

Mr Peter Shinton  
Mayor  
Warrumbungle Shire Council  
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COONABARABRAN NSW 2357

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2 November 2017

Dear Mr Shinton

**Client Service Report**  
**for the year ended 30 June 2017**  
**Warrumbungle Shire Council**

We have audited Warrumbungle Shire Council (the Council's):

- General purpose financial statements (GPFS); and
- Special purpose financial statements (SPFS) for the Council's Declared Business Activities
- Special schedule No.8 'Permissible Income Calculation (the Schedule).

This Client Service Report (the Report) informs the General Manager and the Mayor of audit findings relevant to them in their role as one of those charged with governance. It gives you and the General Manager the opportunity to assess the audit findings, before signing the representation letter and the Statements by Council and Management required for the GPFS and SPFS under section 413 (2)(c) of the *Local Government Act 1993* (the Act). We will inform you if significant new matters are found while finalising the audit.

An audit is designed to obtain reasonable assurance the financial statements are free from material misstatement. It is not designed to identify all matters of governance interest, nor is it conducted to express an opinion on the effectiveness of internal control. Matters of governance interest identified during the audit are included in the Report.

## AUDIT OUTCOME AND REPORTS

### Audit result

We are likely to express an:

- unmodified opinion on the general purpose financial statements
- unmodified opinion with an emphasis of matter regarding the 'special purpose' nature of the special purpose financial statements for Declared Business Activities
- unmodified opinion on the Special Schedule No. 8 'Permissible Income Calculation'

The Independent Auditor's Reports will be signed on 2 November 2017 after the outstanding matters listed below are completed and the signed financial statements and management representation letter are received.

### Report on the Conduct of the Audit

We will issue the Report on the Conduct of the Audit required by section 417(3) of Act at the same time as the Independent Auditor's Report. The Report on the Conduct of the Audit will incorporate comments we consider appropriate, based on the audit of the Council's financial statement.

### Other audit reports

The 2018 Auditor-General's Report to Parliament will incorporate the results of the audit.

A Management Letter will be sent to you during November 2017. I believe these matters are not significant and have therefore not mentioned them in this report.

## AUDIT FINDINGS

### Significant Matters

There were no significant matters that came to my attention during the audit.

### Key issues and audit risks

The Client Service Plan, sent on 9 May 2017, identified key issues affecting the Council and how the audit team planned to respond to them.

These audit issues and risks were satisfactorily addressed during the audit.

### Misstatements

Auditing Standards require matters of governance interest and significant misstatements, identified during the audit, to be brought to your attention.

Management can reduce the risk of misstatements and help facilitate an efficient and timely audit by

- ensuring controls over the preparation of the financial statements are properly designed, implemented and operating effectively
- rigorously reviewing the financial statements before they are submitted for audit.

We encourage the correction of errors in the year they occur as postponing correction distorts the result reported in the current year and subsequent years.

### General Purpose Financial Statements (GPFS)

The GPFS contained misstatements. Appendix 1 lists and explains the nature and impact of these misstatements on the GPFS:

- Table One reports significant uncorrected misstatements individually.
- Table Two reports the effect on the reported operating result of misstatements individually that have not been corrected in the period in which they occurred.

The GPFS contained several minor inconsistencies with the Local Government Code of Accounting Practice and Financial Reporting Update No. 25. However, these disclosure deficiencies were not material to the financial statements taken as a whole.

### **Special Purpose Financial Statements (SPFS)**

#### **i. Declared Business Activities**

The SPFS for Declared Business Activities did not contain misstatements.

#### ***Special Schedule No 8 'Permissible Income Calculation' (the Schedule)***

The Schedule did not contain misstatements.

### **Rural Fire Service (RFS) Assets**

As at 30 June 2017, the Council has exercised the option available in the Local Government Code of Accounting Practice and Financial Reporting not to recognise certain rural fire service assets. RFS assets, specifically the red fleet vehicles, are vested in the Council. Combined with other indicators, there is the presumption that they are controlled by the Council and should be recognised in Council's financial statements. This is supported by analysis of the *Rural Fires Act 1997* and service agreements between councils and the RFS.

The following are indicators of 'control' by the Council:

- assets are vested in the Council per the Rural Fires Act 1997, giving Council the legal ownership
- as land owner, Council has the responsibility for fire mitigation and safety works under the Rural Fires Act 1997
- the service agreement allows the RFS use of the assets for fire mitigation and safety works within the Council's area
- Council is responsible for maintaining the assets but has transferred this responsibility to the RFS through the service agreement
- in the event of the loss of an asset, the insurance proceeds are used to reacquire or build a similar asset, which is again vested in the Council.

We have assessed the overall impact, which has resulted in the understatement of infrastructure, property, plant and equipment by \$5.5 million and depreciation expense by \$2.8 million. We have assessed that there is no significant impact on reported ratios in the financial statements with reference to the industry benchmarks. The Appendix lists and explains the nature and impact of this misstatements on the general purpose financial statements.

### **Accurate Financial Reporting**

The financial statements were submitted on 14 August 2017 containing immaterial errors and disclosure deficiencies. Section 412 of the LG Act requires the Council to keep accounting records necessary to correctly record and explain its financial transactions and its financial position. Consequently, the audit team is obliged to report any contraventions of this provision.

Accurate and timely financial reporting is key to sound financial management. Preparing high quality financial statements in a timely manner is essential for effective decision-making, managing public funds and public accountability. Next year, the Council can improve the accuracy and timeliness of the financial reports and facilitate an efficient and effective audit through:

- ensuring the revaluation of operational land and building has been completed before our interim audit visit.
- resolving financial reporting issues early and seeking advice if required;
- lodging financial statements to audit within agreed timeframes;
- IT "super user" access audit log monitoring;
- giving high quality and complete work papers to the audit team by the agreed dates; and

- informing the audit team of significant accounting issues as they occur.

## IT Privileged Access

Australian Auditing Standards require the audit team to gain an understanding of the Council's information systems, specifically those supporting business processes relevant to financial reporting. An effective IT control environment helps support the continued reliability of system based information used in our audit. We have identified privileged user access control observations in relation to Civica Authority, which will be reported in our management letter.

## Council entities

We have identified that the Council has three council entities, as defined in section 415(5) of the *Local Government Act 1993*:

- Macquarie Regional Library (disclosed in Note 19 of the financial statements)
- North West Weight of Loads Group (not disclosed in the financial statements)
- Southern Phone Company Limited (not disclosed in the financial Statements)

The Local Government Amendment (Governance and Planning) Bill 2016 amended the *Local Government Act 1993* (the Act) in respect of council entities. Section 415(4) of the Act relates to the auditing of council entities and section 415(5) of the Act defines a council entity. We understand that some of the above council entities prepare financial statements that are audited by a third-party auditor. We have not audited the financial statements of the above council entities as the Act does not appoint the Auditor-General as the independent statutory auditor of council entities. The Auditor-General's obligations with respect to auditing council entities are satisfied through performing those audit procedures necessary to form an opinion on the Council's consolidated general purpose financial reports.

## Compliance with legislative requirements

The Client Service Plan and Terms of Engagement explain that audit procedures are targeted specifically towards forming an opinion on the Council's financial statements. This includes testing whether the Council has complied with legislative requirements that may materially impact the financial statements. The matters below are reported in this context.

Audit procedures did not identify reportable findings on the Council's compliance with legislative requirements.

## Outstanding matters

The following matters are outstanding at the date of this Report:

- subsequent events procedures
- receipt of management's signed representation letter
- receipt of the signed Statement by Councillors and Management

Resolving these matters promptly will help ensure the timely issuance of the Independent Auditor's Report.

## THE AUDIT PROCESS

### Management co-operation

The audit team appreciated the co-operation and help received from the Council's staff, in particular the finance team.

### Next year's audit

We welcome your comments on the audit process.

Yours sincerely

Lawrissa Chan  
Director, Financial Audit Services

cc: Leeanne Ryan, Acting General Manager

## APPENDIX ONE – GENERAL PURPOSE FINANCIAL STATEMENTS

**Table One: uncorrected monetary misstatements and disclosure deficiencies**

### Uncorrected monetary misstatements

The following uncorrected monetary misstatements were identified and discussed with management. Management believes the effect of not correcting these misstatements is immaterial, individually and in aggregate, to the financial statements taken as a whole. The audit team agrees with management's determination and does not consider the uncorrected misstatements significant enough to modify the opinion in the Independent Auditor's Report. However, management must attach these uncorrected misstatements to the Representation Letter. These misstatements were discussed with Leeanne Ryan, Acting General Manager on 30 August 2017.

Description	Assets	Liabilities	Retained earnings/equity	Comprehensive income
Effect of potential correction	Increase/ (decrease)	(Increase)/ decrease	(Increase)/ decrease	(Increase)/ decrease
	\$'000	\$'000	\$'000	\$'000
<b>Factual misstatements</b>				
Revenue cut off error 2015/16	-	-	(112)	112
Creditors cut off issues	-	(160)	-	160
Overstatement of employee entitlements	-	353	-	(353)
Error in Bad Debts Journal entry	-	-	-	(102)/102
	-	193	(112)	(81)
<b>Judgemental items</b>				
Rural Fire Service assets was not recorded ('red fleet' assets)	5,505	-	(5,505)	-
Depreciation expense for rural fire service assets	(2,948)	-	2,581	367
<b>Subtotal</b>	<b>2,557</b>	<b>193</b>	<b>(2,924)</b>	<b>367</b>
<b>Total impact if misstatements were corrected</b>	<b>2,557</b>	<b>193</b>	<b>(3,036)</b>	<b>286</b>

### Uncorrected disclosure deficiencies

There were no significant uncorrected disclosure deficiencies.

## Table Two: Effect of misstatements on the reported operating result

To fully understand the current year's financial result, those charged with governance should consider the impact of misstatements from previous years corrected in the current period and current period errors that remain uncorrected.

This table illustrates the effect of misstatements that have not been corrected in the period in which they occurred.

Description and Effect	Net income
	(Increase)/ decrease
	\$'000
<b>Operating result as reported</b>	(4,662)
Current year misstatements that have not been corrected	286
<b>Adjusted current year operating result</b>	<b>(4,376)</b>