



REPORT ON SIGNIFICANT AUDIT FINDING

Pursuant to Section 7.12A(4) of the Local Government Act 1995

MAY 2023

1. Background

Under the Local Government Act 1995, the Shire of Plantagenet is required to prepare an audited Annual Financial Report each financial year.

The Shire's 2021/2022 audit report was received from the Office of the Auditor General on 20 April 2023 and is attached to this document.

Section 7.12A (3) and (4) of the Local Government Act states the following:

- (3) A local government must –
- (aa) examine an audit report received by the local government; and
 - (a) determine if any matters raised by the report, require action to be taken by the local government; and
 - (b) ensure that appropriate action is taken in respect of those matters.
- (4) A local government must –
- (a) prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and
 - (b) give a copy of that report to the Minister within 3 months after the audit report is received by the local government.
- (5) Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.'

2. Details

The audit contained the following matter classed as significant:

1. *Recognition of previously unrecognised assets*

Finding

The Shire carried out an in-house revaluation of its roads, footpaths, drainage, other infrastructure and parks and ovals for the year ended 30 June 2022. During this process the Shire recognised 71 Other Infrastructure and Parks and Ovals assets totalling \$2.6 million which were not recorded as Shire's assets in the previous years. These assets were included on the asset register for the financial year 30 June 2022. However, the in-house revaluation was not adopted due to a lack of evidence on the appropriateness of the unit rates applied to calculate the fair value of these assets and have been recognised at nil carrying value for 30 June 2022.

Rating: Significant

Implication

Without a robust assessment of fair value of the Shire's asset classes held at fair value, there is a risk that the fair value of these assets may not have been assessed adequately and in compliance with AASB 13 Fair Value Measurement, as well as Regulation 17A(4)(b) of the Local Government (Financial Management) Regulations 1996 (the Regulations).

Recommendation

The Shire should consider implementing as part of the preparation of financial statements a formal robust process to determine whether indicators exist annually, that would trigger a requirement to perform a formal revaluation of all asset classes held at fair value. Where indicators exist a robust fair value assessment should be performed capturing the requirements of AASB 13 Fair Value Movements. This process is to ensure that the Shire's relevant asset classes held at fair value are complying with the requirements of AASB 13 Fair Value Measurement and the Regulations.

This may entail obtaining relevant input from an independent valuer as to whether or not they consider there are any prevailing market factors which may indicate that the fair value of relevant assets are likely to have been impacted to any significant / material extent from the prior year. Where a fair value assessment has been performed internally the Shire may consider having this assessment peer reviewed by an independent valuer to obtain assurance over the valuation methodology applied, inputs and the reasonableness of the valuation model applied.'

3. Action Plan

The Shire appointed an Asset Management Reporting Officer in 2019 to co-ordinate asset condition inspections and assessments, asset valuations and assist in developing asset renewal and maintenance programs.

The Shire has done a lot of work over the past three years to assess the condition of infrastructure assets. This led to the identification of the carpark assets not previously listed the Shire's asset register. The Shire intends to carry on with this work, but to arrange for a suitably qualified person to verify the staff assessment and calculate the update values to be used in the financial records.

In this respect, a qualified valuer has been engaged to do a valuation of all carpark and accessway assets as at 30 June 2023. This will also involve a desktop re-evaluation of the Shire's Parks Infrastructure & Other Infrastructure assets as the carparks and accessways are contained within those asset categories. Where any asset needs to be revalued, accounting standards require the entire asset class to be revalued.

Further, quotations are currently being sought from qualified valuers for formal verification of road, drainage and footpath assets as at 30 June 2023.

The Shire will liaise with the contracted auditors (Lincolns) in respect to the proposed valuer to be appointed. We will also provide Lincolns with the intended valuation methodology and details of pre-work that has been done in respect to that valuation.

The Shire also intends to carry on with the ongoing assessment of infrastructure condition and values and to consider the need for an annual assessment of prevailing market factors which may indicate that the fair value of those assets are likely to have been impacted to any significant / material extent from the prior year.