



# Golden Plains Shire Council

## Closing Report

For the financial year ended 30 June 2022

Presented to the Audit and Risk Committee on 20 October 2022

## Background

I enclose for your information the closing report for the year ended 30 June 2022. The closing report provides a summary of results of our audit of the Golden Plains Shire Council. The draft closing report was discussed at the Audit and Risk Committee meeting on 20 October 2022.

## Acknowledgement

I also take this opportunity to thank your executive team and staff for the time they made available to us during our audit.

Yours sincerely

A handwritten signature in black ink, appearing to read 'T. Derricott'.

Travis Derricott  
*Sector Director, Financial Audit*

Melbourne  
21 October 2022

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# Introduction

## Purpose of the closing report

- Our closing report summarises the results of our audit and communicates significant findings from the final audit phase.
- Please read this document in conjunction with our Audit Strategy Memorandum issued on 14 April 2022.

## Scope and purpose of the audit

The *Audit Act 1994* requires the Auditor-General to:

- form an opinion on your financial report and performance statement and provide a copy of the audit reports to you.
- provide a copy of the audit report to the Minister of Local Government, and where applicable (i.e., when modified or when the AG directs) to the Assistant Treasurer.

## The Auditor-General

The Auditor-General is:

- an independent officer of the Victorian Parliament
- appointed under legislation to examine on behalf of parliament and taxpayers, the management of resources within the public sector
- not subject to the control or direction of either parliament or the government.



# Audit completion status

We have substantially completed our audit of the financial report and performance statement. We performed our audit in accordance with the *Audit Act 1994* and the terms of our engagement letter. We can provide reasonable assurance that the:

- financial report presents fairly, in all material respects in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Local Government Act 2020* and *Local Government (Planning and Reporting) Regulations 2020*.
- performance statement presents fairly in accordance with the requirements of the *Local Government Act 2020* and *Local Government (Planning and Reporting) Regulations 2020*.

## Expected audit opinion

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Based on our audit, we expect to conclude that the financial report is presented fairly. We also expect to conclude that the performance statement is presented fairly. We expect to issue unmodified audit opinions.

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## Outstanding audit matters

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We can conclude and issue our audit opinions when we finalise our audit process. Outstanding audit matters include:

- completion of the quality assurance review of the audit file
- a review of the latest draft financial report and performance statement
- receipt of signed financial report, performance statement and signed management representation letter
- completion of the review of subsequent events.

**Appendix A** provides a detailed list of all outstanding audit matters.

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# Areas of audit focus

Our audit focused on the financial report balances / disclosures / areas that we rated as higher risk for material misstatement in your financial report and performance statement.

Our procedures enabled us to conclude, with reasonable assurance, whether the risks resulted in a material misstatement. The outcome of our procedures is summarised in this section.

Risk of material misstatement	Our audit response	Results of our key procedures
<p><b>1. Valuation of property, infrastructure, plant, and equipment</b></p> <p>Property, infrastructure, plant and equipment represent a significant part of the Council's total assets (\$498 million as at 30 June 2021), with the majority of these assets carried at fair value.</p> <p>Determining the fair value of these assets is a highly complex process that relies on numerous assumptions underpinning the valuation methodology, the engagement of valuation experts and the use of management's judgement.</p> <p>There are no assets scheduled for full revaluation for 2021-22. Management must assess on an annual basis whether the fair value of land, buildings and infrastructure assets is materially different from the carrying amount at balance date.</p> <p>The financial report may include a material misstatement if the valuation is not performed in line with a suitable methodology, by unqualified experts or is based on inappropriate assumptions and judgements.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>→ reviewed management's assessment of cumulative fair value movements since the last comprehensive revaluation</li> <li>→ reviewed any indexation calculations prepared by management</li> <li>→ assessed the valuer's competence, skills and experience to conduct an appropriate valuation</li> <li>→ reviewed the nature and extent of management's oversight and review of the fair value measurement by valuation experts</li> <li>→ reviewed the valuer's report to evaluate the appropriateness of the methodology adopted and reasonableness of key assumptions and estimates used</li> <li>→ reviewed management's impairment assessments</li> <li>→ verified the accuracy of any revaluation accounting adjustments.</li> </ul>	<p><u>Land and buildings</u></p> <p>Land was subject to a desktop valuation with indices indicating a movement greater than 10%. Out testing indicates the fair value and revaluation increment presents fairly. Buildings were not revalued as the indexation change was assessed as not material, less than 10% by the management based on information from the external valuer.</p> <p><u>Infrastructure assets</u></p> <p>The drainage assets were subject to desktop valuation due to changes in unit rates being greater than 10%. The other categories of infrastructure assets were not subject to desktop valuation as the unit rate changes were assessed as less than 10%. However, as the indexation increment in dollar value amounted to \$21 million, which was greater</p>

## Risk of material misstatement

## Our audit response

## Results of our key procedures

Valuations may be inaccurate due to the judgement and complexities associated with applying AASB 13 Fair Value Measurement. Disclosures may be incorrect or insufficient.

than our performance materiality threshold, a revaluation increment has been recognised. The adjusted audit difference is outlined at

**Appendix B.**

In relation to roads, we noted that management had initially recognised \$6.4 million as a prior year adjustment for overstatement of revaluation surplus in prior year. This amount has been subsequently revised by management to \$4.6 million. The adjusted audit difference is outlined at **Appendix B.**

Based on the audit procedures performed to date, we are satisfied property, infrastructure, plant and equipment are not materially misstated as at 30 June 2022.

The prior period issue regarding the Fixed Assets Register for infrastructure assets was partially resolved. Refer **Appendix D.**

**2. Impact of COVID-19 on financial report**

All levels of governments including the local government sector are taking significant measures in response to the global pandemic.

There is ongoing uncertainty with rapid and evolving responses to this pandemic which impact the way entities operate and, in some cases, there has been and/or will be a requirement to close certain facilities or reduce the provision of services for a period of time to prioritise the health and safety of communities.

During times of significant uncertainty:

We have:

- liaised with management to understand the impact of COVID-19 on your financial reporting (e.g. changes to revenue streams, demand on specific services, impacts on your workforce and associated cost implications, valuation of assets, additional provisioning requirements and cash flows)
- assessed the impact of COVID-19 on your control environment (due to work from home

Satisfactory.

Our audit procedures addressing the risks relating to impact of COVID-19 on the financial report of Golden Plains Shire Council did not identify any significant issues.

## Risk of material misstatement

## Our audit response

## Results of our key procedures

<ul style="list-style-type: none"> <li>• staff morale, wellbeing and decision making may be affected</li> <li>• key resources may be limited or redeployed to areas of critical need, and</li> <li>• internal controls may not operate as intended.</li> </ul> <p>The financial impacts may include:</p> <ul style="list-style-type: none"> <li>• the receipt of and accounting for government grants</li> <li>• the loss of revenue derived from Council operated facilities due to COVID restrictions</li> <li>• rental relief provided or received in response to COVID 19</li> <li>• an increase in activity around hardship with respect to the payment of rates</li> <li>• challenges associated with asset revaluation process due to COVID 19 restrictions</li> <li>• movement in fair values of land, buildings and infrastructure assets</li> <li>• additional cost pressure incurred</li> <li>• specific financial report disclosures highlighting the impact of COVID 19.</li> </ul>	<p>arrangements, changes to financial delegations' limits etc.,)</p> <ul style="list-style-type: none"> <li>→ tested material transactions and balances</li> <li>→ audited the specific disclosures highlighting the impact of COVID-19 and ensure compliance with model LG model financial report template for 2021-22</li> <li>→ scheduled the best timing for audit work to accommodate any additional pressure your organisation may be under in response to the pandemic.</li> </ul>	
<p><b>3. Accounting for the landfill provision</b></p> <p>The landfill restoration provision is a complex calculation that requires management or expert judgement on the following:</p> <ul style="list-style-type: none"> <li>• remaining years of Council's obligation to rehabilitate</li> <li>• Environmental Protection Authority Victoria landfill restoration requirement costs</li> <li>• inflation and discount factors, to bring the value to present value.</li> </ul> <p>This increases the risk of potential misstatement of the landfill restoration provision.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>→ reviewed the landfill provision calculation model</li> <li>→ reviewed inflation, discount and other management estimates used in the landfill provision model</li> <li>→ ensured the provision incorporates all requirements as at 30 June per the Environmental Protection Authority Victoria</li> </ul>	<p>We noted the provision for landfill restoration is based on an assessment completed in 2015 and the liability has remained unchanged since 30 June 2020.</p> <p>We note management is yet to assess whether the estimated cost of planned works and aftercare monitoring activities are representative of costs to be incurred at balance date given the rising cost</p>



## Risk of material misstatement

## Our audit response

## Results of our key procedures

of materials and services and changes in discount rates. We have estimated the provision to be understated by \$0.425 million. The unadjusted audit difference is outlined in **Appendix C**. We have included an issue in our final management letter as key assumptions should be revisited on an annual basis. Refer to **Appendix D**.

#### 4. Implementation of a new payroll system

Council has replaced its existing Payroll system (Synergy Soft) with a new payroll system (Aurion) a new payroll system, (Aurion) in December 2021. Full implementation of all modules in Aurion is expected by end of this financial year.

With any change of this nature, there are the following risks:

- Data may not be accurately or completely transferred into the new system.
- Controls and processes will require amendment under the new system, and the general and application IT controls for the new system may not be designed or operating sufficiently to prevent and detect misstatements.

Data for preparing the financial statements may be inaccurate and incomplete as a result of failure or lack of controls over IT systems.

We have:

- reviewed management's implementation plan, including the controls that was put in place to ensure complete and accurate transfer of data
- reviewed the results of the data migration process, including completeness and accuracy of payroll data
- reviewed and assess the systems and processes for capturing and recording of payroll transactions under the new system
- performed analytical procedures over employee expenses and employee benefits balances.

Satisfactory.

We did not identify any significant issues that could impact the financial statements from the new payroll system which was implemented in December 2021. We were satisfied with management's processes and procedures in place to ensure complete and accurate transfer of data between the two systems.

## Risk of material misstatement

## Our audit response

## Results of our key procedures

The ability to prepare accurate and timely financial reports may be affected in the event of systems breakdowns.

**5. The performance statement may not be prepared in accordance with applicable legislative requirements**

The Local Government (Planning and Reporting) Regulations 2020 specify the indicators to be included in the performance statement.

There is a potential risk that:

- systems in place at the Council may not accurately capture the data required to support service performance outcomes
- incomplete and/or inaccurate data due to inadequate systems may result in material misstatement of the performance statement
- a lack of quality assurance over the preparation of performance statement may also result in significant errors or omissions.

We have:

- reviewed the systems in place to capture the financial and non-financial data
- considered the impact of any changes to systems, processes and internal controls due to COVID 19
- determined the reliability and completeness of the available records for compiling that indicator
- verified figures to supporting documentation
- checked the calculations of reported figures
- assessed the reasonableness of explanations included in the performance statement for material variations
- confirmed that the format of the performance statement complies with legislative requirements.

The performance statement has been prepared in accordance with applicable legislative requirements. Our audit procedures did not identify any significant issues. The adjusted audit differences are outlined at **Appendix B**. An issue has been included in the final management letter regarding the internal quality assurance review process. Refer **Appendix D**.

# Audit findings—financial report

## Materiality assessment

Misstatements are considered material if they individually or collectively could influence economic decisions of users of the financial report. Users could be influenced by either the amount (quantity) or the nature (quality) of the matter.

We have updated the materiality levels indicated in our audit strategy memorandum.

Final overall materiality for the financial report has been set at 5% of 2021-22 PIPE, being \$25.8 million.

Final specific materiality for particular statements, account balances or disclosures has been set at 5% of 2021-22 total expenses, being \$2.3 million.

In our view:

- total uncorrected errors above this amount for particular statements, account balances or disclosures would mislead the users of the financial report.
- risk that there may be material error the financial report increases with the level of accumulated uncorrected error below this threshold.

## Adjusted audit differences

The effect of adjusted audit differences on the financial report is an increase of \$1.9 million in the net result, and an increase of \$24.9 million in net assets. These adjustments relate corrections for depreciation expense for roads in current year and restatement for prior year correction on revaluation surplus of infrastructure assets. We also found differences in the disclosures supporting the financial report, which management adjusted.

**Appendix B** presents the adjusted audit differences.

## Unadjusted immaterial differences

**Appendix C** presents the unadjusted immaterial difference.

## Control environment

The Australian Auditing Standards require us to write to those charged with governance about any significant deficiencies we identified during the audit.

As part of our audit process, we consider, but do not assess or provide an opinion on, the effectiveness of your internal control framework. If we identify any significant weaknesses in internal control during our audit, we communicate them to you in our management letters.

**Appendix D** contains a list of the findings we included in our final management letter.

# Audit findings—performance statement

## Materiality assessment

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Misstatements are considered material if they individually or collectively could influence economic decisions of users of the performance statement. Users could be influenced by either the amount (quantity) or the nature (quality) of the matter.

We set materiality for each indicator reported in a performance statement after we consider the qualitative and quantitative factors that influence each indicator. We cannot set an overall materiality level for the performance statement due to its nature.

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## Adjusted differences

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**Appendix B** presents the adjusted immaterial differences in the performance statement.

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## Unadjusted immaterial differences

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At the date of this report our audit procedures identified certain unadjusted immaterial differences in the performance statement.

**Appendix C** presents the unadjusted immaterial differences in the performance statement.

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## Control environment

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The Australian Auditing Standards require us to write to those charged with governance about any significant deficiencies we identified during the audit.

As part of our audit process, we consider, but do not assess or provide an opinion on, the effectiveness of your internal control framework. If we identify any significant weaknesses in internal control during our audit, we communicate them to you in our management letters.

**Appendix D** contains a list of the findings that we included in our final management letter.

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# Other audit findings

## Fraud, irregularities, or regulatory non-compliance

When performing our risk assessments and conducting our audit procedures, we consider the risk of material misstatement in the financial report and performance statement that may be due to fraud. We are not responsible for preventing or detecting fraud.

Our audit procedures did not identify any specific financial report and performance statement areas of fraud risk or regulatory non-compliance.

## Waste, probity & financial prudence

Our procedures are not specifically designed to detect matters of waste, probity and financial prudence but we may detect these matters.

Our audit procedures did not identify any material issues concerning waste, probity or lack of financial prudence.

## Accounting policies

Your entity's material accounting policies, material transactions and/or events that occurred during the financial year are in accordance with the Australian accounting standards.

## Disagreements with management

No issues noted.

We have appreciated the open discussions with the finance team throughout the audit with respect to the timing, findings for inclusion in our management letter at **Appendix D** and the audit differences, adjusted and unadjusted, as detailed at **Appendix B and C**.

## Difficulties encountered in performing the audit

The 2021-22 audit has been undertaken during a period of continual disruption. The timing of our audit was influenced by the timing of the council's information system implementation and the availability of audit resources. We are appreciative of the Audit and Risk Committee delaying the timing of its meeting to consider the financial report and performance statement.

# Reports to Parliament

## Results of the 2021-22 Audits: Local Government

Golden Plains Shire Council will be included in the *Results of the 2021-22 Audits: Local Government* report. We will table this report post the State election and once the government is sworn in and sitting dates are set. The report will analyse the financial performance and position, and sustainability risks of the local government sector. The report also informs Parliament about the strengths and weaknesses in the control environments at entities within the sector and make recommendations to improve them as appropriate.

We will release an interactive dashboard to accompany the Parliamentary report. This will enable users to visualise:

- sector results over the last five years
- trends and composition analyses for specific entities
- compare results between entities over time.

We may make comment on Golden Plains Shire Council in the body of this report. If this is the case, we will provide you with relevant extracts of the report for your response.

# New and emerging developments



## Financial reporting updates

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### *Financial reporting alerts*

VAGO provides financial reporting alerts on a regular basis on [our website](#).

### *Revenue and income recognition*

AASB 15 *Revenue from Contracts with Customers* has been amended via AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15*.

Through this amendment, the AASB has:

- added an illustrative example 7A to AASB 15 to clarify the requirements of upfront fees providing an example that may be helpful as it is more generic in nature than the AUASB's schools illustrative example in AASB's staff FAQs.
  - deferred its consideration of the whether to extend indefinitely a not-for-profit entity's initial election to measure right-of-use assets arising under concessionary leases at cost or at fair value. The AASB will make this decision after it considers additional guidance for measuring the fair value of right-of-use assets under concessionary leases.
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# VAGO links and resources



VAGO's website

VAGO's role

Annual work plan

Strategic plan

Our reports

Audits in progress

Privacy policy

Financial reporting alerts

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# APPENDIX A

## Outstanding audit matters

The following items are outstanding at the date of this report and need to be resolved before we can issue our audit reports.

Item	Action required	Responsibility
Note 4.2 Materials and services	Completing verification / testing of materials and services expenditure, and related payables	Management and Audit
Draft financial report and performance statement	Review updated versions to confirm acquittal of final queries	Audit
Quality assurance review	Complete review of audit testing performed by the audit team	Audit
Subsequent events update	Provide details of significant transactions and events up to date of signing. Audit will assess for any impact on the financial report	Management and audit
Financial report and performance statement certification	To be signed on adoption of the accounts by the Council	Management
Management representation letter	To be signed on same date as the certification of the financial report and performance statement	Management

After we issue our audit report, we are required to undertake the following procedures. We will report any issues we find to your accountable officer for appropriate remedial action.

Item	Our procedure
Annual report	<p>We will review your annual report to confirm that it includes the correct version of the signed financial report, performance statement and auditor's report. We will also check that all information in the annual report is materially consistent with the financial report and performance statement.</p> <p>We request you provision of an electronic copy of the printers' proof of the annual report.</p>
Website publication of annual report	<p>We will review your annual report on your website to confirm that it includes the correct versions of the signed financial report, performance statement and auditor's report.</p> <p>We request your notification to us of your publication of your annual report on your website.</p>

## APPENDIX B

# Adjusted audit differences

### Adjusted dollar differences

Financial report component(s)	Adjusted \$	Basis for the adjustment
Asset revaluation reserve	Dr 4,598,000	Correction for overstatement of revalued assets – roads in prior year after adjusting the depreciation of sealed and unsealed pavements upon transitioning to the Assetic Fixed Assets register
Accumulated depreciation of property, infrastructure, plant and equipment- Roads	Dr 1,822,000	
Accumulated surplus	Cr 6,420,000	
Accumulated depreciation of property, infrastructure, plant and equipment- Roads	Dr 1,945,000	Decrease in annual depreciation expense of roads calculated by management to account for residual value of sealed and unsealed pavements in the Assetic Fixed Assets register
Depreciation expense of infrastructure assets - Roads	Cr 1,945,000	
Property, infrastructure, plant and equipment – Infrastructure assets	Dr 21,075,000	To record desktop revaluation of infrastructure assets for indexation based on changes in Rawlinson unit rate
Revaluation surplus	Cr 21,075,000	
Non-current asset classified as held for sale	Dr 1,827,000	Reclassification of non-current assets held for sale included in other assets
Other assets	Cr 1,827,000	

## Adjusted differences of disclosures in your financial report and indicators in your performance statement

Financial report disclosure / performance statement indicator	Original disclosure	As restated	Basis for the adjustment
Note 7.1 Council and key management remuneration (KMP) (c) Remuneration of KMP	\$1,071,000	\$1,151,000	To include remuneration of \$79,900 paid to a director for 4 months in the position of a contracted director prior to the present position.
R5- Satisfaction with sealed local roads (Comparative results for 2021)	39	42	<p>The Council has erroneously entered the 2021 comparative service performance indicator result for R5 using the 2020 results per the community satisfaction survey report for 2021.</p> <p>No change to prior year comparative is made in accordance with the practice guide, though the Council can provide information explaining the error and what the correct information should be.</p>

## OFFICIAL

Financial report disclosure / performance statement indicator	Original disclosure	As restated	Basis for the adjustment
C1 - Expenses per head of municipal population	\$1,878.50	\$1,878.34	Figures input into the performance statement worksheet did not agree to the Council's budget, latest draft financial statements and other data sets.
C2 - Infrastructure per head of municipal population	\$18,639.73	\$18,639.90	
C5 - Recurrent grants per head of municipal population	\$558.17	\$550.94	
E2 - Expenses per property assessment	\$3,876.75	\$3,876.42	
L2 - Unrestricted cash compared to current liabilities	135.43%	101.27%	
O5 - Asset renewal and upgrade compared to depreciation	115.03%	115.07%	
OP1 - Adjusted underlying surplus (or deficit)	1.76%	-0.86%	
S1 - Rates compared to adjusted underlying revenue	55.08%	56.55%	

## APPENDIX C

# Unadjusted audit differences

### Unadjusted dollar differences

Financial report component(s)	Adjusted \$	Basis for the difference and the reason/s for not adjusting
Trade and other receivables – GST receivable	Dr 541,000	GST receivable included as accrued income instead of GST receivable which is a component of trade and other receivables shown in Note 5.1 (c) of the Draft Financial Statements.  As the amount is not material, the Council has not reclassified this amount.
Other assets-Accrued income	Cr 541,000	
Financing cost – Unwinding interest effect of provision	Dr 425,000	To recognise the estimated effects of inflation and discounting for provision of landfill restoration
Provision for landfill restoration	Cr 425,000	

## Unadjusted differences of disclosures in your financial report and indicators in your performance statement

Financial report disclosure / performance statement indicator	Current disclosure	Correct disclosure	Basis of our recommendation
None			

## APPENDIX D

# Final management letter

We will provide the final management letter as a separate attachment. Items for inclusion in the final management letter, at the date of this report, include:

### Financial report

- Absence of formalised process for review of payroll reconciliations
- Improvement in managing contributions of non-monetary fixed assets
- Rokewood and Teesdale landfill provision requires update
- Recording of Infrastructure and Property, plant and equipment assets (update to prior year finding)

### Performance statement

- Improving review process over preparation of Performance Statement data inputs



## APPENDIX E

# Management representation letter

As part of gathering audit evidence, we obtain formal management representations about your entity's financial report and performance statement. We look at the completeness, preparation, and presentation of the information in the report and statement.

We do not rely solely on the management representations, except when they are the only evidence reasonably available.

A draft management representation letter has been provided to management.

When forming our audit opinion, we did not rely solely on management representations.