

## **Minutes of Audit and Risk Committee Meeting**

Held on

**Monday 4 July 2022 at 5.30pm**

**Held at Council Chamber, 83 Mandurah Terrace, Mandurah**

### **PRESENT:**

COUNCILLOR	P ROGERS [Chairperson]	TOWN WARD
COUNCILLOR	R BURNS	TOWN WARD
COUNCILLOR	J GREEN	COASTAL WARD
COUNCILLOR	A ZILANI	NORTH WARD
COUNCILLOR	A KEARNS	EAST WARD (Deputising for Councillor C Knight)
MAYOR	R WILLIAMS	
MR	W TICEHURST	INDEPENDENT MEMBER

### **ELECTED MEMBERS OBSERVING:**

COUNCILLOR	D WILKINS	EAST WARD
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### **GUESTS:**

MR	J LANFORD-SMITH	OFFICE OF THE AUDITOR GENERAL
MS	L LAI	ERNEST & YOUNG
MS	B TAN	ERNEST & YOUNG
MR	M NEWMAN	CHIEF EXECUTIVE OFFICER
MS	C MIHOVILOVICH	DIRECTOR BUSINESS SERVICES
MS	J THOMAS	DIRECTOR PLACE AND COMMUNITY
MR	J CAMPBELL-SLOAN	DIRECTOR STRATEGY AND ECONOMIC DEVELOPMENT
MR	M HALL	DIRECTOR BUILT AND NATURAL ENVIRONMENT
MRS	T JONES	EXECUTIVE MANAGER GOVERNANCE SERVICES
MRS	A DENBOER	ACTING MINUTE OFFICER

## 1. OPENING OF MEETING

The Chairperson declared the meeting open at 5.30pm.

## 2. APOLOGIES

### Apologies

Councillor C Knight

Councillor D Pember

## 3. IMPORTANT NOTE

The purpose of this Committee Meeting is to discuss and make recommendations to Council about items appearing on the agenda and other matters for which the Committee is responsible. The Committee has no power to make any decisions which are binding on the Council or the City of Mandurah unless specific delegation of authority has been granted by Council.

No person should rely on or act on the basis of any advice or information provided by a Member or officer, or on the content of any discussion occurring, during the course of the meeting. The City of Mandurah expressly disclaims liability for any loss or damage suffered by any person as a result of relying on or acting on the basis of any advice or information provided by a Member or officer, or the content of any discussion occurring, during the course of the Committee meeting.

## 4. RESPONSE TO PREVIOUS QUESTIONS TAKEN ON NOTICE

Nil.

## 5. AMENDMENT TO STANDING ORDERS

### **AR.1/7/22 STANDING ORDERS LOCAL LAW 2016**

The Chairperson advised the meeting that the *City of Mandurah Standing Orders Local Law 2016* will be modified to ensure Council Members and the public can participate in and follow the meeting as it progresses.

### **MOTION**

**Moved:** Councillor P Rogers

**Seconded:** Councillor A Zilani

**That the Audit and Risk Committee:**

1. **Suspend the operation of the following provisions of the *City of Mandurah Standing Orders Local Law 2016* for the duration of this electronic meeting to ensure Committee Members and the public can follow and participate in the meeting as it progresses:**
  - 1.1. **Standing Orders 3.3 Public Question Time pertaining to public participation in meetings continues via electronic means with public submissions received to be read aloud by the Presiding Member at the relevant agenda item if required.**

- 1.2. **Standing Order 7.2 Members to occupy own seats whilst present in meeting room. Relevant only for Elected Members attending the Council Chambers.**
- 1.3. **Agree under Standing Orders 8.1(1) and 12.2, that instead of requiring a show of hands, a vote will be conducted by exception with the Presiding Member calling for those Members against each motion. If no response is received the motion will be declared carried and minuted accordingly.**
- 1.4. **Reiterate the requirement as per Standing Order 7.3 for Members to advise the Presiding Member when leaving or entering the meeting at any time.**

CARRIED: 7/0

## **6. PUBLIC QUESTION TIME**

Nil.

## **7. PRESENTATIONS**

### **7.1 ERNST AND YOUNG: EXTERNAL AUDIT PLAN**

Mr Landford-Smith, Office of the Auditor General and Ms L Lai, Ernst and Young presented to the Committee on the External Audit Plan for the year ending 30 June 2022. The audit is conducted on behalf of the Office of the Auditor General in accordance with Australian Auditing Standards and practices.

## **8. DEPUTATIONS**

Nil.

## **9. CONFIRMATION OF MINUTES**

**AR.2/7/22 CONFIRMATION OF MINUTES WEDNESDAY 9 MARCH 2022**

### **MOTION**

**Moved: Councillor J Green**  
**Seconded: Councillor A Zilani**

**That the Minutes of the Audit and Risk Committee meeting of Wednesday 9 March 2022 be confirmed.**

CARRIED: 7/0

## **10. DECLARATIONS OF INTERESTS**

Nil.

**11. QUESTIONS FROM COMMITTEE MEMBERS**

Questions of Which Due Notice Has Been Given

Nil.

Questions of Which Notice Has Not Been Given

Nil.

**12. BUSINESS LEFT OVER FROM PREVIOUS MEETING**

Nil.

**13. REPORTS FROM OFFICERS**

See Item 16.

**14. LATE AND URGENT BUSINESS ITEMS**

Nil.

**15. CONFIDENTIAL ITEMS**

**AR.3/7/22 CLOSE DOORS**

**MOTION**

**Moved: Councillor R Burns**

**Seconded: Councillor A Zilani**

**That the meeting proceeds with closed doors at 5.55pm in accordance with Section 5.23(2)(h) of the *Local Government Act 1995*, to allow for the confidential discussion of an item.**

**CARRIED: 7/0**

*Members of the media, non-senior employees and persons in the gallery left the meeting at this point. The Acting Minute Officer and Executive Manager Governance Services remained with Senior Officers.*

THE MEETING PROCEEDED WITH CLOSED DOORS AT 5.55PM

**AR.4/7/22 CONFIDENTIAL ITEM: STRATEGIC RISK UPDATE REPORT (REPORT 1)**

Confidential discussion ensued regarding this issue.

Officer Recommendation

That the Audit and Risk Committee note Quarter One and Quarter Two - Strategic Risk Update Report as per Confidential Attachments 1.1

Committee Recommendation

**MOTION**

**Moved: Mayor R Williams**  
**Seconded: Councillor J Green**

**That the Audit and Risk Committee note Quarter One and Quarter Two - Strategic Risk Update Report as per Confidential Attachments 1.1**

CARRIED: 7/0

**AR.5/7/22 CONFIDENTIAL ITEM: STRATEGIC INTERNAL AUDIT MONITORING REPORT (REPORT 2)**

Confidential discussion ensued regarding this issue.

Officer Recommendation

That the Audit and Risk Committee notes the Strategic Internal Audit Plan Monitoring Report as detailed in Confidential Attachment 2.1.

Committee Recommendation

**MOTION**

**Moved: Mayor R Williams**  
**Seconded: Councillor P Rogers**

**That the Audit and Risk Committee notes the Strategic Internal Audit Plan Monitoring Report as detailed in Confidential Attachment 2.1.**

CARRIED: 7/0

**AR.6/7/22 CONFIDENTIAL ITEM: OPERATIONAL INTERNAL AUDIT PLAN 2022/23 (REPORT 3)**

Confidential discussion ensued regarding this issue.

Officer Recommendation

That the Audit and Risk Committee recommend that Council adopts the:

- 1 Strategic Internal Audit Plan 2020/21 to 2022/23 which includes the auditable areas for 2022/23 Financial Year as detailed in Confidential Attachment 3.1.
- 2 Amended Internal Audit Charter as detailed in Confidential Attachment 3.2.
- 3 Amended Internal Audit Manual as detailed in Confidential Attachment 3.3.

Committee Recommendation

**MOTION**

**Moved:** Councillor A Zilani  
**Seconded:** Councillor P Rogers

**That the Audit and Risk Committee recommend that Council adopts the:**

- 1 Strategic Internal Audit Plan 2020/21 to 2022/23 which includes the auditable areas for 2022/23 Financial Year as detailed in Confidential Attachment 3.1.**
- 2 Amended Internal Audit Charter as detailed in Confidential Attachment 3.2.**
- 3 Amended Internal Audit Manual as detailed in Confidential Attachment 3.3.**

**CARRIED:** 7/0

**AR.7/7/22 OPEN DOORS**

**MOTION**

**Moved:** Councillor J Green  
**Seconded:** Councillor A Zilani

**That the meeting proceeds with open doors.**

**CARRIED:** 7/0

THE MEETING PROCEEDED WITH OPEN DOORS AT 7.11PM

**AR.8/7/22 ENDORSE RESOLUTIONS**

**MOTION**

**Moved:** Councillor J Green  
**Seconded:** Councillor A Zilani

**That Council endorses the resolutions taken with closed doors.**

**CARRIED:** 7/0

**16. CLOSE OF MEETING**

There being no further business, the Chairperson declared the meeting closed at 7.14pm.

**CONFIRMED:** .....[CHAIRMAN]

**Attachments to Committee Minutes:**

**Audit and Risk Agenda 4 July 2022  
Presentation**

CONFIRMED

# City of Mandurah

Audit Plan for the year ending 30 June  
2022



Audit and Risk Committee Meeting  
4 July 2022  
Presentation

## Welcome

### Dear Audit Committee members

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

Ernst & Young audit the financial statements of the City on behalf of the Office of the Auditor General (“Auditor General”). The audit will be conducted in accordance with Australian Auditing Standards and practices, to enable the formation of opinions by the Auditor General on the financial statements of the City.

The Auditor General or her representative will be informed of all significant issues as they are identified during the course of the audit and will attend all formal meetings between the City and Ernst & Young.

Our plan has been co-developed with management and we believe it is responsive to your needs in understanding and assessing the appropriateness of the procedures undertaken by us in forming our opinion on the City’s financial statements.

If you have any questions regarding our Audit Plan please reach out to Jordan Langford-Smith at (08) 6557 7609 or Michael Hoang at (08) 9429 2241.



**Go to Executive  
summary**



## Executive summary

<p style="text-align: center;"><b>Areas of audit focus</b></p> <p style="text-align: center; font-size: 2em; color: yellow;"><b>10</b></p> <p>The Areas of Audit Focus and the level of complexity or management judgement to be applied are:</p> <ul style="list-style-type: none"> <li>▶ Valuation of property, plant and equipment, including infrastructure assets</li> <li>▶ Compliance with operational procurement control requirements</li> <li>▶ Revenue recognition for rates, fees and charges</li> <li>▶ Recognition of grants, subsidies and contributions</li> <li>▶ Capitalisation of IT implementation costs</li> <li>▶ Classification of borrowings</li> <li>▶ Accuracy of employee benefits expense</li> <li>▶ Analysis of cash backed reserves</li> <li>▶ Treasury and hedge accounting</li> <li>▶ Accuracy of related party transactions</li> </ul>	<p style="text-align: center;"><b>Our audit approach</b></p> <p>We seek to take a control based approach for the following processes:</p> <ul style="list-style-type: none"> <li>▶ Payroll to cash disbursements</li> <li>▶ Procurement to payables.</li> <li>▶ IT General Controls</li> </ul> <p>A substantive approach will be adopted for areas of significant management judgement, which includes the valuation of property, plant and equipment and infrastructure assets at fair value.</p>
<p style="text-align: center;"><b>Planning materiality</b></p> <p>We apply a percentage of operating expenses as our quantitative materiality level of the City of Mandurah. Our audit procedures will be designed to assist in identifying errors or misstatements, which cumulatively exceed our materiality level. Any individual errors greater than our adjustment listing scope, which come to our attention, will be reported to management and the Audit Committee.</p>	<p style="text-align: center;"><b>Independence</b></p> <p>We will confirm our independence throughout the audit and remain in compliance with APES 110 Code of Ethics for Professional Accountants independence requirements.</p>

## Areas of Audit Focus

Set out below are the areas of significant audit focus and a description of our planned approach.

### Valuation of property, plant and equipment, including infrastructure assets

#### Background

- ▶ At 30 June 2021, the City carried property, plant and equipment and infrastructure assets of \$254.428 million and \$698.379 million on its balance sheet, respectively
- ▶ In November 2020, the Department of Local Government, Sport and Culture Industries gazetted amendments to the Local Government (Financial Management) Regulations 1996 act introducing regulatory changes to reduce cost and reporting burdens on local government entities, including the City of Mandurah
- ▶ Under the amendments, plant and equipment is required to be held at depreciated cost. The City's plant and equipment was previously subject to revaluations and was last valued by the City in 2019
- ▶ In addition, the City will no longer be required to revalue land, buildings and infrastructure asset classes to fair value every three years. This has now been extended to be a five year cycle instead unless the fair value is materially different to the carrying amount at the end of the financial reporting date
- ▶ However, given the current market condition which may result in carrying value of these assets materially different from its fair value, management is planning to advance the valuations to current year, as follow:

Asset class	Latest revaluation	Planned revaluation
Land & Buildings	2019	2022
Infrastructure	2018	2022
Other - Land Improvements	2019	2022

#### Planned audit approach

- ▶ We will enquire with management and perform a walkthrough of the capitalisation of capital expenditure to work in progress and the transfer of work in progress to the appropriate asset class to identify key controls for testing
- ▶ We will obtain and review the latest revaluations performed by managements expert and perform assessments to corroborate and concur with managements experts' conclusions. We will involve our valuation experts as part of the process.
- ▶ We will consider the existence of internal and external indicators of impairment which may trigger an impairment assessment
- ▶ We will discuss with management to understand how the impact of the COVID-19 pandemic will be factored into account in the valuation of the assets and management impairment assessment and consult with our valuation specialists for the reasonableness
- ▶ We will evaluate the reasonability of the useful lives of depreciable assets against the accounting policies of the City
- ▶ For a representative sample of depreciable assets, we will re-calculate the depreciation expense for the accounting period
- ▶ We will test a representative sample of additions and disposals to property, plant and equipment to supporting documentation; for example, quote, and vendor invoices.

## Compliance with operational procurement control requirements

### Our understanding

- ▶ Purchases of goods and services are subject to the operational procurement controls codified under regulation 11A of the Local Government (Functions and General) Regulation 1996 as follows:
  - ▶ The City must implement a purchasing policy in relation to contracts for the supply goods or services where the consideration under the contract is \$250,000.
  - ▶ A purchasing policy must make provision in respect of (a) the forms of quotations acceptable and (b) the retention of all written information in respect of quotations received and purchases made.
- ▶ Payments for goods and services are subject to the operational procurement controls codified under regulation 11 and 12 of the Local Government (Financial Management) Regulations 1996 as follows:
  - ▶ A local government must implement a procedure for the authorisation and payment of outstanding accounts.
  - ▶ A local government must develop procedures for the approval of accounts to ensure that before settlement, a determination is made that the related debt was incurred by a person with the appropriate delegated authority.

### Our perspective

- ▶ We will enquire with management and perform a walkthrough of the procurement to payables process to identify key controls for testing. The scope of our walkthrough will capture tendering and quotation, authorisation of purchases and payments and vendor masterfile maintenance
- ▶ We will evaluate the adequacy of key controls implemented by the City in addressing the operational procurement control requirements under the regulations
- ▶ We will communicate control deficiencies or process improvement opportunities to the Audit Committee
- ▶ We will inspect the trade and other payables reconciliations and test material reconciling items, if any
- ▶ We will test a representative sample of trade payables to supporting documentation, such as vendor invoices, progress certificates and subsequent payments
- ▶ We will perform tests of unrecorded liabilities for payments after balance date
- ▶ On a sample basis, we will select purchases and traced to the tender documents published on the City's website.
- ▶ We will perform substantive analytical review procedures by comparing significant trade payables at 30 June 2022 against the prior period and preparing a monthly fluctuation analysis on materials and contracts expenses to identify any anomalies or outliers.

## Revenue recognition for rates, fees and charges

### Background

- ▶ The City recognises revenue in line with AASB 1058. For the year ended 30 June 2021, the City recognised revenue of \$115.500 million. The composition of revenue is weighted to rates of \$80.354 million and fees and charges of \$26.322 million
- ▶ The City continues to recognise prepaid rates, which are rates received in advance, as a financial liability until the taxable event occurs and the revenue will be recognised in the appropriate year
- ▶ Under AASB 1058, contributions to a local government, may be received in the form of involuntary transfers such as rates and parking infringements. Such contributions are recognised as income when the local government obtains control over them, irrespective of whether any restrictions or conditions are imposed on the use of the contributions
- ▶ Revenue is recognised to the extent that it is probable that the economic benefits will flow to the City and the revenue may be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, considering contractually defined terms of payment and excluding taxes or duties
- ▶ Control over involuntary, non-reciprocal contributions is established when the underlying transaction or event giving rise to control of the future economic benefits occurs (for example, control over parking infringements is established when the fine is issued).

### Planned audit approach

- ▶ We will enquire with management and perform a walkthrough of each material revenue stream to identify and test key controls
- ▶ We will perform tests of revenue cut-off about balance date
- ▶ We will perform substantive analytical procedures by comparing revenue streams against the prior period and budget to identify any unusual or unexpected trends
- ▶ We will perform substantive analytical procedures by recalculating rates revenue, benchmarked to gross rental valuations and unimproved valuations from Landgate and the budgeted rates approved by the Council
- ▶ We will review the reasonableness of management's expected credit loss model on infringement receivables.

## Recognition of grants, subsidies and contributions

### Background

- ▶ For the year ended 30 June 2021, the City recognised grants, subsidies and contributions of \$16.9 million which were accounted for under AASB 1058 *Income of Not for Profit Entities* ("AASB 1058") or under AASB 15 *Revenue from contracts with customers* ("AASB 15").
- ▶ AASB 1058's timing of income recognition depends on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service), or a contribution by owners, related to an asset (such as cash or another asset) received by an entity. It is noted an agreement is considered a contract with a customer in the scope of AASB 15 if the agreement is an enforceable contract and sufficiently specific promises for the NFP to transfer goods or services to the customer, or third-party beneficiaries
- ▶ For transactions that are not within the scope of AASB 15, AASB 1058 provides guidance on when income should be recognised. Where there is no enforceable contract and performance obligations, revenue is recognised immediately under AASB 1058
- ▶ Pursuant to the terms of a grant contract, the funder may request a refund for (a) unspent grants or (b) in the situation where monies were expended for reasons other than the stated objective of the grant
- ▶ The City carries an unspent grants reserve in equity to recognise the carry forward of available funding for incomplete grants in ensuing financial years.

### Planned audit approach

- ▶ We will enquire with management and perform a walkthrough of grants, contributions and subsidies process to identify key controls for testing
- ▶ We will inspect the terms and conditions of material contracts to better understand the obligation, if any, to refund unspent monies
- ▶ We will obtain and review new grant contracts and variations entered into for the year ended 30 June 2022, on a sample basis.
- ▶ We will test the receipt of material grants to supporting documentation, such as bank statements and contracts
- ▶ We will test the utilisation of the unspent grants reserve for the year ended 30 June 2022 to source documentation, such as vendor invoices and employee timesheets
- ▶ We will perform tests of cut off around balance date to assess whether revenue transactions were recorded in the correct accounting period.

## Capitalisation of IT implementation costs

### Background

- ▶ In November 2020, the City implemented the TechOne ERP system, a cloud based software. The system went “live” from 1 November 2020, with all balances transferred from the previous system as at 31 October 2020.
- ▶ Revenue processing continues to operate in the existing Civica system and was scheduled to transition to Technology One ERP system in October 2021. This is however delayed with a new transition date in November 2022.
- ▶ During the financial year ending 30 June 2022, management continues to incur consulting costs to in relation to the setup of the revenue module within TechOne system.
- ▶ Management must assess if the costs incurred are capital or operating in nature to capitalise or expense the costs accordingly.
- ▶ Similar to last year, TechOne invoices are financed by MAIA Financial Pty Limited (“MAIA”) via a number of long-term loan agreements.

### Planned audit approach

- ▶ We will obtain a listing of costs incurred during the year in relation to the implementation of the new accounting system and review management accounting for the cost
- ▶ For costs capitalised, we will review management’s assessment to determine if the costs incurred meet the criteria to be capitalised as an asset. ‘
- ▶ For configuration and customization costs incurred related to a Software as a Service (SaaS) arrangement, we will review management’s assessment to determine if such costs should be recognised as a separable intangible software asset or expenses in accordance with IFRIC agenda decision published in April 2021.
- ▶ We will review the financing arrangements with MAIA and ensure appropriate accounting measurement/classification.

## Classification of borrowings

### Our understanding

- ▶ At 30 June 2021, the City had current and non-current borrowings of \$5.7 million and \$18.9 million, respectively
- ▶ The current and non-current classification is based on expected repayment as approved in the statutory budget and the loan agreements with the bank.
- ▶ The loan facilities are secured over the general funds and income, entitlements and receipts arising from the general rates, of the Council (“Secured Property”).
- ▶ The loan facilities are subject to Debt Service Cover Ratio covenant, where the Council must ensure that at all times the Debt Service Cover Ratio is less than 8%. Debt Service Cover Ratio is calculated as the aggregate of Principal, Interest and fees, divided by Operating Revenue.

### EY perspective

- ▶ We will obtain and review all signed agreements for borrowings.
- ▶ We will recalculate the debt service cover ratio and conclude whether the City complies with financial covenants at 30 June 2022.
- ▶ We will obtain and agree the loan amount to bank confirmations, including relevant maturity dates. We will check if the City has official & independent roll-over confirmations from the respective banks to be able to classify any loans as non-current.

## Accuracy of employee benefits expense

### Background

- ▶ At 30 June 2021, the City carried provisions for annual leave and long service leave of \$4.390 million and \$5.266 million on its balance sheet, respectively.

### Provision for long service leave

- ▶ Long service leave entitlements are recognised as a liability based on the present value of the benefit obligation using the projected unit credit valuation method
- ▶ AASB 119 *Employee benefits* ("AASB 119") prescribes discount rates to be utilised in measuring long-term employee benefit obligations
- ▶ The discount rate should be determined with reference to government bond rates at balance date, consistent with the currency and term of the employment benefit.

### Annual leave entitlements

- ▶ The definition of short-term employee benefits set out in AASB 119 was revised in a prior period
- ▶ The revised definition states that only benefits that are expected to be wholly settled within 12 months after balance are classified as a short-term employee benefit
- ▶ Should there be evidence to suggest that employees will not use their accrued annual leave within 12 months of balance date, the annual leave liability should be measured as a long-term benefit and measured using the projected unit credit valuation method
- ▶ Short-term benefits are recognised at the undiscounted amount of the benefit expected to be paid in exchange for services rendered
- ▶ Casual employee's entitlements may not be in accordance with relevant legislation and recent legal precedent.

### Planned audit approach

- ▶ We will perform test of controls across the payroll to cash disbursements process.
- ▶ We will perform substantive analytical procedures, such as an analysis of employee benefits expense disaggregated by month, to identify unusual trends or outliers
- ▶ We will evaluate the retention probabilities used in calculating the provision for long-service leave with reference to historical terminations
- ▶ We will confirm the discount rates used in discounting benefit obligations to present value to publicly available government bond rates
- ▶ We will re-calculate the calculation of gross employee entitlements with reference to source documents on a sample basis; for example, authorised leave request forms and employment contracts
- ▶ We will evaluate and recompute the discounting of annual leave entitlements which are not expected to be settled within 12-months of balance date to its present value
- ▶ We will cross-check the workers compensation accrual to the estimate provided by the Local Government Insurance Scheme in accordance with run-off insurance arrangements
- ▶ We will communicate control deficiencies or process improvement opportunities to the Audit Committee.

## Analysis of cash backed reserves

### Background

- ▶ At 30 June 2021, the City carried cash backed reserves accounts in equity of \$44.768 million
- ▶ Regulation 38.1 of the FMR defines the reserves disclosures to be included in the financial statement as follows:
  - ▶ The purpose for which the monies were set aside
  - ▶ The amounts set aside and expended for the reporting period
  - ▶ The opening and closing balances of the reserves at balance date
  - ▶ When the Council anticipates that the monies held in reserve will be expended
  - ▶ If monies held with a financial institution were insufficient to match the corresponding restricted cash asset carried on the balance sheet:
    - ▶ The extent of the deficiency
    - ▶ The reason for the deficiency
    - ▶ When the Council anticipates that the deficiency will be remedied
  - ▶ If the purpose of the reserves were changed or the monies set aside were used for another purpose:
    - ▶ The purpose for which the monies were used
    - ▶ The amount changed or used
    - ▶ The objects of, and the reasons for, the change or use

### Planned audit approach

- ▶ We will test material movements in cash backed reserves accounts to supporting documentation, such as vendor invoices and employee timesheets
- ▶ We will evaluate the appropriateness of amounts expended against reserve accounts in consideration of the stated objectives authorised by the Council
- ▶ We will test whether the cash backed reserve accounts are supported by restricted cash held with financial institutions and evaluate the extent of any insufficiency, if applicable
- ▶ We will evaluate the completeness and accuracy of the disclosures related to reserve accounts in consideration of regulation 38.1 of the FMR.

## Treasury and hedge accounting

### Background

- ▶ The valuation of hedging instruments involves the use of significant assumptions and judgment in estimating fair value
- ▶ The City currently uses interest rate swaps to economically hedge its borrowings
- ▶ The fair values of interest rate swaps are determined using a valuation technique based on cash flows discounted to present value using current market interest rates
- ▶ The City has not adopted hedge accounting. Therefore, the fair value movements in the hedges are recognised directly in the income statement.

### Planned audit approach

- ▶ We will review the valuation methodology
- ▶ We will test the valuation of derivatives at balance date to test whether they comply with AASB 13 *Fair Value Measurements*
- ▶ We will obtain bank confirmations where relevant.

## Accuracy of related party transactions

### Background

- ▶ At 30 June 2021, the City identified related party relationships with key management personnel
- ▶ Under AASB 124 Related Party Disclosures ("AASB 124"), if an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements
- ▶ At a minimum, disclosures shall include:
  - ▶ the amount of the transactions
  - ▶ the amount of outstanding balances, including commitments
    - ▶ their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement
    - ▶ details of any guarantees given or received
- ▶ provisions for doubtful debts related to the amount of outstanding balances, and
- ▶ the expense recognised during the period in respect of bad or doubtful debts due from related parties.

### Planned audit approach

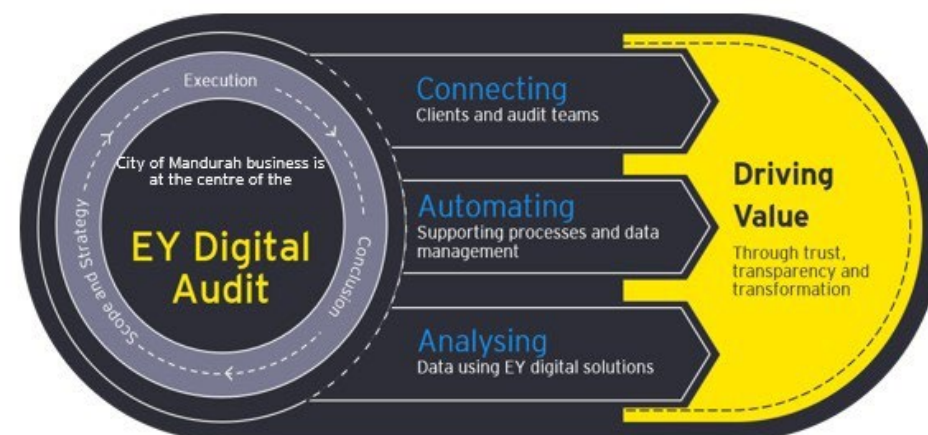
- ▶ We will enquire of management as to the process to identify, appropriately account for and disclose related party relationships and transactions including necessary confirmations with key management personnel
- ▶ We will identify key controls, if any, over related party relationships and transactions, including how they are authorised and approved
- ▶ We will enquire of management as to the nature of relationships between the City and identified related parties to understand their underlying business rationale and whether any transactions with related parties were outside of the ordinary course of business
- ▶ We will inspect bank confirmations, solicitor representation letters, the agenda and minutes to Council meetings and material contracts to evaluate the completeness of related party relationships disclosed by management.

## Digital Audit Approach

Your purpose built digital audit for now, next and beyond

Digitalisation continues to be one of the most important drivers of transformation, especially in these changing times. The effects of the COVID-19 pandemic have disrupted the normal accounting and reporting cycle for many entities and accelerated the digitalisation of working environments. It is even more critical now for companies to share trustworthy and readily available financial information for stakeholders.

- ▶ The City's stakeholders rightfully demand audits of the highest quality
- ▶ The City wants to ensure that audits are leveraging your latest investments in systems, technology and data
- ▶ The City wants greater transparency of the audit process
- ▶ The City expects auditors to ask meaningful and insightful questions about your data throughout the audit



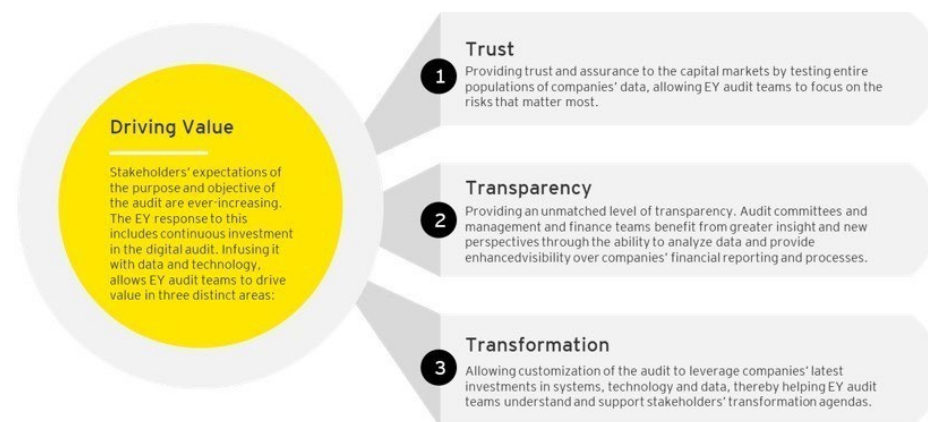
## Data-driven Audit

To meet the expectations of stakeholders, regulators and clients of a modern audit, EY has invested over a \$1bn in new technology, revolutionising our professional practice. This is the EY Digital Audit, the first data-driven audit.

As a result of EY's transformation journey, it stands today as the only global organization with the data, technology and people to provide a globally consistent, fully scalable and data-driven audit.

With the EY Digital Audit analysing large or full sets of data from our clients' data population, we are responsive to the changing risk profiles of our clients. This helps establish trust, not just in our clients' financial reporting but also in the capital markets as a whole. Data-driven procedures can bring insights to management and audit committees alike, enabling them to be proactive in investigating issues and addressing risks. This new level of transparency changes the client experience significantly and helps to make the audit more valuable.

The EY Digital Audit improves the way our auditors look at risk, reduces management burden



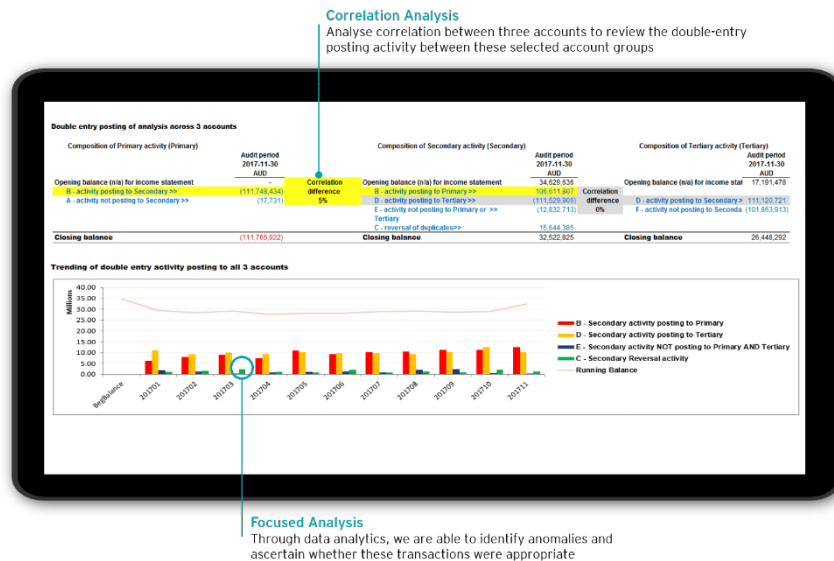
# EY Helix

## General Ledger Analyzer

General Ledger Analyzer uses general ledger data to assist in all phases of the audit.

This Analyzer enables us to deliver you a high-quality audit by:

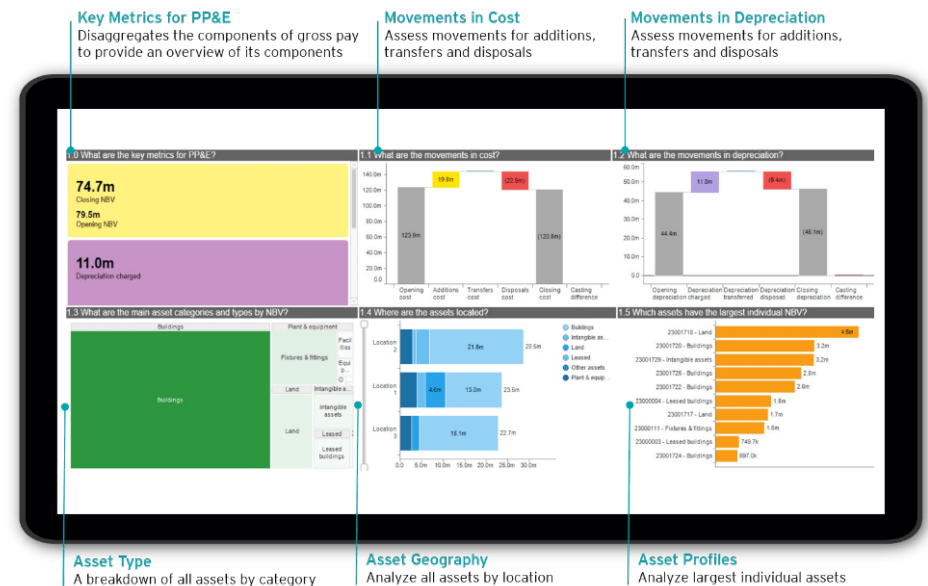
- ▶ Identifying business insights, hidden patterns, correlations and trends in 100 per cent of your general ledger data and direct our investigative effort in the right areas
- ▶ Allowing us a deeper understanding of your business by analysing larger populations of audit relevant data, to present a fuller picture of what happened and identify the risks that matter.



## PP&E Analyzer

The Property Plant and Equipment Analyzer assists with organising and presenting subledger data when performing audit procedures over PP&E.

The Analyzer uses PP&E subledger data, including the fixed asset register to assist in assessing the opening and closing position along with additions, disposals, transfers and depreciation during the period.



## 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 control environment including entity level controls
- ▶ Your internal risk assessment procedures
- ▶ The design and operating effectiveness of internal controls (including IT general controls)
- ▶ Monitoring of controls (including internal audit and self-assessment).

We will report any deficiencies noted in internal controls to the CEO and the Council via a formal management letter process.

### Internal audit

We consider where we can place reliance on internal audit during our audit procedures to minimise duplication and to rely on their work wherever possible.

Where we rely on internal audit work, we will:

- ▶ Understand significant processes and perform walkthrough of a transaction through the entire process
- ▶ Retest a sample of the controls tested by internal audit
- ▶ Adjust substantive audit procedures at year end based upon the results of the testing.

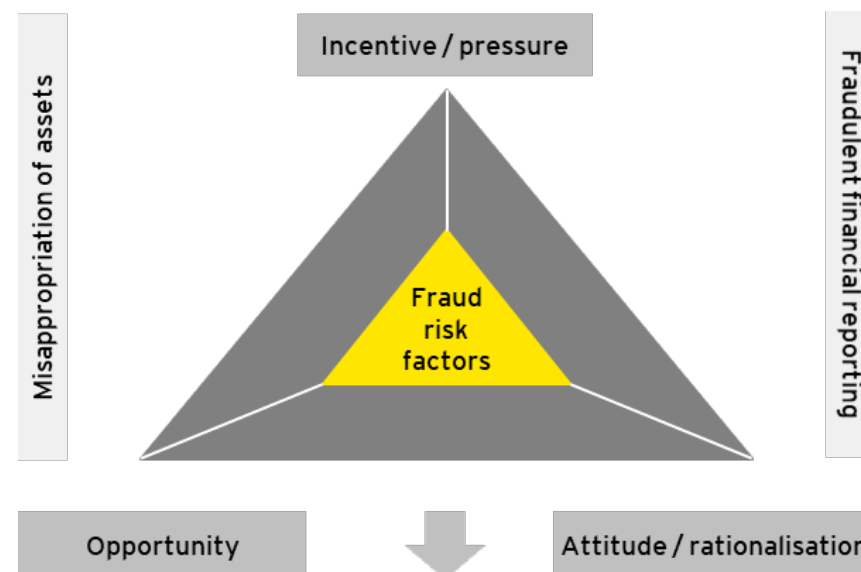
We understand the internal audit will be covering the following areas for FY2021/2022:

- ▶ Statutory Compliance
- ▶ Contract Management
- ▶ Information Technology
- ▶ Human Resources
- ▶ Community grants and sponsorships

## 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 (i.e. incentive/pressure, opportunity and attitude/rationalisation).



## IT General Controls

We intend to place reliance on the IT systems in the City. 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 two key areas:






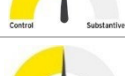



Areas	Descriptions
Access to programs and data	Controls are in place to determine that only authorised persons have access to data and applications (including programs, tables, and related resources) and that they can perform only specifically authorised functions
Change management	Controls are in place to determine that only appropriately authorised, tested, and approved changes are made to applications, interfaces, databases, and operating systems

Our expected reliance on the IT system that underpin your significant accounting processes is as follows:

System	IT General Controls	
	Change management	Logical access
One Council	Effective	Effective

## Controls reliance

We intend to place reliance on IT dependent manual and manual controls which operate across the financially significant processes of the City. Set out below is the level of controls reliance we expect to achieve over the key financial statement processes.

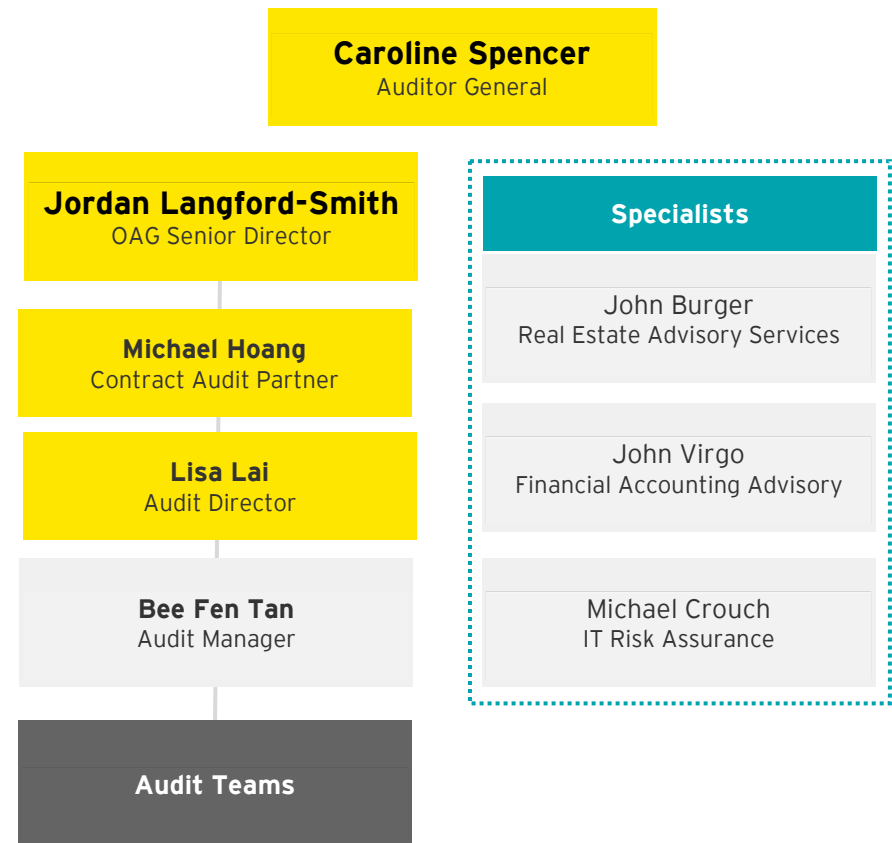
Process	Internal controls	Inherent risk assessment
Revenue - Rates		Lower
Revenue - Fees and charges		Lower
Other income		Lower
Grant contributions and subsidies		Higher
CAPEX		Higher
Payroll to cash disbursements		Higher
Procurement to payables		Higher
Financial statement close		Higher
Compliance		Lower

## Your team

We understand that our team is the most important element of your relationship with us.

A team aligned to your business was selected by Michael and is comprised of individuals who have successfully worked together before. Your team are experienced auditors in government sector entities and bring their collective experiences from their current clients.

Furthermore, we incorporated our embedded specialists from our other services lines to support our planned audit procedures.



## Appendices



### Independence

How we are meeting your independence requirements.



### Data security and privacy

Our digital audit is supported by a well-articulated data privacy and information security strategy.



### Other communications

Provides explanatory guidance on other communication such as new regulatory requirements, etc.



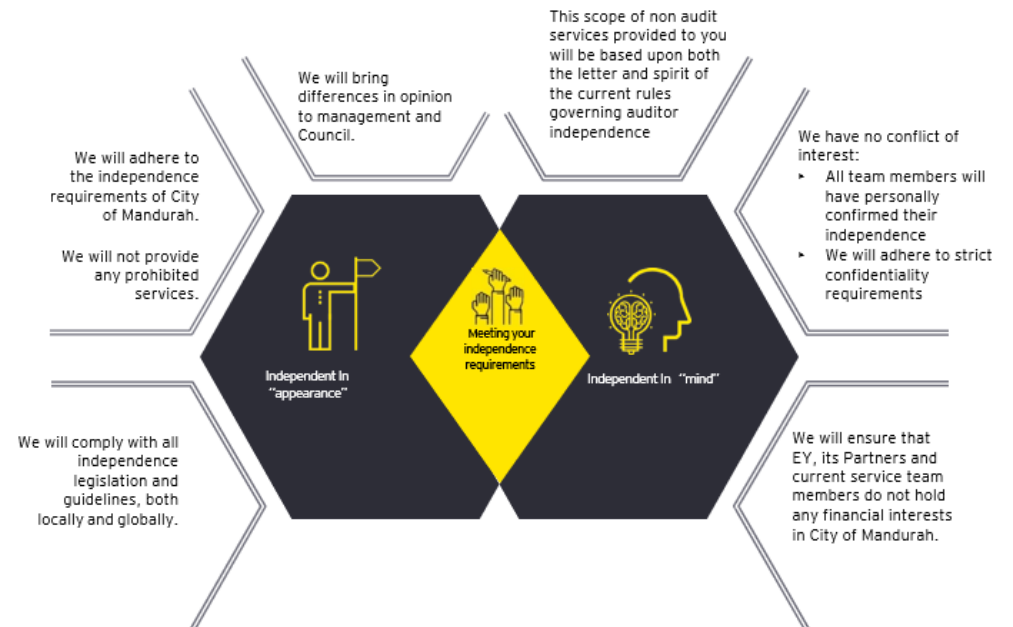
# Independence

Independence is fundamental to EY as our ongoing reputation and success is connected to our ability to meet both the City's and broader regulatory independence requirements.

We have consistently complied with all professional regulations relating to auditor independence, including those outlined in APES 110 *Code of Ethics for Professional Accountants*.

Accordingly, we ensure that there are controls in place and actions taken on a regular basis that mitigate any risks to our independence.

There are no matters that, in our professional judgement, bear on our independence which need to be disclosed to the Audit Committee.



## 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 the City of Mandurah, the following applies:

- ▶ Access to EY Canvas is restricted to members of the engagement team only
- ▶ Audit relevant information is transferred to EY securely via the EY Canvas Client Portal.



**Our global data protection framework is based on principles, policies and controls to govern the integrity and security of client data.**



Data will be securely transferred to and maintained in a secure EY environment



[EY's approach to data protection and information security](#)

## Other communications

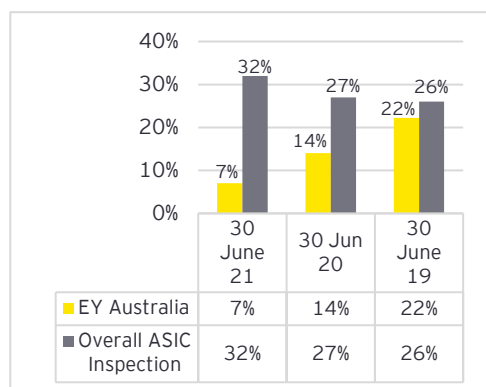
Regulatory

### ASIC's audit inspection program FY21

“ EY gains ground on audit quality as rivals struggle in ASIC review. EY had by far the best results of the six major auditing firms.

*Australian Financial Review*  
30 November 2021

On 30 November 2021, ASIC released the results of its Audit Inspection Program covering inspections undertaken in the 12 months ended 30 June 2021 ([Rep 709](#)), as well as EY's individual report ([Rep 712](#)). A comparison of EY inspection findings to overall inspection results of all audit firms is summarised below.



The EY results reflect a significant improvement from the 14% ASIC reported in 2020. The continued improvement in our inspection results is a testament to the commitment of our people to delivering high quality audits and building the most trusted Assurance practice.

ASIC's inspections are focused on higher risk areas. They select some of the more complex, demanding and challenging audits, and some more significant or higher risk areas of the financial reports. The audits they selected in FY21 were all impacted by COVID-19.

The ASIC report states that auditors do not necessarily agree with all of their findings. Often this is due to differences in judgement.

Finally, ASIC notes the important role Directors and management play in the provision of a quality audit.

EY Australia recognises the contribution of its audit professionals who continued to deliver high quality audits and meet stakeholders' expectations in this most challenging year with remote working, and a severe shortage in talent due to strict border restrictions impacting our ability to recruit skilled audit professionals from overseas.

*As independent auditors, we have an important responsibility in maintaining trust in the capital markets through delivering high quality audits.*

The significant improvement in our ASIC inspection results is a result of EY's investment in its Sustainable Audit Quality (SAQ) program. We respect the ASIC inspection process and for the areas where there have been findings, we endeavour to develop strategies through the SAQ program to ensure similar issues do not occur on other EY audits in the future.

We believe that adopting an approach of categorising inspection findings and acknowledging where differences in professional judgement between ASIC and an audit firm reasonably exist provides greater transparency and a better understanding of the nature of inspections.

EY's commitment to quality starts at the top of our organisation.

- ▶ We have an established culture, embedded through our values, of demonstrating integrity, respect and teaming and building relationships based on doing the right thing.
- ▶ We openly discuss the specific behaviours that contribute to audit quality and how as professionals we incorporate these into our daily activities. These behaviours include maintaining an objective and inquisitive sceptical mindset, knowing the business and industry, calling it like we see it and having open and direct conversations.

We are conscious that we are living in a transformative age with technology reshaping every aspect of business, including ours. We are investing in the right technology to build a truly digital audit that enhances audit quality supported by a focus on simplifying our processes enabling our teams to focus on what matters most in each audit. Our digital road map demonstrates the application of our digital tools on your audit, both now and in the near future.



Liability limited by a scheme approved under Professional Standards Legislation.

This report is intended solely for the information and use of the Audit Committee of the City of Mandurah, and should not be used for any other purpose nor given to any other party without our prior written consent. We disclaim all responsibility to any other party for any loss or liability that the other party may suffer or incur arising from or relating to or in any way connected with the contents of this report, the provision of this report to the other party or the reliance upon this report by the other party.

## **NOTICE OF MEETING**

### **AUDIT AND RISK COMMITTEE**

Members of the Audit and Risk Committee are advised that a meeting of the Committee will be held in the Council Chambers, 83 Mandurah Terrace Mandurah on

**Monday 4 July 2022  
at 5.30pm**

**MARK R NEWMAN**

Chief Executive Officer  
30 June 2022

Committee Members:

Councillor P Rogers [Chairperson]	Mayor Williams
Councillor R Burns	Councillor J Green
Councillor A Zilani	Councillor C Knight [Deputy Mayor]
Mr W Ticehurst	

Deputies:

Councillor D Pember	Councillor A Kearns
Councillor D Wilkins	

# AGENDA

**1 OPENING OF MEETING**

**2 APOLOGIES**

**3 IMPORTANT NOTE**

Members of the public are advised that the decisions of this Committee are referred to Council Meetings for consideration and cannot be implemented until approval by Council. Therefore, members of the public should not rely on any decisions of this Committee until Council has formally considered the resolutions agreed at this meeting.

**4 RESPONSE TO PREVIOUS QUESTIONS TAKEN ON NOTICE**

**5 AMENDMENT TO STANDING ORDERS**

Modification to *Standing Orders Local Law 2016* - electronic attendance at meeting.

**6 PUBLIC QUESTION TIME**

Public Question Time provides an opportunity for members of the public to ask a question of Council. For more information regarding Public Question Time please visit the City's website [mandurah.wa.gov.au](http://mandurah.wa.gov.au) or telephone 9550 3787.

**7 PRESENTATIONS**

**8 DEPUTATIONS**

Any person or group wishing to make a Deputation to the Committee meeting regarding a matter listed on this agenda for consideration must complete an application form. For more information regarding making a deputation please visit the City's website [mandurah.wa.gov.au](http://mandurah.wa.gov.au) or telephone 9550 3787.

**9 CONFIRMATION OF MINUTES 9 MARCH 2022**

Minutes available on the City's website via [mandurah.wa.gov.au/council/council-meetings/agendas-and-minutes](http://mandurah.wa.gov.au/council/council-meetings/agendas-and-minutes)

**10 DECLARATIONS OF INTERESTS**

**11 QUESTIONS FROM COMMITTEE MEMBERS**

11.1 Questions of Which Due Notice Has Been Given

11.2 Questions of Which Notice Has Not Been Given

**12 BUSINESS LEFT OVER FROM PREVIOUS MEETING**

**13 REPORTS**

**14 LATE AND URGENT BUSINESS ITEMS**

**15 CONFIDENTIAL ITEMS**

<i>No.</i>	<i>Item</i>	<i>Page No</i>	<i>Note</i>
1	Strategic Risk Update Report	3-12	
2	Strategic Internal Audit Monitoring Report	13-20	
3	Operational Internal Audit Plan 2022/23	21-72	

**17 CLOSE OF MEETING**