



AGENDA

23rd of March 2022

AUDIT COMMITTEE MEETING

To be held at the Shires Administration Building situated at Gascoyne Junction
commencing at 11:00am

DISCLAIMER

Disclaimer

The advice and information contained herein is given by and to the Council without liability or responsibility for its accuracy. Before placing any reliance on this advice or information, a written inquiry should be made to the Council giving entire reasons for seeking the advice or information and how it is proposed to be used.

Please note this agenda contains recommendations which have not yet been adopted by Council.

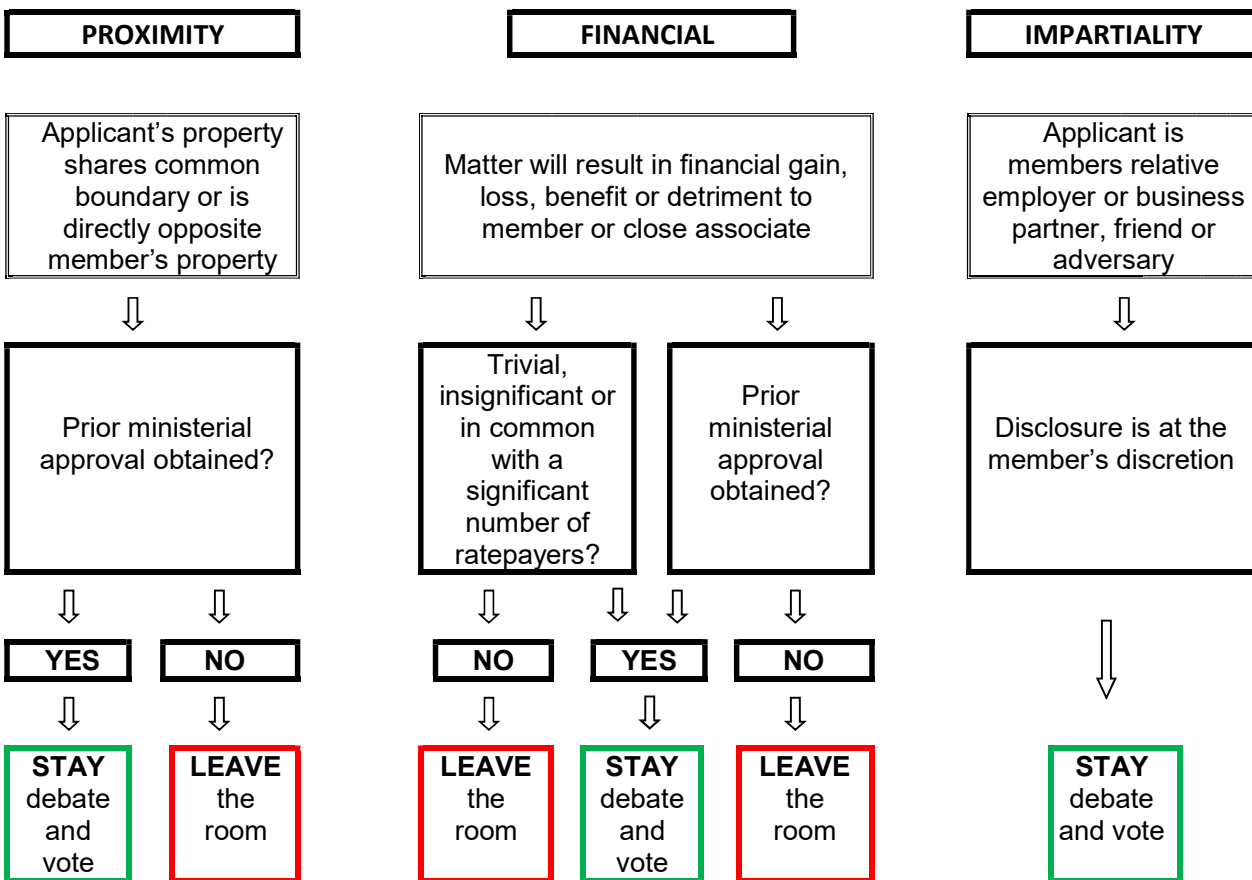
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John McCleary, JP
CHIEF EXECUTIVE OFFICER

* Declaring an Interest



Local Government Act 1995 - Extract

5.65 - Members' interests in matters to be discussed at meetings to be disclosed.

(1) A member who has an interest in any matter to be discussed at a council or committee meeting that will be attended by the member must disclose the nature of the interest:

(a) in a written notice given to the CEO before the meeting; or (b) at the meeting immediately before the matter is discussed. (Penalties apply).

(2) It is a defense to a prosecution under this section if the member proves that he or she did not know:

(a) that he or she had an interest in the matter; or (b) that the matter in which he or she had an interest would be discussed at the meeting.

(3) This section does not apply to a person who is a member of a committee referred to in section 5.9(2)(f).

5.70 - Employees to disclose interests relating to advice or reports.

(1) In this section: 'employee' includes a person who, under a contract for services with the local government, provides advice or a report on a matter.

(2) An employee who has an interest in any matter in respect of which the employee is providing advice or a report directly to the council or a committee must disclose the nature of the interest when giving the advice or report.

(3) An employee who discloses an interest under this section must, if required to do so by the council or committee, as the case may be, disclose the extent of the interest. (Penalties apply).

5.71 - Employees to disclose interests relating to delegated functions.

If, under Division 4, an employee has been delegated a power or duty relating to a matter and the employee has an interest in the matter, the employee must not exercise the power or discharge the duty and:

(a) in the case of the CEO, must disclose to the mayor or president the nature of the interest as soon as practicable after becoming aware that he or she has the interest in the matter; and (b) in the case of any other employee, must disclose to the CEO the nature of the interest as soon as practicable after becoming aware that he or she has the interest in the matter. (Penalties apply).

'Local Government (Administration) Regulations 1996 - Extract

In this clause and in accordance with Regulation 34C of the Local Government (Administration) Regulations 1996:

"Interest" means an interest that could, or could reasonably be perceived to, adversely affect the impartiality of the person having the interest and includes an interest arising from kinship, friendship or membership of an association.



SHIRE OF UPPER GASCOYNE
AGENDA FOR THE AUDIT MEETING OF COUNCIL TO BE HELD AT GASCOYNE JUNCTION
SHIRE OFFICES ON WEDNESDAY THE 23rd OF MARCH 2022 AT 11:00AM

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**SHIRE OF UPPER GASCOYNE
AGENDA FOR THE AUDIT MEETING OF COUNCIL TO BE HELD AT GASCOYNE JUNCTION SHIRE
OFFICES ON WEDNESDAY THE 23rd OF MARCH 2022 AT 11:00AM**

1. DECLARATION OF OPENING / ANNOUNCEMENTS OF VISITORS

The President welcomed those present and declared the meeting open at __am

2. APOLOGIES AND APPROVED LEAVE OF ABSENCE

2.1 Councillors

Cr D. Hammarquist OAM JP	Shire President
Cr A. McKeough	Councillor
Cr J. Caunt	Councillor
Cr B. Walker	Councillor

Staff

John McCleary JP	Chief Executive Officer
Sa Toomalatai	Manager of Finance and Corporate Services

Visitors (attending via teleconference)

Mona Loo	Director Financial Audit, Office of the Auditor General
Conley Manifis	Audit Director, William Buck
Kuan Yin Lau	Assistant Manager, William Buck
Travis Bate	Principal Accountant, RSM Australia Pty Ltd

2.2 Absentees

Nil

2.3 Leave of Absence previously approved

Nil

3. APPLICATION FOR LEAVE OF ABSENCE

Nil

4. PUBLIC QUESTION TIME

4.1 Questions on Notice

Nil

4.2 Questions without Notice

Nil

5. DISCLOSURE OF INTEREST

Nil

6. PETITIONS/DEPUTATIONS/PRESENTATIONS

Nil

7. ANNOUNCEMENTS BY THE PERSON PRESCIDING WITHOUT DISCUSSION

Nil

8. MATTERS FOR WHICH THE MEETING MAY GO BEHIND CLOSED DOORS

Nil

9. CONFIRMATION OF MINUTES FROM PREVIOUS MEETINGS

Committee Resolution No: AC 01032022

MOVED:

SECONDED:

That the minutes from previous Audit Committee Meeting held on 9th of February 2022 are a true and correct record.

FOR: CR

AGAINST: CR

F/A: 0/0

10. REPORTS OF OFFICERS

10.1 AUDIT ENTRANCE MEETING FOR 2021/2022	
Applicant:	Shire of Upper Gascoyne
Disclosure of Interest:	Nil
Author:	Sa Toomalatai – Manager, Finance and Corporate Services
Date:	17 th March 2022
Matters for Consideration:	<p>The Audit Committee is to meet with Mona Loo, the Director of Financial Audits from the Office of the Auditor General (OAG) and with the Shire's auditors from William Buck, to discuss this year's audit scope and procedures under the Audit Plan for 2021/22.</p> <p>The OAG and the auditors from William Buck have provided an agenda for today's discussions and will present this to the members of the Audit Committee along with their Audit Strategy Memorandum. Please refer to Appendix 1 for a copy of the agenda and the Audit Strategy.</p> <p>Mona Loo from the OAG, Conley Manifis and Kuan Yin Lau from William Buck and Travis Bate from RSM (Shire's Accountant) will be attending the meeting via a dial-in teleconference.</p>

Background:	An Entrance Meeting is a requirement of the audit process and is held between the Auditors, the Shire's Audit Committee and key Shire staff.				
Comments:	The Entrance Meeting allows the auditors to present their Audit Strategy to the committee, and highlight the key objectives, deliverables and scope of works outlined within the agreement. This also provides an opportunity for the committee to ask the auditors any questions regarding the audit strategy.				
Statutory Environment:	Local Government (Audit) Regulations 1996, Regulation 7.				
Policy Implications:	Nil				
Financial Implications:	Nil				
Strategic Implications:	Nil				
Risk:					
	Risk Likelihood (based on history and with existing controls)	Risk Impact / Consequence	Risk Rating (Prior to Treatment or Control)	Principal Risk	Risk Action Plan (Controls or Treatment proposed)
Not meeting Statutory Compliance	Rare (1)	Moderate (3)	Low (1-4)	Failure to meet Statutory, Regulatory or Compliance Requirements	Accept Officer Recommendation
Consultation:	Discussions have taken place between the Manager, Finance & Corporate Services and Kuan Yin Lau, the Assistant Manager at William Buck to confirm dates for the Entrance Meeting, the Interim and End of Financial Year Audits.				
Voting requirement:	Not Applicable – Receiving Information Only				
Officer's Recommendation:	That the Audit Committee receive the Audit Strategy report presented by the OAG and William Buck.				

11. MEETING CLOSURE

The Shire President closed the meeting at ____pm.

APPENDIX 1

(Entrance Meeting Agenda & Audit Strategy Memorandum)



Entrance Meeting

ANNUAL FINANCIAL AUDIT OF SHIRE OF UPPER GASCOYNE FOR THE YEAR ENDED 30 JUNE 2022

Shire of Upper Gascoyne

Cr D. Hammerquist	Shire President
Cr A. McKeough	Councillor
Cr. J. Caunt	Councillor
Cr. B. Walker	Councillor
John McCleary	Chief Executive Officer
Mativa Toomalatai	Finance Manager
Travis Bates	Financial Reporting Consultant, RSM Australia

Office of the Auditor General

Mona Loo	Director Financial Audit
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William Buck

Conley Manifis	Audit Director
Kuan Yin Lau	Assistant Manager

Interview Date & Time:

Wednesday 23 March 2022

Location:

via Microsoft Teams/ teleconference

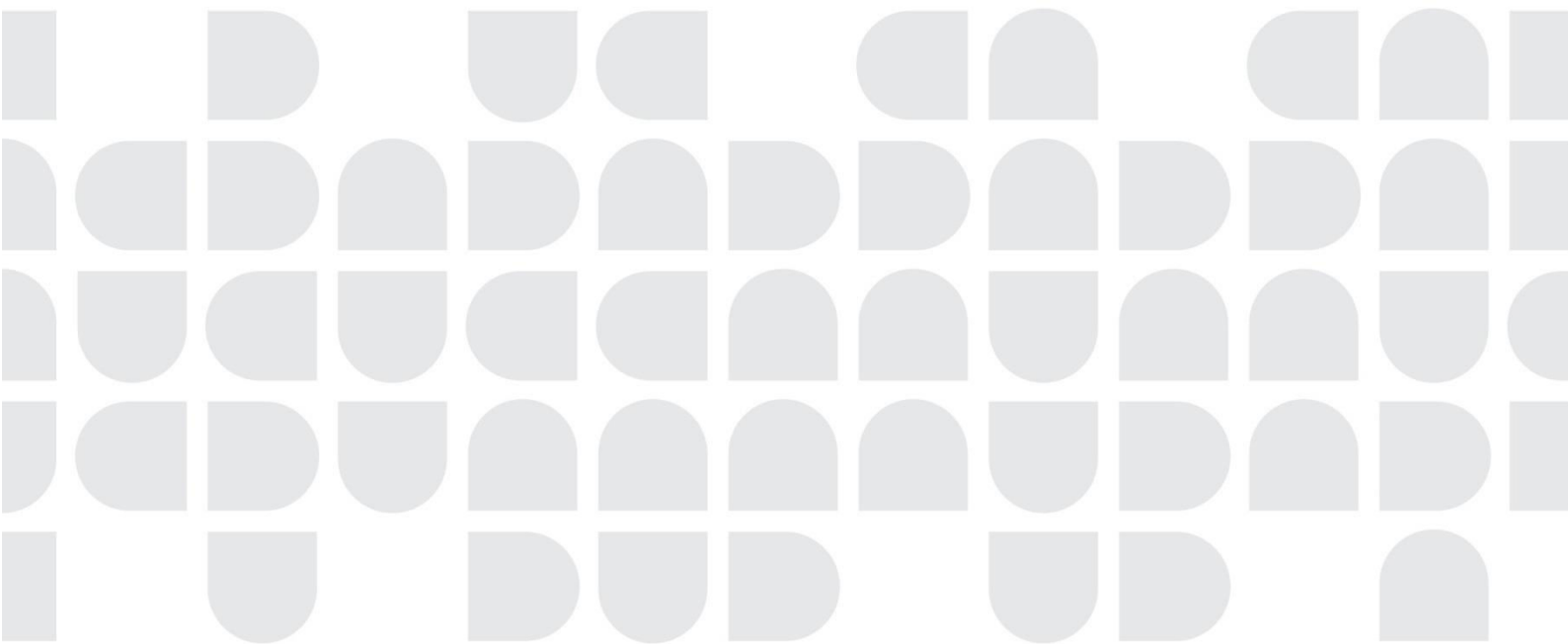
Agenda

1. Introduction
2. Audit Plan
3. Closing Comments

Shire of Upper Gascoyne

Audit Strategy Memorandum

Year Ending 30 June 2022



**Shire of Upper Gascoyne
Audit Strategy Memorandum
Year Ending 30 June 2022**

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Shire of Upper Gascoyne Audit Strategy Memorandum Year Ending 30 June 2022

Introduction

This Audit Strategy Memorandum (“ASM”) sets out our approach to the audit of the Shire of Upper Gascoyne (‘the Shire’). The engagement covers the financial year ending 30 June 2022.

William Buck conducts an independent audit in order to enable the Auditor General to express an opinion regarding the financial report. 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 judgement, 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 under the Auditor General Act 2006 to assess whether in all material aspects all procedures are performed in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulation 1996* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Shire’s financial position, and of its performance as represented by the results of its operations and cash flows.

The Audit report will include the following matters:

- Any material matters that in the opinion of the Auditor indicate significant adverse trends in the financial position of the Shire;
- Any material non-compliance with Part 6 of the Act, the Local Government (Financial Management) Regulation 1996 or applicable financial controls in any other written law;
- Details of whether information and explanations were obtained by the Auditor;
- A report on the conduct of the audit; and
- The opinion of the auditor as to whether or not the asset consumption ratio and the asset renewal funding ratio included in the annual financial report are supported by verifiable information and reasonable assumptions.

Our audit approach is designed to specifically focus audit attention on the key areas of risks faced by the Shire in reporting on finances and performance. 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.

We will carry out such work as is necessary to form an opinion as to whether the accounts of the Shire are properly kept and the annual financial report is prepared in accordance with these financial records.

Our approach focuses on the following:

- key risk areas where the potential for misstatement of account balances is considered greatest; and
- information used in the computation of the ratios.

This ASM is an integral part of the audit planning process. It is a preliminary audit plan, which will be updated with any issues identified during the course of the audit.

The Shire prepares general purpose financial statements in accordance with the Australian Accounting Standards and the financial reporting provisions of the *Local Government Act 1995* and the *Local Government (Financial Management) Regulation 1996*.

Shire of Upper Gascoyne Audit Strategy Memorandum Year Ending 30 June 2022

Audit approach

Our Audit approach focuses on the following:

- key risk areas where the potential for misstatement of account balances is considered greatest;
- key strategic business risks and related financial statement risks that are highly dependent on IT systems and environment;
- the use of IT within the Shire which will affect the way that control activities are implemented;
- whether the Shire's controls over the IT systems are effective and that they maintain the integrity of information and the security of the data;
- nature, extent and scope of the internal audit work that has been performed, the related findings and its relevance to the external audit overall audit strategy and plan;
- management's assessment of the risk that the financial report may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;
- management's processes for identifying and responding to the risks of fraud and the internal control that management has established to mitigate these risks;
- effectiveness of relevant internal controls on all business cycles including expenses, the different revenue streams, and payroll which we will test annually via controls and substantive procedures. The different revenue streams which we will be testing include rates, fees, grants, subsidies and contributions;
- effective two-way communication between the auditor and those charged with governance with timely observations arising from the interim and final audit that are significant and relevant presented in the Management Letter;
- our views about significant qualitative aspects of the Shire's accounting practices, including accounting policies, accounting estimates and financial report disclosures listing presented in the Management Letter; and
- the determination of materiality affected by our perception of the financial information needs of the users of the financial report. As we develop our audit strategy and audit plan, we consider materiality at least at two levels: at the overall level, as it relates to the financial report taken as a whole – Planning Materiality (PM); and at the performance level (PLM).

In accordance with our approach, the phases of our audit will be as follows:

- Preliminary planning
 - i) Update knowledge of the Shire's business
 - ii) Update understanding of the Shire's accounting process
 - iii) Perform preliminary analytical review procedures
 - iv) Assess the effectiveness of the control environment
- Risk assessment process
- Documentation and communication of audit plan
- Evaluation and testing of internal controls (as appropriate)
- Execution of substantive auditing procedures

Shire of Upper Gascoyne Audit Strategy Memorandum Year Ending 30 June 2022

- Evaluation of audit results, potential errors and resolution of audit issues
- Audit conclusions
- Financial statements review
- Subsequent events review

Audit team

Audit Director	- Conley Manifis
Assistant Manager	- Kuan Yin Lau
Auditor-in-charge	- Fazaal Fuad
OAG Representative	- Mona Loo

Preliminary identification of significant audit and accounting focus areas

Audit and accounting areas of focus are as follows:

1) Revenue Recognition

The Shire's main source of revenue are rates and fees and charges which mainly include transport services. The Shire also receives significant grants, subsidies and contributions.

Completeness, existence and accuracy of revenue are identified as a risk.

We will document and assess controls relating to the Shire's revenue process.

We will also:

- perform walkthroughs on the revenue process;
- test of internal controls relating to the revenue process;
- perform substantive analytical review of the revenue process;
- perform cut off testing by evaluating revenue transactions either side of the balance sheet date as well as credit notes issued after year end to ensure revenue is recognised in the appropriate accounting period; and
- review management's revenue recognition policy and determine whether the policy is in accordance with AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income for Not for Profit Entities*. We will ensure revenue is recognised in accordance with the requirements of the Australian accounting standards.

Shire of Upper Gascoyne Audit Strategy Memorandum Year Ending 30 June 2022

2) Employee expenses and provisions

Employee costs is one of the major expenses of the Shire. Employee costs comprises of wages and salaries and employee on-costs.

We will document and assess controls relating to the payroll process.

We will also:

- perform walkthroughs on the payroll process;
- test of internal controls relating to payroll and employee related liabilities; and
- perform substantive analytical review of employee costs and related liabilities.

For annual leave and long service leave provisions which are derived from accounting estimates, we will review the method and underlying data that management uses when determining critical accounting estimates. This will include considering the reasonableness of assumptions and corroborating representations.

3) Materials and contracts

Another major expense of the Shire are materials and contracts, whereby it was noted in prior year management letter that only a general note stating “verbal quotation was obtained” for expenses requiring only verbal quotation(s).

We will document and assess controls relating to the materials and contracts process.

We will also:

- perform walkthroughs on the materials and contracts expenditure process;
- test of internal controls relating to materials and contracts expenditure with regard to areas such as tendering, supplier’s selection process (including checking to completed verbal quotation forms where necessary), approval and contracting;
- perform substantive analytical review of materials and contracts expenditure; and
- obtain the current policies and procedures implemented on the procurement process and ensure that they are reviewed on a regular basis and that they are aligned with the Local Government Act and Regulations.

Shire of Upper Gascoyne Audit Strategy Memorandum Year Ending 30 June 2022

4) Cash and cash equivalents

The Shire has a significant cash and cash equivalent balance represented mainly by bank balances, restricted and unrestricted cash and term deposits. There is a potential risk of misappropriation, unauthorised use and incorrect classification in the financial report in accordance with the relevant accounting standards.

We will:

- obtain and review bank reconciliations of the municipal, trust accounts and term deposit statements as at reporting date and ensure evidence of the preparer and reviewer are recorded;
- obtain a bank confirmation and investigate any significant exceptions;
- verify that restricted cash and cash equivalents have been used for their intended purposes;
- ensure the correct split between unrestricted and restricted cash and ascertain that it is in accordance with the imposed regulations and legislation;
- review the process around approvals of setting up term deposits and renewals; and
- review terms and conditions to verify if term deposits have been correctly classified in the financial report in accordance with the Shire's applicable accounting policies and the relevant accounting standards.

5) Recoverability of debtors

Collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written off against the allowance account, when objective evidence that the Shire will not be able to collect its debts has been established. Receivables are normally settled within 30 days.

We will:

- review the Shire's ongoing assess of collectability of receivables;
- verify after-date receipts to assess whether receivables are recoverable in accordance with the Shire's accounting policy; and
- assess any potential provision for expected credit loss.

Shire of Upper Gascoyne Audit Strategy Memorandum Year Ending 30 June 2022

6) Property, Plant and Equipment and Infrastructure

The Shire owns significant amounts of property plant and equipment and infrastructure. Impairment, accuracy of the depreciation charge and appropriateness of asset capitalisation are identified as risks.

Property Plant and Equipment, and Infrastructure includes land, buildings and infrastructure assets, which are measured at fair value and revalued at least every 5 years in accordance with Regulation 17A(4) of the *Local Government (Financial Management) Regulations 1996*. The last revaluation was performed in the following years:

- Land and building – 2017;
- Infrastructure – 2020; and
- Other infrastructure – 2018.

The Shire will engage an external expert to perform a valuation of land and building in the current financial year.

We will review the asset capitalisation policy and its implementation to ensure that it is in accordance with *AASB116 Property, Plant and Equipment*, and Regulation 17A(5) of the *Local Government (Financial Management) Regulations 1996*.

We will also:

- obtain the external valuation report and review the main assumptions, valuation techniques and unobservable inputs used;
- recalculate depreciation and review the reasonableness of the assets useful life;
- verify significant additions and disposals;
- evaluate management's assessment of impairment; and
- consider the appropriateness of the accounting treatment of costs incurred as either maintenance or capitalised as asset enhancements.

7) Disclosure of Related Party Transactions

The Shire has transactions with related parties which are on normal commercial terms and conditions.

There is a risk that related party transactions and balances are not appropriately disclosed in the financial report in accordance with the Shire's applicable accounting policies and the relevant accounting standards.

We will address the risk of material misstatements of related party transactions and balances in the financial report as follows:

- review and determine whether the Shire's accounting policy is in line with *AASB 124 Related Party Disclosures*.
- make enquiries to understand the process for identification of related parties, review the register of related party transactions, and assess whether the disclosures made in the notes to the annual financial report are appropriate.
- review the signed declarations from Key Management Personnel and ensure appropriate disclosures (if any) have been included in the notes to the annual financial report.

Shire of Upper Gascoyne Audit Strategy Memorandum Year Ending 30 June 2022

8) Local Government Regulations

Regulation 10(3)(b) of the Local Government (Audit) Regulations 1996 (LG Audit Regulations) requires the auditor to report, in the auditor's report, any matters indicating non-compliance with Part 6 of the LG Act 1995, LG Financial Management Regulations 1996 or applicable financial controls in any other written law. These matters may relate to the financial report or to other financial management matters. There is a risk of breach of the Local Government Regulations.

Management is to ensure that the Shire complies with the LG Act 1995 and the LG Financial Management Regulations 1996, which we are required by the LG Act 1995 and the LG Financial Management Regulations 1996 to test for compliance.

9) Financial ratios

Regulation 50 of the *Local Government (Financial Management) Regulations 1996* requires the Shire to disclose seven financial ratios in the annual financial report, for the current financial year and two preceding financial years. There is a risk that the financial ratios may not be calculated correctly resulting in inaccurate results disclosed.

We will:

- ensure financial ratios covered by the current audit period and the two preceding financial years will be checked and verified to supporting documents;
- report any non-compliance and where the financial ratios indicate significant adverse trends with Part 6 of the *LG Act 1995, LG Financial Management Regulations 1996* in the auditor's report; and
- perform recalculation of financial ratios.

Amendments / revisions to Australian Accounting Standards (AASB)

There were no material new and revised Australian accounting requirements that apply mandatorily for the first time to annual reporting periods ending 30 June 2022.

The following new accounting standards will apply for future years:

- *AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments*, effective for financials beginning on or after 1 January 2022;
- *AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies or Definition of Accounting Estimates*, effective for financials beginning on or after 1 January 2023; and
- *AASB 2020-1 and 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*, effective for financials beginning on or after 1 January 2023.

Management has assessed the new Australian accounting requirements for future years and have been considered to have little to no impact on the Shire's financial statements.

Shire of Upper Gascoyne Audit Strategy Memorandum Year Ending 30 June 2022

Internal Audit

We seek to rely on internal audit work to reduce our own audit work wherever possible. This avoids duplication of audit effort and the associated workload on your operational and administrative staff.

This year no reliance is planned to be placed on internal audits as the Shire does not have an internal audit function and no internal audits are conducted.

Management Representation Letter

The above audit procedures assume that management expects to be in a position to sign a management representation letter. The proposed letter for this purpose is similar to what was signed in the prior year. This letter should be reviewed and tailored to meet your Shire's particular circumstances and be signed and dated as close as practicable to the date of the proposed audit opinion. Ordinarily, this would be no longer than five days prior to the issue of the opinion.

We will also be relying on the Chief Executive Officer (CEO) signing the financial statements as evidence that they confirm:

- They have fulfilled their responsibility for the preparation of the annual financial report in accordance with the *Local Government Act 1995*, *Local Government (Financial Management) Regulation 1996* and Australian Accounting Standards;
- They provided us with access to all relevant information necessary or requested for the purpose of the audit; and
- All transactions have been recorded and are reflected in the financial report.

Related Entities

The Shire is required to advise us in writing details of all related entities that are in existence at reporting date.

Section 7.12AL of the *Local Government Act 1995* applies section 17 of the *Auditor General Act 2006* to a local government. Section 17 requires a local government to advise the Auditor General in writing of details of all related parties and entities that are in existence.

Reporting Protocols

Significant issues identified during the course of the audit will be discussed with relevant staff and management as soon as possible after being identified. Draft management letters will be provided to your CEO for coordination of comments from appropriate members of your management. We request that these be returned, preferably within 10 working days.

At the conclusion of the audit, the abovementioned management letter will accompany the auditor's report and the audited annual financial report forwarded to the President, the CEO and the Minister for Local Government. The management letter is intended to communicate issues arising from the audit that may impact on internal control, compliance, and financial reporting. Where considered appropriate, and to ensure timely reporting of audit findings and action by management, interim management letters may be issued to the CEO.

Shire of Upper Gascoyne Audit Strategy Memorandum Year Ending 30 June 2022

On conclusion of the audit, we propose to discuss the audit outcomes with the audit committee, CEO and Councillors.

Thereafter, as required by section 7.12AD(2) of the Local Government Act, we will give our auditor's report to the CEO, the President and Minister. We will also give them any management letter issues, including interim management letters.

Specific matters resulting from issues identified during the audit may be reported in an Auditor General's Report to Parliament. Should this occur, you will be consulted in advance to assure the context and facts of the issue are adequately represented.

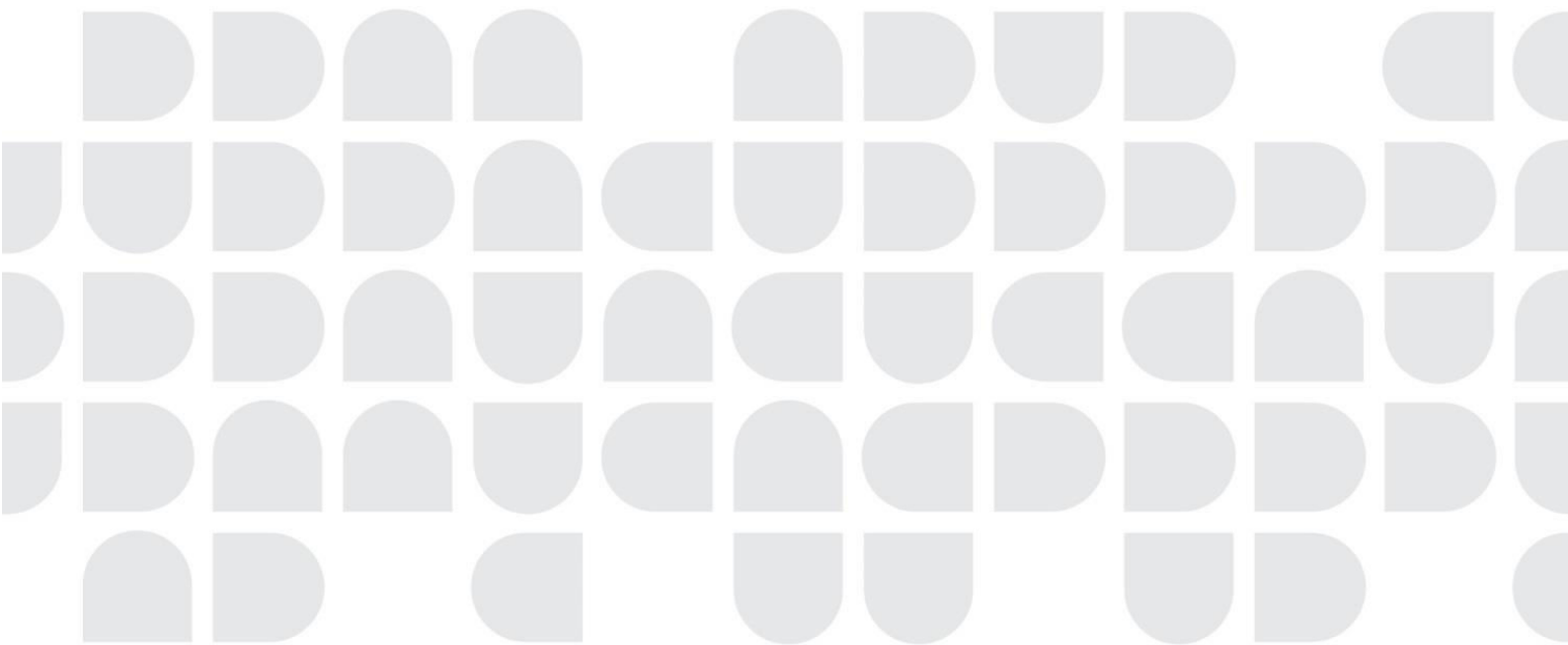
Timing of events

<u>Events</u>	<u>Timing</u>
Entrance Meeting	23 March 2022
Interim Audit	6 April 2022
Communicate interim audit issues to OAG and file ready for interim review	18 April 2022
Reporting interim management letter	2 May 2022
Final Audit Visit Commencement	12 September 2022
First Draft of the Financial Statement	2 September 2022
Reporting to OAG:	
- File Review and any final management letter issues	27 September 2022
- Exit Meeting	26 October 2022
- Issue of Opinion, Management Letter and Other Reporting Documents	27 October 2022

Shire of Upper Gascoyne's responsibilities

The Shire will be responsible for the following items:

- a) preparation of the schedules required for the audit as advised and requested by the auditors; and
- b) preparation of the financial statements and all notes to the financial statements. The schedules for the notes to the financial statements must be in the form and content as prescribed in the statutory financial statements.



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