



Entrance Meeting

ANNUAL FINANCIAL AUDIT OF THE CITY OF JOONDALUP FOR THE YEAR ENDED 30 JUNE 2022

ATTENDEES:

CITY OF JOONDALUP

Hon. Albert Jacob	Mayor
James Pearson	CEO
Cr John Raftis	Chair-Audit and Risk Committee
Cr Nige Jones	Member-Audit and Risk Committee
Cr John Logan	Member-Audit and Risk Committee
Cr Russ Fishwick	Member-Audit and Risk Committee
Cr Tom McLean	Member-Audit and Risk Committee
Cr Russell Poliwka	Member-Audit and Risk Committee
Richard Thomas	Member-Audit and Risk Committee
Mat Humfrey	Director Corporate Services
Roney Oommen	Manager Financial Services

Office of the Auditor General

Grant Robinson	Assistant Auditor General, Financial Audit
Renuka Venkatraman	Director, Financial Audit
Jing Jing Shen	Audit Manager

Meeting Date & Time:

Tue 1st March 2021 at 545PM-630PM

Location:

City of Joondalup

Agenda

1. Introduction
2. Planning Summary, including:
 - Significant aspects of this year's audit
 - Audit Approach
 - Key Requirements and Schedule for Providing Information
3. Closing Comments

Office of the Auditor General
Western Australia

Annual Financial Report Audit - Planning Summary

City of Joondalup

Year ended 30 June 2022

1 March 2022



1. The Planning Summary

This Summary of our Audit Plan explains our approach to the audit of the annual financial report.

In particular, this Summary includes:

- Introduction
- Our Audit Approach
- Significant Risks and Other Audit Issues
- Audit Emphasis and Significant Account Balances
- Internal Audit
- Management Representation Letter
- Related Entities
- Reporting Protocols
- Proposed Audit Schedule
- Specific Audit Requirements
- Audit Fee
- Your Audit Team
- Other Audit Activities

If there are any matters in the Summary that you would like clarified, please do not hesitate to contact us.

There may be areas where you would like us to increase the audit focus. We would be pleased to discuss these to determine the most efficient and effective approach to performing this work.

2. Introduction

The annual financial statement audit of your local government is one of 139 local governments and 9 regional councils that the Auditor General will perform in the 2021-22 period. We have elected to use our OAG staff to perform your audit in-house.

Our audit approach is designed to specifically focus audit attention on the key areas of risk you face in reporting on your finances and performance.

It is important to note that:

- Under the *Local Government Act 1995* and associated regulations, the Council and the CEO are responsible for keeping proper accounts and records, maintaining effective internal controls, preparing the annual financial report, and complying with the Local Government Act and Regulations, and other legislative requirements.
- An audit does not guarantee that every amount and disclosure in the annual financial report is error free. Also, an audit does not examine all evidence and every transaction. However, our audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the annual financial report.
- The Council and CEO are responsible for ensuring the accuracy and fair presentation of all information in its annual report, and that it is consistent with the audited annual financial report. We do not provide assurance over your annual report.
- Under the *Local Government Act 1995* and associated regulations, the Council and the CEO have responsibility for maintaining internal controls that prevent or detect fraud or error and to ensure regulatory compliance. The Audit Committee and the Auditor General should be informed by management of any fraud or material errors. During the audit we will make inquiries with management about their process for identifying and responding to the risks of fraud, including management override. It should be noted that our audit is not designed to detect fraud, however should instances of fraud come to our attention, we will report them to you.

Our audit is conducted in accordance with Australian Auditing Standards. Our aim is to provide reasonable assurance whether the annual financial report is free of material misstatement, whether due to fraud or error. We perform audit procedures to assess whether, in all material respects, the annual financial report is presented fairly in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards.

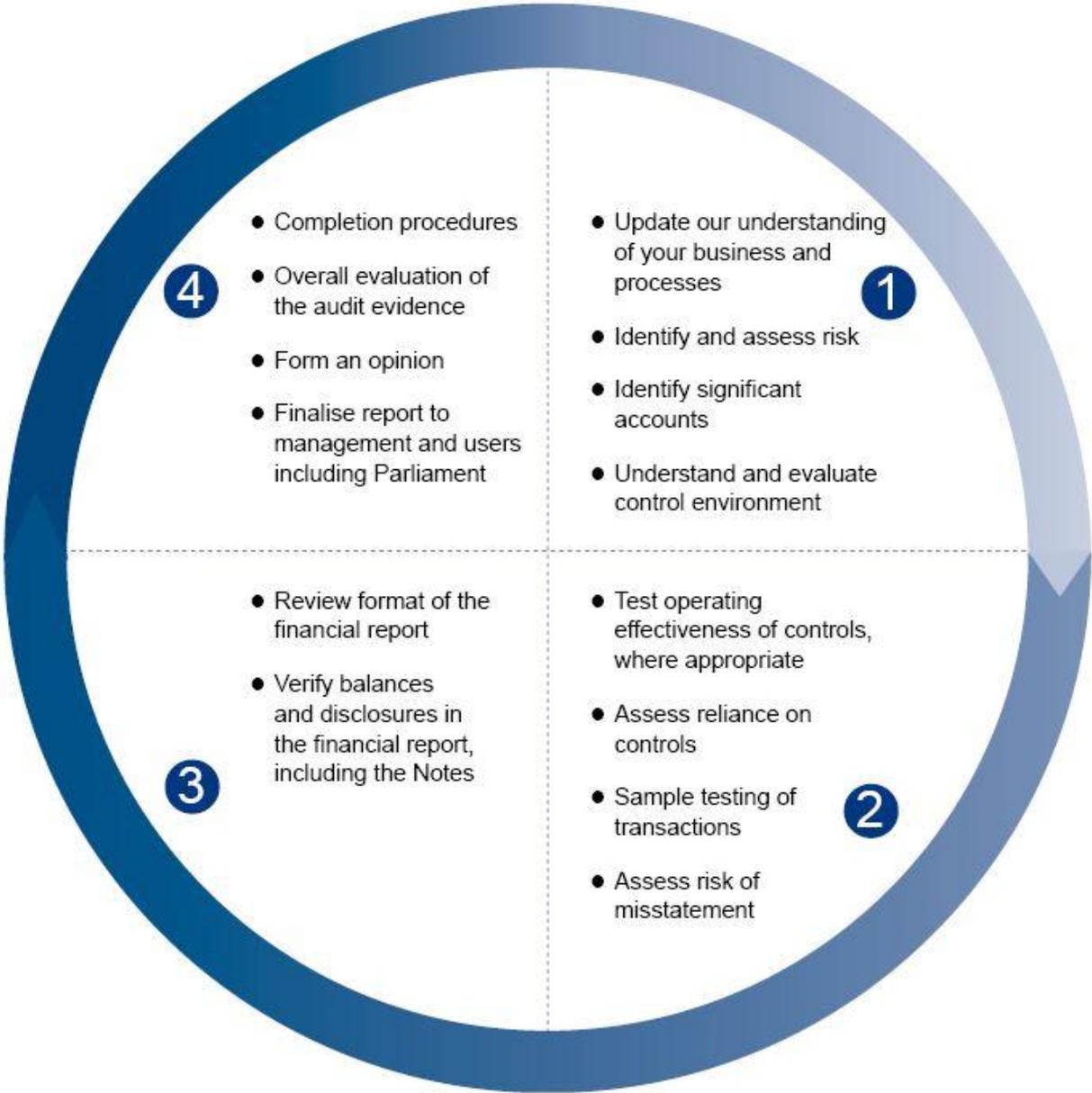
The nature of the audit is influenced by factors such as:

- the use of professional judgement
- selective testing
- the inherent limitations of internal controls
- the availability of persuasive rather than conclusive evidence.

As a result, an audit cannot guarantee that all material misstatements will be detected. We examine, on a test basis, information to provide evidence supporting the amounts and disclosures in the annual financial report, and assess the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by management.

3. Our Audit Approach

Our nationally recognised audit approach comprises four steps:



4. Significant Risks and Other Audit Issues

Through discussions with your staff and the previous auditors, we have identified the following issues and key areas of risk affecting the audit.

Details of Risk / Issue	Audit Approach
<p>Key changes to accounting standards that impact your entity for the first time this year:</p> <ul style="list-style-type: none"> • <u>AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities</u> This Standard sets out a new, separate disclosure Standard to be applied by all entities (including public sector entities) that are reporting under Tier 2 of the Differential Reporting Framework in AASB 1053. This Standard has been developed based on a new methodology and principles to be used in determining the Tier 2 disclosures that are necessary for meeting user needs, to replace the current Reduced Disclosure Requirements (RDR) framework. Please see AASB 1060 Key Facts. <p>Potential key changes to accounting standards that may impact your entity for the first time this year:</p> <ul style="list-style-type: none"> • <u>AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Not-for-Profit Entities</u> The AASB is currently working on a short-term, narrow scope project to clarify some aspects of AASB 15 and AASB 1058. This may result in: <ul style="list-style-type: none"> - Amendment of existing illustrative examples in and/or addition of new illustrative examples to the standards - Educational material to support consistent application of the standards. 	<p>We will review management’s assessment of the impact of the new standards, determine whether, to the extent necessary, your entity has applied the standards correctly, and ensure the financial statements comply with the revised requirements of each standard.</p> <p>We will review management’s assessment of the impact of the new AASB material, determine whether, to the extent necessary, your entity has applied the standards correctly, and ensure the financial statements comply with the revised requirements of each standard.</p>
<p>Audit findings reported in the previous audit:</p> <ul style="list-style-type: none"> • 4 Financial Audit issues (1 Significant, 2 Moderate, 1 Minor) • 24 IS Audit issues (1 Significant, 16 Moderate, 7 Minor) 	<p>We will follow up these issues to assess the extent of action taken.</p>
<p>Local Government Reform changes that may impact for the first time this year</p>	<p>The Local Government Reforms project is currently underway and at this stage it is unclear if there will be any impacts on the City this financial year. We will continue to review developments arising from the reform project and will assess the impact of changes to regulatory requirements and determine whether, to the extent necessary, any changes in controls and processes may be required. We will also ensure that the financial statements comply with new requirements, if any.</p>

Details of Risk / Issue	Audit Approach
Valuation of infrastructure assets (drainage)	We understand that the Drainage asset category is due to be revalued this year (the last date of valuation was June 2017). We will review the valuation methodology and approach adopted to ensure this is in-line with the relevant accounting standards.
Restricted Reserve Accounts	We will review movements within the restricted reserve accounts to ensure they are approved by Council and verify that transfers out are used in accordance with the intended purpose of the respective reserve and agree adequate supporting documentation.
The following annual financial report items are derived from accounting estimates and hence will receive specific audit attention: <ul style="list-style-type: none"> • Provision for annual and long service leave • Fair value of assets • Impairment of assets 	We will review the method and underlying data that management and where applicable third parties use when determining critical accounting estimates. This will include considering the reasonableness of assumptions and corroborating representations.
New financial management systems that impact for the first time this year	We understand that there are no new financial management systems that may potentially impact the audit this year.
Important changes in management or the control environment	No significant changes to the control environment were identified.

5. Audit Emphasis and Significant Account Balances

Our audit approach involves assessing your overall control environment and understanding key business processes/cycles and internal controls relevant to the audit.

This year we will test controls in the Property, Plant & Equipment, Infrastructure and Payroll cycles.

The following business cycles will be reconfirmed, as we understand that there have not been any significant changes since these were last tested:

- Revenue
- Expenditure
- Cash and Financing
- Inventory

The extent of our reliance on controls, together with the materiality level, determines the nature and extent of our audit procedures to verify individual account balances.

Our audit will be split into two components, the interim audit and the final audit.

The interim audit includes:

- understanding your current business practices
- understanding the control environment and evaluating the design and implementation of key controls and, where appropriate, whether they are operating effectively
- testing transactions to confirm the accuracy and completeness of processing accounting transactions
- clarifying significant accounting issues before the annual financial report is prepared for audit.

The final audit focuses on verifying the annual financial report and associated notes, and includes:

- verifying material account balances using a combination of substantive analytical procedures, tests of details, substantiation to subsidiary records and confirmation with external parties
- reviewing the annual financial report and notes for compliance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards.

Information Systems Audit

In addition, we will audit key information systems controls and perform a capability maturity assessment of your information system management processes and controls. This will be based on the assessment of our information system audit staff, but will also give consideration to a self-assessment by your ICT staff. The capability maturity assessment contains changes this year, while not significant, these changes provide increased guidance in the area of Information Security and other audited control categories.

The key objectives of the information systems audit are to:

- Provide a preliminary conclusion over the General IT Controls covering the following:
 - Information Security Framework
 - Access Management
 - Network Security
 - Endpoint Security
 - Human Resource Security
 - Change Control
 - IT Strategy and Planning
 - IT Operations
 - IT Risk management
 - Business Continuity

The planned information system audit approach is as follows:

- Prepare and execute test plans to obtain assurance of the adequacy and effectiveness of controls,
- Interview entity staff and review appropriate documentation,
- Internal vulnerability scans of Finance, HR systems and key operational systems
- Identified,
- Follow up of IS Audit issues raised in previous audits; and
- Complete the IS Capability Maturity Assessment.

The table below lists those items in the Statement of Financial Position and the Statement of Comprehensive Income that are significant account balances, and our planned audit approach for these balances. When selecting significant account balances, we consider materiality, the nature of the balance, inherent risk and the sensitivity of disclosures.

Significant Account	Audit Approach
Cash and cash equivalents	<ul style="list-style-type: none"> • Review internal controls and reconciliations • Verify year end balance through bank confirmations • Analytical review • Review movements within the restricted reserve accounts
Receivables	<ul style="list-style-type: none"> • Year end cut-off testing • Review subsequent receipts • Review provision for doubtful debts • Analytical review
Property, plant, equipment, intangibles, and infrastructure	<ul style="list-style-type: none"> • Review key processes/controls • Verify asset additions and disposals • Assess assets for impairment • Test items posted to construction in progress to assess appropriateness of expenses

Significant Account	Audit Approach
	<ul style="list-style-type: none"> being capitalised • Assess whether carrying amounts approximate fair value • Confirm balances to independent valuation reports
Trade and other Payables	<ul style="list-style-type: none"> • Review of key processes/controls • Test for unrecorded liabilities • Year end cut off testing • Analytical review
Investments in associate	<ul style="list-style-type: none"> • Review key agreements to confirm nature of any changes • Assess movements during the period to ensure they have been correctly recognised and disclosed.
Right-of-use assets	<ul style="list-style-type: none"> • Verifying right-of use assets including addition and disposals, including the relevant assumptions and rates adopted.
Borrowings	<ul style="list-style-type: none"> • Review borrowings agreements and arrangements • Agree amounts to WATC confirmation
Employee related provisions	<ul style="list-style-type: none"> • Review the reasonableness of assumptions and calculations • Agree amounts to actuary/expert's report • Analytical review
Lease liabilities	<ul style="list-style-type: none"> • Review and test contract liabilities recognised at year-end. • Confirm any new or expired lease arrangements • Review internal controls and reconciliations • Review the reasonableness of assumptions and calculations • Verify closing lease liability balances at 30 June
Rates revenue	<ul style="list-style-type: none"> • Review of key processes and controls • Analytical review • Year end cut off testing
Fees and charges	<ul style="list-style-type: none"> • Review of key processes and controls • Analytical review • Year end cut off testing

Significant Account	Audit Approach
Operating grants and subsidies Non-operating grants and subsidies Contributions, reimbursements, and donations Non-operating contributions	<ul style="list-style-type: none"> Review of key processes and controls, including any new grant agreements executed during the period Sample testing of grants and contributions transactions recognised during the period Analytical review Year-end cut off testing
Employee costs	<ul style="list-style-type: none"> Review of key processes and controls Sample testing of transactions Analytical review
Materials and contracts Utility charges Insurance expenses	<ul style="list-style-type: none"> Review of key processes and controls Sample testing of transactions Year-end cut off testing Analytical review
Depreciation and amortisation	<ul style="list-style-type: none"> Review of management's assessment of the useful lives of assets and assess reasonableness. Analytical review

6. Internal Audit

We seek to rely on internal audit work to reduce our own audit work wherever possible. This avoids duplication of audit effort and the associated workload on your operational and administrative staff.

This year, reliance is planned to be placed on internal audits relevant to the following areas:

Audit Topic	Period covered by the audit
Employee to Supplier Relationships	1 July 2021 to 31 January 2022
Payroll Processes, Leave Accruals and Superannuation Contributions	1 July 2021 to 30 June 2022
Monitoring of Leave and Long Service Leave Accruals	1 July 2021 to 30 June 2022

The amount of reliance we place on internal audit depends on the period covered by the internal audit work, and the degree of alignment between our planned controls testing and the testing carried out by internal audit. It is also dependent on the quality of the internal audit function.

7. Management Representation Letter

The above audit procedures assume that management expects to be in a position to sign a management representation letter. The proposed letter for this purpose is attached. This letter should be reviewed and tailored to meet your local government's particular circumstances, and be signed and dated by the CEO and Director Corporate Services as close as practicable to the date of the proposed auditor's report. Ordinarily, this would be no longer than five working days prior to the issue of the auditor's report.

Please bring to the attention of the Mayor that we will also be relying on the signed Statement by CEO in the annual financial report as evidence that they confirm:

- they have fulfilled their responsibility for the preparation of the annual financial report in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulations 1996* and Australian Accounting Standards
- they have provided us with all relevant information necessary or requested for the purpose of the audit
- all transactions have been recorded and are reflected in the annual financial report.

8. Related Entities

Section 7.12AL of the *Local Government Act 1995* applies section 17 of the *Auditor General Act 2006* to a local government. Section 17 requires a local government to advise the Auditor General in writing of details of all related entities that are in existence.

9. Reporting Protocols

Significant issues identified during the course of the audit will be discussed with relevant staff and management as soon as possible after being identified. Draft management letters will be provided to your Director Corporate Services (or other nominated representative) for coordination of comments from appropriate members of your management. We request that these be returned quickly, preferably within 10 working days.

At the conclusion of the audit, the abovementioned management letter will accompany the auditor's report and the audited annual financial report forwarded to the Mayor, the CEO and the Minister for Local Government. The management letter is intended to communicate issues arising from the audit that may impact on internal control, compliance, and financial reporting.

Where considered appropriate, and to ensure timely reporting of audit findings and action by management, interim management letters may be issued to the CEO.

On conclusion of the audit we propose to discuss the audit outcomes with the audit committee, CEO and Councillors.

Thereafter, as required by section 7.12AD(2) of the *Local Government Amendment (Auditing) Act 2017* we will give our auditor's report to the CEO, the Mayor and Minister. We will also give them any management letter issues, including interim management letters.

A copy of the management letter is forwarded to your Minister on completion of the audit. We may also provide the parliamentary Standing Committee on Estimates and Financial

Operations and/or the Public Accounts Committee with copies of the management letters issued for any or all audits during the year.

Specific matters resulting from issues identified during the audit may be reported in an Auditor General’s Report to Parliament. Should this occur, you will be consulted in advance to assure the context and facts of the issue are adequately represented.

10. Proposed Audit Schedule

	Date	
Planning	March 2022	
Information Systems Audit	May 2022	
Interim Audit	23 May-17 June 2022	
Final Audit	3 October-28 October 2022	
Critical Target Dates		
Interim Management Letter	By 1 July 2022	
Final Trial Balance	30 September 2022	*
Receipt of Annual Financial Report	30 September 2022	*
Exit Meeting (week ending)	11 November 2022	
Issue of Auditor’s Report	11 November 2022	

* To be agreed with management at the entrance meeting.

11. Audit Evidence – Specific Audit Requirements

We will discuss our requirements with your staff to facilitate a timely, efficient and effective audit. We will formally agree our information requirements and timeframes for the final audit with your Manager Financial Services using our Prepared by Client Listing. This Listing is intended to help your staff to have various documents readily available when we perform our audit. Please note however that in several instances, particularly during our audit sampling at the interim visits, audit staff will need to retrieve some evidence themselves, rather than being given the evidence by your staff. This is essential for an independent audit.

12. Audit Fee

Our expected audit costs are in the process of being finalised and will be communicated to you shortly. Our indicative fee is based on full cost recovery. It is calculated from an estimate of the

time required by our staff to complete your audit, and includes a proportion of the OAG's financial audit related overheads, for example the cost of preparing reports to Parliament.

We are constantly searching for ways to improve efficiency and reduce audit costs within the constraints of legislative requirements and auditing standards. However, your entity can also contribute to reducing the cost of your audit. A well prepared financial report, working papers, and internal audit programs that dovetail well with the work we are required to perform are some ways that costs can be contained.

Additional costs requiring a supplementary fee can arise from such things as significant accounting issues, errors in the financial report, breakdowns in internal controls, delays in providing information to audit staff, or your staff being unavailable to discuss issues with the audit team. Where circumstances arise that impact on our audit costs we may need to revise the indicative fee at the completion of the audit.

13. Your Audit Team

	Name	Contact
Engagement Leader/Director	Renuka Venkatraman	6557 7574 Renuka.Venkatraman@audit.wa.gov.au
Audit Manager	Jing Jing Shen	6557 7618 JingJing.Shen@audit.wa.gov.au
Other Audit Staff	Ashwinii Sachithanantham	6557 7721 Ashwinii.Sachithanantham@audit.wa.gov.au
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Information Systems Audit Consultant	Kamran Aslam	6557 7582 Kamran.Aslam@audit.wa.gov.au
Assistant Auditor General	Grant Robinson	6557 7526 Grant.Robinson@audit.wa.gov.au

Renuka is responsible for the overall quality of the audit. As your primary contact, Renuka and Jing will communicate progress and any emerging issues to you.

14. Other Audit Activities

The OAG has recently tabled the following reports in Parliament. These are available at www.audit.wa.gov.au along with details of other audits we are currently performing. In reporting, we aim to identify good practice and opportunities for improvement. You may therefore wish to review these reports as they may have relevance to your local government.

Report	Date Tabled
Viable Cycling in the Perth Area	9 Dec 2021
Forensic Audit Report-Establishment Phase	8 Dec 2021
Audit Results Report-Annual 2020-21 Financial Audits of State Government Entities	24 Nov 2021
Cyber Security in Local Government	24 Nov 2021
WA's COVID-19 Vaccine Roll-out	18 Nov 2021
Water Corporation: Management of Water Pipes-Follow-Up	17 Nov 2021
Roll-out of State COVID-19 Stimulus Initiatives: July 2020-March 2021	20 Oct 2021
Local Government COVID-19 Financial Hardship Support	15 Oct 2021
Public Building Maintenance	24 Aug2021
Staff Exit Controls	5 Aug 2021
SafeWA-Application Audit	2 Aug 2021