

From: TAO Admin
Sent: Wed, 7 Oct 2020 16:59:47 +1100
Cc: Lynch, Jan
Subject: Launceston City Council - Final Management Letter and Report - Year Ended 30 June 2020
Attachments: Launceston City Council - Final Management Letter - 30 June 2020.pdf,
Launceston City Council - Final Memorandum of Audit Findings (MOAF) - Year ended 30 June 2020.pdf,
Launceston City Council - Independent Auditors Report (Opinion) - 30 June 2020.pdf

Dear Ald van Zetten,,

Please find attached Launceston City Council Final Management Letter, Memorandum of Audit Findings and Audit Report for year ended 30 June 2020.

In accordance with section 19(2) of the Audit Act 2008, The Hon M Shelton MP has been included as a recipient to this correspondence.

Additionally, please be advised Mr M Scanlon, Mr M Stretton, and Ms L Foster have also been copied in to this email.

Kind regards



Tasmanian Audit Office

Level 8, 144 Macquarie Street, Hobart TAS 7000 | GPO Box 851, Hobart TAS 7001

Phone: (03) 6173 0900 | Fax: (03) 6173 0999

admin@audit.tas.gov.au | www.audit.tas.gov.au |

<https://www.facebook.com/tasaudit>

Our Vision

Strive · Lead · Excel · To Make a Difference

Our Purpose

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.

The Tasmanian Audit Office is a proud supporter of local charities. This year our major charity is Diabetes Tasmania.

CONFIDENTIALITY NOTICE AND DISCLAIMER

The information in this transmission may be confidential and/or protected by legal professional privilege, and is intended only for the person or persons to whom it is addressed. If you are not such a person, you are warned that any disclosure, copying or dissemination of the information is unauthorised. If you have received the transmission in error, please immediately contact this office by telephone, fax or email, to inform us of the error and to enable arrangements to be made for the destruction of the transmission, or its return at our cost. No liability is accepted for any unauthorised use of the information contained in this transmission.

7 October 2020

Ald A van Zetten
Mayor
Launceston City Council
PO Box 396
Launceston TAS 7250

Issued by email only

Dear Ald van Zetten

Launceston City Council - Final Management Letter - Year Ended 30 June 2020

The audit of the financial report for Launceston City Council (Council) has been completed in accordance with the agreed Financial Audit Strategy. I have issued my audit report on the financial report, a copy of which is enclosed.

Audit Findings

The enclosed Management Report sets out matters that came to my attention during the audit and my recommendations for improvement. I have reviewed the matters raised with management whose written responses are included in the attached report.

You will appreciate that my normal audit procedures are designed primarily to enable me to form an opinion on the financial report as a whole and therefore do not necessarily bring to light at each audit all the weaknesses in internal control or accounting practice which a special investigation might do.

I have prepared this report solely for the use of Council. As you know, this report forms part of a continuing dialogue between Council and the Auditor-General and, therefore, it is not intended to include every matter, whether large or small, that has come to my attention. For this reason I believe that it would be inappropriate for this report or letter to be made available to third parties and, if such a third party were to obtain a copy without my prior written consent, I would not accept any responsibility for any reliance that they might place on it.

...1 of 2

Review of the Annual Report

Please will you forward to me a copy of the final draft of Council's annual report for review by my staff prior to its publication. This review will be conducted in accordance with Auditing Standard *ASA 720 The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Report* to identify any material inconsistencies between the financial report and other information disclosed in the annual report.

Appreciation is expressed for the assistance and co-operation provided to my staff during the course of the audit.

Please note that a copy of this letter has been provided to the Minister for Local Government, The Hon. M Shelton, MP in accordance with section 19(2) of the *Audit Act 2008*.

If you have any queries regarding the audit or any other matters, please contact myself or Ms Jan Lynch on (03) 6173 0900.

Yours sincerely



Stephen Morrison
Assistant Auditor-General Financial Audit Services

Encl.

Copy for:

Mr M Scanlon, Chair of Audit Panel

Mr M Stretton, General Manager

Ms L Foster, Director of Corporate Services



Tasmanian Audit Office

Launceston City Council

Final Memorandum of Audit Findings For the year ended 30 June 2020

7 October 2020

Contents

Summary of findings	2
1. Current findings yet to be resolved.....	5
2. Previously reported findings yet to be resolved	7
3. Previously reported findings resolved in the course of the audit	18
Appendix 1 – Risk ratings for findings	20

Summary of findings

We have completed our final audit visit for Launceston City Council for the year ended 30 June 2020. In accordance with our normal practice, we write to draw your attention to the internal control, accounting and other matters that came to our attention during the course of the audit.

The risk rating attributed to audit findings, as described in Appendix 1, reflects our assessment of both the likelihood and consequence of each identified finding in terms of its impact on the:

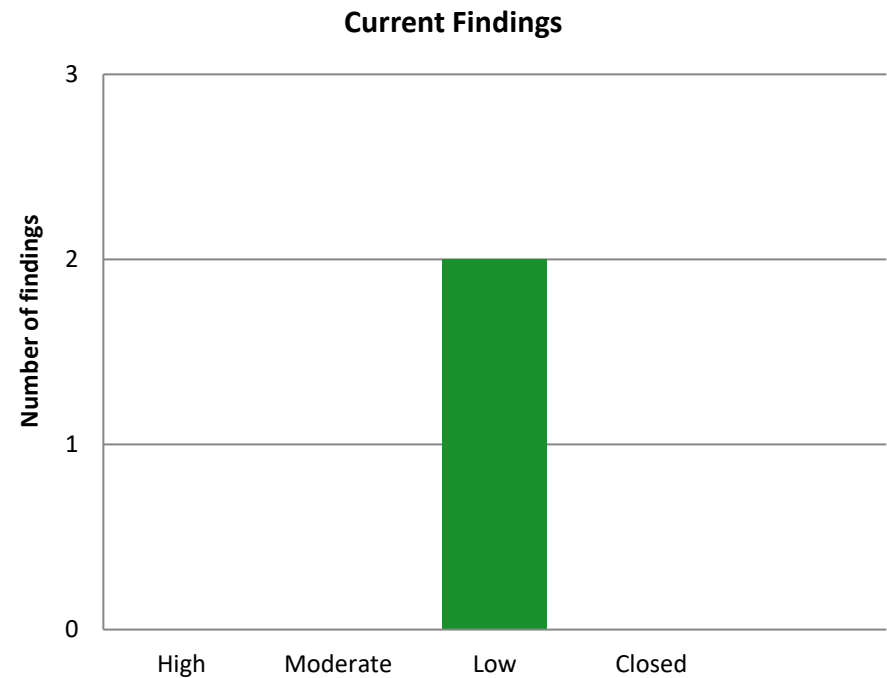
- effectiveness and efficiency of operations, including probity, propriety and compliance with applicable laws
- reliability, accuracy and timeliness of financial reporting.

The risk rating may also assist management in determining the prioritisation of remedial action.

Audit findings rates as high or moderate may be included in our report to Parliament on the results of our financial statement audits.

Current findings

The graph on the right summarises the findings we identified during the final phase of our audit for reporting to the Audit Panel. Findings that have been addressed during the course of the audit, up to the timing of this Report, with remedial action confirmed by the Office are shown as resolved or closed.

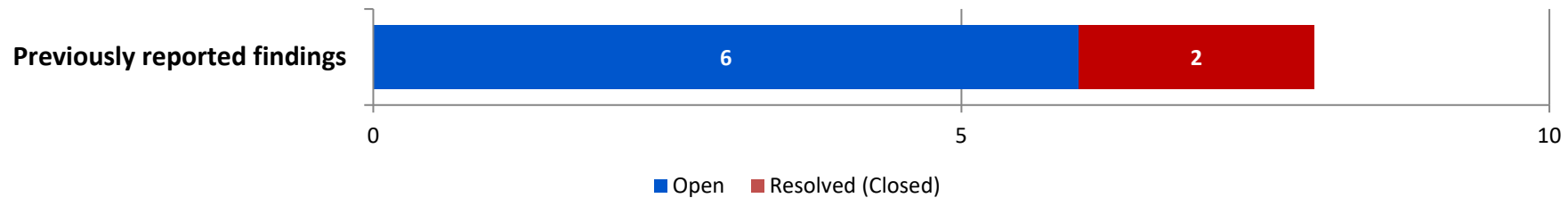


Current findings are summarised in the table below:

Ref.	Finding	Risk	Corrective Action Date
Not yet resolved			
1.1	Password parameters	Low	31 October 2020
1.2	Information Technology (IT) Business Continuity Plan (BCP) distribution	Low	30 June 2021

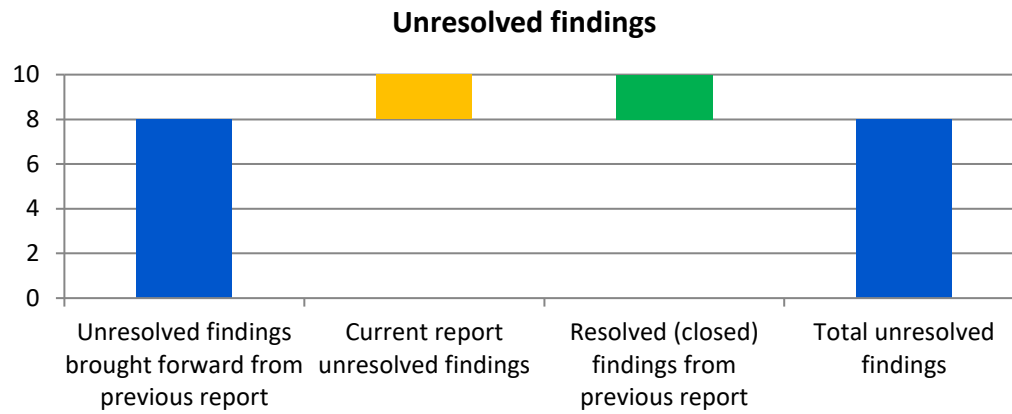
Previously reported findings

The following graph illustrates the number of previously reported findings yet to be closed and the number closed since the last report.



Unresolved findings

The following graph illustrates the number of unresolved findings reconciled to the number of unresolved findings brought forward from the previous memorandum of findings.



1. Current findings yet to be resolved

1.1 Password Parameters

(Low risk)

Finding	<p>A review of Council's Active Directory password parameters noted that the following parameters were inconsistent with Council's approved Information Security Standards policy (31-PI-010):</p> <ul style="list-style-type: none">• maximum password expiry - actual 365 days compared with 90 days per the policy• password length - actual 14 characters compared with 8 characters per the policy• number of invalid logon attempts prior to account lockout - actual 5 attempts compared with 3 attempts per the policy. <p>Further investigation revealed that the Information Security Standards policy is currently under review. A working version was provided to TAO, noting that this document was not saved in ECM (Council's records management system).</p> <p>A review of the working version found that all system parameters were consistent with the draft policy expect for password history (actual 13 past passwords remembered, compared with 5 per the draft policy).</p>
Implications	<p>System parameters inconsistent with policy.</p> <p>Documents stored outside of Council's records management system could result in loss of information or inefficiencies if staff are not aware of outside documents.</p>
Recommendation	<p>It is recommended that the Information Security Standards policy is finalised, action taken to ensure system parameters are consistent with the policy and policy documents (even if draft) are maintained in ECM.</p>
Management response	<p>The Information Security Standards policy has been updated to reflect the current password history parameters. This policy has been sent to our document controller to replace 31-PI-010, currently in ECM.</p>
Responsible officer	<p>Team Leader Technology Services</p>
Timeframe for corrective action	<p>31 October 2020</p>

1.2 Information Technology (IT) Business Continuity Plan (BCP) distribution

(Low risk)

Finding	There appears to be no specific procedure in place to organise distribution of the IT BCP. The plan also lists Business Critical Personnel and contains a list of personnel to contact. Both lists are out of date.
Implications	Lack of a distribution strategy and incorrect contact details may result in delays in responding to emergencies as they arise.
Recommendation	Council consider addressing the above deficiencies when the IT BCP is reviewed.
Management response	The IT BCP is currently being reviewed and updated.
Responsible officer	Manager Information & Technology Services
Timeframe for corrective action	30 June 2021



2. Previously reported findings yet to be resolved

2.1 Risk Registers

(Low risk)

Finding	Risk management is an important component of the governance framework in every organisation. Council's risk management framework includes a Corporate Risk Register and a separate Fraud Risk Register. These documents were last reviewed in 2016 and 2017 respectively.
Implications	If a risk register is not kept up to date, it does not describe an entity's current risk profile and is not an accurate indication of the areas that need to be closely monitored. The lack of an up to date risk register may also indicated that risks are not being appropriately managed.
Recommendation	Council review both risk registers to ensure that the risks identified are still applicable and are being appropriately monitored and managed.
Management response	The Council understands the importance of managing Corporate and Fraud risks within our organisation. A review of the Council's Corporate Risk Register and Fraud Risk Register is currently being undertaken.
Responsible officer	Team Leader Governance
Timeframe for corrective action	30 June 2020 (original) 31 December (updated)
Updated comment – final 2020	The Corporate and Fraud Risk Registers have been reviewed by the Governance Team and will be taken to both the Senior Leadership Team and Executive Leadership Team in coming weeks for: - their acceptance of the residual risks outside of the Council's acceptable tolerance levels and - approval after any amendments are made.

2.2 Information Technology (IT) Strategic Plan

(Low risk)

Finding	Council's IT strategic plan was last subject to review in 2014 when it was prepared externally by Peter Carr.
Implications	An IT strategic plan serves as a guide to IT-related decision making, with IT tasks prioritised and implemented using the plan as a framework. It is important for an organisation's IT staff to know their priorities and identify the IT projects that the organisation should invest in.
Recommendation	Council ensure that its IT strategic plan is reviewed in a timely manner.
Management response	The IT Strategic Plan is long overdue for renewal. A plan was in place to draft a new strategic plan during the 2018-19 Financial Year however, an organisational re-structure forced the process on hold. A change in leadership further delayed the process.
Responsible officer	Manager Technology and Information Services
Timeframe for corrective action	January 2021 (not yet due)



2.3 Business Continuity Planning

(Low risk)

Finding

Council's business continuity planning framework includes a suite of policies, plans and procedures, including:

- Council Business Continuity Policy
- Information and IT Business Continuity Policy
- Business Continuity Management System (BCMS) Framework
- Council Business Continuity Plan (BCP)
- IT BCP

Council's BCP is an "umbrella" plan for all operations and activities with common impacts within the Town Hall building complex. The plan identifies the likely threats to business continuity and the measures Council has in place to mitigate the threat of occurrence or reduce the impact to the business if the threat is realised.

A review of the Council BCP and the IT BCP noted:

1. The plans were last reviewed in November 2016.
2. The Council BCP only covers staff and assets located at the Town Hall and the scope is mostly limited to IT services.
3. The IT BCP is supported by separate disaster recovery plans (DRP). It was noted that Council's DRP does not incorporate an incident response plan to address and manage a security breach or cyberattack.

Implications

1. To be effective, a BCP should be reviewed and approved on a regular basis to ensure that the plan reflects the current threats faced by the organisation.
2. Council's BCP should be organisation wide to ensure that all threats to continued operation are considered.
3. An incident response plan should include procedures for detecting, responding to and limiting the effects of a security incident. An incident response plan allows an organisation to respond to a security incident quickly and thereby minimise the duration of and damage from an incident.

Recommendation

1. It is noted that Council has engaged an external consultant to undertake a review of the BCP, which is currently in progress. Therefore no recommendation has been made at this stage and the above matter is simply noted.
 2. As above.
 3. It is recommended that Council consider the need to incorporate an incident response plan into its BCP framework, specifically, its DRP. Additionally, incident response management should include:
 - a. Ongoing oversight of key metrics such as number of incidents detected, number requiring action, number of incidents that led to breaches.
 - b. Incident response testing
 - c. Integration with related security initiatives such as vulnerability and penetration testing.
-

Management response

1. Noted.
 2. Noted.
 3. Noted - newly recruited staff will assist in achieving this.
-

Responsible officer

General Manager Organisational Services

Timeframe for corrective action

30 June 2021 (not yet due)



2.4 Currency of asset valuations

(High risk)

Finding	<p>A review of Council's asset valuations found that the following assets have not been reviewed for a number of years:</p> <ul style="list-style-type: none">• Museum Collection - last valued 30 June 2014• Flood Infrastructure - last valued 30 June 2015• Waste Assets – majority last valued 30 June 2013. <p>In terms of the Museum Collection valuation, the matter was discussed with Council's Chief Financial Officer, who advised that Council has commenced an audit of the museum assets to facilitate the subsequent digitalisation of the collection. Council has therefore delayed the revaluation of the collection until finalisation of the audit and digitalisation process to ensure the valuation is based on the most accurate and complete set of data.</p> <p>Council's Asset Revaluation Methodology and Framework provides for the Museum Collection to be revalued every ten years and for Other Assets, which includes flood and waste assets, to be revalued on a periodic basis.</p>
Implications	<p>AASB 116 <i>Property, plant and equipment</i> requires revaluations to be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. A period between revaluations of greater than five years increases the risk that the valuation has materially changed.</p>
Recommendation	<p>Council:</p> <ul style="list-style-type: none">• take action to ensure asset classes at fair value are revalued with sufficient regularity in accordance with AASB 16• review its Asset Revaluation Methodology and Framework document to ensure the frequency of revaluations reflects the requirements of AASB 16.
Management response	<p>Council will engage the services of a third party valuer to provide an indexation revaluation of its museum collection in the 2019-20 financial year. Council has recently updated its Asset Revaluation Methodology and Framework, which now stipulates that the museum collection is to be revalued every five years.</p> <p>Flood Infrastructure and Waste Assets will be subject to a full revaluation in 2019-20.</p>
Responsible officer	Manager Finance
Timeframe for action	30 June 2020 (original) 30 June 2021 (updated)
Updated comment – final 2020	Waste assets were revalued at 30 June 2020. The revaluations of Flood Infrastructure and Museum Collection assets have been deferred to 2020-21.

2.5 Financial statement preparation

(Moderate risk)

Finding

Throughout the audit several matters pertaining to the financial statements were identified, which required amendment.

The discrepancies included:

- prior year figures not being updated
- prior year adjustments relating to the recognition of a quarry pit rehabilitation asset and liability not being correctly calculated or disclosed in the financial statements, resulting in note disclosures not agreeing to the main statements
- no disclosures relating to the introduction of AASB 9 *Financial Instruments*
- 'Property, infrastructure, plant and equipment' and 'Equity' balances not correctly updated in the general ledger, resulting in offsetting variances of \$24.62m between the general ledger and the financial statements for both balances
- misallocations in the 'Capital grants and contributions' note
- recommended changes to skeletal financial statements not being made, resulting in changes having to be re-requested at the final audit
- the use of balancing figures within the financial statement spreadsheet, resulting in multiple errors when an incorrect amount is used.

The scoresheet included in the 'Report to Those Charged with Governance' also details both adjusted and unadjusted changes made to the main financial statements.

Implications

Delays completing the audit with associated impact on costs incurred by the Office.
Financial report misstated, requiring amendment and additional review.

Recommendation

Council ensures a quality assurance process is implemented, to review the financial report for any inconsistencies or errors, prior to submission for audit.

Management response

It should also be acknowledged that all deadlines and obligations were met by Council.
Council acknowledges the above issues with regards to the preparation of financial statements.
The introduction of TAO mandated model Financial Statement will assist in providing greater clarity and consistency in the required disclosures. Council would welcome greater collaboration on changes to be made.
Management are working closely with Council officers on an improvement plan for 30 June 2020 Financial Statement preparation.

Responsible officer

Manager Finance

Timeframe for corrective action

30 June 2020

Updated management comment – interim 2020

Council had hoped that the model financial statements would be implemented and ready for practical use for 2019-20. Unfortunately this is not the case, so we will be relying on existing model and statements.
Manager Finance, Team leader Accounting and the Council officer responsible for the financial model have had discussions around opportunities for improvement and these will be actioned.



**Updated TAO comment –
final 2020**

This matter is considered unresolved for the following reasons:

- the disclosure of the impact of new accounting standards was not considered sufficient. Namely:
 - accounting policy note disclosures had not been updated for the introduction of AASB 1058 and AASB 15
 - AASB 16: right-of-use lease assets and liabilities were recognised with a net impact on equity of \$18,000. However, the statements did not disclose the net impact of implementing the standard, either in the note relating to new accounting standards, or the Statement of Changes in Equity. In addition, the Statement of Cash Flows did not reflect the repayment of lease liabilities
 - AASB 1058: the note relating to new standards did not disclose the fact that volunteer services had been recognised
 - AASB 1058: there was no evidence that grant arrangements had been reviewed to assess whether a contract asset or liability required recognition
 - AASB 1058: rates in advance had not been disclosed as a liability, in accordance with the new standard.
 - the submitted statements were based on a draft version of the 2019 statements. Therefore, changes requested by audit and made in 2019 were not reflected in the 2020 submitted statements. These changes had to be re-requested
 - the asset movement summary disclosed in Note 8.4 did not agree with other areas of the statements. The comparative movement summary did not agree to the audited 2018-19 statements.
 - incorrect classification between Cash and cash equivalents and Short-term investments for term deposits with maturity terms greater than 90 days
 - discrepancies were noted with the related party disclosure, which required amendment.
-



2.6 Finance One User Access Reviews (Low risk)

Finding

Finance One allows users to be assigned different access rights related to the roles they perform in the system. Where a user changes roles, this may impact the extent of access rights necessary for them to undertake their day-to-day duties. In considering user access within the Finance One system, we noted that regular periodic user access reviews are not being performed.

Review of user access is required by Section 4 of Council's Access Management Policy (31-PI-006) which states:

Access Reviews & Removal

- Access rights are to be reviewed at periodic intervals by the respective application/ system owners. Inappropriate access is to be removed;
- Privileged access rights are to be reviewed at periodic intervals that are more frequent than regular user reviews.

Implications

Where regular reviews of system access are not performed, there is increased risk of inappropriate system access occurring and remaining undetected.

Recommendation

It is recommended that a periodic review of system access, including high-level user access accounts, is implemented to ensure the currency and appropriateness of user access rights.

Management response

While Periodic User Access Reviews are not done, User access is maintained in Finance One (Corporate Enterprise Suite – CES) on an ongoing basis through the Employee Movement Notification email distributed from the Human Resources Department. These emails advise when there is a new employee commencing, an existing employee is transferring to another position, an extension to a temporary position or an employee terminates. An employee's access is either amended or inactivated in accordance with this advice.

On occasion there is a request for a User to access the Works and Assets application within CES as it is in the final roll-out stages. These requests are referred directly to the officer involved with the implementation as he has a greater understanding of the required functionality for a particular role.

It should be noted that the System Administration and the User access permissions within CES are quite extensive and complex. There are Roles that are assigned that give the user access to a number of functions. There are also User permissions which restrict access to Ledger account numbers relative to the user's Department or Division.

The majority of Users have assigned Roles which would give them access to common functions in the following hierarchy of accessibility:

- Employee Self Service – Leave applications and personal Payroll details maintenance.

**Management response
(continued)**

- Purchasing Employee – Raising and approving Purchase Orders within their approved purchasing Delegation.
- Purchasing Employee/Asset Management – Works and Assets functionality.

The remaining users have privileged access rights appropriate to their roles. This includes Finance personnel and a small number of key users in other Directorates.

Where an employee requests a Purchasing Delegation as a prerequisite to creating Purchase Orders then the approval of the Director is sought if the Position Description does not list the delegation amount. Current practice now requires that all Position Descriptions incorporate the Purchasing Delegation attached to a particular position. A copy of the supporting documentation is filed when a system change is made to a purchasing delegation.

Responsible officer

Manager Finance

**Timeframe for corrective
action**

30 June 2016

Updated comment - 2018

The matter has been outstanding for some time due to the complexity of the user access across a range of application modules. Management is of the view that there are a number of checks in place that mitigate operating risks. Management further note the software is widely used across Australia and we have not been able to identify a different approach from the supplier or through the online user forum. Management are agreeable to the matter remaining on the opportunities for improvement list.

Council is progressing with this issue through discussions with Technology One. Therefore this issue remains UNRESOLVED.

Updated comment - 2019

Discussion was held with Council's Finance Manager on 7 May 2019 and it was agreed that the following reports would be produced and independently reviewed:

- List of users (annually)
- List of admin users (annually)
- List of delegation limits from system (once off upon implementation)
- List of changes to delegated limits – quarterly.

Discussion with Council's Finance Manager on 17 September 2019 indicated that the reports have been developed and reviewed. Finance Manager indicated that the implementation of the user access review will be carried out simultaneously with Council's organisational realignment project in the coming months. Therefore this issue remains UNRESOLVED.

**Updated management
comment - interim 2020**

Delegation limits have been reviewed by General Managers and updated in the system as appropriate.

User Access and System Admin User reviews have proven complicated, this matter is ongoing. We are investigating with TechOne some potential easier fixes than manual review and updates.

**Updated management
comment – final 2020**

The matter is ongoing. Reaching a solution with Technology One on this matter have proven challenging. It is hoped that as part of Council's transition from Ci to the newer CiAnywhere that a solution will exist in this new software package.



3. Previously reported findings resolved in the course of the audit

3.1 EFT Limits and Users

(Moderate risk)

Finding	<p>A review of Council's electronic funds transfer (EFT) system (NAB Connect) revealed that:</p> <ol style="list-style-type: none">1. There are currently no transfer limits established within the system2. The Team Leader Finance, who is currently the administrator of Finance One and NAB Connect, is also set up as an authoriser in NAB Connect. In practice, the Team Leader Finance does not act as an EFT authoriser because Council has established protocols in recognition of the lack of segregation of duties.
Implications	<ol style="list-style-type: none">1. EFTs represent an area of high risk. Where possible, transfer limits should be established to reduce the risk of misappropriation.2. When the administrator has authorisation powers a risk of unwarranted activity occurring and remaining undetected increases.
Recommendation	<ol style="list-style-type: none">1. Council consider implementing transfer limits within NAB Connect.2. The Team Leader Finance be removed as an authorising officer within NAB Connect.
Management response	<ol style="list-style-type: none">1. Management believes we have appropriate controls in place to mitigate risks of misappropriation with respect to EFTs. Having said that, we are happy to consider and discuss further limits on EFTs with the TAO, where appropriate and reasonable.2. Team Leader Finance has had authorising permissions removed. It should be noted though, that as System Administrator they have capacity to turn permissions back on, there is however an audit trail. This is a limitation within the NAB Connect system.
Responsible officer	Manager Finance
Timeframe for corrective action	30 June 2020
Updated comment	Based on the above management comments, this matter is considered RESOLVED .

3.2 Allowance for impaired debts

(Low risk)

Finding	<p>AASB 9 <i>Financial Instruments</i> introduced a new impairment model based on expected credit losses. Council's financial statements made no reference to the new impairment model and a review of the allowance for impaired debts found that no change had been made to the method of calculation from the prior year.</p> <p>In relation to parking and infringement debtors, impairment percentages are applied to debtors by ageing category. These percentages have not changed for a number of years, and there has been no reassessment of their appropriateness in terms of actual recovery rates.</p>
Implications	<p>The allowance for impaired parking debtors represented the most significant impairment balance. Therefore, TAO undertook an analysis to estimate the recovery rates of parking debtors. The analysis was based on data contained in Council's impairment calculation workpaper.</p> <p>TAO estimated that the allowance for impaired parking debtors was overstated by \$265,000. This has been included in the scoresheet in the 'Report to Those Charged with Governance'.</p>
Recommendation	<p>Council review its allowance for impaired debts in line with the expected credit loss model contained within AASB 9.</p>
Management response	<p>Council to review in line with TAO recommendation and ensure compliance with AASB 9.</p>
Responsible officer	<p>Manager Finance</p>
Timeframe for corrective action	<p>31 December 2019</p>
Updated management comment - interim 2020	<p>Model provided by TAO to be reviewed and Council allowance to be updated.</p> <p>Council expects that the methodology can be agreed upon before 30 June 2020, to avoid any late changes close to signing date.</p>
Updated TAO comment - final 2020	<p>No change was made to Council's impairment methodology. Whilst we consider that the impairment provision is overstated and Council's methodology is not in accordance with the ECL approach contained in AASB 9, we are willing to accept the methodology based on the fact that the total impairment is below our materiality threshold and any overstatement would therefore be immaterial.</p> <p>This matter is therefore considered RESOLVED.</p>

Appendix 1 – Risk ratings for findings

Risk category	Audit impact	Management action required
High	<p>Matters categorised as high risk pose a significant business or financial risk to the entity and have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency.</p> <p>High risk findings represent a:</p> <ul style="list-style-type: none"> – control weakness which could have or is having a significant adverse effect on the ability to achieve process objectives and comply with relevant legislation – material misstatement in the financial report is likely to occur or has already occurred. 	<p>Requires immediate management intervention with a detailed action plan to be implemented within one month.</p> <p>Requires management to correct the material misstatement in the financial report to avoid a modified audit opinion.</p>
Moderate	<p>Moderate risk findings are matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year, matters that may escalate to high risk if not addressed promptly or low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.</p> <p>Moderate risk findings represent a:</p> <ul style="list-style-type: none"> – systemic control weakness which could have or is having a moderate adverse effect on the ability to achieve process objectives and comply with relevant legislation – misstatement in the financial report that is not material and has occurred. 	<p>Requires prompt management intervention with a detailed action plan implemented within three to six months.</p>
Low	<p>Matters categorised as low risk are isolated, non-systemic or procedural in nature and reflect relatively minor administrative shortcomings and could be addressed in the context of the entity’s overall control environment.</p> <p>Low risk findings represent</p> <ul style="list-style-type: none"> – an isolated or non-systemic control weakness with minimal but reportable impact on the ability to achieve process objectives and comply with relevant legislation – a misstatement in the financial report that is likely to occur but is not expected to be material – an opportunity to improve an existing process or internal control. 	<p>Requires management intervention with a detailed action plan implemented within six to 12 months.</p>

The Tasmanian Audit Office is an independent agency charged with upholding public integrity in Tasmania.

The Office assists the Auditor-General to provide an independent view of the financial and operational performance of State entities. The new *Audit Act 2008* (Audit Act) sets out the Auditor-General's functions, mandate and powers.

The Auditor-General

Under the *Audit Act*, the Auditor-General must undertake audits of financial statements of Tasmanian State entities and issue audit reports outlining their compliance with relevant legislation and accounting standards. The Auditor-General must also prepare an audit report on the Public Account Statements and any other statements required to be prepared by the Treasurer in accordance with any written law. All of these audits must be completed within specified time frames.

Audits

Audits must be completed in accordance with the requirements of Australian Auditing and Assurance Standards with audit reports, both the audit opinion and any management letters, issued to the State entity's responsible Minister and to the relevant accountable authority. Whilst not a legislative requirement, when conducting audits of State entity financial statements, regard is had to whether there has been any waste of public resources or any lack of probity or prudence in the management of or application of public resources. In addition, the Auditor-General has the authority to undertake:

- Performance audits examining the efficiency, effectiveness and economy of a State entity, a number of State entities, or a part of a State entity or a subsidiary of a State entity
- Examination or investigation into any matter relating to the accounts of the Treasurer, a State entity or a subsidiary of a State entity
- Examination or investigation into any matter relating to public money, other money or to public property or other property
- Compliance audits examining the compliance by a State entity or a subsidiary of a State entity with written laws or its own internal policies.

The results of all audits conducted by the Auditor-General are reported to Parliament for its consideration.

Audit Act 2008

The *Audit Act 2008* can be downloaded from www.thelaw.tas.gov.au

Independent Auditor's Report

To the Councillors of Launceston City Council

Report on the Audit of the Financial Report

Opinion

I have audited the financial report of the Launceston City Council (Council) which comprises the statement of financial position as at 30 June 2020, the statements of comprehensive income, changes in equity, and cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, other explanatory notes and the statement of certification by the Acting General Manager.

In my opinion the accompanying financial report:

- (a) presents fairly, in all material respects, Council's financial position as at 30 June 2020 and its financial performance and its cash flows for the year then ended
- (b) is in accordance with the *Local Government Act 1993* and Australian Accounting Standards.

Basis for Opinion

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of Council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

The *Audit Act 2008* further promotes the independence of the Auditor-General. The Auditor-General is the auditor of all Tasmanian public sector entities and can only be removed by Parliament. The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

My audit responsibility does not extend to the budget figures included in the financial report, the asset renewal funding ratio disclosed in note 5.1, nor the Significant Business Activities disclosed in note 14.2 to the financial report and accordingly, I express no opinion on them.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Why this matter is considered to be one of the most significant matters in the audit	Audit procedures to address the matter included
<p>Valuation of property and infrastructure <i>Refer notes 8.4 and 13.2</i></p>	
<p>Property and infrastructure at 30 June 2020 includes land, land under roads, buildings and material long-life infrastructure assets, such as roads, bridges, stormwater and drainage, flood protection, refuse disposal and parks totalling \$1.38bn. The fair values of these assets are based on market value or current replacement cost. Council undertakes formal revaluations on a regular basis to ensure valuations represent fair value. Indexation is applied to fair values between formal valuations.</p>	<ul style="list-style-type: none"> • Assessing the scope, expertise and independence of experts involved in the valuations. • Assessing the appropriateness of the valuation methodology and the key assumptions used. • Evaluating indexation applied to assets between formal valuations. • Testing, on a sample basis, the mathematical accuracy of the revaluation calculations. • Evaluating the adequacy of disclosures made in the financial report, including those regarding key assumptions used.
<p>In 2019-20, Council revalued roads, bridges, stormwater and drainage, refuse disposal and park infrastructure assets based on current replacement cost valuations determined by internal experts. Land was indexed based on adjustment factors provided by the Valuer-General and Land under roads was revalued based on rates provided by the Valuer-General. These valuations are highly dependent upon a range of assumptions and estimated unit rates.</p>	

Responsibilities of the Acting General Manager for the Financial Report

The Acting General Manager is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Local Government Act 1993* and for such internal control as determined necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Acting General Manager is responsible for assessing Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Council is to be dissolved by an Act of Parliament or the Councillors intend to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Acting General Manager.
- Conclude on the appropriateness of the Acting General Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Acting General Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Acting General Manager, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Stephen Morrison
Assistant Auditor-General Financial Audit Services
Delegate of the Auditor-General

Tasmanian Audit Office

7 October 2020
Hobart