

AUDIT CONCLUDING REPORT

City of Bunbury

Audit for the year ended 30 June 2024



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Executive Summary

The key purpose of this report is to communicate the results of the audit with those charged with governance.

We have performed an audit of the financial report of the City of Bunbury (the City) for the year ended 30 June 2024 in accordance with Australian Auditing Standards ('ASAs').

The purpose of the audit is to express an opinion as to whether the City's financial report fairly represents, in all material respects, the financial transactions of the City for the period ended 30 June 2024 and its financial position at the end of that period in accordance with the *Local Government Act 1995* and, to the extent that they are not inconsistent with the Australian Accounting Standards.

Key Audit Risks or Focus Areas

As part of our audit procedures, we identified key risks based on our knowledge of the industry and experience. This risk assessment process is designed to ensure that we focused our audit work on the areas of highest risk.

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

We are pleased to advise we have satisfactorily completed our audit procedures designed to address these risks and meet our audit objectives, other than those matters noted below (page 9).

Set out below, are what we have identified as the key audit risks and focus areas for the audit:

- Revenue recognition
- Completeness of liabilities and expenses
- Valuation of property, plant and equipment and infrastructure assets
- Accounting for joint arrangements
- Accounting for employee related provisions
- Accounting for rehabilitation costs
- Disclosures in the financial report
- Fraud risk and management override of controls
- Review of the System of Internal Control (including IT General Controls)

Audit Opinion

We will recommend the OAG to issue an unmodified opinion on the audit of the City's financial report.

Receipt of Financial Statements

The date that entities provided their annual financial report to the Office has been recorded for purposes of reporting to Parliament. The date recorded for the receipt of your financial statements was 26 September 2024. The financial statements received on this date were deemed to be audit ready.

Significant Audit and Accounting Issues

Particulars of the significant audit and accounting issues which arose, are included in this section of the report for further consideration, where appropriate. Appropriate action has been taken by management to resolve any issues and there is no further action that we are aware of that needs to be taken prior to signing off the financial report.

Accounting Policies

The 30 June 2024 financial report has been prepared in accordance with the *Local Government Act 1995* and, to the extent that they are not inconsistent with the Australian Accounting Standards. The accounting policies are consistent with those applied in the financial report for the 30 June 2023 year.

We are not aware of any other material changes in accounting policies applied during the financial year. In addition, we are not aware of any significant unusual transactions in controversial or emerging areas.

Our audit procedures included a review of the accounting policies to ensure that they were consistently applied throughout the period.

Adoption of changes to Accounting Standards

We have also considered changes that have occurred in Australian Accounting Standards and other relevant parts of the regulatory framework as part of our audit. There are no significant changes that impacted on the accounting results and disclosure requirements of the City for the year ended 30 June 2024.

No other major accounting standards are coming into force over the next year that have the potential to significantly impact the financial report.

Judgmental Matters and Estimations

The preparation of the financial report requires the use of management judgments and accounting estimates or assumptions, which affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and contingent liabilities. Certain estimates can be particularly sensitive because of their significance to the financial report and the possibility that actual future events affecting them may differ significantly from management's current assumptions and expectations.

In relation to the City, our assessment is that the following account balances are critically affected by management judgments or accounting estimates. Given the nature of the City's revenue, expenses, assets and liabilities - accounting for them is not overly complex nor affected by contentious accounting practices.

Major accounts affected by management judgments or accounting estimates are:

- Accounting for employee related provisions
- Depreciation rates of non-current assets
- Fair value of land and buildings and infrastructure assets

Where necessary we have challenged the judgments of management based on our examination of evidential matter relating to those estimates. We are satisfied that the accounting estimates for the current financial period are reasonable in light of known circumstances. In our view a prudent approach has been adopted by management in applying judgments and in making estimates.

Key Audit Risks and Focus Areas

Revenue recognition

Revenue is being recognised in accordance with AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*. The main revenue generating activities include rates, fees & charges and government grants & contributions. Given the different revenue streams, there is a risk that revenue may not be recognised as required.

Key audit procedures performed were:

- Reviewed the appropriateness of the City's revenue recognition policies for each material revenue streams in accordance with AASB 15 and 1058;
- Performed a walkthrough of the revenue cycles to gain the understanding of the process;
- On sample basis, tested revenue streams to supporting grant agreements, tax invoices and bank statement receipts; and
- On sample basis, tested the recognition of contract liabilities to ensure proper accounting in accordance with AASB 15 and AASB 1058.

Based on procedures performed, we are satisfied that revenue has been recognised appropriately for the year ended 30 June 2024.

Completeness and Accuracy of Liabilities and Expenses

There is an inherent risk that expenditure, and corresponding liabilities (creditors, payroll accruals and expense accruals), are not brought to account in the correct accounting period. Most of the City's

expenses relate to employee benefits expenses, materials and contracts and depreciation. To address the risk of underreporting we:

- Obtained post period end bank statements up until the time of our audit testing and agreed a sample of bank payments to supporting documentation (e.g. tax invoices, payroll reports) to ensure no material unrecorded liabilities at reporting date;
- Supporting documentation was traced to posted expenditure accounting transactions to check if transactions were recorded in the correct accounting period;
- Ensured classification of expenditure transactions have been coded appropriately to their function and activities; and
- Ensured GST has been properly accounted for; and
- Reviewed the fixed asset register for capital transactions that were operational in nature that should have been expensed as repairs and maintenance rather than being capitalised.

From the work performed, we are satisfied that transactions have been recognised in the correct accounting periods and therefore expenditure is accurately recorded for the year ended 30 June 2024.

Valuation of property, plant and equipment and infrastructure assets

These are the biggest classes of non-financial assets reported in the City's statement of financial position where there is a mix of cost (for plant and equipment) and fair value (for land, buildings and infrastructure – revalued every 5 years) accounting involved.

There is an inherent risk given the large balances and nature of assets, and the judgement applied in determining revaluation of land, buildings and infrastructure, depreciation/ amortisation expense including impairment.

Key audit procedures performed were:

- Performed a walkthrough of the fixed assets cycle to gain the understanding of the internal control system processes;
- Assessed accounting policies to ensure they were in accordance with AASB 116 Property, Plant and Equipment, AASB 13 *Fair Value Measurement* and AASB 136 *Impairment of Assets*;
- Sample tested asset additions, disposals and depreciation;
- Reviewed the fair value report for the infrastructure valuation that was performed during the year, including a review of valuation techniques and assumptions applied. We also assessed the valuer's qualifications and expertise; and
- Reviewed management's impairment assessment against the City's circumstances.

Based on procedures performed, we are satisfied that property, plant and equipment and infrastructure assets are reasonable and fairly stated as at 30 June 2024.

Accounting for joint arrangements

The City has the following joint arrangements:

- College Grove Joint Venture with the Department of Primary Industries and Regional Development; and
- Bunbury Harvey Regional Council (BHRC) with the Shire of Harvey.

Given the complex nature of these arrangements, there is a risk these ventures are not appropriately accounted for in accordance with AASB 11: *Joint Arrangements*, AASB 128: *Investment in Associates* and/or AASB 9: *Financial Instruments*.

Key audit procedures performed:

- Enquired with management as to the City's rights and obligations under the ventures and verify this representation to the relevant agreements and prevailing circumstances;
- Followed up on the status of the agreement with the Shire of Harvey for the BHRC;

- Reviewed the City's assessment and accounting treatment relating to the assets or liabilities, ensuring a reasonable approach has been adopted in accordance with AASB 11, AASB 128 and AASB 9; and
- Assessed the adequacy of the required disclosures in the financial report.

Based on procedures performed, we are satisfied that the accounting for joint arrangements is reasonable and fairly stated as at 30 June 2024.

Accounting for employee related provisions

The City's liabilities include employee-related annual leave and long service leave provisions. As at 30 June 2024 the total provision value is \$6mil which represents 17% of the total liabilities value of \$35.2mil. Provisions involve a degree of management estimation and uncertainty in their calculation in respect of present value inputs (inflation rates, discount factors, work costs), timing and probabilities of settlement.

Key audit procedures performed were:

- Reviewed management's assumptions, inputs and calculation of employee related provisions to ensure they are in accordance with AASB 119 *Employee Benefits*; and
- Agreed underlying information to employee employment contracts and approved leave applications.

Based on procedures performed, we are satisfied that the employee related provisions are reasonable and fairly stated as at 30 June 2024.

Accounting for Rehabilitation Costs

The City has disclosed a number of sites that may be possible sources of contamination. Until an investigation is conducted on these sites the City is unable to estimate the potential costs associated with remediation.

Accounting for rehabilitation costs involves a degree of management estimation and uncertainty in their calculation in respect of inflation rate, discount factor and work costs. There is a risk that the asset and the related liability may not be recognised in accordance with AASB 116 Property, Plant, and Equipment and AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

To address this risk we will:

- Enquired about investigation progress made on the sites noted to which there was no progress;
- Assessed the adequacy of the required disclosures in the financial report.

Disclosures in the Financial Report

The City, as a class 1 local government, is required to disclose information in relation to:

- Auditor remuneration;
- Contingent assets and liabilities;
- Post balance date events;
- Related party transactions (including Key management personnel);
- Capital commitments
- Financial risk management; and
- Information required by legislation.

Our procedures indicate that appropriate and adequate disclosures have been made in respect of the above.

As at this date we are not aware of any significant post balance date events that need to be disclosed in the financial report, however we seek to reconfirm this position just prior to signing off the audit report.

Fraud Risk and Management Override of Controls

Management is involved in day-to-day operations and monitoring of the City, which gives them the ability to manipulate accounting records and prepare fraudulent financial reports by overriding controls in place. Due to the unpredictable way in which such override could occur, this leads to potential fraud risk and is always assessed as a significant risk.

To address the risk of management override, the following procedures were performed:

- 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.

Based on testing performed, we are satisfied that the risk of fraud from management override has been reduced to an acceptable level.

Review of the System of Internal Control (including IT General Controls)

The integrity of financial information relies on the integrity and reliability of the City’s system of internal controls and its information technology environment. 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.

In addition, we conducted a high level ITGC review, including the assessment of the key controls relating to:

- System Security;
- Technology Framework;
- Service Management, Operations and Change Control;
- Security Governance and Reporting; and
- Security Training.

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 gained during our work to make comments and suggestions which, we hope, will be useful to you.

The following matters were noted during the audit:

Findings	Rating		
	Significant	Moderate	Minor
Bunbury Harvey Regional Council Joint Venture Agreement	✓		
Information Technology Controls		✓	
Procurement		✓	
Manual journals (interim finding)		✓	

A management letter has been provided to management for comment and consideration prior to our submission to the OAG for final issuance.

The management letter for the previous period identified some findings to be actioned by the City. Below is an update on the findings based on our follow up:

Findings	Rating	Update
1. Payroll reconciliations	Moderate	Resolved
2. Bunbury Harvey Regional Council Joint Venture Agreement	Significant	Unresolved

Significant Representations by Management

Both our and the OAG's representation letters have been provided and a signed copy is to be returned to us prior to our submission of the financial report with the OAG.

There are no significant representations (other than the ones referred to in our and the OAG's standard representation letters) made by management for which we and OAG are relying on in forming our audit opinions.

Audit Adjustments

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

There were no material unadjusted audit differences noted from the audit.

The table below summarises the impact of adjusted audit differences, affecting the statement of comprehensive income, arising from the audit:

	Effect on profit increase/(decrease) \$'000s
Factual	
Prepayment adjustment for 2024/2025 invoices not paid prior to 30 June 2024	Nil
Projected / Judgmental	
Nil	

Other Key Matters

Non-Compliance with Laws and Regulations or Fraudulent Activity

We confirm no matters have come to our attention that indicate material misstatement in the financial report due to non-compliance with laws and regulations or fraudulent activity. Management has confirmed that they are unaware of any fraudulent activity.

Auditor's Responsibility to Consider Fraud

As auditors, we obtain reasonable assurance that the financial report is free from material misstatements due to fraud or error.

Accordingly, certain procedures were performed as part of our audit by way of enquiry, evaluation and review as required by the Australian Auditing Standards on fraud, ASA 240.

We have enquired with 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.

Based on representations obtained from management and the 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 we have not identified any reportable matters for your attention.

Liaison with Management

We had no disagreements with management about significant audit, accounting or disclosures matters.

We identified no errors or irregularities that would cause the financial report to contain a material misstatement and noted no apparent illegal acts.

There were no difficulties encountered in dealing with management related to the performance of the audit.

There was no correspondence between us and management relating to any significant audit and accounting issues during the period other than those discussed under the Significant Audit and Accounting Issues section above.

Independence

We have established policies and procedures designed to ensure our independence, including policies on holding financial interests in the City and other related parties, business relationships, employment relationships, and the provision of non-audit services.

We have assessed our audit independence at the planning stage and to the best of our knowledge and belief, we are of the opinion that each engagement team member and partners of all Moore network firms in Australia are not in contravention of the auditor independence and ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia.

We have also fulfilled our other ethical responsibilities with the Code. We have further considered the safeguards the Moore Australia network has in place, and we are not aware of any services being provided that would compromise our independence as external auditor.

Confidentiality

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.

The information contained in this document is confidential and cannot be conveyed to any party other than the party to which it is directed.

Conflicts of Interest

The firm is not aware of any existing or potential relationship, transaction or holding that would compromise its objectivity in the conduct of the services provided. Should the possibility of a perceived or actual conflict arise the matter would be raised with the City immediately and activities suspended until the issue was resolved to your satisfaction.

Outstanding items

The following items remain outstanding at the time of writing:

- Signed management representation letter; and
- Signed financial report.

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