



Notice of Audit Committee Meeting

TO:

ALL COUNCILLORS

To be held on

Wednesday, 25 November 2015

Commencing at 4.00pm

In the Council Chambers, Cnr Bentley and Collins Streets
Donnybrook WA 6239

A handwritten signature in black ink, appearing to read 'J R Attwood', written in a cursive style.

J R Attwood
Chief Executive Officer

17 November 2015

DISCLAIMER

The advice and information contained herein is given by and to the Council without liability or responsibility for its accuracy. Before placing any reliance on this advice or information, a written inquiry should be made to the Council giving entire reasons for seeking the advice or information and how it is proposed to be used.

Please note this agenda contains recommendations, which have not yet been adopted by Council.



AUDIT COMMITTEE MEETING AGENDA

25 NOVEMBER 2015

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5 REPORTS OF OFFICERS

5.1 *Manager Finance & Administration*

5.1.1	SUBJECT:	2014/2015 AUDITOR'S MANAGEMENT REPORT
	Location:	Shire of Donnybrook / Balingup
	Applicants:	Administration
	Zone:	N/A
	File Ref:	FNC02
	Author:	Greg Harris, Manager Finance & Administration
	Report Date:	16 November 2015
	Attachments:	5.1.1 - Auditor's Management Report

Background

Council's Auditor's, AMD Chartered Accountants, completed on-site audit investigations between 26th and 28th October 2015.

AMD Chartered Accountants have issued a Management Report to the Shire President (Attachment 5.1.1).

The Auditor's Management Report contains the Auditor's observations and recommendations in respect to improvements that are considered necessary to improve the internal controls and financial management of Council.

Specifically the Auditor's Management Report contains commentary on the following:

- 1.0 Audit Approach
- 2.0 Assessment of Fraud and Error
- 3.0 Accounting Policies
- 4.0 Commitments and Contingencies
- 5.0 Subsequent Events
- 6.0 Financial Ratio Performance Measures
- 7.0 Regulation 17 Review
- 8.0 Infrastructure Valuations
- 9.0 Audit Recommendations (refer Appendix 1)
- 10.0 Audit Adjustments (refer Appendix 2)
- 11.0 Audit Opinion
- 12.0 Local Government Act Compliance Measures
- 13.0 Other Matters

The above matters need to be read in conjunction with the audit recommendations contained within appendix 1 and 2

APPENDIX 1

Audit Recommendations for the year ended 30 June 2015

GUIDANCE TO FINDINGS RATING / IMPLICATION

Findings identified during the final audit have been weighted in accordance with the following scale:

Significant: Those findings where there is potentially a significant risk to the entity should the finding not be addressed promptly.

Moderate: Those findings which are of sufficient concern to warrant action being taken by the entity as soon as possible.

Minor: Those findings that are not of primary concern however still warrant action being taken.

AUDIT FINDINGS

1. PLANT OPERATING COSTS AND PUBLIC WORKS OVERHEAD

Finding Rating: Moderate

We note that for plant operating costs were over allocated to 30 June 2015 by approximately 22.4%, and public works overheads were under allocated by approximately 12.5%.

Implication

Risk that actual public works and plant cost expenditure is not being correctly allocated to jobs during the year.

Recommendation

We recommend a review of public works and plant costing allocations be undertaken at regular intervals during the year, with charge out rates adjusted as required.

Management Comment

Public Works and Plant Costing allocations are reviewed monthly and form part of the monthly financial statements that are prepared for management. Minor adjustments were made to the Public Works recovery rate during the year and a complete review of the plant recovery rates was also undertaken during the year.

Despite these efforts an over-allocation of plant and an under-allocation of public works overheads occurred as at 30 June 2015.

As recommended it is intended to more closely monitor recovery rates during the 2015/16 year to minimise any over or under allocation as at year end.

APPENDIX 1
Audit Recommendations for the year ended 30 June 2015

2. EXCESSIVE LEAVE BALANCES

Finding Rating: Minor

From our review of the annual leave listing, we noted a number of employees who have accrued in excess of 8 weeks annual leave at 30 June 2015.

Implication

1. *The cost to Council is greater if annual leave is not paid out on a regular basis due to the cumulative effect of salary increases over a period of time.*
2. *Recreational leave enhances employee performance.*
3. *It is a fundamental principle of good internal control that all employees take regular holidays.*

Recommendation

We recommend leave balances be managed to reduce the number of employees with excess leave due.

Management Comment

Ongoing efforts are being made to reduce excessive leave balances however the 2014/15 year presented some significant challenges to this task as a result of a three senior management staff (including the CEO) taking long service leave plus a period of extended leave by another senior management staff member. These positions were covered by internal relief so as to reduce costs. The result was that some senior staff that had excessive leave balances were unable to further reduce their annual leave.

In general the Shire is satisfied with the outstanding leave liability existing for the majority of staff.

It is our policy to maintain annual leave accruals to a maximum of 8 weeks which accords with the Local Government Industry Award.

3. REVIEW OF IT CONTROL ACTIVITY LOGS

Finding Rating: Minor

We noted that the Shire of Donnybrook-Balingup does not conduct an independent review of all changes and adjustments made to master files, including changes made to supplier and employee payroll master files, such as amending supplier or employee bank account details or amendments to electronic funds transfer details. In particular there is no independent review in respect to the timeliness of changes made, errors, or any unauthorised changes.

We also note security logs are not retained and reviewed for exception items including excessive internet activity or downloads, unsuccessful log in attempts, and inactive user ID's.

Implication

Increased risk of fraud or error occurring.

Recommendation

We recommend an independent review of all changes made to mater files be conducted periodically. The review should involve:

- A download of all changes (new / old / modify) made to each master-file;
- A representative sample then be tested and traced to originating / supporting documentation to assure validity and timeliness; and
- A review for suspicious master-file changes should be performed periodically.

We also recommend security logs be retained and reviewed on a regular basis.

Management Comment

Council has identified the need to prepare an ICT strategy and has allocated funds in the 2015/16 budget. The development of an ICT Strategy is recommended by the Department of Local Government as a supporting document for Council’s Integrated Planning Framework.

The ICT strategy will address issues of security of IT systems and it is envisaged will develop procedures and systems to undertaken independent reviews of changes made to master files.

This issue has previously been identified and considered by management however limited staff resources have prevented the implementation of such systems and procedures. The importance of this function is however noted and will be addressed in the future by management.

**APPENDIX 2
Audit Adjustments for the year ended 30 June 2015**

Summary of Audit Adjustments

The following audit adjustments were raised upon completion of our audit and are reflected within Shire of Donnybrook–Balingup’s 30 June 2015 financial report.

SHIRE OF DONNYBROOK - BALINGUP AUDIT ADJUSTMENTS 30 JUNE 2015		
<u>Description</u>	<u>\$ Debit</u>	<u>\$ Credit</u>
Loan liability- non-current	609,819	
Loan liability- current		609,819
<i>Reclassification of loan at 30 June 2015.</i>		
Depreciation expense	172,366	
Accumulated depreciation- bridges		172,366
<i>Record depreciation on bridges from 1 April 2015 to 30 June 2015.</i>		

Comment

Council's Auditor, Mr Tim Partridge of AMD Chartered Accountants will be attending the Audit Committee Meeting and will provide an overview of the audit process and discuss outcomes from the 2014/15 audit. Councillors are encouraged to ask questions in regard to any issues relating to the financial affairs of Council.

Consultation

N/A

Policy/Statutory Implications

Section 10 (4) of the *Local Government (Audit) Regulations 1996* state:

"Where it is considered by the auditor to be appropriate to do so, the auditor is to prepare a management report to accompany the auditor's report and to forward a copy of the management report to the persons specified in section 7.9 (1) with the auditor's report".

Section 7.9 (1) identifies the relevant persons as:

- (a) the mayor or president;
- (b) the CEO of the local government; and
- (c) the Minister.

Financial Implications

N/A

Strategic Implications

N/A

Officer's Recommended Resolution

Moved: Cr

Seconded: Cr

- 1. That Council thank Mr Partridge for attending the Audit Committee Meeting on 25 November 2015.**
 - 2. That the Auditor's Management Report for the year ended 30th June 2015 be received and the recommendations of the auditor be noted.**
 - 3. That the CEO prepare a report to the Minister for Local Government and Regional Development outlining the outcomes of the 2014/2015 year audit, in accordance with the requirements of section 7.12 (4) of the *Local Government Act 1995*.**
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5.1.2	SUBJECT:	2014/2015 AUDIT REPORT
	Location:	Shire of Donnybrook / Balingup
	Applicants:	Administration
	Zone:	N/A
	File Ref:	FNC02
	Author:	Greg Harris, Manager Finance & Administration
	Report Date:	16 November 2015
	Attachments:	5.1.2 - Audit Report

Background

Council's Auditors, AMD Chartered Accountants, have completed their audit for the 2014/15 financial year and have issued their Audit Report (Attachment 5.1.2).

The report provides the following "Opinion" and note in regard to "Statutory Compliance":

Opinion

In our opinion, the financial report of the Shire of Donnybrook/Balingup:

- i. gives a true and fair view of the Shire of Donnybrook/Balingup's financial position as at 30 June 2015 and of its performance for the financial year ended 30 June 2015; and
- ii. complies with Australian Accounting Standards; and
- iii. is prepared in accordance with the requirements of the *Local Government Act 1995* Part 6 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

Statutory Compliance

In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- i. There are no material matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Shire.
- ii. There are no other matters indicating non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law were noted during the course of our audit, with the exception of the following
 - The 30 June 2015 financial statements were not submitted to us by 30 September 2015 as required by section 6.4 (3) of the Local Government Act 1995.
 - The November 2014 statement of financial activity was not submitted to Council within 2 months after the end of the month as required by Regulation 34 (4) of the Local Government (Financial Management) Regulations 1996.
 - The 30 June 2014 annual financial report was not submitted to the Department of Local Government and Communities within 30 days of the audit report being received, as required by Regulation 51 (2) of the Local Government (Financial Management) Regulations 1996.
- iii. The asset consumption ratio and asset funding renewal ratio included in the annual financial report are supported by verifiable information and reasonable assumptions.

5.1.3	SUBJECT:	ORGANISATIONAL RISK MANAGEMENT – ACTION PLAN
	Location:	Shire of Donnybrook / Balingup
	Applicants:	Administration
	Zone:	N/A
	File Ref:	ADM 24
	Author:	Greg Harris, Manager Finance & Administration
	Report Date:	17 November 2015
	Attachments:	5.1.3 – Organisational Risk Management Plan

Background

At the previous Audit Committee meeting held on 17th December 2014 Council received a report from the CEO on the appropriateness and effectiveness of the Shire of Donnybrook-Balingup's systems and procedures in relation to risk management, internal controls and legislative compliance. The requirement to provide this report to Council's Audit Committee is outlined in regulation 17 of the Local Government (Audit) Regulations 1996.

To assist with preparation of the report the CEO engaged AMD Chartered Accountants to undertake the review and prepare a report on their findings.

Following presentation of the report to the Audit Committee on 17th December 2014 Council resolved as follows:

"That Council receive the report on the appropriateness and effectiveness of the Shire of Donnybrook-Balingup's systems and procedures in relation to risk management, internal controls and legislative compliance.

That Council endorse the proposed actions to be undertaken by the Chief Executive Officer as outlined in the 'management comment' section of the report."

Comment

The review undertaken by AMD Chartered Accountants has provided Council with a comprehensive assessment of the systems and processes of the Shire of Donnybrook-Balingup at that point in time in regard to the focus areas of risk management, internal controls and legislative compliance. The findings from the review provide a direction for the further enhancement of controls within the areas reviewed. These issues are to be addressed by management in a systematic way over the next 12 to 18 months.

In this regard work has commenced on addressing some of the issues raised. An Organisational Risk Management Action Plan has been produced to cover the period July 2015 to December 2016. A copy of this document is has been provided with this agenda for the Audit Committee to review (Refer Attachment 5.1.3)

The Action Plan outlines the following information:

- Recommendations from the November 2014 review categorised into three different focus areas; risk management, internal controls and legislative compliance.
- The task required to address each recommendation from the report.
- A proposed timeline.
- Responsible Officer/s.
- Details of Action to date.

Committee members are asked to review the Action Plan with the view to endorsing the plan and associated timelines.

Consultation

N/A

Policy/Statutory Implications

Regulation 17 of the Local Government (Audit) Regulations 1996 states the following:

“17. CEO to review certain systems and procedures

- (1) The CEO is to review the appropriateness and effectiveness of a local government’s systems and procedures in relation to —
 - (a) risk management; and*
 - (b) internal control; and*
 - (c) legislative compliance.”**

Financial Implications

N/A

Strategic Implications

N/A

Officer’s Recommended Resolution

Moved: Cr

Seconded: Cr

That Council endorse the Organisation Risk Management Action Plan for the period July 2015 to December 2016.

5.1.4	SUBJECT:	STRATEGIC RISK REGISTER
	Location:	Shire of Donnybrook / Balingup
	Applicants:	Administration
	Zone:	N/A
	File Ref:	ADM 24
	Author:	Greg Harris, Manager Finance & Administration
	Report Date:	17 November 2015
	Attachments:	5.1.4 – Strategic Risk Register

Background

Item 5.1.3 of the agenda presents to the Audit Committee the Organisational Risk Management Action Plan that has been developed by Council staff for the period July 2015 to December 2016.

Within section 1 of the Action Plan, task number nine (9) recommends the presentation of the Shire's Strategic Risk Register to the Audit Committee twice yearly.

This document is therefore presented to the Audit Committee for review and endorsement (refer Attachment 5.1.4).

Comment

The Strategic Risk Register has been developed by Council staff and identifies strategic risks at an organisational level. The Risk Register should be viewed as a dynamic document that will develop over a period of time. A sound risk management approach is for Council and staff to regularly review the risk register to identify any potential new risks and to evaluate existing controls and risk treatment options.

The register provides a solid foundation for future development and enhancement of the risk register.

Consultation

N/A

Policy/Statutory Implications

Regulation 17 of the Local Government (Audit) Regulations 1996 states the following:

"17. CEO to review certain systems and procedures

- (1) The CEO is to review the appropriateness and effectiveness of a local government's systems and procedures in relation to —*
 - (a) risk management; and*
 - (b) internal control; and*
 - (c) legislative compliance."*

