

OFFICIAL



# Borough of Queenscliffe

## Closing Report

**For the financial year ended 30 June 2024**

Presented to the Audit and Risk Committee on 2 September  
2024

OFFICIAL

## Background

I enclose for your information the closing report for the year ended 30 June 2024. The closing report provides a summary of results of our audit of the Borough of Queenscliffe. This report will be discussed at the Audit and Risk Committee meeting on 2 September 2024.

## Acknowledgement

I also take this opportunity to thank your executive team and staff for the time they made available to us during our audit.

Yours sincerely

Lee Blashki

Manager, *Financial Audit*

Melbourne

30 August 2024

# Contents

Introduction .....	1
Audit completion status .....	2
Areas of audit focus.....	3
Audit findings—financial report.....	5
Audit findings—performance statement.....	7
Other audit findings .....	8
Reports to Parliament.....	9
Fair value measurement amendments.....	10
VAGO links and resources.....	11
APPENDIX A Outstanding audit matters.....	12
APPENDIX B Adjusted audit differences.....	14
APPENDIX C Unadjusted audit differences.....	15
APPENDIX D Final management letter.....	16
APPENDIX E Management representation letter .....	17

# Introduction

## Purpose of the closing report

- Our closing report summarises the results of our audit and communicates significant findings from the audit.
- Please read this document in conjunction with our Audit Strategy Memorandum 21 May 2024.

## Scope and purpose of the audit

- The *Audit Act 1994* requires the Auditor-General to form an opinion on your financial report and performance statement and provide a copy of the audit report(s) to you.
- Copies of the report(s) are also provided to the cite the title of the minister(s) responsible for the entity, and where applicable (i.e., when modified or when the AG directs) to the Assistant Treasurer, who is the minister responsible for administering Part 7 of the *Financial Management Act 1994*.

## The Auditor-General

The Auditor-General is:

- an independent officer of the Victorian Parliament
- appointed under legislation to examine on behalf of parliament and taxpayers, the management of resources within the public sector
- not subject to the control or direction of either parliament or the government.



# Audit completion status

We have substantially completed our audit of the financial report and performance statement. We performed our audit in accordance with the *Audit Act 1994* and the terms of our engagement letter. We can provide reasonable assurance that the:

- financial report requirements of Part 4 of the Local Government Act 2020, the Local Government (Planning and Reporting) Regulations 2020 and applicable Australian Accounting Standards; and
- performance statement is presented fairly, in all material respects, in accordance with the performance reporting requirements of Part 4 of the Local Government Act 2020 and Local Government (Planning and Reporting) Regulations 2020.

## Expected audit opinion

---

Based on our audit, we expect to conclude that the financial report is presented fairly.

We also expect to conclude that the performance statement is presented fairly.

We expect to issue unmodified audit opinions.

---

## Outstanding audit matters

---

We can conclude and issue our audit opinions when we finalise our audit process. Outstanding matters include:

- receipt of and review of updated draft financial report
- finalise review of property, infrastructure, plant and equipment revaluation balances and disclosures
- finalise review of performance statement
- complete internal audit quality review of the audit file
- receipt of signed financial report, performance statement, and signed management representation letter
- completion of the review of subsequent events.

**Appendix A** provides a detailed list of all outstanding audit matters.

---

# Areas of audit focus

Our audit focused on the financial report balances / disclosures / areas that we rated as higher risk for material misstatement in your financial report and performance statement.

Our procedures enabled us to conclude, with reasonable assurance, whether the risks resulted in a material misstatement. The outcome of our procedures is summarised in this section.

## Risk of material misstatement

## Our audit response

## Results of our key procedures

### 1. Revaluation of property, plant, and equipment

Property, infrastructure assets, plant and equipment represent a significant part of the Council's total assets (\$172.01 million as at 30 June 2024), with the majority of these assets carried at fair value.

Some items experience significant and volatile changes in fair value, therefore necessitating an annual review of their value. While other assets it may be necessary to revalue the item only every 3 or 5 years.

The market has been volatile and subject to uncertainties due to rising interest rates, supply chain issues, labour shortages, general inflation, COVID- 19, and other macro-economic factors.

Determining the fair value of these assets is a complex process and is subject to judgement. Numerous assumptions about the assets are made (useful live, condition), valuation experts can be engaged and/or industry indices is applied in determining fair value.

On annual basis, selected asset classes are scheduled for a full revaluation.

Drainage is subject to a full revaluation in 2023-24, and remaining assets will subject to a managerial assessment.

Drainage was subjected to a full revaluation in 2023-24, and remaining assets will subject to a managerial assessment.

Valuations may be inaccurate due to the judgement and complexities associated with applying AASB 13 Fair Value Measurement.

Disclosures may be incorrect or insufficient.

We have:

- reviewed management's assessment as to whether the fair value, for each material asset class, is materially different from the carrying amount.
- assessed the reasonableness of key assumptions underlying management's fair value assessment.
- reviewed any indexation calculations prepared by management and sight supporting documentation to validate the fair value.

Where you engage an expert, we have:

- assessed the valuer's competence, skills, and experience to conduct an appropriate valuation.
- reviewed the terms of engagement (i.e scope).
- reviewed valuer's report to evaluate the appropriateness of the methodology adopted, assumptions and estimates used and the overall reasonableness of the valuation.
- tested the completeness and accuracy of data provided to the valuer.

In progress.

Based on our audit procedures, we have concluded that the valuation of property, infrastructure, plant, and equipment has been fairly stated as of 30 June 2024.

We have performed substantive tests of details on the underlying data and indexation factors to derive the fair value of those assets.

We have reviewed management's revaluation accounting paper to ensure that the content addresses the key findings from the report to Parliament.

The finalisation of our audit procedures are pending on additional documentation required from management based on the work that has been executed.

We are finalising our review of the audit work, which includes the internal quality control review performed by the Engagement Leader.

Refer **Appendix A**.

**2. Government grants**

The Council receives funding from the Australian and Victorian governments. The amount and timing of receipt varies year-to-year at the discretion of the respective government, depending on program initiatives or capital projects.

The application of AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Non-for-Profit Entities requires management to exercise judgement in determining whether the funding agreement contains sufficiently specific enforceable performance obligations exist.

Termination for Convenience (TFC) clauses within grant agreements, that require a grant recipient to refund unspent amounts upon demand by the grantor gives rise to a financial liability on any unspent amounts.

We have:

- updated our understanding of key controls over material items of revenue.
- evaluated management’s process to assess funding arrangements against the requirements of AASB 15 and AASB 1058.
- performed substantive tests of details.
- verified a sample of transactions to supporting documentation, including a review of the grant agreement against the requirements of AASB 15 and AASB 1058.

In progress.

Based on our audit procedures that have been performed, we are comfortable with management’s application of the prescribed requirements application of AASB 15 Revenue from Contracts with Customers and AASB 1058 Income of Non-for-Profit Entities.

We are finalising our review of the audit work, which includes the internal quality control review performed by the Engagement Leader.

Refer **Appendix A**.

**3. Changes in key information systems**

The Council has implemented the following new payroll and financial management systems during 2023-24:

Area	Old System	New System
Payroll	TechOne	KeyPay
GL, Purchasing, Receipting, Fixed Asset modules	TechOne	Business Central
Property and rates, Animal Management, Infringement modules	Lynx	CouncilWise

We have:

- reviewed the ICT environment, including a review and assessment of the effectiveness of general IT controls operating at the council. This incorporates controls over security, change management, business continuity and disaster recovery.
- reviewed management’s implementation plan, including the controls that were put in place to ensure complete and accurate transfer of data.
- reviewed and test the data migration process to confirm the completeness and accuracy of financial system data.
- considered and reviewed any internal audit reports, where applicable.

In progress.

Based on our audit procedures that have been performed, we are comfortable with the accuracy and completeness of the data that has been migrated from legacy systems to new financial reporting systems.

We are finalising our review of the audit work, which includes the internal quality control review performed by the Engagement Leader.

Our systems assurance team has been engaged to complete a comprehensive review of the ICT environment and the systems and processes relied upon by management to manage the migration of systems.

Refer **Appendix A**.

This increases the risk of material misstatement in the financial report due to;

- the migration of data from the old to the new system.
- a need for staff to understand the new system, in terms of functionality and reporting capability.
- changes to the control environment.

Data for preparing the financial statements may be inaccurate or incomplete as a result of system failure or lack of controls.

# Audit findings—financial report

## Materiality assessment

---

---

Misstatements are considered material if they individually or collectively could influence economic decisions of users of the financial report. Users could be influenced by either the amount (quantity) or the nature (quality) of the matter.

We have updated the materiality levels indicated in our audit strategy memorandum.

Final overall materiality for the financial report has been set at 5% of 2023/24 property, infrastructure assets, plant and equipment \$ 8.60 million.

Final specific materiality for particular statements, account balances or disclosures has been set at 5% 2023/24 expenditure \$ 0.72 million.

In our view:

- total uncorrected errors above this amount for particular statements, account balances or disclosures would mislead the users of the financial report.
  - the risk that there may be a material error in the financial report increases with the level of accumulated uncorrected errors below this threshold.
- 

## Adjusted audit differences

---

---

Our audit procedures did not identify any material audit differences.

We found material differences in the disclosures supporting the financial report, which management adjusted.

The adjustment relates to the inclusion of GST into the Commitments Disclosure per Note 5.4 of the financial statements.

**Appendix B** presents the adjusted audit differences.

---

## Unadjusted immaterial audit differences

---

---

The effect of unadjusted differences on the financial report is \$Nil.

The unadjusted difference reflects the removal of a contract liability whereby there is no existing performance obligation imposed on the Council.

**Appendix C** presents the unadjusted immaterial differences.

---

**Control environment**

---

---

The Australian Auditing Standards require us to write to those charged with governance about any significant deficiencies we identified during the audit.

As part of our audit process, we consider, but do not assess or provide an opinion on, the effectiveness of your internal control framework. If we identify any significant weaknesses in internal control during our audit, we communicate them to you in our management letters.

**Appendix D** contains a list of the findings or the draft findings that we intend to include in our final management letter.

---

DRAFT

# Audit findings—performance statement

## Materiality assessment

---

---

Misstatements are considered material if they could individually or collectively influence economic decisions of users of the performance statement. Users could be influenced by either the amount (quantity) or the nature (quality) of the matter.

We set materiality for each indicator reported in a performance statement after we consider the qualitative and quantitative factors that influence each indicator. We cannot set an overall materiality level for the performance statement due to its nature.

---

## Adjusted differences

---

---

We identified no audit differences in the performance statement.

---

## Unadjusted immaterial differences

---

---

We identified no unadjusted immaterial differences in the performance statement.

---

## Control environment

---

---

The Australian Auditing Standards require us to write to those charged with governance about any significant deficiencies we identified during the audit.

As part of our audit process, we consider, but do not assess or provide an opinion on, the effectiveness of your internal control framework. If we identify any significant weaknesses in internal control during our audit, we communicate them to you in our management letters.

**Appendix D** contains a list of the findings or the draft findings that we intend to include in our final management letter.

---

# Other audit findings

## Fraud, irregularities, or regulatory non-compliance

---

---

When performing our risk assessments and conducting our audit procedures, we consider the risk of material misstatement in the financial report and performance statement that may be due to fraud. We are not responsible for preventing or detecting fraud.

Our audit procedures did not identify any specific financial report and performance statement areas of fraud risk or regulatory non-compliance.

---

## Waste, probity & financial prudence

---

---

Our procedures are not specifically designed to detect matters of waste, probity, and financial prudence but we may detect these matters.

Our audit procedures did not identify any material issues concerning waste, probity, or lack of financial prudence.

---

## Accounting policies

---

---

Your entity's material accounting policies, material transactions and/or events that occurred during the financial year are in accordance with the Australian accounting standards.

---

## Disagreements with management

---

---

No issues noted.

---

## Difficulties encountered in performing the audit

---

---

No issues noted.

---

# Reports to Parliament

## Results of the 2023-24 Audits: Local Government

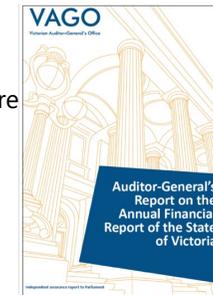
Borough of Queenscliffe will be included in the *Results of the 2023-24 Audits: Local Government*. We aim to table this report by the end of November 2024 (note: we aim to table these reports within 5 months of the relevant sector's financial year end). The report will analyse the financial performance and position, and sustainability risks of each sector. The report also informs Parliament about the strengths and weaknesses in the control environments at entities within the sector and make recommendations to improve them as appropriate.

We will release an interactive dashboard to accompany the Parliamentary report. This will enable users to visualise:

- sector results over the last 5 years
- trends and composition analyses for specific entities
- compare results between entities over time.

## Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2023-24

Each year, the Auditor-General presents the Annual Financial Report of the State of Victoria to the Victorian Parliament. The report analyses and provides commentary on key aspects of the financial performance and position of the state. In line with the Act, and where appropriate, it provides information and recommendations for more effective and efficient management of public resources. We must table this report on or before 24 November 2024.



# Fair value measurement amendments



AASB 13 *Fair Value Measurement* has been amended. The amendments are applicable for your entity for 2024-25.

Amendments include authoritative implementation guidance to be followed by not-for-profit public sector entities when measuring their non-financial assets not held primarily for their ability to generate cash inflows at fair value.

Key amendments include:

- assessing highest and best use of assets
- developing unobservable inputs and
- application of the cost approach to fair value.

For an overview of the amendments and our implementation recommendations refer to our tech alerts 2024-1 and 2023-1 on [our website](#).



Given your entity has material assets that are measured at fair value using the cost approach, you need to assess the impact of the amendments early in the 2024-25 reporting cycle. We recommend finance teams:

- fully understand the new requirements
- undertake an impact assessment
- prepare and present a paper to the audit and risk committee that outlines the:
  - accounting policy to measure each class of property, plant and equipment
  - approach for assessing the fair value of each class of assets, identifying amendments to valuation and/or measurement methods required
  - timeframes for obtaining evidence to support amendments and engaging with audit.



Audit and Risk committees have a key role to play in this significant accounting change. We recommend that committees:

- fully understand the new requirements
- review the finance team's impact assessment, timeframes and any accounting papers
- review existing systems and processes to ensure they can gather any additional information required by the amendments
- critically assess the reasonableness of the approach and timelines
- engage early with your valuer and auditor on any significant issues identified.

# VAGO links and resources

---



VAGO's website

VAGO's role

Annual work plan

Strategic plan

Our reports

Audits in progress

Privacy policy

Financial reporting alerts

---

# APPENDIX A

## Outstanding audit matters

The following items are outstanding at the date of this report and need to be resolved before we can issue our audit reports.

Item	Action required	Responsibility
Property, Infrastructure, Plant and Equipment Revaluation	Management to provide additional supporting documentation to validate the 2023-24 fair value assessments.	Management
Draft financial report and performance statement	Review latest draft financial report and performance statement to confirm acquittal of queries.	Audit
Quality control review of the audit file	Finalise review of audit testing including review by Engagement Leader and Signing Officer. Areas include PIPE revaluation, performance statement and grant revenue.	Audit
Review of signed financial report and performance statement	Management to provide financial report and performance statement for audit team's review.	Management and audit
Financial report and performance statement certification	To be signed on adoption of the accounts by the Council.	Management
Management representation letter	To be signed on same date as the certification of the financial report.	Management
Subsequent events update	Provide details of significant transactions and events up to date of signing the audit report. Audit will assess for any impact on the financial report.	Management and audit

After we issue our audit report(s), we are required to undertake the following procedures. We will report any issues we find to your accountable officer for appropriate remedial action.

Item	Our procedure
Annual report	<p>We will review your annual report to confirm that it includes the correct version of the signed financial report, performance report and auditor's report. We will also check that all information in the annual report is materially consistent with the financial report.</p> <p>We request your provision to us of an electronic copy of the printers' proof of the annual report.</p>
Website publication of annual report	<p>We will review your annual report on your website to confirm that it includes the correct version of the signed financial report performance report and auditor's report.</p> <p>We request your notification to us when you publish your annual report on your website.</p>

# APPENDIX B

## Adjusted audit differences

### Adjusted dollar differences

Financial report component(s)	Adjusted \$	Basis for the adjustment
There are no adjusted audit differences that have been identified and communicated to management. This will be updated in the Final Closing Report should any errors be identified from the internal quality control review.		

### Adjusted differences of disclosures in your financial report and indicators in your performance statement

Financial report disclosure / performance statement indicator	Adjustment	Basis for the adjustment
Note 5.4 Commitments – 2024	\$1,341,500	Inclusion of the GST Component into the Commitments Disclosure in accordance with the LGV Model 2023.24 financial statements.
Note 5.4 Commitments - 2023	\$ 99,900	Inclusion of the GST Component into the Commitments Disclosure in accordance with the LGV Model 2023.24 financial statements.

# APPENDIX C

## Unadjusted audit differences

### Unadjusted dollar differences

Financial report component(s)	Adjusted \$	Basis for the difference and the reason/s for not adjusting
Contract Liabilities	Dr 96,000	Adjustment to contract liabilities, grant operating revenue and trade and other receivables to reflect the absence of a performance obligation imposed on the Council as at 30 June 2024.
Grants – operating revenue	Cr 96,000	
Grants – operating revenue	Dr 96,000	
Trade and Other Receivables	Cr 96,000	

### Unadjusted differences of disclosures in your financial report and indicators in your performance statement

Financial report disclosure / performance statement indicator	Recommended disclosure	Basis of our recommendation
There are no unadjusted audit differences relating to disclosures that have been identified and communicated to management. This will be updated in the Final Closing Report should any errors be identified from the internal quality control review.		

# APPENDIX D

## Final management letter

We provide a draft version of the final management letter as a separate attachment.

DRAFT

## APPENDIX E

# Management representation letter

As part of gathering audit evidence, we obtain formal management representations about your entity's financial report and performance statement. We look at the completeness, preparation, and presentation of the information in the report and statement.

We do not rely solely on the management representations, except when they are the only evidence reasonably available.

A draft version of the management representation letter is provided as a separate attachment.

DRAFT