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LISMORE NSW 2480

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10 October 2024

Dear Mr Rudd

**Engagement Closing Report  
for the year ended 30 June 2024  
Rous County Council**

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

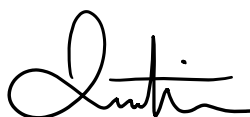
- general purpose financial statements (GPFS)
- special purpose financial statements (SPFS) for the Council's Declared Business Activities

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.

The information in this letter and any attachments are confidential and intended for management and those charged with governance only. This document may not be shared with other parties without the consent of the Audit Office.

If you need more information about the audit, please contact me on 9275 7454 or Mr Richard Watkinson from HLB Mann Judd on 1300 000 452.

Yours sincerely



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

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

# Engagement Closing Report

for the year ended 30 June 2024

Rous County Council

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## 1. INTRODUCTION

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





- 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 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>	Matters identified which had a low impact on the financial statements and/or audit.
	<b>None</b>	No matters identified with an impact on the financial statements and/or audit.

Section	Outcome	Impact	Reference
<b>Audit outcome:</b>			
GPFS	Unqualified opinion	 None	<a href="#">3.1</a>
SPFS for Council's Declared Business Activities	Unqualified opinion	 None	<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	 None	<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 for Declared Business Activities will advise users that this 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 2023–24 (LG Code). As a result, the SPFS engagement may not be suitable for another purpose.

The Independent Auditor’s Reports will be signed 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 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 financial statements.

**3.3 Auditor-General’s Report to Parliament**

The 2024 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. Our current audit identified:

- 1 prior year matter not resolved by management
- 2 current year matters

We issued a final Management Letter in October 2024, which included observations from the final phase of the audit.

**4. AUDIT FINDINGS**

**4.1 Response to key issues and audit risks**

The Annual Engagement Plan sent on 15 March 2024, 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>	
The following IPPE classes were comprehensively revalued this year: <ul style="list-style-type: none"> <li>• Buildings</li> </ul> Insufficient governance over the valuation process, including the instruction and management of valuers, can impact on the quality and timeliness of financial reporting.	Council engaged an independent valuer to perform a comprehensive revaluation of Buildings as at 1 July 2023. Council have also considered the impact of indexation for the period to 30 June 2024. Council recorded a revaluation increment of \$3.0 million relating to the revaluation of Buildings. As part of our audit procedures, we have assessed: <ul style="list-style-type: none"> <li>• Council's instructions to valuers, where applicable</li> </ul>

Issue or risk	Audit outcome
	<ul style="list-style-type: none"> <li>the methodology's compliance with AASB 13 'Fair Value Measurement'</li> <li>the qualifications and experience of experts used, where applicable</li> <li>the completeness and accuracy of data provided to valuers, such as spreadsheets</li> <li>the effectiveness of management's process in assessing the valuation outcomes</li> <li>the process used to assess the assets' condition</li> <li>whether key asset management systems are regularly reconciled to the general ledger</li> <li>the reasonableness of expected useful lives, an assessment of the assets condition and depreciation rates</li> <li>accuracy of adjustments made to the fixed asset register and general ledger</li> <li>adequacy of financial statements disclosures.</li> </ul>
<p>We are satisfied that the methodology used in the valuation complies with the requirements of AASB 13.</p>	<p>We are satisfied that the methodology used in the valuation complies with the requirements of AASB 13.</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, including the impact of natural disaster events.</li> </ul>	<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 2024.</p> <p>The indexation increased the fair value of these asset classes by \$25.4 million, comprising:</p> <ul style="list-style-type: none"> <li>(\$0.3) million decrement to Operational Land</li> <li>\$18.3 million increment to Water Supply Network assets</li> <li>\$7.4 million increment to Flood Mitigation assets.</li> </ul>
<p>This annual assessment along with significant judgements and assumptions should be documented, with evidence to support the assessment.</p>	<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></p>	<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 can result in delays, errors, poor quality and increased audit costs.</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> <p>Draft general purpose financial statements and supporting workpapers were provided to the audit team in line with agreed timeframes.</p>
<p>Quality and timeliness can improve by:</p> <ul style="list-style-type: none"> <li>preparing proforma financial statements before 30 June 2024</li> </ul>	<p>Management did encounter delays in providing the audit team with documentation to assess the revaluation process. Whilst this did delay the audit of the revaluation of Council's building</p>

Issue or risk	Audit outcome
<ul style="list-style-type: none"> <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>• completing valuations, fair value assessments and other IPPE requirements before the interim audit</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>assets, we have worked with management to complete our procedures in as timely a manner as possible.</p>
<b>Information Technology General Controls</b>	
<p>Australian Auditing Standards require the auditor to understand the Council 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>Our substantive procedures were commensurate to risks associated with IT.</p> <p>We identified the following matters that will be reported in the Final Management Letter:</p> <ul style="list-style-type: none"> <li>• unsupported IT software.</li> </ul>
<b>Cyber Security</b>	
<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 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>Cyber security risks may represent a risk of material misstatement to the Council financial statements. Our work is performed in this context and is not designed to provide assurance to the Council about the overall sufficiency or effectiveness of their system of cyber security controls.</p>	<p>We assessed whether cyber security risks represent a risk of material misstatement to the Council financial statements. As part of our audit procedures, we have:</p> <ul style="list-style-type: none"> <li>• assessed whether the risk assessment process considers cyber security risks</li> <li>• determined how the roles and responsibilities for cyber security are established</li> <li>• obtained an understanding of the process for:             <ul style="list-style-type: none"> <li>– safeguarding of assets that may be exposed to security breaches</li> <li>– monitoring and detecting security breaches and incidents</li> <li>– disclosing cyber security risks and incidents</li> </ul> </li> <li>• performed additional procedures as required based on our risk assessment.</li> </ul> <p>The systems within the scope of the review was Microsoft Dynamics NAV.</p> <p>We identified the following matter that will be reported in the Final Management Letter:</p> <ul style="list-style-type: none"> <li>• cyber awareness training</li> </ul>

Issue or risk	Audit outcome
<b>Capital Expenditure</b>	
<p>The Council had a budgeted significant capital works program (\$19.1 million) for 2023–24. The significant capital works program includes for the year:</p> <ul style="list-style-type: none"> <li>• St Helena 600 Upgrade stages 2 - \$0.7 million</li> <li>• Smart Metering and backflow - \$2.8 million</li> <li>• Future Water Project - \$2.4 million</li> <li>• Gallans Road - \$4.1 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 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)

Appendix One lists and explains the nature and impact of the misstatement contained in the GPFS.

- Table one reports significant uncorrected misstatements
- Table two reports the effect on the reported net operating result of misstatements that have not been corrected in the period in which they occurred.

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

### Special Purpose Financial Statements (SPFS)

#### Declared Business Activities

The SPFS for Declared Business Activities contained misstatements. Appendix Two lists and explains the nature and impact of the misstatement on the SPFS for Declared Business Activities.

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

## 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.



## 4.4 Preparedness for amendments to AASB 13 'Fair Value Measurement'

AASB 2022-10 'Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities' amends AASB 13 'Fair Value Measurement' by adding authoritative implementation guidance and illustrative examples. The guidance is relevant to the fair value measurements of non-financial assets of not-for-profit (NFP) public sector entities where the assets are not held primarily for their ability to generate net cash inflows. Specifically, while the amendment did not change the requirements of the standard, it did provide useful guidance and examples for NFP entities to consider, such as:

- whether the asset's highest and best use differs from its current use
- when an asset's use is 'financially feasible'
- the circumstances when it is appropriate for an entity to use its own assumptions as a starting point in developing unobservable inputs
- how the cost approach should be applied to measure an asset's fair value.

Our Annual Engagement plan advised that the amendments to AASB 13 apply to the non-financial assets of the Council not held primarily for their ability to generate net cash inflows prospectively for the 2024–25 financial year. While Appendix M to the Code advises the potential impacts flowing from the additional guidance and examples are likely to be minimal, we nonetheless recommend councils review the new guidance and examples within AASB 13 and:

- assess whether their current valuation assumptions, processes are consistent with the guidance and examples
- prepare accounting position papers documenting the possible impacts on the fair value measurements of relevant assets, quantifying the impact and highlighting any changes to significant management assumptions.

The Council should complete their impact assessment early in the 2024–25 reporting cycle.

## 5. THE AUDIT PROCESS

### 5.1 Management co-operation

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

## APPENDIX ONE – GENERAL PURPOSE FINANCIAL STATEMENTS

### Table one: Uncorrected monetary misstatements

#### Uncorrected monetary misstatements

The following uncorrected monetary misstatements were identified and discussed with management. Management believes the effect of not correcting these misstatements is immaterial, individually and in aggregate, to the GPFS as a whole. We agree with management's determination and do not consider the uncorrected misstatements significant enough to modify the opinion in the Independent Auditor's Report. Management is required to attach the schedules of uncorrected misstatements to the Representation Letter. The misstatements were discussed with Jonathan Patino on 30 September 2024.

Description	Assets	Liabilities	Net operating result / Net result for the year	Equity
	Increase/ (decrease) \$'000	(Increase)/ decrease \$'000	(Increase)/ decrease \$'000	(Increase)/ decrease \$'000
Operating expenditure incorrectly recorded in current period*	-	-	(715)	715
To correct classification split of term deposits between current / non-current	1,000 (1,000)	-	-	-
<b>Total impact if misstatements were corrected</b>	<b>-</b>	<b>-</b>	<b>(715)</b>	<b>715</b>

\* Misstatement identified by management.

### Table two: Effect of misstatements on the reported net operating result

To fully understand the current year's financial result, those charged with governance should consider the impact of misstatements from previous years corrected in the current period, and current period errors that remain uncorrected.

This table illustrates the effect of misstatements that have not been corrected in the period in which they occurred.

Description and effect	Net operating result / Net result for the year
	Increase/ (decrease) \$'000
<b>Net operating result as reported</b>	<b>(148)</b>
Prior year transactions recorded in the current year's net operating result	715
<b>Adjusted current year net operating result</b>	<b>567</b>

## APPENDIX TWO – SPECIAL PURPOSE FINANCIAL STATEMENTS FOR DECLARED BUSINESS ACTIVITIES

**Table one: Uncorrected monetary misstatements and disclosure deficiencies**

### Uncorrected monetary misstatements

The following uncorrected monetary misstatements were identified and discussed with management. Management has determined the effect of not correcting these misstatements is immaterial, individually and in aggregate, to the SPFS for Declared Business Activities taken as a whole. We agree with management's determination and do not consider the uncorrected misstatements significant enough to modify the opinion in the Independent Auditor's Report. Management is required to attach the uncorrected misstatements to the Representation Letter. These misstatements were discussed with Jonathan Patino on 30 September 2024.

Description	Assets	Liabilities	Surplus (deficit) after tax	Accumulated surplus
Effect of potential correction	Increase/ (decrease)	(Increase)/ decrease	(Increase)/ decrease	(Increase)/ decrease
	\$'000	\$'000	\$'000	\$'000
Operating expenditure incorrectly recorded in current period*	-	-	(715)	715
Correct classification split of term deposits between current / non-current	1,000 (1,000)	- -	- -	- -
<b>Total impact if misstatements were corrected</b>	<b>-</b>	<b>-</b>	<b>(715)</b>	<b>715</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.