



**SHIRE OF CRANBROOK**

**AUDIT PLAN**

**YEAR ENDING 30 JUNE 2023**

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## Introduction

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This document sets out our Audit Plan for the year ending 30 June 2023, and summarises our audit approach, highlights key areas of audit risk and focus, provides details of the engagement team and other required communications.

### **Recent Industry and Economic Trends**

The Local Government sector in Western Australia operates in a relatively stable economic environment. Entities rely on funding from State and Federal Government to supplement own source revenue. Funding is both for operations and capital works projects. Additional capital funding is opportunistic and reliant on whole of Government initiatives. Local Governments budget for additional capital funding only when the project and funding source is probable.

There is a long history of recurring grant funding and whilst there is ever increasing requirements to fund target service delivery and capital needs, in general, recurring funding is known and is expected to continue.

Operational costs are generally predictable and can be controlled. Additionally, and to a larger extent by deferral of capital acquisition and infrastructure construction projects. Long term asset management plans and financial plans exist to control risk of a deteriorating asset base and loss of service potential.

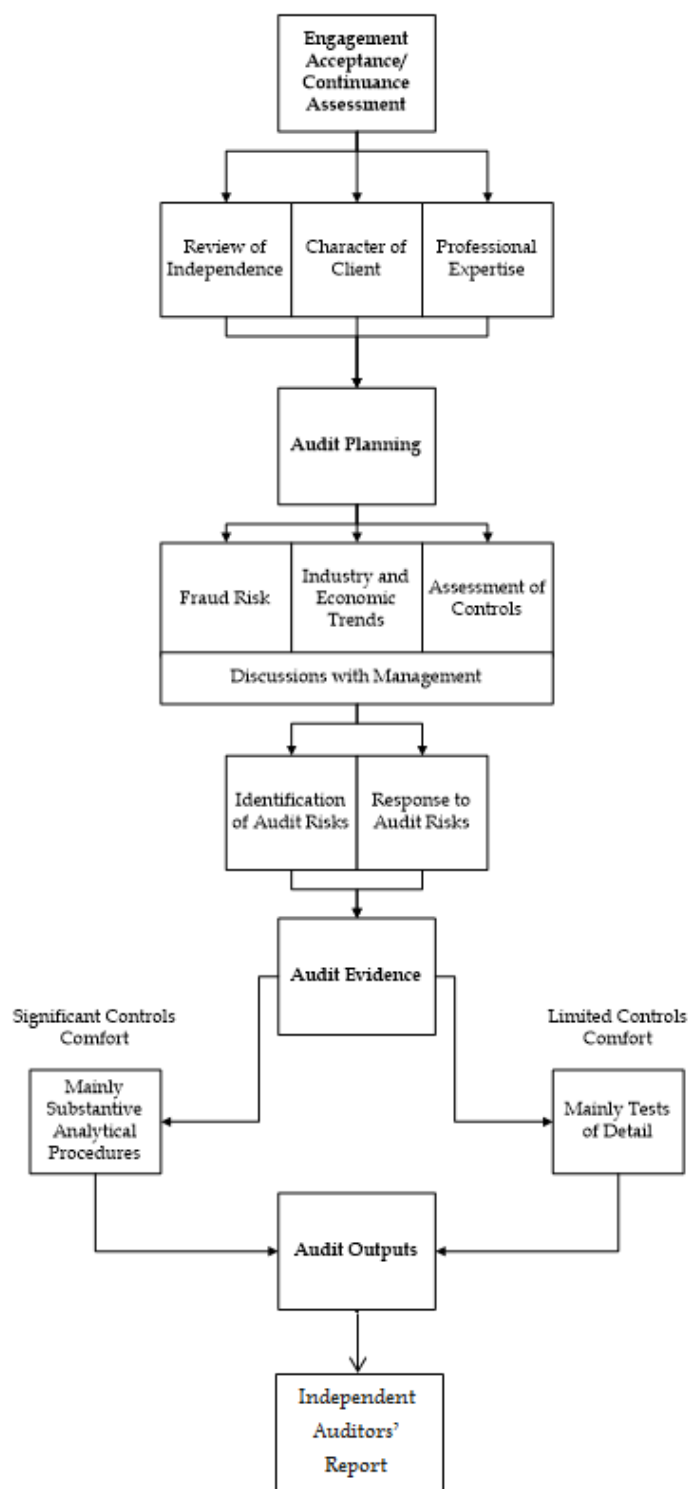
In the past, Council has shown rapid and measured response to the management of the financial impacts of natural disasters.

## Audit Approach Overview

Our methodology involves the development of a risk matrix to determine the overall audit risk as a result of the interaction between control risk and inherent risk.

The risk matrix will be used to determine assurance levels and sample sizes for statistical sampling.

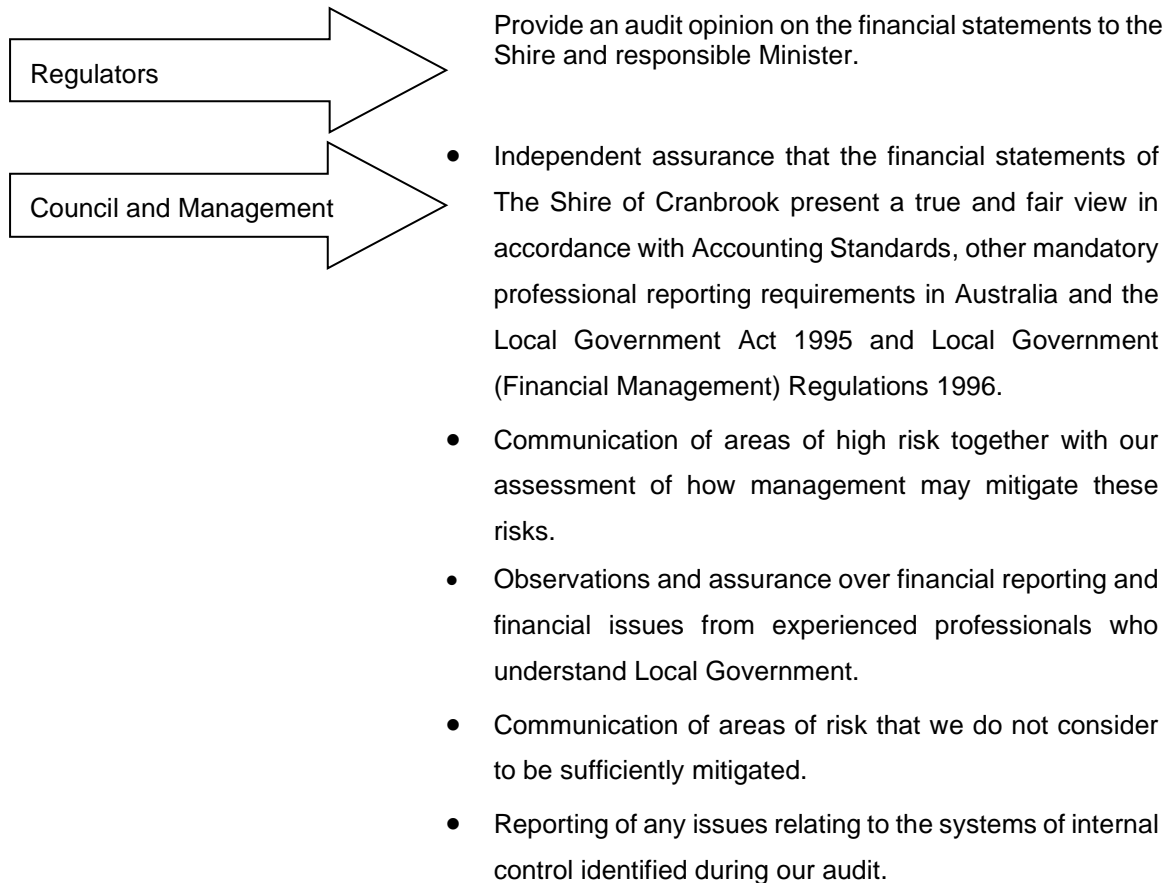
Our risk-based audit approach ensures that our audit procedures are targeted towards the significant risk areas of the entity allowing for an efficient allocation of our resources. Additionally, this methodology is based on us developing a detailed understanding of the transactional processes inherent in your organisation, which ensures that our audit testing will provide an independent review of your systems of internal control where recommendations for improvements will be communicated through the annual management letter.



## Audit Objectives

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The audit will be primarily directed towards assurance at two levels:



## Scope of the Audit and Communication

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As a Contract Auditor to the OAG, we are responsible for undertaking the audit work on behalf of the OAG. The Auditor General retains responsibility for the audit opinion of the Shire of Cranbrook's financial statements. The audit will be conducted in accordance with the Australian Auditing Standards.

### **Scope of Work**

- Audit of the general-purpose financial statements of the Shire of Cranbrook.
- Audit of compliance with specified provisions of the Local Government Act 1995
- Audit of compliance with the Local Government (Financial Management) Regulations 1996

Australian Auditing Standard ASA 260: Communication of Audit Matters with those charged with Governance requires that we communicate with "those charged with governance" of the Shire of Cranbrook in relation to some aspects of our audit.

ASA 260 defines "Those charged with governance" to include "those persons accountable for ensuring that the entity achieves its objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties. Those charged with governance include management only when it performs such functions."

We advise that we will communicate matters of governance interest arising from our audit with

- (i) the Council, and/or
- (ii) management

as we consider appropriate in relation to each matter to be communicated.

Ordinarily, we will initially discuss audit matters of governance interest with management. Draft management letters will be provided to you for comments from appropriate members of your management. We request these be returned to us within 14 days.

The final management letter will be issued and will be addressed to the President and CEO after it has been discussed with management and comments received. All matters will be communicated on a timely basis.

## Communication

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### **Materiality**

The scope of our audit is influenced by the application of materiality. During the audit we may identify amounts that we believe should be recorded differently in the financial statements. In accordance with ASA 320 – Materiality in Planning and Performing an Audit, where these are material in amount or by nature, we will request management to adjust the financial statements. In addition, we will provide management with a summary of all audit identified adjusted and unadjusted differences in the management representation letter. In line with the OAG's policy, we have not disclosed our materiality amount

Prior to the conclusion of our audit, we will advise you of:

- All adjustments to the financial statements made as a result of our audit.
- Uncorrected misstatements identified during the audit which management determined were not material. An audit of a financial report is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, our audit does not ordinarily identify all such matters.

Our communications of matters of governance interest includes only those audit matters of governance interest that have come to our attention as a result of the performance of our audit.

### **Management Representation Letter**

The audit plan assumes that management will be in a position to sign a management representation letter. A draft management representation letter will be provided to you for consideration and review and should be signed and dated at the same time as the financial report and as close as practicable to the date of the audit opinion. Ordinarily, this would be no more than five working days prior to the issue of the opinion.

We will rely on the Chief Executive Officer and the Director of Corporate Services (or equivalent) signing the financial statements as evidence that they confirm:

- They have fulfilled their responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation;
- They have provided us with access to all relevant information necessary or requested for the purpose of the audit; and
- All transactions have been recorded and are reflected in the financial report.

## Components of and Response to Audit Risk

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### **Fraud Risk**

The primary responsibility for the prevention and detection of fraud and error rests with the Council and the management of The Shire of Cranbrook. Management 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.

Under Australian Auditing Standard ASA 240 *The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report*, when planning and performing audit procedures and evaluating the results, the auditor must consider the risk of material misstatement in the financial report as a result of fraud and error.

Our audit scope covers areas within the entity where material misstatements resulting from fraud or error (intentional or unintentional) would be most likely to occur, due to either control weaknesses or inherent susceptibilities.

All entities are susceptible to financial reporting fraud where transactions fall outside the embedded systems and controls, for example year end journals posted by management.

Our perspective on fraud risk is that controls are in place to identify fraud and reduce the residual risk to low.

### **Industry Level Risk**

Planning has identified no significant industry risk.

### **Inherent Risk**

Following our preliminary enquiries and analysis we have identified some specific audit risks that impact on our audit of Shire of Cranbrook.



Details of Risk / Issue	Lincolns Audit Approach
Grant Funding and Other Revenue	<ul style="list-style-type: none"> <li>• Agree revenue by direct confirmation to funding agreements and bank statements.</li> <li>• Consider and respond to risk of fraud in the revenue cycle including testing related party transactions</li> <li>• We will review the Shire's assessment of revenue recognition with respect to the recognition requirements of AASB 15 and AASB 1058.</li> <li>• Given the nature of local government grants, we will substantively test this revenue to third party documentation such as funding agreements &amp; invoices and vouch receipt of funds in accordance with our established sampling methodology.</li> <li>• We will also test the recognition of contract liabilities to ensure proper accounting with AASB 15 and AASB 1058.</li> </ul>
Rates Revenue	<ul style="list-style-type: none"> <li>• Review and testing of procedures and key controls in the rating system.</li> <li>• Agree rates to the following: <ul style="list-style-type: none"> <li>• Property valuations rolls</li> <li>• Check control procedures in place for transfer of rates from Valuer General to Internal Software system</li> <li>• Check rate notice calculation and disclosures in the financial statements.</li> </ul> </li> </ul>
Expenses and other material balances	<ul style="list-style-type: none"> <li>• The design and implementation of controls will be assessed as the basis for designing audit procedures that are considered appropriate in the circumstances</li> <li>• Agree a sample of expenses to procurement policy and source evidence, including review of the approval process.</li> </ul>
Payroll/Provisions	<ul style="list-style-type: none"> <li>• Review and testing of payroll system procedures and key controls.</li> <li>• Agree pay-run to the following: <ul style="list-style-type: none"> <li>• Employee awards</li> <li>• Employee contracts</li> <li>• Check calculation of super and tax,</li> <li>• Check authority to deduct salary sacrifice</li> <li>• Check the control procedures in payroll department in line with internal policies.</li> </ul> </li> <li>• Check provisions</li> <li>• Analytical review</li> </ul>
Management's monitoring of the control environment	<ul style="list-style-type: none"> <li>• Review minutes of Council meetings for the following: <ul style="list-style-type: none"> <li>• Management process for reviewing internal control procedures including evidence of periodic review of policy manual.</li> </ul> </li> </ul>

Details of Risk / Issue	Lincolns Audit Approach
	<ul style="list-style-type: none"> <li>• Management's implementation and monitoring of new control procedures.</li> <li>• Management's implementation and monitoring for amending current control procedures.</li> </ul>
Management Override of Controls	<ul style="list-style-type: none"> <li>• We will review and test a sample of general journals entries</li> <li>• Understand and test the adequacy and effectiveness of segregation of duties</li> <li>• Controls testing</li> <li>• Substantive procedures</li> </ul>
Property, Plant and Equipment & Infrastructure	<ul style="list-style-type: none"> <li>• Review asset register and agree to general ledger</li> <li>• Check additions to supporting documentation and ensure compliance with procurement procedures</li> <li>• Check disposals of assets to supporting documentation and ensure calculation of profit/loss on disposals of assets performed correctly</li> <li>• Review Council minutes to ensure that all asset purchases and disposals approved by Council during the year have been accurately reflected in the financial statements</li> <li>• Review management's impairment assessment in respect of Property, Plant and Equipment and Infrastructure against the Shire's circumstances to ensure that the carrying amounts are fairly stated.</li> <li>• Review fair value disclosures to ensure that they are in accordance with AASB 13 <i>Fair Value Measurements</i> requirements.</li> </ul>
Revaluation of assets per AASB 116 - Infrastructure revaluation 2022/23	<ul style="list-style-type: none"> <li>• Review the Shire's annual fair value assessment of land and buildings to assess whether the carrying value of the assets approximates their fair value.</li> <li>• Review valuation of infrastructure assets, with particular focus on whether the valuation methodology is in accordance with relevant accounting standards and that the assumptions and inputs used are reasonable.</li> <li>• Evaluate skills, qualifications and expertise of the independent valuer or management, as applicable</li> <li>• Ensure completeness and accuracy of valuation uptake in the asset register, by agreeing to the valuation report</li> <li>• Ensure that the depreciation rates correctly reflect the useful lives of the assets, by agreeing the asset register to the valuation report</li> </ul>

Details of Risk / Issue	Lincolns Audit Approach
Restricted Reserve Accounts	<ul style="list-style-type: none"> <li>Review movements within the restricted reserve accounts to ensure they are approved by Council and that transfers out are used in accordance with the intended purpose of the respective reserve.</li> </ul>
<p>The following financial statement items are derived from accounting estimates and hence will receive specific audit attention:</p> <ul style="list-style-type: none"> <li>Provision for long service leave</li> <li>Property, plant and equipment</li> <li>Depreciation</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>For infrastructure, property, plant and equipment we will review management's assessment of the useful lives and existence of assets. Where impairment indicators of assets have been identified we will ensure the Shire has accurately accounted for the impairment losses.</li> </ul>
Related Party Disclosure	Review the process undertaken by the Shire and the records or declarations collected to ensure related party transactions are adequately disclosed.
Local Government Reform changes that may impact for the first time this year	A second tranche of regulatory amendments to underpin the Model Financial Statements is underway which is expected to be introduced to the local government sector and available for use for FY2023. The template for smaller (band 3 and 4) local governments is expected to have more streamlined standard financial statements, reflecting the generally less-complex operations of smaller local governments.

## Engagement Team

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We confirm our continued commitment to provide the highest level of service possible by using our most experienced staff and where possible, providing ongoing continuity of engagement team members.

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The engagement principal is responsible for assuring the overall quality, value and timeliness of our services to you.

Please feel free to contact any member of the engagement team as your needs arise.

## Timetable

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Key dates for the engagement are detailed as follows:

Engagement Timetable	Key Dates
Interim audit procedures	16-18 May 2023
Interim Management Letter	16 June 2023
Receipt of draft financial statements for meeting legislative requirements	30 September 2023
Receipt of complete set of <b>signed</b> draft financial statements in accordance with new OAG requirement	On commencement of year end audit
Receipt of Road to Recovery (RTR) and Local Roads and Community Infrastructure (LRCI) certification documents	30 September 2023
RTR and LRCI documents to OAG	19 October 2023
RTR and LRCI OAG completion and issue of opinion	31 October 2023
Completion of Audit Documentation – Lincolns OneDrive	31 October 2023
Year end audit	October/November 2023
Audit files to OAG	November 2023
OAG File Review Complete	November 2023
Formal Exit Meeting	November 2023
CEO to sign off financial statements and management representation letter	November 2023
Issue of audit opinion	November 2023

Achieving this sign-off date is dependent on our receiving all required information requested in our year end folder to be delivered to you following completion of the interim audit. If the information and documents detailed in the year end folder cannot be provided in a timely manner, please contact the engagement partner as soon as possible.

## Confidentiality and Independence

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Confidentiality and independence are fundamental to our work as auditors and we take these issues very seriously.

We will only discuss Shire of Cranbrook affairs with those partners, staff, OAG representatives or client personnel who have a need to know.

We have security procedures over our working papers, both electronic and hard copy.

We require all our professional staff to comply with our independence requirements and our Firm Policies, which governs individual behaviour.

Every partner and every staff member at Lincolns takes personal responsibility for compliance with independence requirements.

The audit engagement partner monitors independence in relation to all clients on a regular basis. This process is supported by:

- accessible independence policies and procedures on our office intranet;
- annual independence declarations by all staff employed by Lincolns;
- our annual independence statement that forms part of the financial statements.

# New Accounting Standards, Policy Changes and Disclosures

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## **1. AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current.**

This standard will apply to local government entities for the 2023/24 reporting year.

This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. For example, the amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.

## **2. AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018 – 2020 and Other Amendments**

This standard will apply to local government entities for the 2022/23 reporting year. This Standard amends a number of existing Standards including, among others:

- AASB 116 Property, Plant and Equipment, to require an entity to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related cost in profit or loss, instead of deducting the amounts received from the cost of the asset.
- AASB 137 Provisions, Contingent Liabilities and Contingent Assets, to specify the costs that an entity includes when assessing whether an onerous contract exists.

## **3. AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates.**

This standard will apply to local government entities for the 2023/24 reporting year.

This Standard amends:

- AASB 7 *Financial Instruments: Disclosures*, to clarify that information about measurement bases for financial instruments is expected to be material to an entity's financial statements;
- AASB 101 *Presentation of Financial Statements*, to require entities to disclose their material accounting policy information rather than their significant accounting policies;
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, to clarify how entities should distinguish changes in accounting policies and changes in accounting estimates; and
- AASB Practice Statement 2 *Making Materiality Judgements*, to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

#### **4. AASB 2022-10 Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities**

This standard will apply to local government entities for the 2024/25 reporting year. This Standard amends AASB 13 *Fair Value Measurement*, for fair value measurements of non-financial assets of not-for-profit public sector entities not held primarily for their ability to generate net cash inflows.