



# Shire of Exmouth

Audit Exit Report for the year ended 30 June 2024

**Confidential**

Nexia Perth Audit Services Pty Ltd  
Report to those charged with governance

20 November 2024

Council Members  
Shire of Exmouth  
2 Truscott Crescent  
Exmouth WA 6707

Dear Council Members

## **Exit Report for the year ended 30 June 2024 – Communication with those charged with Governance**

We are pleased to present you with our Exit Report relating to the audit of the Shire of Exmouth (the "Shire") for the year ended 30 June 2024.

We are responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to the responsibilities in overseeing the financial reporting process. This report includes an analysis of the audit outcomes, key review risk areas, our audit opinion and other recommendations for your attention.

We have substantially completed our audit work, with only the following matters outstanding:

- Receipt of the signed management representation letter;
- Confirmation that there are no subsequent events which might affect the financial statements; and
- Receipt of the signed financial report.

We expect to recommend an unmodified audit opinion to the Office of the Auditor General (OAG) after these matters are completed.

We would like to take this opportunity to thank the Shire's finance and administrative team for their assistance over the course of the audit.

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

Yours faithfully,

**Justin Mulhair**  
Director  
**Nexia Perth Audit Services Pty Ltd**

**Mikey Fiorucci**  
Director  
**Office of the Auditor General**

Section 1

# Audit snapshot

Audit aspects	Outcome	Reference
i. Audit risk and focus areas	●	Section 3
ii. Current year findings and recommendations	●	Section 4
iii. Internal control assessment	●	Section 4
iv. Instances of fraud or error relating to operations	●	Section 6

Audit process	Outcome	Reference
v. Level of preparedness for audit sufficient	●	Section 6
ii. All information required supplied in a timely manner	●	Section 6

<b>High</b>	Significant issues which warrant management's urgent attention.
<b>Medium</b>	Issues noted which warrant non-urgent attention by management.
<b>Low</b>	No exceptions noted.

## Section 2

# Audit scope

### Scope

#### **Financial Audit**

The primary scope and objective is to perform a reasonable assurance audit to enable the Auditor General to express an opinion to the Council of the Shire on whether the Shire's general purpose financial report as a whole is free from material misstatements (whether due to fraud or error) and is prepared (in all material respects) in accordance with applicable Australian Accounting Standards to the extent they are not inconsistent with the Local Government Act 1995, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

## Section 3

# Audit risk areas

The areas below are audit risk areas that we identified based on our understanding the Shire's operations, discussions with management as well as any additional risks that arose during the audit. These audit risk and focus areas were included in our Audit Strategy Memorandum at the commencement of the audit and are summarised as follows;

### Audit risks

- Management override of controls;
- Integrated Financial information relies on the security, integrity and reliability of a shire's information technology environment;
- Property, plant and equipment and infrastructure; and
- Revenue.

### Focus Area

- Operational expenditure and capital expenditure;
- Cash and cash equivalents;
- Borrowings and trade payables;
- Trade and other receivables;
- Reserve Accounts;
- Related party transactions and disclosures; and
- Local Government Reform changes.

This is not a complete list of all audit risks considered or all audit procedures performed. We have presented the risks in three categories: high, medium and low. These are defined as follows:

<b>High Risk</b>	A judgmental assessment of inherent risk as <b>high</b> relates to those risks which require special audit consideration (in terms of the nature, timing or extent of testing) because of: the nature of the risk, the likely magnitude of the potential misstatements (including the possibility that the risk may give rise to multiple misstatements) and the likelihood of the risk occurring.
<b>Medium Risk</b>	A judgmental assessment of inherent risk as <b>medium</b> relates to a risk that requires additional audit consideration beyond what would be required for a low risk, but which does not rise to the level of a high risk.
<b>Low Risk</b>	A judgmental assessment of inherent risk as <b>low</b> is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring. We do not, as a matter of course, discuss normal risks with those charged with governance unless we seek their confirmation on the judgment that has been applied.

# Audit risk areas

**High Risk**  
Relates to those risks which require special audit consideration.

**Medium Risk**  
Relates to a risk that requires additional audit consideration beyond what would be required for a low risk, but which does not rise to the level of a high risk.

**Low Risk**  
Related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement.

Risk rating	Audit risk area	Audit response and conclusion	Risk outcome
●	<p><b>Management override (presumed risk in accordance with ASA 240 <i>The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report</i>)</b></p> <p>Management is involved in the day-to-day operations and monitoring of the Shire, which gives them the ability to manipulate accounting records and manipulate financial disclosures by overriding controls in place. Due to the unpredictable way in which such override could occur, this leads to potential fraud risk.</p>	Based on the work performed, we are satisfied that there are adequate internal controls in place surrounding journal entries and that these are operating effectively. Furthermore, journals processed during the year which we examined were supported by appropriate documentation. Lastly, there was no evidence of management bias noted in the use of accounting estimates and no unusual or significant transactions were noted outside the ordinary business of the Shire.	●
●	<p><b>Integrated Financial information relies on the security, integrity and reliability of a Shire's information technology environment</b></p> <p>Integrated financial information and financial reporting relies on the security, integrity and reliability of a Shire's information technology environment.</p>	Based on work performed, we are satisfied that, overall, there are adequate Information Technology General Controls in place.	●
●	<p><b>Property, Plant and Equipment and Infrastructure</b></p> <ul style="list-style-type: none"> <li>Under regulation 17A of the Financial Management Regulations, the Shire's Land and Buildings and Infrastructure are to be carried at fair value less accumulated depreciation and accumulated impairment losses. Under regulation 17(4) of the Financial Management Regulations, the Shire is required to revalue an asset:</li> <li>whenever the local government believes the fair value of the asset is likely to be materially different from its carrying amount; and,</li> <li>in any event, within a period of at least every 5 years after the day on which the asset was last valued or revalued.</li> <li>There is a risk that the fair value assessment has not been performed in accordance with AASB 13 Fair value measurement.</li> <li>Furthermore, in accordance with paragraph 9 of AASB 136 Impairment of Assets, the Shire is required to assess at each reporting date whether there is any indication that an asset may be impaired.</li> <li>Effective from 1 July 2018, regulation 17A (5) of the Financial Management Regulations provides that an asset is to be excluded from the assets of a local government if the fair value of the asset as at the date of acquisition is under \$5,000.</li> </ul>	Based on the work performed, we are satisfied that Property, Plant and Equipment and Infrastructure were carried at fair value. There are effective internal controls in place, and we are satisfied that the Shire's accounting policy has been consistently applied and is in accordance with Australian accounting standards.	●

# Audit risk areas

● **High Risk**  
 Relates to those risks which require special audit consideration.

● **Medium Risk**  
 Relates to a risk that requires additional audit consideration beyond what would be required for a low risk, but which does not rise to the level of a high risk.

● **Low Risk**  
 Related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement.

Risk rating	Audit risk area	Audit response and conclusion	Risk outcome
●	<p><b>Revenue recognition (presumed risk in accordance with <i>ASA 240 The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report</i>)</b></p> <p>The Shire's main sources of revenue are:</p> <ul style="list-style-type: none"> <li>• government grants;</li> <li>• rates; and</li> <li>• other fees and charges.</li> </ul>	<p>Based on the work performed, we are satisfied that operating and non-operating revenue/income have been correctly recognised during the year in accordance with the Shire's accounting policy and Australian accounting standards.</p>	●

# Audit focus areas

**High Risk**  
Relates to those risks which require special audit consideration.

**Medium Risk**  
Relates to a risk that requires additional audit consideration beyond what would be required for a low risk, but which does not rise to the level of a high risk.

**Low Risk**  
Related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement.

Focus rating	Audit focus area	Audit response and conclusion	Focus area outcome
●	<b>Operational expenditure and capital expenditure</b> Operational expenditure and capital expenditure are material balances in the Statement of Financial Position for the Shire.	Based on the work performed, we are satisfied that operational and capital expenditure were correctly treated during the year and there are effective internal controls in place. Furthermore, we are satisfied that the Shire's accounting policy has been consistently applied and is in accordance with the Australian accounting standards.	●
●	<b>Cash and cash equivalents</b> Cash and cash equivalents are material balances in the Statement of Financial Position for the Shire.	Based on the work performed, we are satisfied that controls around bank reconciliations are operating effectively, and cash and cash equivalents are not materially misstated at 30 June 2024.	●
●	<b>Borrowings and trade payables</b> Borrowings and trade payables are material balances in the Statement of Financial Position for the Shire.	Based on the work performed, we are satisfied that borrowings and trade payables have been recognised and measured correctly and are not materially misstated at 30 June 2024.	●
●	<b>Trade and other receivables</b> Trade and other receivables are material balances in the Statement of Financial Position for the Shire.	Based on the work performed, we are satisfied that trade and other receivables have been recognised and measured correctly and are not materially misstated at 30 June 2024.	●
●	<b>Reserve Accounts</b> The Shire has set up various reserve accounts for the purpose of setting aside money for a specific purpose to be used in a future period. Cash reserves are required to be held in separate bank accounts. However, reserve accounts are not separate funds and are consolidated with the municipal fund in the financial statements of the Shire.	Based on work performed, we are satisfied that the transfers to and from these accounts during the year were in accordance with the specific purpose of the reserves and were all approved by Shire.	●
●	<b>Related party transactions and disclosures</b> The Shire is subject to the requirements of AASB 124 Related Party Disclosures (AASB 124) as they prepare general purpose financial statements. AASB 124 requires the disclosures of key management personnel compensation, elected members remuneration and other transactions and balances with related parties.	Based on the work performed, we are satisfied that related party transactions were all conducted at arm's length and have been appropriately disclosed in the financial report.	●
●	<b>Local government reform changes</b> As communicated at planning, the Local Government Reforms project is currently underway.	Based on work performed, there were no issues identified regarding any reform changes impacting the financial year ended 30 June 2024.	●

## Section 4

# Current year findings and recommendations

### Internal controls findings and recommendations

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit.

During our audit for the year ended 30 June 2024, we evaluated the effectiveness of controls on three levels – design, implementation and operating effectiveness. As part of this evaluation, we gained a detailed understanding of the policies and procedures over the following processes:

1. Procurement, purchases and payments;
2. Property, plant and equipment
3. Payroll;
4. Bank and cash;
5. Monthly financial reporting; and
6. Journal entries.

Control weaknesses or deficiencies identified during the course of our fieldwork are categorised and reported in accordance with the categories defined below. The categories are:




<b>Significant</b>	Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating may be reported as a matter of non-compliance in the audit report in the current year, or in a subsequent reporting period if not addressed. However, even if the issue is not likely to impact the audit report, it should be addressed promptly.
<b>Moderate</b>	Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
<b>Minor</b>	Those findings that are not of primary concern but still warrant attention and/or action being taken.

# Current year findings and recommendations

**Significant**  
Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly.

**Moderate**  
Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.

**Minor**  
Those findings that are not of primary concern but still warrant attention and/or action being taken.

Status:  Done  In progress  Open / pending

## Observation

- The Shires procurement process requires purchase orders to be raised before a purchase is made. Based on our testing of procurement and payables, we noted there were 3 purchase orders that were raised after the respective invoices were received. A list of these items has been provided to Shire.

## Recommendation

We recommend that management should ensure purchase orders are issued in accordance with the Shire's procurement process.

## Management comment / status

The Shire of Exmouth (Shire) has a system (ALTUS procurement) in place which automates, manages and controls compliance with the Shire's procurement policy. All Shire staff with procurement responsibilities are trained on the procurement policy and relevant local government legislation prior to being given purchasing access or authorities.

In addition, the Shire conducts monthly compliance checks, including but not limited to compliance with the procurement policy and processes. Any discrepancies are reported to the Executive Leadership team and followed up accordingly.

The Shire is of the opinion that the internal controls in place are sufficient to ensure that unauthorised transactions are mitigated and/or that any non-compliance is identified, reviewed and followed up in a timely manner.

## Section 5

# Materiality and audit adjustments

### Materiality

Misstatements, including omissions, are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users of the financial report. The determination of materiality is a matter of professional judgement and is affected by our perception of the financial information needs of users of the financial report. Having considered the nature of the entity, the industry and economic environment in which the entity operates and the relative volatility of alternative benchmarks, we determined the most appropriate benchmark for calculating materiality to use was total expenses.

### Unadjusted misstatements

Australian Auditing Standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

### Unadjusted misstatements identified during the audit

Description	Assets Dr / (Cr)	Liabilities Dr / (Cr)	Equity Dr / (Cr)	Income Dr / (Cr)	Expenses Dr / (Cr)
Being the incorrect recognition of deferred income before the receipt of funds and the reversal of corresponding trade and other receivable.	(25,000)	-	-	-	-
	-	25,000	-	-	-
<b>Total</b>	<b>(25,000)</b>	<b>25,000</b>	-	-	-

### Adjusted misstatements identified during the audit

There were no adjusted misstatements identified during the audit.

## Section 6

# Other reporting requirements

Area	Flag	Response
<b>Consideration of fraud</b>	●	<p>Our audit procedures include discussion with management and those charged with governance as to the existence of any known or suspected material fraud. There was no known or suspected material fraud noted from these discussions.</p> <p>We are not aware of any known or suspected material fraud, nor has it been brought to our attention by management. We will obtain in writing, representations regarding the existence of fraud, policies and procedures in place to prevent and detect fraud, noting no instances of fraud of which management are aware.</p>
<b>Appropriateness of accounting policies</b>	●	<p>We considered management's assessment of the effects of any accounting policy changes on the Shire's financial statements for the current financial year as well as their assessment of any potential effects arising from those standards applicable for the first time in subsequent financial periods.</p> <p>No new or revised accounting standards applicable for the first time for this financial year had an effect on the accounting policies previously adopted.</p> <p>We consider that the accounting policies adopted in the financial statements are appropriately applied and disclosed.</p> <p>We noted no transactions entered into by the Shire during the year for which there is a lack of authoritative guidance or consensus.</p> <p>There are no significant transactions that have been recognised in the financial statements in a different period than when the transaction occurred.</p>
<b>Ethics and independence</b>	●	<p>We have obtained independence declarations from all staff engaged in the audit.</p> <p>We confirmed that to the best of our knowledge, we met the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants (including Independence Standards)</i> (the Code) that are relevant to our audit of the financial report.</p> <p>We have further considered the safeguards the Nexia Australia network has in place, and we are not aware of any services being provided that would compromise our independence as external auditor.</p>
<b>Appropriateness of the use of Going Concern Basis of Accounting</b>	●	<p>Based on the audit evidence obtained up to the date of our auditor's report, we are not aware of any material uncertainty that exists related to events or conditions that may cast significant doubt on the Shire's ability to continue as a going concern.</p>
<b>Interacting with management</b>	●	<p>The Shire's finance and management team were well prepared for the audit and documentation requested over the course of the audit was provided in a timely manner. The audit was largely performed as planned.</p>

High

Significant issues which warrant management's urgent attention.

Medium

Issues noted which warrant non-urgent attention by management.

Low

No exceptions noted.

# Other reporting requirements

Area	Flag	Response
<b>Financial Report Disclosures</b>	●	Accounting estimates and judgements are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were in relation to: <ul style="list-style-type: none"> <li>• Depreciation of Infrastructure and PPE;</li> <li>• The Fair Value Measurement of Infrastructure and PPE;</li> <li>• Employee Benefit Provisions (Annual Leave and Long Service Leave).</li> </ul>
<b>Errors, irregularities and illegal acts</b>	●	We have noted no errors or irregularities that would cause the financial report to contain a material misstatement. As part of our normal statutory review no apparent illegal acts have come to our attention.
<b>Compliance with laws &amp; regulations</b>	●	We are not aware of any known or suspected non-compliance with laws or regulations applicable to the entity that may be material to the financial report. We will also receive representations from management confirming that the Group is in compliance with all laws and regulations that impact the organisation.
<b>Management consultation with other independent accountants or experts</b>	●	If management consulted with other accountants about auditing and accounting matters, we are to inform the Board of such consultation, if we are aware of it, and provide our views on the significant matters that were the subject of such consultation. To our knowledge, management has not consulted with any experts.
<b>Receipt of audit ready Financial Report</b>	●	The date the Financial Report submitted by your entity and considered to be of audit ready quality was 30 September 2024.

<b>High</b>	Significant issues which warrant management's urgent attention.
<b>Medium</b>	Issues noted which warrant non-urgent attention by management.
<b>Low</b>	No exceptions noted.

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