



AUDIT AND RISK MANAGEMENT COMMITTEE MEETING

MINUTES

Held on

Wednesday 8 March 2023

Commencing at 10.00am

Shire of Donnybrook Balingup Council Chamber, Donnybrook

A handwritten signature in black ink, appearing to read 'BGR' followed by a flourish.

Ben Rose
Chief Executive Officer

10 March 2023

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SHIRE OF DONNYBROOK BALINGUP
MINUTES OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

Held at the Council Chamber
8 March 2023 at 10.00am

1 DECLARATION OF OPENING

Chairperson – Acknowledgment of Country

The Chairperson acknowledged the traditional custodians of the land, the Wardandi People of the Noongar Nation, paying respects to Elders, past and present and emerging.

The Chairperson declared the meeting open at 10:00am and welcomed the members of the Committee.

2 ATTENDANCE

MEMBERS PRESENT

COMMISSIONER	STAFF
Gail McGowan	Ben Rose – Chief Executive Officer Kim Dolzadelli – Director Corporate and Community Loren Clifford – Acting Manager Executive Services Archana Arun – Admin. Officer Executive Services
EXTERNAL MEMBERS	GUESTS
Ian Telfer – Chairperson Vivienne MacCarthy	Lisa Glover Shane Sercombe Simon McInnes

2.1 APOLOGIES

Nil.

2.2 APPROVED LEAVE OF ABSENCE

Nil.

3 ANNOUNCEMENTS FROM CHAIRPERSON

Nil.

4 DECLARATION OF INTEREST

Division 6: Sub-Division 1 of the *Local Government Act 1995*. Care should be taken by all Committee Members to ensure that a financial/impartiality interest is declared and that they refrain from voting on any matter, which is considered to come within the ambit of the *Act*.

Nil.

5 PUBLIC QUESTION TIME

Question : Lisa Glover

Can we have an annual plan with an idea about what's coming up in the future like if the Council Plan, Asset management Plan, long term financial plans or work force plan needs to be reviewed? It would be helpful to also know that policies are all being reviewed in a timely manner and structured in a way so that we know what to prepare for. It would avoid risk and it would help with setting out a clear and succinct plan for everyone to follow. So, can we please organise to have that?

Chairperson Response

I'd suggest we'll just take that on notice because it's probably not something we can deal with now, but it's an opportunity.

Commissioner Response

I think the only qualification or question I would make is that there are already quite a significant number of reporting requirements under Local Government Act. So, the value add commensurate with the resource intensity is something we'd have to consider.

Question : Shane Sercombe

At the February 2022 Audit Committee meeting, it was explained how this Shire's depreciation could be reduced by \$2.3 million using a unconventional method of essentially not depreciating gravel. The result of this new method would be a significant improvement to the Shires operating surplus. The 21/22 Auditors report, presented at last night meeting stated the valuation and therefore the depreciation of roads was identified as a significant risk. The independent building valuation last year doubled the value of our buildings from \$13 million to \$26 million, while an internal valuation of roads found a \$0.00 increase. Can it be confirmed that the Shire cannot reduce depreciation on roads by \$2.3 million and in fact, once independently valued the depreciation of roads will likely increase significantly?

Chairperson Response

Taken on notice.

Question : Shane Sercombe

The coordinated resignation of five councillors, has presented a significant risk to the organisation and a significant governance failure. Will the Audit Committee consider any recommendations to Council to ensure the lessons learned from this event that will reduce future risk to the organization?

Commissioner Response

My response is probably more a matter for the Minister to determine than me as Commissioner or even the Audit and Risk Committee. I would expect that I will report in some way to the Minister and to the incoming Council. One of the things I've given a fair bit of thought to is that whole sort of issue and in order to affect a transition from me back to an elected Council, I think there has to be some form of, commentary statement or reporting. So far as the risk to the Council, I think there is obviously a reputational risk when something like this happens in the sense that people wonder what's behind it all, but I don't feel placed to make any comment. I don't think there's a material risk from an Audit and Risk Management Committee perspective though.

Question : Shane Sercombe

Is the Audit Committee or Commissioner made aware of the costs, risk and benefit to the organisation prior to entering into litigation proceedings? And what oversight is provided once the proceedings are underway?

Commissioner Response

My understanding and I will have to just get this checked, if there is a Council policy that exists at the moment around legal cost, legal proceedings. Any decision to enter into litigation would have to come before the Council or the Commissioner. It is not something I would ordinarily encourage unless there is a very good reason for doing it.

Question : Shane Sercombe

A member of the public, last night at the meeting, indicated his position at the moment. Was the Commissioner aware of those legal proceedings prior to them being instigated against the member of the public?

Commissioner Response

I think they were instigated before I commenced. However, I was made aware of them as part of my induction.

Question : Shane Sercombe

So, Council, I guess approves those proceedings before?

Commissioner Response

Not approved as such, but Council is aware of them.

Question : Commissioner

There was a motion put last night which didn't get passed, but it was quite strongly supported around. Between your experience and knowledge, can I just get your thoughts if I may for a forensic audit of the Council?

Member (Vivienne) Response

Yes, that came up in last year's annual meeting too and I did speak up then and wondered what the driver for it was. The types of audits are the internal audit (self audit) which can be done by your own staff or contractor, then you've got your external audit, which in this case is appointed, and then you've got your forensic audit. Now forensic audit is different because in that audit, your intention and the added knowledge you get from that audit is legal knowledge and they're usually capturing information in order to support a legal case. And normally the forensic audit comes after a fraud or something like that is identified or misconduct is identified and you're building that knowledge, ready to take it to a legal claim. Now I don't know that we've had any evidence or anything that would warrant the added legal knowledge coming in to do on top of an external audit.

The other thing I also wondered about was the level of comfort that I used to have before I was educated in my area of finance and audit and control. I have got more comfort now that I understand internal controls as prescribed by our accounting standards and having been responsible for those in my role, I knew that there was a double control in any system that was implemented. And then, where you can't have a system control that's configured into your systems, you have an external control and it's heavily focus applied to those external controls, the manual controls and your programs are audited as well. Prior to the 80's, that sort of thing didn't exist and you had a lot of manual accounting practices. So there was a lot of discomfort and your sample sizes when you were auditing something were a lot bigger. So we go through now and we've got a lot of comfort around, our audits are cheaper because we've got internal systems controls and then we've got some focus on the manual controls. To get around those, it's pretty obvious, you might set up a new payroll for somebody who doesn't exist, but the bank account is your bank account, or you might set up an extra vendor or something, and they're the usual things, but it's pretty difficult to get through an external audit, an unqualified external audit and still believe you've got a bit of fraud in there. If you did have it, then you would say, we want to build information up for a charge or take this into legal action or recover.

Question : Shane Sercombe

The only reason I support that motion was through my personal opinion. There's evidence for further inquiries in that area. Going back, Council reserve funds have been transferred into operating accounts without Council's knowledge or approval.

Member (Vivienne) Response

I looked at those and I didn't think there was anything from an accounting point of view. There was nothing untoward in that.

Question : Simon McInnes

My understanding is that the audit doesn't actually look too closely at the money. It looks more at the processes for the spending of the money?

Member (Vivienne) Response

No, it looks at money as well. It looks very closely at cash and confirms cash balances with external. If there's a cash balance that's recorded at bank or in the Council, that will be verified, say, accounts payable balances. If admin was to say, we owe Joe Bloggs \$100, they'll go out to Joe Bloggs and say, what's your understanding of what's owed? So, there's verification all the way through for your balance sheet. So, the balance sheet is your cash.

Question : Simon McInnes

The auditor, about 2-3 years ago said that there's no contractual oversight in this Council, and that's never been addressed. So, are the contracts looked at before?

Member (Vivienne) Response

Contractual is different to your cash. You can look at the generation of a contract, the original setup, like the procurement, the negotiation of the contract deal.

Chairperson Response

It is process driven thing. Some of it has been addressed. We'll note the query you're having around the audit process, but I'll say what I said before, that certainly the discussions we had with more and more, certainly when we refer to matters that have been raised over the last two or three years, were actively raised with more in terms of encouraging them to actually identify through the process, including now what detail they went into contracts or not, but they certainly look at the process of how contracts are developed, awarded, acquitted and arm's length. There's been no evidence or concerns raised about the process of how those contracts have been done at all. The only other comment made from an Audit Risk Management Committee, our job is to look at adequate and appropriate processes in place to address those and dealing with Moores' and risk policy, and we've been looking at that to say, well are we are there adequate and appropriate procedures to cover those things and in our view that that's what the Audit and Risk Committee does without actually getting into the detail about a specific transaction. The Minutes can report your question and then the Commissioner may take that up and respond to you later.

6 CONFIRMATION OF MINUTES

Minutes of the Audit and Risk Management Committee meeting held 18 January 2023 are attached (Attachment 6(1)).

EXECUTIVE RECOMMENDATION

That the Minutes of the Audit and Risk Management Committee Meeting held 18 January 2023 be confirmed as a true and correct record.

Amendment by Member (Vivienne)

That the Minutes of the Audit and Risk Management Committee Meeting held 18 January 2023 be confirmed as a true and correct record with the amendment to the following words listed on Page 4 of the Draft Minutes “the procurement items “were material” to the procurement items “were not material”.

COMMITTEE RESOLUTION

That the Minutes of the Audit and Risk Management Committee Meeting held 18 January 2023 be confirmed as a true and correct record with the amendment to the following words listed on Page 4 of the Draft Minutes “the procurement items “were material” to the procurement items “were not material”.

CARRIED 3/0

The Chairperson called for a vote and the resolution was carried.

7 REPORTS OF OFFICERS

7.1 COMPLIANCE AUDIT RETURN 2022

Location	Shire of Donnybrook Balingup
Applicant	Shire of Donnybrook Balingup
File Reference	FNC 02A
Author	Loren Clifford – Acting Manager Executive Services
Responsible Manager	Kim Dolzadelli - Director Corporate and Community
Attachments	7.1(1) Compliance Audit Return 2022
Voting Requirements	Simple Majority

Executive Recommendation 1

That the Audit and Risk Management Committee review the Compliance Audit Return for the Shire of Donnybrook Balingup for the period 1 January 2022 to 31 December 2022.

Executive Recommendation 2

That the Audit and Risk Management Committee recommends to Council (the Commissioner) that:

- 1. The 2022 Compliance Audit Return for the Shire of Donnybrook Balingup for the period 1 January 2022 to 31 December 2022 be adopted.**
- 2. Makes any recommendations to Council (the Commissioner) regarding the review as it considers appropriate.**

STRATEGIC ALIGNMENT

The following outcomes from the Council Plan relate to this proposal:

Outcome	12	A well respected, professionally run organisation.
Objective	12.1	Deliver effective and efficient operations and service provision.

EXECUTIVE SUMMARY

A Local Government Compliance Audit Return (CAR) is required to be undertaken in accordance with the *Local Government (Audit) Regulations 1996*, Reg. 14(1).

The Audit was conducted by staff for the period 1 January to 31 December 2022, within the scope and in the format required by the Department of Local Government, Sport and Cultural Industries (DLGSCI).

After reviewing the audit findings, the 2022 CAR contains a positive compliance response of 93 out of the 94 compliance items (98.9%) with a non-compliance response for one item set out below.

Topic	Item Number	Matter
Disclosure of Interest	5	Was an annual return in the prescribed form lodged by all relevant persons by 31 August 2022?
Officer Comment:		
The following 'relevant persons' failed to return their Annual Return by 31 August 2022. These returns have now been received and acknowledged by the Chief Executive Officer.		
	Relevant Person	Return Received
	Cr Atherton	15 September 2022
	Cr Glover	24 September 2022
	Cr Gubler	19 September 2022
	Cr Massey	15 September 2022
	Cr Newman	15 September 2022
	Cr Smith	8 September 2022

BACKGROUND

The Department of Local Government, Sport and Cultural Industries (DLGSCI) requires local governments to conduct an annual assessment of their compliance with key components of the *Local Government Act 1995* (the Act) and associated Regulations. The 2022 CAR is to be submitted to DLGSCI by 31 March 2023.

FINANCIAL IMPLICATIONS

Nil.

POLICY COMPLIANCE

Nil.

STATUTORY COMPLIANCE

Under *Regulation 14 of the Local Government (Audit) Regulations 1996*, the 2022 CAR is to be reviewed by Council's Audit and Risk Management Committee and then report the findings to Council (the Commissioner) for adoption.

A printed copy of the CAR and a copy of minutes of the Audit and Risk Management Committee is to be presented to the Council (the Commissioner) at the next Ordinary Council Meeting for consideration.

The minutes and recommendation from the Audit and Risk Management Committee to the Council (the Commissioner) is considered to constitute the report referred to in the legislation.

Following presentation to Council (the Commissioner), a certified copy of the 2022 CAR, along with an extract of the minutes of the meeting at which the CAR was adopted by Council, and any additional information, is to be submitted to the DLGSCI by 31 March 2023.

CONSULTATION

An internal review of the 94 compliance requirements were reviewed by seven key responsible officers.

OFFICER COMMENT/CONCLUSION

The 2022 CAR contains 94 questions grouped in relation to various compliance areas.

The result of the 2022 CAR was a positive compliance response or not applicable response to 93 of those requirements and one negative response as set out below:

- **Was an annual return in the prescribed form lodged by all relevant persons by 31 August 2022?** No, the following 'relevant persons' failed to return their Annual Return by 31 August 2022. These returns have now been received and acknowledged by the Chief Executive Officer.

Relevant Person	Return Received
Cr Atherton	15 September 2022
Cr Glover	24 September 2022
Cr Gubler	19 September 2022
Cr Massey	15 September 2022
Cr Newman	15 September 2022
Cr Smith	8 September 2022

Local Government Regulations Amendment Regulations (No. 2) 2020 introduced changes to the *Local Government (Administration) Regulations 1996* to provide greater transparency and accountability by requiring local governments to publish on their websites, a register of Primary and Annual Returns lodged by each Council Member, and the position of each employee pursuant to Regulation 29C(2)(d) & (e).

The Shire of Donnybrook Balingup has a register of Primary and Annual Returns published on its website and provides mandatory training to Council Members. The training provides an overview of the statutory environment relating to declarations of interest and clarifies, and the personal responsibilities of Council Members to comply with their obligations.

COMMITTEE RESOLUTION

That the Audit and Risk Management Committee review the Compliance Audit Return for the Shire of Donnybrook Balingup for the period 1 January 2022 to 31 December 2022.

CARRIED 3/0

The Chairperson called for a vote and the resolution was carried.

COMMITTEE RESOLUTION

That the Audit and Risk Management Committee recommends to Council (the Commissioner) that:

- 1. The 2022 Compliance Audit Return for the Shire of Donnybrook Balingup for the period 1 January 2022 to 31 December 2022 be adopted.**
- 2. Makes any recommendations to Council (the Commissioner) regarding the review as it considers appropriate.**

CARRIED 3/0

The Chairperson called for a vote and the resolution was carried.

7.2 CONTRACT MANAGEMENT FRAMEWORK REVIEW

Location	Shire of Donnybrook Balingup
Applicant	Shire of Donnybrook Balingup
File Reference	FNC 02A
Author	Kim Dolzadelli - Director Corporate and Community
Responsible Manager	Ben Rose – Chief Executive Officer
Attachments	7.2(1) Quote Procurement Plus - Contract Management Framework 7.2(2) Quote AOT Consulting Proposal - Contract Management Framework
Voting Requirements	Simple Majority

Executive Recommendation
<p>That the Audit and Risk Management Committee recommend to Council the inclusion of \$30,000 (ex GST) within its statutory Budget Review (2022-2023) to allow for a review of the Shires’ Contract Management Framework.</p>

STRATEGIC ALIGNMENT

The following outcomes from the Council Plan relate to this proposal:

Outcome	12	A well respected, professionally run organisation.
Objective	12.1	Deliver effective and efficient operations and service provision.

EXECUTIVE SUMMARY

The Audit and Risk Management is requested to recommend to Council the inclusion of \$30,000 (ex GST) within its statutory Budget Review (2022-2023) to allow for a review of the Shires’ Contract Management Framework.

BACKGROUND

One of the findings in the last Audit Regulation 17 review identified with a ‘Significant’ risk rating was as follows:

“Currently no formal contract management framework in place resulting in an inconsistent approach implemented by those responsible for contract management.”

Officers have sought preliminary quotations from appropriately qualified consultants to gauge the likely cost of a review.

FINANCIAL IMPLICATIONS

The request is for \$30,000 (ex GST) to engage a consultant to undertake the review.

POLICY COMPLIANCE

Council Policy FIN/CP-4 (Purchasing Policy).

STATUTORY COMPLIANCE

Local Government (Audit) Regulations 1996, Regulation 17:

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.

(2) The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review not less than once in every 3 financial years.

(3) The CEO is to report to the audit committee the results of that review.

CONSULTATION

This matter has been the subject of past Audit and Risk Management Committee meetings and the subject of public question time at several Ordinary Council Meetings.

OFFICER COMMENT/CONCLUSION

Officers believe it to be pertinent for the review of the Shires' Contract Management Framework to be undertaken by an external consultant, with the engagement to deliver:

- a 'roadmap' outlining priorities for change between current state and requirements under a proposed Contract Management Framework, and the Shire's suite of relevant policies and procedures;
- a report that incorporates the 'roadmap' and recommended procurement governance model, highlighting process improvements, and identifying changes required in adopting new policies, procedures, tools, templates and resources;
- a Contract Management Framework document that outlines the integration with other enterprise frameworks; and

- a customised workshop for Shire staff to build further capability in contract management.

Two preliminary quotations (including a scope of works) have been received, one for \$26,400 the other for \$43,860. Officers are not requesting the Committee to award a contract, rather recommend to Council the inclusion of a provision of \$30,000 in the Budget Review (2022-2023) such that officers can make an engagement.

COMMITTEE RESOLUTION

That the Audit and Risk Management Committee recommend to Council the inclusion of \$30,000 (ex GST) within its statutory Budget Review (2022-2023) to allow for a review of the Shires' Contract Management Framework.

CARRIED 3/0

The Chairperson called for a vote and the resolution was carried.

7.3 INTERNAL AUDIT UPDATE

Location	Shire of Donnybrook Balingup
Applicant	Shire of Donnybrook Balingup
File Reference	FNC 02A
Author	Kim Dolzadelli - Director Corporate and Community
Responsible Manager	Kim Dolzadelli - Director Corporate and Community
Attachments	Nil
Voting Requirements	Simple Majority

Executive Recommendation
<p>That the Audit and Risk Management Committee note the update provided within this report in relation to the Internal Audit status.</p>

STRATEGIC ALIGNMENT

The following outcomes from the Council Plan relate to this proposal:

Outcome	12	A well respected, professionally run organisation.
Objective	12.1	Deliver effective and efficient operations and service provision.

EXECUTIVE SUMMARY

The following is an update in relation to the status of the Internal Audit process being undertaken by AMD Chartered Accountants (AMD).

AMD have commenced the auditable areas of the Internal Audit scope set for the 2022/23 financial year, with current status shown below.

Auditable Area	Status
Prepare Strategic Internal Audit Plan	Complete
Review of Prior Year recommendations – External Audit	Complete
Planning	Complete
Security and Emergency procedures including accident/incident reporting	*
Lease management – (where Shire is Lessor)	*
Review and Reporting	May-23

Note: a four-day on-site visit is scheduled for the week commencing 17 April 2023.

BACKGROUND

The Audit and Risk Management Committee considered Internal Audit proposals at its meeting held 3 March 2022 and made the following Resolution:

COMMITTEE RESOLUTION

Moved Cr Wringe Seconded Cr Smith

That the Audit and Risk Management Committee:

- 1. Review the Internal Audit Proposal attached as a confidential document, and***
- 2. Recommends that Council accept the proposal for a 3 Year Internal Audit Function from AMD Chartered Accountants.***

CARRIED 3/0

The matter was considered by Council at its Ordinary Council meeting held 23 March 2022 and resolved as follows:

COUNCIL RESOLUTION 30/22

Moved: Cr Massey Seconded: Cr Atherton

That Council accept the proposal 3 Year Internal Audit Proposal from AMD Chartered Accountants.

CARRIED 9/0 by En bloc Resolution

FINANCIAL IMPLICATIONS

Nil – Provision already included in Budget.

POLICY COMPLIANCE

Nil.

STATUTORY COMPLIANCE

The Internal Audit process is not required by any legislation and goes beyond any statutory compliance requirements.

CONSULTATION

Not applicable.

OFFICER COMMENT/CONCLUSION

That the update be noted.

COMMITTEE RESOLUTION

That the Audit and Risk Management Committee note the update provided within this report in relation to the Internal Audit status.

CARRIED 3/0

The Chairperson called for a vote and the resolution was carried.

8 CLOSURE

The Chairperson declared the meeting closed at 10:42am.