

Shire of Irwin



Audit Plan to the Audit Committee
for the year ending 30 June 2022

19 May 2022



Private and Confidential

19 May 2022

The Audit Committee
Shire of Irwin
11- 13 Waldeck Street
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Dear Audit Committee (the “AC”) members



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External Audit Plan for the Shire of Irwin for the year ending 30 June 2022

We are pleased to present our External Audit Plan (“Audit Plan”) for the Shire of Irwin for the year ending 30 June 2022.

Pitcher Partners will execute the audit of the financial report of the Shire of Irwin on behalf of the Office of the Auditor General to ensure the financial report is compliant with the *Local Government Act 1995* (the “LGA”), the *Local Government (Financial Management) Regulations 1996* (the “Regulations”) and to the extent they are not conflicting with the LGA and the Regulations, *Australian Accounting Standards*.

The Auditor General will be informed of any findings identified during the course of the audit.

This Audit Plan sets out the scope of our engagement and the expected areas of audit focus. We will confirm all aspects of this Audit Plan with management and the AC representatives at our meeting on 19 May 2022 and should any significant alterations be required to the planned scope of our engagement, we will advise you accordingly.

We have considered, and will continue to consider, the Shire of Irwin’s current and emerging organisational risks and the resultant impact on the financial report. Our Audit Plan is designed to be responsive to your needs and will maximise audit effectiveness so that we can deliver the high-quality audit you expect.

Should you have any questions or comments, please do not hesitate to contact me on 9322 2022.

Yours faithfully

PITCHER PARTNERS BA&A PTY LTD

A handwritten signature in black ink that reads "Michael Fay".

Michael Fay
Director



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The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from, or relevant to, our audit that we believe need to be brought to your attention. These are not a comprehensive record of all the matters arising, and in particular, we cannot be held responsible for reporting all risks in your organisation or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole, or in part, without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

Executive Summary

Introduction

The purpose of our Audit Plan is to communicate clearly with those charged with governance an overview of the planned scope and timing of the audit.

Scope of the audit

The scope and coverage of our audit of the Shire of Irwin is prescribed by the *Auditor General Act 2006*.

As the external auditor for Parliament, the Auditor General will provide an opinion on the financial statements and financial ratio analysis of the Shire of Irwin.

Our audit will be conducted in accordance with *Australian Auditing Standards* in order to provide reasonable assurance as to whether the general purpose financial report of the Shire of Irwin is free of material misstatement and has been prepared in accordance with the LGA and the Regulations, and to the extent they are not conflicting with the LGA and the Regulations, *Australian Accounting Standards*. Our audit approach has been developed after considering inherent and control risks and the expected effectiveness of the Shire of Irwin's internal controls.

The audit will also report on the following matters in accordance with Regulation 10(3) of the *Local Government (Financial Management) Regulations 17A(2)* (the "LGR"):

- Significant adverse trends in the financial position or the financial management practices of the Shire of Irwin;
- Compliance with Part 6 of the LGA, the LGR or applicable financial controls of any other written law;
- Details of whether information and explanations were obtained by the auditors;
- A report on the conduct of the audit; and
- Whether the asset consumption ratio and the asset renewal funding ratio are supported by verifiable information and reasonable assumptions.

Areas of audit focus

The following key focus areas have been identified through a review of the prior year financial report and discussions with the Office of the Auditor General. While we believe the risks identified in this Audit Plan are exhaustive and reflective of the Shire of Irwin's risk profile, additional risks may emerge over the course of the audit as current facts and circumstances change.

The key Areas of audit focus and the level of complexity or management judgement to be applied are in relation to the following matters:

- Revenue recognition for rates, government grants, contributions and fees and charges;
- Property, plant and equipment and infrastructure;
- Employee benefits provision;
- Existence and completeness of expenditure;
- IT general controls;
- Specific Local Government ("LG") General Purpose Financial Reporting requirements;
- Quality of financial reporting;
- Non compliance; and
- Financial ratios - Significant adverse trends.

Executive Summary

Internal control environment

As required by the *Auditor General Act 2006*, our responsibility is to express an opinion on the controls exercised by the Shire of Irwin based on our audit conducted in accordance with *Australian Auditing Standards*.

As part of our audit methodology, we will review IT and manual controls in the key financial statement processes and take a control-based approach wherever possible. The nature and extent of our controls testing is dependent on, and considers, whether the control environment of Shire of Irwin is operating effectively.

A substantive approach will be taken in areas of significant management judgement or where we believe it is more efficient to test key financial statement processes substantively.

We will ensure that any significant deficiencies that come to our attention during the course of our audit are communicated to the AC in a timely manner.



Areas of Audit Focus



Areas of Audit Focus

Revenue recognition for rates, government grants, contributions and fees and charges

Area of focus	Background	Planned audit approach
<p>Revenue recognition for rates, government grants, contributions, and fees and charges</p> <p><i>Key Judgements:</i></p> <p><i>Timing of revenue recognition</i></p> <p><i>Relevant accounting standards:</i></p> <p><i>AASB 15 Revenue from contracts with customers ("AASB 15")</i></p> <p><i>AASB 1058 Income of Not-for-Profit Entities ("AASB 1058")</i></p>	<p>The Shire of Irwin receives rate revenue, grant funding from state and federal government and fees and charge to be used to provide different services for residents.</p> <p>AASB 1058 and AASB 15 apply to not-for-profit ("NFP") entities for annual reporting periods beginning on or after 1 January 2019 and hence continue to be applicable to the Shire of Irwin for the year ending 30 June 2022.</p> <p>Whether AASB 1058 or AASB 15 is required to be applied will be dependent on the nature and specificity of arrangements in place. Where revenue arrangements predominantly involve the transfer of goods and services and contain performance obligations, revenue is recognised in accordance with AASB 15 over time or at a point in time dependent on the nature of the performance obligations for individual revenue arrangements. Where revenue arrangements do not predominantly involve performance obligations in accordance with AASB 15, or where revenue is not derived from contracts with customers, revenue is generally recognised in accordance with AASB 1058.</p>	<p>As part of our audit procedures, we will review management's assessment to ensure the basis for revenue recognition for all key material revenue streams is in accordance with <i>Australian Accounting Standards</i> and the terms of the source of income.</p> <p>We will also perform testing surrounding the control environment for the recognition of revenue to ensure that income relating to all key material revenue streams is being recognised in accordance with <i>Australian Accounting Standards</i> and the terms of the source of income.</p> <p>We will perform substantive tests of details utilising our sampling methodology as well as year end analytical review procedures to add to the level of assurance obtained.</p> <p>We will also work with management to assess the contractual nature of any new revenue streams identified in the year to assess and conclude on the appropriate revenue recognition criteria.</p>

Areas of Audit Focus

Property, plant and equipment and infrastructure

Area of focus	Background	Pitcher Partners Perspective
<p>Property, plant and equipment and infrastructure</p> <p><i>Key Judgements:</i></p> <p>Valuation techniques used to determine the fair value of property, plant and equipment (“PPE”)</p> <p>Useful lives of PPE and depreciation rates</p> <p><i>Relevant accounting standards:</i></p> <p><i>AASB 13 Fair Value measurement (“AASB 13”)</i></p> <p><i>Relevant other regulations:</i></p> <p><i>Local Government (Financial Management) Regulations 17A(2) (the “LGR”)</i></p>	<p>Land, buildings and infrastructure assets (“LBI”) are the most significant assets that the Shire of Irwin holds on the Statement of Financial Position. The fair value of LBI is determined at least every five years in accordance with the Shire of Irwin’s accounting policy. Other plant and equipment is required to be carried at cost.</p> <p>The Shire of Irwin performed a valuation of land and buildings and infrastructure roads in June 2017, followed by a further valuation of all other infrastructure assets in June 2018.</p> <p>Given that land, buildings and Infrastructure road asset classes are due for valuation for the year ending 30 June 2022, our understanding is that the Shire of Irwin will have to obtain a valuation for the year ending 30 June 2022.</p> <p>For any valuations that have been performed (either internal or external), key audit considerations are as follows:</p> <ul style="list-style-type: none"> • Ensuring appropriate asset classes has been fully captured for valuation purposes; • Assessing appropriate experience and knowledge of the valuer; • Assessing the reasonableness of the significant judgments, estimates, assumptions and data used by the valuer; • Evaluating the valuation methodology used by the valuer; and • Reviewing the documentation by management for the key risk and how it was addressed. 	<p>As part of our audit procedures, we will document and test key controls around LBI balances and assess accounting policies associated with fair value assessment to ensure it is in accordance with <i>Australian Accounting Standards</i>.</p> <p>We will review the capitalisation threshold of \$5,000 required by <i>Local Government (Financial Management) Regulation 17A(5)</i> and test samples of additions and disposals.</p> <p>We will review management’s assessment for impairment indicators and ensure fair value disclosures are properly disclosed in accordance with AASB 13, as well as assessing the external valuer’s capabilities and expertise to ensure the valuation methodologies and approaches taken are in accordance with AASB 13 for any valuations performed in the year.</p> <p>We will document the depreciation policy applied and perform depreciation recalculations factoring in management’s assessment of the useful life of property, plant and equipment and infrastructure to ensure reasonableness.</p>

Areas of Audit Focus

Employee benefits provision

Area of focus	Background	Planned audit approach
<p>Employee benefits provision</p> <p><i>Key Judgements:</i></p> <p>Inflation rate, discount rate and probabilities applied for the long service leave calculation</p> <p><i>Relevant accounting standards:</i></p> <p>AASB 137 Provisions, Contingent Liabilities and Contingent Assets (“AASB 137”)</p> <p>AASB 119 Employee Benefits (“AASB 119”)</p> <p><i>Relevant Regulatory requirement:</i></p> <p>Long Service Leave Act 1958 (“LSL Act”)</p> <p>Local Government (Long Service Leave) Regulations (“LG LSL Regulation”)</p>	<p>Provisions for annual leave (“AL”) and long service leave (“LSL”) involve a degree of management estimation on the probability of the employee remaining with the organisation and the use of inflation rates and discount rates also requires judgements and estimates.</p> <p>Casual employees who are not entitled to LSL under their award or industrial agreement, may be entitled to LSL under the LSL Act or under LG LSL Regulation, regardless of the casual loading paid to such employees.</p> <p>The Shire of Irwin will need to consider whether a provision is required for any unpaid or unused employee entitlements such as AL, personal leave and public holidays, notwithstanding that casual loading has already been paid or is payable.</p> <p>An assessment should be performed by the Shire of Irwin and provisions should be provided to capture the Shire of Irwin’s obligations in consideration of the LSL Act and the LG LSL regulations.</p>	<p>As part of our audit procedures, we will document and test key controls around the employee benefits provision process.</p> <p>We will perform substantive tests of details utilising our sampling methodology as well as year end analytical review procedures to add to the level of assurance obtained.</p> <p>We will ensure the Shire of Irwin is complying with the LSL Act and LG LSL Regulation and we will review the method and underlying data that management has used to assess its employees including casual employee’s long service leave entitlements.</p> <p>We will also review disclosures to ensure compliance with AASB 119 and AASB 137.</p>

Areas of Audit Focus

Existence and
completeness
of expenditure

Area of focus	Background	Planned audit approach
<p>Existence and completeness of expenditure</p> <p><i>Key Judgements:</i></p> <p>Timing of expense recognition</p> <p><i>Relevant Regulatory requirement:</i></p> <p><i>Local Government Act 1995 (the "LGA")</i></p>	<p>The Shire of Irwin incurs expenditure in a number of different areas and expenditure forms a large part of any local government's operations.</p> <p>Hence existence and completeness of expenditure is an area of key audit focus to ensure that funds are being appropriately applied.</p> <p>There is also a risk that expenditure is not accounted for in the correct period as well as correct classification in nature not being consistently applied during the year ending 30 June 2022.</p>	<p>As part of our audit procedures, we will obtain an understanding of the control environment with regards to the initiation and processing of expenditure, as well as the identification and recording of accruals.</p> <p>We will document our understanding, perform walkthroughs and test key controls of the procurement process to ensure key controls have been adhered to and purchasing policies have been followed. In particular, to ensure the tender process has been carried out where required as stipulated and that sufficient written or verbal quotes have been obtained and purchase orders were issued prior to receiving invoices.</p> <p>In addition to the control testing to be performed, our audit methodology requires us to perform substantive test of details on a representative sample in accordance with our methodology as well as year end analytical review procedures to add to the level of assurance obtained.</p> <p>We will also test the usage of credit cards to ensure credit cards are being used for appropriate purposes only.</p>

Areas of Audit Focus

IT general controls

Area of focus	Background	Planned audit approach
<p>IT general controls</p> <p><i>Relevant Regulatory requirement:</i></p> <p><i>Local Government Act 1995 (the "LGA")</i></p>	<p>Understanding the risks identified for IT systems and processes that the Shire of Irwin employ and how those risks have been responded to will form a key element of the audit process.</p> <p>Specific risks to consider include:</p> <ul style="list-style-type: none"> • weakened segregation of duties where staff gain access privileges beyond those required for their role; • unauthorised access to IT systems; • inaccurate and/or invalid transactions and data produced by systems; • inappropriate/unauthorised changes to programs; and • inability to recover from incident or disaster impacting IT operations. 	<p>As part of our audit procedures, we will assess the effectiveness of logical access and program change controls using Pitcher Partners' IT work programs.</p> <p>We will review:</p> <ul style="list-style-type: none"> • IT risk management policy framework; • user access provisioning and removal; • periodic user access review; • monitoring of privileged user accounts' activities; • use of unique user IDs; • password configuration; • system change testing and approvals; • segregation between developer and implementer of system; development/change; and • system monitoring/incident management and data recovery <p>in order to understand, evaluate and, where appropriate, validate the IT general controls management has implemented to address these risks and conclude on the overall effectiveness of the IT general controls environment and ability for Pitcher Partners to rely on those controls.</p>

Areas of Audit Focus

Specific LG
General
Purpose
Financial
Reporting
requirements

Area of focus	Background	Planned audit approach
<p>Specific LG General Purpose Financial Reporting requirements</p> <p><i>Relevant Regulatory requirement:</i></p> <p><i>Local Government (Financial Management) Regulations (the "LGR")</i></p>	<p>Part 4 (paragraph 36 to 49) of the LGR sets out the requirement for certain disclosures to be shown within the Shire of Irwin's annual financial report. These disclosures are in addition to those required under <i>Australian Accounting Standards</i> and include the following examples (not an exhaustive list):</p> <ul style="list-style-type: none"> • A rate setting statement; • Information on trust funds; • Information on reserve accounts; • Information on service charges; • Information on fees and charges; • Information on Discount for early payment; • Information on interest charges; • Information on fees, expenses or allowances paid to council members; • Information on trading undertakings; • Information on major land transactions; and • Information on borrowings. 	<p>As part of our audit procedures, we will review and verify the additional information required to be disclosed to ensure that the financial report is in compliance with the LGR.</p>

Areas of Audit Focus

Quality of financial reporting

Area of focus	Background	Planned audit approach
Quality of financial reporting	<p>Quality and timeliness of financial reporting is key for sound financial management, public accountability and effective decision making. Absence of an effective project plan for year end financial reporting can result in delays, errors, poor quality and increased costs.</p> <p>It is essential for the Shire of Irwin to consider the areas such as:</p> <ul style="list-style-type: none"> • Assessment of the impact of COVID-19 on the way services are delivered and on the financial reporting; • Preparing pro-forma financial statements prior to the reporting date where there are significant regulatory changes; • Assessing the impact of material, complex and one-off significant transactions; • Assessment of fair value of LBI and financial assets (investments); • Assessment of new accounting standards in the current and future years; • Engagement with the AC early in the financial reporting process to review the project plan and impact on the financial statements of judgments and estimates such as: <ul style="list-style-type: none"> • remedial provisions for waste disposal facilities; • useful lives of assets; • depreciation; • expected credit loss (ECL); • revenue recognition; • compliance with contract terms; • use of restricted funds; • employee liabilities; • terms of lease agreements; and • capitalisation of interest for qualifying assets. 	<p>We will develop strong working relationships with the Shire of Irwin and engage throughout the year and as and when required to ensure that key issues are addressed on a timely basis. As part of our audit procedures, we will provide focussed feedback to the Shire of Irwin on the quality and timeliness of financial reporting.</p>

Areas of Audit Focus

Non compliance

Area of focus	Background	Planned audit approach
<p>Non compliance</p> <p><i>Relevant Regulatory requirement:</i></p> <p><i>Local Government Act 1995</i> (the "LGA")</p> <p><i>Local Government (Financial Management) Regulations 1996</i> (the "LGR")</p>	<p>Paragraph 10(3)(b) of the LGR requires the auditor to include in the audit report any matters indicating non-compliance with part 6 of the LGA, the LGR or applicable financial controls in any other written law identified during the course of the audit. These matters mainly relate to the financial report or to other financial management matters.</p> <p>A review of the Office of the Auditor General's <i>Audit Results Report - Annual 2019-2020 Financial Audits of Local Government Entities</i> report (2020-2021 report not yet available) notes the following common non-compliance matters:</p> <ul style="list-style-type: none"> • Controls over accounting journal entries; • Weaknesses in commencement and termination procedures for employees; • Bank reconciliation process incomplete; • Bank account signatories not updated in a timely manner; • Quotes not obtained for purchase transactions; • Procurements without purchase orders; • Financial ratios not reported; • Review not performed of financial management systems and procedures; • Review not performed of risk management, internal control and legislative compliance; and • No review and authorisation of changes to creditor master files. 	<p>As part of our audit procedures, we will understand the control environment of the Shire of Irwin and will report on any non-compliance matters identified throughout the audit process.</p>

Areas of Audit Focus

Financial ratios
- significant
Adverse trends

Area of focus	Background	Planned audit approach
<p>Financial ratios - Significant adverse trends</p> <p><i>Relevant Regulatory requirement:</i></p> <p><i>Local Government (Audit) Regulation 10(3)(a) (the “LGAR”)</i></p> <p><i>Local Government (Financial Management) Regulations (the “LGR”)</i></p>	<p>Part 4 (paragraph 50) of the LGR sets out the requirement for certain financial ratio disclosures to be disclosed within the Shire of Irwin’s annual financial report.</p> <p>The ratios to be disclosed are:</p> <ul style="list-style-type: none"> • Current ratio; • Asset consumption ratio; • Asset renewal funding ratio; • Asset sustainability ratio; • Debt service cover ratio; • Operating surplus ratio; and • Own source revenue coverage ratio. <p>Furthermore, paragraph 10 of the LGAR requires the Auditor General to include in the audit opinion whether or not the asset consumption ratio and the asset renewal ratio is supported by verifiable information and reasonable assumptions.</p> <p>The Auditor General will report on adverse trends relating to these ratios with adverse being determined by comparison of the designated ratios to the Department of Local Government, Sport and Culture Industries standard for the previous three years.</p> <p>Identifying if any material matters exist indicating a significant adverse trend is considered a key area of focus.</p>	<p>As part of our audit procedures, we will review and verify the ratio calculations required to be disclosed to ensure that the financial report is in compliance with the LGR as well as specifically assessing the asset consumption ratio and the asset renewal ratio in comparison to the designated ratios by the Department of Local Government, Sport and Culture Industries standard for the previous three years.</p> <p>We will also consider any weaknesses in systems or procedures that are indicative of a significant adverse trend in the financial management practices of the Shire of Irwin.</p>

Areas of Audit Focus

Other audit matters

Other audit matters

Below are other areas of audit focus which will be considered as part of the audit process:

- **Existence of cash and cash equivalents** – Expected to be one of the Shire of Irwin's major assets on the Statement of Financial Position, focus will be given to existence and classification of all cash and cash equivalent balances. Some of the cash received is contractually stipulated as only being available for use for the purpose it was received. Focus will therefore be given to ensure that restricted funds are appropriately accounted for by the Shire of Irwin.
- **Restricted Reserve Accounts** - We will review movements within the restricted reserve accounts to ensure they are approved by Council and verify transfers out are used in accordance with the intended purpose of the respective reserve and agree to adequate supporting documentation.
- **Related party transactions** – the Shire of Irwin is required to disclose related party transactions. Focus will therefore be given to ensure that related party transactions are properly disclosed and at an arms length value.
- **Employee expenses, superannuation contributions** – As a NFP entity, regulatory requirements for employees of the Shire of Irwin can vary in comparison to for-profit entities. Focus will therefore be given to ensuring that the appropriate rates have been applied.
- **Management letter findings from prior year** – we will review the prior year management letter to determine how management has addressed the matters noted.
- **Other areas** – other focus areas which will be considered as part of the audit process are as follows:
 - Recognition and recoverability of receivables;
 - Completeness and classification of borrowings;
 - Joint arrangements;
 - Assessment and transfers between reserves;
 - Completeness of creditors, accruals and provisions;
 - Valuation of financial assets;
 - Accounting for service concession arrangements – Grantors;
 - Leases; and
 - Treatment of associated borrowing costs including capitalisation to any qualifying assets.

Audit Approach



Assessment of internal control environment

The primary responsibility for the design and operating effectiveness of the internal control environment, including the prevention and detection of fraud and error, rests with those charged with governance and management.

We obtain an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit is not designed to express an opinion on the effectiveness of internal control we are required to communicate significant deficiencies in internal control to you.

Our assessment of internal controls covers:

- the Shire of Irwin's control environment including entity level controls;
- the Shire of Irwin's risk assessment procedures;
- The design and operating effectiveness of internal controls (including IT general controls); and
- Monitoring of controls (internal audit and self-assessment).

We will provide management with a management letter, outlining our findings and our recommendations on where improvements in internal controls can be made. Where significant deficiencies come to our attention, we will communicate these to the AC.

Where reliance on internal controls cannot be obtained through initial testing, our Audit Plan may be altered to perform additional substantive procedures in order to obtain reasonable assurance over the balances that the internal control/s affects.

The risk of fraud

Our responsibility as the external auditor is to consider the risk of fraud and the factors that are associated with it so as to provide reasonable assurance that the financial statements are free from material misstatement resulting from fraud. However, it is important to note that while our external audit work is not primarily directed towards the detection of fraud or other irregularities, we will report any matters identified during the course of our work.

When developing our Audit Plan we use professional judgement in determining whether a fraud risk factor is present. We determine fraud risk factors in the context of the three conditions generally present when fraud occurs:

Incentive / Pressure

Opportunity

Attitude / Rationalisation

Assessment of internal control environment

IT general controls

Evaluating IT general controls (“ITGCs”) is an integral part of our audit in assessing the controls that underpin financially significant systems and support the confidentiality, integrity and availability of information processing. Our evaluation of ITGCs focuses on three key areas:

Areas	Descriptions
Access to programs and data	Controls are in place to determine that only authorised persons have access to data and applications (including programs, tables, and related resources) and that they can perform only specifically authorised functions.
Change management	Controls are in place to determine that only appropriately authorised, tested, and approved changes are made to applications, interfaces, databases, and operating systems.
IT operations	Ensuring management processes are adequate to support business operations and availability of information.

Controls reliance

As part of our audit approach, we will assess the effectiveness of the Shire of Irwin’s internal control environment to determine whether controls operate effectively throughout the year.

We will assess the approach to be taken for the following key financial processes in more detail during our initial audit visit:

- Revenue from rates, government grants, contributions and fees and charges;
- Payments to suppliers and receipts from customers; and
- Payroll.

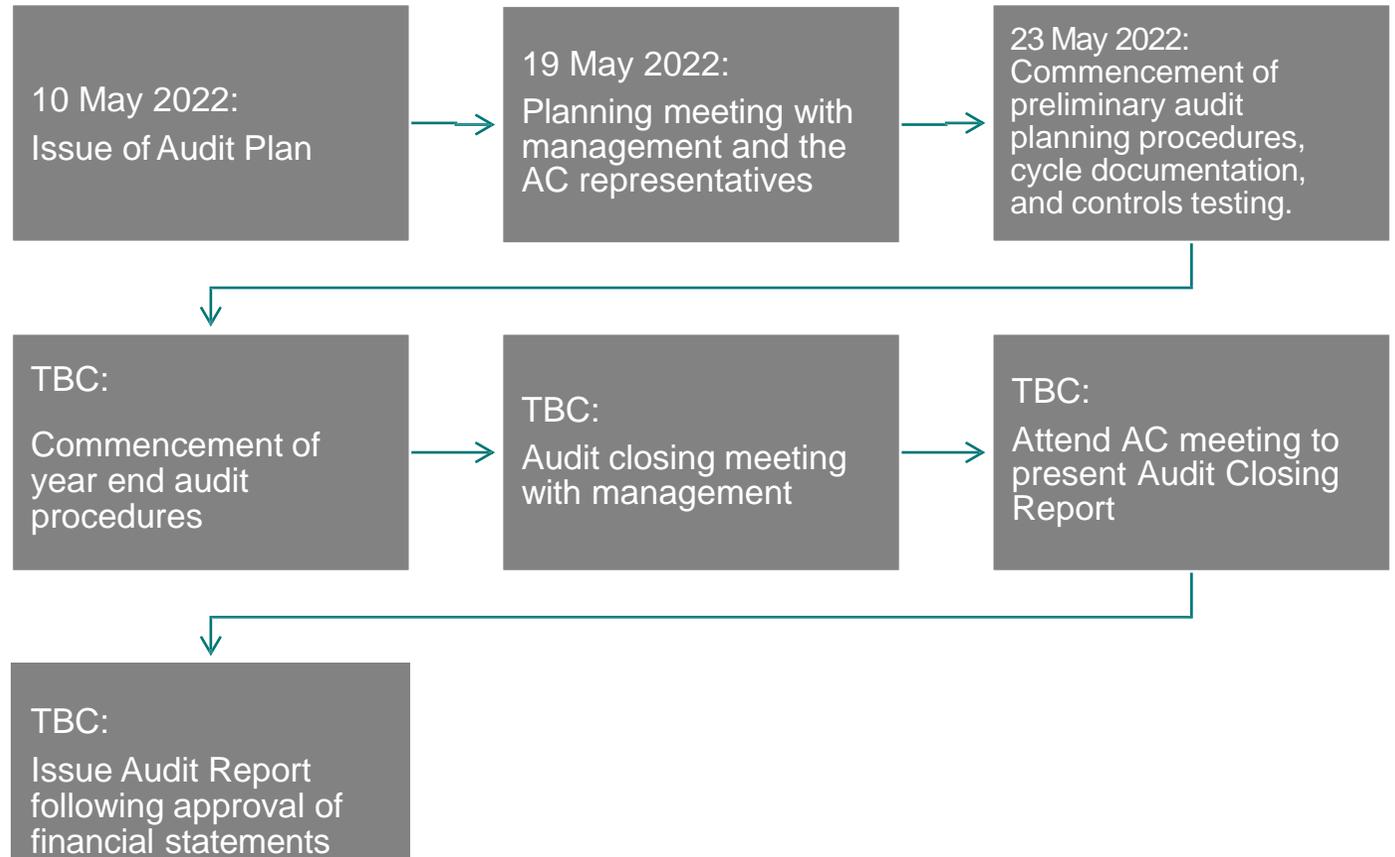
Significant or judgmental areas that we always audit substantively are:

- Impairment of non-monetary assets;
- Accruals and provisions; and
- One off transactions such as acquisitions or disposals.

Engagement Execution

Audit completion process

Our audit completion process and timing is outlined below. Throughout the process, we will be in continuous communication with the AC and those charged with the governance of the Shire of Irwin.



Audit completion process and timeline

1 Planning

APPROACH

- Understand your organisation
- Identify and assess organisation risks
- Document system
- Identify audit procedures to be performed
- Confirm timetables
- Allocate resources
- Determine client information required for the audit
- Perform tests on key controls and determine audit reliance (where applicable)

DELIVERABLES

- Audit plan
- Client assistance package
- Timetable

2 Fieldwork

APPROACH

- Verify transactions and balances
- Perform analytical and data analysis
- Address risk areas identified throughout the planning process and interim visit
- Perform tests on year end balances
- Perform tests of detail
- Provide management letter/report and obtain feedback prior to finalisation

DELIVERABLES

- Interim management letter, if appropriate

3 Completion

APPROACH

- Discuss and agree audit issues and adjustments
- Review and finalise financial statements
- Report findings to management and the AC
- Attend audit close out meeting
- Provide audit report
- Provide management letter/report and obtain feedback prior to finalisation
- Obtain signed management representation letter from those charged with governance

DELIVERABLES

- Independence declaration
- Signed financial statements
- Audit opinion
- Management letter
- Management representation letter

Your key engagement team members

Pitcher Partners

Michael Fay



Director

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Michael is a Chartered Accountant, Registered Company Auditor and holder of a Certificate of Public Practice and has over 13 years experience within a professional practice environment in Australia acting as Audit Director for engagements across a wide range of industries and regulatory environments including many NFP organisations.

Office of the Auditor General Western Australia

Mikey Fiorucci

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Appendices



Appendix A – Independence

Independence is fundamental to our ongoing relationship with the Shire of Irwin. We believe that we have complied with all professional regulations relating to auditor independence including those outlined in:

- APES 110 Code of Ethics for Professional Accountants (including independence standards);
and

We are not aware of any other relationships between Pitcher Partners or other firms that are Independent members of the global network of Baker Tilly firms and the Shire of Irwin that, in our professional judgment, may reasonably be thought to bear on independence.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that the AC consider the facts of which you are aware and come to a view.

Appendix B - Future Financial reporting developments

Annual Improvements 2018 -2020 and Other Amendments

AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018 – 2020 and Other Amendments*, applies to annual periods beginning on or after 1 January 2022 with early adoption permitted.

The standard amends a number of standards including AASB 1 *First-time Adoption of Australian Accounting Standards*, AASB 3 *Business Combinations*, AASB 9 *Financial Instruments*, AASB 116 *Property, Plant and Equipment*, AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and AASB 141 *Agriculture*.

Who is impacted

The standard will apply to for-profit and not-for-profit entities.

Application and impact

AASB 1 – simplifies the application of the standard by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences

AASB 3 – updates the references to the Conceptual Framework for Financial Reporting

AASB 9 – clarifies the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability

AASB 116 – requires an entity to recognise the sale proceeds from selling items produced while preparing PP&E 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 – specifies the costs that an entity includes when assessing whether a contract will be loss making.

AASB 141 – removes the requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in AASB 141 with those in other Australian Accounting Standards.

Early adoption

In order to apply this standard to periods commencing before 1 January 2022 it will need to be early adopted.



Appendix B - Future Financial reporting developments

Other standards issued and effective within the next 12 months

New pronouncement	Effective date	Application
<i>AASB 2020-7 Amendments to Australian Accounting Standards - Covid-19-Related Rent Concessions: Tier 2 Disclosures</i>	1 July 2021	All entities with no public accountability
<i>AASB 2020-9 Amendments to Australian Accounting Standards – Tier 2 Disclosures: Interest Rate Benchmark Reform (Phase 2) and Other Amendments</i>	1 July 2021	All entities with no public accountability
<i>AASB 2014-10: Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	1 January 2022 *	All entities

* The AASB has decided to further defer the application date of this standard to 1 January 2025, noting the IASB has deferred the commencement date indefinitely. The amending standard has not yet been issued at the date of this publication.

Appendix C - ASIC focus areas 2021

ASIC focus areas and lodgement relief for 30 June 2022 financial reports

ASIC have outlined its focus areas for 31 December 2021 financial reports of listed entities and other entities of public interest [21-342MR].

The COVID-19 conditions impact all areas of focus noted below, and the ASIC FAQs and Focus areas media release provide relevant factors to consider.

Asset values

- Impairment of non-financial assets considering assets (such as goodwill and intangibles with indefinite lives) that must be tested annually and indicators of impairment for other assets.
- Values of property assets considering COVID-19 impacts and the treatment of rental concessions.
- Appropriateness of key assumptions used in determining expected credit losses on loans and receivables.
- Values of other assets such as inventories, investments and deferred tax assets.

Provisions

Consider the need for provisions in areas such as onerous contracts, financial guarantees given and restructuring.

Events occurring after balance date

These should be reviewed to determine if they affect balance date amounts or related to new conditions requiring disclosure.

Disclosures in the financial report and the Operating and Financial Review (OFR)

Generally ASIC consider that disclosures should be specific to the entity and highlight changes from the previous period.

Disclosures in the financial report should focus on:

- Estimation uncertainties, changing key assumptions and sensitivities
- The appropriate classification of assets and liabilities between current and non-current categories.

Disclosures in the OFR should focus on:

- Telling the story of how businesses are impacted by COVID-19 pandemic.
- An explanation of the drivers of the results and financial position, as well as risks, management strategies and future prospects.

Solvency and going concern assessments

The factors outlined that are relevant to solvency and going concern assessment will provide information on areas such as supply changes, overseas exposures, extent of government support, debt refinancing, capital raising and short-term operating cash flows, and general business economic factors.

Other matters

ASIC expects the appropriate accounting and disclosure of each type of support and assistance from government, lenders, landlords and others when material.

ASIC also highlighted the use of non-IFRS profit measures and reminds companies that they should not be presented in a potentially misleading manner.

In relation to half-year reports, additional disclosures need to consider the continuing impacts since 30 June 2021 of COVID-19 conditions and other significant factors.

Other areas ASIC mentions are cloud computing, off-balance sheet exposures, aged care bed licences, future services to be provided by a vendor in a business combination and the treatment of written put options over non-controlling interests.

Relief on reporting deadlines

ASIC has also extended the reporting deadline for unlisted entities to lodge financial reports under Chapter 2M and 7 of the Corporations Act by one month for balance dates from 24 December 2021 to 7 January 2022 inclusive, given possible pressures on audit firm staff resources.



Guidance

Although Shire of Irwin is not governed by ASIC, the ASIC areas of audit focus have been included as they represent good business practice for all entities.

Appendix D - Data security and privacy

Our ability to provide seamless, consistent, high-quality client service worldwide is supported by a well-articulated data privacy and information security strategy.

For the audit of Shire of Irwin, access to Pitcher Partners audit files is restricted to members of the engagement team only.



Appendix E – Cyber Security

The time is now to address your business risk related to cyber security



Insight

Organisations with a turnover of over \$3.0m must comply with the Australian Notifiable Data Breaches scheme, part of the Privacy Act 1988. In 2020, there has been **1,051 notifications** under the scheme.

The total estimated cost of cyber incidents to Australian businesses annually is **\$29 billion** (Australia's Cyber Security Strategy 2020, Australian Government).

The World Economic Forum recently published six principles for Board Governance of Cyber Risk. They are:

1. View cyber security as a business enabler;
2. Understand the economic drivers and impact of cyber risk;
3. Align cyber risk management with business needs;
4. Ensure organisational design supports cyber security;
5. Incorporate cyber security expertise into board governance; and
6. Encourage systemic resilience and collaboration.

Unfortunately, many businesses are learning the impacts of cyber incidents after the fact. The cyber risk faced by businesses is growing exponentially every day due to a number of key contributing factors:

Technology Debt: Companies who have not been keeping up with the latest technology are finding that their legacy systems are insecure and may not be supported by vendors.

Attack Surface: COVID-19 has accelerated "work from home" arrangements and this "Push to Digital" has increased the potential avenue of attack.

Third Party (Supply Chain) Risk: As companies share more information, so does the increase of contagion if a supplier suffers a cyber attack.

Crime Pays: The increase in the availability of tools necessary to execute an attack, including Ransomware as a Service (RaaS), are easily accessible for malicious actors.

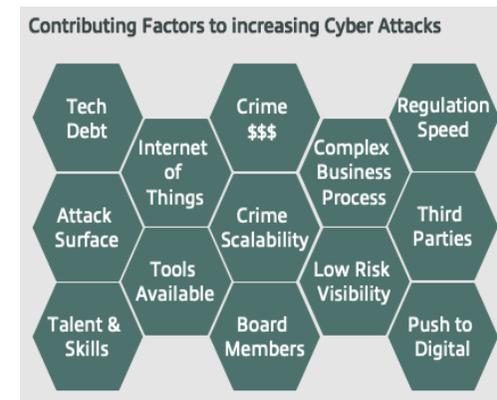
Board Skills: Directors need to make themselves aware of the emerging risks especially cyber security. Many do not come from a technical background and may be blindsided.

A **Cyber Security Strategy and Policy** ensures the appropriate cyber security foundations are established for your business. We work with you to help define cyber security guiding principles, objectives, strategies, policies and controls to protect your organisation.

Consider a **Cyber Risk Assessment** to understand your loss exposure and prioritise investment decisions. It's imperative critical business functions are identified and secured to ensure your residual risk fits within your risk appetite.

We help develop high value cyber strategy that delivers on your business objectives so that you can achieve them sooner.

Prepare for the inevitable, cyber attacks are not if, but when. **Focus on business resilience.**



Appendix E – Cyber Security



Cyber security resilience

Federal government, state governments and regulators such as ASIC, APRA and AEMO are increasingly implementing new legislation and standards to ensure organisations pro-actively manage their cyber security risk. These new standards are enforced through [mandatory breach reporting](#), periodic regulatory reporting and audits and even [law suits](#).

All new standards require organisations to consider their cyber security risk as a business risk that must be managed through a combination of governance, risk management, compliance, HR, IT and legal controls with oversight of executives and, where applicable, the board. As a result this risk cannot be managed by the IT manager or department.

In addition the security standards require organisation to not only implement appropriate security measures within the organisation. Organisations must also consider their security risk as part of doing business with 3rd parties, especially suppliers that provide goods or services to the organisation, given a security incident at a supplier can directly impact organisations' ability to operate and damage their reputation.

Additional guidance on how organisations can secure their organisation can be found here:

- [Federal government: Australian Cyber Security Centre \(ACSC\)](#)
- [Victorian state government: Victorian Protective Data Security Standard \(VPDSS\)](#)
- [ASIC: Cyber resilience good practices](#)
- [APRA: Prudential Standard 234](#)
- [AEMO: Cyber security framework](#)

Appendix F - Other Matters

Software-as-a-Service (SaaS) Arrangements

In March 2019, the IFRIC considered the accounting for SaaS arrangements (the first agenda decision) and concluded that for many such arrangements the substance is that the entity has contracted to receive services rather than the acquisition (or lease) of software assets. This is because, in a cloud-based environment, the SaaS contract generally only gives the customer the right to receive access to the cloud provider's application software, rather than a license over the IP i.e. control over the software code itself.

The second agenda decision, published in April 2021, deals with specific circumstances in relation to configuration and customisation costs incurred in implementing SaaS:

- In limited circumstances, certain configuration and customisation activities undertaken in implementing SaaS arrangements may give rise to a separate asset where the customer controls the IP of the underlying software code. For example, the development of bridging modules to existing on-premise systems or bespoke additional software capability
- In all other instances, configuration and customisation costs will be an operating expense. They are generally recognised in profit or loss as the customisation and configuration services are performed or, in certain circumstances, over the SaaS contract term when access to the cloud application software is provided

This conclusion could result in a reduction in profit in a particular year, impacting measures such as earnings before interest and tax (EBIT), earnings before interest, tax, depreciation and amortisation (EBITDA) and profit before tax (PBT)



Guidance

[Legislation amendment](#)

Appendix F – Other Matters

Accounting for service concession arrangements – Grantors

Key Judgements:

Establish whether the grantor controls the underlying assets

Useful life of the service concession asset

Background:

- A service concession arrangement is a contract between a grantor (public sector entity) and an operator in which the operator has a right of access to an asset or group of assets (referred to as a 'service concession asset') to provide public services on behalf of the grantor for a period of time, and where the operator manages at least some of those services under its own discretion.
- The grantor recognises a service concession asset when the grantor obtains control of the underlying asset. The service concession asset is initially measured at its current replacement cost in accordance with the 'cost approach' under AASB 13, and then amortised over its useful life and is subject to impairment testing.
- The Shire of Irwin will be required to assess whether there are any service concession arrangements in place (if the Shire of has the capacity of grantor) and conclude as to whether any service concession assets require recognition in the financial statements as at 30 June 2022.

[Adelaide](#) [Brisbane](#) [Melbourne](#) [Newcastle](#) [Perth](#) [Sydney](#)

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