



Shire of Dardanup

AGENDA

AUDIT & RISK COMMITTEE MEETING

To Be Held

Wednesday, 2 September 2020
Commencing at 3.00pm

At

Shire of Dardanup
ADMINISTRATION CENTRE EATON
1 Council Drive - EATON

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Upon request.



NOTICE OF AN AUDIT & RISK COMMITTEE MEETING

Dear Committee Member

The Audit & Risk Committee Meeting of the Shire of Dardanup will be held on Wednesday 2 September 2020 in the Council Chambers, Shire of Dardanup - Administration Centre Eaton, 1 Council Drive, Eaton - commencing at 3.00pm



MR ANDRÉ SCHÖNFELDT
Chief Executive Officer

27 August 2020

Note: If interested persons would like to make comment on any items in this agenda, please email records@dardanup.wa.gov.au or hand deliver written comment to the Shire of Dardanup – Administration Centre Eaton, 1 Council Drive, Eaton. To be included in the meeting comments are to be delivered no later than 48 hours prior to the meeting.

The Chief Executive Officer will use his discretion as to whether the written comments are relevant and applicable to the meeting before approving their inclusion in the meeting.

VISION STATEMENT

“Provide effective leadership in encouraging balanced growth and development of the Shire while recognizing the diverse needs of our communities.”

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COMMITTEE MEMBERSHIP:

- CR. T GARDINER - CHAIRPERSON
- CR M BENNETT – DEPUTY CHAIRPERSON
- CR P ROBINSON
- CR. C BOYCE
- CR. M HUTCHINSON

TERMS OF REFERENCE

The Terms of Reference for this Committee are located in the Tardis records system – refer to the following link:
[2019 - ToR - Audit and Risk Committee](#)

COMMITTEE ROLE

Advocacy	When Council advocates on its own behalf or on behalf of its community to another level of government / body /agency.
Executive/Strategic	The substantial direction setting and oversight role of the Council eg. Adopting plans and reports, accepting tenders, directing operations, setting and amending budgets.
Legislative	Includes adopting local laws, town planning schemes and policies.
Review	When Council reviews decisions made by Officers.
Quasi-Judicial	<p>When Council determines an application/matter that directly affects a person's rights and interests. The Judicial character arises from the obligations to abide by the principles of natural justice.</p> <p>Examples of Quasi-Judicial authority include town planning applications, building licences, applications for other permits/licences (eg: under Health Act, Dog Act or Local Laws) and other decisions that may be appealable to the State Administrative Tribunal.</p>

DISCLAIMER

"Any statement, comment or decision made at a Council or Committee meeting regarding any application for an approval, consent or licence, including a resolution of approval, is not effective as an approval of any application and must not be relied upon as such.

Any person or entity that has an application before the Shire must obtain, and should only rely on, written notice of the Shire's decision and any conditions attaching to the decision, and cannot treat as an approval anything said or done at a Council or Committee meeting.

Any advice provided by an employee of the Shire on the operation of a written law, or the performance of a function by the Shire, is provided in the capacity of an employee, and to the best of that person's knowledge and ability. It does not constitute, and should not be relied upon, as a legal advice or representation by the Shire. Any advice on a matter of law, or anything sought to be relied upon as a representation by the Shire should be sought in writing and should make clear the purpose of the request."

RISK ASSESSMENT

Inherent Risk	The level of risk in place in order to achieve the objectives of the Council and before actions are taken to alter the risk's impact or likelihood.
Residual Risk	The remaining level of risk following the development and implementation of Council's response.
Strategic Context	These risks are associated with achieving Council's long term objectives.
Operational Context	These risks are associated with the day-to-day activities of the Council.
Project Context	<p>Project risk has two main components:</p> <ul style="list-style-type: none"> • Direct refers to the risks that may arise as a result of project, which may prevent the Council from meeting its objectives. • Indirect refers to the risks which threaten the delivery of project outcomes.

RISK CATEGORY CONSEQUENCE TABLE - GUIDELINE

Rating (Level)	Health	Financial Impact	Service Interruption	Legal and Compliance	Reputational	Environment
Insignificant (1)	Near miss Minor first aid injuries	Less than \$10,000	No material service interruption - backlog cleared < 6 hours	Compliance - No noticeable regulatory or statutory impact. Legal - Threat of litigation requiring small compensation. Contract - No effect on contract performance.	Unsubstantiated, low impact, low profile or 'no news' item	Contained, reversible impact managed by on site response
Minor (2)	Medical type injuries	\$10,001 - \$50,000	Short term temporary interruption – backlog cleared < 1 day	Compliance - Some temporary non compliances. Legal - Single minor litigation. Contract - Results in meeting between two parties in which one party expresses concern.	Substantiated, low impact, low news item	Contained, reversible impact managed by internal response
Moderate (3)	Lost time injury <30 days	\$50,001 - \$300,000	Medium term temporary interruption – backlog cleared by additional resources < 1 week	Compliance - Short term non-compliance but with significant regulatory requirements imposed. Legal - Single moderate litigation or numerous minor litigations. Contract - Receive verbal advice that, if breaches continue, a default notice may be issued.	Substantiated, public embarrassment, moderate impact, moderate news profile	Contained, reversible impact managed by external agencies
Major (4)	Lost time injury >30 days	\$300,001 - \$1.5 million	Prolonged interruption of services – additional resources; performance affected < 1 month	Compliance - Non-compliance results in termination of services or imposed penalties. Legal - Single major litigation or numerous moderate litigations. Contract - Receive/issue written notice threatening termination if not rectified.	Substantiated, public embarrassment, high impact, high news profile, third party actions	Uncontained, reversible impact managed by a coordinated response from external agencies
Catastrophic (5)	Fatality, permanent disability	More than \$1.5 million	Indeterminate prolonged interruption of services – non-performance > 1 month	Compliance - Non-compliance results in litigation, criminal charges or significant damages or penalties. Legal - Numerous major litigations. Contract - Termination of contract for default.	Substantiated, public embarrassment, very high multiple impacts, high widespread multiple news profile, third party actions	Uncontained, irreversible impact

RISK - LIKELIHOOD TABLE

LEVEL	RATING	DESCRIPTION	FREQUENCY
5	Almost Certain	The event is expected to occur in most circumstances	The event is expected to occur more than once per year
4	Likely	The event will probably occur in most circumstances	The event will probably occur at least once per year
3	Possible	The event should occur at some time	The event should occur at least once in 3 years
2	Unlikely	The event could occur at some time	The event could occur at least once in 10 years
1	Rare	The event may only occur in exceptional circumstances	The event is not expected to occur more than once in 15 years

LEVEL OF RISK GUIDE

CONSEQUENCE		Insignificant	Minor	Moderate	Major	Catastrophic
LIKELIHOOD		1	2	3	4	5
	Almost Certain	Moderate (5)	Moderate (10)	High (15)	Extreme (20)	Extreme (25)
	Likely	Low (4)	Moderate (8)	High (12)	High (16)	Extreme (20)
	Possible	Low (3)	Moderate (6)	Moderate (9)	High (12)	High (15)
	Unlikely	Low (2)	Low (4)	Moderate (6)	Moderate (8)	Moderate (10)
Rare	Low (1)	Low (2)	Low (3)	Low (4)	Moderate (5)	

SHIRE OF DARDANUP

AGENDA FOR THE SHIRE OF DARDANUP AUDIT & RISK COMMITTEE MEETING TO BE HELD ON WEDNESDAY, 2 SEPTEMBER 2020, AT SHIRE OF DARDANUP – EATON ADMINISTRATION CENTRE, COMMENCING AT 3.00PM.

1 DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS

The Chairperson, Cr. T G Gardiner to declare the meeting open, welcome those in attendance and refer to the Acknowledgement of Country; Emergency Procedures; and the Disclaimer and Affirmation of Civic Duty and Responsibility on behalf of Councillors and Officers:

Acknowledgement of Country

The Shire of Dardanup wishes to acknowledge that this meeting is being held on the traditional lands of the Noongar people. In doing this, we recognise and respect their continuing culture and the contribution they make to the life of this region by recognising the strength, resilience and capacity of Wardandi people in this land.

Affirmation of Civic Duty and Responsibility

Councillors and Officers of the Shire of Dardanup collectively declare that we will duly, faithfully, honestly and with integrity fulfil the duties of our respective office and positions for all the people in the district according to the best of our judgement and ability. We will observe the Shire's Code of Conduct and Standing Orders to ensure efficient, effective and orderly decision making within this forum.

Committee members acknowledge that only the Chief Executive Officer or a member of the Shire of Dardanup staff appointed by the Chief Executive Officer is to have contact with consultants and suppliers that are appointed under contract to undertake the development and implementation of projects.

The exception to this Policy is when there is a meeting of the committee or working group with the consultant and the Chief Executive Officer or the Chief Executive Officer's representative is present.

Members of committees acknowledge that a breach of this Policy may result in a request to Council to have them removed from the committee.

Emergency Procedure

In the event of an emergency, please follow the instructions of the Chairperson who will direct you to the safest exit route. Once outside, please proceed to the Assembly Area points located to the western side of the front office car park near the skate park and gazebo where we will meet (and complete a roll call).

2. RECORD OF ATTENDANCE/APOLOGIES/LEAVE OF ABSENCE PREVIOUSLY APPROVED

2.1 *Attendance*

2.2 *Apologies*

3. PRESENTATIONS

None.

4. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

4.1 *Audit & Risk Committee Meeting Held 3 June 2020*

OFFICER RECOMMENDED RESOLUTION

THAT the Minutes of the Audit & Risk Committee Meeting held on 3 June 2020, be confirmed as true and correct subject to no / the following corrections:

5. ANNOUNCEMENTS OF MATTERS FOR WHICH MEETING MAY BE CLOSED

None.

6. QUESTIONS BY MEMBERS OF WHICH DUE NOTICE HAS BEEN GIVEN

None.

7. DECLARATION OF INTEREST

“Members should fill in Disclosure of Interest forms for items in which they have a financial, proximity or impartiality interest and forward these to the Presiding Member before the meeting commences.”

Key Management Personnel (which includes Elected Members, CEO and Directors) are reminded of their requirement to disclose biannually transactions between Council and related parties in accordance with Council Policy CP039.

8 REPORTS OF OFFICERS AND COMMITTEES

8.1 Title: *Western Australian Auditor General – Schedule of Reports*

<i>Reporting Department:</i>	<i>Corporate & Governance Services</i>
<i>Reporting Officer:</i>	<i>Mrs Cindy Barbetti - Compliance Officer</i>
<i>Legislation:</i>	<i>Local Government Act 1995 Local Government (Audit) Regulations 1996</i>

Overview

This report provides the Audit and Risk Committee with a schedule of Western Australian Auditor General Reports that have been released in the first half of 2020. These reports are significant to the local government sector and staff have provided their observations to address the Auditor General recommendations.

Background

The *Local Government Amendment (Auditing) Act 2017* was proclaimed on 28 October 2017. The purpose of the Act was to make legislative changes to the *Local Government Act 1995* to provide for the auditing of local governments by the Auditor General.

The Act also provides for a new category of audits known as ‘performance audit reports’ which examine the economy, efficiency and effectiveness of any aspect of a local governments operations. The findings of these audits are likely representative of issues in other local government entities that were not part of the sample. In addition, the Auditor General releases ‘guides’ to help support good governance within a local government’s operations.

The Auditor General encourages all entities, not just those audited, to periodically assess themselves against the risks and controls noted in each of the performance audit reports and guides when published. Testing our performance against the Auditor General findings and reporting the outcomes to the Audit and Risk Committee can be viewed as a vital component of managing compliance reporting under Regulation 17.

Legal Implications

Local Government Act 1995
Local Government (Audit) Regulations 1996 (as Amended):

Reg 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 at least once every 2 calendar years.*
- (3) *The CEO is to report to the audit committee the results of that review.*

Strategic Community Plan

Strategy 1.1.2 - Monitor and ensure compliance with the regulatory framework for local government governance and operations. (Service Priority: High)

Strategy 1.1.3- Maintain best practice governance systems and practices. (Service Priority: Moderate)

Strategy 1.3.6 - Establish a Risk Management Governance Framework for the Shire of Dardanup. (Service Priority: High)

Environment - None.

Precedents

The Audit and Risk Committee previously received a report at the September 2019 meeting as an overview of the Auditor General Performance Audit Reports and the approach that staff are taking with analysing these reports.

Budget Implications

As part of the Compliance Officer role, regular monitoring and assessment of reports released by the Auditor General is deemed a matter of good governance and a vital component of managing compliance under Regulation 17. Therefore the cost to Council is through staff time and the usage of IT/Software systems where applicable.

Budget – Whole of Life Cost

As no assets/infrastructure is being created, there are no whole of life costs relevant to this item.

Risk Assessment

The Risk Management Governance Framework has been considered in arriving at the officer recommendation. Please refer to (Appendix AAR: 8.1A) for full assessment document.

Tier 2 – 'Low' or 'Moderate' Inherent Risk.	
Risk Event	Western Australian Auditor General – Schedule of Reports
Inherent Risk Rating (prior to treatment or control)	Moderate (5 - 11)
Risk Action Plan (treatment or controls proposed)	As the Inherent Risk Rating is below 12, this is not applicable.
Residual Risk Rating (after treatment or controls)	As the Inherent Risk Rating is below 12, this is not applicable.

Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.		
Risk Category Assessed Against	Legal and Compliance	Not considering the risks, controls and recommendations arising from the Auditor General’s report could have an impact on Council not meeting its compliance requirements.
	Reputational	Council’s reputation could be seen in a negative light for not adhering to its requirement to fulfil duties and functions that are prescribed in legislation.

Officer Comment -

The Auditor General Performance Audit Reports and Guides provide an opportunity to examine how well the Shire of Dardanup’s policies, practices and procedures perform against the findings.

Council staff can identify relevant messages and opportunities from these reports, which leads to continuous improvement and informed decision making. The following reports/guides have been released in the first half of 2020 relevant to Local Government operations (to note: the Shire of Dardanup was not involved in any of the audits):

DATE	REPORT NO	REPORT	APPENDIX
25-03-2020	17	Controls Over Purchasing Cards	AAR 8.1B
04-05-2020	20	Local Government Contract Extensions and Variations	AAR 8.1C
25-06-2020	26	Western Australian Public Sector Audit Committees – Better Practice Guide	AAR 8.1D
25-06-2020	27	Information Systems Audit Report 2020 – Local Government Entities	AAR 8.1E
30-06-2020	28	Regulation of Consumer Food Safety by Local Government Entities	AAR 8.1F

- *Report 17 Controls Over Purchasing Cards*

This brief report acknowledges that purchasing cards are an important part of the purchasing system. However, if not managed correctly, there is potential for improper, wasteful or unauthorised expenditure. Entities need to ensure that appropriate controls are in place and be continually vigilant against misuse, and that the controls are assessed on a regular basis.

The Shire of Dardanup has a robust *Procurement Policy* (CP034) and *Use of Corporate Credit Card Policy* (CP023) with adequate administrative systems in place, including segregation of duties, to manage and control the use of purchasing cards. All purchasing card transactions are validated, authorised and accounted for in accordance with Council’s policies’. Given that the Manager Financial Services is currently the only officer with a purchasing card (MasterCard with a limit of \$5,000) staff were satisfied that our current procedures effectively manage this single card.

In the future if additional officers are granted authority to use purchasing cards, then this report together with the better practice principles will ensure that Council continues to adhere to the expectation of the Auditor General in controlling purchasing cards.

- *Report 20 Local Government Contract Extensions and Variations*

A significant number of goods and services purchased by Council involves contracts. These procurement contracts vary in complexity, value, duration and risk, but all benefit from a strong approach to contract management. This audit in particular focused on how local governments manage extensions or variations to contracts and the consensus was that most entities audited need to enhance their policies with comprehensive guidelines. Also, contract registers lacked key information essential to effective monitoring of contractual obligations, including contract summaries.

Although there has been considerable work undertaken with the procurement of goods and services, in particular the RFQ and RFT process, staff acknowledge that a strong contract management framework needs to be further developed. Staff are working towards a framework centred on the principles of probity, accountability and transparency to help ensure that contracting is effective and meets the standards to provide good value for money. The framework will also provide guidelines to manage contract extensions and variations, including the review of contractor performance before extending the contract.

To date, delegation 1.2.23 *Tenders for Goods and Services* has been updated and endorsed by Council (OCM 24-06-2020 Res 157-20) to vary a contract up to a maximum of 10% or \$50,000 of the tender, whichever is the lesser. This assists with the procurement of goods and services over \$150,000 (tenders), however a formalised policy within the contract management framework will capture variations of goods and services under this amount.

The Shire of Dardanup Contract Register (contracts and agreements) is currently being improved, with the aim to utilise a view within the electronic document management system (TARDIS) to manage and extract this information.

- *Report 26 Western Australian Public Sector Audit Committees – Better Practice Guide*

This Guide focuses on Audit Committees for State Government Agencies that operate somewhat differently to Local Government Audit Committees. However, the Guide is a beneficial resource in providing valuable insight that may be equally applicable when further developing the role of a Local Government Audit Committee.

After reviewing the Guide, staff determined that the current Terms of Reference for the Audit and Risk Committee should be revised to include some of the guidelines and roles and responsibilities recommended by the Auditor General.

The report also highlights the requirement for a formal induction process for new members to be provided with an oversight of the committee and to outline member expectations. It is anticipated that the Deputy Chief Executive Officer will address this induction aspect at the first meeting of the Audit and Risk Committee post-election.

The Auditor General also encourages that during the financial audit exit meeting with the OAG/appointed auditor, that members of the audit committee have a closed-door session with the auditors without management present. This provides a frank and open opportunity for the auditors to discuss how the audit went, whether they received the information they needed and whether there are any concerns with management behaviour that the committee should be aware of.

For smaller entities the Auditor General recommends that at least one audit committee member needs to have an understanding of financial reporting and accounting standards, and the role of internal and external audit. To enable this requirement, the Auditor General suggests that consideration may need to be extended to appointing an external member to the committee with these financial risk skills.

Following on from the Auditor General recommendations, management have reviewed the Terms of Reference for the Audit and Risk Committee and this is presented as a separate report for consideration (please refer agenda item 8.2).

- *Report 27 Information Systems Audit Report 2020*

This is the first local government Information Systems Audit report since the proclamation of *the Local Government Amendment (Auditing) Act 2017*. The report acknowledges that general computer controls are a fundamental part of financial audits and they help to provide assurance that the financial information generated by information systems is accurate, reliable and completely recorded. While local governments will differ in the size and scale, it is critical that they have effective controls to manage information systems. The report has firstly been provided as a security gap analysis on the information systems, and secondly as an assessment of general computer controls and capability.

In relation to the security gap analysis that benchmarked the results of the audited local government entities' security practices, the benchmarks were assessed against a globally recognised standard (ISO27002). According to the Auditor General, standard ISO27002 provides a set of controls which entities can easily implement to protect critical information from internal and external threats. The Auditor General further states that the standard can provide useful guidance on how entities can address weaknesses and risks to their information security. Of the local government entities audited, all had significant shortcomings in their information security practices.

The second part of the audit, being the assessment of general computer controls and capability, showed that the level of maturity in the reviewed local government entities was low. No entity met the minimum benchmark across all control categories.

The Shire of Dardanup has previously acknowledged that securing information is increasingly becoming a growing concern and risk for local governments. To help ascertain where our 'gaps' might be, management committed to be included in the LG Cyber Security Baseline ISO27001 Information Systems Consortia Audit in 2019. The findings from that particular audit, together with a presentation by the IT Manager, were presented to the Audit and Risk Committee at the March 2020 meeting. The audits aim was to measure and baseline each participating Councils' cyber security controls against the ISO27001 standard for Information Security and then mapped to the Australian Cyber Security Centres Essential Eight (E8), a more cost-effective cyber security control framework that forms the core controls within the Shire of Dardanup *Cyber Security Policy – CP126*. As members of the committee will notice, this is a differing standard to the one used by the Auditor General. As previously mentioned, the Auditor General claims that the ISO27002 standard provides a framework and set of controls to ensure IT environments are managed to preserve the confidentiality, integrity and availability of information. This is somewhat misleading as the underpinning standard, ISO27001, is the standard defining the framework of controls.

ISO27001 is a widely recognised and peer reviewed international standard around Information Security, which defines recommended controls and measures in implementing a security management system around information security. This framework provides the confidentiality, integrity and availability of information (CIA Triad), by applying a risk management process that gives interested parties such as the Audit and Risk Committee and regulatory bodies, confidence that security risks are being adequately managed by the organisation. It is also a standard by which parties either internal or external to the organisation can evaluate and assess the organisations need to meets its security requirements.

Whilst ISO27001 outlines the required controls to put in place, it does not provide the 'HOW' of implementing them, this is where ISO27002 fits into the framework and represents recommended guidelines around implementing ISO27001 controls.

Currently there has been no directive or guidance from State or Federal Government on the security framework required by local government. The underlying report hints at the direction they appear to be taking in terms of future audits, due to the exponential increasing risk around cyber security to government agencies and its impact the information they hold. A Local Government Forum on Information Systems has been organised by WALGA and will be held towards the end of September 2020. The purpose of the forum is to share perspectives from the OAG, Local Government ICT Officers, Industry and Local Government risk-owners, and hopefully ascertain the direction required by local governments.

In terms of the Shire of Dardanup, the organisation manages data that's private and confidential, which is sensitive in nature and holds commercial value. The risks to the organisation is not just state backed hackers or organised crime trying to steal or disrupt services for financial or information gain, risks can also come from within, whether intentionally, such as disgruntled employees, or un-intentional via a misconfigured system or sensitive confidential information sent to the email address. This highlights the need for an information security framework, together with the resources required to manage and maintain it. Staff and management will work towards undertaking a comparison between the 2019 LG Cyber Security Baseline ISO27001 Information Systems Consortia Audit and the Auditor General Information Systems Audit report. That comparison, together with hopefully some further guidance arising from the September 2020 WALGA forum on information systems will be useful in guiding staff towards an adequate information security framework. An opportunity exists to be an industry leader, and members of the Audit and Risk Committee will be kept informed as the audit comparison and framework development progresses.

Also of relevance and a further commitment to this increasing risk exposure area, *Australia's Cyber Security Strategy* was released by the Prime Minister on 6 August 2020. The Strategy will invest \$1.67 billion over 10 years to achieve the Australian Government's vision of creating a more secure online world for Australians, their businesses and the essential services upon which we all depend. This vision will be delivered through actions by governments, businesses and the community. While this Strategy is an Australian Government initiative, it is recognised that local governments will have an essential role in strengthening Australia's cyber security.

- *Report 28 Regulation of Consumer Food Safety by Local Government Entities*

This performance audit report highlights some key improvement opportunities that all Local Government's need to consider in their own regulation and enforcement activities under the Food Act 2008.

The report noted that of the entities audited, their high and medium risk food inspections were overdue. While this has not been the case with inspections undertaken by the Shire of Dardanup Environmental Health Officers (EHO's) in previous years, we encountered a similar situation with inspections for 2019-2020. Officer workload in the last 6 months of 2019 and implications from COVID-19 in 2020 has impacted inspection targets.

System improvements are currently being considered to address some inspection scheduling inefficiencies that will allow for a more automated process. Currently staff are managing a manual system that requires substantial officer time in maintaining. The first stage is to undertake a process audit over a 2 month period. Staff will map the processes involved with food business inspections and formulate an improvement plan moving forward with the assistance of the Business Solutions team. This improvement plan will provide the best business solution to capture food inspections and health queries which will have an overall benefit for staff and members of the public. Depending on the outcome, there may be additional staff training to be undertaken on the software of choice.

Of further concern noted in the OAG report, the entities audited did not have adequate procedures to help EHO's determine which types of non-compliance require enforcement and follow-up, and when this should occur. While some compliance decisions may require the professional judgement and discretion of individual EHO's, it is important to have documented guidance to support consistent, risk based compliance actions. The Principal Environmental Health Officer is working towards establishing an Enforcement Policy for Council to endorse by January 2021 that will address safety issues consistently and to enforce compliance.

- *Conclusion*

This OAG report review process will continue to be applied to future reports and guides released by the Auditor General. The recommendations will also be taken into consideration when performing internal audits that have been highlighted as part of the Internal Audit Work Plan. The analysis of the Auditor General reports provides Council with a greater level of confidence in internal control practices and processes throughout Council operations.

Voting Requirements - Simple Majority.

OFFICER RECOMMENDED RESOLUTION

THAT the Audit and Risk Committee receive the September 2020 report on the Western Australian Auditor General – Schedule of Reports as provided for in Appendix AAR: 8.1B through to Appendix AAR:8.1F (inclusive).

8.2 Title: Audit & Risk Committee – Terms of Reference

<i>Reporting Department:</i>	<i>Corporate & Governance Directorate</i>
<i>Reporting Officer:</i>	<i>Mrs Cathy Lee - Manager Governance & HR</i> <i>Mrs Cindy Barbetti - Compliance Officer</i>
<i>Legislation:</i>	<i>Local Government Act 1995</i> <i>Local Government (Audit) Regulations 1996, Regulation 17</i> <i>Local Government (Administration) Regulations 1996</i>

Overview

This report to the Audit and Risk Committee provides members with the reviewed Terms of Reference for their consideration and subsequent recommendation to Council.

Background

In accordance with section 7.1A of the *Local Government Act 1995* the Council has established an Audit and Risk Committee. The Audit and Risk Committee will operate in accordance with all relevant provisions of the Act and the *Local Government (Audit) Regulations 1996* and the *Local Government (Administration) Regulations 1996*.

The establishment of this committee in the past has been to provide an independent oversight of the financial position of the local government particularly related to the function of auditing and the selecting and appointing of an auditor.

This focus has since expanded through the emergence of Regulation 17 of the *Local Government (Audit) Regulations 1996*. The Audit and Risk Committee now operates not only to support the local government in effective financial management but also to provide effective corporate governance through the review of systems and procedures in place relating to risk management, internal control and legislative compliance. As to the selecting and appointing of an auditor, this process is now mandated by the Office of the Auditor General through the proclamation of the *Local Government Amendment (Auditing) Act 2017*.

In June 2020, the Auditor General released a Better Practice Guide (refer Appendix AAR 8.1D) as a beneficial resource that provides valuable insight when further developing the role of a local government audit committee. From the publication of this Guide, management and staff have taken the approach to review the current Terms of Reference for the Audit and Risk Committee and with the committees support commit to this being a two-yearly review process.

Legal Implications

Local Government Act 1995

7.1A. Audit committee

- (1) A local government is to establish an audit committee of 3 or more persons to exercise the powers and discharge the duties conferred on it.*
- (2) The members of the audit committee of a local government are to be appointed* by the local government and at least 3 of the members, and the majority of the members, are to be council members.*

** Absolute majority required.*

- (3) A CEO is not to be a member of an audit committee and may not nominate a person to be a member of an audit committee or have a person to represent the CEO as a member of an audit committee.*
- (4) An employee is not to be a member of an audit committee.*

Strategic Community Plan

Strategy 1.1.2 - Monitor and ensure compliance with the regulatory framework for local government governance and operations. (Service Priority: High)

Environment - None.

Precedents

The current Terms of Reference for the Audit and Risk Committee were endorsed at the Special Council Meeting on 23 October 2019 [Res 309-19].

Budget Implications

Reviewing the Terms of Reference for the Audit and Risk Committee is administered through staff time which is supported by the salaries and wages budget specific to the Corporate and Governance directorate.

Budget – Whole of Life Cost

As no assets/infrastructure is being created, there are no whole of life costs relevant to this item.

Council Policy Compliance - None.

Risk Assessment

The Risk Management Governance Framework has been considered in arriving at the officer recommendation. Please refer to (Appendix AAR: 8.2A) for full assessment document.

Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.	
Risk Event	Review of Terms of Reference for the Audit and Risk Committee
Inherent Risk Rating (prior to treatment or control)	Moderate (5 - 11)
Risk Action Plan (treatment or controls proposed)	As the Inherent Risk Rating is below 12, this is not applicable.
Residual Risk Rating (after treatment or controls)	As the Inherent Risk Rating is below 12, this is not applicable.
Risk Category Assessed Against	<p>Legal and Compliance</p> <p>Not considering a review of the Terms of Reference would not be in line with the recommendations from the Auditor General’s publication (Better Practice Guide).</p> <p>Reputational</p> <p>Council’s reputation could be seen in a negative light for not adhering to the Auditor General’s recommendation.</p>

Officer Comment -

A review of the Audit and Risk Committee Terms of Reference has been conducted as a matter of good governance and in keeping with the Better Practice Guide recently released by the Auditor General.

The former Terms of Reference are provided to members for their information and change comparison (refer Appendix AAR 8.2B).

Following advice from the Auditor General in their Guide, staff have taken the approach to reconsider the Terms of Reference as a 'Charter' which incorporates the Terms of Reference, Instrument of Appointment and Annual Work Plan template.

In brief the changes incorporated in the 'Charter' are provided in the table below, or alternatively are shown in red on the full proposed Charter provided to the committee for their consideration (refer Appendix AAR 8.2C).

SECTION	CHANGE
COVER PAGE	
Title	Now referred to as the ' Audit and Risk Committee Charter '
1 INTRODUCTION – Page 1	
1.4	New addition: The Committee provides appropriate advice and recommendations to the Council on matters relevant to its Terms of Reference (ToR). This is in order to facilitate informed decision-making by the Council in relation to the legislative functions and duties of the local government that have not been delegated to the Chief Executive Officer ("CEO").
2 NAME – Page 1	
2	Recommend to delete (already covered in 1.1): The name of the Committee is the "Audit and Risk" Committee.
3 CULTURE – AUDIT AND RISK – Page 1	
3	New addition: The Council of the Shire of Dardanup acknowledges that forward thinking accountable authorities and Audit and Risk Committees strive to maintain a sound culture within the entity to protect it from breakdowns in controls or fraud. Even though the culture of an entity cannot be seen, it is a fundamental part of strong governance. The Strategic Community Plan Leadership Objective 1 states: "Strong civic leadership representing the whole of the Shire which is supported by responsible and transparent corporate governance."
6 COMMITTEE OBJECTIVES – SPECIFIC – Page 2	
6.2	New addition: To meet with the auditor, at least once per year without management present (closed door session). The Committee will discuss matters relating to the conduct of the audit, including any difficulties encountered, restrictions on scope of activities or access to information, significant disagreements with management and adequacy of management responses.
6.8	Suggest reword: To consider the Shire of Dardanup Risk Management Governance Framework (once in every 3 years) for appropriateness and effectiveness and progress on the relevant action plans biannually.
6.9	New addition: To consider the CEO's triennial reviews of the appropriateness and effectiveness of the Shire's systems and procedures in regard to risk management, internal control and legislative compliance, required to be provided to the Committee, and report to the Council the results of those reviews – <i>Local Government (Audit) Regulations 1996 Regulation 17</i> .
6.10	New addition: Legislative Compliance - Oversee the effectiveness of the systems for monitoring compliance with relevant laws, regulations and associated government policies.

SECTION	CHANGE
	<p>This includes:</p> <ul style="list-style-type: none"> i.) reviewing the annual Compliance Audit Return (CAR) in accordance with section 7.13(1)(i) of the Local Government Act and report to the Council the results of that review; and ii.) receiving the biannual compliance report resulting from the Compliance Manual (incorporating the annual calendar).
6.11	<p>New addition: To consider the CEO's biennial Governance Health and Financial Sustainability review and report to the Council the results of that review.</p>
6.12	<p>New addition: To consider that relevant mechanisms are in place to review and implement, where appropriate, issues raised in OAG better practice guides and performance audits of other State and local government entities.</p>
6.13	<p>New addition: To consider the Information Systems Security biennial review, and report to the Council the results of that review.</p>
7 MEMBERSHIP – Pages 3, 4 & 5	
7.1	<p>New addition: [Note: It is recommended that at least half of the committee members are made up of elected members that are commencing their 4 year term; with the other half being elected members that are midway through their term on Council.]</p>
7.2	<p>New addition: The members, taken collectively, will have a broad range of skills and experience relevant to the operations of the Council. At least one (1) member of the Committee should have accounting or related financial and/or risk management experience.</p>
7.3	<p>New addition: Where the desirable accounting or related financial and/or risk management experience cannot be attained from the elected members, membership to the Committee may be extended to one (1) independent external member.</p>
7.4	<p>New addition: Independent external members (if required) will be selected based on the following criteria:</p> <ul style="list-style-type: none"> 7.4.1 A suitably qualified person with demonstrated high level of expertise and knowledge in financial management, risk management, governance and audit (internal and external); 7.4.2 Understanding of the duties and responsibilities of the position; ideally with respect to local government financial reporting and auditing requirements; 7.4.3 Strong communication skills; and 7.4.4 Relevant skills and experience in providing independent expert advice.
7.5	<p>New addition: An independent external member will be a person with no operating responsibilities with the Council nor will that person provide paid services to the Council either directly or indirectly.</p>
7.6	<p>New addition: Appointment and re-appointment of independent external members shall be made by Council after consideration of the CEO's recommendation. The applications of independent external members will be sought through an open and transparent Expression of Interest process. The evaluation of potential members will be reviewed by the CEO and Deputy CEO, with appointments to be approved by the Audit & Risk Committee and Council. Appointments will be for a maximum term of two (2) years and align with the biennial Council election cycle.</p>

SECTION	CHANGE
	Independent external members will not be appointed for more than three (3) consecutive terms.
7.7	New addition: Independent external members will be required to complete a confidentiality agreement and confirm that they will operate in accordance with the Council's Code of Conduct.
7.8	New addition: The Council may by resolution terminate the appointment of any independent external member prior to the expiry of his/her term if: 7.8.1 The Committee by majority determines that the member is not making a positive contribution to the Committee; or 7.8.2 The member is found to be in breach of the Council's Code of Conduct or a serious contravention of the Local Government Act 1995; or 7.8.3 A member's conduct, action or comments brings the Council into disrepute.
7.9	New addition: Reimbursement of approved expenses may be paid to the independent external member in accordance with the Local Government Act Section 5.100.
7.10	New addition: New members will receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities. The Deputy Chief Executive Officer will undertake a formal induction process for new members to the Committee at the first Committee meeting post-election.
8 PRESIDING MEMBER – Page 5	
8.6	New addition: The presiding member plays an important role in leading and guiding discussions at committee meetings. The presiding member shall have the right interpersonal skills to guide discussions on complex and sensitive matters.
8.7	New addition: To maintain independence and a Committee that is free of undue or improper influence, the presiding member shall not be the Shire President. The Shire President will Chair the Ordinary Council Meetings where the Committee meeting minutes will be confirmed.
9 MEETINGS – Page 6	
9.1	Recommend to delete: As there are no power or duty delegated to the committee the meetings are not open to the public. New addition: In accordance with Section 5.23 of the Local Government Act 1995 the meetings will be generally open to the public as the Committee has a power or duty that has been delegated by Council (refer part 11).
11 DELEGATED POWER – Page 6 & 7	
11.1	Recommend to delete: The Committee has no specific powers under the Local Government Act and is to advise and make recommendations to Council only. New addition: Pursuant to section 5.17 of the Act, the Committee is delegated the power to conduct the formal meeting with the Auditor required by Section 7.12(A)(2) on behalf of the local government.

SECTION	CHANGE
11.2	New addition: In all other matters, Committee recommendations shall not be binding on Council and must be endorsed by Council to take effect.
14 COMMITTEE DECISIONS – Page 7	
14.1	Recommend to delete (covered in 10.2): Committee decisions shall not be binding on Council in any circumstance.
17 CONFIRMATION OF RESPONSIBILITIES AND REVIEW OF ToR's (New Section) – Page 8	
17.1	New addition: The Committee will confirm annually that all responsibilities outlined in this ToR have been carried out. The annual confirmation will be reported through to Council and will include information about the Committee and the outcomes delivered during the period.
17.2	New addition: Every two (2) years the Terms of Reference shall be reviewed by the Committee.
18 BIENNIAL INDEPENDENT ASSESSMENT OF COMMITTEE PERFORMANCE (New Section) – Page 8	
18.1	New addition: An independent external assessment of the Committee is undertaken at least once in every two (2) years. This assessment may be included in the scope of audit for the Governance Health and Financial Sustainability Review.
19 ANNUAL WORK PLAN (New Section) – Page 8	
19.1	New addition: A forward annual work plan will be agreed by the Committee each year. The forward annual work plan will cover all Committee responsibilities as detailed in this ToR.
19.2	New addition: An example of the Annual Work Plan is provided in Appendix A.
APPENDIX A (New Section) – Page 9, 10 & 11	
Template	New addition: Annual Work Plan

In relation to setting the 'Annual Work Plan', a template has been provided within the Charter for guidance on functions and roles and responsibilities that the committee may undertake in a calendar year. The proposed annual work plan will be presented to the committee at the December 2020 meeting that will schedule activities for the minimum four meetings that will be held in 2021. To note, a fifth meeting may be required that will focus predominately on the appointment of auditors and the audit entrance meeting.

Voting Requirements - Simple Majority.

OFFICER RECOMMENDED RESOLUTION

THAT the Audit and Risk Committee:

- 1. Recommends that Council receive and endorse the reviewed Terms of Reference for the Audit & Risk Committee and for this to be herein known as the Audit and Risk Committee Charter (Appendix AAR: 8.2C); and**
- 2. Request that a report on the '2021 Annual Work Plan' be brought back to the next Audit & Risk Committee on 2 December 2020 meeting for member consideration and Council endorsement.**

8.3 Title: Bi-Annual Compliance Task Report

<i>Reporting Department:</i>	<i>Corporate & Governance Directorate</i>
<i>Reporting Officer:</i>	<i>Mrs Cindy Barbetti - Compliance Officer</i>
<i>Legislation:</i>	<i>Local Government Act 1995 and Local Government (Audit) Regulations 1996, Regulation 17</i>

Overview

The purpose of this report is to provide the Audit and Risk Committee with bi-annual compliance tasks undertaken since the last report was presented to the committee.

Background

The Shire of Dardanup (the Council) as a Local Government entity is required to fulfil duties and functions that are prescribed in legislation. This emulates the expectation of the community and State Government that Council will meet these requirements. This expectation is prescribed in the Local Government (Audit) Regulations 1996, Regulation 17 which requires the management of legislative compliance.

To support the Council in meeting compliance obligations, the Compliance Manual, incorporating the Annual Compliance Calendar has been developed. The calendar is a tool to identify the yearly compliance activities throughout the calendar year. The objective is to assist responsible officers to review their quarterly compliance and accountability activities across a variety of legislative components.

For further transparency, the Audit and Risk Committee receive a bi-annual report to inform members of the committee as to how the organisation is meeting its compliance requirements. This report is provided as a Confidential Document - Under Separate Cover (Tardis Link - [R0000670409](#))

Legal Implications

Local Government Act 1995

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 at least once every 2 calendar years.*
 - (3) *The CEO is to report to the audit committee the results of that review.*
- [Regulation 17 inserted in Gazette 8 Feb 2013 p. 868.]*

Strategic Community Plan

Strategy 1.1.2 - Monitor and ensure compliance with the regulatory framework for local government governance and operations. (Service Priority: High)

Environment - None.

Precedents

The Audit and Risk Committee received the previous bi-annual compliance report at the March 2020 meeting. Due to the timing of the compilation of the report, members of the committee were only initially presented with January 2020 compliance tasks.

Budget Implications

As part of the Compliance Officer's role, regular monitoring of the Compliance Manual and Annual Compliance Calendar is essential. Reporting is a further function in order to successfully achieve compliance obligations under Regulation 17. Therefore the cost to Council is through staff time and the usage of IT/Software systems where applicable.

Budget – Whole of Life Cost

As no assets/infrastructure is being created, there are no whole of life costs relevant to this item.

Council Policy Compliance

There is no current Council Policy relevant to this item.

Risk Assessment -

The Risk Management Governance Framework has been considered in arriving at the officer recommendation. Please refer to (Appendix AAR 8.3) for full assessment document.

Tier 2 – 'Low' or 'Moderate' Inherent Risk.	
Risk Event	2020 Compliance Calendar – Bi Annual Task Report
Inherent Risk Rating (prior to treatment or control)	Low (1 - 4)
Risk Action Plan (treatment or controls proposed)	As the Inherent Risk Rating is below 12, this is not applicable.
Residual Risk Rating (after treatment or controls)	As the Inherent Risk Rating is below 12, this is not applicable.
Risk Category Assessed Against	<p>Legal and Compliance Failure to fulfil compliance obligations pursuant to the Local Government (Audit) Regulations 1996, Regulation 17.</p> <p>Reputational Council's reputation could be seen in a negative light for not adhering to its requirement to fulfil duties and functions that are prescribed in legislation.</p>

Officer Comment

Compliance and integrity are outcomes of an organisation meeting its obligations, and is made sustainable by embedding it in the culture of the organisation and in the behaviour and attitude of

people working for it. How a local government manages its compliance programs is a strong indication of the attitude of the Council towards meeting legislative requirements.

Meeting these requirements is assisted through the use of the Compliance Manual and associated Annual Compliance Calendar. At the March 2020 meeting, members were presented with the January 2020 compliance tasks. For this bi-annual reporting report, the months of February 2020 through to June 2020 are being reported.

Overall, maintaining regulatory compliance is viewed as a fundamental goal of an effective internal control system. The ongoing reporting will ensure that an effective system is in place to provide a level of assurance that the Council is meeting its compliance obligations under the Act and associated Regulations.

The next bi-annual compliance task report is scheduled to be presented to the March 2021 meeting.

Council Role - Legislative.

Voting Requirements - Simple Majority.

OFFICER RECOMMENDED RESOLUTION

THAT the Audit and Risk Committee receive the Bi-annual Compliance Task Report to 30 June 2020, provided as Confidential Document - Under Separate Cover (Tardis Link [R0000670409](#)-) and note the compliance tasks identified.

8.4 Title: Internal Audit Program

<i>Reporting Department:</i>	<i>Corporate & Governance Directorate</i>
<i>Reporting Officer:</i>	<i>Mrs Cindy Barbetti - Compliance Officer</i>
<i>Legislation:</i>	<i>Local Government Act 1995 and Local Government (Audit) Regulations 1996, Regulation 17</i>

Overview

This report presents to the Audit and Risk Committee the Internal Audit Strategic Plan and the proposed Internal Audit Annual Work Plan for 2020-2021.

Background

Internal control is a vital component of a sound governance framework. An effective and transparent internal control environment is built on many key areas that are guided, strengthened and monitored through an Internal Audit Strategic Plan. This ensures that the Shire is meeting compliance with applicable regulations and internal procedures. This in turn provides the Council with a greater level of confidence in internal control practices and processes throughout Council operations.

The primary purpose of the Internal Audit Strategic Plan is to align its focus and activities on the Council's key internal risks. The Internal Audit functional planning framework consists of two key elements:

1. An Internal Audit Strategic Plan, with a three year outlook that relates the role of the internal audit to the requirements of Council by outlining the broad direction of an internal audit over the medium term, in the context of all the Council's assurance activities; and
2. An Internal Audit Annual Work Plan which includes an internal audit annual work schedule.

Together, these plans serve the purpose of setting out, in strategic and operational terms, the broad roles and responsibilities of Internal Audit of the Shire of Dardanup, with the aim to achieving regulatory compliance.

A copy of the Internal Audit Strategic Plan is provided for in (Appendix AAR: 8.4A).

Legal Implications

Local Government Act 1995

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 at least once every 2 calendar years.*
 - (3) *The CEO is to report to the audit committee the results of that review.*

[Regulation 17 inserted in Gazette 8 Feb 2013 p. 868.]

Local Government (Financial Management) Regulations 1996, Regulation 5:

5. *CEO's duties as to financial management*

(1) *Efficient systems and procedures are to be established by the CEO of a local government —*

- (a) *for the proper collection of all money owing to the local government; and*
 - (b) *for the safe custody and security of all money collected or held by the local government; and*
 - (c) *for the proper maintenance and security of the financial records of the local government (whether maintained in written form or by electronic or other means or process); and*
 - (d) *to ensure proper accounting for municipal or trust —*
 - (i) *revenue received or receivable; and*
 - (ii) *expenses paid or payable; and*
 - (iii) *assets and liabilities;*
- and*
- (e) *to ensure proper authorisation for the incurring of liabilities and the making of payments; and*
 - (f) *for the maintenance of payroll, stock control and costing records; and*
 - (g) *to assist in the preparation of budgets, budget reviews, accounts and reports required by the Act or these regulations.*

(2) *The CEO is to —*

- (a) *ensure that the resources of the local government are effectively and efficiently managed; and*
- (b) *assist the council to undertake reviews of fees and charges regularly (and not less than once in every financial year); and*
- (c) *undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the local government regularly (and not less than once in every 3 financial years) and report to the local government the results of those reviews.*

Strategic Community Plan

Strategy 1.1.1 - To be equitable, inclusive and transparent in decision making. (Service Priority: High)

Strategy 1.1.2 - Monitor and ensure compliance with the regulatory framework for local government governance and operations. (Service Priority: High)

Strategy 1.1.3- Maintain best practice governance systems and practices. (Service Priority: Moderate)

Environment - None.

Precedents -

An Internal Audit Strategic Plan and Internal Audit Annual Work Plan were presented to the former Audit Committee at the July 2019 meeting.

Budget Implications

As part of the Compliance Officer role, internal control is integral to meeting the obligations under Regulation 17. Therefore the cost to Council is through staff time and the usage of IT/Software systems where applicable.

Budget – Whole of Life Cost

As no assets/infrastructure is being created, there are no whole of life costs relevant to this item.

Council Policy Compliance

Internal Audit Strategic Plan

Risk Assessment -

The Risk Management Governance Framework has been considered in arriving at the officer recommendation. Please refer to (Appendix AAR 8.4B) for full assessment document.

Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.	
Risk Event	Internal Audit Program
Inherent Risk Rating (prior to treatment or control)	Moderate (5 - 11)
Risk Action Plan (treatment or controls proposed)	As the Inherent Risk Rating is below 12, this is not applicable.
Residual Risk Rating (after treatment or controls)	As the Inherent Risk Rating is below 12, this is not applicable.
Risk Category Assessed Against	<p>Legal and Compliance Not considering internal control within the organisation would result in non-compliance with Regulation 17</p> <p>Reputational Council’s reputation could be seen in a negative light for not adhering to its requirement to fulfil duties and functions that are prescribed in legislation.</p>

Officer Comment

The Internal Audit program is the responsibility of the Compliance Officer. This function is complementary to the Risk Management Governance Framework and Compliance Manual in meeting the obligations pursuant to Regulation 17 of the Local Government (Audit) Regulations 1996.

The Internal Audit Strategic Plan (Plan) has been developed to assist the organisation in achieving its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of internal control. Within the Plan, is the Internal Audit Annual Work Plan for 2020-2021 that has been considered based on Council’s current risk profile and assurance needs. One of the main engagements that will be considered within the 2020-2021 annual work plan is a performance (improvement) review of the procurement area of Council. The aim of this review will be to assess the efficiency and effectiveness of the business systems and processes in place and provide recommendations on areas for improvement.

Members of the committee can also be reassured that the Internal Audit program is further supported by the performance audit reports and guides released by the Auditor General. As recommended by the Auditor General, periodic assessments are undertaken when the reports and guides are published.

The Internal Control program and testing of processes and procedures in line with Auditor General Reports, provides Council with a greater level of confidence that regulatory compliance is being achieved.

Council Role - Legislative.

Voting Requirements - Simple Majority.

OFFICER RECOMMENDED RESOLUTION

That the Audit and Risk Committee:

- 1. Receive the September 2020 report relating to the Internal Audit Program of the Shire of Dardanup.**
- 2. Recommends that Council endorse the Shire of Dardanup Internal Audit Strategic Plan, inclusive of the Internal Audit Annual Work Plan – 2020-2021. (Appendix AAR: 8.4A)**

8.5 Title: Annual Financial Report – Interim Audit Results for the Year ending 30 June 2020

<i>Reporting Department:</i>	<i>Corporate & Governance Directorate</i>
<i>Reporting Officer:</i>	<i>Mr Phil Anastasakis – Deputy Chief Executive Officer</i>
<i>Legislation:</i>	<i>Local Government Act 1995 and Local Government (Audit) Regulations 1996, Regulation 17</i>

Overview

The purpose of this report is to present to the Audit and Risk Committee the interim audit results for the year ending 30 June 2020.

Background

An annual audit of the Shire of Dardanup's financial systems, process and reports, is undertaken in accordance with the *Local Government Act 1995* and *Local Government (Audit) Regulations 1996*.

Since the proclamation of the *Local Government Amendment (Auditing) Act 2017*, legislative changes were made to the *Local Government Act 1995*. These changes mandated responsibility for overseeing local government audits to the Office of the Auditor General (OAG).

Local government audits are now performed in two parts:

1. *Interim Audit*

The purpose of this audit is to evaluate the Council's overall control environment, but not for the purpose of expressing an opinion on the effectiveness of internal controls, and to obtain an understanding of the key business processes, risks and internal controls relevant to the OAG audit of the annual financial report. Outcomes of this audit are provided in a management letter to the Chief Executive Officer and Shire President outlining any findings with recommendations; and

2. *Final Year-End Audit*

The outcomes of this audit are provided in a management letter addressed to the Chief Executive Officer and Shire President, and the annual audit report. The annual audit report, together with the annual financial statements form part of the annual report.

The interim audit for the year ending 30 June 2020 has been completed and the OAG has submitted its report. The report draws attention to the following Management Control Issue (refer Appendix AAR 8.5A):

1. *Verbal Quotations not Documented – Rated Moderate.*

Legal Implications

Local Government Act 1995, s7.9

7.9. *Audit to be conducted*

- (1) *An auditor is required to examine the accounts and annual financial report submitted for audit and, by the 31 December next following the financial year to which the accounts and report relate or such later date as may be prescribed, to prepare a report thereon and forward a copy of that report to –*
- (a) the mayor or president; and*
 - (b) the CEO of the local government; and*
 - (c) the Minister.*

Local Government (Audit) Regulations 1996, r9

9. *Performance of audit*

- (3) *An auditor must carry out the work necessary to form an opinion whether the annual financial report —*
- (a) *is based on proper accounts and records; and*
 - (b) *fairly represents the results of the operations of the local government for the financial year and the financial position of the local government at 30 June in accordance with —*
 - (i) *the Act; and*
 - (ii) *the Australian Accounting Standards (to the extent that they are not inconsistent with the Act).*

Strategic Community Plan

Strategy 1.1.3 - Monitor and ensure compliance with the regulatory framework for local government governance and operations. (Service Priority: High)

Strategy 1.1.4 - Maintain best practice governance systems and practices. (Service Priority: Moderate)

Strategy 1.3.1 - Implement the Integrated Planning and Reporting Framework including the Long Term Financial Plan, Workforce Plan, Asset Management Plans and Corporate Business Plan. (Service Priority: High)

Strategy 1.3.2 - To monitor and produce statutory budgetary and financial reporting requirements applicable to local government operations. (Service Priority: High)

Environment - None.

Precedents

This is the first Interim Audit Results being presented to the Audit and Risk Committee.

Budget Implications

The 2020/2021 budget includes an allocation for the conduct of the annual audit.

Budget – Whole of Life Cost

As no assets/infrastructure is being created, there are no whole of life costs relevant to this item.

Council Policy Compliance - None.

Risk Assessment -

The Risk Management Governance Framework has been considered in arriving at the officer recommendation. Please refer to (Appendix AAR: 8.5B) for full assessment document.

Tier 2 – ‘Low’ or ‘Moderate’ Inherent Risk.					
Risk Event	Annual Financial Report – Interim Audit Results for the Year Ending 30 June 2020				
Inherent Risk Rating (prior to treatment or control)	Low (1 - 4)				
Risk Action Plan (treatment or controls proposed)	As the Inherent Risk Rating is below 12, this is not applicable.				
Residual Risk Rating (after treatment or controls)	As the Inherent Risk Rating is below 12, this is not applicable.				
Risk Category Assessed Against	<table border="0"> <tr> <td>Legal and Compliance</td> <td>Not presenting the Interim Audit Results for the year ending 30 June 2020 to the Audit and Risk Committee (and subsequently Council).</td> </tr> <tr> <td>Reputational</td> <td>Council’s reputation could be seen in a negative light for not being open and transparent with disclosing findings from the Auditor General</td> </tr> </table>	Legal and Compliance	Not presenting the Interim Audit Results for the year ending 30 June 2020 to the Audit and Risk Committee (and subsequently Council).	Reputational	Council’s reputation could be seen in a negative light for not being open and transparent with disclosing findings from the Auditor General
Legal and Compliance	Not presenting the Interim Audit Results for the year ending 30 June 2020 to the Audit and Risk Committee (and subsequently Council).				
Reputational	Council’s reputation could be seen in a negative light for not being open and transparent with disclosing findings from the Auditor General				

Officer Comment

Historically, the results of an interim audit were not formally reported, instead they were used as preparatory to the year-end audit. The reporting of these results now form part of the formal requirement of audits conducted by OAG.

The only deficiency in internal controls identified in the report relates to compliance with procurement procedures, specifically with verbal quotations on low value purchasing. Although the view of management is that the non-compliance is minor, the OAG has maintained their view that these are classified as moderate. Irrespective of the classification, members of the Audit and Risk Committee can be reassured that the findings have been addressed, with measures taken to ensure compliance with Council’s procurement procedures moving forward.

Voting Requirements - Simple Majority.

OFFICER RECOMMENDED RESOLUTION

THAT the Audit and Risk Committee receive the Office of the Auditor General – Interim Audit Findings for the year ending 30 June 2020 (refer Appendix AAR: 8.5A).

9. ELECTED MEMBER MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

None.

10. NEW BUSINESS OF AN URGENT NATURE

[Please Note: This is Not General Business – This is for Urgent Business Approved By the Person Presiding or by Decision. In cases of extreme urgency or other special circumstance, matters may, with the consent of the person presiding, or by decision of the members present, be raised without notice and decided by the meeting.]

11. MATTERS BEHIND CLOSED DOORS

None.

12. CLOSURE OF MEETING

The date of the next Audit & Risk Committee Meeting will be Wednesday, 2 December 2020.

There being no further business the Chairperson to declare the meeting closed.

