Grant Thornton
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Audit Findings Report (AFR)

City of Melville

Audit Committee: Year ended 30 June 2017

Financial Audit

Audit Findings Report

City of Melville

Grant Thornton
An instinct for growth™

Members of the Audit Committee
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Dear Committee Members

AUDIT FINDINGS REPORT
FOR THE YEAR ENDED 30 JUNE 2017

Please find attached our Report to the Audit Committee for the year ended 30 June 2017.

We have completed our audit and have issued an unqualified audit opinion.

We take this opportunity to extend our appreciation to the finance team for their assistance and cooperation during the course of the audit.

This report has been prepared for the Audit Committee of City of Melville ("CoM") It should not be quoted or referred to, in whole or in part, without our prior written consent. No warranty is given to, and no liability will be accepted from, any party other than CoM.

This report should be read in conjunction with our audit engagement letter and any other formal correspondence addressed to the Audit Committee regarding this year's audit.

We strive for a high level of client satisfaction, and our business is built around the relationships we maintain with our clients. We want to hear feedback from our clients, both positive and negative, to ensure the services we provide exceed expectations.

If you receive our Client Voice Engagement Survey, we would greatly appreciate if you would please take the time to provide your feedback.

We trust that you find this report informative and we appreciate the opportunity to be of service to you.

If you have any queries or wish to discuss any issues further, please do not hesitate to contact me.

Yours faithfully
GRANT THORNTON AUDIT PTY LTD

P. Warr.

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Partner

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Areas of audit focus: summary

* Risk refers to Significant Risk or Other Risk (per ASA 315)

Focus area	Risk*	Management judgement	Material adjustment	Control recommendation	Control deficiency classification	Pending matters
Revenues	Other risk	No	No	No	-	-
Capital Assets and Infrastructure	Other risk	Yes	No	No	-	-
Operating expenses and payables	Other risk	No	No	No	-	-

Audit materiality

Materiality is the magnitude of a misstatement or omission from the financial report or related disclosures that the audit team believes would make it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the misstatement or omission. Our audit has been conducted based on a quantitative materiality. Materiality benchmarks are selected to represent the measure which is more relevant to users of the financial report.

Basis	Normal range	Account value $000
Total Expenditures	0.5-3%	101,792

Legend

- **Material weakness** Critical area that represents relatively high risk i.e. a control gap that may result in material misstatements and has a likelihood of occurrence that is not remote. Action should be taken immediately.
- **Significant deficiency** Important matter that represents medium risk i.e. a control gap that may result in material misstatements but has a remote likelihood of occurrence.
- **Deficiency** Control gap that represents low risk and is unlikely to result in a material misstatement.

Revenues

Account description	Type	2017 $000	2016 $000	Risk	Management judgement
Revenues (including Non-operating grants, subsidies and contributions)	Revenue	123,357	116,055	Other Risk	No
Trade and other receivables	Receivables	11,118	14,187	Other Risk	No

Key audit matter

Given the number of revenue transactions and the diverse nature of revenue activities there is an inherent risk of error or misstatement in revenue recognition and receivable existence.

How our audit addressed the key audit matter

Our procedures included, amongst others:

- Performed analytical procedures over significant revenue streams to identify significant variances from expectations and obtained explanations and corroboration from management where appropriate
- Performed substantive procedures on significant grants revenue received during the period and ensured that the amounts received were in line with the funding agreements.
- Undertook revenue testing on a sample basis to source documents.
- Performed substantive testing around the year-end revenue to ensure that the revenue was recognised in the appropriate accounting period.
- Reviewed subsequent receipts, to determine whether receivables were fairly stated and recoverable.

Conclusions

There is no material deficiency noted in our testing of revenues and receivables.

There is no material deficiency noted in our consideration of the disclosure in Receivables (Note 8) and Revenue (Notes 17, 20, 21, 22).

Material control deficiencies

Prior year: No material deficiencies noted.

Current year: No material deficiencies noted.

Capital Assets

Account description	Type	2017 $000	2016 $000	Risk	Management judgement
Property, Plant and Equipment	Asset	716,747	714,788	Other Risk	Yes
Infrastructure	Asset	359,491	345,780	Other Risk	Yes

Details of risk

Testing of Capital Assets

The capital assets comprise the main portion of the Council assets. Audit has determined this is a key audit matter due to the size and judgement and assumptions. This includes revaluations of assets to report at fair value at the reporting date. Due to the estimations required in performing revaluations, there is a risk the basis and assumptions of the revaluation may cause a material misstatement.

Further, these assets are required to be depreciated and considered for any potential impairment, requiring estimation and judgement.

How our audit addressed the audit focus area

Our procedures included, amongst others:

- Asset reconciliation schedules were verified against trial balance reported amounts.
- Audit procedures were undertaken to assess the reasonableness of depreciation charges for the period, and agreed to asset registers.
- Performed substantive testing on property plant and equipment & infrastructure asset additions. These transactions were tested for accuracy to supporting documents.
- Valuations of roads, footpaths and drainage and equipment took place in the year. GT reviewed the assumptions of the valuations for reasonableness and determined that the results were appropriately recorded in the general ledger to ensure the revalued amounts in the financial statements were appropriately substantiated. We also considered the qualifications and experience of the valuators and evaluated the results and findings from the work performed.

Conclusions

There are no material deficiencies noted in our testing of capital assets

There are no material deficiencies noted in our consideration of the disclosure in Note 7 and 8 for Capital Assets and Infrastructure.

Material control deficiencies

Prior year: refer to the findings below

Current year: no material deficiencies noted.

Operating expenses

Account description	Type	2017 $000	2016 $000	Risk	Management judgement
Expenses (other than employee expenses)	Expenses	101,792	97,645	Other risk	No
Trade and other payables	Liability	6,801	7,280	Other risk	No

Details of risk

Audit has determined this is a key audit matter due to the volume and high transactions occurring. Grant Thornton believes that this is an area susceptible to human error.

How our audit addressed the audit focus area

Our procedures included, amongst others:

- Performed analytical procedures over operating expenses, comparing expenditure to the prior year. Where significant variations were identified, we obtained appropriate explanations from management and corroborated those explanations to supporting records. Also performed substantive tests on the expenses.
- Test checked payments to source documents on a sample basis.
- Disbursement cut off was reviewed by obtaining the last cheque issued at period end and first cheque issued in the new period.
- Extracted all debit balances in creditor balances to ensure the classification of the balances were appropriate.
- Performed search for unrecorded liabilities by obtaining the bank statements of subsequent to the year end.
- Performed testing on the sample of the provisions made for accrued expenses and accounts payable as on June 30, 2017 and vouched to supporting documentation to assess validity of the provision.

Conclusions

There are no material deficiencies noted in our testing of accounts payable and disbursements.

There are no material deficiencies noted in our consideration of the disclosure in Note 2 and 9 regarding accounts payable and operating expenses.

Material control deficiencies

Prior year: no material deficiencies noted.

Current year: no material deficiencies noted.

Current year recommendations

Area	Control deficiency classification	Recommendation
None identified		

Legend

- **Material weakness**
  Critical area that represents relatively high risk i.e. a control gap that may result in material misstatements and has a likelihood of occurrence that is not remote. Action should be taken immediately.
- **Significant deficiency**
  Important matter that represents medium risk i.e. a control gap that may result in material misstatements but has a remote likelihood of occurrence.
- **Deficiency**
  Control gap that represents low risk and is unlikely to result in a material misstatement.

Prior year recommendations

Area	Control deficiency classification	Recommendation	Audit update	Status
Infrastructure Revaluations	Significant deficiency	From the audit work performed, it was noted that not all classes of infrastructure assets were revalued during the year. As stated in the Accounting Policy 25, all infrastructure assets are to be revalued annually. Management performed a revaluation on 3 of 6 classes within Infrastructure being Roads, Drains and Footpaths, and not parks, irrigation, and street furniture.	Management acknowledge that Council Policy 25: Accounting states that all Infrastructure Assets are to be revalued annually. The City treats Infrastructure and Infrastructure Other as separate asset classes. The City has a practice of revaluing Infrastructure assets (roads, footpaths and drainage) annually and Infrastructure and Other assets (parks, irrigation and street furniture) every three years. This exceeds the requirements of standards and regulations. Other assets being less material, management will propose to amend Council Policy 25 in 2017 to revalue the parks, irrigation and street furniture assets every three years.	Resolved
Infrastructure Revaluations	Significant deficiency	From the audit work performed, it was noted that the incorrect value had been used when calculating the fair value of Drains which resulted in an adjustment of $4,973,018 being accounted for between assets and revaluation reserve.	Noted: Management acknowledge that two columns were transposed during the revaluation of the drainage assets. This was corrected prior to the finalisation of the Annual Financial Report. Management will ensure procedures are enhanced to mitigate any errors in the future.	Resolved
Buildings Revaluations	Significant deficiency	From the audit work performed, it was noted that there was a difference between the general ledger and the Griffin valuation report for Property, plant and Equipment. As per discussions with management the difference arose as a result of certain items being considered as part of Buildings by Griffin. Management, however, did not perform a reconciliation to determine if these items have correctly been classified as Property, plant and equipment	Noted: Management acknowledge that there was a difference between the general ledger and the revaluation report. A number of items classified as 'Plant and Equipment' were previously revalued during the 2014-15 Land & Buildings revaluation. As a result these assets were not revalued during the work undertaken by Griffin in 2015-16. An example of this was a plant item at Leisurefit Booragoon. Management will ensure that assets and their classes are reviewed to avoid such discrepancies in the future.	Resolved

Legend

- **Material weakness** Critical area that represents relatively high risk i.e. a control gap that may result in material misstatements and has a likelihood of occurrence that is not remote. Action should be taken immediately.
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Fraud risk

Scope of audit services regarding fraud

In accordance with Auditing Standard ASA 240, our required objectives with regards to fraud are:

- to identify and assess the risks of material misstatement of the financial report due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Responsibility of the Council and management

The Councillors and management are required to consider the risk of fraud within the Entity, and are responsible for maintaining a system of internal control to prevent, or detect material misstatements to the financial statements arising from instances of fraud.

How serious are risks of fraud?

The 2016 Global Fraud Survey conducted by the Association of Certified Fraud Examiners demonstrates the risk and impact of fraud:

83%

of reported cases are asset misappropriation

2/3

of reported fraud occurred in privately held and public companies

Most fraud is detected by whistle-blowers and the most common reason for fraud occurring was lack of internal controls

What have we done in our audit to address the risk of fraud?

- Consider conditions present that increase the risk of fraud.
- Conduct planning discussions with management regarding the risk or existence of fraud, policies and procedures in place to prevent and detect fraud.
- Plan the nature and extent of our audit tests having regard to the risk of fraud, noting revenue recognition is required to be an assumed fraud risk.
- Review accounting estimates for management bias.
- Evaluate the business rationale for unusual transactions.
- Maintain professional scepticism throughout the audit.
- Review the appropriateness of journal entries and year-end accounting adjustments.
- Evaluate if any identified audit misstatements are indicative of fraud.
- Incorporate unpredictable audit procedures into our audit plan and testing.

Conclusion

Management confirmed that to the best of its knowledge and belief there have been no instances of fraud during the period, and our procedures did not uncover any matters to report.

Communication of audit matters with those charged with governance

In accordance with Auditing Standards, we are required to communicate a number of matters with those charged with governance which is covered by our Audit Planning Report, within this Audit Findings Report, and in the table below.

* Reference to ‘material’ implies the exception would cause the financial report to be materially misstated

Matters for Grant Thornton to consider	Description	Exceptions
Irregularities and illegal acts	We have not become aware of any material irregularities or illegal acts	No
Non-compliance with laws and regulations	We have not become aware of any material non-compliance with laws and regulations	No
Access to books and records, and conduct of audit	We have been presented with all the necessary books and records and explanations requested of management	No
Material uncertainties and going concern	We have not detected any material deficiencies in management’s assessment of the going concern assumption	No
Disagreements with management	We have had no material disagreements with management. No exceptions	No
Expected modifications / exceptions to the audit report	No exceptions OR See below for further details	No

Developments in financial reporting

Contained within Note 1 of the financial statements are new accounting standards that may impact on the Company in future reporting periods.

Standard	Application from annual periods	Links for further information
AASB 15 *Revenue from Contracts with Customers*	Commencing: For-profit entities: 1 January 2018 Not-for-profit entities: 1 January 2019	IFRS Newsletter (October 2016) – Special Edition on Revenue
AASB 9 *Financial Instruments (2014)*	Commencing 1 January 2018	TA Alert 2014-09
AASB 16 Leases	Commencing 1 January 2019	TA Alert 2016-01 IFRS News – Special Edition on Leases
AASB 1058 *Income of Not-for-Profit Entities*	Commencing 1 January 2019	TA Alert 2017-01 TA Alert 2016-18
IFRS 17 *Insurance Contracts*	Commencing 1 January 2021	TA Alert 2017-03 Get ready for IFRS 17 (June 2017)

Technical Accounting (TA) Alerts and other technical resources

We understand the task of keeping up with changes can be daunting, particularly given the length of some of the new standards; to assist you with this we publish TA Alerts on our website: www.grantthornton.com.au.

TA Alerts also cover some contentious / difficult accounting concepts which the technical teams of both Grant Thornton International and Grant Thornton Australia have received a number of queries requiring guidance or clarification.

In addition, there are a range of other IFRS / technical resources available on our website, including:

- Impairment of Assets - A guide to applying IAS 36 in practice
- Under control? A Practical guide to applying IFRS 10 consolidated Financial Statements
- Navigating the accounting for business combinations: Applying IFRS 3 in practice
- Deferred tax: A Chief Financial Officer's guide to avoiding the pitfalls
- AASB 107: Statement of Cash Flows – A guide to avoiding common pitfalls and application issues
- AASB 132: Financial Instruments Presentation – Liability or equity?
- Intangible Assets in a Business Combination – Identifying and Valuing Intangibles under IFRS/AASB 3: Business Combinations
- Example financial statements

Grant Thornton also has dedicated technical resources / National Assurance Quality which you can get in touch with via your local audit contact or directly by email: National.Assurance.Quality@au.gt.com.

AASB 15: Revenue from contracts with customers

AASB 15 *Revenue from Contracts with Customers* replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts* and a number of related interpretations for annual reporting periods beginning on or after 1 January 2018.

This new Standard will apply to most revenue contracts, including construction contracts. Among other things, it will change the criteria for recognising revenue at a point in time or over time.

The five (5) step model

Revenue recognition under the new Standard will involve the following five (5) steps:

1. Identify the contract with a customer
2. Identify the separate performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the separate performance obligations
5. Recognise revenue when or as each performance obligation is satisfied

AASB 16: Leases

Strategic planning

Consider the financial reporting implications, which sees a possible adverse impact on certain asset / liability ratios, however an improved EBITDA.

These adjusted ratios could be important for financial covenants in funding agreements or for how others analyse the performance of the business. Consider terms of new leases, e.g. option periods.

Considerations and implications

Consideration	Implication
Lessees vs lessors?	• Lessees affected, and only minor changes for lessors. The distinction between finance and operating leases is retained for lessors.
Other considerations?	• Interest expense will typically be ‘front-loaded’. • Lease liability will exclude: – option periods unless exercise is reasonably certain; – contingent payments that are linked to sales/usage. • New definition of a lease may result in some arrangements previously classified as leases ceasing to be so, and vice versa. • New guidance on sale and leaseback accounting. • New and different disclosures.
Relief / transition?	• Short-term leases (lease term < 12 months). • Low-value asset leases (< US$5,000). • Option of transition relief versus full retrospective. • Early application is permitted if AASB 15 *Revenue from Contracts with Customers* is applied.

$223m Turnover (FY 2016)

1,200 People Nationally

14 Core Industries

6 Offices

5 Integrated Service Lines

Audit & Assurance	Business Advisory	Financial Advisory	Private Advisory	Tax
Compliance audits and reviews	Asia advisory	Capital markets	Business planning	Business planning
Expert opinions	Business risk services	Due diligence	Compliance services	Corporate advisory
External audits	Leadership talent and culture	Financing	Outsourced accounting	Employment taxes
Internal audits	Performance improvement	Family law	Private wealth advisory	Expatriate taxes
IFRS advice and training	Public sector advisory	Financial modelling	Tax advisory services	Fringe benefits tax
Reviews of financial reports	Technology advisory	Initial Public Offerings		GST and indirect taxes
Systems and controls reviews	Technology solutions	Insolvency		International tax
		Investigations		Research and development
		IT forensics		Risk management
		Mergers and acquisitions		Transfer pricing
		Restructuring and turnaround		
		Risk management		
		Superannuation		