



**BUNBURY-HARVEY REGIONAL COUNCIL
EXIT MEETING AGENDA**

**28 November 2019 4pm
Shire of Harvey Offices, 7 Mulgara Street, Australind**

ATTENDEES:**The Audit Committee Members:**

Cr Jaysen Miguel	Councillor	City of Bunbury
Cr Tresslyn Smith	Councillor	City of Bunbury
Cr Karen Turner	Councillor	City of Bunbury
Cr Tania Jackson	Councillor	Shire of Harvey
Cr Bill Adams	Councillor	Shire of Harvey

Support Staff/Visitors:

Mr Tony Battersby	Chief Executive Officer	Bunbury-Harvey Regional Council
Ms Annie Riordan	Chief Executive Officer	Shire of Harvey
Mr Malcolm Osborne	Chief Executive Officer	City of Bunbury
Mr Dave Chandler	Director Strategy and Organisational Performance	City of Bunbury
Mr David Ransom	Manager Finance	City of Bunbury
Mr Chris Welham	Accountant	Bunbury-Harvey Regional Council

AMD Chartered Accountants:

Emily McKelvie	Client Advisor
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Office of the Auditor General (via phone conference):

Carly Meagher	Director, Financial Audit	Office of the Auditor General
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AGENDA ITEMS:**1. Audit Approach**

Refer also attached Audit Planning Summary Dated May 2019, including Section 5 "Significant Risks" and Section 6 "Audit Emphasis and Significant Account Balances"

- Interim Visit / Testing Completed
- Year End Communications
- Final Visit / Testing Completed

2. Variations to Audit Plan (where applicable)

No variations

3. Subsequent Events

Discussion and reconfirmation regarding subsequent events.

4. Audit Issues

- Status of prior year audit issues and 2019 interim audit:
Prior year audit issues and 2019 interim recommendations implemented with exception of:
Purchase Orders Dated After Invoice and Missing Leave Forms.
- Audit issues reported in the current audit:
As reported within 'Findings Identified during Final Audit' document attached.



5. Audit Report

Refer DRAFT Audit Report attached

- Opinion Qualification Matters:
No qualifications to audit opinion.
- Report on Other Legal and Regulatory Requirements Matters:
No matters to report. Minor items of non-compliance identified at interim audit are not required to be included in audit report.
- Report on Other Matters:
One adverse ratio reported.

6. Issues Relevant To Next Audit

None.

7. Close

AUDIT PLANNING SUMMARY

BUNBURY-HARVEY REGIONAL COUNCIL

Year ended 30 June 2019

May 2019

AMD Chartered Accountants on behalf of
Office of the Auditor General Western
Australia

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1. Purpose of the Audit Planning Summary

The purpose of this Audit Planning Summary is to provide the Bunbury-Harvey Regional Council Audit Committee and Executive Management our proposed approach to the audit of the financial report of the Bunbury-Harvey Regional Council for the year ending 30 June 2019.

This Audit Planning Summary will be discussed during the meeting scheduled for 7 May 2019 and ensures our responsibility to communicate with those charged with governance are satisfied.

Specifically, this Audit Planning Summary includes:

- Introduction
- Terms of Engagement and Appointment
- Our Audit Approach
- Significant Risks and Other Audit Issues
- Audit Emphasis and Significant Account Balances
- Management Representation Letter
- Related Entities
- Reporting Protocols
- Proposed Audit Schedule
- Audit Evidence - Specific Audit Requirements
- Your Audit Team

If there are any matters in the Summary that you would like clarified, please do not hesitate to contact us.

There may be areas where you would like us to increase the audit focus. We would be pleased to discuss these to determine the most efficient and effective approach to performing the Bunbury-Harvey Regional Council's audit requirements.

2. Introduction

2.1 Background and General Information

Bunbury-Harvey Regional Council is a statutory local government authority (Regional Council) established in 1990 by the City of Bunbury and the Shire of Harvey. The primary purpose of Bunbury-Harvey Regional Council is waste recovery and disposal. Bunbury-Harvey Regional Council is not responsible for waste collection services as that is the responsibility of the individual Councils’.

Bunbury-Harvey Regional Council has two main areas of operations — the Stanley Road Waste Management Facility and the Banksia Road Organics Processing Facility. Bunbury-Harvey Regional Council owns and manages the Stanley Road Waste Management Facility, which encompasses a waste transfer station and a Class II landfill site.

The Organics Processing Facility is managed by Bunbury-Harvey Regional Council on behalf of the Wellington Regional Group of Councils, which comprises the City of Bunbury, Shire of Harvey, Shire of Capel, Shire of Dardanup, Shire of Collie, Shire of Donnybrook-Balingup and the Shire of Boyup Brook.

2.2 Regional Council and Executive Management

The Bunbury-Harvey Regional Council consists of:

Chairperson	Murray Cook
Deputy Chairperson	Anita Shortland
Councillor	Peter Monagle
Councillor	James Hayward
Councillor	Betty McCleary
Deputy Delegate/Councillor	Jaysen De San Miguel
Deputy Delegate/Councillor	Tresslyn Smith
Deputy Delegate/Councillor	Wendy Dickinson
Deputy Delegate/Councillor	Paul Beech

The Counsel Executive Management consists of:

Chief Executive Officer (“CEO”)	Tony Battersby
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2.3 Governance and Roles and Responsibilities

Bunbury-Harvey Regional Council’s revenue comes from three main sources:

- Fees and charges;
- Operating grants, subsidies and contributions; and
- Interest earnings.

The Bunbury-Harvey Regional Council is governed by an independent Council. Councillors are elected by the ratepayers.

Bunbury-Harvey Regional Council appoints a CEO to ensure resources are effectively and efficiently managed. Council may delegate to the CEO the exercise of any of its powers or the discharge of any of its duties under the Local Government Act 1995.

2.4 Financial Report and Regulation

Bunbury-Harvey Regional Council's annual financial report is general purpose financial statements prepared in accordance with the Act and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

Applicable financial reporting regulations Bunbury-Harvey Regional Council must comply with includes:

- Local Government Act 1995 ("the Act");
- Local Government (Financial Management) Regulations 1996 ("the Regulations"); and
- Local Government (Audit) Regulations 1996.

The Auditor General's audit report will be prepared in accordance with the Act, Regulations and Australian Auditing Standards and include the audit opinion on the annual financial report. The Auditor General's audit report will also report:

- Any significant adverse trends in the financial position of Bunbury-Harvey Regional Council;
- Any instances of non-compliance with the Act, the regulations or applicable financial controls of any other written law identified during the course of the audit;
- Whether all required information and explanations are obtained during the audit;
- Whether all audit procedures are satisfactorily completed;
- Whether, in the Auditor General's opinion, the asset consumption ratio and asset renewal funding ratio included in the annual financial report are supported by verifiable information and reasonable assumptions.

Bunbury-Harvey Regional Council is required to publish the auditor's report with the annual financial report on its website. If the Auditor General reports other significant matters to Bunbury-Harvey Regional Council, then the Counsel will be required to report to the Minister action taken with respect to those matters.

3. Terms of Engagement and Appointment

3.1 Auditor General

Following proclamation of the Local Government Amendment (Auditing) Act 2017, the Auditor General becomes responsible for the annual financial report audit of Western Australian Local Governments.

The Act allows the Auditor General to contract out financial audits however by the year ending 30 June 2021 all Western Australian Local Government audits will become the responsibility of the Auditor General and Office of Auditor General (“OAG”).

The annual financial statement audit of Bunbury-Harvey Regional Council was completed by the Auditor General for the first time for the year ended 30 June 2018.

3.2 Contractor Appointment – AMD Chartered Accountants (“AMD”)

AMD has been contracted by the Auditor General to perform the Bunbury-Harvey Regional Council financial report audit on the Auditor General’s behalf for the years ending 30 June 2019 and 30 June 2020. The OAG and AMD have signed a contractor agreement which outlines the relationships between the OAG, Counsel and AMD.

Our audit procedures will be conducted under the direction of the Auditor General, who will retain responsibility for forming the audit opinion and issuing the audit report to the Bunbury-Harvey Regional Council. The signed contractor agreement requires AMD to use the OAG’s audit approach and methodology.

AMD is required to report any matter to the Auditor General which may affect the Auditor General’s responsibilities under the Auditor General Act 2006. AMD’s reporting requirements as outlined within the contractor agreement are outlined within section 9 of this Audit Planning Summary, Reporting Protocols.

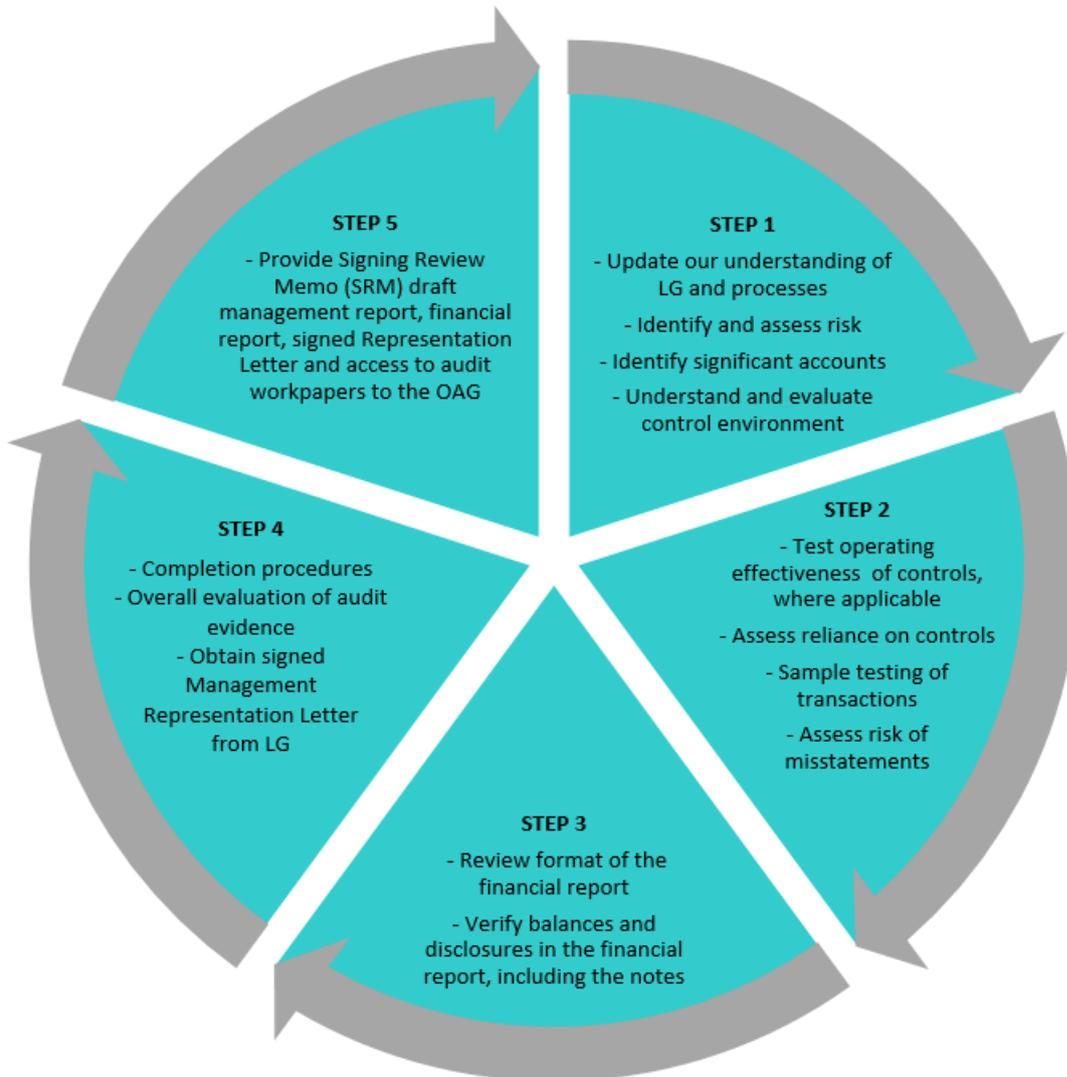
3.3 Conflicts of Interest

We confirm we have completed our independence evaluation and are satisfied we do not have any actual or perceived conflicts of interest in completing the annual audit of Bunbury-Harvey Regional Council on behalf of the Auditor General.

4. Our Audit Approach

4.1 Audit Approach Steps

Our audit approach comprises five steps:



4.2 Audit Approach and Methodology

Our audit approach is designed to specifically focus audit attention on the key areas of risk faced by Bunbury-Harvey Regional Council in reporting on finances and performance.

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 judgement, high risks. A high risk is an assessed risk of material misstatement in the financial report that in our judgement is a key audit area and therefore requires special audit consideration.

Our assessment of key audit areas is based on:

- Discussions held with the Executive Management team;
- The complexity of transactions within each audit area;
- The degree of subjectivity in the measurement of financial information related to the risk, in particular those requiring significant accounting estimates and assumptions; and
- The degree of susceptibility to fraud risk.

Testing of high risk material balances follows a hierarchy approach commencing with tests of controls, substantive analytical review procedures and finally tests of details. Testing of low risk material balances is coordinated with the auditing of high risk material balances.

Our audit will be separated into two components, the interim audit and the final audit.

The interim audit includes:

- understanding Bunbury-Harvey Regional Council's current business practices;
- understanding the control environment and evaluating the design and implementation of key controls and, where appropriate, whether they are operating effectively;
- testing transactions to confirm the accuracy and completeness of processing accounting transactions;
- clarifying significant accounting issues before the annual financial report is prepared for audit;
- review and assess legislative compliance; and
- follow up prior year management letter comments and recommendations.

The final audit focuses on verifying the annual financial report and associated notes, and includes:

- verifying material account balances using a combination of substantive analytical procedures, tests of details, substantiation to subsidiary records and confirmation with external parties; and
- reviewing the annual financial report and notes for compliance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

It is important to note that:

- The Council and the CEO are responsible for keeping proper accounts and records, maintaining effective internal controls, preparing the annual financial report, and complying with the Local Government Act and Regulations, and other legislative requirements.
- An audit does not guarantee that every amount and disclosure in the annual financial report is error free. Also, an audit does not examine all evidence and every transaction. However, our audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the annual financial report.
- The Council and CEO are responsible for ensuring the accuracy and fair presentation of all information in its annual report, and that it is consistent with the audited annual financial report. We do not provide assurance over your annual report.
- The Council and the CEO have responsibility for maintaining internal controls that prevent or detect fraud or error and to ensure regulatory compliance. The Audit Committee and AMD/the OAG should be informed by management of any fraud or material errors. During the audit we will make inquiries with management about their process for identifying and responding to the risks of fraud, including management override. It should be noted that our audit is not designed to detect fraud, however should instances of fraud come to our attention, and we will report them to you.

4.3 Australian Auditing Standards

Our audit is conducted in accordance with Australian Auditing Standards. Our aim is to provide reasonable assurance whether the annual financial report is free of material misstatement, whether due to fraud or error. We perform audit procedures to assess whether, in all material respects, the annual financial report is presented fairly in accordance with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

The nature of the audit is influenced by factors such as:

- the use of professional judgement;
- selective testing;
- the inherent limitations of internal controls; and
- the availability of persuasive rather than conclusive evidence.

As a result, an audit cannot guarantee that all material misstatements will be detected. We examine, on a test basis, information to provide evidence supporting the amounts and disclosures in the annual financial report, and assess the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by management.

4.4 Materiality

The scope of our audit also applies materiality. The planning materiality level will be calculated and determined using AMD's audit methodology. The amount of materiality may be adjusted during the audit, depending on the results of our audit procedures.

4.5 Fraud Risk

In accordance with *ASA240 The Auditor's Responsibility Relating to Fraud in the 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 as a result of fraud or error.

Council and management of Bunbury-Harvey Regional Council is responsible for the prevention and detection of fraud and error. The Counsel 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.

We will request management complete a self assessment fraud control questionnaire. This allows us to make inquires of management, to obtain an understanding of the risk of fraud within the Counsel and to determine whether management have knowledge of fraud activities. We will review the fraud control questionnaire assessment.

In addition we will review the Counsel's fraud prevention control procedures, review significant or unusual transactions, review accounting estimates and key assumptions and review year end accounting adjustments.

4.6 Meetings

4.6.1 Entrance Meeting

The entrance meeting will discuss this Audit Planning Summary and be held with the Audit Committee (or where impractical for the Audit Committee, a representative from Council), CEO, OAG Director and AMD.

4.6.2 Interim Audit Findings

The interim audit findings will be discussed with management by the audit team at the completion of the interim audit. Draft management letters will be provided to the CEO for coordination of comments from appropriate members of your management.

4.6.3 Final audit close out meeting

The final audit findings will be discussed with management by the audit team at the completion of the final audit.

4.6.4 Exit meeting

The exit meeting will discuss the financial report, proposed audit report to be issued and the management letter. This meeting will be held with the Audit Committee (or where impractical for the Audit Committee, a representative from Council), CEO, OAG Director and AMD.

5. Significant Risks and Other Audit Issues

Through discussions with the Executive Management team and based on the 2017/2018 audit, we have identified the following issues and key areas of risk affecting the audit.

Details of Risk / Issue	Audit Approach
Audit findings reported in the previous audit	We will follow-up the issues reported by the Auditor General during the 2017/2018 audit.
<p>Changes to <i>Local Government (Financial Management) Regulations</i>:</p> <ul style="list-style-type: none"> Introduction of a \$5,000 asset capitalisation threshold – Local Governments would need to expense existing assets below \$5,000. Assets below \$5,000 that are portable and attractive to be included in a separate register. 	We will monitor the progress of this regulatory change and work with your management to ensure changes have been implemented as required.
<p>Changes to Australian Accounting Standards:</p> <ul style="list-style-type: none"> AASB9 – Financial Instruments This standard changed the classification and measurement of financial assets applicable 30 June 2019. Another change is earlier recognition of provisions for bad / doubtful debts based on expected credit losses. AASB15 – Revenue from Contracts with Customers This standard requires revenue to be recognised by the Local Government on the fulfilment of the performance obligations of an enforceable contract at a point in time or over time, as applicable. For example grant monies. AASB1058 Income of Not-for-profit Entities This standard, in combination with AASB15 establishes new principles for income recognition for not-for-profit entities applicable to Local Governments for the year ended 30 June 2020. AASB116 – Leases This standard removes the distinction between operating leases and finance leases, and requires all leases (except short term leases and leases of low value assets) to be recognised as lease assets and lease liabilities on the balance sheet. Peppercorn leases can be elected to be measured either at cost or at fair value. The standard is applicable to Local Governments for the year ended 30 June 2020. AASB1059 Service Concession Arrangements: Grantors This standard is applicable to public sector entities that enter into service concession arrangements with private sector operators. It requires grantors to recognise a service concession asset and where applicable, a service concession liability on the balance sheet. This standard is applicable to Local Governments for the year ended 30 June 2021. 	We will monitor the progress of these proposed Australian Accounting Standards and work with management as and when the changes are implemented.

Details of Risk / Issue	Audit Approach
<p>We have identified the following areas that we consider require additional focus during 2018/2019 Local Government Audits:</p> <ul style="list-style-type: none"> • General accounting journals • Fair value of assets, including restricted use assets taking into account externally imposed restrictions • Financial ratios • Related party disclosures • Purchasing processes and documented evidence relating to obtaining quotations and tenders 	<p>We will review the accounting treatment and disclosure processes during our interim audit.</p>
<p>The following annual financial report items are derived from accounting estimates and hence will receive specific audit attention:</p> <ul style="list-style-type: none"> • Provision for annual and long service leave • Fair value of assets • Impairment of assets 	<p>We will review the method and underlying data that management and where applicable third parties use when determining critical accounting estimates. This will include considering the reasonableness of assumptions and corroborating representations.</p>

6. Audit Emphasis and Significant Account Balances

Our audit approach involves assessing the Bunbury-Harvey Regional Council’s overall control environment and understanding key business processes/cycles and internal controls relevant to the audit.

We will test key controls for all significant business cycles. The level of testing will be dependent on our assessment of the risk in each business cycle. We plan to address the following cycles:

- Revenue and Receivables cycle;
- Expenditure and Payable cycle;
- Payroll and Employee Entitlements cycle;
- Cash and Financing cycle;
- Inventory cycle; and
- Fixed assets cycle (Property, Plant, Equipment and Infrastructure).

The extent of our reliance on controls, together with the materiality level, determines the nature and extent of our audit procedures to verify individual account balances.

The table below lists those items in the Statement of Financial Position and the Statement of Comprehensive Income that are significant account balances, and our planned audit approach for these balances. When selecting significant account balances, we consider materiality, the nature of the balance, inherent risk and the sensitivity of disclosures.

Significant Account	2018 Audited Balance \$'000	Audit Approach
Statement of Financial Position		
Cash and cash equivalents	5,315	<ul style="list-style-type: none"> • Review and assess effectiveness of internal controls. • Perform walkthroughs of the cash cycle. • Review bank and investment reconciliations. • Verify year end balance through bank confirmations. • Analytical review.
Receivables	386	<ul style="list-style-type: none"> • Review and assess effectiveness of internal controls. • Perform walkthroughs of the revenue and receivable cycle. • Perform cut-off testing and review credit notes. • Review subsequent receipts. • Review provision for doubtful debts. • Analytical review.
Inventories	2	<ul style="list-style-type: none"> • Review and assess effectiveness of internal controls. • Perform walkthroughs of the inventory cycle. • Review of stock listings. • Verification of units costs. • Consider obsolete and slow moving inventories.
Property, plant, equipment and infrastructure	4,720	<ul style="list-style-type: none"> • Review and assess effectiveness of internal controls, including internal control testing with respect to the Counsel's processes for determining inputs into fair value. • Perform walkthroughs of the fixed assets cycle. • Analyse year end balances for each major class of asset comparing to last year. • Perform sample testing on asset additions and disposals. • Review management's impairment assessment at year end. • Test items posted to construction in progress to assess appropriateness of expenses being capitalised. • Review accounting treatment for repairs and maintenance costs to determine correct classification • Assess and perform tests to determine whether carrying amounts approximate fair value. • Where relevant, confirm balances to independent valuation reports and test key assumptions in determining fair value.

Significant Account	2018 Audited Balance \$'000	Audit Approach
Payables	374	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Perform walkthroughs of the purchasing and payables cycle. Test for unrecorded liabilities and review subsequent payments post year end. Test and review material accrual balances. Perform cut-off testing. Analytical review.
Provisions	329	<ul style="list-style-type: none"> Review the reasonableness of assumptions and calculations. Perform walkthroughs of the payroll and provision cycle. Test completeness of employee entitlement provisions. Agree amounts to actuary/expert's report. Analytical review.
Statement of Comprehensive Income		
Operating and non-operating grants, subsidies and contributions	150	<ul style="list-style-type: none"> Review of key processes and controls. Perform walkthroughs of the revenue cycle relating to grants, subsidies and contributions. Sample testing of transactions, including grant agreements. Perform cut-off testing. Review and test disclosures in respect to unspent grants at year end. Analytical review.
Fees and charges	3,219	<ul style="list-style-type: none"> Review of key processes and controls. Perform walkthroughs of the revenue cycle relating to fees and charges. Sample testing of transactions. Perform cut-off testing and review credit notes. Analytical review.
Other revenue including interest earnings	366	<ul style="list-style-type: none"> Review of key processes/controls. Perform walkthroughs of the revenue cycle relating to other revenue. Sample testing of transactions. Perform cut-off testing. Review credit notes. Analytical review.
Employee related expenses	1,802	<ul style="list-style-type: none"> Review of key processes and controls. Perform walkthroughs of the payroll cycle. Sample testing of transactions. Analytical review.

Significant Account	2018 Audited Balance \$'000	Audit Approach
Materials and contracts Utility charges Insurance	2,074	<ul style="list-style-type: none"> • Review of key processes and controls. • Perform walkthroughs of the purchasing and payments cycle. • Sample resting of transactions. • Analytical review.
Depreciation and amortisation	501	<ul style="list-style-type: none"> • Review of management’s assessment of the useful lives of assets and assess reasonableness. • Perform re-calculation tests. • Analytical review.
Other expenses	418	<ul style="list-style-type: none"> • Review of key processes/controls • Perform walkthroughs of the purchasing and payments cycle. • Sample testing of transactions. • Analytical review.

The table below lists those significant financial statement disclosures or other auditable areas and our planned audit approach for these disclosures. When selecting significant disclosures, we consider materiality, the nature of the item, inherent risk and the sensitivity of disclosures.

Statement, Auditable Area and / or Disclosures	Audit Approach
Statement of Cash Flows and Cash Flow Reconciliation Note	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Review Statement of Cash Flows and reconciliation note calculations. Ensure disclosures comply with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and Australian Accounting Standards.
Legislative Compliance	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Ensure Bunbury-Harvey Regional Council’s financial management policies and procedures are compliant with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and Accounting Standards. Assess Bunbury-Harvey Regional Council’s compliance with internal policy and procedures throughout the year, identify any instances of non-compliance which also resulted in legislative requirements not being met. Review draft annual financial statements to ensure compliance with Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and Australian Accounting Standards.
Contingent Liabilities	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Enquiries of management. Assess Council’s disclosures of obligations under the Contaminated Sites Act 2003. Review listing of contaminated sites. Ensure disclosures comply with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and Australian Accounting Standards.
Capital and Leasing Commitments	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Enquiries of management. Verify disclosures to supporting calculations and documentation. Ensure disclosures comply with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and Australian Accounting Standards.
Related Party Transactions, including elected member remuneration, key management personnel compensation and transactions with related parties	<ul style="list-style-type: none"> Review and assess effectiveness of internal controls. Enquiries of management. Obtain an understanding of the means utilised to identify related parties and record related party transactions. Verify elected members remuneration calculations and test on a sample basis. Analytical review. Verify key management personnel compensation calculations and test on a sample basis. Ensure KMP classifications correct. Assess related party transactions terms and associated fraud risks. Ensure completeness of disclosures. Identify any related parties with dominant influence.

Statement, Auditable Area and / or Disclosures	Audit Approach
Financial Risk Management	<ul style="list-style-type: none"> • Ensure related party disclosures comply with AASB124. • Review and assess effectiveness of internal controls. • Review financial risk management note and reconciliation calculations. • Ensure disclosures comply with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and Australian Accounting Standards.
Financial Ratios	<ul style="list-style-type: none"> • Determine basis of calculating individual financial ratios and annual reporting requirements. • Establish Local Government’s internal controls to capture financial ratio source data, including Long Term Financial Plan, Asset Management Plan, valuation reports etc. • Determine ratio’s which do not meet OAG guidelines and require adverse trend reporting accordingly. • Ensure financial ratio calculations and disclosures comply with the Local Government Act 1995 and section 50 of the Local Government (Financial Management) Regulations 1996.

7. Management Representation Letter

The above audit procedures assume that management expects to be in a position to sign a management representation letter. The proposed letter for this purpose is attached. This letter should be reviewed and tailored to meet your local government’s particular circumstances, and be signed and dated by the CEO and DCEO as close as practicable to the date of the proposed auditor’s report. Ordinarily, this would be no longer than five working days prior to the issue of the auditor’s report.

Please bring to the attention of the President that we will also be relying on the signed Statement by CEO in the annual financial report as evidence that they confirm:

- they have fulfilled their responsibility for the preparation of the annual financial report in accordance with the *Local Government Act 1995, Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards
- they have provided us with all relevant information necessary or requested for the purpose of the audit
- all transactions have been recorded and are reflected in the annual financial report.

8. Related Entities

Section 7.12AL of the *Local Government Act 1995* applies section 17 of the *Auditor General Act 2006* to a local government. Section 17 requires a local government to advise the Auditor General in writing of details of all related entities that are in existence.

9. Reporting Protocols

9.1 AMD Reporting Requirements

AMD is to provide a report to the Auditor General to enable the Auditor General to:

- form the audit opinion with respect to Bunbury-Harvey Regional Council's annual financial report;
- report any findings, significant control weaknesses and any other relevant matters arising from our audit procedures; and
- report any significant non-compliance with relevant legislation.

AMD will be required to form an opinion and report to the Auditor General whether Bunbury-Harvey Regional Council's financial statements:

- are based on proper accounts and records; and
- fairly represents, in all material respects, the results of the operations of the Bunbury-Harvey Regional Council and its financial position for the years covered by the contract in accordance with the Act and, to the extent that they are not inconsistent with the Act, the Australian Accounting Standards.

9.2 Management Letter

Significant issues identified during the course of our audit procedures will be discussed with relevant staff and management as soon as possible after being identified. Draft management letters will be provided to the CEO (or other nominated representative) for coordination of comments from appropriate members of your management. We request that these be returned promptly, preferably within 10 working days.

At the conclusion of the audit, the abovementioned management letter will accompany the auditor's report and the audited annual financial report forwarded to the President, the CEO and the Minister for Local Government. The management letter is intended to communicate issues arising from the audit that may impact on internal control, compliance, and financial reporting.

Where considered appropriate, and to ensure timely reporting of audit findings and action by management, interim management letters may be issued to the CEO and the President. A copy will also be forwarded to the Minister when we forward our auditor's report on the annual financial report to the Minister on completion of the audit.

Specific matters resulting from issues identified during the audit may be reported in an Auditor General's Report to Parliament. Should this occur, you will be consulted in advance to assure the context and facts of the issue are adequately represented.

9.3 OAG Contract Reporting Requirements

As OAG contractors we are required to report to the OAG as follows:

1. Complete Interim planning audit;
2. Prepare and provide OAG representative with interim audit findings and prepare interim management letter (if required);
3. Complete post 30 June year end audit;
4. Obtain signed Management Representation Letter from Bunbury-Harvey Regional Council;
5. Prepare and provide OAG Representative with Signing Review Memo (SRM), Draft Management Letter, Draft Financial Report and Signed Management Representation Letter; and
6. Provide OAG Representative with access to audit workpapers.

10. Proposed Audit Schedule

	Date
Planning and issue of Interim Audit Checklist	31 March 2019
Entrance Meeting	7 May 2019
Onsite Interim Audit	24 May 2019
OAG Interim Audit Review (week ending)	31 May 2019
Interim Management Letter (if required)	7 June 2019
Issue of Year End Audit Checklist (week ending)	7 June 2019
Submission of pro-forma financial report	15 June 2019
Final Trial Balance	6 September 2019
Receipt of Annual Financial Report (as required by the LG Act)	6 September 2019
Onsite Final Audit	16 – 17 September 2019
OAG Audit File Review (week ending)	27 September 2019
Exit Meeting (week ending)	4 October 2019
AMD to issue SRM, draft Management Report and Representation Letter to OAG	4 October 2019

11. Audit Evidence – Specific Audit Requirements

We will discuss our requirements with your staff to facilitate a timely, efficient and effective audit. We will formally agree our information requirements and timeframes for the final audit with the CEO and DCEO using our Audit Checklists.

We will issue an Interim Audit Checklist and Year-End Audit Checklist in advance of each audit visit. The checklists are intended to help Bunbury-Harvey Regional Council staff to have various documents readily available when we perform our audit. Please note however that in several instances, particularly during our audit sampling at the interim visits, audit staff will need to retrieve some evidence themselves, rather than being given the evidence by your staff. This is essential for an independent audit.

As the information requests contained within the Audit Checklists will form an important component of our audit working papers, the information must be made available to AMD on the dates specified. This will assist us in delivering an efficient audit and minimising interruptions to Counsel staff.

12. Your Audit Team

	Name	Contact
Contractor – AMD Chartered Accountants		
Director	Tim Partridge	(08) 9780 7555 tim.partridge@amdonline.com.au
Alternate Director	Maria Cavallo	(08) 9780 7555 maria.cavallo@amdonline.com.au
Audit Manager/Team Leader	Emily McKelvie	(08) 9780 7555 Emily.mckelvie@amdonline.com.au
Auditor	Isidore Sy	(08) 9780 7555 Isidore.sy@amdonline.com.au
Office of the Auditor General		
Auditor General	Caroline Spencer	(08) 6557 7500
Assistant Auditor General	Don Cunninghame	(08) 6557 7526
OAG Representative Director	Carly Meagher	Carly.meagher@audit.wa.gov.au (08) 6557 7542

BUNBURY-HARVEY REGIONAL COUNCIL
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019
FINDINGS IDENTIFIED DURING THE FINAL AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. High Leave Accruals At Year End		✓	
2. FMSR and Interim Recommendations			✓
<i>Findings Reports in the Prior Year</i>			
3. Missing Leave Forms		✓	

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

BUNBURY-HARVEY REGIONAL COUNCIL
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019
FINDINGS IDENTIFIED DURING THE FINAL AUDIT

1. FINDING- HIGH LEAVE ACCRUALS AT YEAR END

Finding

During our review we identified four employees who have annual leave accrued balances in excess of eight weeks each at 30 June 2019 and nine employees with a current long service leave balance due.

Rating: Moderate

Implication:

Excessive accrued annual and long service leave balances increases the risk of an adverse impact through excessive financial liabilities and may also indicate over-reliance on key individuals. This over-reliance can result in business interruption when the employee takes extended leave or are no longer employed by Bunbury-Harvey Regional Council. Failure to take leave can also mask fraud.

Recommendation:

Bunbury-Harvey Regional Council should continue to manage and monitor the excessive leave accruals to reduce the financial liability, risk of business interruption and fraud.

Management Comment:

Progressively working through with staff that have a backlog of annual leave and long service leave entitlements. Have leave entitlements as a discussion item on the staff annual performance reviews and staff with excessive leave entitlements are required to implement an agreed schedule to reduce the leave amounts to an acceptable level. Management have increased the requirement of casual temporary staff to cover for permanent staff leave entitlements.

Responsible Officer: Tony Battersby

Completion Date: 30 June 2020

2. FINDING- FMSR AND INTERIM RECOMMENDATIONS

Finding

We note the Interim Management Letter issued 18 June 2019 and the Financial Management Systems Review ("FMSR") report issued 26 July 2019 has not been accepted by Council/audit committee.

Rating: Minor

Implication:

Risk that prior recommendations are not implemented.

Recommendation:

We recommend the Interim Management Letter and Financial Management Systems Review reports be accepted by Council/audit committee.

Management Comment:

Council have only two Council/audit meeting's scheduled per year and next Council/audit meeting is 28 November 2019.

Responsible Officer: Chris Welham/Tony Battersby

Completion Date: 28 November 2019

**BUNBURY-HARVEY REGIONAL COUNCIL
PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2019
FINDINGS IDENTIFIED DURING THE FINAL AUDIT**

FINDINGS IDENTIFIED IN THE PRIOR YEAR:

3. FINDING- MISSING LEAVE FORMS

2018 Finding

We were unable to agree various employees (two employees tested) leave taken to approved leave forms.

2019 Finding

We were unable to agree 68 hours of annual leave taken by one employee to approved leave forms.

Rating: Moderate

Implication:

Lack of evidence that employees have requested leave, and that leave taken has been authorised.

Recommendation:

We recommend leave forms completed by employees be signed off by an appropriate level of management as evidence of approval, and retained as evidence of leave taken.

Management Comment:

Have been very vigilant over the last 12 months with the requirement of all staff completing annual leave forms for all leave. Unaware of the one employee not completing the leave form for the 68 hours taken, would like the finding to be identified to verify the error and if substantiated insure the error does not happen again.

Responsible Officer: Tony Battersby

Completion Date: 29 November 2019

INDEPENDENT AUDITOR'S REPORT

To the Councillors of Bunbury-Harvey Regional Council

Report on the Audit of the Financial Report

Opinion

I have audited the annual financial report of Bunbury-Harvey Regional Council which comprises the Statement of Financial Position as at 30 June 2019, the Statement of Comprehensive Income by Nature or Type, Statement of Comprehensive Income by Program, Statement of Changes in Equity, Statement of Cash Flows and Fee Setting Statement for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by the Chief Executive Officer.

In my opinion the annual financial report of Bunbury-Harvey Regional Council:

- (i) is based on proper accounts and records; and
- (ii) fairly represents, in all material respects, the results of the operations of Bunbury-Harvey Regional Council for the year ended 30 June 2019 and its financial position at the end of that period in accordance with the *Local Government Act 1995* (the Act) and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of Bunbury-Harvey Regional Council in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter – Basis of Accounting

I draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling Bunbury-Harvey Regional Council's financial reporting responsibilities under the Act. Regulation 16 of the Local Government (Financial Management) Regulations 1996 (Regulations), does not allow a local government to recognise some categories of land, including land under roads, as assets in the annual financial report. My opinion is not modified in respect of this matter.

Responsibilities of the Chief Executive Officer and Council for the Financial Report

The Chief Executive Officer (CEO) of Bunbury-Harvey Regional Council is responsible for the preparation and fair presentation of the annual financial report in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards. The CEO is also responsible for such internal control as the CEO determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the CEO is responsible for assessing Bunbury-Harvey Regional Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the State government has made decisions affecting the continued existence of Bunbury-Harvey Regional Council.

The Council is responsible for overseeing Bunbury-Harvey Regional Council's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Report

The objectives of my 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bunbury-Harvey Regional Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the CEO.
- Conclude on the appropriateness of the CEO's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Bunbury-Harvey Regional Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report, as we cannot predict future events or conditions that may have an impact.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Council and the CEO regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Other Legal and Regulatory Requirements

In accordance with the *Local Government (Audit) Regulations 1996* we report that:

- (i) In my opinion, the following matters indicate significant adverse trends in the financial position or the financial management practices of Bunbury-Harvey Regional Council:
 - a. Operating surplus ratio as reported in Note 24 of the financial report is below the Department of Local Government, Sport and Cultural Industries (DLGSCI) standard of zero for the last three years (2017: -0.04, 2018: -0.25 and 2019: -0.16).
- (ii) There were no instances of non-compliance with Part 6 of the *Local Government Act 1995*, the *Local Government (Financial Management) Regulations 1996* or applicable financial controls of any other written law identified during the course of my audit.
- (iii) All required information and explanations were obtained by me.

- (iv) All audit procedures were satisfactorily completed.
- (v) In my opinion, the asset consumption ratio and the asset renewal ratio included in the annual financial report were supported by verifiable information and reasonable assumptions.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the annual financial report of Bunbury-Harvey Regional Council for the year ended 30 June 2019 included on Bunbury-Harvey Regional Council's website. Bunbury-Harvey Regional Council's management is responsible for the integrity of Bunbury-Harvey Regional Council website. This audit does not provide assurance on the integrity of Bunbury-Harvey Regional Council's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

CAROLINE SPENCER
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
XX November 2019

DRAFT