



Victorian Auditor-General's Office

West Gippsland Regional Library Corporation

Audit Strategy Memorandum

For the financial year ending 30 June 2021

Background

30 June 2021 Financial Report of West Gippsland Regional Library Corporation

This strategy outlines our plan for conducting the annual audit of the financial report and performance statement. The audit strategy will be discussed at the board meeting on 7 May 2021.

Acknowledgement

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

Yours sincerely,



Rochelle Wrigglesworth

Director

DMG Audit & Advisory

VAGO Audit Service Provider

Sale

3 May 2021

Contents

Contents	3
Introduction	4
Key changes impacting your audit	6
Our audit approach	7
Key risks and areas of audit focus	8
Other audit considerations	13
Other responsibilities	14
Audit timetable	15
Audit fee and key contacts	16
Other information	17
Appendix A. Planned audit approach	19

Introduction

Purpose of the audit strategy memorandum

- This audit strategy outlines our plan for conducting the audit of the financial report for the financial year ending 30 June 2021.
- Please read this document in conjunction with our engagement letter issued.

Scope of the audit

The *Audit Act 1994* requires the Auditor-General to:

- form an opinion on whether your financial report presents fairly in accordance with the *Local Government Act 2020* and Australian Accounting Standards and provide a copy of the audit report to you
- provide a copy of the audit report to the minister responsible for the entity and where we provide a modified audit opinion, we must provide a copy to the Assistant Treasurer.

Independence

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 by either Parliament or the government.



Key changes impacting your audit

Significant Events – Areas of audit focus:

COVID-19 Pandemic

The Victorian Government announced its Coronavirus roadmap for reopening with its steps towards COVID normal.

We expect that the operations of many entities will evolve with hybrids of remote operations and return to offices when entities re-open after prolonged closure of operations. In response, we will monitor developments and liaise with management to understand:

- the challenges impacting your operations, systems and processes
- impacts on your control environment.

VAGO and our audit service providers will continue to operate under our remote audit protocol for the foreseeable future. Working together, we will deliver our audit services remotely while minimising our impact on your operations.

Sector specific changes:

Local Government Act 2020

The *Local Government Act 2020* (The new Act) is implemented in four transitional stages and applies to all 79 local councils in Victoria. During these four stages, the new Act will co-exist with the provisions in the previous Act until 1 July 2021. The new Act follows a principles-based approach and introduces overarching governance principles to improve accountability.

Regional Library Corporations (RLC) are not a specific type of entity under LGA 2020. However, LGA 2020 has a provision for any new RLCs to be formed up until 1 July 2021 and existing RLCs to continue to operate under LGA 1989 for the next 10 years (until 1 July 2031).

Our audit approach



Assess Risks

We understand your entity and its environment to:

- determine materiality
- identify material transactions, balances, disclosures, and significant events
- identify and assess risks of material misstatement and the controls in place to mitigate these risks
- develop our audit strategy, including scope, timing, and direction of the audit—refer to **Appendix A** for details.



Respond to risks

We choose and execute procedures to obtain audit evidence, this may include:

- testing key manual and application controls
- performance of substantive testing of transactions and balances
- substantive analytical procedures
- reliance on the work of others and specialist experts
- use of data analytics.



Report

We report:

- in our interim and final management letters, observations and our recommendations to improve your internal controls and other deficiencies identified
- in our closing report, any other financial reporting matters that are not related to internal controls
- in our audit report, the audit opinion.

Key risks and areas of audit focus

Financial report

We will focus audit attention on the following financial report balances / disclosures / areas, which pose a higher risk of material misstatement to your financial report. We will also perform procedures to obtain sufficient and appropriate audit evidence on other material classes of transactions, balances, and disclosures in your financial report.

Risk	Key risk of material misstatement	New this financial year	Why we think it is of higher risk	Our proposed audit response
1	Valuation of property, infrastructure, plant and equipment	No	<p>Non-current physical assets represent a material component of the total assets of the entity and must be assessed annually by management to ensure they continue to be carried at fair value.</p> <p>Fair value measurement involves complex assessments and significant judgements, including the need for experts to provide estimates. The library conducts an examination of the likelihood of a material change in the underlying replacement cost of its buildings. If this examination concludes that a material change has occurred since the last formal valuation, a revaluation of the assets is conducted.</p> <p>In addition, the asset register may not be up to date to reflect the most recent valuations and remaining useful lives of assets, which could result in a misstatement in depreciation and the carrying value of assets.</p> <p>Valuations may be inaccurate due to the judgement and complexities associated with applying AASB 13 <i>Fair Value Measurement</i>. Disclosures may be incorrect or insufficient.</p>	<p>We will:</p> <ul style="list-style-type: none"> review the nature and extent of management's oversight and review of the fair value measurement by valuation experts review the valuer's report where formally revalued, or management's fair value assessment, to evaluate the appropriateness of the methodology adopted, assumptions and estimates used and the overall reasonableness of the valuation assess the valuer's competence, skills and experience to conduct an appropriate valuation, where a formal revaluation is required review any indexation calculations prepared by management review management's impairment assessments review the journals posted by management to support the figures within the financial statements and appropriateness of disclosures.

Risk	Key risk of material misstatement	New this financial year	Why we think it is of higher risk	Our proposed audit response
2	Impact of COVID-19 on financial report	Yes	<p>All levels of Government including local government are taking significant measures in response to the global pandemic caused by COVID-19. There is ongoing uncertainty with rapid and evolving responses to this pandemic including changing the way entities operate and, in some cases, closing operations, facilities and services to prioritise the health and safety of communities.</p> <p>During times of significant uncertainty:</p> <ul style="list-style-type: none"> • staff morale, wellbeing and decision making may be affected • key resources may be limited or redeployed to areas of critical need, and • internal controls may not operate as intended. <p>Expected financial report impacts include:</p> <ul style="list-style-type: none"> • COVID 19 impact on account balances that involve significant management accounting estimates, judgements and assumptions • accounting for grant income expected to be received during 2020-21 by the sector in response to COVID 19 • challenges associated with asset revaluation process due to COVID 19 restrictions • any additional provisioning requirements • specific financial report disclosures and presentation highlighting the impact of COVID 19. 	<p>We will:</p> <ul style="list-style-type: none"> • review the impact of COVID 19 on your financial reporting (e.g. changes to revenue streams, demand on specific services, impacts on your workforce and associated cost implications, valuation of assets, additional provisioning requirements and cash flows) • assess the impact of COVID 19 on your control environment (due to work from home arrangements, changes to financial delegations' limits etc.), • audit the specific disclosures highlighting the impact of COVID 19 and ensure compliance with model LG financial report template for 2020-21, and • schedule the best timing for audit work to accommodate any additional pressure your organisation may be under in response to the pandemic.

Risk	Key risk of material misstatement	New this financial year	Why we think it is of higher risk	Our proposed audit response
3	Revenue	No	<p>Significant revenue is received through government grants and contributions by councils.</p> <p>Revenue may be materially misstated due to the failure to correctly recognise and measure it in accordance with accounting standards.</p>	<p>Assess whether treatment of revenue is consistent with Australian Accounting Standards</p>
4	Going concern	No	<p>The sustainability of the Corporation is largely dependent upon the continued contribution by the three Councils.</p> <p>The management agreement states that should there be any changes to the nature of the current arrangements, twelve months' notice must be given. The agreement with member Councils expired in April 2021.</p> <p>Regional Library Corporations (RLC) are not a specific type of entity under LGA 2020. However, LGA 2020 has a provision for any new RLCs to be formed up until 1 July 2021 and existing RLCs to continue to operate under LGA 1989 for the next 10 years (until 1 July 2031).</p> <p>Decisions regarding the West Gippsland Regional Library Corporation will have an impact on financial reporting for 2020-21.</p>	<p>We will review organisation's plans and decisions regarding the Regional Library Corporation and consider the impact on financial report process / audit opinion as at 30 June 2021, including management's assessment of impairment.</p> <p>We will also consider events post balance date, up to the date of signing of the financial statements.</p>

Materiality

We decide materiality by considering qualitative and quantitative factors and using our professional judgement.

We use materiality to make judgements about the:

- balances and disclosures that require detailed audit attention
- amount of audit work we perform
- effect of misstatements.

We start with an **overall materiality** for the financial report. Our view is that uncorrected errors above this amount, either individually or in aggregate, would mislead the users of the financial report.

We have determined that misstatements of lesser amounts than overall materiality for particular statements, account balances or disclosures could reasonably be expected to mislead the users of the financial report.

Consequently, we have a specific materiality threshold for particular statements, account balances or disclosures.

We use amounts less than overall and specific materiality, to reduce the probability that the aggregate of uncorrected and undetected misstatements exceeds overall and specific materiality. We call this **performance materiality**. You will need you to correct any errors above performance materiality before we issue our opinion.

We will not need you to correct any errors that are **clearly trivial**—an amount below which we judge that misstatements are of no quantitative consequence. If we find such misstatements, we will not communicate these to you.

We will reassess materiality before providing our audit opinion and where we update it, we will communicate this to you through our closing report.

Our planning materiality levels are shown in the table.

Description	Benchmark	Amount (\$)
Overall materiality	5% of total expenditure	\$307k
Performance materiality	75% of overall materiality	\$230k
Clearly trivial threshold		\$3k

Other audit considerations

Our audit approach includes the following considerations

Our use of the work of internal audit

To deliver the most efficient audit, we consider any relevant internal audit work performed.

We have reviewed your internal audit plan and determined that there is no coverage that will directly reduce our audit program.

Where services are provided by a service organisation

Our audit approach takes into consideration services that the Library may have outsourced functions to external providers, and some of these functions have a direct impact on the financial statements. Management is responsible for creating clear service agreements, implementing oversight controls and monitoring their effectiveness.

We will assess the risks associated with these outsourced service arrangements and tailor our audit approach in relation to these areas accordingly.

Your use of specialists and experts

Where you have relied on the work of experts to assist with fair value estimate of property, plant and equipment, we will assess the work of the expert to determine whether we can rely on it.

Other responsibilities

Refer to our engagement letter for a complete list of responsibilities.

Internal control

Management is responsible for maintaining suitable accounting records and designing and operating internal controls that prevent and detect fraud and error.

The control environment is an integral part of the governance framework. It represents management's commitment to establishing and executing well-controlled business operations. Our ability to rely on systems of control is directly related to our assessment of how effective they are.

Our preliminary assessment of your control environment is that it supports our reliance on your internal systems of controls.

We will promptly write to those charged with governance about significant internal control deficiencies that come to our attention during the audit.

Fraud

During our audit, we ask those charged with governance, management, and others to identify any known instances of fraud. We seek to understand where you consider fraud risks exist, and if you have any knowledge of actual or suspected fraud, including the risk of management override of controls. Our audit is not designed to detect fraud. However, should instances of fraud come to our attention, we will report them to you.

Suspected corrupt conduct

If, during the course of our audit, we become aware of any matter that we reasonably suspect may involve corrupt conduct, either current or past, we must notify the Independent Broad-based Anti-Corruption Commission (IBAC) (under our obligations of the *Audit Act 1994*). Notifications to IBAC override the existing confidentiality provisions in the Act.

Waste, probity and financial prudence

If we become aware of any waste of public resources, or lack of probity and financial prudence in how public resources are managed or applied, we will report it to management and / or parliament via our reports.

Audit timetable

Milestone	Date	Responsibility
We start our engagement with you to plan the audit and interim audit process	March 2021	Library and DMG
The board meeting discusses the draft audit strategy	May 2021	Library and DMG
We issue the audit strategy memorandum	May 2021	DMG
We issue the interim management letter	May 2021	DMG
We undertake hard close / early verification work, where applicable	June 2021	DMG
After being subjected to internal quality assurance, management submit draft financial report to audit	20 July 2021	Library
We start the final audit engagement with you	21 July 2021	Library and DMG
We hold the closing meeting with finance team	21 July 2021	Library and DMG
The board meeting discusses the closing report	3 September 2021	Library and DMG
The governing body adopts and signs the financial report	3 September 2021	Library
The independent auditor signs the audit report	September 2021	VAGO
Management provide the printers proof of the annual report to audit for review	September 2021	Library
We issue the final management letter	September 2021	DMG

Audit fee and key contacts

Fees

- We will advise you of the estimated audit fee in a separate letter.
- Fees are based on our planned audit approach. We will bill progressively based on the work completed.
- Fees are subject to change if the scope, volume, or complexity of the audit changes.
- Fees may change if agreed milestones are not met, for example in cases where there is limited availability of key staff to assist the audit process.

Key contacts

Signing officer

Sanchu Chummar
Acting Sector Director, Local Government
Sanchu.Chummar@audit.vic.gov.au
(03) 8601 1636 / 0472 838 905

Engagement leader

Rochelle Wrigglesworth
Director, DMG Audit & Advisory
rwrigglesworth@dmgaudit.com.au
1300 792 720

Other information

Reports to Parliament



Results of Financial Audits

2020–21 financial year

VAGO will table two reports summarising the results of the 2020–21 financial audits: Auditor-General’s Report on the Annual Financial Report of the State of Victoria, 2020–21 (covering all sectors other than local government), and Local Government: Results of the 2020–21 Audits.

2020 financial year

VAGO will table two reports summarising the results of the 2020 financial audits: Technical and Further Education Institutes: Results of the 2020 Audits, and Universities: Results of the 2020 Audits. We expect to table these reports in May 2021.

2019–20 financial year

- Local Government: Results of the 2019–20 Audits

VAGO will table a report on the outcomes from our 2019–20 audits of the local government sector as the financial reporting timelines for councils were extended because of the coronavirus pandemic.

- Auditor-General’s Report on the Outcomes from our audits of the Victorian Public Sector: 2019–20

VAGO will table an omnibus report on the outcomes from our 2019–20 audits of the Victorian public sector as the financial reporting timelines for agencies was extended because of the coronavirus pandemic. This report will include a list of all Victorian government sector entities we audited, the type of audit opinion we issued, and the date it was issued.



Performance Audits

A list of performance audits in progress is on our [website](#).

Details of planned performance audits are in our [annual plan](#).

Key VAGO links and resources



[Annual Plan](#)

[Reports and Publications](#)

[Audits in Progress](#)

[Corporate Information](#)

[Information privacy](#)

[Complaints about VAGO](#)

Appendix A. Planned audit approach

Material component (\$)	Inherent risk assessment (Unlikely/possible/likely)	Reliance on Controls (Yes/No)	Planned internal audit reliance (Yes/No)	Residual risk of material misstatement	Planned reliance on substantive audit procedures (H/M/L)
Income					
Grants (\$917k)	Unlikely	No	No	Moderate	M
Contributions – monetary (\$5.3mil)	Unlikely	No	No	Moderate	M
Expenditure					
Employee costs (\$3.9mil)	Unlikely	Yes	No	Low	L
Materials and services (\$801k)	Unlikely	Yes	No	Low	L
Depreciation and amortisation (\$924k)	Unlikely	No	No	Moderate	M
Assets					
Cash/other financial assets (\$2.27mil)	Likely	No	No	High	H
Property, infrastructure, plant and equipment/intangibles (\$4.6mil)	Possible	No	No	High	H
Liabilities					
Trade and other payables (\$313k)	Unlikely	No	No	Moderate	M
Employee provisions (\$928k)	Unlikely	Yes	No	Low	L

Material component (\$)	Inherent risk assessment (Unlikely/possible/likely)	Reliance on Controls (Yes/No)	Planned internal audit reliance (Yes/No)	Residual risk of material misstatement	Planned reliance on substantive audit procedures (H/M/L)
Borrowings (\$928k)	Unlikely	No	No	Moderate	M
Notes to the accounts					
Cash flow statement	Unlikely	No	No	Moderate	M
Related parties	Unlikely	No	No	Moderate	M
Commitments and contingencies	Unlikely	No	No	Moderate	M

Note: Inherent risk is assessed as either unlikely, possible, or likely by considering whether risk escalation factors are present. A risk assessed as likely is a significant risk. Planned reliance is high, medium, or low.