

TOWN OF BASSENDEAN

Audit Planning Memorandum – 30 June 2021





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1 PURPOSE OF THE AUDIT PLANNING MEMORANDUM

The primary purpose of this Audit Planning Memorandum (**APM**) is to brief the Town of Bassendean (**Town**) on the proposed approach by RSM Australia (**RSM**), on behalf of the Office of the Auditor General (**OAG**), to audit the financial report of the Town for the year ending 30 June 2021. The APM forms the basis for discussion at the audit entrance meeting scheduled for 14 April 2021 and is a key tool for discharging our responsibilities in relation to communicating with those charged with governance.

2 KEY ENGAGEMENT INFORMATION

2.1 Key Town stakeholders and personnel

Ratepayers	Town of Bassendean
Minister for Local Government	The Hon. David Templeman MLA
Mayor	Renée McLennan
Deputy Mayor	Kathryn Hamilton
Chief Executive Officer	Peta Mabbs
Director Corporate Services	Paul White

2.2 Key OAG personnel

Auditor General	Caroline Spencer
Director, Financial Audit ⁽¹⁾	Jay Teichert

2.3 Key RSM personnel

Audit Director ⁽¹⁾	Alasdair Whyte
Audit Manager	Krushna Hirani
National Technical Director	Ralph Martin

⁽¹⁾ Refer to Appendix B for contact details

3 BACKGROUND AND GENERAL INFORMATION

3.1 Background

The Town was established in 1829 and renamed in 1922. The Town is located approximately 10 kilometres north-east of Perth and 5 minutes from the Swan Valley vineyards and is home to approximately 16,000 people from diverse cultural backgrounds and covers 11 square kilometres.

The Town is represented by seven Councillors. The Town Mayor is elected from among the Councillors.

3.2 Executives

The Town's Executive team at the date of the APM are:

- Peta Mabbs, Chief Executive Officer
- Paul White, Director Corporate Services
- Luke Gibson, Director Community Planning
- Philip Adams, Executive Manager Infrastructure
- Jeremy Maher, Executive Manager Sustainability and Environment

3.3 Governance

The Town is governed by Council, which appoints the CEO to advise and provide information to Council in relation to the Town's functions and ensures the resources of the Town are effectively and efficiently managed.

3.4 Regulation

In terms of financial reporting, the Town is subject to the *Local Government Act 1995 (Act)* and the *Local Government (Financial Management) Regulations 1996 (Financial Management Regulations)*.

4 KEY DELIVERABLES

4.1 Financial report audit and opinions

The annual financial report will be general purpose financial statements for the financial year ended 30 June 2021. The Auditor General is required by the Act to provide an opinion on the financial report and other legal and regulatory requirements in accordance with the *Local Government (Audit) Regulations 1996 (Audit Regulations)*. The objective of the Auditor General's audit is to obtain reasonable assurance about whether the Town's financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report.

The Auditor General's report will be sent to Council, the CEO and the Minister for Local Government in accordance with the Act. The Town is required to publish the auditor's report with the annual financial report on its website. If the Auditor General has reported other significant matters, then the Town is required to report the action it has taken about the matters to the Minister.

The Auditor General will also communicate with Council and the CEO regarding, among other matters, any significant findings regarding deficiencies in internal control that may be identified during the audit.

4.2 Management letters

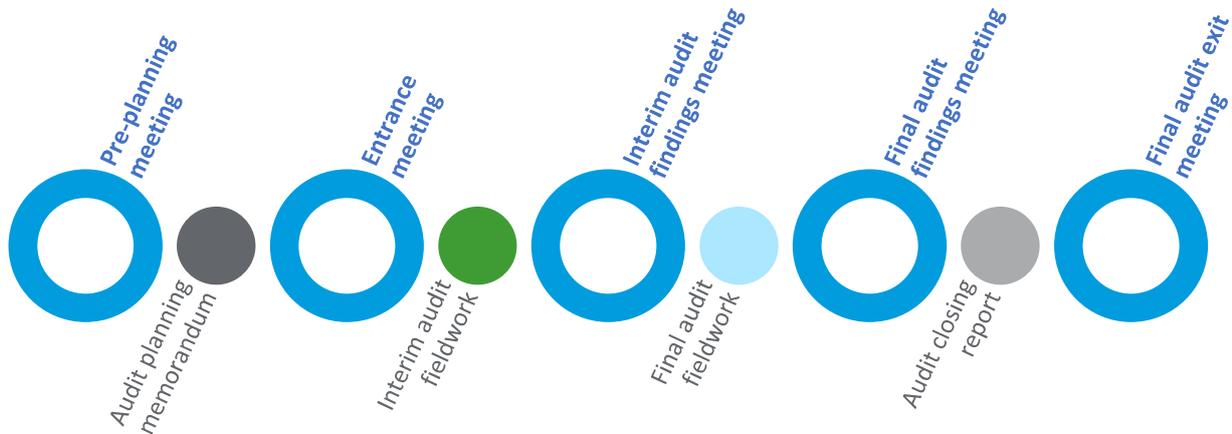
Significant findings, emerging issues and their recommended resolutions that arise during the audit will be progressively discussed and communicated by RSM firstly to the OAG, then Council and the CEO. Any weaknesses in controls, which may be identified during the current year audit, will be highlighted in the management letter to Council and the CEO following the conclusion of the interim and final audits. The draft management letters will be reviewed by the OAG before being provided to the Town for comment.

Prior year management letter points will be followed up as part of the current year audit procedures to determine if any control weaknesses highlighted during prior year audits have been properly resolved.

4.3 Matters of significance

In accordance with section 24(1) of the *Auditor General Act 2006*, the Auditor General is required to report on matters arising out of the performance of the Auditor General's functions that are, in the opinion of the Auditor General, of such significance as to require reporting.

5 MILESTONE MEETINGS



5.1 Pre-planning meeting

The pre-planning meeting was with the Town's management and RSM. The meeting discussed current developments at the Town and any changes in governance or systems. The meeting forms the basis for the preparation of the APM.

5.2 Entrance meeting

The entrance is held with CEO, Audit Committee, OAG and RSM. The meeting mainly covers the presentation and discussion of the APM.

5.3 Interim audit findings meeting

The interim audit findings meeting with the CEO, OAG and RSM will mainly cover the presentation and discussion of the significant control matters as reported in the interim audit management letter, if any.

5.4 Final audit findings meeting

Significant accounting issues and audit findings, if any, noted during the final audit will be discussed with the CEO, OAG and RSM. If there are significant, unresolved matters, then a meeting will also held with Council.

5.5 Final audit exit meeting

The final audit exit meeting with Audit Committee , OAG and RSM will mainly cover the presentation and discussion of the audit closing report, which will outline any significant audit related matters concerning the financial report, management letters and improvement suggestions for future audits.

5.6 Council and Audit Committee meetings

Attendance at Council and Audit Committee meetings is by invitation and provides insight into matters that may impact on our audit approach. Generally, the OAG and RSM will attend Council and Audit Committee meetings as required.

6 TERMS OF ENGAGEMENT

6.1 Arrangements

Audits are not an absolute guarantee of the accuracy or reliability of the Town's information and may not identify all matters of significance. This is because the work undertaken to form an opinion is permeated by judgement and most audit evidence is persuasive rather than conclusive. In addition, there are inherent limitations in any audit, including the use of testing, the effectiveness of internal control structures and the possibility of collusion.

Under the Act and associated regulations, 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 Act and associated regulations, and other legislative requirements.

Council and the 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.

Council and the CEO also have responsibility for the prevention and detection of fraud or error. Council and the OAG should be informed immediately 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, we will report them to you.

Under the *Auditor General Act 2006*, audit staff have unrestricted access to information held by the Town, irrespective of any restrictions on disclosures imposed, such as secrecy provisions.

Confidentiality of audit files and working papers is required under the *Auditor General Act 2006*. The OAG is an 'exempt agency' under the *Freedom of Information Act 1992*.

The signed contract between the Auditor General and RSM contains strict confidentiality clauses.

6.2 Management representation letter

The audit plan assumes that Council and the CEO will be able to sign a management representation letter. Refer to Appendix A for a draft Management Representation Letter. The letter would be signed at the same time as the annual financial report is signed.

RSM will rely on the CEO signing the management representation letter as evidence to confirm they have:

- Fulfilled their responsibilities for the preparation and fair presentation of the financial statements in accordance with the Act and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards;
- Established and maintained an adequate internal control structure and adequate financial records;
- Provided RSM with access to all information of which they are aware that is relevant to the preparation of the financial statements and the operation of controls, such as records, documentation and other matters;
- Recorded all transactions in the accounting and other records and are reflected in the financial statements;
- Advised RSM of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements; and
- Provided RSM with the results of their assessment of the risk of fraud, any instances of fraud (not just material fraud) and any known data and security breaches.

7 AUDITOR GENERAL

7.1 Audit of local government

The *Local Government Amendment (Auditing) Act 2017* provides for the auditing of local governments by the Auditor General. The Act allows the Auditor General to contract out some or all the financial audits, but all audits will be the responsibility of the Auditor General. It also allows for performance audits, which will examine the economy, efficiency and effectiveness of any aspect of local government operations. The Act also places an obligation on local governments to publish their annual report, including their annual financial report and auditor's report, on their website.

The Auditor General has been given the mandate to:

- Audit the annual financial report of WA local governments, related entities and subsidiaries;
- Conduct performance audits of local governments;
- Perform supplementary audits requested by the Minister; and
- Report to Parliament on the results of financial and performance audits.

Parliament has appointed the Auditor General as it expects this will raise the standards of accountability for local governments to a level more consistent with public sector entities. This follows recommendations by the Public Accounts Committee and the Corruption and Crime Commission that the Auditor General be appointed the auditor of all local governments.

This change brings Western Australia in line with most other Australian jurisdictions and New Zealand.

7.2 Auditor General audits and reports

The Auditor General has completed, is undertaking or planning the following audits that may be relevant to local government:

- Controls Over Purchasing Cards (report issued 27 March 2020). The Auditor General found that a general improvement in controls were in place to manage the use of purchasing cards, but also identified examples of poor practise and still require to improvements.
- Information System Audit Report 2020 (report issued 6 April 2020). The Auditor General found improvements in controls, they still need to focus on information security and business continuity controls.
- Control of Monies Held for Specific Purposes (report issued 30 April 2020). Auditor General found that local governments had adequate controls in place to support the control of monies held for specific purposes but identified some room for improvement.
- Local Government Contract Extensions and Variations, and Ministerial Notice Not Required (report issued 04 May 2020). The Auditor General found that improvements are needed to the policies with comprehensive guidance, contract registers lacked key information essential to effective monitor contractual obligations.
- Western Australian Public Sector Audit Committees – Better Practice Guide (report issued 25 June 2020) The Auditor General provided guideline on better practice principles and guidance to accountable authorities, audit committee members and senior managers with responsibility for audit committee activities.
- Information Systems Audit Report 2020 – Local Government Entities (report issued 25 June 2020) The Auditor General found significant weaknesses around information security practices and general computer controls.
- Waste Management – Service Delivery (report issued 20 August 2020) The report noted the waste planning by LG entities is inadequate and inconsistent, as most do not have their own up-to-date waste plans.

- Annual Report 2019-2020 (report issued 24 September 2020) The report noted the various challenges faced by both OAG and Local government financial audits due to COVID-19. OAG continue to encounter some difficulty accessing document subject to claims of public interest immunity, legal professional privilege or Cabinet confidentiality. The report also noted that that each local government audit takes more time than comparably sized State sector audits.
- Audit Results Report -Annual 2019-20 Financial Audits of State Government Entities (report issued 11 November 2020) The report noted the Auditor General's concerning that 430 (FY19:323) financial management and 423 information system control weaknesses were identified and reported. Reported 40 best practise entities for timeliness in their financial reporting, good financial controls, and reporting practices.
- Grant Administration (report issued 28 January 2021) The audit found that most entities need to improve their practices for grant administration practices.
- Application Controls Audits 2021 (report issued 9 March 2021) The audit found that all entities reviewed had control weakness, mostly related to poor information security and polices and procedures. A total of 75 findings were reported.

Further details of the current and forward audit program can be found on the OAG website:

<https://audit.wa.gov.au/>

Also, on the OAG website is a library of better practice guidance that the OAG has developed to help the Western Australian public sector perform efficiently and effectively.

8 STAKEHOLDER RELATIONSHIP

8.1 RSM's relationship with the Auditor General and the Town

RSM has been contracted by the Auditor General to perform the audit of the financial report of the Town and report on whether the annual financial report of the Town:

- Is based on proper accounts and records; and
- Fairly represents, in all material respects, the results of the operations of the Town for the financial year and its financial position at the end of that period in accordance with the Act and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

RSM is also required by the Auditor General to report:

- Any material matters indicating non-compliance with Part 6 of the Act, the Financial Management Regulations or applicable financial controls of any other written law;
- Any significant adverse trends in the financial position of the Town;
- Whether all required information and explanations were obtained;
- Whether all audit procedures were satisfactorily completed; and
- Whether the asset consumption ratio and asset renewal funding ratio included in the annual financial report are supported by verifiable information and reasonable assumptions.

RSM is also required to report any matter which may affect the Auditor General's responsibilities under sections 24 and 28 of the *Auditor General Act 2006*, section 7.12 AD of the Act and the Audit Regulations.

8.2 Term of the audit contract

RSM was appointed by the OAG commencing the financial year ending 30 June 2020. The initial term of the audit contract is 3 years commencing 30 June 2020. RSM's services will be conducted under the overall direction of the Auditor General, who will retain responsibility for forming an audit opinion and issuing an audit report to the Town. The contract requires RSM to use its audit approach and methodology.

8.3 Grant acquittals

Grants received by the Town may need to be acquitted in accordance with the terms and conditions of the relevant Funding Agreement. Acquitting a grant means accurately reporting on the funded activities and the expenditure of the funding. Grant acquittal reports, providing activity and financial information, are generally required at certain stages during the funded project and / or on completion of the funded project. If satisfactory grant acquittal reports are not provided at the times and in the manner detailed in the Funding Agreement, there is a risk that any further payments due to the Town will be withheld and the Town may be ineligible to apply for further grants.

In most circumstances the grant acquittal reports are required to be audited. Generally, the Funding Agreement will require the Town to engage an auditor to form an opinion that the receipts and payments are true and fair and that the Town has complied with the terms and conditions of the Funding Agreement.

If RSM is invited by the Town to complete the audit of grant acquittal reports, then RSM must first obtain approval from the OAG before the audit begins.

8.4 Independence

The Auditor General is an independent officer of the Western Australia Parliament, appointed under legislation to examine, on behalf of Parliament and Western Australia taxpayers, the management of resources within the public sector. The Auditor General is not subject to control or direction by either Parliament or the government. In conducting the audit, the Auditor General, staff and delegates will comply with all applicable independence requirements of the Australian accounting profession.

RSM International audit methodology requires that we conduct an annual re-evaluation of our independence prior to the commencement of each assignment. We have fully satisfied ourselves that we do not have any actual or perceived conflict of interest.

We are fully compliant with our Ethics and Independence Policies, which are verified and tested each year by our Partner Responsible for Ethics and Independence. Each year we are required to submit certain information to our Partner Responsible for Ethics and Independence, which is analysed and subjected to a series of stringent tests. This system has been extensively reviewed by the Australian Securities and Investments Commission and found to be in accordance with Australian Auditing Standards, the *Corporations Act 2001* and better practice.

9 CURRENT YEAR DEVELOPMENTS

We had discussions with the Town and reviewed the 30 June 2020 financial statements. As at the date of this audit plan, we identified the following major development:

9.1 Income recognition

Implementation of AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* are effective from prior year. The impact of AASB 15 & 1058 was correctly adopted by the Town during prior year. The Town will review all new grants and revenue stream in accordance with AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*.

RSM audit response:

RSM will obtain and review the Town's assessment of the impact of AASB 15 and AASB 1058 and ensure adequate disclosure in the notes to the financial statements.

10 AUDIT APPROACH TO THE KEY AUDIT AREAS

10.1 Risk assessment

Key audit areas are those areas that, in RSM's professional judgment, present the most significant risk in our audit of the financial report.

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 judgment, significant. A significant risk is an identified and assessed risk of material misstatement in the financial report that, in our judgment is a key audit area and requires special audit consideration.

Our assessment of key audit areas is based upon:

- Discussions with the Town and the OAG;
- The complexity of transactions within each area;
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of uncertainty;
- The degree of susceptibility to fraud risk; and
- Consideration of any relevant matters that may be discussed during the audit planning stage.



10.2 Materiality

The scope of our audit is influenced by the application of materiality. Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial report line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial report and on our opinion.

In assessing the risk profile of the Town, and in consideration of the users of the financial report, we have adopted materiality guidelines in accordance with Australian Auditing Standards.

For the purpose of determining materiality, assets and infrastructure are considered a key metric of interest to the users of the financial statements, therefore, they will be used as the main benchmark for the calculation of overall materiality.

However, expenses are an item of significant interest to users of local government financial statements, as they seek to ensure funds are being spent appropriately. Therefore, we will consider a specific lower materiality for those account balances where there are circumstances (including qualitative factors) for which misstatements of lesser amounts than overall materiality could reasonably be expected to influence the economic decisions of users of the financial statements. For example, specific lower materiality will be calculated using total expenses as the benchmark for items such as revenue, other income, expenses, payroll and liability balances.

For the purpose of this APM, we referred to the audited 30 June 2020 financial report of the Town and used our professional judgment to determine a planning materiality amount. In line with OAG policy, we have not disclosed the amount of planning materiality.

10.3 RSM approach to auditing significant risk

RSM's approach to auditing a class of transactions, account balance or disclosure is to initially assess whether there is a reasonable possibility that it could contain a material misstatement. Our risk assessment is based on both quantitative and qualitative criteria to determine whether they are significant.

Our audit strategy follows a hierarchy, which starts with testing of controls, then moves to substantive analytical review procedures and then finally testing of details. The following diagram shows an example where a high level of reliance on controls, along with a moderate level of reliance on substantive analytics is likely to result in testing of details that can safely rely on smaller sample sizes.

Audit Reliance	High			
	Medium			
	Low			
		Controls	Substantive analytical review	Test of details
Audit technique				

Based on our previous audit experience at the Town and review of the Town's financial information, we have concluded that we can rely on internal controls, which effectively means we can apply a moderate level of substantive analytics and limited testing of details. This controls based approach is both efficient and effective.

10.4 Professional scepticism

We approach all our audits with a degree of professional scepticism as required by Australian Auditing Standards. In addition, professional scepticism is a key component of delivering an effective public sector audit. *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* defines professional scepticism as 'an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence'.

Professional scepticism is particularly relevant in areas that involve management assumptions and/or estimates. It is also critical when evaluating audit evidence to reduce the risk of the auditor:

- Overlooking unusual circumstances; and
- Over generalising when drawing conclusions from observations using inappropriate assumptions in determining the nature, timing and extent of evidence gathering procedures and evaluating the results thereof.

11 SIGNIFICANT RISK AREAS

Using the 30 June 2020 financial report as a guide and referring to the RSM calculated materiality amount and risk assessment, RSM has identified the following potential significant risk areas for the current financial year:

Significant risk area	30 June 2020 \$	30 June 2019 \$
Revenue and receivables cycle		
Rates	13,375,582	13,125,890
Operating grants, subsidies and contributions	3,249,254	2,934,732
Fees and charges	5,969,778	6,220,530
Trade receivables (current and non-current)	1,706,165	1,347,336
Purchases and payment cycle		
Material and contracts	5,168,172	7,197,066
Property, Plant and Equipment (additions)	1,190,079	200,315
Infrastructure (additions)	816,198	1,157,619
Fixed assets cycle		
Property, Plant and Equipment	56,339,210	55,780,006
Infrastructure	105,286,630	107,396,632

11.1 Revenue and receivables cycle – rates / fees and charges / receivables

Reasons why RSM considers this area a significant risk

Revenue is measured by considering multiple elements, for example rates transactions are calculated by the application of a rate in the dollar to the Gross Rental Value (**GRV**) or Unimproved Value (**UV**), which is in turn determined by dividing the required rate collection amount by the total valuations on the roll. GRV's and UV's vary between the various property types, such as mining and pastoral. The GRV / UV is supplied by Landgate. Furthermore, rates revenue represents a significant portion of the Town's annual operating income and is an important revenue stream in terms of the Town's cash flows.

Fees and charges are a material amount and is measured by the application of an annual charge to rateable land supplied with specified services. For example, community amenities and recreation and culture fees. There are also further complexities with the application of the eligible pensioners rebate scheme. In addition, further complexity and risk is associated with the requirement for the Town to comply with Part 6, Division 6 'Rates and service charges' of the Act.

Grants are a material amount and is measured by the application of AASB 15 *Revenue from Contracts with Customers* & AASB 1058 *Income for Not-for-Profit Entities* which requires the Town's Judgement & assessment in line with the contract/agreement.

Based on the above complexities and the high risk of management override, revenue recognition for fees & grants is considered significant risk.

RSM audit response

RSM audit procedures will include, among other things, assessment of the Town's effectiveness of key internal controls operating within the revenue cycle, including application controls. RSM will perform a walkthrough of the key management controls over the revenue cycle and test key management controls. RSM will review, on a sample basis, the reconciliations and calculation of fees and compare these against historical results. In order to assess the completeness of recording revenue in the correct accounting period, RSM will perform revenue cut-off testing and review credit notes. RSM will also ensure all revenue streams have been recognised in accordance with AASB 15 or AASB 1058.

To determine the existence of the receivable balance and the recoverability thereof as at 30 June 2021, RSM will review receivables balances on a sample basis and perform subsequent receipt testing. Furthermore, we will perform analytical procedures on rates through detailed comparison with prior year balances and budget forecasts. RSM will also determine if the disclosures in the notes to the financial report related to the Town's revenue recognition policy are appropriate.

11.2 Purchases and payment cycle

Reasons why RSM considers this area a significant risk

All procurement made by the Town is subject to the requirements of the Act and Part 4 of the *Local Government (Functions and General) Regulations 1996 (Functions and General Regulations)*, which is the basis for the Town's purchasing policy (**Policy**). The Act and the Functions and General Regulations are there to guide the Town in delivering best practice in the purchasing of goods, services and works that align with the principles of transparency, probity and good governance. Errors, uncertainty and unrealistic timelines can undermine market confidence, discredit a purchasing process and devalue the outcome of the procurement. Due to the strict and complex requirements of the Policy, including value for money, regulatory compliance, record management, transparency and professionalism, there is potential for insufficient knowledge of the Policy's requirements or failure to comply with the Policy.

RSM audit response

RSM will review the Town's purchasing policies and assess the effectiveness of internal controls operating within the payment cycle. In addition, we will perform a walkthrough of the key management controls over the purchase and payment cycle, including tendering, and perform tests of control on key management controls over the purchase and payment cycle. Furthermore, we will perform analytical procedures on procurement through detailed comparison with prior year balances and budget forecasts. Our testing will include an evaluation of whether the Town's purchasing activities have complied with the Act and the Functions and General Regulations.

11.3 Fixed assets cycle

Reasons why RSM considers this area a significant risk

Property, Plant and Equipment and Infrastructure respectively constituted 30% and 57% of the Town's total assets as at 30 June 2020. Under regulation 17A of the Financial Management Regulations, the Town's Plant and Equipment type assets are to be measured under the cost model whereas Property and Infrastructure is to be carried at fair value less accumulated depreciation and accumulated impairment losses. Under regulation 17(4) of the Financial Management Regulations, the Town is required to revalue an asset:

- Whenever the local government believes the fair value of the asset is likely to be materially different from its carrying amount; and
- In any event, within a period of at least 3 years but not more than 5 years after the day on which the asset was last valued or revalued.

Furthermore, in accordance with paragraph 9 of AASB 136 *Impairment of Assets*, the Town is required to assess at reporting date whether there is any indication that an asset may be impaired.

Effective from 1 July 2018, regulation 17A (5) of the Financial Management Regulations provides that an asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition by the local government is under \$5,000.

Effective 6 November 2020, Financial Management Regulations were amended with regulation 16 being removed and regulation 17A being amended with effect from 1 July 2019. Plant and equipment type assets (being plant and equipment and furniture and equipment) are to be measured under the cost model, rather than at fair value with effect from 1 July 2019. The Town is required to de-recognise the values attributable to certain crown land assets previously required to be recognised as assets.

RSM audit response

We will carry out internal control testing over the Town's processes for determining inputs into fair value measurements and perform detailed substantive testing on a sample basis of the related fair value measurements.

We will review the Town's assessment that the fair value of Property and Infrastructure assets is not likely to be materially different from their carrying amounts and the Town's consideration of any potential impairment indicators.

We will review management's assessment of those assets below \$5,000, obtain and review the action taken by the Town to expense these assets from the asset register and confirm that the local government is properly and accurately recording portable and attractive assets.

We will review management's assessment of regulation 17A and confirm that the local government is properly and accurately recording Plant and equipment.

12 OTHER CRITICAL DISCLOSURES IN THE FINANCIAL REPORT

RSM will also audit the following critical disclosures in the financial report:

12.1 Related party disclosures

The Town continues to be subject to the requirements of AASB 124 *Related Party Disclosures*. The Standard requires disclosures for senior officers' compensation and certain transactions with related parties. A review will be conducted to ensure proper accounting and disclosure of related party transactions and executive remuneration.

Further, section 7.12AL of the Act applies section 17 of the Auditor General Act 2006 to a local government, which requires the Town to advise the Auditor General in writing of details of all related entities that are in existence.

RSM audit response:

We will review the disclosures and supporting material to ensure compliance with AASB 124. We will also assess the Town's internal controls around the identification and proper disclosure of related party transactions and director / executive remuneration.

12.2 Financial ratios

Under regulation 50 of the Financial Management Regulations, the annual report is to include financial ratios. Financial ratios are designed to enable users of annual financial reports to interpret more clearly the Town's performance and financial results as well as provide a comparison of trends over several years.

These indicators provide a measure of the financial sustainability of local governments and complement the national criteria endorsed by the Local Government and Planning Ministers' Council. They provide for a comprehensive tool for monitoring the financial sustainability of local governments.

RSM audit response:

We will obtain and audit the ratios to assess compliance with regulation 50 of the Financial Management Regulations.

12.3 Capital and other commitments for expenditure

The Town will disclose in the financial statements several capital and other commitments relating to future asset construction and replacements.

RSM audit response:

We will check the underlying calculations and review the evidence to support the amounts disclosed.

12.4 Reserve accounts

The Town has established several reserve accounts under section 6.11 of the Act for the purpose of setting aside money for a specific purpose to be used in a future period. Cash reserves are required to be held in separate bank accounts. However, reserve accounts are not separate funds and are consolidated with the municipal fund in the financial statements of the Town.

RSM audit response:

RSM will review the reserve account reconciliations and test that the transfers to and from these accounts are in accordance with the specific purpose of the reserve.

12.5 Major land transactions

Regulation 46 of the Financial Management Regulations prescribes the disclosure requirement for major land transactions. The information to be disclosed by the Town is set out in regulation 47 and includes:

- Details of the total income and expenditure for the transaction; and
- Details of the amount or value of any surplus of money or assets.

RSM audit response:

RSM will review the financial records of the Town to assess whether all major land transactions have been identified and disclosed in accordance with regulation 47.

13 CONTROLS

13.1 Internal control

Internal controls are systems, policies and procedures that help an entity reliably and cost effectively meet its objectives. Sound internal controls enable the delivery of reliable, accurate and timely external and internal reporting. The Town is responsible for developing and maintaining its internal control framework to enable:

- Preparation of accurate financial records and other information;
- Timely and reliable external and internal reporting;
- Appropriate safeguarding of assets; and
- Prevention or detection and correction of errors and other irregularities.

The annual financial audit enables RSM to form an opinion on the Town's financial report. An integral part of this, and a requirement of Australian Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, is to assess the adequacy of an organisation's internal control framework and governance processes related to its financial reporting. While this understanding has a significant impact on our audit strategy, our audit of the Town's financial report is not designed to assess, nor do we provide an opinion on, the effectiveness of internal controls.

We focus on the internal controls relating to financial reporting and assess whether the Town has managed the risk that the financial report will not be complete and accurate. Poor controls diminish management's ability to achieve the organisation's objectives and comply with relevant legislation. They also increase the risk of fraud.

During our planning procedures we will gain an understanding of the following components of internal control:

- Control environment
- Risk assessment procedures
- Information systems
- Control activities
- Monitoring procedures

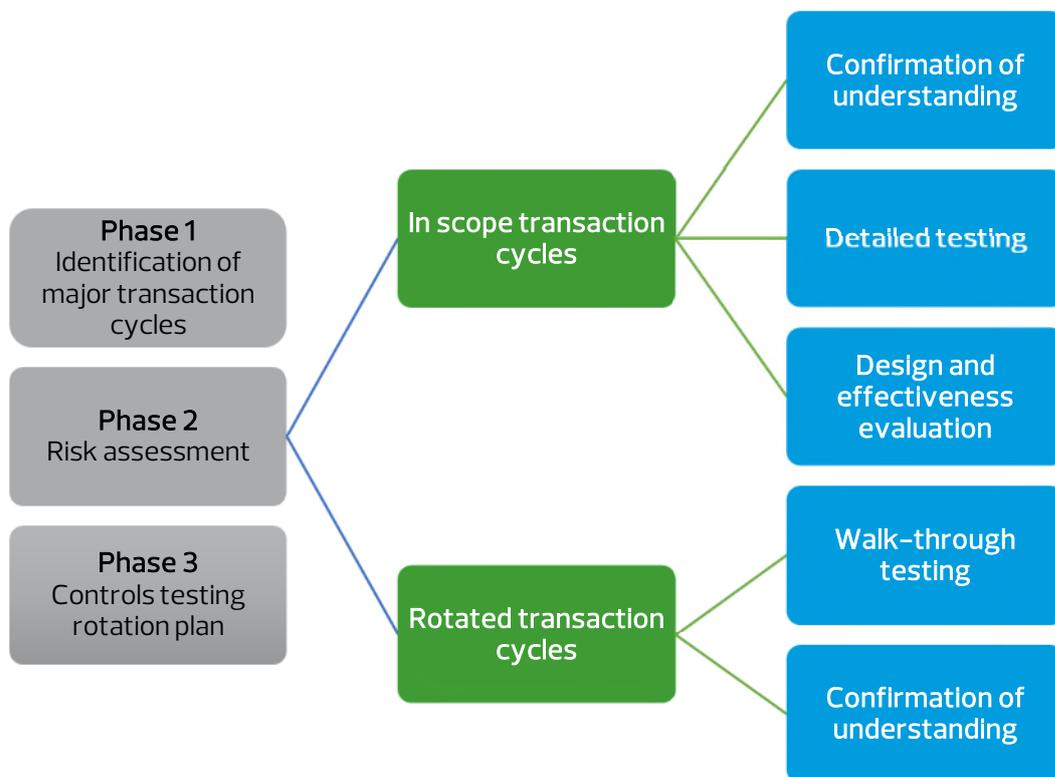
Our preliminary assessment of the internal control framework may indicate that the internal controls are likely to be effective in preventing or detecting and correcting material misstatements in the financial report. In these circumstances we would plan to place reliance on the key internal controls relating to the material components in the financial report to support our audit opinion.

13.2 Significant changes to internal controls

The Town will conduct a Reg 17 review in 2021/22 in accordance with its internal audit schedule.

13.3 Rotation approach

In accordance with our rotational controls testing approach, we will conduct a risk assessment for each major transaction cycle during our initial engagement year. The risk assessment is benchmarked against our knowledge of each transaction cycle within the local government sector. Using the risk assessment, we design a control testing rotation plan that will bring certain transaction cycles into audit scope each year. Those cycles not in scope will be subject to our normal walkthrough procedures and confirmation of our understanding of the key controls.



Those transactions cycles in scope will be subject to detailed controls testing, including testing of the design and effectiveness of those controls.

RSM audit response:

During the current year audit, RSM will be testing controls over the revenue, purchases and property plant and equipment and rotating out testing over the payroll cycles equivalents cycle.

14 FRAUD RISK

Under Australian Auditing Standard ASA 240 *The Auditor's Responsibility Relating to 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 because of fraud and error.

Although ASA240 sets out the principles and procedures we must follow, the primary responsibility for the prevention and detection of fraud and error rests with Council and the CEO. Council and the CEO 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.

Our audit procedures on fraud risk include the following:

- Forward a copy of the fraud control checklist for self-assessment to the Town's management prior to our final audit visit. The checklist allows us to make inquiries of management, to obtain its understanding of the risk of fraud within the Town and to determine whether management have any knowledge of fraud that has been perpetrated on or within the entity. We will review the fraud control self-assessment by the Town;
- Review the Town's fraud control procedures in place to reduce the risk of fraud occurring within the entity, including the Town's code of conduct;
- Understand the Town's fraud control environment;
- Understand the business rationale for significant or unusual transactions;
- Review current accounting estimates for biases;
- Review the appropriateness of year end accounting adjustments;
- Make enquiries of management and others within the Town; and
- Incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures to be performed as individuals within the entity who are familiar with the audit procedures normally performed on engagements may be more able to conceal fraudulent financial reporting.

15 OTHER AUDIT MATTERS

15.1 Internal audit

An effective internal audit function is important for ongoing maintenance and improvement of risk management, internal control overseen by an effective Audit Committee, and governance processes. The internal audit function acts as the independent eyes and ears for Council on administration and controls in key areas of risk.

Internal audit is a key component of the defence against fraud, including misrepresentation. Although the Town's financial management governance and risk framework, and management oversight and monitoring are the initial lines of defence against fraud or error, internal audit is also a crucial component.

Subject to the requirements of Auditing Standard ASA 610 *Using the Work of Internal Auditors*, if we have satisfied ourselves regarding the competence and objectivity of Town's internal audit function, we plan to rely on their work where possible. The use of the Town's internal audit function may be used in the following ways:

- To obtain information that is relevant to RSM's assessments of the risks of material misstatement due to error or fraud; and
- As partial substitution for audit evidence to be obtained directly by RSM.

The responsibility for internal audit rests with Council and the CEO. The Town has engaged William Buck for three years for Internal Audit Services and planning is under way.

15.2 Audit preparation checklists

To assist the Town to gather and collate the necessary audit information and documentation, we will issue in advance of each audit visit an Interim Audit Preparation Checklist and a Final Audit Preparation Checklist. As the requested information will be an important part of our audit working papers, the information must be made available to RSM on the dates specified at section 17 of this APM. This will assist us in delivering an efficient audit and minimising interruptions to the Town's staff.

We have established a fully secure data upload function, which is available to the Town to file the documents and records we will need for our audit. We have found this facility to be very useful and clients have appreciated the savings in time and reduced disturbance by auditors during the audit fieldwork.



15.3 Important changes in governance, management or internal control environments

The Town has advised that, other than those matters mentioned in the APM, there are no other major changes to its governance, management or internal control environment that may significantly impact the 30 June 2021 financial report.

15.4 Cumulative knowledge of accounting and computer systems and any expected changes

The Town has represented that they are not aware of any significant changes to the accounting or computer systems.

16 INVOLVEMENT OF INFORMATION SYSTEMS AUDIT SPECIALIST

The financial management systems being used by the local government entities is varied, but there is a general reliance on "Authority". In some circumstances the information systems are integrated, whereas in others they are separate and rely on manual transfer of data between systems.

Due to the varying degree of financial system integration at each local government, RSM has assessed the information system environment as being sophisticated and we will engage an Information System Auditor (ISA) specialist to assess the risk of material misstatement imposed by the Information Technology (IT) environment at each local government.

The audit procedures conducted by the ISA will include, among others:

- Testing general IT controls around system access and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements;
- Reviewing the key controls around change management related to significant IT systems.

RSM complies with Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*. Our approach to information systems audit is to obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including (amongst others) how the information system captures events and conditions, other than transactions, that are significant to the financial statements.

17 TIMETABLE

Phase	Task	Indicative timeframe	Action
Planning	Pre-planning meeting to review and update the overall audit approach and plan	8 March 2021	RSM
	Issue draft APM to the Town for commentary	1 April 2021	RSM
	Entrance meeting with Council, CEO and Audit Committee for the presentation and discussion of final APM	14 April 2021	RSM Town
Interim audit fieldwork	Issuing of Interim Audit Preparation Checklist to the Town	1 April 2021	RSM
	Based on risk assessment, performance of cyclical controls testing, walkthrough of major business cycles and review of key reconciliation procedures for the 9 months ended 31 March 2021	19 – 22 April 2021	RSM
	Assessment of status of Management Letter points raised for the prior year		
Interim audit reporting	Interim audit findings meeting with Town management, the OAG and RSM to discuss any significant control matters surrounding the major transaction cycles and content of the management letter, if any	10 May 2021	RSM OAG Town
	Issue the draft Interim Management Letter to the OAG for consideration and comment.	17 May 2021	RSM OAG
	Issue of the draft Interim Audit Management Letter to the Town for consideration and comment.	19 May 2021	RSM Town
	Return of draft Interim Audit Management Letter to RSM with commentary	24 May 2021	Town
	Issue the Interim Audit Management Letter to the OAG	1 June 2021	RSM
Draft financial report	The Town submits shell financial report to RSM for review and comment	19 July 2021	Town
	Town to submit draft financial report as per the Act deadline.	24 September 2021	Town
Final audit fieldwork	Issuing of Final Audit Preparation Checklist	30 July 2021	RSM
	Provision of trial balance as at 30 June 2021 to RSM	24 September 2021	Town

Phase	Task	Indicative timeframe	Action
	Performance of substantive tests for revenue and expenditure cycles for the 3 months ended 30 June 2021	11-15 October 2021	RSM
	Performance of substantive tests for balance sheet accounts as at year end		
Final audit reporting	Final audit findings meeting with Town management, the OAG and RSM to discuss any significant accounting issues and findings noted during the final audit. If there are significant, unresolved matters, then a meeting will also be held with Council and CEO.	3 November 2021	RSM OAG Town
	Issue the draft Final Audit Management Letter for the year ended 30 June 2021 to the OAG for consideration and comment	5 November 2021	RSM OAG
	Issue the draft Final Audit Management Letter for the year ended 30 June 2021 to the Town for consideration and comment	10 November 2021	RSM Town
	Return draft Final Audit Management Letter for the year ended 30 June 2021 to RSM with commentary	12 November 2021	Town
	Issue the Final Audit Management Letter to the OAG	17 November 2021	RSM
	Preparation of OAG Signing Review Memorandum	17 November 2021	RSM
	Review of audit file by OAG	19 November 2021	OAG
	Audit Closing Report issued	23 November 2021	RSM
	Final audit exit meeting with Town	1 December 2021	RSM OAG Town
	Issue final Management Representation Letter and approve Financial Report	2 December 2021	Town
	Independent Contract Auditor's Report issued	2 December 2021	RSM
	OAG to sign and issue the Audit Report	6 December 2021	OAG

18 APPENDIX A: DRAFT MANAGEMENT REPRESENTATION LETTER

Our Ref:
Your Ref:

Ms Caroline Spencer
Auditor General
Office of the Auditor General
7th Floor, Albert Facey House
469 Wellington Street
PERTH WA 6000

Dear Ms Spencer

REPRESENTATION LETTER IN RESPECT OF THE TOWN OF BASSENDEAN'S ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2021

This representation letter is provided in connection with your audit of the Town's annual financial report for the year ended for the purpose of expressing an opinion as to whether the annual financial report is fairly presented in accordance with the *Local Government Act 1995* (the Act), the *Local Government (Financial Management) Regulations 1996* and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.

We submit the following representations for the year ended after making appropriate enquiries and according to the best of our knowledge and belief. This representation covers all material items in each of the categories listed below.

1. GENERAL

- (a) We have fulfilled our responsibilities for the preparation and fair presentation of the annual financial report in accordance with the *Local Government Act 1995* (the Act), the *Local Government (Financial Management) Regulations 1996* and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.
- (b) We have advised your auditors of all material contentious methods used in the presentation of the financial report.
- (c) There have been no changes in accounting policies or application of those policies that would have a material effect on the financial report, except as disclosed in Note **XX** to the financial report.
- (d) The prior period comparative information in the financial report has not been restated except as disclosed in Note **XX** to the financial report.
- (e) Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We confirm the disclosures related to accounting estimates are complete and appropriate.
- (f) We have established and maintained an adequate internal control structure and adequate financial records as we have determined are necessary to facilitate the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

-
- (g) We have provided your auditors with
- (i) Access to all information of which we are aware that is relevant to the preparation of the financial report, such as records, documentation and other matters.
 - (ii) Additional information that your auditors have requested for the purpose of the audit.
 - (iii) Unrestricted access to staff and councillors of the Town from whom your auditors determined it necessary to obtain audit evidence.
- (h) All transactions have been recorded in the accounting and other records and are reflected in the financial report.
- (i) All internal audit reports and reports resulting from other management reviews, including legal issues and legal opinions which have the capacity to be relevant to the fair presentation of the financial report including, where relevant, minutes of meetings, have been brought to your auditors' attention and made available to them.
- (j) We have advised your auditors of all known instances of non-compliance or suspected non-compliance with laws and regulations, and all known data or security breaches whose effects should be considered when preparing the financial report.
- (k) We have provided to your auditors the results of our assessment of the risk that the financial report may be materially misstated as a result of fraud.
- (l) No frauds or suspected frauds affecting the involving:
- (i) Management;
 - (ii) Employees who have significant roles in internal control; or
 - (iii) Others
- have occurred to the knowledge of management.

[OR]

We have provided information to your auditors of our knowledge of fraud or suspected fraud affecting the involving:

- (i) Management;
- (ii) Employees who have significant roles in internal control; or
- (iii) Others.

A summary of these is *provided below/attached*.

- (m) To our knowledge no allegations of fraud or suspected fraud affecting the Town's financial report has been communicated to us by employees, former employees, analysts, regulators or others.

[OR]

We have provided information to your auditors of our knowledge of any allegations of fraud or suspected fraud affecting the Town's financial report communicated by employees, former employees, analysts, regulators or others.

Details are *as follows/attached*.

- (n) We have disclosed to your auditors all known actual or possible litigation and claims whose effects should be considered when preparing the financial report, and they have been accounted for and disclosed in accordance with Australian Accounting Standards.

2. FAIR VALUE MEASUREMENTS AND DISCLOSURES

We confirm that where assets and liabilities are recorded at fair value, the value attributed to these assets and liabilities is the fair value.

We confirm that the carrying amount of each physical non-current asset does not materially differ from its fair value at the end of the reporting period. Significant fair value assumptions, including those with high estimation uncertainty, are reasonable.

We confirm the measurement methods, including related assumptions, used by management in determining fair values are appropriate and have been consistently applied.

We confirm that the fair value disclosures in the financial report are complete and appropriate.

3. GOING CONCERN

We confirm that the going concern basis of accounting is appropriate for the annual financial report.

4. CONTINGENT LIABILITIES

There are no material contingent liabilities at year end that have not been completely and adequately disclosed in the Notes to the financial report.

5. COMMITMENTS FOR CAPITAL AND OTHER EXPENDITURE

Other than those commitments reported in the Notes to the financial report, there were no significant commitments for capital or other expenditure contracts carrying over at year end.

6. FINANCIAL LIABILITY FOR CONTAMINATED SITES

We are aware of our obligations under the *Contaminated Sites Act 2003* and have reported to the Department of Water and Environmental Regulation, all land owned, vested or leased by the Town that is known to be, or is suspected of being, contaminated. All actual liabilities or contingent liabilities, if any, have been recognised and/or disclosed in the financial report as appropriate.

7. RELATED ENTITIES

We acknowledge our responsibility under section 17(1) of the *Auditor General Act 2006* (as applied by section 7.12AL of the *Local Government Act 1995*) to give written notice to the Auditor General if any of the Town's functions are being performed in partnership or jointly with another person or body, through the instrumentality of another person or body, and/or by means of a trust. We confirm that we have provided the Auditor General with details of all related entities in existence at 30 June 2021.

8. RELATED PARTIES

We have disclosed to your auditors the identity of the Town's related parties, as defined in Australian Accounting Standards, of which we are aware, and all the related party relationships and transactions of which we are aware. These include the Town's key management personnel (KMP) and their related parties, including their close family members and their controlled and jointly controlled entities.

We have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of Australian Accounting Standards.

9. KEY MANAGEMENT PERSONNEL COMPENSATION

We confirm the Town's key management personnel (KMP) have not received any other money, consideration or benefit (except amounts being reimbursements for out of pocket expenses) which has not been included in the compensation disclosed in the Notes to the financial report.

10. SUBSEQUENT EVENTS

All events subsequent to the date of the financial report and up to the date of this letter for which Australian Accounting Standards require adjustment or disclosure, have been adjusted or disclosed.

[OR]

No matters or occurrences have come to our attention between the date of the financial report and the date of this letter which would materially affect the financial report or disclosures therein, or which are likely to materially affect the future results or operations.

11. INTERNAL CONTROL

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

12. INSURANCE

We have established procedures to assess the adequacy of insurance cover on all assets and insurable risks. We believe, where appropriate, assets and insurable risks are adequately covered by insurance.

13. RISK MANAGEMENT

We confirm that we have established and maintained a risk management framework that is appropriate to the Town .

14. FINANCIAL RATIOS

We confirm that the financial ratios included in the annual financial report have been prepared and fairly presented in accordance with the *Local Government (Financial Management) Regulations 1996*.

We confirm that the asset consumption ratio and the asset renewal funding ratio are supported by verifiable information and reliable assumptions.

15. ACCOUNTING MISSTATEMENTS

There are no uncorrected misstatements in the financial report

[OR]

The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial report taken as a whole. A summary of these uncorrected misstatements is listed below.

Account	Reported balance	Actual balance	Variance

16. ELECTRONIC PRESENTATION OF THE AUDITED ANNUAL FINANCIAL REPORT AND AUDITOR'S REPORT

- (a) We acknowledge that we are responsible for the electronic presentation of the annual financial report.
- (b) We will ensure that the electronic version of the audited annual financial report and the auditor's report presented on the Town's website is the same as the final signed versions of the audited annual financial report and the auditor's report.
- (c) We have clearly differentiated between audited and unaudited information in the construction of Town's website and understand the risk of potential misrepresentation in the absence of appropriate controls.
- (d) We have assessed the security controls over the audited annual financial report and the auditor's report and are satisfied that procedures in place are adequate to ensure the integrity of the information provided.
- (e) We will ensure that where the auditor's report on the annual financial report is provided on the website, the annual financial report is also provided in full.

17. OTHER (UNAUDITED) INFORMATION IN THE ANNUAL REPORT

We will provide the final version of the annual report to you when available, to enable you to complete your required procedures.

Council

Date

NAME:

Chief Executive Officer

Date

NAME:

19 APPENDIX B: ADDITIONAL INFORMATION CONTACTS

Alasdair Whyte	Jay Teichert
RSM Australia	Office of the Auditor General
Level 32, Exchange Tower	7th Floor, Albert Facey House
2 The Esplanade	469 Wellington Street
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