

# Town of Victoria Park

Audit plan for the year ending 30 June 2020



# Introduction

## To the Accountable Authority

We are pleased to have the opportunity to discuss our audit of the financial report of the Town of Victoria Park, as at and for the year ending 30 June 2020.

This audit plan and strategy document is intended to provide the accountable authority with our audit approach, our risk assessment, an overview of our audit focus areas, our procedures over these areas, deliverables and timelines.

## Restrictions on distribution

This report is intended solely for the information of those charged with governance of Town of Victoria Park and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

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# KPMG's audit responsibility

**On behalf of the Auditor General, KPMG's aim is to provide a high quality audit of the Council's financial statements and ratios that is risk focused with independent insight on the key issues.**

- KPMG has been contracted by the Office of the Auditor General ("OAG") to perform the audit of the Council. The contract requires KPMG to use their audit approach and methodology. The engagement covers a three year period commencing with the financial year ending 30 June 2020.
- KPMG conducts an independent audit in order to enable the OAG to express an opinion regarding the financial statements and ratios. Our audit is conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements will be detected.
- We perform procedures to assess whether the financial statements present fairly with the Council's financial position as at 30 June 2020, and its performance for the year ending on that date in accordance with the Local Government Act 1995, Local Government (Audit) Regulations 1996, Australian Accounting Standards and other mandatory financial reporting requirements applicable to the Council.
- We form our recommended audit opinion on the basis of these procedures, which include: examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Council.
- We consider the effectiveness of management's internal controls over financial and performance reporting when determining the nature and extent of our procedures.
- We will express an opinion recommendation to the OAG on the matters to be reported under Reg 10 of the Local Government (Audit) Regulations 1996, including :
  - An opinion on the financial position and results of the operations of the Town;
  - Any matters that indicate significant adverse trends in the financial position or the financial management of the Town;
  - Whether or not the asset consumption ratio and asset renewal ratio are supported by verifiable information and reasonable assumptions.
- The OAG and KPMG understand the importance of our role as auditors in the external reporting framework and we work to maintain an extensive system of quality control over our audit practices.

# Audit Approach

Area	Assessment & Approach
<b>Methodologies and activities</b>	<ul style="list-style-type: none"> <li>- Our audit approach is tailored to address financial statement risks unique to the Council. In tailoring our approach, we have held discussions with management, considered any changes to operations, and considered both external and internal developments that may impact our audit risk.</li> <li>- A summary of the activities in each phase of our audit is provided.</li> <li>- On completion, we will evaluate the evidence we obtained and report our findings to you.</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>- Planning materiality is determined at the overall financial statement level. Where appropriate, based on qualitative factors, we may lower our materiality threshold.</li> <li>- The extent of audit procedures on balance sheet and income statement numbers is based on our professional judgement and materiality applicable to the Council.</li> <li>- During the course of our work, we will accumulate and report all identified uncorrected and corrected misstatements above our audit difference posting threshold, as well as material misstatements or omissions in presentation and disclosures, to the Audit and Risk Committee.</li> <li>- As required by auditing standards, we will request correction of identified differences.</li> </ul>
<b>Risk assessment</b>	<ul style="list-style-type: none"> <li>- Based on our experience, our knowledge of the Council and discussions with management, we will perform an assessment of your business risks relevant to our audit and identify financial statement captions that may be affected by these risks to identify audit focus areas.</li> <li>- We have summarised the relevant risks faced by the Council; and</li> <li>- The audit focus areas are identified, our planned procedures and key accounting and reporting matters for consideration.</li> </ul>
<b>Independence</b>	<ul style="list-style-type: none"> <li>- Our audit services are subject to the OAG's, KPMG's and our profession's strict rules and policies regarding auditor independence.</li> <li>- We will not undertake services that are incompatible with our role as your auditor, or that could compromise our independence in any way.</li> <li>- We will continue to monitor our independence on an ongoing basis and will confirm our independence at the time of audit completion and signing the audit opinion.</li> </ul>
<b>Approach to fraud</b>	<ul style="list-style-type: none"> <li>- The primary responsibility for preventing and detecting fraud rests with the Audit and Risk Committee and management.</li> <li>- We are responsible for obtaining reasonable assurance that the financial report, taken as a whole, is free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit there is an unavoidable risk that some material misstatements of the financial report may not be detected.</li> <li>- We will assess the risk of fraud and design procedures that respond to that risk including, but not limited to, making enquiries of management about actual, suspected or alleged fraud and testing journal entry posting controls and a sample of journal entries.</li> <li>- We request at this time the accountable authority, in consultation with the Executive, to identify matters relating to fraud consideration for incorporating into our audit approach. We will report fraud related issues identified to the accountable authority if identified during our audit.</li> </ul>

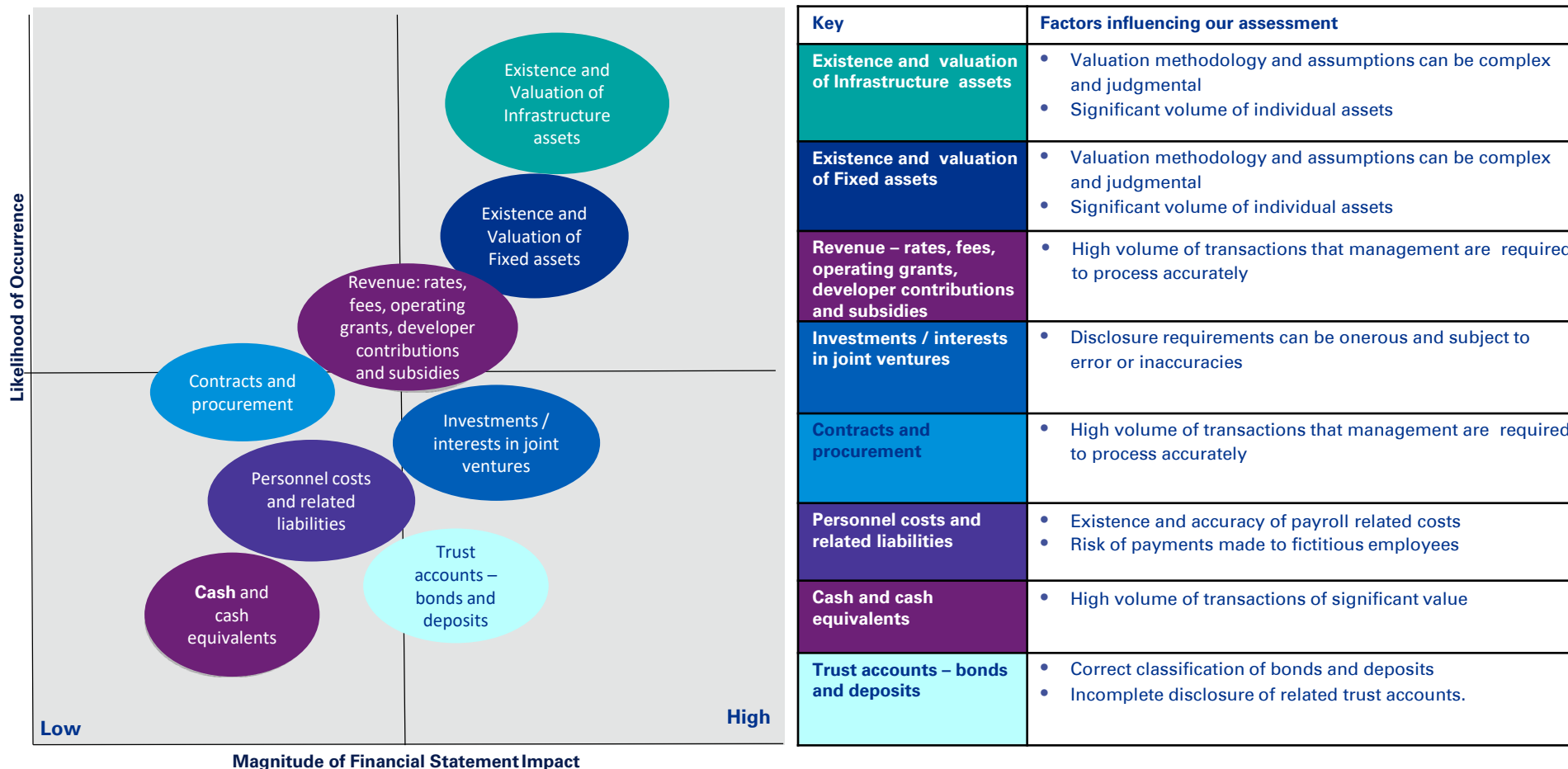
# Audit Approach - phases

	Planning / Risk assessment	Testing	Completion
Objectives	<ul style="list-style-type: none"> <li>Perform risk assessment</li> <li>Determine critical accounting and reporting matters</li> <li>Plan audit procedures</li> <li>Evaluate fraud risk in financial reporting</li> <li>Understand accounting and reporting activities</li> <li>Evaluate design and implementation of controls</li> <li>Perform initial test of operating effectiveness of key controls with sample sizes based on frequency and nature of controls</li> </ul>	<ul style="list-style-type: none"> <li>Assess control risk and the risk of significant misstatement</li> <li>Perform substantive audit procedures</li> <li>Audit non-routine transactions and re-assess the risk of misstatement</li> <li>Obtain audit evidence that is sufficient and appropriate</li> </ul>	<ul style="list-style-type: none"> <li>Evaluate and report audit findings</li> <li>Form and issue audit opinion</li> <li>Communicate with key stakeholders</li> <li>Identify improvements for future years</li> </ul>
Activities	<ul style="list-style-type: none"> <li>Update our understanding of business and operations via discussions with executive management and the finance team</li> <li>Calculate audit materiality</li> <li>Assess risks and identify general ledger accounts requiring audit focus</li> <li>Undertake analytical reviews and assess key accounting issues</li> <li>Discuss key processes and controls relevant to "significant general ledger accounts"</li> <li>Review and consider relevant internal audit reports</li> </ul>	<ul style="list-style-type: none"> <li>Complete test of operating effectiveness of key controls through sample sizes based on frequency and nature of control</li> <li>Complete testing of the relevant IT controls (performed by the OAG IT specialists)</li> <li>Perform testing on complex and non-routine transactions</li> <li>Perform other tests to supplement controls testing</li> <li>Audit of ratios</li> <li>Audit disclosures</li> <li>Active involvement of the OAG and review of work performed</li> </ul>	<ul style="list-style-type: none"> <li>Resolve judgemental issues identified throughout the audit</li> <li>Evaluate the Council's financial statements</li> <li>Summarise key findings and report to management and the Audit and Risk Committee</li> </ul>
Deliverables	<ul style="list-style-type: none"> <li>2020 Audit Plan</li> <li>Interim management letter (as required)</li> </ul>	<ul style="list-style-type: none"> <li>Summary of adjusted and unadjusted audit differences for consideration by management including significant deficiencies in internal controls</li> <li>Draft report to the Audit and Risk Committee and management letter, as necessary</li> </ul>	<ul style="list-style-type: none"> <li>Audit opinion from the OAG</li> <li>Exit Meeting report to Audit and Risk Committee</li> <li>Final management letter</li> </ul>

Continuous communication between OAG/KPMG teams and the Council

# Audit risk assessment



In our assessment of inherent audit risks impacting the financial report, we consider the nature of the risk, likelihood of its occurrence and potential impact it could have on the Council's financial report.



# Key audit focus areas

## 1 Existence and valuation of Fixed Assets

Audit risk  Higher  Moderate  Lower

Significant Risks	Size	Complexity	Susceptibility to fraud/error
			Error

### Areas of audit focus

- Valuation methodology and assumptions can be complex and judgmental
- Significant volume of individual assets

### Planned audit procedures

#### Test of Controls

- None planned

#### Substantive Procedures

- Review all independent/internally prepared valuations for the Council's fixed assets
- Utilising our property valuation specialist, assess the competence and capabilities of the valuers, including valuation method and assumptions used
- On a sample basis, select assets for sighting noting their existence and physical condition
- Recalculate any revaluation gain/loss arising from the revaluation and ensure this has been appropriately recorded
- Review management's impairment assessment/calculation for reasonableness
- Assess appropriateness of asset classification
- Identify and ensure Crown Land have been appropriately recorded

# Key audit focus areas

## 2 Existence and valuation of Infrastructure Assets

Audit risk H Higher M Moderate L Lower

Significant Risks	Size	Complexity	Susceptibility to fraud/error
	<span style="color: yellow;">H</span>	<span style="color: yellow;">H</span>	Error

### Areas of audit focus

- Valuation methodology and assumptions can be complex and judgmental
- Significant volume of individual assets

### Planned audit procedures

#### Test of Controls

- None planned

#### Substantive Procedures

- Review all independent/internally prepared valuations for the Council's infrastructure assets
- Utilising our infrastructure valuation specialist, assess the competence and capabilities of the valuers, including valuation method and assumptions used
- On a sample basis, select assets for sighting noting their existence and physical condition
- Recalculate any revaluation gain/loss arising from the revaluation and ensure this has been appropriately recorded.
- Review management's impairment assessment/calculation for reasonableness
- Assess appropriateness of asset classification



# Key audit focus areas

## 3 Revenue – rates, fees, charges, operating grants, developer contributions and subsidies

Audit risk **H** Higher **M** Moderate **L** Lower

### Significant Risks

Size

Complexity

Susceptibility to fraud/error

**H****M**

Error

#### Areas of audit focus

- High volume of transactions that management are required to process accurately
- Inherent risk of fraud in terms of revenue recognition

#### Planned response

##### Test of Controls

- Management review of rates table

##### Substantive Procedures

- Management review of rates table
- Testing of controls over the Tech One system generated reports used
- Review the Council's rates policy in place
- Review of Landgate's General Valuation of the Gross Rental Values (GRV's) of properties within the Town

- Recalculate the rates revenue for the year ensuring the correct rates were used and verifying the accuracy thereof
- Focus testing around financial year ends to ensure revenue recorded in the correct period
- Assess the recoverability of the related debtor raised
- Agree a sample of fees and charges to supporting documents
- Vouch developer contributions to agreements and other supporting documentation
- Vouch grants to relevant grant agreement and bank
- Consider transition implications of AASB 15 and AASB 1058

# Key audit focus areas

## 4 Investments/interests in joint ventures

Audit risk H Higher M Moderate L Lower

Significant Risks	Size	Complexity	Susceptibility to fraud/error
	<span style="color: purple;">M</span>	<span style="color: purple;">M</span>	Error

### Areas of audit focus

- Disclosure requirements can be onerous and subject to error or inaccuracies

### Planned audit procedures

#### Test of Controls

- None planned

#### Substantive Procedures

- Review of latest audited accounts for joint ventures to identify any unusual or significant accounts which may require audit focus
- Re-perform and assess the accuracy of Equity Accounting performed for Joint Ventures
- Review Council minutes and compare to prior year financial statements to ensure all investments and Joint Ventures are identified and disclosed

# Key audit focus areas

## 5 Contracts and Procurement

Audit risk H Higher M Moderate L Lower

Significant Risks	Size	Complexity	Susceptibility to fraud/error
	<span style="color: yellow;">H</span>	<span style="color: green;">L</span>	Error

### Areas of audit focus

- High volume of transactions that management are required to process accurately
- Inherent risk of fraud in the procurement process

### Planned audit procedures

#### Test of Controls

- Review of authorisation of payments in line with Delegation of Authority
- Review of approval of contracts in line with Procurement Policy of the Town

#### Substantive Procedures

- Review of authorisation of payments in line with Delegation of Authority
- Review approval of contracts in line with Procurement Policy of the Council

- Review of internal audit reports for internal controls tested, specific contracts reviewed or key findings noted in procurement
- Review of the Council's procurement policy
- Review the Council's contract register for long running contracts or overspent contracts
- On a sample basis for expenditure, agree payments made to supporting documentation and sighting authorisation of such payments in line with the Delegation of Authority
- For new contracts awarded during the year, review to ensure the Council's Procurement Policy was followed (quotations, request for tender, etc)
- Search for unrecorded liabilities
- Consider transition implications of AASB 16

# Key audit focus areas

## 6 Personnel costs and related liabilities

Audit risk H Higher M Moderate L Lower

Significant Risks	Size	Complexity	Susceptibility to fraud/error
	<span style="color: yellow;">H</span>	<span style="color: green;">L</span>	Error

### Areas of audit focus

- Ensure the accuracy and existence of personnel expenses and completeness of related liabilities

### Planned audit procedures

#### Test of Controls

- Test management's approval of pay run payments

#### Substantive Procedures

- Test the reconciliation between payroll and trial balance as at 30 June 2020, including related payroll liabilities
- For a statistical sample selected, verify payments made to employees by agreeing to employee contracts, payslip and payments
- Perform a substantive analytical procedure over the annual leave and long service leave provisions

# Key audit focus areas

## 7 Cash and cash equivalents

Audit risk H Higher M Moderate L Lower

Significant Risks	Size	Complexity	Susceptibility to fraud/error
	<span style="color: yellow;">H</span>	<span style="color: green;">L</span>	Error

### Areas of audit focus

- High volume of transactions of significant value

### Planned audit procedures

#### Test of Controls

- Identify key controls within the Treasury process, including controls surrounding the preparation and review of bank reconciliations.

#### Substantive Procedures

- On a sample basis, vouch term deposits to confirmations and consider appropriateness of classification
- Circularize independent bank confirmations at year end
- Review the year end bank reconciliation and agree to bank confirmations

# Key audit focus areas

## 8 Trust Accounts – bonds and deposits

Audit risk  Higher  Moderate  Lower

Significant Risks	Size	Complexity	Susceptibility to fraud/error
			Error

### Areas of audit focus

- Correct classification of bonds and deposits
- Incomplete disclosure of related trust accounts

### Planned audit procedures

#### Test of Controls

- None planned

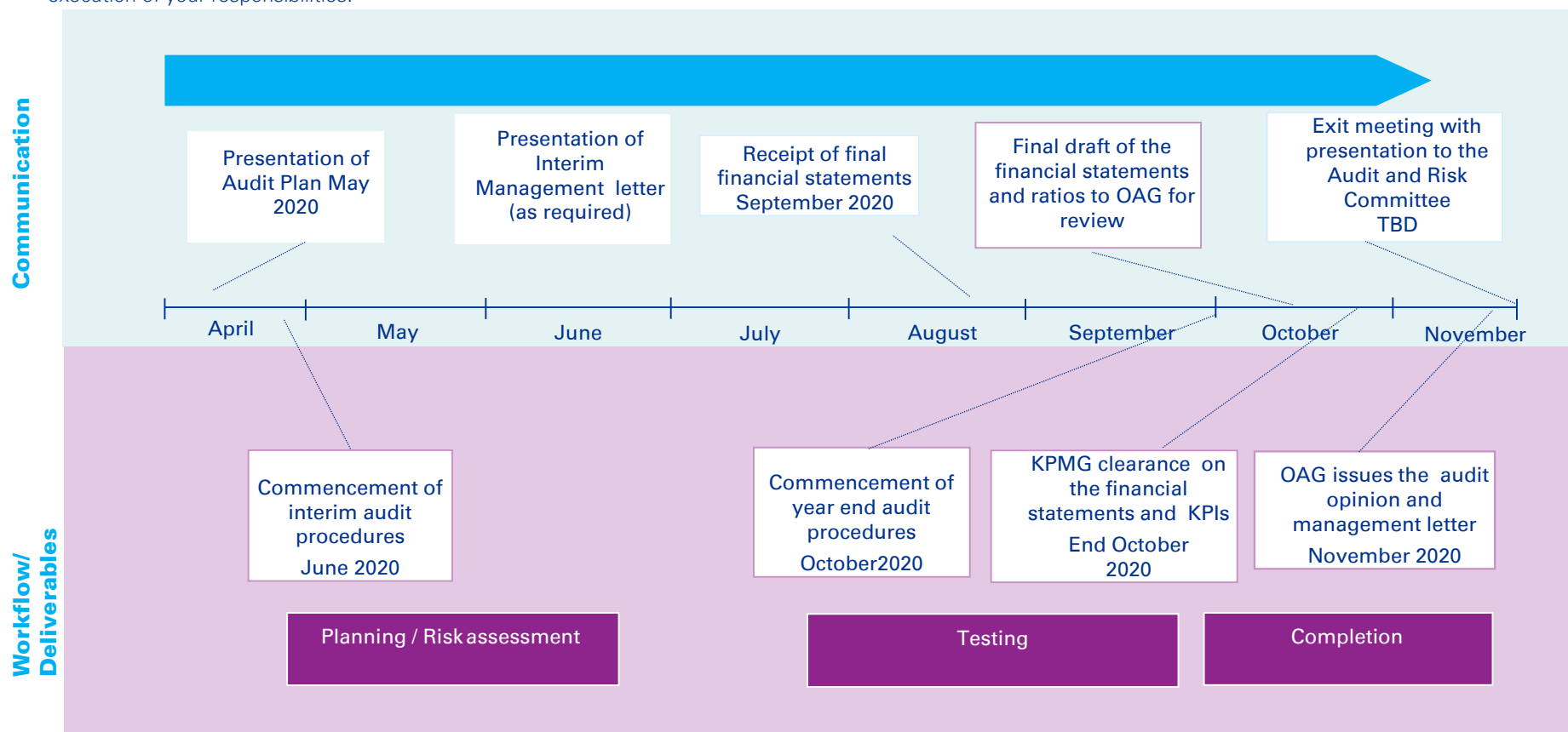
#### Substantive Procedures

- Review individual Trust Account agreements held by the Council
- Obtain audited accounts for the individual trust Accounts at year end
- Reperform the allocation of income, expenses, assets and liabilities in accordance with the Trust Agreement

# Timeline of the audit

Communicating with and reporting to the Council, with no surprises, underpins the quality of our audit. There are two main elements: the formal audit report, and ongoing communications. Two-way communication with management is a key aspect of our reporting and service delivery. We stress the importance of keeping you informed of issues arising throughout the audit and of understanding your views.

We deliver insights on aspects of the audit and your business practices such as the appropriateness of accounting policies, the design and operation of financial reporting systems and controls, key accounting judgements and any matters where we may disagree with management's view, and any audit differences or errors identified. We ensure the content of these reports meets the requirements of auditing standards and we share our industry experience to encourage discussion and debate with management. We see these insights as a key mechanism to support you in the execution of your responsibilities.



# New standards – More than accounting change

## Effective dates – the Council Financial year

New standards	
	2020
AASB 15 <i>Revenue from Contracts with Customers</i> / AASB 1058 <i>Income of not-for-profit entities</i>	✓
AASB 16 <i>Leases</i>	✓

## New standards

### AASB 15/AASB 1058

- New contract-based five-step analysis of transactions, focusing on transfer of control
- New control based model
- New method for measuring revenues (each component)
- Specific guidance for performance obligations - contracts might need to be combined or separated
- Extensive new disclosures

### AASB 16

- Major change in the recognition of leases for lessees
- All significant leases on-balance sheet
- Simplified requirements for short-term leases (less than 12 months)
- Amended depreciation rules for leased assets
- No significant changes in the accounting for lessors



# COVID-19 impacts



## Business impacts

The COVID-19 outbreak and the stringent government responses are causing significant business interruption, volatility in capital, commodity and currency markets and a deteriorating macroeconomic outlook.



### What does this mean for the audit of the Town of Victoria Park?

**We are committed to continuing to deliver a quality audit and are adapting our delivery in innovative ways:**

- Increased focus on the issues critical to you in these uncertain times, in particular financial reporting estimates, judgements and transparent disclosures.
- Virtual secure access to your books, records and financial reporting, in particular:
  - Video access to perform walkthroughs of processes and test certain controls – our experience to date suggests these take more preparation to set up and longer to achieve;
  - Video access to observe inventory counts and inspect significant assets as applicable.
- Adaptation of our testing methods to new risk areas:
  - Nature of testing – focus on estimates and judgements, using authoritative external credible sources;
  - Extent of testing – split testing populations into pre and post-COVID given differing control environments.
- Sourcing further specialist advice including technical teams, risk management given additional judgements.

**Your readiness will shape the following:**

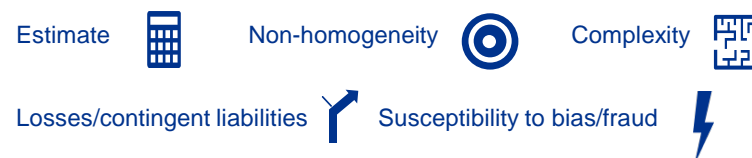
- Ability to gather sufficient appropriate audit evidence, in particular:
  - Process and control maintenance during the disruptions and your teams working from home, at a entity-level and books & records;
  - Work-arounds adopted by your teams adapting to working from home, increases our need to test pre and post-COVID methods;
  - Sources of evidence for estimates and judgements, in particular with respect to valuation of the infrastructure, investment properties and fixed assets. Disclaimers on behalf of management experts or other sources may significantly impact our work and conclusions;
  - Preparedness for relevant executives to sign off on financial reporting in the conditions, including representation letters, CEO and CFO declarations, etc.
- Timing, timelines and deadlines, including within the Council, and reliance on others such as management experts and other external parties.
- Communication effectiveness – we recommend specific protocols be applied for us to communicate with you, including timing, secure technologies, and extended duration to address the wide ranging issues.

**There may be instances where sufficient appropriate audit evidence cannot be easily obtained. e.g. due to unavailability of critical information or key personnel. If any such difficulties emerge we will immediately alert management, the OAG and escalate key concerns with the Chairman of the Audit & Risk Committee (where required).**



# Impact of COVID-19 - Risk assessment

## Relevant factors affecting our risk assessment



Audit focus areas	Relative risk	Movement due to COVID-19	Impact of COVID-19
<b>Potential key audit matters</b>			
Assets – valuations and impairment	H	↑	Could result in greater uncertainty for forecast cash flows and other key assumptions including discount rates. Where management has engaged experts, or makes use of internal specialists, such experts should give consideration to this increased risk.
Loans and receivables - Expected credit losses	H	↑	Could result in increased risk of defaults by debtors, specifically rates payers and sundry debtors. Management's ECL's assessment should consider and assess this increased risk.
Contracts in progress – fulfilment costs, receivables, and WIP	H	<b>New risk</b>	Increased challenges to negotiating claims and variations could be experienced by the Town. This could increase the Town's exposure to potential claims or contingent liabilities.
<b>Other significant audit matters</b>			
Financial report disclosures	M	<b>New risk</b>	Complexity in disclosures in particular those involving significant estimation and judgement, e.g. impairment, ECL, asset fair values.

Higher   
 Moderate   
 Lower   
 ↑↓↔ Potential impact from COVID 19



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