



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

**14<sup>th</sup> December 2020 at 4.15pm  
City of Bunbury Offices – Ocean Room, 4 Stephen Street, Bunbury**

**ATTENDEES:**

**The Audit Committee Members:**

Cr Tresslyn Smith	Chairman	City of Bunbury
Cr Tania Jackson	Deputy Chairman	Shire of Harvey
Cr Jaysen Miguel	Councillor	City of Bunbury
Cr Karen Turner	Councillor	City of Bunbury
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 David Ransom	Manager Finance	City of Bunbury
Mr Chris Welham	Accountant	Bunbury-Harvey Regional Council
Ms Vicki Gregg	Team Leader	City of Bunbury
Mrs Karen McDonald	Manager Finance	Bunbury-Harvey Regional Council

**AMD Chartered Accountants:**

Tim Partridge                      Director

**Office of the Auditor General (via phone conference):**

Carly Meagher                      Director, Financial Audit

**AGENDA ITEMS:**

**1. Audit Approach**

*Refer also attached Audit Planning Summary, 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:  
Prior year audit issues implemented with exception of:  
Excessive leave balances.



- 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 issues.
- 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 2020

March 2020

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 2020.

This Audit Planning Summary 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 (BHRC) 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 BHRC is waste recovery and disposal. BHRC is not responsible for waste collection services as that is the responsibility of the individual Councils’.

The BHRC has two main areas of operations — the Stanley Road Waste Management Facility and the Banksia Road Organics Processing Facility. BHRC 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 BHRC 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	Tresslyn Smith
Deputy Chairperson	Tania Jackson
Councillor	Jaysen De San Miguel
Councillor	Karen Turner
Councillor	Bill Adams
Deputy Delegate/Councillor	Wendy Dickinson

The Council 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 Council 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 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 year ending 30 June 2020. The OAG and AMD have signed a contractor agreement which outlines the relationships between the OAG, Council 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.

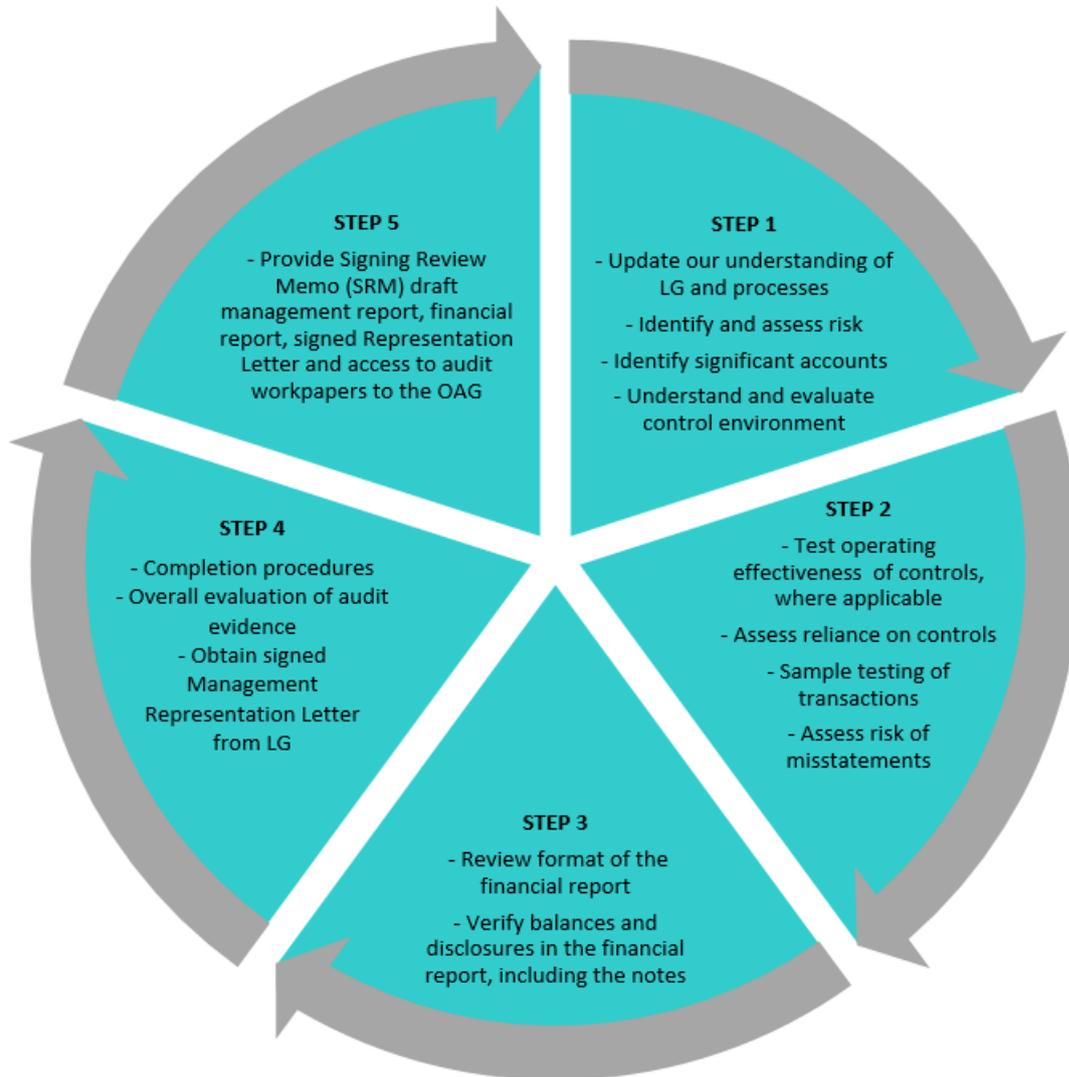
#### 3.3 Conflicts of Interest

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 Council 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 inquiries of management, to obtain an understanding of the risk of fraud within the Council and to determine whether management have knowledge of fraud activities. We will review the fraud control questionnaire assessment.

In addition we will review the Council'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 CEO team and based on the 2018/2019 audit, we have identified the following issues and key areas of risk affecting the audit.

Details of Risk / Issue	Audit Approach
<p>Audit findings reported in the previous audit</p>	<p>We will follow-up the issues reported by the OAG during the 2018/2019 audit.</p>
<p>Changes to Australian Accounting Standards:</p> <ul style="list-style-type: none"> <li>• <i>AASB15 – Revenue from Contracts with Customers</i> This standard is applicable to Local Government for the year ended 30 June 2020. 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.</li> <li>• <i>AASB1058 Income of Not-for-profit Entities</i> 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.</li> <li>• <i>AASB16 – Leases</i> 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 to be measured at fair value. The standard is applicable to Local Governments for the year ended 30 June 2020.</li> <li>• <i>AASB1059 Service Concession Arrangements: Grantors</i> 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.</li> </ul>	<p>We will review the assessment completed during the prior year 2019 audit, including the 2019 financial report disclosures.</p> <p>At the interim audit, we will request management’s progress with request to standard implementation.</p> <p>Throughout the audit, we will monitor the progress of these applicable Australian Accounting Standards and work with management as and when the changes are implemented.</p>
<p>We have identified the following areas that we consider require additional focus during 2019/2020 Local Government Audits:</p> <ul style="list-style-type: none"> <li>• General accounting journals</li> <li>• Fair value of assets, including restricted use assets taking into account externally imposed restrictions</li> <li>• Financial ratios</li> <li>• Related party disclosures</li> <li>• Contingent Liabilities, including waste facility site</li> <li>• Purchasing processes and documented evidence relating to obtaining quotations and tenders</li> <li>• Current and approved Long Term Financial Plan and Asset Management Plan, with sufficient data.</li> </ul>	<p>We will review the accounting treatment and disclosure processes during our interim audit.</p>

Details of Risk / Issue	Audit Approach
<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"> <li>• Provision for annual and long service leave</li> <li>• Fair value of assets</li> <li>• Impairment of assets</li> </ul>	<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>
<p>COVID-19</p>	<p>We will work with your management to minimise the risk for your staff and councillors, and our staff and contractors, 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.</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	2019 Audited Balance \$'000	Audit Approach
<b>Statement of Financial Position</b>		
Cash and cash equivalents	3,949	<ul style="list-style-type: none"> <li>• Review and assess effectiveness of internal controls.</li> <li>• Perform walkthroughs of the cash cycle.</li> <li>• Review bank reconciliations.</li> <li>• Review transfers between bank accounts.</li> <li>• Verify large or unusual reconciling items.</li> <li>• Verify year end bank balance through bank confirmations.</li> <li>• Verify classifications including restricted / unrestricted; trust vs municipal and financial assets.</li> <li>• Analytical review.</li> </ul>
Receivables including other current assets	406	<ul style="list-style-type: none"> <li>• Review and assess effectiveness of internal controls.</li> <li>• Perform walkthroughs of the revenue and receivable cycle.</li> <li>• Perform cut-off testing and review credit notes.</li> <li>• Review subsequent receipts.</li> <li>• Verification of accrued income, ensuring requirements of AASB15 and AASB1058 are met.</li> <li>• Review expected credit loss assessment ensuring compliant with AASB9.</li> <li>• Analytical review.</li> </ul>
Inventories	8	<ul style="list-style-type: none"> <li>• Review and assess effectiveness of internal controls.</li> <li>• Perform walkthroughs of the inventory cycle.</li> <li>• Review of stock listings.</li> <li>• Verification of units costs.</li> <li>• Consider obsolete and slow moving inventories.</li> </ul>
Property, plant, equipment and infrastructure	5,188	<ul style="list-style-type: none"> <li>• Review and assess effectiveness of internal controls, including internal control testing with respect to Council's processes for determining inputs into fair value.</li> <li>• Perform walkthroughs of the fixed assets cycle.</li> <li>• Analyse year end balances for each major class of asset comparing to last year.</li> <li>• Perform sample testing on asset additions and disposals.</li> <li>• Review management's impairment assessment at year end.</li> <li>• Test items posted to construction in progress to assess appropriateness of expenses being capitalised.</li> <li>• Review accounting treatment for repairs and maintenance costs to determine correct classification.</li> <li>• Ensure assets less than \$5,000 are expensed as required.</li> </ul>

Significant Account	2019 Audited Balance \$'000	Audit Approach
		<ul style="list-style-type: none"> <li>Assess and perform tests to determine whether carrying amounts approximate fair value.</li> <li>Where relevant, confirm balances to independent valuation reports and test key assumptions in determining fair value.</li> <li>Ensure revaluation increments / decrements are correctly applied.</li> <li>Ensure vested land and restricted use assets recorded in accordance with AASB13 take into account externally imposed restrictions.</li> <li>Review developer contributions to ensure correctly recorded and disclosed.</li> </ul>
Payables	96	<ul style="list-style-type: none"> <li>Review and assess effectiveness of internal controls.</li> <li>Perform walkthroughs of the purchasing and payables cycle.</li> <li>Test for unrecorded liabilities and review subsequent payments post year end.</li> <li>Test and review material accrual balances.</li> <li>Verification of accrued expenses.</li> <li>Perform cut-off testing.</li> <li>Ensure prepaid rates are correctly classified as a liability in accordance with AASB1058.</li> <li>Analytical review.</li> </ul>
Provisions	320	<ul style="list-style-type: none"> <li>Review internal controls and employee provision reconciliations.</li> <li>Review the reasonableness of assumptions and calculations. Ensure calculations in accordance with AASB119.</li> <li>Test a sample of leave balances to ensure correct.</li> <li>Analytical review.</li> </ul>
Equity (Total)	9,135	<ul style="list-style-type: none"> <li>Review internal controls.</li> <li>Sample test reserve movements to supporting documentation including cash reserves and asset revaluation reserves.</li> <li>Analytical review.</li> </ul>
<b>Statement of Comprehensive Income</b>		
Operating and non-operating grants, subsidies and contributions	120	<ul style="list-style-type: none"> <li>Review of key processes and controls.</li> <li>Perform walkthroughs of the revenue cycle relating to grants, subsidies and contributions.</li> <li>Sample testing of transactions, including applicable agreements.</li> <li>Perform cut-off testing.</li> <li>Review and test disclosures in respect to unspent grants at year end.</li> <li>Sample testing of non-cash contributions.</li> <li>Analytical review.</li> </ul>
Fees and charges	3,331	<ul style="list-style-type: none"> <li>Review of key processes and controls.</li> </ul>

Significant Account	2019 Audited Balance \$'000	Audit Approach
		<ul style="list-style-type: none"> <li>• Perform walkthroughs of the revenue cycle relating to fees and charges.</li> <li>• Sample testing of transactions.</li> <li>• Perform cut-off testing and review credit notes.</li> <li>• Analytical review.</li> </ul>
Other revenue, including interest earnings	415	<ul style="list-style-type: none"> <li>• Review of key processes/controls.</li> <li>• Perform walkthroughs of the revenue cycle relating to other revenue.</li> <li>• Sample testing of transactions.</li> <li>• Perform cut-off testing.</li> <li>• Review credit notes.</li> <li>• Analytical review.</li> </ul>
Employee related expenses	1,716	<ul style="list-style-type: none"> <li>• Review of key processes and controls.</li> <li>• Perform walkthroughs of the payroll cycle.</li> <li>• Sample testing of transactions.</li> <li>• Verify wages reconciliation.</li> <li>• Analytical review.</li> </ul>
Materials and contracts Utilities Insurance	1,843	<ul style="list-style-type: none"> <li>• Review of key processes and controls.</li> <li>• Perform walkthroughs of the purchasing and payments cycle.</li> <li>• Sample resting of transactions.</li> <li>• Analytical review.</li> </ul>
Depreciation and amortisation	548	<ul style="list-style-type: none"> <li>• Review of management’s assessment of the useful lives of assets and assess reasonableness.</li> <li>• Verify depreciation expenses to valuation reports (where applicable).</li> <li>• Perform re-calculation tests.</li> <li>• Analytical review.</li> </ul>
Other expenses, including interest expense	314	<ul style="list-style-type: none"> <li>• Review of key processes/controls</li> <li>• Perform walkthroughs of the purchasing and payments cycle.</li> <li>• Sample testing of transactions.</li> <li>• Review listing of other expenses to identify large or unusual accounts and test accordingly.</li> <li>• Analytical review.</li> </ul>

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"> <li>Review and assess effectiveness of internal controls.</li> <li>Review Statement of Cash Flows and reconciliation note calculations.</li> <li>Ensure disclosures comply with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.</li> </ul>
Legislative Compliance	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>Review draft annual financial statements to ensure compliance with Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and Australian Accounting Standards.</li> </ul>
Contingent Liabilities	<ul style="list-style-type: none"> <li>Review of internal controls.</li> <li>Enquiries of management.</li> <li>Assess Council's disclosures of obligations under the Contaminated Sites Act 2003.</li> <li>Ensure disclosures comply with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.</li> <li>Determine if any contingent liabilities relating to waste facilities, contaminated sites or aluminium composite panelling.</li> </ul>
Capital and Leasing Commitments	<ul style="list-style-type: none"> <li>Review and assess effectiveness of internal controls.</li> <li>Enquiries of management.</li> <li>Verify disclosures to supporting calculations and documentation.</li> <li>Ensure disclosures comply with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.</li> </ul>
Related Party Transactions, including elected member remuneration, key management personnel compensation and transactions with related parties	<ul style="list-style-type: none"> <li>Review and assess effectiveness of internal controls.</li> <li>Enquiries of management.</li> <li>Obtain an understanding of the means utilised to identify related parties and record related party transactions.</li> <li>Verify elected members remuneration calculations and test on a sample basis. Analytical review.</li> <li>Verify key management personnel compensation calculations and test on a sample basis. Ensure KMP classifications correct.</li> <li>Assess related party transactions terms and associated fraud risks.</li> <li>Ensure completeness of disclosures.</li> <li>Identify any related parties with dominant influence.</li> <li>Ensure related party disclosures comply with AASB124.</li> </ul>
Financial Risk Management	<ul style="list-style-type: none"> <li>Review and assess effectiveness of internal controls.</li> <li>Review financial risk management note and reconciliation calculations.</li> </ul>

Statement, Auditable Area and / or Disclosures	Audit Approach
	<ul style="list-style-type: none"> <li>• Ensure disclosures comply with the Local Government Act 1995 and Local Government (Financial Management) Regulations 1996.</li> </ul>
Internal Control and Risk Management	<ul style="list-style-type: none"> <li>• Assess control environment including segregation of duties and level of independent review / checks in place.</li> <li>• Ensure Council have established and maintained a risk management framework that is appropriate.</li> <li>• Assess how management place a strong emphasis on the design, implementation and maintenance of internal control to prevent and detect fraud.</li> <li>• Assess classes of transactions and account balances which are more susceptible to fraud and test accordingly.</li> </ul>
Fraud	<ul style="list-style-type: none"> <li>• Assess control environment including segregation of duties and level of independent review / checks in place.</li> <li>• Assess how management place a strong emphasis on fraud prevention and deterrence. Review reporting mechanisms to those charged with governance.</li> <li>• Assess classes of transactions and account balances which are more susceptible to fraud and test accordingly.</li> <li>• Review of unusual transactions, in particular near balance date which may have a significant effect on the result.</li> </ul>
IT	<ul style="list-style-type: none"> <li>• Obtain an understanding of the IT general control environment.</li> <li>• Perform tests to assess the effectiveness of IT general controls over the IT system, including both physical and logical access of the users, change management process and audit trail / transaction log.</li> </ul>
Accounting General Journals	<ul style="list-style-type: none"> <li>• Assess control environment in respect to accounting general journal entry and level of independent review / checks in place.</li> <li>• Sample testing of accounting general journals.</li> <li>• Assess classes of transactions and account balances which are more susceptible to fraud and test any large or unusual accounting general journals accordingly.</li> <li>• Review of unusual accounting general journals, in particular near balance date which may manipulate the result.</li> </ul>
Accounting Estimates	<ul style="list-style-type: none"> <li>• Assess control environment in respect to accounting estimates and level of consultation / independent review / checks in place.</li> <li>• Sample testing of application accounting estimates, ensuring significant assumptions used in making accounting estimates are reasonable.</li> <li>• Assess classes of transactions and account balances which are more susceptible to fraud and test any large or unusual accounting estimates accordingly.</li> </ul>

Statement, Auditable Area and / or Disclosures	Audit Approach
	<ul style="list-style-type: none"> <li>• Review of unusual accounting estimates, in particular those recorded or changed near balance date which may manipulate the result.</li> <li>• Ensure accounting estimates disclosures comply with the Local Government Act 1995, Local Government (Financial Management) Regulations 1996 and Australian Accounting Standards.</li> </ul>
Financial Ratios	<ul style="list-style-type: none"> <li>• Determine basis of calculating individual financial ratios and annual reporting requirements.</li> <li>• Establish Local Government’s internal controls to capture financial ratio source data, including Long Term Financial Plan, Asset Management Plan, valuation reports etc.</li> <li>• Ensure Long Term Financial Plan and Asset Management Plan(s) are current, approved by Council and include ten years of data.</li> <li>• Determine ratio’s which do not meet OAG guidelines and require adverse trend reporting accordingly.</li> <li>• Ensure financial ratio calculations and disclosures comply with the Local Government Act 1995 and section 50 of the Local Government (Financial Management) Regulations 1996.</li> </ul>
New Accounting Standards application	<ul style="list-style-type: none"> <li>• Ensure Council’s accounting policies and procedures are consistent with the requirements of AASB15, AASB1058 and AASB16.</li> <li>• Test balances recorded in related note disclosures in respect of revenue recognition, right to use assets and respective short term / long term lease liabilities.</li> </ul>

## 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 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 Chairperson, 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 Chairperson. 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 by AMD	11 March 2020
Entrance Meeting (City, OAG & AMD)	Elected not to hold
Interim Audit by AMD	21 May 2020
AMD provide OAG clearance for Interim Audit Review including draft Interim Management Letter (week ending)	5 June 2020
OAG complete Interim Audit Review	19 June 2020
Interim Management Letter to be issued by OAG (if required)	26 June 2020
Issue of Year End Audit Checklist by AMD (week ending)	5 June 2020
Final Trial Balance to be provided to AMD by the City	18 September 2020
Draft Annual Financial Report to be provided to AMD by the City	18 September 2020
Onsite Final Audit by AMD	24 - 25 September 2020
AMD provide OAG clearance for Audit File Review including all applicable Contractor deliverables / reports (week ending)	16 October 2020
OAG complete Final Audit Review	30 October 2020
AMD issue exit meeting agenda and associated reports (Management Representation Letter, draft Management Letter and draft Audit Report)	6 November 2020
Exit Meeting (week ending)	To be scheduled dependent on above
AMD to provide the signed AMD Audit Report, stamped FS, signed SRM, final Management Letter and signed Representation Letter to OAG	Within 1 day of Exit Meeting
OAG to issue signed audit report and Management Letter to the City.	Within 5 days of Exit Meeting

The above proposed audit schedule is subject to change depending on individual circumstances.

## 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 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 Council staff.

## 12. Your Audit Team

	Name	Contact
<b>Contractor – AMD Chartered Accountants</b>		
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
Audit Senior	Rebecca Broad	(08) 9780 7555 rebecca.broad@amdonline.com.au
Auditor	Isidore Sy	(08) 9780 7555 Isidore.sy@amdonline.com.au
<b>Office of the Auditor General</b>		
Auditor General	Caroline Spencer	(08) 6557 7500
Assistant Auditor General	Don Cunninghame	don.cunninghame@audit.wa.gov.au (08) 6557 7526
OAG Representative Director	Carly Meagher	carly.meagher@audit.wa.gov.au (08) 6557 7640