



**AUDIT AND RISK MANAGEMENT COMMITTEE MEETING
AGENDA**

To be held on

Thursday 3 March 2022

Commencing at 5.00pm

Shire of Donnybrook Balingup Council Chambers, Donnybrook

**Ben Rose
Chief Executive Officer**

28 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 MEETING AGENDA

To be held at the Council Chambers
3 March 2022 at 5.00pm

1 DECLARATION OF OPENING

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.

The Chairperson to advise that the meeting is being digitally recorded in accordance with Council Policy EM/CP-2. The Chairperson to further state the following:

Members of the public are reminded that no other visual or audio recording of this meeting by any other means is allowed without the permission of the Chairperson.

2 ATTENDANCE

MEMBERS PRESENT

COUNCILLORS	STAFF
Cr Leanne Wringe (Shire President) Cr Chaz Newman Cr Chris Smith	Mr Kim Dolzadelli – Director Corporate Community Mr Ben Rose – Chief Executive Officer
EXTERNAL MEMBERS	GUESTS
Mr Ian Telfer – Chairperson Ms Carly Anderson	

2.1 APOLOGIES

Ms Carly Anderson

2.2 APPROVED LEAVE OF ABSENCE

Nil.

3 ANNOUNCEMENTS FROM CHAIRPERSON

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*.

5 CONFIRMATION OF MINUTES

Minutes of the Audit and Risk Management Committee meeting held 9 February 2022 are attached (Attachment 5(1)).

EXECUTIVE RECOMMENDATION

That the Minutes of the Audit and Risk Management Committee Meeting held 9 February 2022 be confirmed as a true and correct record.

6 REPORTS OF OFFICERS

6.1 ANNUAL FINANCIAL STATEMENTS AND AUDIT OPINION 2020/21

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	6.1(1) - Annual Financial Statements 2020/21 6.1(2) - Audit Opinion 2020/21 6.1(3) – Report on Significant Finding 2020/21 Audit
Voting Requirements	Simple Majority

Executive Recommendation

That the Audit and Risk Management Committee recommend to Council:

- 1. Receive the Annual Financial Report and Audit Report for the year ending 30 June 2021; and**
- 2. Forward to the Minister for Local Government, Sport and Cultural Industries the report on significant findings as attached for the year ending 30 June 2021, as required by Section 7.12A(4)(b) of the Local Government Act 1995.**

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

The Office of the Auditor General (OAG) has completed the Audit of the Annual Financial Report for the year ended 30 June 2021. The audit opinion was issued on 23 February 2022 and is attached to this item for reference.

The audit opinion is unqualified and concludes that the report fairly represents the results of the operations of the Shire for the period ended 30 June 2021.

There is one item included under the heading of 'Report on Other Legal and Regulatory Requirements' which require consideration by the Committee and the Council and relate to a significant adverse trends opinion as follows:

“(a) In my opinion, the following material matters indicates a significant adverse trend in the financial position of the Shire:

- a) The Operating Surplus Ratio as reported in Note 35 of the annual financial report is below the Department of Local Government, Sport and Cultural Industries standard for the past 3 financial years.”*

Management Comment

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.

Officers note that the Department of Local Government, Sport and Cultural Industries (DLGSC), under direction from the Minister, has recently released its draft Model Financial Statements as part of the broader Local Government Reform currently being undertaken.

The following is contained in the current draft which if progressed would remove the current Ratio calculations:

- “Prescribed financial ratios have been removed. Consequently, it should be assumed that financial data required to report useful financial ratios will be prescribed in the model accounts.”*

The methodologies of calculating the operating surplus ratio are generally recognized, within the Local Government sector, as being inappropriate to be used to determine a significant adverse trend.

Pending the final outcome of the Local Government Reform Officers will undertake a full review of Depreciation calculation and methodology.

There are two items included under the heading of 'Report on Other Legal and Regulatory Requirements' which requires consideration by the Committee and the Council and relates to statutory compliance as follows:

“(ii) The following material matters indicating non-compliance with Part 6 of the Act, the Regulations or applicable financial controls of any other relevant written law were identified during the course of my audit:

- a) Accounting journal adjustments were processed with no evidence of independent review and approval. Accounting journals can represent significant adjustments to previously*

approved accounting transactions, and therefore should be appropriately reviewed and approved.

- b) *The Shire has not reported the Asset Renewal Funding Ratio for 2021, 2020 and 2019 in the annual financial report as required by Section 50(1) of the Local Government (Financial Management) Regulations 1996, as the long-term financial plan adopted by the Shire does not include the required information to calculate the ratio.”*

Management Comment

Accounting Journals:

Management acknowledges this finding and notes that the above recommendation is 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.

Asset Renewal Funding Ratio:

The Shire adopted its Long Term Financial Plan (LTFP) 2020-2040 on 22 December 2020 however this plan was not considered by the OAG as it 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 itemised in the LTFP.

All the necessary asset management planning is complete to a sufficient level to inform the development of the calculation of the asset renewal funding ratio, this however needs to be imbedded into the LTFP.

Officers note that the Department of Local Government, Sport and Cultural Industries (DLGSC), under direction from the Minister, has recently released its draft Model Financial Statements as part of the broader Local Government Reform currently being undertaken.

The following is contained in the current draft which if progressed would remove the current Ratio calculations:

- *“Prescribed financial ratios have been removed. Consequently, it should be assumed that financial data required to report useful financial ratios will be prescribed in the model accounts.*
- *Asset ratios requiring audit attestation have been removed from audit scope. This will require amendment to regulation 10 (3) (e) and 4A of the Local Government (Audit) Regulations 1996.”*

Pending the final outcome of the Local Government Reform Officers will work to ensure that the appropriate data is compiled in the LTFFP which is currently under review to allow for this ratio to be calculated if required.

BACKGROUND

The Shire of Donnybrook Balingup audit for year ending 30 June 2021 was conducted by the Office of the Auditor (OAG) using a private contractor; Moore Australia.

FINANCIAL IMPLICATIONS

Nil

POLICY COMPLIANCE

Not Applicable.

STATUTORY COMPLIANCE

Local Government Act 1995 Part – 7 Audit

7.12A. Duties of local government with respect to audits

- (3) *A local government must —*
 - (aa) *examine an audit report received by the local government; and*
 - (a) *determine if any matters raised by the audit report, require action to be taken by the local government; and*
 - (b) *ensure that appropriate action is taken in respect of those matters.*
- (4) *A local government must —*
 - (a) *prepare a report addressing any matters identified as significant by the auditor in the audit report, and stating what action the local government has taken or intends to take with respect to each of those matters; and*

- (b) *give a copy of that report to the Minister within 3 months after the audit report is received by the local government.*
- (5) *Within 14 days after a local government gives a report to the Minister under subsection (4)(b), the CEO must publish a copy of the report on the local government's official website.*

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 Opinion have been considered by Council officers and actions are to be put in place addressing issues raised.

6.2 COMPLIANCE AUDIT RETURN 2021

Location	Shire of Donnybrook Balingup
Applicant	Shire of Donnybrook Balingup
File Reference	N/A
Author	Loren Clifford, Corporate Planning and Governance Officer
Responsible Manager	Kim Dolzadelli, Director Corporate and Community
Attachments	6.2(1) - 2021 Compliance Audit Return 6.2(2) - Letter OAG - 2020-21 Annual Financial Audit Report Delay
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 2021 to 31 December 2021.

Executive Recommendation 2

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

- 1. The 2021 Compliance Audit Return for the Shire of Donnybrook Balingup for the period 1 January 2021 to 31 December 2021 be adopted, and**
- 2. Makes any recommendations to Council regarding the review as it considers appropriate.**

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	4.2.1.2	Seek a high level of legislative compliance and effective internal controls.

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 1st January to 31st December 2021, within the scope and in the format required by the Department of Local Government, Sport and Cultural Industries.

After conducting the checking process, the 2021 CAR contains a positive compliance response (or not applicable) of 96 out of the 98 compliance items (98%) with a non-compliance response for two items as set out in the table below.

The Officer also notes the comments in relation to the two items and in the case of Item 3 the lack of control the Shire has over the OAG in the delivery of the Annual Financial Report and also the fact that as such there is no statutory timeframe for the CEO to adopt the Employee Code of Conduct.

For all intents and purposes the officer is of the opinion that 100% compliance has been attained for items that it can control.

Topic	Item Number	Matter
Finance	3	Was the auditor's report for the financial year ended 30 June 2021 received by the local government by 31 December 2021?
Officer Comment:		
Not received from OAG, Audit exit meeting occurred Tuesday 15 February 2022. Letter from OAG attached apologising for delay previously circulated to all Councillors 4 January 2022 and tabled at the Audit and Risk Management Committee meeting held 9 February 2022.		
Topic	Item Number	Matter
Disclosure of Interest	25	Did the CEO prepare, and implement and publish an up-to-date version on the local government's website, a code of conduct to be observed by employees of the local government?
Officer Comment:		
The Draft Code of Conduct will be presented to staff at the March 2022 staff meeting for comment. There is no statutory timeframe for the CEO to adopt the Employee Code of Conduct.		

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 2021 CAR is to be provided to the DLGSCI by 31 March 2022.

FINANCIAL IMPLICATIONS

Nil.

POLICY COMPLIANCE

Not Applicable.

STATUTORY COMPLIANCE

Under *Regulation 14 of the Local Government (Audit) Regulations 1996* the 2021 CAR is to be reviewed by Council's Audit Committee and then report the results of that review to Council for adoption.

A printed copy of the CAR and a copy of minute of the Audit Committee is to be presented to the Council at the next Ordinary Council Meeting for consideration. The minute and recommendation from the Audit and Risk Management Committee to the Council is considered to constitute the report referred to in the legislation.

Following presentation to Council, a certified copy of the 2021 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 on-line to the Department of Local Government, Sport and Cultural Industries by 31 March 2022.

CONSULTATION

Not Applicable.

OFFICER COMMENT/CONCLUSION

The 2021 CAR contains 98 questions grouped in relation to various compliance areas.

The result of the 2021 CAR was a positive compliance response or not applicable response to 96 of those requirements and two negative responses as set out below:

- **Was the auditor's report for the financial year ended 30 June 2021 received by the local government by 31 December 2021?** Not received from OAG, Audit exit meeting occurred Tuesday 15 February 2022.
- **Did the CEO prepare, and implement and publish an up-to-date version on the local government's website, a code of conduct to be observed by employees of the local government?** The Draft Code of Conduct will be presented to staff at the February 2022 staff meeting for comment. There is no statutory timeframe for the CEO to adopt the Employee Code of Conduct.

6.3 INTERNAL AUDIT PROPOSAL

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	6.3(1) - Confidential AMD Internal Audit Proposal 6.3(2) - Confidential AMD Internal Audit List of Modules Note: the attachments are considered confidential in accordance with the Local Government Act 1995, Section 5.23 (2) (c) <i>a contract entered into, or which may be entered into, by the local government and which relates to a matter to be discussed at the meeting.</i>
Voting Requirements	Simple Majority

Executive Recommendation
<p>That the Audit and Risk Management Committee:</p> <ol style="list-style-type: none"> 1. Review the Internal Audit Proposal attached as a confidential document, and 2. Recommends that Council accept the proposal 3 Year Internal Audit Proposal from AMD Chartered Accountants.

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	4.2.1.2	Seek a high level of legislative compliance and effective internal controls.

EXECUTIVE SUMMARY

An Expression of Interest for the provision of Internal Audit services was sent out to the following three qualified providers:

- a) Moore Australia - (declined due to conflict of interest as they are appointed as our auditor through the Office of the Auditor General),
- b) Butler Settineri – no response, and

- c) AMD Chartered Accountants (AMD) – response received

The Officer recommends acceptance of the proposal received by AMD.

BACKGROUND

At its meeting held 7 December 2021 the Audit and Risk Management Committee made the following resolution.

“COMMITTEE RESOLUTION

Moved Cr Chris Smith Seconded Cr Chaz Newman

That the Audit and Risk Management Committee notes that a Request for Expression of Interest for Internal Audit functions will be prepared by Officers to encompass the following requirements:

- 1. To be undertaken in accordance with the Institute of Internal Auditors Code of Ethics;*
- 2. To be undertaken in accordance with the Internal Auditors Professional Practices Framework; and*
- 3. The broad scope of the Internal Audit program will include, at least, the following items with componentized costings:*
 - a. Information technology;*
 - b. Security and emergency procedures including accident / incident reporting;*
 - c. Vehicle fleet management;*
 - d. Lease management (where Local Government Lessor);*
 - e. Service contract management;*
 - f. FBT/GST review;*
 - g. Assessment of attractive asset control – i.e., phones, tablets and fraud awareness;*
 - h. Compliance (Local Government Act and local laws);*
 - i. Asset management (capital expenditure, asset control, depreciation schedules and preventative maintenance programs);*
 - j. Insurance management;*
 - k. Stock control; and*
 - l. Policy and procedure maintenance.*

The Final Scope for the Internal Audit program will be reviewed at the Audit and Risk Management Committee and recommendations made to Council at the February 2022.”

FINANCIAL IMPLICATIONS

The 2021/22 Budget includes a provision of \$15,000 for Internal Audit Services.

POLICY COMPLIANCE

Not Applicable.

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

The officer believes that the proposal from AMD represents good value and the spreading of the detailed scope being spread over a period of three years will ensure that the processes undertaken are thorough and do not simply skim the surface.

Timing provided by AMD for each area is shown in the table below however they have stated that they are willing to adjust these should the Committee/Council so wish.

AMD are also offering a fixed price over the term of the proposal.

Auditable Areas	Year		
	2022	2023	2024
Prepare Strategic Internal Audit Plan	✓		
Annual Review of Strategic Internal Audit Plan		✓	✓
Review of Prior Year recommendations – Internal Audit		✓	✓
Review of Prior Year recommendations – External Audit	✓	✓	✓
Planning	✓	✓	✓
Information Technology		✓	
Security and emergency procedures including accident / incident reporting	✓		
Vehicle fleet management			✓
Lease management (where Local Government Lessor)	✓		
Service contract management	✓		
FBT/GST review	✓		
Assessment of attractive asset control			✓
Compliance (Local Government Act and local laws)		✓	
Asset management (capital expenditure, asset controls, depreciation schedules and preventative maintenance programs)			✓
Insurance management			✓
Stock control			✓
Policy and procedure maintenance		✓	
Review and Reporting	✓	✓	✓

6.4 CHIEF EXECUTIVE OFFICER TO PROVIDE A VERBAL UPDATE ON THE EXPRESSION OF INTEREST FOR POSITIONS OF EXTERNAL MEMBERS TO THE AUDIT AND RISK MANAGEMENT COMMITTEE

7 CLOSURE

The Chairperson to declare the meeting closed at _____.