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Our ref: R008-16585809-45965

10 October 2023

Dear Mr Rudd

**Engagement Closing Report**  
**Audit for the year ended 30 June 2023**  
**Rous County Council**

We have audited the Rous County Council's (the Council's):

- general purpose financial statements (GPFS)
- special purpose financial statements (SPFS) for the Council's Declared Business Activities

Attached is the Engagement Closing Report, which details findings relevant to you in your role as one of those charged with governance. This report gives the General Manager, the Chair and the Audit, Risk and Improvement Committee the opportunity to assess the audit findings, before the representation letter and the Statements by Council and Management, required for the GPFS and SPFS under section 413(2)(c) of the *Local Government Act 1993* (the LG Act), are signed.

I consider this report to fall within the definition of 'excluded information' contained in Schedule 2(2) of the *Government Information (Public Access) Act 2009*. It may not be distributed to persons other than Management and those you determine to be charged with governance of the Council.

If you need more information about the audit, please contact me on me on 02 9275 7454 or Mr Richard Watkinson from Thomas Noble & Russell on 02 6626 3000.

Yours sincerely



Quentin Wong  
Delegate of the Auditor-General for New South Wales

cc: Mr Robert Mustow, Chairperson  
Ms Laurie Lefcourt, Chair of the Audit, Risk and Improvement Committee

# Engagement Closing Report

Audit for the year ended 30 June 2023

Rous County Council

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## 1. INTRODUCTION

We have audited the Rous County Council (the Council's):




- general purpose financial statements (GPFS)
- special purpose financial statements (SPFS) for the Council's Declared Business Activities






This report informs the General Manager, Chair and the Audit, Risk and Improvement Committee of audit findings relevant to their responsibilities and oversight of the Council's financial statements. We will inform you if significant new matters are found while finalising the audit.

An audit is designed to obtain reasonable assurance the financial statements are free from material misstatement. It is not designed to identify all matters of governance interest, nor is it conducted to express an opinion on the effectiveness of internal control. Matters of governance interest identified during the audit are included in this report.

## 2. AUDIT OVERVIEW

The table below provides an overview of findings identified during the audit of the Council.

Impact assessment		
	<b>High</b>	Matters identified which had a high impact on the financial statements and/or audit.
	<b>Moderate</b>	Matters identified which had a moderate impact on the financial statements and/or audit.
	<b>Low</b>	No matters or matters identified which had a low impact on the financial statements and/or audit.

Section	Outcome	Impact	Reference
<b>Audit outcome:</b>			
GPFS	Unqualified opinion	 Low	<a href="#">3.1</a>
SPFS for Council's Declared Business Activities	Unqualified opinion with emphasis of matter paragraph	 Low	<a href="#">3.1</a>
Response to key issues and audit risks	Matters addressed	 Low	<a href="#">4.1</a>
Misstatements	Misstatements noted	 Moderate	<a href="#">4.2</a>
Compliance with legislative requirements	No matters noted	 Low	<a href="#">4.3</a>

## 3. AUDIT OUTCOME AND REPORTS

### 3.1 Audit outcome

We are likely to express an unmodified opinion on the GPFS and the SPFS for Declared Business Activities.

The Independent Auditor's Report for the SPFS engagements will advise users the SPFS engagement has been prepared in accordance with a special purpose framework to fulfil the Council's financial reporting responsibilities under the Local Government Code of Accounting Practice and Financial Reporting 2022–23 (LG Code). As a result, the SPFS engagement may not be suitable for another purpose.

The Independent Auditor's Reports will be signed on after the outstanding matters listed below are completed and the signed financial statements and management representation letters are received.

The following matters are outstanding at the date of this report:

- finalisation of quality review procedures
- review of subsequent events up to the date of issuing the Independent Auditor's Reports.

### 'Other Information' section

The Council's annual report will include information in addition to the financial statements and Independent Auditor's Report. For the purposes of our audit this is considered 'other information'. Auditing Standards require us to consider whether the other information is materially consistent with the financial statements and the knowledge we obtained during the audit. Where matters are identified, we are required to disclose them in the Independent Auditor's Report.

## 3.2 Report on the Conduct of the Audit

We will issue the Report on the Conduct of the Audit required by section 417(3) of the *Local Government Act 1993* at the same time as the Independent Auditor's Reports. The Report on the Conduct of the Audit will incorporate comments we consider appropriate, based on the audit of the Council's financial statements.

## 3.3 Auditor-General's Report to Parliament

The 2023 Auditor-General's Report to Parliament will incorporate the results of the audit.

## 3.4 Management Letter

We issue Management Letters detailing matters of governance interest identified during the audit.

We issued an interim Management Letter in June 2023 which included observations from the planning and interim phase of the audit.

A Management Letter from the final phase of my audit will be sent to you during October 2023, when formal management responses have been received.

# 4. AUDIT FINDINGS

## 4.1 Response to key issues and audit risks

The Annual Engagement Plan sent on 24 February 2023, identified key issues affecting the Council and how the audit team planned to respond to them. The results of the audit work are detailed below.

Issue or risk	Audit outcome
<b>Revaluation of infrastructure property, plant, and equipment (IPPE)</b>	
<p>The following IPPE classes were comprehensively revalued this year:</p> <ul style="list-style-type: none"> <li>• Operational Land</li> <li>• Non-depreciable Land Improvements</li> <li>• Depreciable Land Improvements</li> </ul> <p>The comprehensive revaluation for the Buildings infrastructure asset class was deferred to 2023–24.</p> <p>Insufficient governance over the valuation process can impact on the quality and timeliness of financial reporting.</p>	<p>Council engaged an independent valuer to perform a comprehensive revaluation of these asset classes as at 30 June 2023.</p> <p>Council recorded a revaluation increment of \$16.7 million relating to the revaluation of land assets. A significant portion of the increment related to land at current dam sites and the land surrounding the proposed site for Dunoon Dam.</p> <p>As part of the audit we:</p> <ul style="list-style-type: none"> <li>• reviewed the qualifications and experience of staff members and experts involved in the valuation</li> </ul>

Issue or risk	Audit outcome
	<ul style="list-style-type: none"> <li>• reviewed the reasonableness of the valuation methodology and assumptions, and the revaluation results</li> <li>• confirmed a condition assessment and reassessment of remaining useful lives was performed</li> <li>• performed procedures to ensure the completeness and accuracy of data used in the valuation, such as spreadsheets</li> <li>• confirmed the valuation complied with the requirements of AASB 13 'Fair Value Measurement'</li> <li>• reviewed the revaluation adjustments made to the Council's fixed asset records and general ledger to ensure they agree to the valuation report</li> <li>• confirmed that all necessary disclosures were made in the financial statements.</li> </ul> <p>There were no significant adverse findings from performing our procedures, and did not identify any material exceptions in the amounts reported in the financial statements.</p>
<p><b>Assessing the fair value of Council's infrastructure, property, plant and equipment (IPPE)</b></p>	
<p>The Australian Accounting Standards require the Council to annually assess:</p> <ul style="list-style-type: none"> <li>• whether the carrying value of IPPE materially reflects fair value</li> <li>• useful lives remain reasonable</li> <li>• whether any assets are impaired.</li> </ul> <p>This annual assessment along with significant judgements and assumptions should be documented.</p>	<p>Council performed and documented an assessment of the fair value of IPPE infrastructure asset classes not subject to comprehensive revaluation as at 30 June 2023.</p> <p>The indexation increased the fair value of these asset classes by \$39.9 million, comprising:</p> <ul style="list-style-type: none"> <li>• \$0.9 million increment to Buildings</li> <li>• \$26.2 million increment to Water Supply Network assets</li> <li>• \$12.8 million increment to Flood Mitigation assets.</li> </ul> <p>We assessed the:</p> <ul style="list-style-type: none"> <li>• effectiveness and reliability of process to determine fair value of assets</li> <li>• methodology and key assumptions used</li> <li>• reasonableness of useful lives and depreciation</li> <li>• qualifications and experience of any experts used</li> <li>• management's assessment of impairment</li> <li>• adequacy of disclosure in the financial statements.</li> </ul> <p>We did not identify any material exceptions in the amounts reported in the financial statements.</p>
<p><b>Quality and timeliness of financial reporting</b></p>	
<p>Quality and timeliness of financial reporting is key for sound financial management, public accountability and effective decision making. Absence of an effective project plan for year-end financial reporting</p>	<p>The Council commenced the financial reporting process early and performed an assessment of the impact of new and revised accounting standards effective in the current and future years.</p>

Issue or risk	Audit outcome
<p>can result in delays, errors, poor quality and increased audit costs.</p> <p>Quality and timeliness can improve by:</p> <ul style="list-style-type: none"> <li>• preparing proforma financial statements before 30 June 2023</li> <li>• assessing the impact of material, complex and one-off significant transactions</li> <li>• documenting significant judgements and assumptions used to prepare financial statements</li> <li>• assessing the impact of new and revised accounting standards effective in the current and future years</li> <li>• completing valuations, fair value assessments and other IPPE requirements before 30 June 2023</li> <li>• regularly reconciling key accounts and clearing reconciling items</li> <li>• involving the Audit, Risk and Improvement Committee early in the financial reporting process, to review the project plan and the financial statements.</li> </ul>	<p>Draft general purpose financial statements and supporting workpapers were provided to the audit team in line with agreed timeframes.</p>
<p><b>Information Technology General Controls</b></p>	
<p>Australian Auditing Standards require the auditor to understand the Council's control activities and obtain an understanding of how it has responded to risks arising from Information Technology (IT).</p>	<p>We reconfirmed our understanding of the IT dependencies and related risks relevant to our audit approach, as well as updating our understanding of IT criticality and complexity of key accounting systems.</p> <p>We extended our substantive procedures where appropriate to respond to risks associated with IT.</p> <p>We identified some IT matters and our observations will be reported in the Final Management Letter. These matters are in relation to:</p> <ul style="list-style-type: none"> <li>• Access to Programs and Data</li> <li>• IT Policies and Procedures.</li> </ul>
<p><b>Cyber security</b></p>	
<p>The Council relies on digital technology to deliver services, organise and store information, manage business processes, and control critical infrastructure. The increasing global interconnectivity between computer networks has dramatically increased the risk of cyber security incidents. Such incidents can harm the Council's service delivery and may include the theft of information, denial of access to critical technology, or even the hijacking of systems for profit or malicious intent.</p>	<p>As part of the 2022–23 financial audit we assessed whether cyber security risks represent a risk of material misstatement to the Council's financial statements. Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• assessing whether the risk assessment process considers cyber security risks</li> <li>• determining how the roles and responsibilities for cyber security are established</li> <li>• obtaining an understanding of the process: <ul style="list-style-type: none"> <li>– for safeguarding of assets that may be exposed to security breaches</li> <li>– to monitor and detect security breaches or incidents</li> <li>– for disclosing cyber security risks and incidents.</li> </ul> </li> </ul>

Issue or risk	Audit outcome
	<p>The systems within the scope of the review was Microsoft Dynamics NAV.</p> <p>Council has undertaken (via CyberNSW) vulnerability scan exercises at domain and IP levels, as well as major Penetration test exercises that identified low-level findings. We considered these findings as part of our audit procedures.</p> <p>We did not identify any material matters to report.</p>
<b>Capital Expenditure</b>	
<p>The Council had a budgeted significant capital works program (\$17.3 million) for 2022–23. The significant program includes for the year:</p> <ul style="list-style-type: none"> <li>• St Helena 600 Upgrade stages 2 - \$5.6 million</li> <li>• Flood Lismore Levee - \$1.3 million</li> <li>• Future Water Project - \$1.9 million</li> <li>• Gallans Road - \$0.8 million</li> </ul> <p>There is an expectation from a broad range of stakeholders that the Council will deliver its capital works program in a timely manner and within budget.</p>	<p>For a sample of capital projects, we:</p> <ul style="list-style-type: none"> <li>• reviewed the dissection of costs between expenses and assets</li> <li>• reviewed the componentisation of project costs into separate assets</li> <li>• reviewed the capitalisation of overhead costs</li> <li>• examined the timeliness of asset additions to the fixed asset register</li> <li>• assessed whether replaced assets were removed from the asset register</li> <li>• tested any unspent contractual amounts are disclosed as capital commitment</li> <li>• enquired of any contractual disputes and assessed whether are properly accounted for at year-end</li> <li>• assessed whether funding contributions were appropriately accounted for and disclosed in the financial statements.</li> </ul> <p>We did not identify any material matters to report.</p>

## 4.2 Misstatements

Auditing Standards require matters of governance interest and significant misstatements identified during the audit to be communicated to those charged with governance.

Misstatements (both monetary and disclosure deficiencies) are differences between what has been reported in the financial statements and what is required in accordance with the Council’s financial reporting framework. Misstatements can arise from error or fraud. Misstatements that resulted from failures in internal controls and / or systemic deficiencies will be reported in the Management Letter.

### General Purpose Financial Statements (GPFS)

[The Appendix](#) lists and explains the nature and impact of the misstatements contained in the GPFS.

- Table one reports prior period errors corrected retrospectively
- Table two reports significant corrected misstatements.

Based on our evaluation, none of the misstatements reported are due to fraud.

The Audit team identified disclosure deficiencies that were of an immaterial or administrative nature. These were discussed with management and adjustments made to the financial statements where considered relevant.

### Special Purpose Financial Statements (SPFS) for Declared Business Activities

The SPFS for Declared Business Activities did not contain misstatements.



### **4.3 Compliance with legislative requirements**

The Annual Engagement Plan and Terms of Engagement explain that audit procedures are targeted specifically towards forming an opinion on the Council's financial statements. This includes testing whether the Council has complied with legislative requirements that may materially impact the financial statements.

Our audit procedures did not identify reportable findings on compliance with legislative requirements.

## **5. THE AUDIT PROCESS**

### **5.1 Management co-operation**

We appreciated the co-operation and help received from the Council's staff, in particular the finance team.

### **5.2 Next year's audit**

Your comments about the audit process are welcomed.

## APPENDIX ONE – GENERAL PURPOSE FINANCIAL STATEMENTS

### Table one: Prior period errors corrected retrospectively

The table below summarises prior period transactions identified during the current year that have been corrected retrospectively. Management believes these errors are so significant they require restatement of the Council's previously published GPFS. The impact of the restatement has been detailed in the notes to the financial statements.

#### Nature and impact of prior period transactions corrected retrospectively

##### Capital Works incorrectly expensed\*

Council identified that renewal works on a flood mitigation asset at West Coraki had incorrectly been expensed under 'Contractor and consultancy costs' through the Income Statement in 2021–22 rather than being capitalised to IPPE.

Council retrospectively adjusted the 2021–22 comparatives to reflect the correction by decreasing the contractor and consultancy expense as at 30 June 2022 by \$1.15 million with a corresponding increase to IPPE.

F4-1 'Correction of errors' note to the financial statements discloses the impacts of recognising the assets.

\* Misstatement identified by management.

### Table two: Corrected monetary misstatements

Management corrected the following monetary misstatements in the current year's GPFS. We agree with management's determination and confirm this treatment complies with Australian Accounting Standards.

Description	Assets	Liabilities	Net operating result / Net result for the year	Other comprehensive income
Effect of correction	Increase/ (decrease) \$'000	(Increase)/ decrease \$'000	(Increase)/ decrease \$'000	(Increase)/ decrease \$'000
<b>Judgemental misstatements</b>				
Updated future wages increase assumption for calculating on-costs for employee leave provisions	-	(86)	86	-
<b>Total impact of corrected misstatements</b>	-	<b>(86)</b>	<b>86</b>	-

\* Misstatement identified by management.

## OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

## OUR PURPOSE

To help parliament hold government accountable for its use of public resources.