



Office of the Auditor General
Serving the Public Interest

Our Ref: 7897

Mayor
City of Joondalup
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JOONDALUP WA 6919

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Dear Mayor

**ANNUAL FINANCIAL REPORT
INTERIM AUDIT RESULTS FOR THE YEAR ENDING 30 JUNE 2018**

We have completed the interim audit for the year ending 30 June 2018. We performed this phase of the audit in accordance with our audit plan. The focus of our interim audit was to evaluate the overall control environment, but not for the purpose of expressing an opinion on the effectiveness of internal control, and to obtain an understanding of the key business processes, risks and internal controls relevant to our audit of the annual financial report.

Management Control Issues

I would like to draw your attention to the attached listing of deficiencies in internal control and other matters that were identified during the course of the interim audit. These matters have been discussed with management and their comments have been included on the attachment. The matters reported are limited to those deficiencies that were identified during the interim audit that we have concluded are of sufficient importance to merit being reported to management. Some of the matters may be included in our auditor's report in accordance with section 7.9(2) of the *Local Government Act 1995* or regulation 10(3)(a) and (b) of the *Local Government (Audit) Regulations 1996*. If so, we will inform you before we finalise the report.

This letter has been provided for the purposes of your local government and may not be suitable for other purposes.

We have forwarded a copy of this letter to the CEO. A copy will also be forwarded to the Minister for Local Government when we forward our auditor's report on the annual financial report to the Minister on completion of the audit.

Feel free to contact me on 6557 7525 if you would like to discuss these matters further.

Yours faithfully

KELLIE TONICH
DIRECTOR FINANCIAL AUDIT
8 August 2018

Attach

CITY OF JOONDALUP

PERIOD OF AUDIT: 1 JULY 2017 - 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Terminated Employees		✓	
2. Monthly Statement of Financial Activity		✓	
3. Stale Cheques		✓	
4. Manual Rates Rolling Reconciliations		✓	
5. Interim Rate Notices		✓	
6. Borrowings Reconciliations		✓	
7. Payroll Reconciliations		✓	
8. Annual Returns			✓
9. Strategic Community Plan			✓
10. Month End Reconciliations			✓

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

CITY OF JOONDALUP

PERIOD OF AUDIT: 1 JULY 2017 - 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

1. Terminated Employees

Finding

We noted 2 instances where casual Leisure Centre staff were not removed from the payroll system in a timely manner.

We were advised, casual staff who do not provide a resignation letter are removed from the payroll system if they have not been paid within 6 months or as per the advice of the Leisure Centre Coordinators. In both instances the employee was not paid for more than 12 months before being removed from the system.

Rating: Moderate

Implication

Although we did not identify any salary overpayments during our audit, there was an increased risk of making erroneous payments to employees subsequent to them leaving the City's employment.

Recommendation

To help ensure the integrity of the payroll system is maintained and that payments are not made in error to ex-employees, terminated employees should be removed from the City's payroll system in a timely manner.

Management Comment

In the instances noted, there was a specific decision taken by the City to leave these two employees' details on the payroll records beyond the maximum term of 6 months, pending a review of structure in the leisure centres business area.

Responsible Person: Roney Oommen

Completion Date: Completed

CITY OF JOONDALUP

PERIOD OF AUDIT: 1 JULY 2017 - 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

2. Monthly Statement of Financial Activity

Finding

We noted the statement of financial activity for the month of November 2017 was not presented to Council within 2 months as required by Local Government (Financial Management) Regulation 34(4).

Rating: Moderate

Implication

Actions or decisions required as a result of information in these reports may not be carried out in a timely manner.

Recommendation

To help ensure timely presentation of information to Council and compliance with statutory provisions, this requirement should be correctly addressed in the future.

Management Comment

This is acknowledged and noted. Because of the Christmas and New Year period the Council traditionally meets too early in December for the November Activity Statement to be reported at that meeting and Council does not meet again until February. Specifically, on this occasion the November 2017 report was presented to the next available Council meeting after the completion of the report in February 2018. This has been the case for many years and is common to a number of other local governments. The City has proposed, in the review of the Local Government Act 1995, that this requirement be amended to accommodate this scenario.

The rating is considered minor and not moderate. Action in response to matters identified by management reporting are not solely dependent on the Financial Activity Statement reported to Council. February also coincides with the Mid-year Budget Review which is workshopped in detail with Elected Members and reported to February Council.

Responsible Person: Roney Oommen
Completion Date: Completed

CITY OF JOONDALUP

PERIOD OF AUDIT: 1 JULY 2017 - 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

3. Stale Cheques

Finding

Both the municipal and trust bank reconciliations included outstanding cheques dating back to 2005 and 2007 respectively. There was a total of 389 stale cheques found on the municipal bank reconciliation with a total value of \$48,813. The trust bank reconciliation had 49 stale cheques with a total value of \$15,190.

Rating: Moderate

Implication

Whilst not material in dollar terms, stale cheques may result in the City's cash balance not being an accurate reflection of the actual cash position at a point in time.

Recommendation

To help ensure the City's cash position is accurately reflected, stale cheques should be either followed up or written-off accordingly.

Management Comment

The City is reviewing its policy on stale cheques and will determine the most appropriate approach to this, including utilising the unclaimed monies facility offered by the WA Treasury. Options will be investigated and the matter addressed prior to June 2019.

Responsible Person: Roney Oommen

Completion Date: 30 June 2019

CITY OF JOONDALUP

PERIOD OF AUDIT: 1 JULY 2017 - 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

4. Manual Rates Rolling Reconciliations

Finding

The monthly manual rates rolling reconciliations of property valuations were not signed by the preparer or signed by the reviewer as evidence of being independently reviewed.

Rating: Moderate

Implication

Without the reviewer signing and dating the reconciliation, there is insufficient evidence that it has been properly reviewed. There is a risk that internal controls are not being fully applied and that errors may go undetected and/or unresolved. Consequently, there is an increased risk that interim rate notices may not be correct.

Also, if errors occur within the rates module or with the reconciliation process the staff members, being the preparer and independent reviewer, accountable or responsible may not be able to be identified which may lead to additional costs/resources to rectify any errors.

Recommendation

Management should ensure that the monthly manual rates rolling reconciliation is signed and dated by both the preparer and reviewer after they have performed their duties. The review function should be performed by a senior staff member who is independent of its preparation.

Management Comment

This has been addressed with the relevant officers and will be signed off by the appropriate reviewer.

Responsible Person: Roney Oommen

Completion Date: Completed

CITY OF JOONDALUP

PERIOD OF AUDIT: 1 JULY 2017 - 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

5. Interim Rate Notices

Finding

Whilst documenting our understanding of the City's rating processes, we noted interim rate notices are not reviewed by a person independent of preparation before being issued.

Rating: Moderate

Implication

There is an increased risk of errors going undetected and incorrect interim rate notices being issued.

Recommendation

Notices should be independently reviewed by a senior staff member before being issued. Evidence of this review should be retained.

Management Comment

There is a review process performed by an independent staff member; however, the City will ensure that evidence of this review is retained and documented.

Responsible Person: Roney Oommen
Completion Date: 30 November 2018

CITY OF JOONDALUP

PERIOD OF AUDIT: 1 JULY 2017 - 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

6. Borrowings Reconciliations

Finding

The monthly borrowings reconciliations were not signed by the preparer or signed by the reviewer as evidence of being independently reviewed.

Rating: Moderate

Implication

Without the reviewer signing and dating the reconciliation, there is insufficient evidence that it has been properly reviewed. There is a risk that internal controls are not being fully applied and that errors may go undetected and/or unresolved.

Also, if errors occur within the borrowings module or with the reconciliation process the staff members, being the preparer and independent reviewer, accountable or responsible may not be able to be identified which may lead to additional costs/resources to rectify any errors.

Recommendation

Management should ensure the monthly borrowings reconciliation is signed and dated by both the preparer and reviewer after they have performed their duties. The review function should be performed by a senior staff member who is independent of its preparation.

Management Comment

Reconciliations are reviewed on a monthly basis and it is noted that no errors or differences have been identified. However, the City will ensure that evidence of this review is documented.

Responsible Person: Roney Oommen
Completion Date: 31 August 2018

CITY OF JOONDALUP

PERIOD OF AUDIT: 1 JULY 2017 - 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

7. Payroll Reconciliations**Finding**

Reconciliations between payroll system and the general ledger are not being performed on a regular basis. Also when they have been performed they were not signed by the preparer or signed by the reviewer as evidence of being independently reviewed.

Rating: Moderate**Implication**

When reconciliations are not performed on a regular basis, there is an increased risk of errors going undetected or not being corrected in a timely manner.

Without the reviewer signing and dating the reconciliation, there is insufficient evidence that it has been properly reviewed. There is a risk that internal controls are not being fully applied and that errors may go undetected and/or unresolved.

Also, if errors occur within the payroll system or with the reconciliation process the staff members, being the preparer and independent reviewer, accountable or responsible may not be able to be identified which may lead to additional costs/resources to rectify any errors.

Recommendation

To help ensure salary and wage amounts are complete and correctly posted to the general ledger, these accounts in the general ledger should be reconciled every pay run or at least monthly.

Management should ensure the reconciliation is signed and dated by both the preparer and reviewer after they have performed their duties. The review function should be performed by a senior staff member who is independent of its preparation.

Management Comment

The City's payroll system is stand-alone and not linked to the financial system. Payroll files are generated from the payroll system and passed to Finance for processing. The cost files are for uploading into the cost ledger and the bank payment files are loaded to the bank system for approval for payment. Finance review the data that accompanies the payroll cost files and ensure that these reconcile back to the payroll costs being uploaded into the cost ledger. The payroll cost files are also reconciled to the bank payment files to ensure that advances, deductions and other transactions are properly accounted for. Payroll can only load the bank payment file, not authorise it for payment and finance can authorise it for payment but not load it.

The payroll files that are generated from the payroll system are reviewed and signed off within the payroll area as proof of preparation and review against the payroll system. The City will ensure that these reconciliations are performed at least once a month, if not fortnightly, and that preparers and reviewers sign accordingly.

Responsible Person: Roney Oommen
Completion Date: Completed

CITY OF JOONDALUP

PERIOD OF AUDIT: 1 JULY 2017 - 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

8. Annual Returns

Finding

Whilst reviewing the annual returns submitted by Councillors we noted four instances where the annual returns contained sections which were left blank.

Rating: Minor

Implication

When sections of annual returns are left blank, they could be subject to unauthorised alterations.

This is also not in accordance with the recommended practices outlined in Departmental Circular 18-2005 Financial Interest Returns.

Recommendation

To help ensure returns submitted are not at risk of being altered, all sections should be completed. We note it is acceptable to record N/A, Nil or No Change or to rule a clear line through a N/A section. In addition, prior to a receipt being issued, the return forms should be checked by the City's staff to help ensure they are correctly completed.

Management Comment

It is noted that this is a minor matter, however, the City will advise Elected Members completing their next Annual Returns to ensure that no sections are left blank.

Responsible Person: Roney Oommen

Completion Date: 31 August 2018

CITY OF JOONDALUP
PERIOD OF AUDIT: 1 JULY 2017 - 30 JUNE 2018
FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

9. Strategic Community Plan

Finding

We noted the City's current Strategic Community Plan (Joondalup 2022), which was revised in April 2018, only covers up to the 2022 and therefore did not cover 10 financial years (i.e. 2018-2028) as required by Local Government (Administration) Regulation 19C(2).

Rating: Minor

Implication

The City's budgeting process and other integrated plans rely on information included in the City's Strategic Community Plan which, if not representative of the required period, may not accurately reflect the City's plans for the future.

Recommendation

To help ensure accurate plans for the future and compliance with statutory provisions, this requirement should be correctly addressed.

Management Comment

Local Government (Administration) Regulation 19C(2) says that the plan should cover at least 10 financial years. In this respect, the City's Plan meets this requirement as it covers the period 2012-2022. The City is of the view that Regulation 19C(2) does not stipulate this to be on a rolling basis each year, especially when read with Regulation 19C(4), which requires a review at least every 4 years, and with Regulation 19C(6) and (9), which require community consultation before any modification to the plan. It should be noted that a review of the City's plan was completed and the Plan updated in April 2018 which included a number of modifications to the Plan following an extensive community consultation period. The City has interpreted the regulation to require local governments to undertake a minor review every two years and a major review every 4 years without a legislative requirement to extend the period of the Strategic Community Plan by a further 4 years.

The City will soon commence development of a new Strategic Community Plan for the period 2022 – 2032 and will comply with all legislative requirements following the review of the Local Government Act.

Responsible Person: Glenda Blake
Completion Date: Completed

CITY OF JOONDALUP

PERIOD OF AUDIT: 1 JULY 2017 - 30 JUNE 2018

FINDINGS IDENTIFIED DURING THE INTERIM AUDIT

10. Month End Reconciliations

Finding

Whilst the monthly sundry debtors, sundry creditors and fixed asset reconciliations were signed as having been independently reviewed, they were not signed by the preparer.

Rating: Minor

Implication

If errors occur within the sundry debtors, sundry creditors or fixed asset modules or with the reconciliation process the staff member, being the preparer, accountable or responsible may not be able to be identified which may lead to additional costs/resources to rectify any errors.

Recommendation

The monthly reconciliations should be signed and dated by the preparer as evidence of preparation.

Management Comment

This is noted. While the City believes that the evidence of the review is indicated by the reviewer signing the reconciliation as approval, the preparer will also sign in future.

Responsible Person: Roney Oommen

Completion Date: Completed



Our Ref: 7897

Mr Garry Hunt
Chief Executive Officer
City of Joondalup
PO Box 21
JOONDALUP WA 6919

7th Floor, Albert Facey House
469 Wellington Street, Perth

Mail to: Perth BC
PO Box 8489
PERTH WA 6849

Tel: (08) 6557 7500
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Email: info@audit.wa.gov.au

Dear Mr Hunt

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

The Office has completed the audit of the annual financial report for your City. In accordance with section 7.12AD (2) of the *Local Government Amendment (Auditing) Act 2017*, we enclose the Auditor General's auditor's report, together with the audited annual financial report.

We have also forwarded the reports to the Mayor and the Minister for Local Government, as required by the Act. You are required to publish the annual report, including the auditor's report and the audited financial report, on your City's official website within 14 days after the annual report has been accepted by your Council.

The result of the audit was satisfactory. Please note that the purpose of our audit was to express an opinion on the financial report. The audit included consideration of internal control relevant to the preparation of the financial report in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

An audit is not designed to identify all internal control deficiencies that may require management attention. It is possible that irregularities and deficiencies may have occurred and not been identified as a result of our audit. Findings from our interim audit were reported to you on 8 August 2018, following completion of our interim audit.

This letter has been provided for the purposes of the City and the Minister for Local Government and may not be suitable for other purposes.

I would like to take this opportunity to thank you, the management and the staff of the City for their cooperation with the audit team during our audit.

Feel free to contact me on 6557 7525 if you would like to discuss these matters further.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Kellie Tonich'.

KELLIE TONICH
DIRECTOR FINANCIAL AUDIT
14 November 2018

Attach



Audit Concluding Memorandum

City of Joondalup

Year Ended 30 June 2018

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1. Executive Summary

Introduction	<p>Moore Stephens has been engaged by the Office of Auditor General (OAG) Western Australia to perform an audit of the City of Joondalup's (the City) annual financial report for the year ended 30 June 2018.</p> <p>The key purpose of this memorandum is to promote effective communication between the auditor and those charged with governance regarding the completion of the current year's audit.</p> <p>We request management and the Audit Committee to review this document to help ensure :</p> <ul style="list-style-type: none">• the City concurs with the matters raised, and• there are no further significant considerations or matters that could impact the audit and the financial report. <p>This document is strictly confidential and although it has been made available to management and those charged with governance to facilitate discussions, it may not be taken as altering our responsibilities to the City arising under our audit contract with the OAG.</p> <p>The contents of this document should not be disclosed to third parties without our prior written consent.</p>
Audit Status and Report	<p>We are pleased to advise that we have substantially completed our audit of the City's financial report for the year ended 30 June 2018.</p> <p>We intend to recommend to the Auditor General that she issue an unqualified opinion on the audit of the City's financial report.</p> <p>However, in accordance with the Local Government (Audit) Regulations 1996 we also report that in our opinion the following matters indicate a significant adverse trend in the financial position of the City:</p> <ol style="list-style-type: none">a) Operating Surplus Ratio has been below the DLGSCI standard for the past 3 years.b) Asset Sustainability Ratio has been below the DLGSCI standard for the past 3 years.
Key Audit Risks or Focus Areas	<p>We identified key audit risks or audit focus areas as part of our risk assessment procedures undertaken throughout the audit.</p> <p>We are pleased to advise we have satisfactorily completed our audit procedures designed to address those risks and meet our audit objectives. Particulars of the key audit risks and results of the relevant procedures performed are detailed in Section 2 of this memorandum.</p>
Summary of Audit Differences	<p>We did not identify any non-trivial uncorrected audit differences.</p>
Internal Controls Relevant to Audit	<p>We did not identify any significant deficiencies in internal controls. Any non-significant deficiencies that were noted were included in the formal management letter issued after the interim audit.</p>

1. Executive Summary (Continued)

Other Key Matters

We confirm we have had no issues in relation to our independence as auditor of the City, irregularities and illegal acts, non-compliance with laws and regulations, appropriateness of accounting policies and liaison with management.

We have also provided a brief summary of the new accounting standards that may impact the City in the future periods for your due considerations at Appendix 1.

2. Key Audit Risks and Focus Areas

As part of our risk assessment, we identified key audit risks based on our extensive knowledge of the City, the industry and issues faced by metropolitan local governments. This risk assessment process is designed to ensure that we focus our audit work on the areas of highest risk.

This risk assessment and our responses have been updated throughout the engagement to ensure that all areas of material risk are addressed by our audit.

Set out below is an overview of what we have identified as the key audit risks and focus areas for the audit of the City's financial report for the year ended 30 June 2018. The table below also includes our audit procedures performed to address these risks together with the outcomes.

RISK AREAS	AUDIT PROCEDURES TO ADDRESS RISK	CONCLUSIONS
PROPERTY, PLANT AND EQUIPMENT INFRASTRUCTURE		
<p>The City was due for an infrastructure, furniture and equipment and artwork revaluation in the current year. This is a significant industry risk given the judgement applied in determining fair values as well as depreciation expense in accordance with legislation and AASB 13: Fair Value Measurement.</p> <p>The valuation of the City's assets resulted in a decrement of \$22.6mil.</p>	<p>The following is a broad outline of our approach:</p> <p>Property, Plant and Equipment and Infrastructure</p> <ul style="list-style-type: none"> Documented and tested key audit controls around Property, Plant and Equipment and Infrastructure balances. Assessed accounting policies associated with fair value assessments and ensured they are in accordance with accounting standards. Reviewed revaluations, including evaluation of management's expertise/experience. Ensured valuation methodology and assumptions used were reasonable. Substantively tested all additions to the asset classes. Reviewed impairment assessments. Reviewed fair value disclosures to ensure in accordance with AASB13 requirements. <p>Depreciation and amortisation</p> <ul style="list-style-type: none"> Understood and documented depreciation policies relevant to the various asset classes. Documented and tested key audit controls around the calculation of depreciation/amortisation. Performed depreciation recalculations based on our sampling approach. Performed substantive analytical procedures. In addition, given our industry experience, reviewed the determination of applicable depreciation rates and reasonableness in light of any revaluations. 	<p>Based on work performed, we are satisfied the City's fixed assets in particular the revaluation of infrastructure, furniture and equipment and artwork assets and the associated revaluation surplus are fairly stated and disclosed in the 2018 financial report.</p>

2. Key Audit Risks and Focus Areas (Continued)

RISK AREAS	AUDIT PROCEDURES TO ADDRESS RISK	CONCLUSIONS
EMPLOYEE BENEFIT PROVISIONS		
<p>Provisions for annual leave and long service leave involve a degree of management estimation and uncertainty in their calculation in respect of inflation rates, discount factors, timing and probabilities of settlement. There is risk these liabilities may not be captured completely and recognised in accordance with AASB 119: Employee Benefits.</p> <p>As at 30 June 2018, the City reported a total provision of \$12mil.</p>	<p>We documented and tested key audit controls and performed walkthroughs of the systems with a view to rely on the internal controls. We performed substantive test of detail utilising our sampling methodology as well as year end analytical review to add to the level of audit assurance obtained.</p> <p>We also reviewed employee benefit provisions to ensure they are consistent with the payroll records and calculated in accordance with AASB119.</p>	<p>On review of the long service leave provision, it was noted probability factors, inflation rates and discount rates had not been applied in accordance with AASB 119: Employee Benefits. Whilst inclusion of these factors in the calculation for the current year would not have resulted in a material effect to the provision, the provision should be calculated in accordance with the requirements of AASB 119: Employee Benefits.</p> <p>Other than the above, based on work performed, we are satisfied the City's employee benefits provisions are fairly stated and disclosed in the 2018 financial report.</p>
WORKERS COMPENSATION PROVISION		
<p>Provision for workers compensation involves a degree of management estimation and uncertainty in their calculation. There is risk that these liabilities may not be captured accurately and recognised in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets.</p> <p>As at 30 June 2018, the City reported a total provision of \$2.5mil.</p>	<p>We documented and tested key audit controls and performed walkthroughs of the systems with a view to rely on the internal controls. We performed substantive test of details utilising our sampling methodology as well as year end analytical review to add to the level of audit assurance obtained.</p> <p>We also reviewed the workers compensation provision to ensure it was calculated in accordance with AASB 137.</p>	<p>This provision represents the difference between the amount payable to LGIS for worker's compensation insurance and the total exposure to the City in terms of possible worker's compensation amounts payable under the worker's compensation policy.</p> <p>The provision for worker's compensation should be an estimate based on historical information in accordance with the requirements of AASB 137: Provisions, Contingent Liabilities and Contingent Assets. This should be corrected in the future.</p>

2. Key Audit Risks and Focus Areas (Continued)

RISK AREAS	AUDIT PROCEDURES TO ADDRESS RISK	CONCLUSIONS								
REVENUE										
<p>The City's main sources of revenue are:</p> <ul style="list-style-type: none"> • government grants; • rates; and • Other fee for service revenue streams. <p>Given the variety of revenue streams, there is a risk that revenue may not be recognised with relevant accounting standards.</p> <p>For the year ended 30 June 2018, the City has recognised:</p> <table border="1"> <tbody> <tr> <td>Rates</td> <td>\$97.6mil</td> </tr> <tr> <td>Operating grants, subsidies and contributions</td> <td>\$4.8mil</td> </tr> <tr> <td>Non-Operating grants, subsidies and contributions</td> <td>\$10.8mil</td> </tr> <tr> <td>Fees and Charges</td> <td>\$40.4mil</td> </tr> </tbody> </table>	Rates	\$97.6mil	Operating grants, subsidies and contributions	\$4.8mil	Non-Operating grants, subsidies and contributions	\$10.8mil	Fees and Charges	\$40.4mil	<p>Given the nature of local government grants, we substantively tested this revenue to third party documentation and vouched receipt of funds in accordance with our established sampling methodology. Also performed analytical review procedures.</p> <p>With respect to Rates, we performed substantive analytical procedures whereby we documented and evaluated the reliability of data from which our expectation of recorded amounts is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation. We also performed test of details utilising our sampling methodology as well as year-end analytical review to add to the level of assurance obtained.</p> <p>We also reviewed the design and implementation of controls of all main sources of revenue including the rates systems.</p> <p>As part of these procedures, we performed cut-off testing to help ensure revenue is correctly recognised and recorded.</p> <p>In addition, we considered the impact AASB 15 will have on the local government industry and have assessed the comments regarding the impact in the financial report.</p> <p>We consider the nature, complexity and materiality of the revenue transactions in the process of identifying the risk of fraud in revenue.</p>	<p>Based on work performed, we are satisfied the City's revenue is fairly stated and disclosed in the 2018 financial report.</p>
Rates	\$97.6mil									
Operating grants, subsidies and contributions	\$4.8mil									
Non-Operating grants, subsidies and contributions	\$10.8mil									
Fees and Charges	\$40.4mil									

2. Key Audit Risks and Focus Areas (Continued)

RISK AREAS	AUDIT PROCEDURES TO ADDRESS RISK	CONCLUSIONS						
EXPENDITURE								
<p>Expenditure forms a large part of a local government's operations. This takes the form of both operating and capital expenditure.</p> <p>For the year ended 30 June 2018, the City has recognised:</p> <table border="1"> <tr> <td>Employee costs</td> <td>\$61.8mil</td> </tr> <tr> <td>Materials and contracts</td> <td>\$49.8mil</td> </tr> <tr> <td>Depreciation</td> <td>\$30.5mil</td> </tr> </table>	Employee costs	\$61.8mil	Materials and contracts	\$49.8mil	Depreciation	\$30.5mil	<p>For the testing of expenditure, we documented and tested key audit controls and performed walkthroughs of the systems with a view to rely on internal controls.</p> <p>We performed substantive tests of detail based on our sampling methodology as well as year-end analytical review to add to the level of assurance obtained.</p> <p>We paid particular attention to the cost allocation methodology associated with administration allocations, Public Works Overheads and Plant Operating Costs to ensure these are properly allocated as they impact the split between operational and capital expenditure.</p> <p>Specific attention was paid to credit cards, particularly in light of history and our experience of the industry.</p>	<p>Based on work performed, we are satisfied that the City's expenditure is fairly stated and disclosed in the 2018 financial report.</p>
Employee costs	\$61.8mil							
Materials and contracts	\$49.8mil							
Depreciation	\$30.5mil							
MANAGEMENT OVERRIDE OF CONTROLS								
<p>Management is involved in day to day operations and monitoring of the business, which gives them the ability to manipulate accounting records and manipulate financial disclosures by overriding controls in place. Due to the unpredictable way in which such override could occur, this leads to potential fraud risk.</p>	<p>The following procedures were performed:</p> <ul style="list-style-type: none"> • Reviewed journal entries and other adjustments for evidence of possible material misstatements due to fraud; • Reviewed accounting estimates and application of accounting policies for evidence of bias or aggressive accounting practices; and • For significant or unusual transactions, evaluated the business rationale (or the lack thereof) for evidence of fraudulent financial reporting or misappropriation of assets. 	<p>Based on work performed, we are satisfied that the risk of fraud from management override has been reduced to an acceptable level.</p>						
RELATED PARTY DISCLOSURE								
<p>This was a new area of disclosure for local governments commencing for the year ended 30 June 2017.</p>	<p>We reviewed the processes to ensure the required disclosures were adequately addressed and a robust system is in place.</p> <p>Ensured related party transactions are on an arms' length basis.</p>	<p>Based on work performed, we are satisfied that related party transactions are properly disclosed and at arms' length basis.</p>						

2. Key Audit Risks and Focus Areas (Continued)

RISK AREAS	AUDIT PROCEDURES TO ADDRESS RISK	CONCLUSIONS
<p>SIGNIFICANT ADVERSE TRENDS</p> <p>Reporting of any material matters that indicate significant adverse trends in the financial position or the financial management practices of the City relating to the requirements of Local Government (Audit) Regulation 10(3)(a).</p>	<p>We used the statutory ratios disclosed and compared them against industry benchmarks and previously reported ratios. We also assessing how the ratios impact the operations of the City.</p> <p>We also considered whether any breakdowns in systems or procedures highlighted or were indicative of a significant adverse trend in the financial management practices of the City.</p>	<p>Based on work performed, we noted two matters that indicated a significant adverse trend in the financial position of the City, being the City's Operating Surplus and Asset Sustainability Ratios.</p>

Summary of Audit Differences

We are required by the auditing standards to communicate all differences (other than clearly trivial) that we noted during the audit.

The following disclosures were omitted from the City's financial report on the basis that they were considered to be immaterial:

- Sensitivity analysis disclosure in relation to financial risk management as required by AASB 7 Financial Instruments: Disclosures.
- Information with respect to past due receivables which are not impaired as required by AASB 101 Presentation of Financial Statements.
- Information with respect to the expected timeframe for settlement of current portion of employee leave provisions as required by AASB 101 Presentation of Financial Statements.

The table below provides a summary of uncorrected audit differences:

Misstatements	Corrected	Uncorrected
None	N/A	N/A

Internal Controls Relevant to Audit

As part of our planned audit approach, we have evaluated the City's system of internal controls primarily to enable us to determine the appropriate nature and extent of our procedures.

This, however, does not constitute a comprehensive review. Accordingly, the Audit Committee may wish to discuss with management any matters they may have raised with respect to particular systems, which may necessitate a more comprehensive review.

It should be appreciated that our audit procedures are designed primarily to enable us to form an opinion on the financial statements and therefore may not bring to light all weaknesses in systems and procedures which may exist. However, we aim to use our knowledge of the City's organisation gained during our work to make comments and suggestions which, we hope, will be useful to you.

We are pleased to advise that we did not note any significant deficiencies in internal controls. Any non-significant deficiencies that were noted were included in the formal management letter issued after the interim audit.

However, we do note the completion of our audit was delayed due to a number of financial report balances and disclosures not being reconciled prior to our audit visit, in particular the fair value accounting of infrastructure assets. A fully reconciled financial report with all required disclosure notes completed was not provided until towards the end of October. As a result, a significant amount of additional time has been required to update and reconcile our audit working papers.

To help ensure the timely performance of future audit engagements, all reconciliations, disclosures and documentation should be completed prior to the planned audit visit.

Other Key Matters

In accordance with Auditing Standards, we are required to communicate a number of matters with those charged with governance which is covered in the table below.

Matters Considered	Outcome
Ethics and Independence	<p>We have obtained independence declarations from all staff engaged in the audit. We also have policies and procedures in place</p> <p>We confirm that to the best of our knowledge, we met the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to my audit of the financial report.</p> <p>We have further considered the safeguards the Moore Stephens Australia network has in place and we are not aware of any services being provided that would compromise our independence as external auditor.</p>
Fraud and Compliance with Laws and Regulations	<p>We have enquired with the Management regarding the existence of fraud and/or non-compliance with laws and regulations. We have also reviewed the general ledger and minutes for evidence of these.</p> <p>Based on the confirmation obtained from the Management and work performed we are confident that the risk of fraud in relation to financial reporting and non-compliance with laws and regulations is low and have not identified any reportable matters for your attention.</p>
Appropriateness of Accounting Policies	<p>Based on the work performed, we are satisfied that accounting policies used for the preparation of financial report are acceptable financial reporting framework and in accordance with the requirements of the Act, the Regulations and, to the extent that they are not inconsistent with the Act, Australian Accounting Standards.</p>
Appropriateness of the Use of Going Concern Basis of Accounting	<p>Based on the audit evidence obtained up to the date of our auditor's report, we are not aware of material uncertainty exists related to events or conditions that may cast significant doubt on the City's ability to continue as a going concern.</p>
Liaison with Management	<p>We had no disagreements with management about significant audit, accounting or disclosures matters.</p> <p>There were no difficulties encountered in dealing with management related to the performance of the audit.</p>
New Accounting Standards for Future Periods	<p>Please refer Appendix 1 of this document.</p>

Appendix 1: Recent Regulatory and Technical Developments

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for current or future reporting periods, some of which are relevant to the City.

The new and amended pronouncements that are relevant to the City are set out as follows:

Title	Issued / Complied	Applicable ⁽¹⁾	Objective
AASB 9 Financial Instruments (incorporating AASB 2014-7 and AASB 2014-8)	December 2014	1 January 2018	This Standard is to improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.
AASB 15 Revenue from Contracts with Customers	December 2014	1 January 2019	This Standard establishes principles for entities to apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The effect of this Standard will depend upon the nature of future transactions the City has with those third parties it has dealings with. It may or may not be significant.
AASB 16 Leases	February 2016	1 January 2019	Under this Standard there is no longer a distinction between finance and operating leases. Lessees will now bring to account a right-to-use asset and lease liability onto their statement of financial position for all leases. Effectively this means the vast majority of operating leases as defined by the current AASB 117 Leases which currently do not impact the statement of financial position will be required to be capitalised on the statement of financial position once AASB 16 is adopted. Currently, operating lease payments are expensed as incurred. This will cease and will be replaced by both depreciation and interest charges.
AASB 1058 Income of Not-for-Profit Entities (incorporating AASB 2016-7 and AASB 2016-8)	December 2016	1 January 2019	These standards are likely to have a significant impact on the income recognition for NFP's. Key areas for consideration are: <ul style="list-style-type: none"> - Assets received below fair value; - Transfers received to acquire or construct non-financial assets; - Grants received; - Prepaid rates; - Leases entered into at below market rates; and - Volunteer services.

Notes: ⁽¹⁾ Applicable to reporting periods commencing on or after the given date.

The impact of these standards, if any, on the City's financial statements in future periods had been assessed by the management and disclosed in Note 1 to the 2018 annual financial report.

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