



**AUDIT AND RISK MANAGEMENT COMMITTEE MEETING  
AGENDA**

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To be held on  
**Wednesday 9 February 2022**

Commencing at 5.30pm

Shire of Donnybrook Balingup Council Chambers, Donnybrook

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**Ben Rose**  
Chief Executive Officer

**7 February 2022**

**Disclaimer**

***Please note the items and recommendations in this document are not final and are subject to change or withdrawal.***

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**SHIRE OF DONNYBROOK BALINGUP**  
**AUDIT AND RISK MANAGEMENT COMMITTEE AGENDA**

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**1 DECLARATION OF OPENING**

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**Chairperson – Acknowledgment of Country**

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

The Chairperson to declare the meeting open and welcome the members of the Committee.

**2 ATTENDANCE**

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**MEMBERS PRESENT**

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| <b>COUNCILLORS</b>   | <b>STAFF</b>   |
|--|--|
| Cr Leanne Wringe (Shire President)<br>Cr Chaz Newman<br>Cr Chris Smith | Mr Kim Dolzadelli – Director Corporate<br>Community<br><br>Mr Ben Rose – Chief Executive Officer |
| <b>EXTERNAL MEMBERS</b>  | <b>GUESTS</b>  |
| Mr Ian Telfer – Chairperson<br>Ms Carly Anderson                       | Nil.   |

**2.1 APOLOGIES**

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Ms Carly Anderson

**2.2 APPROVED LEAVE OF ABSENCE**

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Nil.

**3 ANNOUNCEMENTS FROM CHAIRPERSON**

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#### **4 DECLARATION OF INTEREST**

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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*.

#### **5 CONFIRMATION OF MINUTES**

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Minutes of the Audit and Risk Management Committee meeting held 7 December 2021 are attached (Attachment 5(1)).

#### **EXECUTIVE RECOMMENDATION**

**That the Minutes of the Audit and Risk Management Committee Meeting held 7 December 2021 be confirmed as a true and correct record.**

## 6 REPORTS OF OFFICERS

### 6.1 ANNUAL FINANCIAL AUDIT 2020/21 - AUDIT CONCLUDING MEMORANDUM

|                            |  |
|----------------------------|--|
| <b>Location</b>            | Shire of Donnybrook Balingup                     |
| <b>Applicant</b>           | Shire of Donnybrook Balingup                     |
| <b>File Reference</b>      | FNC 02A  |
| <b>Author</b>              | Kim Dolzadelli, Director Corporate and Community |
| <b>Responsible Manager</b> | Kim Dolzadelli, Director Corporate and Community |
| <b>Attachments</b>         | Moore Australia – Audit Concluding Memorandum    |
| <b>Voting Requirements</b> | Simple Majority                                  |

#### Executive Recommendation

**That the Audit and Risk Management Committee receive and review the Audit Concluding Memorandum for the year ending 30 June 2021.**

#### STRATEGIC ALIGNMENT

The following outcomes from the Corporate Business Plan relate to this proposal:

|          |         |  |
|----------|---------|--|
| Outcome  | 4.2     | A respected, professional and trusted organisation       |
| Strategy | 4.2.1   | Effective and efficient operations and service provision |
| Action   | 4.2.1.3 | Monitor and measure organisational performance           |

#### EXECUTIVE SUMMARY

Moore Australia was engaged by the Office of Auditor General (OAG) Western Australia to perform an audit of the Shire of Donnybrook Balingup (the Shire)'s annual financial report for the year ended 30 June 2021.

The key purpose of the memorandum is to communicate the results of the audit with those charged with governance.

Moore Australia has requested management and the Audit Committee to review this document to ensure that:

- the Shire concurs with the matters raised, and
- there are no further significant considerations or matters that could impact the audit and the financial report.

#### BACKGROUND

The attached Audit Concluding Memorandum is marked as "CONFIDENTIAL" however the Director of Corporate and Community Services has sought and gained consent from

Moore Australia to allow the document being attached to this Agenda as a non-confidential item, consent was obtained on 4 February 2022.

The Audit Concluding Memorandum will form the basis of discussions for the Audit Exit meeting.

The following matters contained within the Memorandum to be reported in accordance with Reg 10(3) of the Local Government (Audit) Regulations 1996:

1. There is a significant adverse trend in the financial position of the Shire as the Operating Surplus Ratio has been below the industry benchmark for the past 3 years.
2. Non-compliance with Part 6 of the Local Government Act 1995, the Local Government (Financial Management) Regulations 1996 or applicable financial controls of any other written law as there were instances where manual accounting entries had been prepared and posted without any evidence of review by a second officer. Accounting journals can represent significant adjustments to previously approved accounting transactions, and therefore should be appropriately reviewed and approved.
3. The Shire has not reported the Asset Renewal Funding Ratio for 2021, 2020 or 2019 in the annual financial report as required by section 50(1) of the Local Government (Financial Management) Regulations 1996, as the Shire's adopted long term financial plan does not include the required information to calculate the ratio.

**Management response:**

1. The Shire's Operating Surplus Ratio is being adversely impacted by non-cash depreciation charges. A preliminary review of Depreciation Rates has been undertaken and points to a potential over calculation of depreciation as does the fact that Road Infrastructure Assets are not disaggregated therefore residual values cannot be put in place where appropriate.

Staff will continue to review this issue and implement appropriate actions.

The below table (2019/2020) shows the potential for reduction in depreciation charges which would have a significant impact on this Ratio; note this does not yet include Buildings:

**Non-Current Assets - Depreciation**

| <b>Local Government</b>                           | <b>Property, Plant and Equipment and Infrastructure</b> | <b>Depn</b> | <b>Rate of Depn</b> |
|---|---|-------------|---------------------|
| Shire of Donnybrook                               | \$166,302,974   | \$5,529,704 | 3.33%               |
| Shire of Bridgetown-Greenbushes                   | \$204,667,616   | \$3,570,493 | 1.74%               |
| Shire of Capel                                    | \$175,007,654   | \$4,546,874 | 2.60%               |
| Shire of Nannup                                   | \$108,930,057   | \$1,557,445 | 1.43%               |
| Average Rate of Depreciation                      |   |             | 2.27%               |
| Average Rate of Depreciation Excluding Donnybrook |   |             | 1.92%               |

|                     |                                      |             |
|---------------------|--------------------------------------|-------------|
| Shire of Donnybrook | Average Rate of Depreciation Applied | \$3,782,344 |
|---------------------|--------------------------------------|-------------|

|  |                    |
|--|--------------------|
| <b>Potential Reduction in Depreciation</b> | <b>\$1,747,360</b> |
|--|--------------------|

|                     |  |             |
|---------------------|--|-------------|
| Shire of Donnybrook | Average Rate of Depreciation Ex Donnybrook Applied | \$3,199,890 |
|---------------------|--|-------------|

|  |                    |
|--|--------------------|
| <b>Potential Reduction in Depreciation</b> | <b>\$2,329,814</b> |
|--|--------------------|

2. Management acknowledges this finding and notes that the above recommendation is already in operational practice.

The Director of Corporate and Community has personally reviewed the 1148 general journals processed in the 2020/21 Financial Year and has found a total of 6 that had no evidence of review by a senior staff member. This equates to a failure rate in the process of 0.52% with compliance standing at 99.48%. The 6 journals were also checked for legitimacy and supporting documentation with no adverse findings.

Staff appreciate the importance and significance of the process and will continue to strive for 100% compliance.

3. The current Long Term Financial Plan (LTFP) does not categorise Capital expenditure into type; that being New, Upgrade or Renewal, for this ratio to be calculated the Renewal component needs to be itemized in the LTFP.

Staff will be reviewing the LTFP and ensuring that all Capital expenditure is categorised such that this Ratio can be calculated into the future.

**FINANCIAL IMPLICATIONS**

Nil

## **POLICY COMPLIANCE**

Not Applicable.

## **STATUTORY COMPLIANCE**

### **Local Government Act 1995 Part – 7 Audit**

### **Local Government (Audit) Regulations 1996**

#### **16. Functions of audit committee**

*An audit committee has the following functions —*

- (a) to guide and assist the local government in carrying out —
  - (i) its functions under Part 6 of the Act; and*
  - (ii) its functions relating to other audits and other matters related to financial management;**
- (b) to guide and assist the local government in carrying out the local government’s functions in relation to audits conducted under Part 7 of the Act;*
- (c) to review a report given to it by the CEO under regulation 17(3) (the **CEO’s report**) and is to —
  - (i) report to the council the results of that review; and*
  - (ii) give a copy of the CEO’s report to the council;**
- (d) to monitor and advise the CEO when the CEO is carrying out functions in relation to a review under —
  - (i) regulation 17(1); and*
  - (ii) the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);**
- (e) to support the auditor of the local government to conduct an audit and carry out the auditor’s other duties under the Act in respect of the local government;*
- (f) to oversee the implementation of any action that the local government —
  - (i) is required to take by section 7.12A(3); and*
  - (ii) has stated it has taken or intends to take in a report prepared under section 7.12A(4)(a); and*
  - (iii) has accepted should be taken following receipt of a report of a review conducted under regulation 17(1); and*
  - (iv) has accepted should be taken following receipt of a report of a review conducted under the Local Government (Financial Management) Regulations 1996 regulation 5(2)(c);**
- (g) to perform any other function conferred on the audit committee by these regulations or another written law.*



**CONSULTATION**

Not Applicable.

**OFFICER CONCLUSION**

The matters raised in the Audit Concluding Memorandum have been considered by Council officers and actions are to be put in place addressing issues raised.

**7 CLOSURE**

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The Chairperson to declare the meeting closed at \_\_\_\_\_.