstatements</b>	<p>A list of corrected and uncorrected differences is included in Section 5. Additionally, corrected and uncorrected misstatements in presentations and disclosures are discussed in this section.</p>
<b>Disclaimer</b>	<p>This report is provided solely for the information of the Shire of Jerramungup and is not to be copied, quoted or referred to without prior written consent.</p>

## 2. AUDIT SCOPE

Lincolns conducted an independent audit on behalf of the Office of the Auditor General (OAG) in order to enable the Auditor General to express an opinion to the Council on the financial report of Shire of Jerramungup for the year ended 30 June 2018. Our audit was conducted in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We perform procedures to assess whether in all material respects the financial report presents fairly, in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the Local Government Act 1995 and the Local Government (Financial Management) Regulations 1996, a view which is consistent with our understanding of the Shire of Jerramungup's financial position and of its performance as represented by the results of its operations, changes in equity and cash flows.

Our audit procedures included;

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- evaluating the appropriateness of accounting policies and disclosures used, the reasonableness of accounting estimates

We considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures.

An audit is not deigned to identify all matters that may be relevant to the accountable authority and management, nor to relieve management or those in charge of governance of their responsibilities. Accordingly, this report includes only those matters that have come to our attention as a result of performing our audit.

### 3. AUDIT FOCUS

We refer to our audit plan where we identified areas for potential for increased audit risk and our planned responses in the audit.

The following presents our audit findings in these areas.

Area of Risk	Audit Outcomes
Grant Funding and Other Revenue	<ul style="list-style-type: none"> <li>• Where significant grant revenue was agreed to third party documentation.</li> <li>• Risk of fraud in the revenue cycle was also considered including testing of key controls and analytical review. We also reviewed related party transactions.</li> </ul>
Rates	<ul style="list-style-type: none"> <li>• Audit work included the following:               <ul style="list-style-type: none"> <li>• Rateable values agreed to the Valuer General rates.</li> <li>• We checked control procedures for the transfer of rates from Valuer General to Internal Software system.</li> <li>• Testing of rates notices was undertaken both on a sample basis and analytically.</li> </ul> </li> </ul>
Expenses	<ul style="list-style-type: none"> <li>• Our audit of expenses included testing of key financial controls over the recognition of expenses, vouching significant expenses and analytical reviews.</li> </ul>
Payroll/Provisions	<ul style="list-style-type: none"> <li>• Audit sampling tested pay-run to the following:               <ul style="list-style-type: none"> <li>• Employee awards</li> <li>• Employee contracts</li> <li>• Check calculation of superannuation and tax</li> <li>• Check authority to deduct salary sacrifice</li> <li>• Check the control procedures in payroll department in line with internal policies</li> <li>• Our audit of provisions included reviewing the reasonableness of assumptions used to calculate annual leave and long service leave</li> <li>• Analytical review</li> </ul> </li> </ul>
Management's monitoring of the control environment	<ul style="list-style-type: none"> <li>• We reviewed council minutes for the following:               <ul style="list-style-type: none"> <li>• Process for reviewing internal control procedures including evidence of periodic review of policy manual.</li> <li>• Management's implementation and monitoring of new control procedures.</li> <li>• Management's implementation and monitoring for amending current control procedures.</li> </ul> </li> </ul>

Management Override of Controls	<ul style="list-style-type: none"> <li>• Audit processes were undertaken to: <ul style="list-style-type: none"> <li>• Sample test and judgementally review general journals</li> <li>• Understand and test the adequacy and effectiveness of division of duties</li> <li>• Controls testing</li> <li>• Substantive procedures</li> </ul> </li> </ul>
Revaluation of assets	<ul style="list-style-type: none"> <li>• Audit processes were undertaken to: <ul style="list-style-type: none"> <li>• Evaluate skills, qualifications and expertise of independent valuer</li> <li>• Evaluate valuation methodology to ensure consistent with Standards and assumptions reasonable</li> <li>• Ensure completeness and validity of uptake to asset register by agreeing to valuation report</li> <li>• Ensure depreciation basis correctly reflects rates and remaining useful life by agreeing asset register to valuation report</li> </ul> </li> </ul>

## 4. AUDIT & ACCOUNTING ISSUES

### 4.1 Significant Adverse Trends

Following Office of the Auditor General guidelines, the following significant adverse trends occurred;

- The Operating Surplus Ratio has been below the DLGSCI standard for the past 3 years.

### 4.2 Other Matters

The regional waste facility is operated as a joint arrangement with the Shire of Ravensthorpe. Possible future capital expenditure is addressed under the Waste Management Agreement. Any future capital expenditure creating an asset attached to the property, will be required to be recognised as an operating expense as the facility is recognised in the financials of the Shire of Ravensthorpe. Key operating decisions in relation to the operating costs and future capital cost of the facility are to be agreed by both Shires.

## 5. AUDIT FINDINGS

### 5.1 Uncorrected Audit Misstatements

	<b>Financial Statements Accounts Impacted</b>	<b>Statement of Financial Position Adjustment</b>	<b>Effect on Operation Surplus</b>	<b>Effect on Other Comprehensive Income</b>	<b>Comment</b>
1.	Materials & Contracts GST Receivable Sundry Creditors	\$637 (\$7,007)	(\$6,370)		June 2018 Creditor not brought to account in 2018 financial year.
2.	Materials & Contracts GST Receivable Sundry Creditors	\$2,265 (\$24,920)	(\$22,655)		Estimated Regional Landfill Operating Costs Creditor not brought to account in 2018 financial year.

### 5.2 Corrected Audit Misstatements

	<b>Financial Statements Accounts Impacted</b>	<b>Statement of Financial Position Adjustment</b>	<b>Effect on Operating Surplus</b>	<b>Effect on Other Comprehensive Income</b>	<b>Comment</b>
1.	Materials & Contracts Employee Expenses		\$(210,691) \$210,691		Correction of allocation of expenditure between classifications.

### 5.3 Significant Deficiencies in Internal Controls Noted

Nil



## 6. ACTIONS / ISSUES FOR NEXT YEAR'S AUDIT

6.1 Regulation 17A of the Local Government (Financial Management) Regulations 1996 has been amended to exclude assets under \$5,000 from the annual financial report.

As this is a change in accounting policy, it will be necessary to implement this in the 2019 financial report and also to amend comparative amounts if material.

In order to ensure effective asset management of low value assets that are susceptible to theft or loss, local governments will be required to continue to maintain a property register of portable and attractive items.

6.2 In future, disclosure of the Regional Landfill joint arrangement will also require recognition of charges levied (if any) collected from residents of the Shire of Jerramungup for their use of the facility.