

Shire of Cranbrook

Report to the Audit
Committee for the Year
Ended 30 June 2025



Lincolns

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Executive Summary

Purpose

This report summarises significant audit findings and matters which have come to our attention during our audit of the financial statements of the Shire of Cranbrook for the financial year ended 30 June 2025.

This report is provided to enable the Audit Committee to clarify outstanding issues with us and discuss key audit findings. It includes only those audit matters of governance interest that have come to our attention as a result of the performance of our audit. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not usually identify all such matters.

Audit Status

We have completed our audit for the year ended 30 June 2025 except for:

- Receipt of signed Management Representation Letter to Lincolns and to Office of Auditor General

We expect to recommend to the Office of the Auditor General an unmodified audit report after these matters are completed.

Audit Misstatements

A list of corrected and uncorrected misstatements is included in this report. Additionally, corrected and uncorrected misstatements in presentations and disclosures are discussed in this section.

Disclaimer

This report is provided solely for the benefit of the Shire of Cranbrook and is not to be copied, quoted or referred to without prior written consent. The Auditor General and Lincolns accepts no responsibility to anyone other than the parties identified in the Local Government Act for the information contained in this report.

Audit Scope

Lincolns conducted an independent audit on behalf of the Office of the Auditor General (OAG) in order to enable the Auditor General to express an opinion to the Council on the financial report of Shire of Cranbrook for the year ended 30 June 2025. Our audit was conducted in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We perform procedures to assess whether in all material respects the financial report presents fairly, in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) to the extent that they are not inconsistent with the Act, the Local Government Act 1995 and the Local Government (Financial Management) Regulations 1996, a view which is consistent with our understanding of the Shire of Cranbrook's financial position and of its performance as represented by the results of its operations, changes in equity and cash flows.

Our audit procedures included:

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

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

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

Audit Focus

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

The following presents our audit findings in these areas.

Area of Risk	Audit Outcomes
Grant Funding and Other Revenue	<ul style="list-style-type: none"> ▪ Significant grant revenue was agreed to third party documentation. ▪ Audit included additional analysis of revenue allocation in accordance with AASB 15 Revenue from Contracts with Customers and AASB 1058 Income for Not For Profit Entities. ▪ Risk of fraud in the revenue cycle was also considered including testing of key controls and analytical review audit procedures undertaken rebutted the risk of fraud to an acceptable level. ▪ We also reviewed related party transactions. The financial statements adequately disclose related party transactions for Councillors and Key Management Personnel. <p>Grant Funding and Other Revenue as disclosed in the financial statements is materially correct.</p>
Rates	<p>Audit work included the following:</p> <ul style="list-style-type: none"> ▪ Rateable values agreed to the Valuer General rates. ▪ We checked control procedures for the transfer of rates from Valuer General to Internal Software system. ▪ Testing of rates notices was undertaken both on a sample basis and analytically. <p>Results supported the rate revenue and financial statement disclosures.</p>
Expenses	<p>Our audit of expenses included testing of key financial controls over the recognition of expenses, vouching significant expenses and analytical reviews.</p> <p>Expenditure as disclosed in the financial statements is materially correct.</p>

Area of Risk	Audit Outcomes
Payroll/Provisions	<p>Audit sampling tested payroll records to the following:</p> <ul style="list-style-type: none"> ▪ Employee awards ▪ Employee contracts ▪ Check calculation of superannuation and tax ▪ Check authority to deduct salary sacrifice ▪ Check the control procedures in payroll department in line with internal policies ▪ Our audit of provisions included reviewing the reasonableness of assumptions used to calculate annual leave and long service leave ▪ Analytical review <p>Results of audit procedures indicate employee costs are materially correct and disclosed correctly in the financial statements.</p>
Management's monitoring of the control environment	<p>We reviewed council minutes for the following:</p> <ul style="list-style-type: none"> ▪ Process for reviewing internal control procedures including evidence of periodic review of policy manual. ▪ Management's implementation and monitoring of new control procedures. ▪ Management's implementation and monitoring for amending current control procedures. <p>We are satisfied that management is applying effective controls and that Council are aware of the control environment.</p>
Management Override of Controls	<p>Audit processes were undertaken to:</p> <ul style="list-style-type: none"> ▪ Sample test and judgementally review general journals ▪ Understand and test the adequacy and effectiveness of division of duties ▪ Controls testing ▪ Substantive procedures <p>Sufficient audit evidence was obtained to support the view that controls are operating effectively.</p>

Area of Risk	Audit Outcomes
Property, Plant, Equipment & Infrastructure	<p>Audit Processes were undertaken to:</p> <ul style="list-style-type: none"> ▪ Sample test additions and disposals ▪ Check profit/loss on sale of assets ▪ Confirm ownership and existence of assets ▪ Recalculate Depreciation <p>We also reviewed your most recent valuation data to confirm that the valuer had considered the changes to AASB 116 in relation to restricted use assets and their current use is considered best use.</p> <p>Results of audit procedures indicate fixed assets are materially correct and disclosed correctly in the financial statements.</p>
Accounting Estimates - Depreciation & Useful Lives	<p>We reviewed the method and underlying data that management use when determining critical accounting estimates. This included considering the reasonableness of assumptions and corroborating representations.</p> <p>For infrastructure, property, plant and equipment we reviewed Management’s assessment of the useful lives and existence of assets. We reviewed managements monitoring of impairment and determined that adequate processes exist.</p> <p>Audit review determined that estimates are reasonable and supported by appropriate data.</p>
Restricted Reserve Account	<p>We reviewed movements within the restricted reserve accounts to ensure they are approved by council and that transfers out are in accordance with the intended purpose of the respective reserve.</p>
IT Control	<p>We reviewed general computer controls, processes and procedures. Provided you and reviewed responses for a cyber risk assessment questionnaire to assess the shires preparedness for cyber risks. Reviewed access controls and users to your computer systems and software to ensure access is limited to current staff and those with appropriate roles for the access provided.</p>

Area of Risk	Audit Outcomes
Waste Rehabilitation Provisions	<p>We reviewed the underlying assumptions and data supporting the provisions for waste rehabilitation sites for both the Cranbrook and Frankland waste sites. Reviewed CPI and discount rates applied, and any adjustments required to estimates.</p> <p>Audits review determined that provisions are reasonable and supported by appropriate data.</p>

Accounting & Auditing Issues

Receipt of Financial Statements

The date entities provided their annual financial report to the Office has been recorded for purposes of reporting to Parliament. The date recorded for the receipt of your financial statements was 17th September 2025. The financial statements received on this date were deemed to be audit ready.

Audit Report

The audit report will have an unqualified opinion.

Management Letter Findings

2025 Interim

- General Journals Review Process – Moderate, Resolved
- Superannuation Guarantee Calculation – Minor, Resolved

2025 Year End

- Review of Rates & Assumptions for Waste Rehabilitation Sites – Minor, Resolved

Accounting Misstatements

Uncorrected Audit Misstatements

	Financial Statements Accounts Impacted	Statement of Financial Position Adjustment	Effect on Operation Surplus	Effect on Other Comprehensive Income	Comment
1.	Infrastructure	\$10,225 DR			Error in CPI and discount rates applied for year to waste site provision. Post Adjustment below.
	Other Provisions	(\$10,225 CR)			

Corrected Audit Misstatements

	Financial Statements Accounts Impacted	Statement of Financial Position Adjustment	Effect on Operation Surplus	Effect on Other Comprehensive Income	Comment
1	Contract Assets	\$101,621 DR			Grant income for completed R2R projects.
	Capital Grants, Contributions & Subsidies		(\$101,621 CR)		
2	Accrued Income	\$3,012 DR			Year end accrual adjustments post financial statements prepared.
	Creditors	(\$10,815 CR)			
	Other Revenue		(\$3,012 CR)		
	Employee Costs		\$10,815 DR		
3	Infrastructure	(\$48,094 CR)			Error in CPI and discount rates applied for year to waste site provision.
	Other Provisions	\$60,239 DR			
	Finance Costs		(\$12,145 CR)		

Actions/Issues for Next Year's Audit

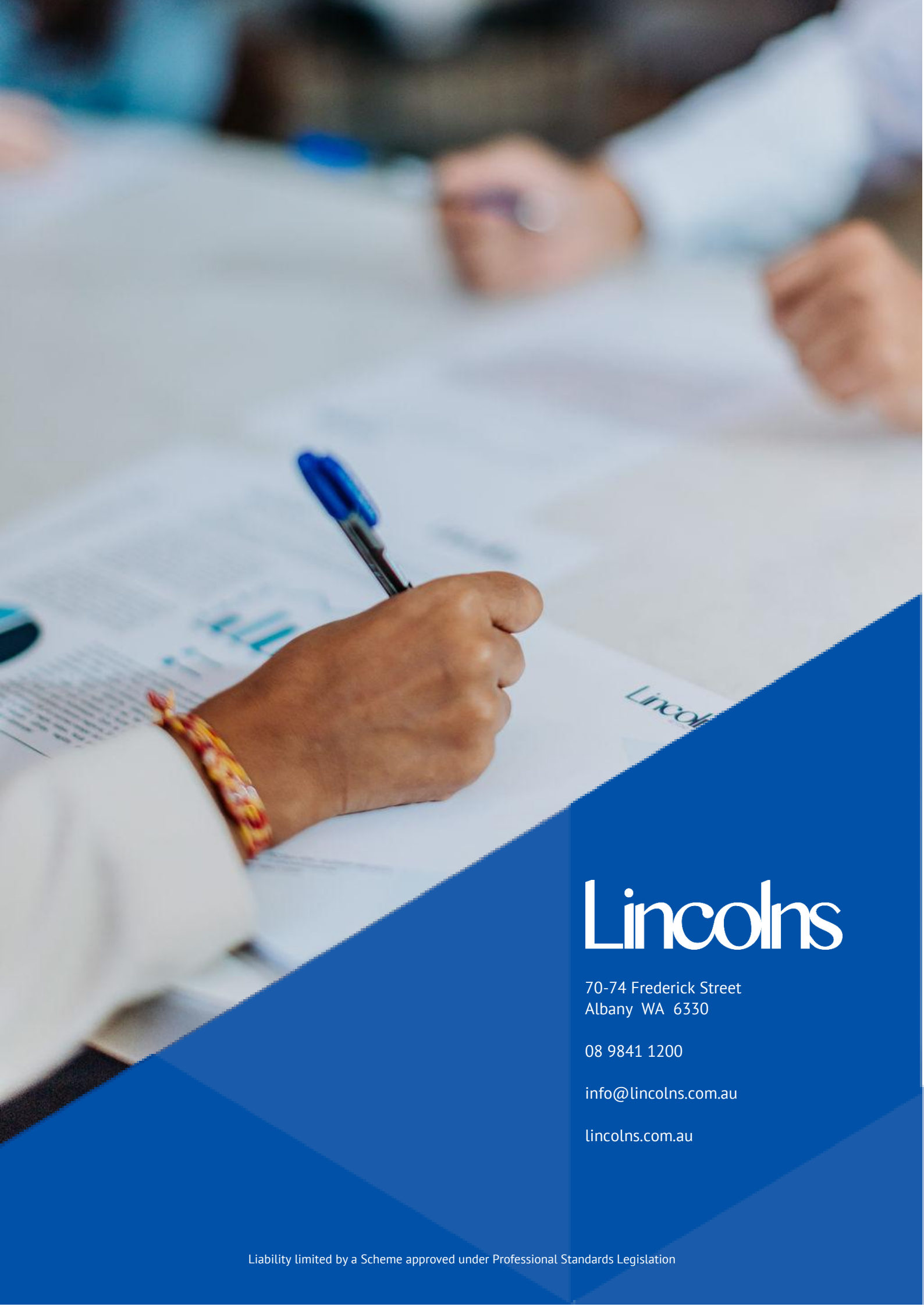
New Accounting Standards

Future Changes to Presentation Standards

The Australian Accounting Standards Board has issued AASB 18 *Presentation and Disclosure in Financial Statements*, which will replace AASB 101 for not-for-profit public-sector entities from reporting periods beginning on or after 1 January 2028. This new standard will significantly update presentation and disclosure requirements. The Shire should monitor guidance and model templates issued by the Department of Local Government, Sport and Cultural Industries (DLGSC) before adoption to ensure consistency across the sector. Implementation planning will commence once departmental advice and model financial statement formats become available.

Payday Superannuation

From 1 July 2026, employers will be required to pay employees' superannuation contributions at the same time as salary and wages are paid, rather than quarterly. This "payday super" reform is intended to improve employees' retirement outcomes and reduce compliance gaps. The Shire should monitor guidance from the Australian Taxation Office and WALGA on implementation requirements and system updates to ensure timely compliance ahead of the commencement date.



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